

Hawaii Tax System: TAT and Property Tax

Tax Review Commission

TAX RESEARCH & PLANNING, DOTAX

SETH COLBY

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Transient Accommodation Tax

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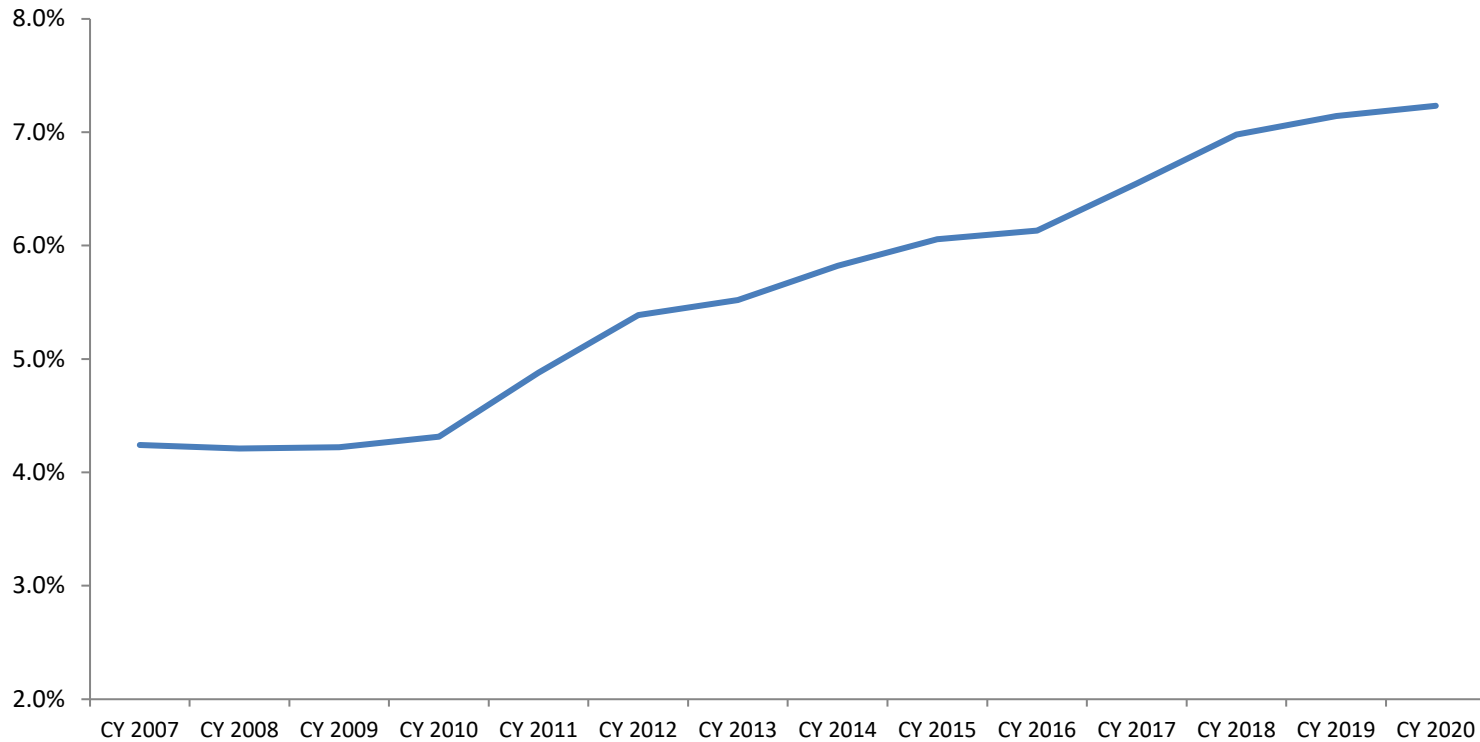
Levied on gross rental proceeds derived from furnishing "transient accommodation" for less than 180 consecutive days

- Transient Accommodation Tax: 10.25%
 - (Gross receipts of transient accommodation)
- Timeshare Occupancy Tax: 10.25%
 - (fair market value is defined as 50% of the gross daily maintenance fee)

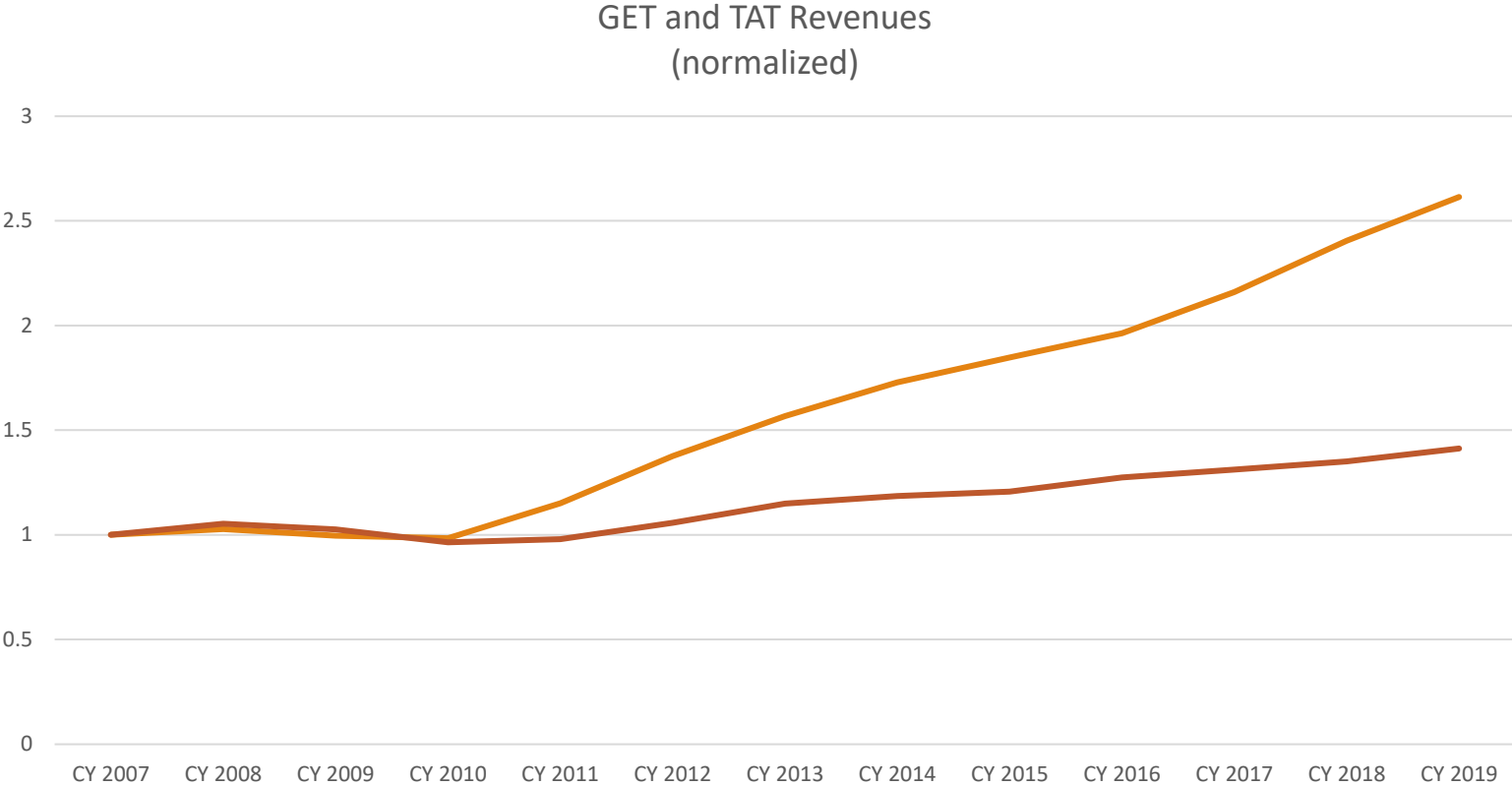
Exemptions: NGOs, health care facilities, students, publicly subsidized lodging, military

TAT is the third largest (and fastest growing) source of state income, generating 6.5% in 2016

TAT/ Total Tax Collections

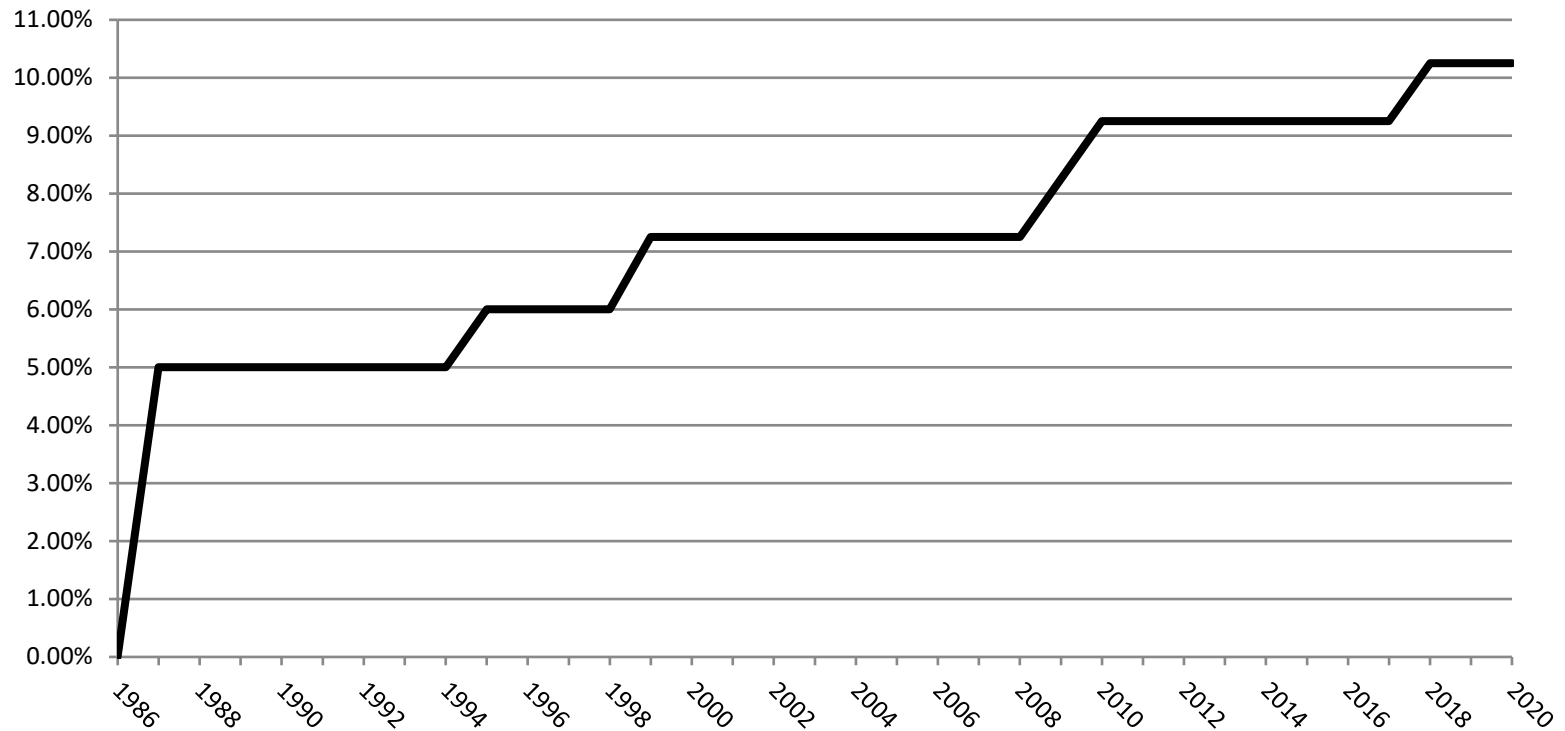


TAT revenue has grown more rapidly than GET revenue



The TAT has been increasing since its inception in 1986

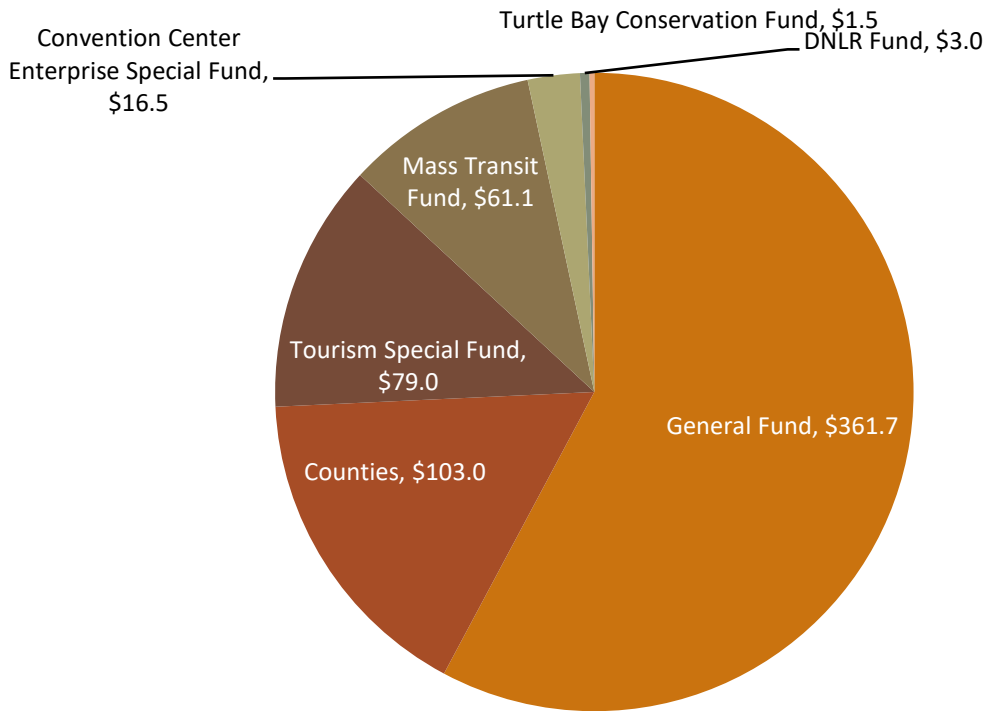
TRANSIENT ACCOMMODATION RATE



More than half of all TAT revenues goes to the General Fund

Destination of TAT Revenues Expected FY2019

Total: \$626M



Fixed Allocations

- Counties \$103M
- Tourism Special Fund \$79M
- Convention Center \$16.5M
- DNLNR Fund \$3.0M
- Turtle Bay Fund \$1.5M

Variable Allocations

- Mass Transit Fund (1%)

Hawaii's room rate is high for states but average at the city level

State	Sales Tax	Lodging Tax	Total State Tax
Connecticut	N/A	15.00%	15.00%
District of Columbia	N/A	14.95%	14.95%
Maine	5.50%	9.00%	14.25%
Hawaii (current)	4.00%	10.25%	14.25%
New Jersey	6.63%	5.00%	11.63%
Rhode Island	7.00%	5.00%	12.00%
Virgin Islands	N/A	12.5%	12.5%
New Hampshire	N/A	9.00%	9.00%
Vermont	N/A	9.00%	9.00%

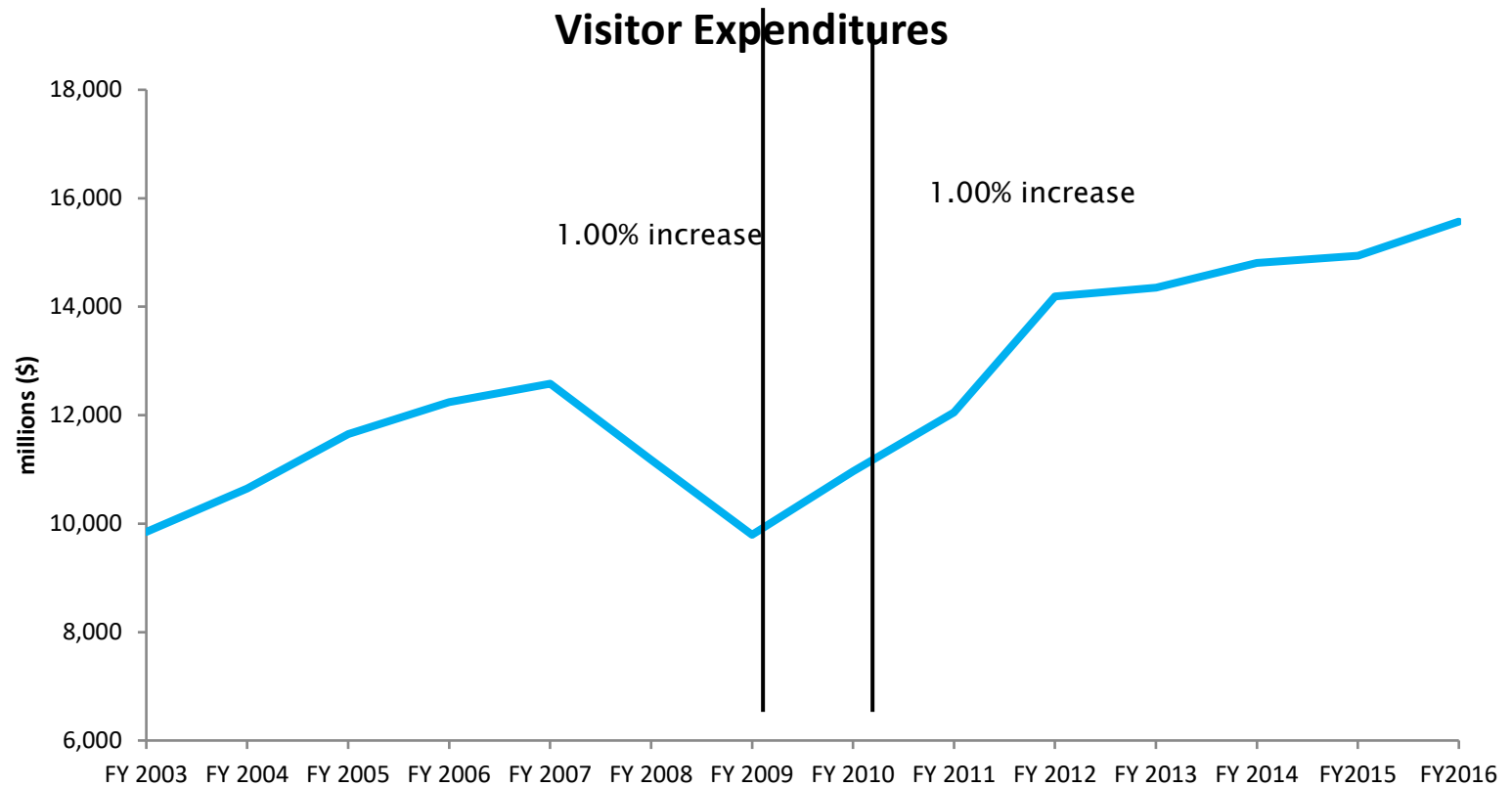
Rank	City	Tax
1	Omaha	20.50%
4	New Orleans	17.75%
11	Chicago	17.39%
22	San Francisco	16.75%
33	Los Angeles	15.50%
46	Austin	15.00%
58	Honolulu	14.75%
58	New York	14.75%
92	Las Vegas	13.38%
115	Orlando	12.50%
150	Fontana, CA	8.00%

Tax rate = GET +TAT
14.75% = 4.5% + 10.25%

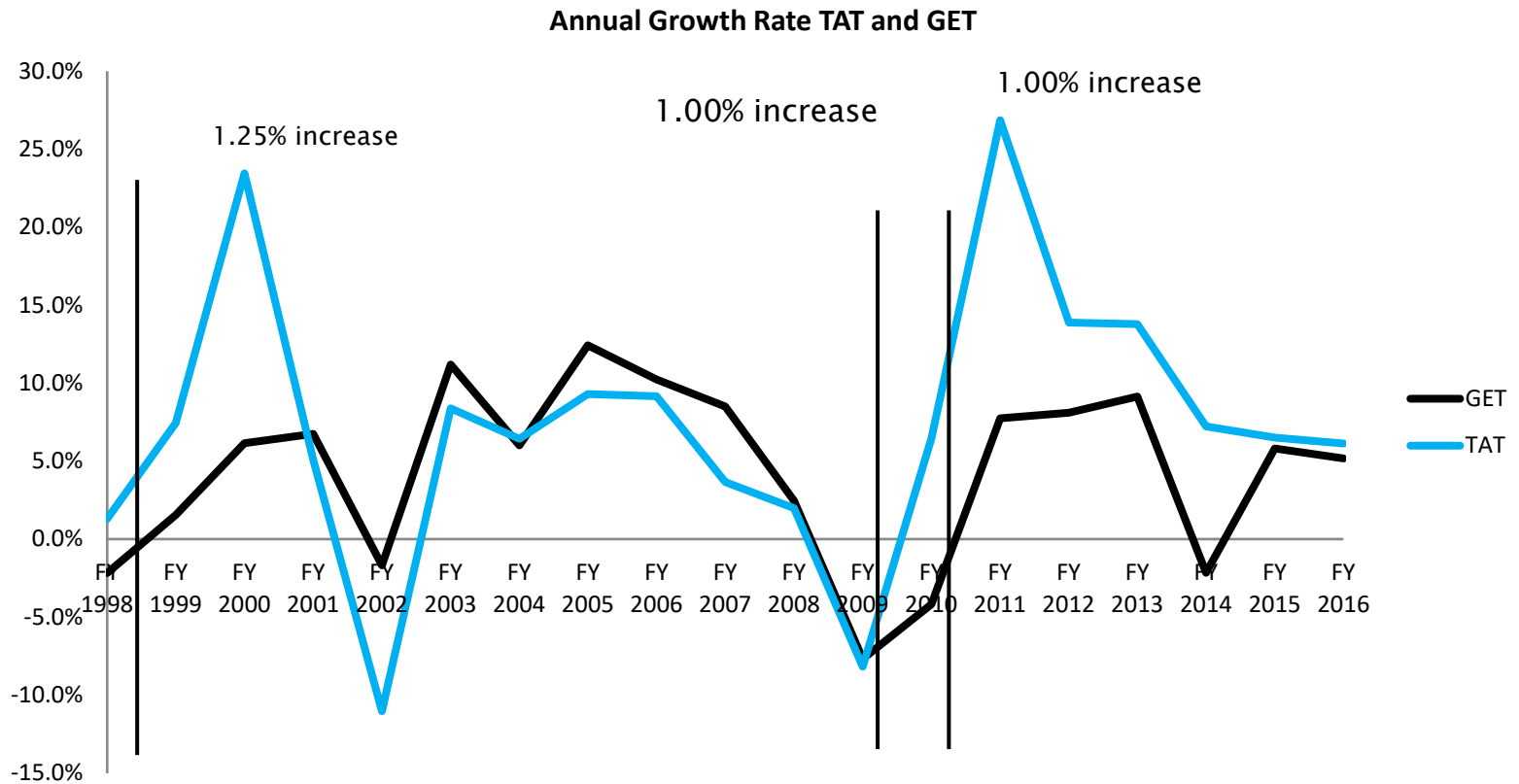
Source: National Conference of State Legislatures

Source: 2019 HVS Lodging Report

Increases in TAT have not visibly hurt visitor expenditures in absolute terms



TAT revenue is more volatile than GET revenue



Oahu provides the largest amount of TAT revenue

Total TAT Tax Liability				
Year	Hawaii	Kauai	Maui	Oahu
FY2015	13%	10%	29%	48%
FY2016	13%	10%	29%	47%
FY2017	15%	10%	29%	47%
FY2018	14%	11%	30%	44%
FY2019	12%	11%	32%	44%
FY2020	13%	11%	32%	44%
mean	13%	11%	30%	46%

Allocation of TAT Country Funds (\$103 M/ year)				
	18.6%	14.5%	22.8%	44.1%

Assessing the TAT

Economic Efficiency	<ul style="list-style-type: none">• Reasonable: At current rates, does not appear to affect visitor's decision to come to Hawaii• Exported: Largely born by non-residents• Taxes a unique "comparative advantage" of Hawaiian economy
Fairness	<ul style="list-style-type: none">• Progressive: Targeted tax that affects tourists and not low-income residents
Administrative Burden	<ul style="list-style-type: none">• Relatively low compliance costs and low administrative costs by the government
Stability	<ul style="list-style-type: none">• TAT revenue is more volatile than GET and is sensitive to economic downturns

Property Tax

There are strong economic rationale for property taxes

Fairness

- Ability to pay principle
 - Real property tax rests on the idea that there is a strong correlations between the value of one's property and income. Higher income families tend to live in higher valued residences
- Benefits received principle
 - Property tax funds community services. The people paying the tax are the people receiving the benefits

Stability

- Property values are more stable than incomes and consumption patterns

There are strong economic rationale for the reliance on property tax

Efficiency

- Distorts economic decisions less than other taxes because supply of land is fixed
- Property is immoveable so it is hard to avoid
- Encourages the efficient use of land
- It is a tax on wealth rather than income

Simplicity

- It is relatively easy to administer

Immovable property tax is considered the least distortive tax instrument

OECD ranking of least distortive tax instruments

1. Immovable property tax
2. Consumption tax
3. Other property taxes
4. Environmental taxes
5. Personal income tax
6. Corporate income tax

Housing is already a heavily favored tax vehicle

- Interest payment exemption and capital gains

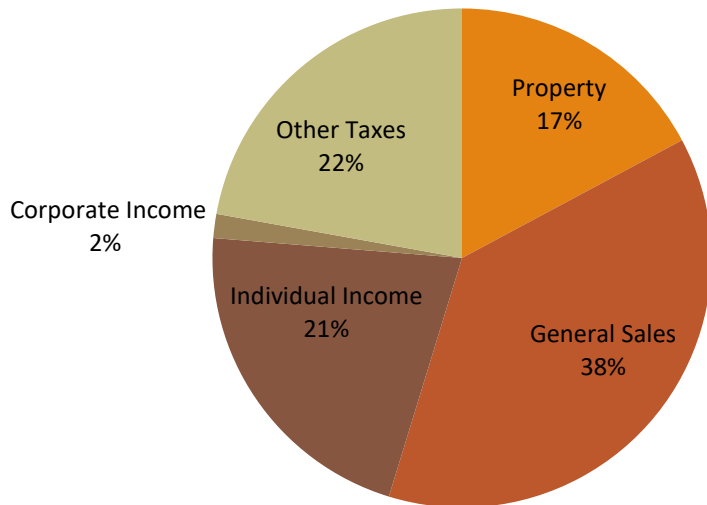
- OECD (2010), *Tax Policy Reform and Economic Growth*, OECD Publishing, Paris.
<http://dx.doi.org/10.1787/9789264091085-en>

At a Glance: Hawaii tax system

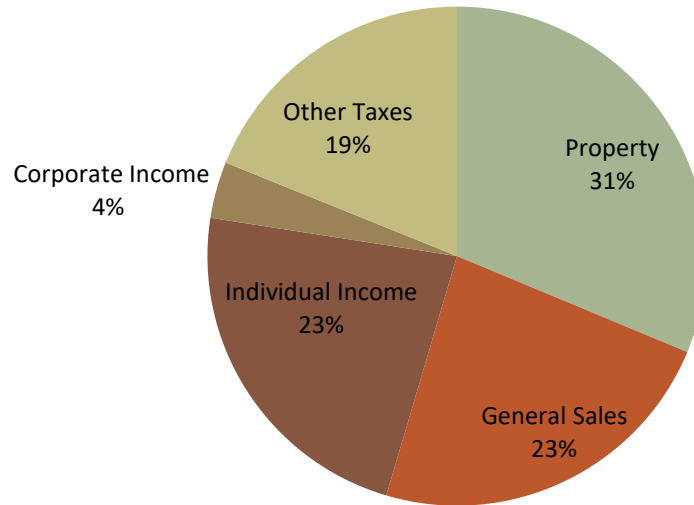
Hawaii receives significantly more revenue from sales tax and less from property tax than most states

Composition of state and local taxes

Hawaii



U.S. Avg



Source: Tax Foundation

Residential property taxes in Hawaii are amongst the lowest in the country

Property taxes paid 2015 (% of owner-occupied housing value)

Top Ten

State	Effective Tax Rate	Rank
N.J.	2.13%	1
N.H.	1.99%	2
Ill.	1.97%	3
Wis.	1.72%	4
Vt.	1.71%	5
Conn.	1.65%	6
Tex.	1.63%	7
Nebr.	1.59%	8
Ohio	1.57%	9
R.I.	1.51%	10

Bottom Ten

State	Effective Tax Rate	Rank
Utah	0.64%	40
Miss.	0.61%	41
Ark.	0.59%	42
Del.	0.56%	43
D.C.	0.57%	(43)
Colo.	0.55%	44
S.C.	0.55%	45
Wyo.	0.54%	46
W.Va.	0.53%	47
La.	0.48%	48
Ala.	0.38%	49
Hawaii	0.28%	50

Source: Tax Foundation

Hawaii's low property tax rates go hand-in-hand with low spending on public services traditionally financed by property tax revenues

Table 4: Education Expenditure Share of Current Operations Spending 2014 (state and local government combined)

Education Share of State's Current Operations Spending			Elementary and Secondary Education Share of State's Current Operations Spending		
1	Texas	45.0%	1	New Jersey	33.2%
2	New Jersey	43.4%	2	New Hampshire	29.6%
3	North Dakota	43.2%	3	Georgia	29.0%
4	Utah	42.9%	4	Connecticut	28.3%
5	Iowa	42.5%	5	Texas	27.8%
	<i>United States Average</i>	<i>37.2%</i>		<i>United States Average</i>	<i>24.1%</i>
45	New York	32.8%	45	Tennessee	20.3%
46	Maine	31.8%	46	Arizona	20.2%
47	Florida	30.9%	47	Mississippi	20.1%
48	Tennessee	30.9%	48	North Carolina	19.4%
49	Alaska	29.2%	49	Oregon	19.2%
50	Hawaii	27.3%	50	Hawaii	17.8%

Source: U.S. Census Survey of State and Local Government Finances

Table 6: Police, Fire Safety and Corrections Expenditure Share of Current Operations Spending 2014 (state and local government combined)

Police Expenditure as a Share of State's Current Operations Spending			Fire Protection Expenditure Share of State's Current Operations Spending			Corrections Expenditure Share of State's Current Operations Spending		
1	Nevada	6.9%	1	Rhode Island	3.4%	1	California	4.2%
2	Florida	5.8%	2	Nevada	3.1%	2	Nevada	4.2%
3	Illinois	5.2%	3	Florida	2.8%	3	Arizona	4.2%
4	Maryland	5.2%	4	Arizona	2.7%	4	New Mexico	4.0%
5	Arizona	5.0%	5	Illinois	2.5%	5	Virginia	3.9%
	<i>United States Average</i>	<i>4.2%</i>		<i>United States Average</i>	<i>1.8%</i>		<i>United States Average</i>	<i>3.1%</i>
29	Hawaii	3.8%	25	Hawaii	1.6%			
45	Iowa	3.0%	45	Minnesota	1.0%	45	Minnesota	2.0%
46	Indiana	2.9%	46	West Virginia	0.9%	46	Massachusetts	2.0%
47	West Virginia	2.8%	47	North Dakota	0.9%	47	Maine	1.9%
48	Nebraska	2.5%	48	Vermont	0.8%	48	New Hampshire	1.8%
49	Kentucky	2.5%	49	Pennsylvania	0.7%	49	Iowa	1.8%
50	Maine	2.5%	50	Delaware	0.4%	50	Hawaii	1.8%

Source: U.S. Census Survey of State and Local Government Finances

source: DBEDT (2017) An Analysis of Real Property Tax in Hawaii

Hawaii taxes commercial/industrial properties much more than residential properties

Table 1: Commercial Property Disproportionately Taxed In Most States

Ratio of Commercial Property Effective Tax Rate Divided By Homestead Property Effective Tax Rate, FY 2010

State	Representative City	Ratio	Treatment	Rank
Alabama	Birmingham	2.11	Favors Homesteads	37
Alaska	Anchorage	1.07	Favors Homesteads	16
Arizona	Phoenix	2.64	Favors Homesteads	44
Arkansas	Little Rock	1.27	Favors Homesteads	24
California	Los Angeles	1.02	Favors Homesteads	12
Colorado	Denver	3.55	Favors Homesteads	47
Connecticut	Bridgeport	1.00	Equal Treatment	1
Delaware	Wilmington	0.85	Favors Commercial	18
Florida	Jacksonville	1.43	Favors Homesteads	29
Georgia	Atlanta	1.36	Favors Homesteads	27
Hawaii	Honolulu	3.73	Favors Homesteads	49
Idaho	Boise	1.92	Favors Homesteads	35
Illinois	Chicago	1.72	Favors Homesteads	32
Indiana	Indianapolis	2.91	Favors Homesteads	45
Iowa	Des Moines	2.25	Favors Homesteads	40
Kansas	Wichita	2.32	Favors Homesteads	41
Kentucky	Louisville	1.02	Favors Homesteads	11
Louisiana	New Orleans	2.61	Favors Homesteads	42

High commercial property taxes get passed onto the consumer in the form of higher prices

Source: Tax Foundation (2012) State and Local Property Taxes Target Commercial and Industrial Property. Data 2010

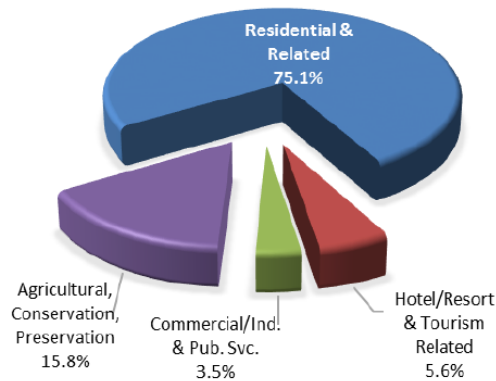
Non-residential properties pay disproportionately more in taxes

Table 2: Share of Property Taxes Collected from Commercial/Industrial vs. Residential, FY 2010

State	Commercial & Industrial	Residential & Other	State	Commercial & Industrial	Residential & Other
Alabama	70%	30%	North Carolina	46%	54%
Alaska	61%	39%	North Dakota	87%	13%
Arizona	68%	32%	Ohio	54%	46%
Arkansas	52%	48%	Oklahoma	67%	33%
California	56%	44%	Oregon	47%	53%
Colorado	56%	44%	Pennsylvania	56%	44%
Connecticut	26%	74%	Rhode Island	50%	50%
Delaware	45%	55%	South Carolina	74%	26%
Florida	74%	26%	South Dakota	65%	35%
Georgia	60%	40%	Tennessee	60%	40%
Hawaii	72%	28%	Texas	65%	35%
Idaho	61%	39%	Utah	70%	30%
Illinois	55%	45%	Vermont	66%	34%
Indiana	71%	29%	Virginia	56%	44%
Iowa	67%	33%	Washington	49%	51%

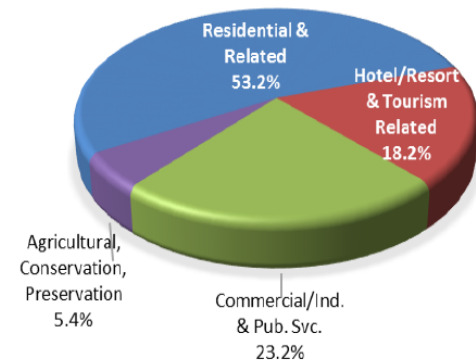
Source: Tax Foundation (2012) State and Local Property Taxes Target Commercial and Industrial Property. Data 2010. Primary source: US Census Bureau, State and Local Government Finances

Figure 5. State: Number of Properties (TMKs) by Tax Class for 2016



source: DBEDT (2017) An Analysis of Real Property Tax in Hawaii. Primary source: Country assessment division and DBEDT calculation

Figure 6. State: Share of Taxes Paid by Tax Class for 2016



Property Taxes in Hawaii

Hawaii is one of the 14 states in the United States where property taxes are not levied at the state level, only the county level.

About 1/3 of the tax is exported to property owners out of state:

- DBEDT (2017) Statutory Estimate: 32.3%...study likely underestimates this figure
- TRP (2006) Economic Estimate: 34.3% (figure includes export to federal government)

Generally progressive because home ownership is concentrated in middle to high incomes

Property tax is mostly born by owners and not renters since the amount of property is fixed

Home ownership is concentrated in the higher income brackets

Table 21. Home Ownership Status: State (Average of 2011-2015)

Household income	Number of households	Own	Rent	No pay	Total
Less than \$25,000	77,184	35.1%	59.2%	5.7%	100%
\$25,000 to \$34,999	34,481	41.7%	55.0%	3.3%	100%
\$35,000 to \$49,999	51,950	47.5%	49.6%	2.9%	100%
\$50,000 to \$74,999	84,199	51.7%	45.4%	2.9%	100%
\$75,000 to \$99,999	63,263	61.4%	36.1%	2.5%	100%
\$100,000 to \$149,999	79,204	71.3%	27.4%	1.4%	100%
\$150,000 to \$199,999	31,869	79.6%	19.6%	0.9%	100%
\$200,000 or more	28,420	85.7%	13.7%	0.6%	100%
Total	450,570	56.5%	40.7%	2.8%	100%

Source: U.S. Census Bureau, 2011-2015 American Community Survey Public Use Microdata Sample (PUMS); calculations by the Hawaii State Department of Business, Economic Development & Tourism.

Property tax rates vary by county

In-state-owners

	Average tax rate
Honolulu	0.38
Hawaii	0.90
Maui	0.56
Kauai	0.49
Average	0.43

Out of-state-owners

	Average tax rate
Honolulu	0.46
Hawaii	2.22
Maui	1.05
Kauai	1.01
Average	0.83

source: DBEDT (2017) An Analysis of Real Property Tax in Hawaii

Targeted tax relief mechanisms can promote equitable burden sharing

Homestead Exemptions: Shelter's a certain amount of a house's value from tax for owner-occupiers

Circuit breakers: limits a property tax bill to a certain percentage of a person's income (usually only available to low-income individuals and/or seniors)

Deferral programs: allow taxpayers to defer tax liabilities over multiple years if they exceed a certain threshold. Can wait until the house is sold

Split-roll: apply different rates to different types of property (agriculture, commercial, tourism, industrial)

The tradeoffs of property tax in Hawaii

Pros	Cons
<ul style="list-style-type: none">• Does not distort economic behavior and promotes efficient use of land (costly to speculate)• Progressive wealth tax (especially when coupled with tax relief mechanisms)• Large portion of tax is exported to non-residents and federal government• Hard to avoid and easy to administer• Stable form of revenue	<ul style="list-style-type: none">• Most unpopular form of taxation• Adds to already high housing costs (however tax could restrict price increases as it would be more costly to use housing as a form of investment)

Tax Saliency

Tax saliency affects people's perception of tax types

Tax saliency is the obviousness of the real cost of a given tax to an individual

- Taxes that are less salient tend to be more politically palatable
 - Ex. It is easier to raise toll rates if people pay tolls electronically (EZpass) rather than in person (Finkelstein 2009)

If people are more tolerant of taxes that are less salient, governments are incentivized to levy taxes indirectly

- Common mechanisms for obfuscation
 - Bundling a tax into the gross price
 - Fragmenting a tax into many pieces so that individuals must sum up for themselves
 - Forcing individuals to make many computations

Property tax is amongst the most salient taxes

- Property owners send in two big checks a year
- Parts of the country that pay property tax through their mortgage are more likely to have higher property taxes (Cabral and Hoxby 2012)

The saliency of Hawaii's taxes varies

Major Hawaii Tax Types	Saliency	Comments
Property Tax	High	if people have to pay semi-annual tax themselves
	Moderate to high	if people pay tax through mortgage
TAT	Moderate to high:	Individuals see room tax on their hotel bill
Individual Income Tax	Moderate to high:	Withholdings mean taxpayer does not have to actively "pay" taxes throughout year but people must file their taxes once a year
GET	Moderate	Cost is spread out over many small transactions
Corporate Income Tax	Low:	Consumers and capital owners bear cost of tax, but it is hidden in the final gross price
Alcohol tax	Low	Tax is included in the gross price of the product

Thank You