



# Regressive Taxation in Hawai'i

Presentation to the Hawai'i Tax Review Commission

June 16, 2026

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# Regressive Taxation in Hawai'i



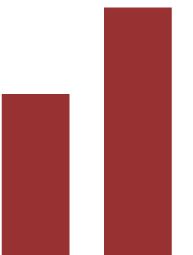
Why consider tax regressivity?



How does Hawai'i measure up?



How could Hawai'i improve?

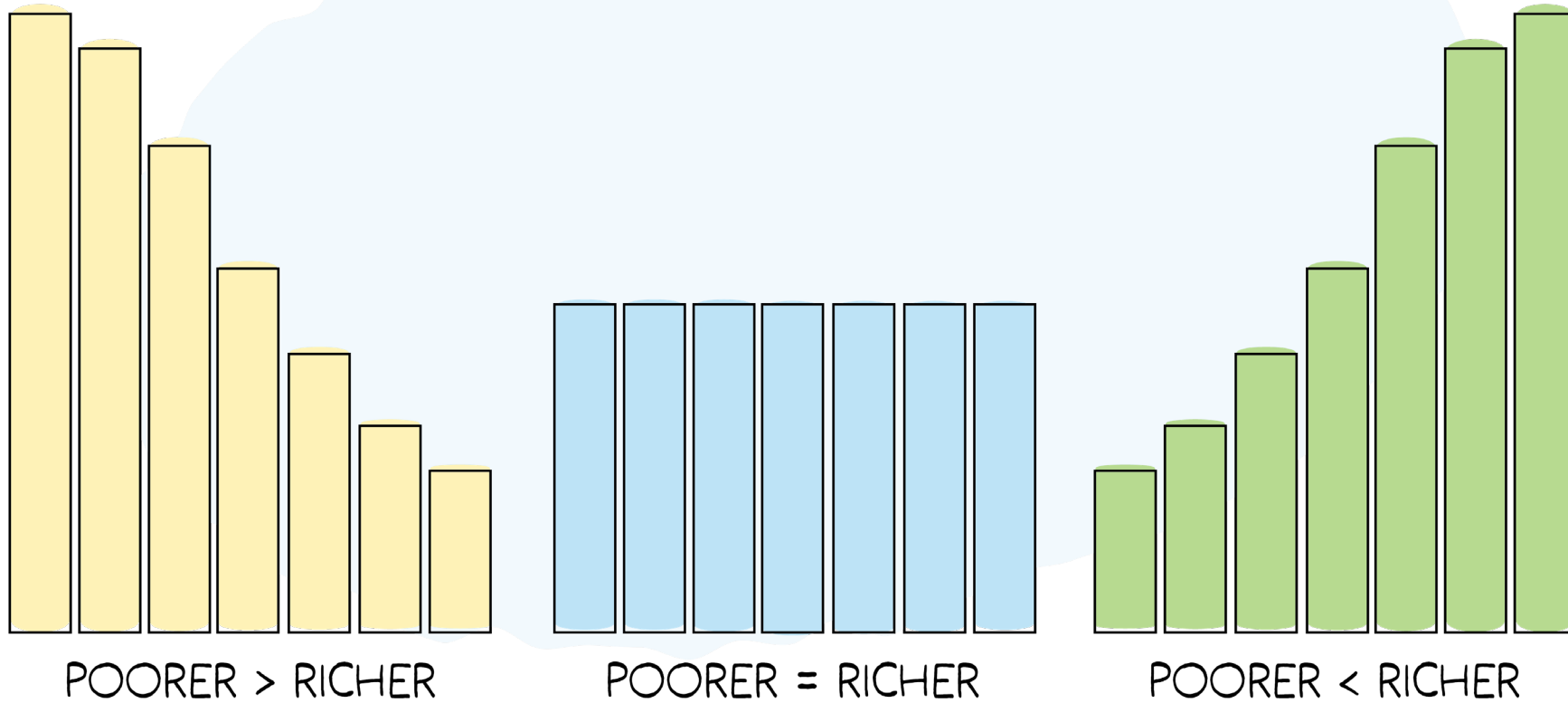


# SHARE OF INCOME PAID IN TAXES

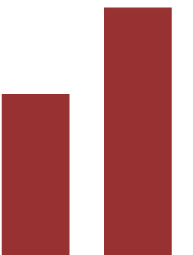
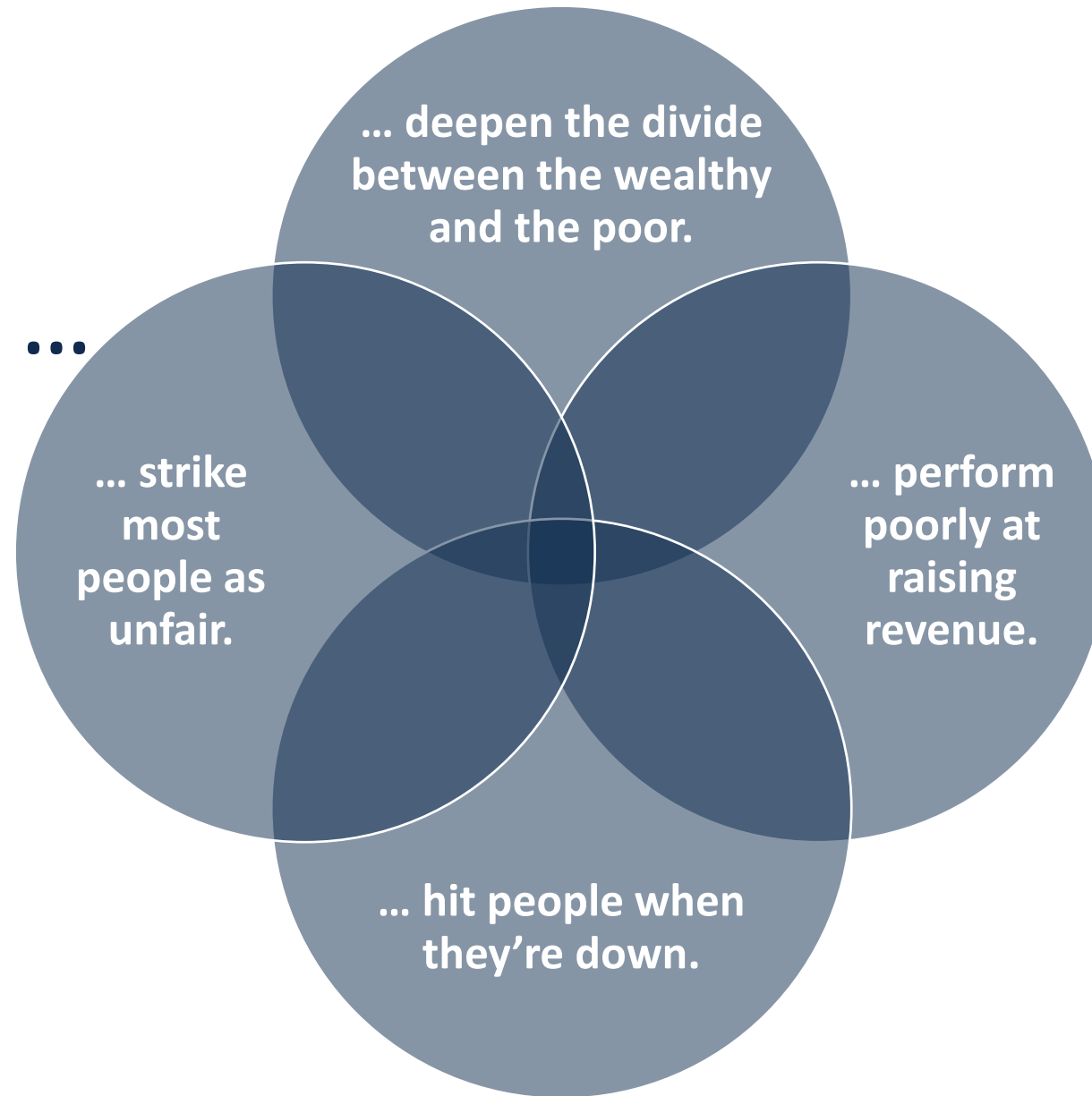
REGRESSIVE TAXES

PROPORTIONAL TAXES

PROGRESSIVE TAXES

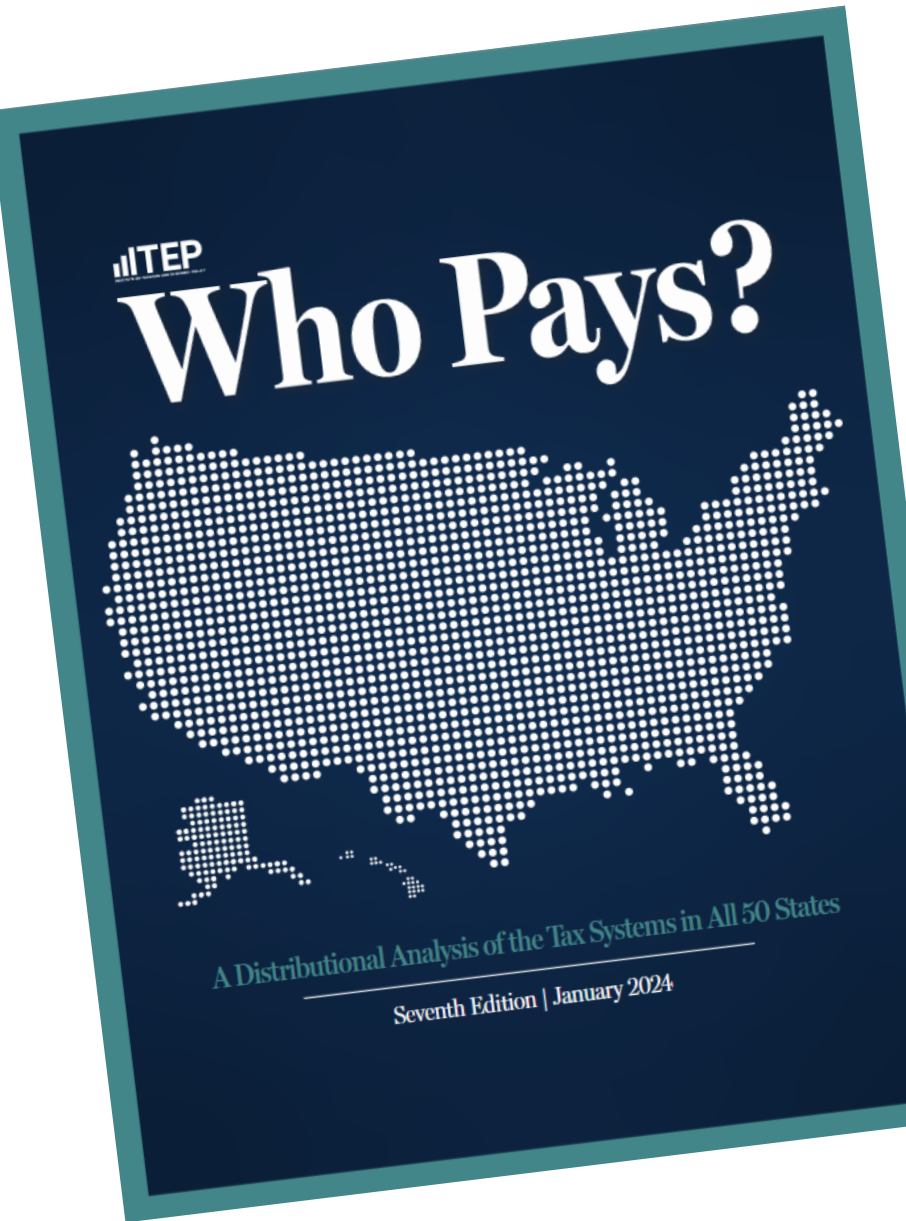


# Regressive tax systems ...



# ITEP Microsimulation Tax Model

- Microsimulation models are used by various federal and state tax agencies and private-sector organizations
- ITEP's model includes data for all 50 states plus DC
- Covers 99.5% of all taxes
- We have four modules: personal income tax, consumption tax, property tax, business tax
- Data from IRS, Census, BLS, state tax departments, CBO, JCT, etc.
- Used to estimate revenues and analyze economic incidence



# Hawai'i

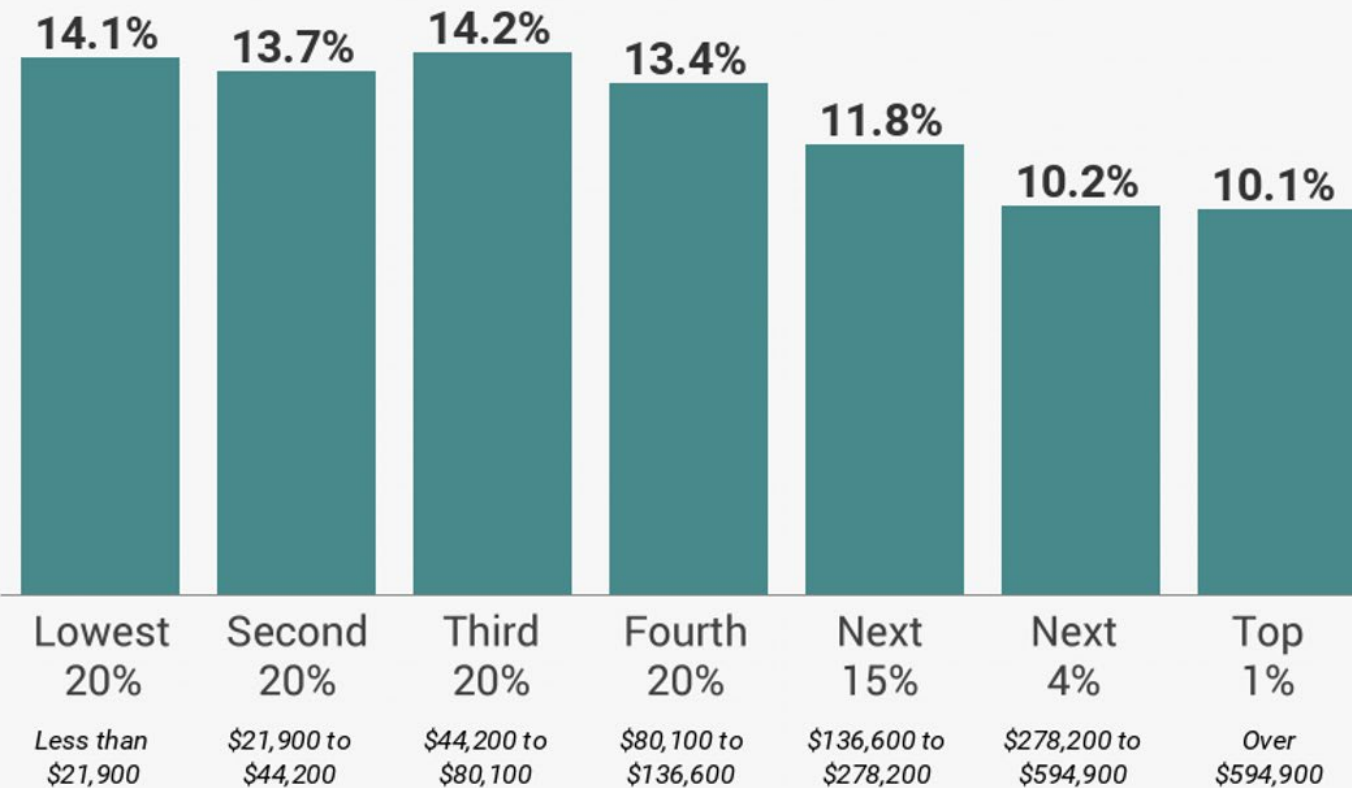


## Total Taxes

Share of family income



REGRESSIVE

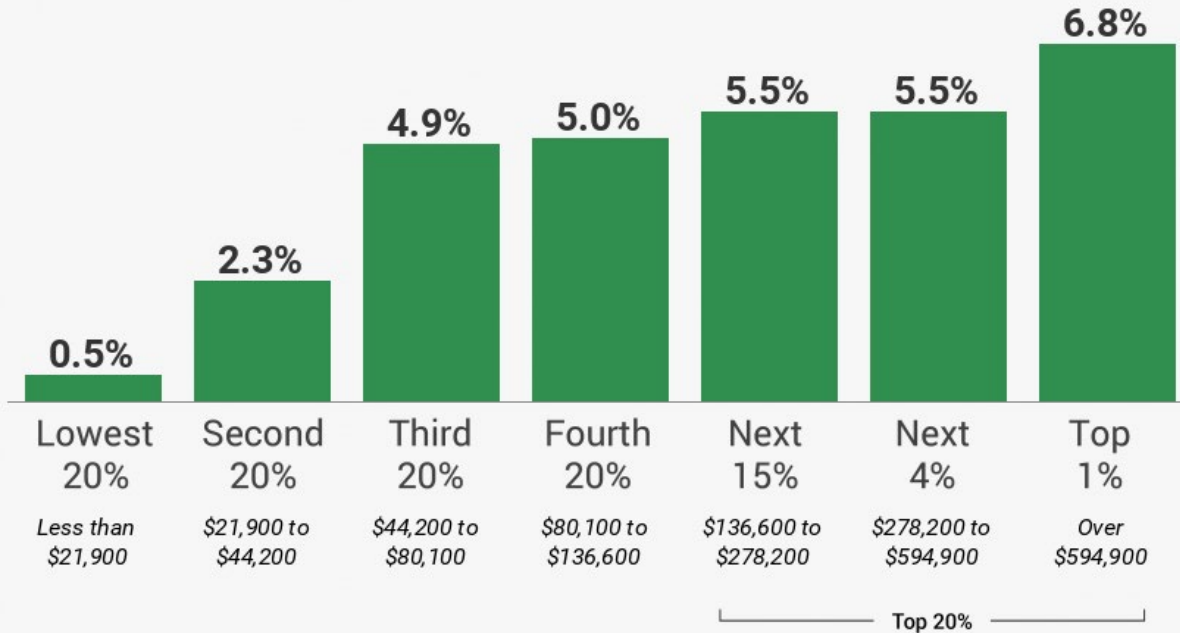


Top 20%



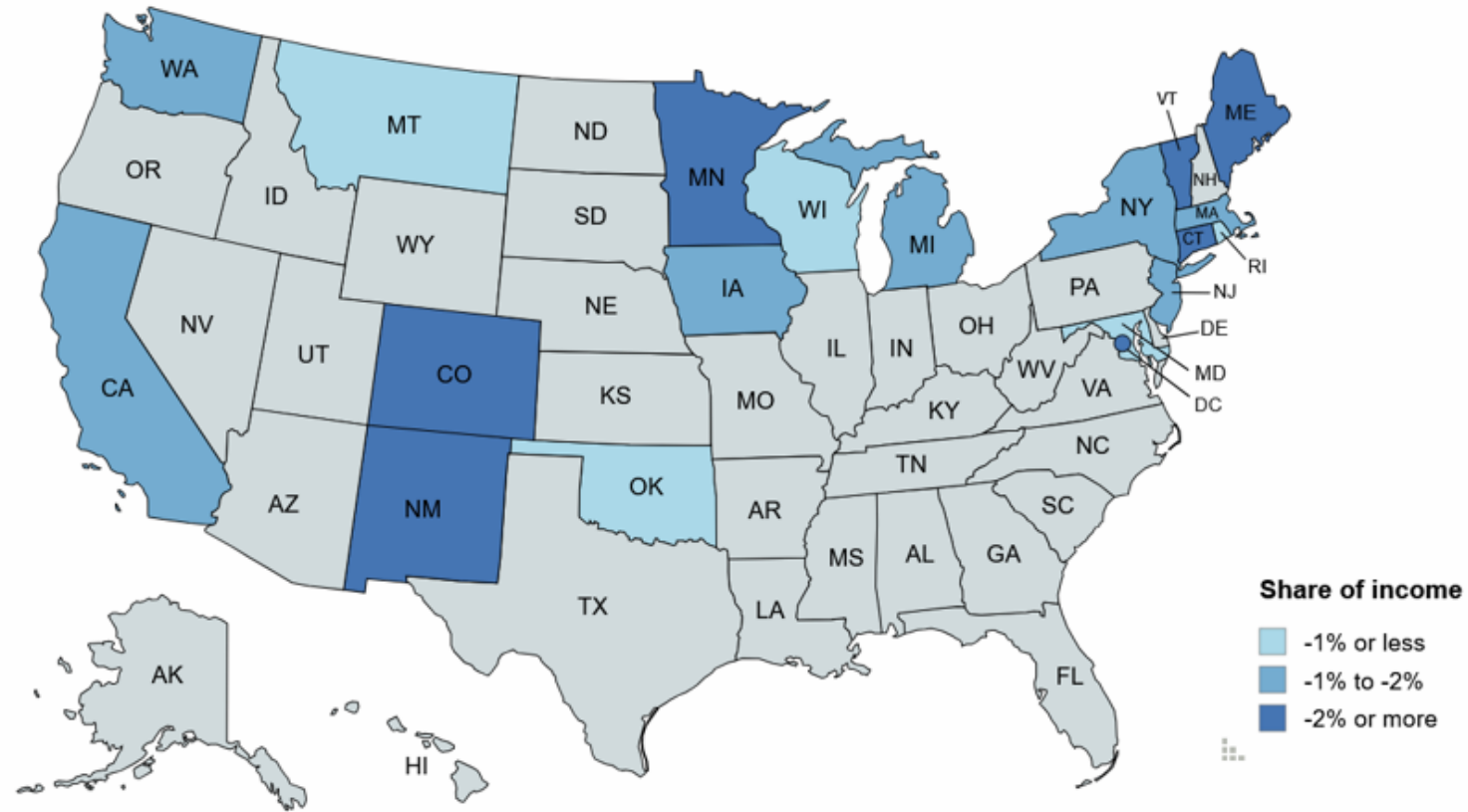
## Personal Income Taxes

Share of family income



# 18 States Apply Negative Income Tax Rates for Some Low-Income Earners

Average state personal income tax rate, relative to income, for bottom 20% of earners (omits sales, excise, property, and other taxes)



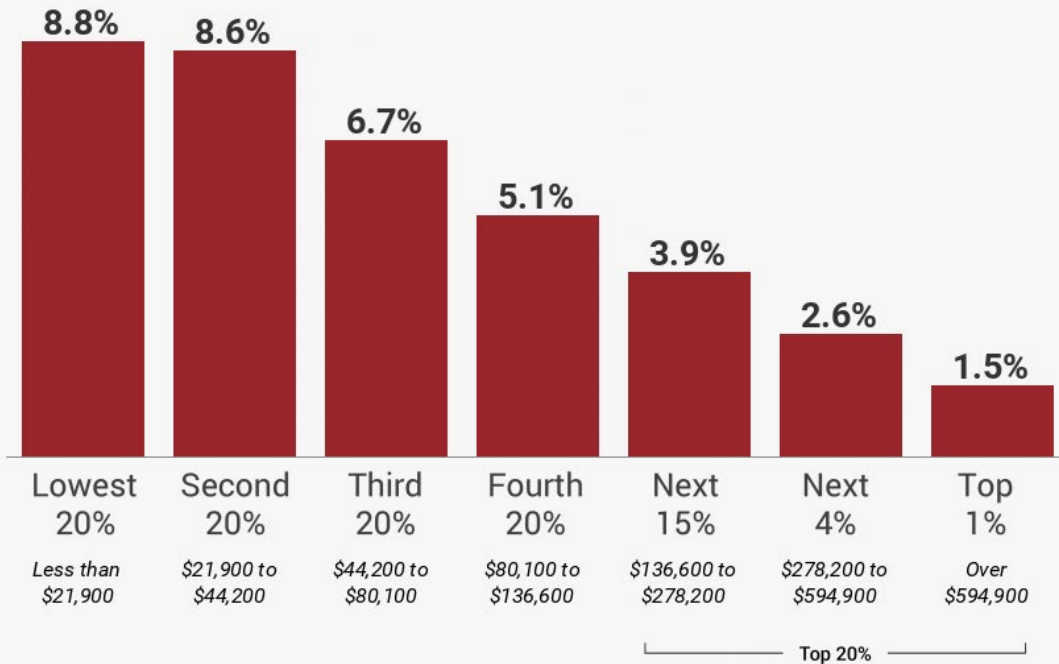
**Source:** Institute on Taxation and Economic Policy, “Who Pays?, A Distributional Analysis of the Tax Systems in All 50 States.” 7<sup>th</sup> Edition. January 2024.

# Hawai'i



## Sales & Excise Taxes

Share of family income



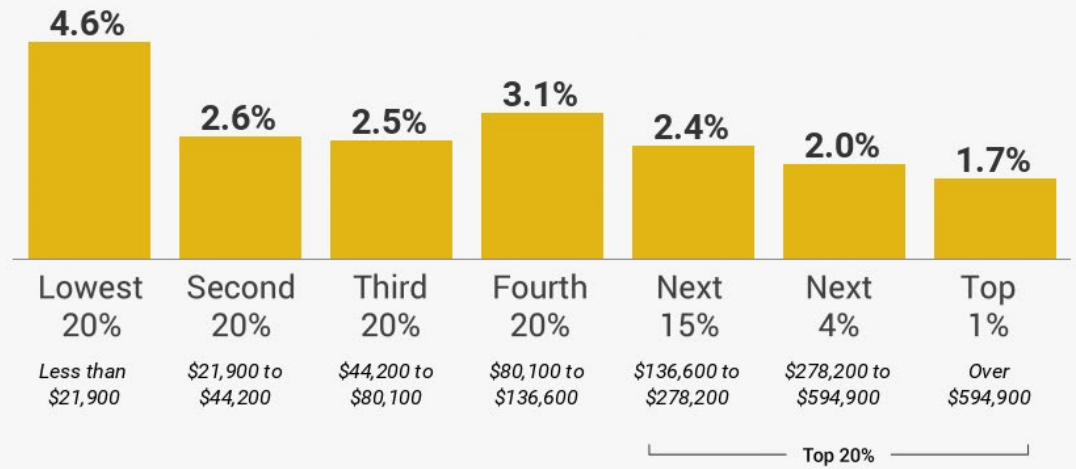
ITEP | WhoPays?

# Hawai'i



## Property Taxes

Share of family income



ITEP | WhoPays?

# Hawai‘i state and local tax shares of family income in 2024

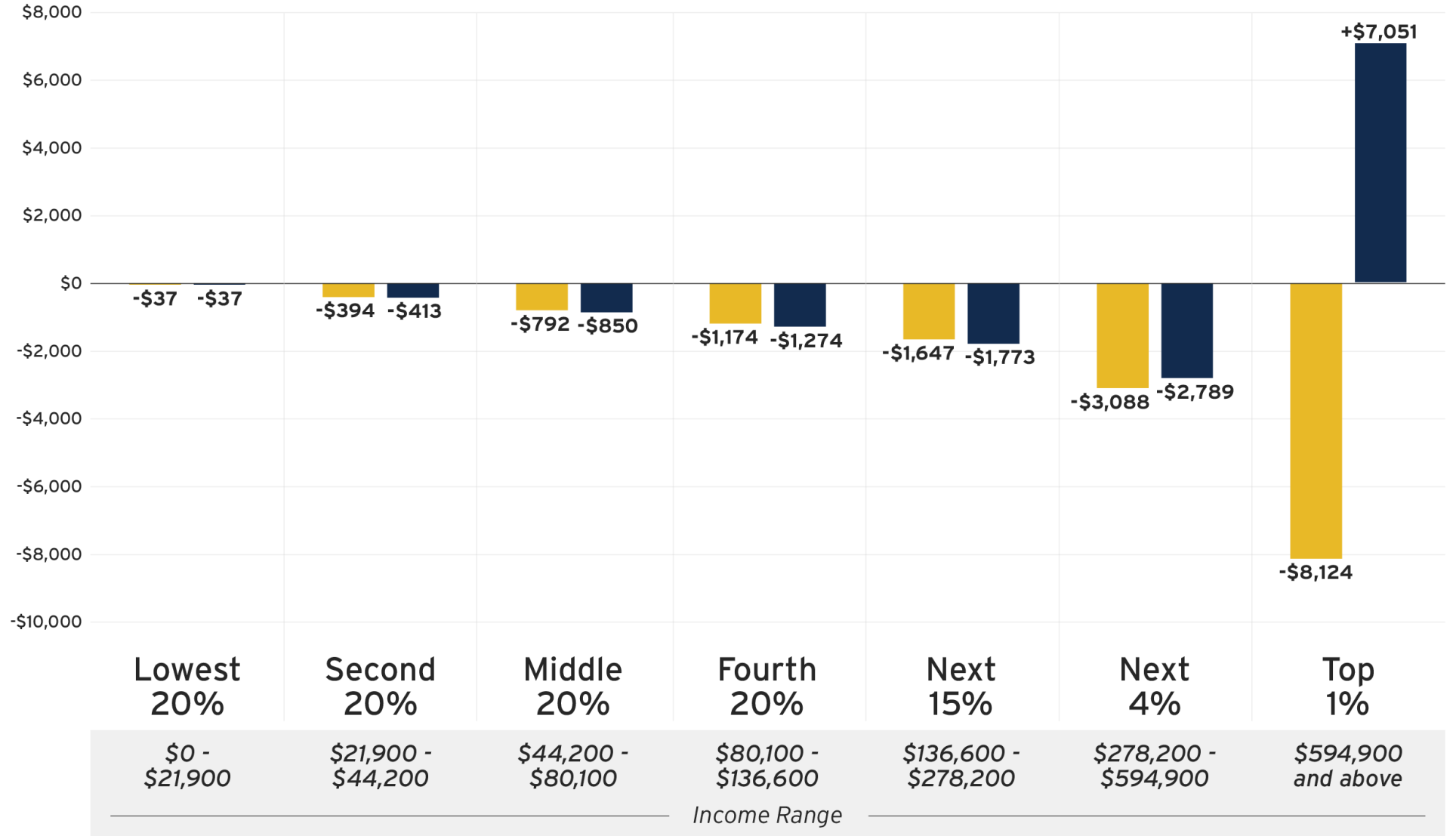
Non-elderly state residents.

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	Top 1%
<b>Income Range</b>	Less than \$21,900	\$21,900 to \$44,200	\$44,200 to \$80,100	\$80,100 to \$136,600	\$136,600 to \$278,200	\$278,200 to \$594,900	Over \$594,900
<b>Average Income in Group</b>	\$12,200	\$33,500	\$61,700	\$107,600	\$175,900	\$367,700	\$1,201,100
<b>Sales &amp; Excise Taxes</b>	<b>8.8%</b>	<b>8.6%</b>	<b>6.7%</b>	<b>5.1%</b>	<b>3.9%</b>	<b>2.6%</b>	<b>1.5%</b>
General Sales–Individuals	4.8%	5.6%	4.4%	3.2%	2.3%	1.3%	0.5%
Other Sales & Excise–Ind	2.3%	1.3%	0.8%	0.6%	0.4%	0.3%	0.1%
Sales & Excise–Business	1.8%	1.7%	1.5%	1.3%	1.2%	1.1%	0.9%
<b>Property Taxes</b>	<b>4.6%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>3.1%</b>	<b>2.4%</b>	<b>2.0%</b>	<b>1.7%</b>
Home, Rent, Car–Individuals	3.7%	1.9%	1.8%	2.4%	1.7%	1.1%	0.4%
Other Property Taxes	0.8%	0.7%	0.7%	0.7%	0.7%	0.9%	1.3%
<b>Income Taxes</b>	<b>0.5%</b>	<b>2.4%</b>	<b>4.9%</b>	<b>5.1%</b>	<b>5.5%</b>	<b>5.6%</b>	<b>6.9%</b>
Personal Income Taxes	0.5%	2.3%	4.9%	5.0%	5.5%	5.5%	6.8%
Corporate Income Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Other Taxes</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.0%</b>
<b>TOTAL TAXES</b>	<b>14.1%</b>	<b>13.7%</b>	<b>14.2%</b>	<b>13.4%</b>	<b>11.8%</b>	<b>10.2%</b>	<b>10.1%</b>

Individual figures may not sum to totals due to rounding.

# Average tax change by dollar amount

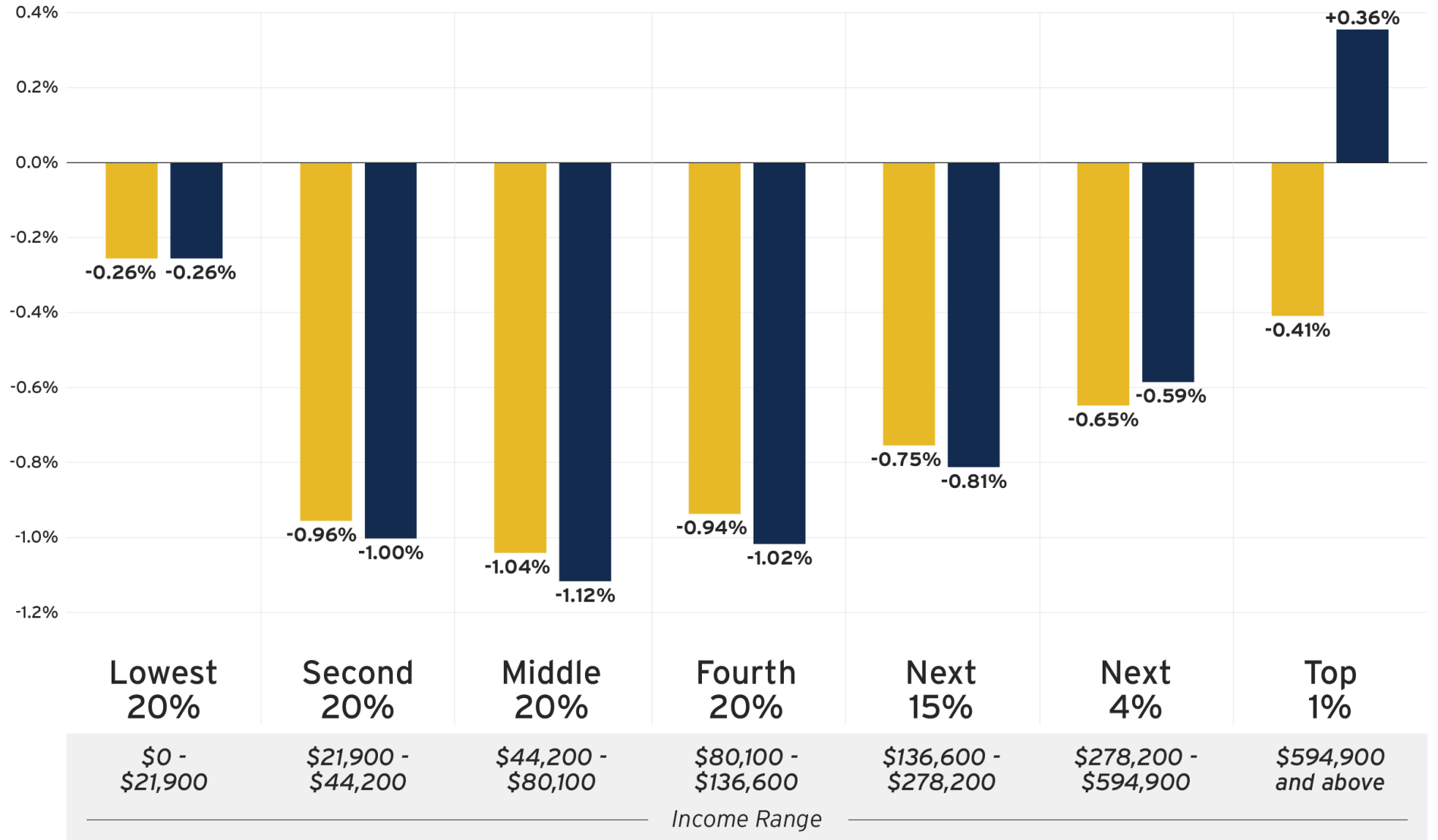
■ What Act 46 would have done
 ■ What SB 3125 will do instead



## Act 46 and SB 3125: Distributional Impact in 2031 Compared to 2026 Policy

# Average tax change as a percentage of income

■ What Act 46 would have done
 ■ What SB 3125 will do instead



## Act 46 and SB 3125: Distributional Impact in 2031 Compared to 2026 Policy

# Strategies to address regressivity

- Increase tax credits for low- and middle-income families to offset sales/excise taxes
  - Increase amounts, expand eligibility, improve take-up*
- Review existing tax breaks for profitable corporations and high-income people
  - Are they truly supporting economic development and investment?*
  - Could their repeal simplify the tax system & increase fairness?*
- Evaluate the distributional implications of your recommendations, both individually and as a package
  - ITEP can help*



# Specific policies to consider

Enact a Child Tax Credit

Expand Earned Income Tax Credit

Repeal the “QSBS” exemption

Tax Real Estate Investment Trusts

Reduce use of tax shelters with Worldwide Combined Reporting

Tax capital gains income at the same rate as labor income