



Memorandum

To: Chair Colleen Takamura, Tax Review Commission
Vice Chair Vaughn Cook, Tax Review Commission
Ray Blouin, Tax Review Commission
Nalani Kaina, Tax Review Commission
John Knox, Tax Review Commission
Dawn Lippert, Tax Review Commission
Billy Pieper, Tax Review Commission
Titin Sakata, Hawaii Department of Taxation

From: Randall Bauer, PFM

Re: Tax Studies Project Report, 5/16/2017

Project Summary

The PFM Group's study of the Hawaii tax system continues to progress according to schedule. During this reporting period, the project team has continued to work toward completing all Phase 2 (Information Gathering) activities and has now largely transitioned to Phase 3 (Evaluation) activities.

In recent weeks, the team has continued to explore key benchmarking and best practice areas that will help to inform opportunities that Hawaii may have related to tax and revenue alternatives, as well as tax policy issues that are applicable to the State. The project team is also working to generate high-level findings resulting from the series of stakeholder and subject matter expert interviews conducted to date. This analysis will be used to inform possible revenue alternatives simulated by the project team.

Additionally, the project team is in the process of conducting an internal quality control review of the tax burden and regressivity models. Once complete, these models will be used to inform much of the work conducted as part of the studies related to 'Who Bears the Burden of Hawaii's Taxes' and 'Ways to Reform Hawaii's Taxes to make them Less Regressive.'

Finally, the project team understands that the Hawaii legislature voted recently to reinstate and make permanent the top personal income tax brackets and rates on high-income earners, and to create an EITC equal to 20 percent of the federal EITC to help low-income residents. PFM will seek the assistance of the Department of Taxation in estimating the fiscal impact of those changes in order to revise the budget model's baseline revenue projection accordingly.

Key Activities through May 15, 2017

The project team conducted the following activities in accordance with Phase 2 of the project plan:

- Continued to schedule and hold interviews and follow-up meetings via conference call with internal and external stakeholders and subject matter experts. Most recently, the project team spoke with Representative Sylvia Luke, Chair of the House Finance Committee, and Reg Baker, Small Business Chair of the Hawaii Chamber of Commerce. For a full list of interviews conducted to date, see **Appendix A**;



- Continued to explore key areas in which there are opportunities to benchmark Hawaii that could potentially impact the baseline and/or key drivers of the financial models;
- Continued to conduct best practices research on tax structure and tax policy issues that are applicable to the State of Hawaii; and
- Discussed with Seth Colby, by conference call, the coordination of the PFM studies with Commission assistance being provided by the Department of Taxation.

Planned Activities May 16-31, 2017

- Evaluate the impact of various revenue-generating initiatives on the State’s pension and retiree health care obligations;
- Continue to explore key areas in which there are opportunities to benchmark Hawaii that could potentially impact the baseline and/or key drivers of the financial models;
- Continue to conduct best practices research on tax structure and tax policy issues that are applicable to the State of Hawaii;
- Schedule and hold interviews and follow-up meetings via conference call with internal and external stakeholders and subject matter experts. The team will speak soon with Randy Moore, Vice Chair of the UH Board of Regents; and
- Evaluate opportunities for revenue generation through improved administration.

Action, Support or Materials Requested

- The project team requests assistance with scheduling interviews with Damien Elefante, Deputy Director of the Department of Taxation, as well as the staff member(s) responsible for implementation of the new online tax system; and
- As noted above, the project team requests assistance with estimating the impact of the forthcoming income tax bracket changes for purposes of revising the PFM budget model’s baseline revenue projection.

Issues and Risks (Carried Over as Well as New)

This section will serve as a means to monitor project issues and risks as they occur and are resolved. There are currently no issues or risks.

Issue #	Issue	Proj. Impact (High/Med/Low)	Responsibility Assigned To	Actions & Status	Date Logged	Target Resolution Date

Project Calendar

On page 3 is an overview of the key dates as outlined in the initial project plan (dates subject to change pending modifications/guidance from the TRC):



Date(s)	Description
February 6-10	Contract Signed
February 13-17	Interviews TRC Members
February 20-24	Interviews Key Stakeholders
March 6-10	Attend TRC Meeting in Person to Discuss Project Plan and Strategy
April 24	Attend TRC Meeting Remotely
June 19-30	Present High Level Findings Remotely
July 31-August 4	Draft Report Due
July 31-August 4 ¹	Attend TRC Meeting in Person to Present Draft Report
September 4-8	Final Report Due

¹ Or on a date that aligns with TRC meeting



Appendix A

Completed Stakeholder/Subject Matter Expert Interviews as of May 15, 2017

Affiliation	Name(s)	Date
Council on Revenues	Kurt Kawafuchi Jack Suyderhoud Marilyn Niwao John Roberts	March 8, 2017 March 20, 2017 March 31, 2017 March 31, 2017
Department of Budget and Finance	Wes Machida Neal Miyahira Laurel Johnston Sharon Kotaka	March 8, 2017
Department of Business, Economic Development and Tourism	Dr. Eugene Tian Dr. Joseph Roos	March 7, 2017
Department of Taxation	Ted Shiraishi Titin Sakata Donald Rousslang Seth Colby	March 9, 2017
Hawaii Appleseed Center	Nicole Woo	March 31, 2017
Hawaii Chamber of Commerce	Reg Baker	April 13, 2017
Hawaii House of Representatives	Rep. Isaac Choy Rep. Scott Saiki Rep. Sylvia Luke	March 8, 2017 March 8, 2017 May 15, 2017
Hawaii Senate	Sen. J. Kalani English Sen. Ronald Kouchi	March 8, 2017 March 14, 2017
Hawaii Tax Foundation	Tom Yamachika	March 20, 2017
Hawaii Tourism Authority	George Szigeti Randy Baldemor Daniel Nahoopi Charlene Chan	April 6, 2017
Tax Review Commission	Colleen Takamura, Chair Vaughn Cook, Vice Chair Ray Blouin Nalani Kaina John Knox Dawn Lippert Billy Pieper Randy Iwase (prior TRC)	February 28, 2017 February 26, 2017 February 27, 2017 February 28, 2017 February 20, 2017 March 6, 2017 February 27, 2017 March 7, 2017
University of Hawaii	James Mak (Retired)	April 25, 2017
Hawaii Chamber of Commerce	Reg Baker	May 3, 2017