

Tax Review Commission 2020-2022

November 18, 2020

Hawaii State Department of Taxation

Agenda

- CALL TO ORDER
- COMMUNICATION TO THE COMMISSION
- OVERVIEW OF SUNSHINE LAW
- DISCUSSION OF THE COMMISSION'S STATUTORY DUTIES AND AVAILABLE RESOURCES
- REVIEW OF THE 2015-2017 COMMISSION'S RECOMMENDATIONS
- ELECTION OF CHAIR AND VICE CHAIR OF THE COMMISSION
- NEXT MEETING
- ADJOURNMENT

TRC 2020-2022 Members

- Murray Clay
- Elizabeth Giesting
- Sayle Hirashima
- Katharine Lloyd
- Alton Miyashiro
- Scott Teruya
- (Vacant)

Commission Staff

- Executive Director
 - Seth S. Colby, Tax Research & Planning Officer
- Secretary
 - Roderick Tuliao, Tax Research & Planning Secretary

Communication to the Commission

- Currently there is no guidance provided by the Governor or the Legislature related to the focus of this Committee

Sunshine Law (HRS Chapter 92)

- Board members are not allowed to discuss board business with each other outside of an official meeting, including by telephone, email, or social media
- The Board cannot consider meeting matters that were not included in its published agenda
- The TRC must have quorum to hold a meeting and make subject matter decisions (4 out of the 7 members)
- The agenda must be posted with six calendar days notice prior to the meeting
- Minutes and/or recording are required

Sunshine Law Resources

- Office of Informational Practices (OIP)
- Open Meetings: Guide to the “Sunshine Law” for State and County Boards
 - <https://oip.hawaii.gov/wp-content/uploads/2019/10/July-2019-Sunshine-GUIDE.pdf>
- Tips for Holding a Virtual Public Meeting
 - <https://oip.hawaii.gov/wp-content/uploads/2020/08/Whats-New-disseminating-COVID-info.pdf>

Discussion of Commission's Statutory Duties

- **§232E-3 Duties.** The commission shall conduct a systematic review of the State's tax structure, using such standards as equity and efficiency. Thirty days prior to the convening of the second regular session of the legislature after the members of the commission have been appointed, the commission shall submit to the legislature an evaluation of the State's tax structure and recommend revenue and tax policy
- Report should be submitted January 2022

Available Resources

- The Legislature has not apportioned any financial resources to support the 2020-2022 TRC
- DOTAX's Tax Research & Planning (TRP) Office will provide administrative and research support to the Committee
- If the Committee wishes, TRP can provide four introductory presentations on Hawaii's Tax System to orient members. The presentations will cover topics like:
 - Characteristics of a good tax system
 - Hawaii's major tax types (GET, Income Tax, and TAT)
 - The Distributional Effects of Hawaii's Tax System
- Past TRC Reports
 - <https://tax.hawaii.gov/stats/tax-review-commission/>

Proposed Workflow

- Review Tax System
- Identify Areas of Interest/ Relevant Questions
- Commission Research
- Review Commissioned Research
- Make Recommendations
- Compose Report

Key Findings

Revenue Shortfall for Unfunded Liabilities:

Additional payments needed to fund retirement pension and health care benefits for State employees will average over \$400 million annually from 2018 through 2022. In their study, the PFM Group opined that the additional payments will require more revenue than can reasonably be expected to come from Hawaii's current tax structure.

Income Tax Rates Are Progressive

The average share of income that Hawaii residents pay in state taxes rises from about 6 percent to about 8 percent as annual household income rises from \$25,000 to \$50,000, but the share is relatively flat as income rises above \$50,000. In their study, the PFM Group concluded that although Hawaii's tax system is only modestly progressive, it is significantly more progressive than that of most other states.

Review of the 2015-2017 Commission's Recommendations

Key Findings

Do Not Eliminate the Corporate Income Tax :

The study on Hawaii's corporate income tax concluded that the State should not eliminate the statutory tax rates, but that corporations should be allowed to expense new investments (instead of depreciating the investments over their useful life) to encourage businesses to invest within the State.

Personal Exemption and Standard Deduction Should Be Adjusted

The personal exemption and standard deduction in Hawaii's individual income tax have each been eroded by inflation over time and are now out of date. Although tax credits eliminate the latent tax liability for most households with income below the poverty threshold, there are still instances where they are required to pay the State's income tax.

Review of the
2015-2017
Commission's
Recommendations

Recommendations: Net Income Tax

Increase Personal Exemption and Standard Deduction Rates

Modernize the individual income tax by increasing the personal exemption and standard deduction to the levels in the federal income tax as of tax year 2017 and index for inflation thereafter. Alter the tax rates and tax brackets to make the modernization revenue neutral.

Tax Retirement Income

Tax retirement income more evenly by making social security payments and income from employer-provided pensions subject to the State's income tax. To help people plan for the tax change, enact it with a five-year lag.

Allow Corporations to Expense New Investments

Allow corporations to expense new investments when calculating the corporate income tax liability.

Review of the 2015-2017 Commission's Recommendations

Recommendations: Related to Tax Adequacy

Tax Remote Sales

Expand efforts to collect tax on remote sales, including e-commerce and mail order sales, by requiring retailers to report their sales to the Department of Taxation when they have annual sales in Hawaii of \$100,000 or more.

Tax E-Cigarettes

Tax e-cigarettes at a rate equivalent to the tax on regular tobacco cigarettes.

Establish a Fiscal Commission to Look at Revenue and Spending

Establish a "Simpson-Bowles" Commission to examine how to handle the unfunded and underfunded liabilities for health care and pension benefits for retired State workers, including measures to raise revenues and to reduce expenditures.

Review of the 2015-2017 Commission's Recommendations

Recommendations: Recommended In-Depth Studies

Carbon Tax

Study whether Hawaii should institute a carbon tax. The study should consider the effect on other State goals, on what to do with the revenue, and on the best way to apply the tax.

HARPTA

Study whether the rate of withholding on sales of real property by nonresidents (HARPTA withholding) should be restored to its original rate of 9 percent from the current rate of 5 percent.

Effects of Education On Compliance

Study whether it would be cost effective for the Department of Taxation to increase efforts to educate the public in order to improve compliance with Hawaii's tax laws.

Review of the
2015-2017
Commission's
Recommendations

Election of Chair and Vice-Chair

Next Meeting and Agenda