

TAX REVIEW COMMISSION

MINUTES FOR THE EIGHTEENTH MEETING OF THE
TAX REVIEW COMMISSION
HELD AT NO.1 CAPITOL DISTRICT BUILDING
250 S. HOTEL STREET
OFFICE OF AGING CONFERENCE ROOM 410
IN THE CITY AND COUNTY OF HONOLULU
STATE OF HAWAII, ON WEDNESDAY, NOVEMBER 8, 2017 AT 1:00 PM

Members Present:

Colleen Takamura, Chair
Vaughn Cook, Vice-Chair
John Knox
Nalani Kaina
Raymond Blouin

Members Absent:

Dawn Lippert and Billy Pieper

Staff:

Seth Colby, Titin Sakata and Noe Kaawa

Others:

Randall Nishiyama, Department of the Attorney General
Donald Rousslang, Department of Taxation
Randy Bauer, PFM Group Consulting LLC
Robert Nishimoto, Senate Ways and Means
Daniel Grebence, Tax Foundation of Hawaii
Kenny L. Rondes, Tax Foundation of Hawaii
Megan Johnson, Office of the Auditor
Chuck Narikiya, Office of the Auditor
Mathew Ursua, CAN
Peter Fritz

CALL TO ORDER:

Chair Takamura called the meeting to order at 1:02 PM.

APPROVAL OF MINUTES:

Chair Takamura said the first order of business was the approval of the minutes from the October 3, 2017. She asked if there was any motion to amend or approve the minutes.

Commissioner Knox moved the motion to approve the minutes from October 3, 2017 and Commissioner Cook seconded the motion. The motion carried unanimously.

DISCUSSION AND ACCEPTANCE OF THE FINAL REPORT FROM THE PFM GROUP ON STUDIES OF HAWAII'S TAX SYSTEM:

Commissioner Knox asked members of the audience who may have wanted to offer any comments and felt it was appropriate to change the TRC's agenda to do it upfront before the TRC did their recommendations. He said he didn't want to make the audience feel that they're not getting any input and maybe they preferred to do it at the end. He said he didn't know whether The Tax Foundation or Mr. Fritz may want to testify thought it would be better to do it at the beginning.

Chair Takamura said they would have a chance also at the end to make comments.

Chair Takamura said the TRC just got the PFM report that day. She said acceptance of the final report from the PFM Group was deferred till the next meeting since no one had read it yet.

Commissioner Knox asked if there was anything in particular that Mr. Bauer would like to instruct or discuss with the TRC to changes made in the final.

Mr. Bauer said in terms of what they sent out today, he thought about ninety-nine percent of the report hasn't changed. They sent the report and a red-lined copy so the TRC could see exactly what changed. There were no fundamental changes of what was written. It was just asking for clarification. If the TRC was just looking at recommendation and the major points they made had not changed. His point was what the TRC had was what they still had.

He said they added clarification around the pension system that was added late in the process and it didn't get as folded into the report as well as it would have if it had been there in the beginning. The two things to take away from that were the pension changes that had been made in recent years, and now most recently were the changes to contributions. They were comfortable with the ability of the state to accommodate those within its existing revenue structure and their existing expenditure structure. There were no major new obligations for a state with the size budget it had with what was a pretty solid revenue stream in terms that it was still growing on a yearly basis.

He said that was consistent with what the credit rating agencies had been suggesting and thought it was pretty solid of where they thought Hawaii was and knew of the new obligation for the state and local governments that had the requirement to make contributions to the pension system. It wasn't such a big deal and it wasn't something PFM necessarily knew going into this analysis, got numbers from B & F, and so that was the one take away of that extra piece the TRC had asked them to do. He said clearly on the retiree healthcare side of the equation was it started from ground zero. There had not been a corpus that was developed and was still an area where there was significant need for the state to make additional investments.

He said that's kind of what rolls the whole conversation of if you're going to need additional revenues and his personal beliefs as someone whom has been involved with state budgets, both as a practitioner and now as a consultant was it would be difficult to make the kinds of investments necessary to maintain that system without some new revenues in the future. Yes it

could be done on the expenditure side. He said it would be difficult given the spending patterns of the state and quite frankly any state with that kind of level of additional new revenues that were probably going to be necessary. Yes, it could be accommodated or at least some portion could be accommodated on the expenditure side as well.

He said in terms of comments of what they addressed in the new version were a lot of little changes that had been suggested. He would note they probably didn't go as far as some TRC members would have wanted them to make definitive judgment on regressivity or progressivity in the tax structure. There were a lot of complexities around that discussion making just a singular pronouncement on some of those issues was something they thought was an accurate description of the system and thought their primary focus of what they were asked to do on the issue of regressivity was how to make the system less regressive which they thought they provided definitive kinds of suggestions in that particular area.

Chair Takamura said since none of the TRC had really looked at any of the changes, she was going to defer to the next meeting to accept the report.

DISCUSSION AND APPROPRIATE ACTION RELATING TO THE TAX REVIEW COMMISSION'S REPORT AND ITS EVALUATION OF THE STATE'S TAX STRUCTURE AND RECOMMENDATION ON TAX REVENUES AND POLICY:

Chair Takamura said she wanted to thank all of the TRC commissioners for sending in all of their comments and recommendations, and knew it took time away from their personal lives and jobs to do that.

She said some of the comments were similar and going forward with these comments and recommendations and their report. She said earlier, they had sent an outline for the report. Some of the key points that were listed on the recommendation were in the report that Dr. Rousslang had started to draft. It didn't have them all but some were there already. She was still working with Dr. Rousslang to work in the mandate, and the tax policies, and Dr. Rousslang started on the tax structure portion and will work on that a little bit more before passing it out to the rest of the TRC.

She said going forward with the report they were thinking that maybe the TRC should start with a couple of key item recommendations that the TRC had been working on. One of the things on the outline was the unfunded liability and asked if there were any comments about showing that it was one of the key points of their recommendations?

Commissioner Knox asked Chair Takamura was she talking about an approach in which the TRC would have some kind of headline recommendations, ones that were clearly tied up?

Chair Takamura said yes, for what the TRC had the studies done for and maybe a couple of key items they wanted to bring out in the report and after that have some other recommendations that could be submitted to the legislature.

Commissioner Kaina said Chair Takamura was using the word "recommendation" but thought she meant and was talking about chapter three in setting the context because they weren't making a recommendation and that the TRC was basically saying the findings. She just wanted to be clear they weren't recommending with regards to that.

Chair Takamura said they were thinking the TRC should address a couple of findings the TRC had and address those first, and after that the TRC could list other recommendations the TRC had for the legislature. One of the things was the unfunded liability that they would address and thought that was part of the items that was listed in the key points and preface that was submitted to the TRC by the TRC. She said going forward, did the TRC want Dr. Rousslang to work on the findings for the report based on what PFM had found and what the TRC had talked about in their meetings.

Commissioner Knox said he thought the TRC should have a summary of the major studies or presentations or things that affected their recommendations so the TRC could eventually link recommendations back to the TRC activities and findings.

Chair Takamura said ok. She asked besides the unfunded liability was there anything else the TRC wanted to bring out that was discussed or had a study on or thought was important for the legislature to look at?

Commissioner Knox said the TRC did basically ask PFM to have two focuses and thought the unfunded liability and/or revenue enhancements became the larger of those two, but originally there was the big picture second theme of improving regressivity or increasing progressivity within the system. Now the TRC's organization of recommendations doesn't have that as a category, but if they had the things that were appropriate then he would think those ought to be.

Commissioner Cook said he agreed and that for him, looking at section three of the outline and what was talked about earlier, thought the ones, the big pressing issues, the highlight that the TRC came into was the unfunded liability as well as the proliferation of deductions and exemptions for the GET.

He said the first one PFM did look at in their report and did get information on that. The second, the TRC was unable to look at in the detail the TRC wanted to so he thought the TRC basically said because of timing of getting data from the TSM System, and that may not have been the appropriate TRC to look at that issue. He said he thought the TRC could say it was one of the things they looked at but defer that recommendation for a future TRC to look at, and the reason for looking at those was not just for the TRC but was asked by the legislature and the Governor's Office to look at these issues.

Commissioner Kaina said she wanted to review the notes to see if that was a decision of the TRC because it was discussed, but didn't think there was full agreement around pushing that forward, and it wasn't included in the TRC's RFP or anything else. She knows that Chair Takamura has brought it up a number of times and Commissioner Cook had brought it up a number of times, but doesn't think the TRC has had any conversations at any level or in any discussion and to say that the TRC didn't get it was disingenuous because she didn't think the TRC contemplated it or

maybe Commissioner Cook did, but she doesn't remember seeing anything in the minutes that points to the fact the TRC made a decision to do that for resources. The TRC should acknowledge the truth of what happened and thought the TRC was deferring it because there were other studies being done. She didn't remember that as Commissioner Cook's characterization of that was.

Commissioner Cook said his memory of that was the TRC was asking about it but didn't think the timeframe was going to work.

Commissioner Knox asked if they were talking about the GET exemptions and early on was told that the new system wasn't going to give adequate information.

Commissioner Kaina said she was concerned about stating that as something.

Dr. Colby said to be clear, DoTAX did provide the TRC a list of exemptions and by the end of November, DoTAX would be releasing a report on the GET exemptions that a lot of the data provided the TRC, but instead of giving a broad list of data, they use a methodology and constitutions by Dr. Rousslang, looking at some exemptions were meant to reduce tax pyramiding, some exemptions were meant for social aim and some for different things.

He said there were two issues. One was data availability and what DoTAX provided was the first half of the year 2017 and so the TRC was not going to get a full report and he believed he cautioned in the report that it wasn't absolute and the TRC couldn't double the numbers and expect it would be what you expected. In terms of relative and which ones were the big ones, how many times a deduction was taken was a starting point. The report DoTAX was going to release in November does the same thing, using the same exact data and measures the same data limitations. The only difference was they were going to be breaking the exemptions down a little differently. For example, the sub-contractor deduction was considered an anti-pyramiding deduction. They classified the deductions into such.

Commissioner Kaina said again, to be clear in response to a letter done without the approval of the TRC by Chair Takamura & Vice-Chair Cook. That was in response to a letter they sent. She wanted it to be clear it wasn't in response and decision by the TRC as a whole and that was a response to the letter dated February 27, 2017.

Chair Takamura said so the TRC was going to get information.

Dr. Colby said yes.

Chair Takamura said the TRC didn't do the study regarding the exemptions because Dr. Rousslang had done one earlier. She said when the TRC started this, Dr. Colby wasn't here and they didn't know what they were going to get, and was basically told the TRC could get something but it wouldn't be complete and wouldn't have full data. She said they had Dr. Rousslang's report to go by to look at the type of exemptions they were and didn't go forward with another GET report.

Commissioner Knox asked if DBEDT was doing something as well.

Dr. Colby said they were doing property taxes. He said to be clear, everybody knows there were exemptions in the GET and the TRC had all the information and some of the relative stuff would come out but the big exemptions were non-profits and anti-pyramiding exemptions in terms of the overview. He didn't foresee a lot of information coming out from DoTAX report that the TRC did theoretically know. There would be dollar amounts that could be applied to things but the TRC would know what was exempt and what was not. In general, some numbers were higher than others

Commissioner Knox said he wasn't sure, memories were tricky so maybe the TRC should check their notes but had the impression at one point when the TRC was considering about whether to look into that, perhaps Dr. Rousslang told them, but Dr. Rousslang's previous study was enough and likely wouldn't learn anything new. The TRC may not have made a decision in terms of a vote not to go into it but they just heard that.

Dr. Colby said there was the 2003 study by Dr. Fox that tried to put that dollar figure on everything.

Chair Takamura said she guess the outline was kind of in-line with what the report was going to look like, follow. So the TRC would talk about the unfunded liability, talk about progressivity or regressivity of the tax system, or anything else the TRC wanted to point out before the recommendations.

Commissioner Knox said the TRC had a lot of discussions about TRC lessons learned and didn't know whether that was one of the TRC's big front things or just incidental but we had a number of things about it, what did the TRC think?

Chair Takamura said she thought that should be after the TRC's recommendation because it's not so much a tax structure thing but it was how the TRC was formed or run.

Commissioner Blouin said it was considerations for the future.

Chair Takamura said maybe put that after number four.

Commissioner Blouin said he would like to go back to what Mr. Bauer talked about pensions. He said if he understood correctly that section three D said discussion of tax adequacy of and the need to address the state's unfunded liability or underfunded liability including pensions and healthcare for retirees. He said did he understand from what Mr. Bauer shared with the TRC was that this was the last of the concern then the last time.

Chair Takamura said she thinks he was only talking about the pension.

Mr. Bauer said right. The pension side from the path that has been laid out by the state increasing employer contributions seemed a reasonable course and can be accommodated within budgets given current circumstances and that seemed to be the economic opinion of the rating agency that obviously had a big interest in what's going on in Hawaii. That seemed to be suggesting they were maintaining high credit ratings and considers Hawaii's overall economic

conditions stable. He said on the pension side things were fine, but there was a significant responsibility for the retiree's healthcare, and that's the one when we talked about additional revenue, were mostly focused on.

Commissioner Blouin said perhaps be advisement to remove the pension section.

Chair Takamura said the TRC needed the outline first because there was no report yet.

Commissioner Kaina asked if it was worth mentioning the pension because of what's going on and was no longer considered since it was always something considered, both pension and healthcare. At least to acknowledge what Mr. Bauer was acknowledging rather than completely eliminating it from the report.

Commissioner Knox said even with the last TRC, it was clear that the OPEB things were far more important than the pension and sounds like the pension has gotten even better since then.

Mr. Bauer said let's give the legislature credit. They made changes to the design of the system, improved things and had put some dollars into the retiree system, but the problem in the retiree healthcare system was all pay-go, there was no corpus that it could build up that was providing funds to pay. It was just year by year and now they're making progress there too, but there was a lot more to do. However, compared to 2012, things were better in Hawaii as it relates to both of these systems.

Chair Takamura asked Commissioner Kaina if she was okay with if the TRC didn't include the pension.

Commissioner Kaina said she felt there should be some acknowledgement like Mr. Bauer's indicated because she felt publically the perception was the pension and the health fund and not just the health fund. That acknowledgement would be important for the TRC to do because Mr. Bauer had indicated improvement to that area.

Dr. Rousslang said if he could just add, for purpose of the budget in future years the legislation that increased contributions for pension and healthcare, one was about a fourth above the other or a little less, but together he thought was the best way to look at it because the pension wasn't big but was not negligible and it was going to be hitting the budget when the legislation hits starting fiscal year 2018.

Mr. Bauer said it was not inconsequential but he thought it could be accommodated within the revenue growth assumptions and the normal flexibility departments had.

Chair Takamura asked if there was anything else to bring out as far as key points that the TRC looked at.

Commissioner Blouin said the TRC should summarize the most popular topics from the list. Commissioner Knox said the carbon tax, if recommended would be fiscally one of the most potentially significant things. He said he was personally not willing to yet, to recommend that

the legislature do it. He would be in favor of recommending a more thorough study including the barrel tax alternative and so forth, but he would tend to give emphasis. However, we requested missing TRC Commissioner Lippert provide some input and he thought the TRC ought to decide whether it would be a key point. He would say potentially yes, depending on that. It could have great magnitude.

Mr. Bauer said there was an interest in what they heard when they talked to the TRC on what were the big ideas of taxation and there aren't that many that were not in place so that was a big idea and did think there were some areas where it made sense for Hawaii but not necessarily for other places. He said his experience of thirty years in budget and taxation at the state levels were these things take time to kind of become something that states would consider.

He said that was kind of the role they see from what TRCs supposed to be. That's why they tossed it out there and they were not surprised that the TRC was hesitant about it, but he did think there was some logic behind it.

Commissioner Blouin said he couldn't agree more and in the forty-five years he's been here, it's important to breach the subject in print and so rather than delay the conversation to sometime between now and three-thirty and the TRC pau, where do we put this if we as a TRC feel that was an important subject matter and move on to the next subject.

Commissioner Knox said he was happy at least potentially being one of the big headline recommendations but we don't know what we're going to recommend yet.

Commissioner Blouin said this was a working meeting and we should spend some time talking about what the TRC was going to recommend right now.

Commissioner Kaina asked if they were trying to finish up the findings and then go to recommendations, or should we just jump to recommendations.

Chair Takamura said they should finish up the findings and would like Commissioner Lippert's input and that she did send an email.

Commissioner Blouin asked if there were any other TRC commissioners that felt there was a subject matter that they were all kind of in agreement with so it could be knocked off the list.

Chair Takamura said she kind of felt that basically the findings were what was studied and the recommendations were basically from the findings, other reports and information the TRC had gotten.

Commissioner Cook said he was going to share his overall thoughts about the overall findings. In looking at past reports, just kind of the pattern of how they were written and organized, taking as an example the 2001 and 2005 reports. Both of them had kind of there headliner or overall findings/recommendations in the beginning talking about for example the credits, Act 221 and the Streamline Sales Tax Project recommendation to participate in. Those were some big ones.

He said he agreed that they as a TRC recommend something big like the carbon tax that would be something to highlight. He would prefer to discuss that when Commissioner Lippert was there because she had some good input on it and thought there were some big issues to think about.

Commissioner Blouin asked Commissioner Cook what findings he was referring to that was summarized.

Commissioner Cook said as far as the big one, the one talked about was the big one he was thinking of was just highlighting the unfunded liability.

Mr. Bauer said the Streamline Sales Tax was a good one. That came out of a Supreme Court decisions that had been issued related to Bellas Hess related to catalog sales and phone sales that could not compel those entities to collect excise tax or in Hawaii's case, the GET. Of course Quill said you couldn't do that for internet sales and that was taking on a big issue for consumption taxes that we now don't have control over that destiny and what the Streamline Sales Tax initiative was meant to accomplish was to get back some of that control.

He said there were a few of the things talked about here like what's going on with economic nexus standards which was now going to be in from of the Supreme Court because of South Dakota's economic nexus case which loss at the South Dakota Supreme Court and appealed to the U.S. Supreme Court and the whole concept of creating nexus or creating ways to induce E-Tailers to collect sales taxes. That was one of those big issues all states were grappling with and if the TRC was looking for what were the big issues, another big issue on consumption taxes was taxing services, but Hawaii already did that.

Commissioner Blouin said there were three points that support the TRC's feelings about that on the bottom of page three.

Chair Takamura said they tried to do that this last session, trying to tax internet sales but that failed in the legislature.

Commissioner Blouin said much to the point earlier, sometimes they fail and a couple of years down the road sometimes things click, and that's happened time and time again.

Chair Takamura said she thought they may have more push to do that in the next session since Amazon started charging voluntarily.

Mr. Bauer said yes, Amazon was collecting taxes in all the states in the Amazon share of the market and they were only collecting on part of their sales not collecting on their ability as the marketplace has been. The Streamline Sales Tax as an issue had voluntary compliance through that too and all of these things were starting to add up to real dollars for the state.

He said the other thing that some volunteers don't really grasp a lot of E-Commerce business to business sales that use tax that businesses know that they had taxes owed. That's the whole thing about that tax whether it's GET or sales tax, the tax was owed and you just can't compel the E-Tailers to collect it. Businesses tend to pay use taxes at a rate of 75%-90%, and it's not like there

was a pot of gold at the end of the rainbow, but there was definitely revenue that was not collected but owed.

Commissioner Blouin asked Chair Takamura who was taking notes of what will go in the report.

Chair Takamura said she was.

Commissioner Blouin said there were more than three or four support statements from commissioners regarding that subject, so let's make sure that was included in the report.

Dr. Colby said the revenue estimates for Amazon contribution was \$12-\$18 million a year to the state and if they thought of one-fourth of all internet sales, they could come up with the numbers.

Dr. Rousslang asked for the report was the TRC going to have recommendations and other things talked about the TRC considered, and maybe didn't recommend, like E-Commerce, should the TRC decide not to recommend anything there? Did they want to have it listed?

Commissioner Blouin said he thought he heard that there were findings that had pointed to potential source of revenue that should be recommended in the report that was his understanding.

Dr. Rousslang said he was just asking if there was going to be different categories of recommendations that the TRC makes and recommendations they considered and wanted written in the report that never made it to pass by the majority.

Commissioner Cook said it should have the TRC's recommendations.

Commissioner Blouin said he thought that was why this was a working meeting because they were in agreement with that being a recommendation by the TRC because three members thought it was important. If others felt it wasn't important then they should say so now.

Commissioner Kaina said it was fine to approach broad categories and to get the temperature of the TRC as to what they were. Ultimately, the devil was going to be in the details of what would actually come out with respect to taxing E-Commerce. What were they actually looking at, was it the recommendation from the PFM Group? There had been other states that have enacted sales reporting. It really depends on and Commissioner Blouin was right, the TRC had to start with the general temperature of what members were looking at based on the summary given and was a good place to start.

Commissioner Blouin said he was hoping that was a working meeting since the TRC was tasked with an assignment to bring their thoughts to the table and he was just proposing to take those that were very common and see if they could agree on them, and then move on.

Chair Takamura said maybe the TRC should just go down the line and see if it's something the TRC wanted to look at or even wanted to consider and the recommendations could be written based on what was there, pass it out and see if the TRC could come to some kind of agreement. She said the key points of the report was going to be addressed in the tax policy portion and setting the context in section two and three, same with the preface.

She said in the overall tax policy, first recommends looking at methods to address wealth versus income disparity, was that something the TRC wanted to recommend? She said she wasn't sure what the recommendation would be, any comments?

Commissioner Kaina said she thought it could be addressed in the key points in the introductory section. Again, she thought it went back to the overall perspective on how we looked at what we do in the framework.

Chair Takamura said second one was minimize tax exemptions and credits, any comments on that one?

Commissioner Blouin said no question but his comment was was there any findings on those that support that? In the overall tax policy there was five bullets, was there any findings to support any of them?

Chair Takamura said the minimize tax exemptions and credits goes back to once you get rid of all the exemptions and credits the tax base becomes larger so the tax rate decreases, and that's one of the things she guesses came out through PFM, to get a broad base to get a lower rate.

Commissioner Kaina said she had concerns about including that because she felt there was adequate time to discuss the merits of various credits and exemptions. She said she was really uncomfortable with that. She gets that the highest exemption the state provides was to non-profits but the TRC hasn't had an adequate conversation about it. It's just here's the information and really talking about the policy pros and cons with respect to that.

She said it made her uncomfortable not to know what all the exemptions and credits were, and the TRC hadn't really dived into that and not to say the TRC could have done early on when you testified in front of the Senate about the numbers of exemptions and credits created, but without adequate ability to have discussed that and didn't think that there were findings only information. She said she agreed that could be correct but doesn't think there was a nexus between what the TRC really discussed in the TRC.

Dr. Colby said everybody always agrees with that statement. They just don't agree with taking away which exemption. In the overall tax idea, was the TRC talking about the exemption for social security or exemption for retirement income? He said there was two ways to do it. One could look at the cost-benefit analysis for each one of those things or do a blanket and offer no exemptions in the tax code. He said between those two, there was a lot of room and thought if the TRC was going to target one in particular, you need to provide a good justification of why. He said to be fair, the TRC had some information on the exemptions in terms of cost and those who were benefitting from it.

Commissioner Blouin said he didn't think the TRC wanted to target any one area but at the same time, he personally felt there was not much that could be done then to look at reducing credits and reducing exemptions because how else would the state fund the future liabilities. One question he had was he didn't know what innate sunset dates for all credits and exemptions meant. So, whoever put that on the list, please explain.

Commissioner Cook said he got his from past TRCs that he thought was helpful. He said the idea was a matter of policy. It was better to have a broad base and a low rate, and then if for whatever reason a credit or exemption was enacted, the recommendation was the legislature would include a sunset date where it would go back to the broad base and low rate. He was mimicking those from one of the past reports.

Commissioner Blouin said his was rather assertive considering the discussion so far. He said reduce tax exemptions and credits by 30% over the next four years, but it really wasn't the TRC's place to say which ones should be left intact or which ones should be changed, or eliminated. He believed the TRC needed to make recommendations for the future, breach the subject, and be specific in tasking our government to make some changes because we need help in funding the liabilities in the future.

Chair Takamura said she didn't think when the TRC put their ideas in they were looking at specific exemptions and credits but it was a recommendation the legislature had to address. They need to look at exemptions, they need to look at the credits and it was not so much the TRC was going to tell them to look at that credit.

Commissioner Blouin said he know a few legislators and they're going to hear look at credits and exemptions or they're going to hear from the TRC and their recommendations as to be a little bit more specific or had a more specific task, something one could sink their teeth into. Whether they do it or not was their decision but the future TRC would see that this TRC made specific recommendation and they were measurable, and the legislature could do them or not or do a portion.

Commissioner Knox said he agreed with all three bullets about credits and exemptions personally, but he was uncomfortable that the TRC did not make it a focus of their study or discussion. He said he was personally inclined to try and minimize the number of recommendation the TRC makes and link to findings, show some basis for it. He said he was torn. He said he agreed yet he was not inclined to go with that recommendation because of that reason.

Commissioner Cook said getting to Commissioner Kaina's point and Dr. Colby's point, yes, the TRC didn't get into the specifics and that's why personally he put his in there because it was more of an aspirational statement of good tax policy. Basically restate good tax policy as a recommendation without making specific recommendations about anything specific. The TRC didn't look at the non-profit exemption and did that make sense to recommend to get rid of it. We didn't look at the other exemptions and credits.

Mr. Bauer said there was one big exemption that they analyzed in 2012 also which was the public pension income and that was an area where Hawaii was on the extreme end of the way states treat pension. He said when you look at what's happened with age cohorts and how they had advanced in terms of income over the last five to ten years, the individuals over sixty-five were doing fine. He said they were doing much better than any other age cohort and yet we provide preferential tax treatment for them in a variety of ways.

Dr. Colby said he came across an interesting study by the feds, finding Hawaii would be the hardest hit, the tax revenues would decline the most with respect to demographic change of just about any other state and the reason for that was twofold because we have one, we had one of the fastest growing populations in the United States and we had a tax system that exempts large amounts of income for senior citizens.

Commissioner Kaina said maybe the idea of looking at credits and exemptions was part of tax policy if it were blended into point two or three of the report about principles of tax policy in terms of the overall considerations. That's kind of what the findings piece was talking about, the different things that were there and the fact that our tax system was the parody of that with different legs of the stool in terms of things to be considered by the legislature in creating that policy. You raised the point but it's not necessarily a recommendation specifically tied. She said she was uncomfortable with a recommendation.

Commissioner Blouin said lets go back to the pension plans on top of page five.

Chair Takamura said he did touch on the pension and all of the defined pension plans income was non-taxable for Hawaii. She said her distinction was there were pension income and other retirement incomes that the other retirement incomes were taxed fully and the defined pension plans were not but they were all retirement incomes and when she asked about it, it was more of an equality and fairness issue, why were some retirement incomes taxed and some were not. Her question was what would happen if all retirement income was non-taxable up to \$25,000.

Mr. Bauer said they couldn't make that calculation for that. He said no state had that kind of treatment and Hawaii was already at the extreme end if they entirely exempt public pension income from tax. So, if you entirely exempted 401K distribution and any other pension income that would be a really big number so you can only really look at it by going in the other direction. He said you would have horizontal equity here only if you taxed that pension income the way you treat other income.

He said he understood the concept of a social contract with public employee that they weren't going to make as much money when they were working, then get their pension and it wouldn't be taxed, but a lot of those kinds of circumstances had changed in terms of when you look at what the wage rates were in certain industries and at some point, you have to say you had to treat it now and today the way a system would look at equity.

He said there really isn't a way to look at it and some of that income should be taxed, and that's what almost every other state concluded and they don't necessarily tax it the same but most had at least some portion of it taxed. If you're going to start exempting more and more of that income and the population ages, that's just hard on the tax structure to keep up. It's a big issue and a problem in Hawaii, and their last governor had a problem on that issue but from a tax policy standpoint, there's very strong rationale for the just being treated as ordinary income.

Commissioner Cook said regarding that one, a specific recommendation from the 2005 TRC that Hawaii should conform to the federal treatment of retirement income excluding an annual base

and gave the example of \$50,000. The 2001 TRC recommended taxing all pension income. They explained that people made decisions based on what they understood of the law to be and it would create a hardship so rather than taxing everyone, they said why not create equity by excluding \$50,000 or some amount per year.

Mr. Bauer said if you had \$50,000 in pension and social security on top of that, it was hard to suggest that taxes were going to be a hardship for those individuals. He said that was pretty good retirement income. That's why they suggested \$25,000.

Chair Takamura confirmed that Mr. Bauer recommended \$25,000 non-taxable of pension income per person.

Mr. Bauer said that was a pretty good income and would also have social security, and you would expect the people at that level probably would also have other assets they had acquired. He didn't think any of these people were going to be under the federal poverty level.

Commissioner Knox said it would behoove the TRC to have a sense of their strategy in terms of number and recommendations so that they knew what they were working towards. He previously said his preferred strategy would be a fairly short list in order to improve hopefully the legislature's attention to. He said now they could come up with if they had the potential for quite a laundry list and the TRC may want to say and well they may think it was their job to make a bunch of recommendations although he doesn't feel that way. He thinks the TRC should decide on the very much critical ones.

Dr. Colby said he thought if he were a legislator that was going to be reading the report, more than a number, he would want sound analysis and rationale for why the TRC was proposing something rather than feeling that something was right. What the TRC had to do was convince them that every single one of your recommendations was legitimate and ultimately benefit the state and the state taxpayers of Hawaii, one way or the other. He said rather than limiting themselves, what did the TRC believe in and how likely were they able to convince somebody their recommendations were valid.

Commissioner Knox said he concurred and that's also why we need to simply link it to findings.

Commissioner Blouin said wasn't there sound analysis regarding the pension plans were inequitable.

Commissioner Knox said the reason why he said that was because that was a politically sensitive topic.

Commissioner Blouin said he couldn't agree more but he was just trying to get TRC empathetic positions, pull them together and put them on the table.

Commissioner Knox said the more politically sensitive topics the TRC has, the more the TRC would need to do what Dr. Colby said. The TRC might have ten middling bland recommendations or five really, really median potentially controversial ones.

Commissioner Blouin said and so far the TRC had two or three and been together for an enjoyable hour and said the TRC should get into it and continue to ask ourselves if there was data that supports it and disregard the rest.

Chair Takamura said getting back to pension, did the TRC want her to write it into the report as a recommendation or take it out.

Commissioner Kaina said why doesn't the TRC just start a list and at the end comeback to that list to decide as a way of narrowing it down. She said the TRC was having their conversations and where there seemed to be some agreement, just list them down and then at the end the TRC could circle back and prioritize. She said in terms of what Commissioner Blouin was trying to do which was consolidating and move ahead.

Commissioner Knox asked how that list was going.

Commissioner Kaina said she had three. The carbon tax, E-Commerce and pension exemption which were the three so far the TRC wanted to look at a little bit further; and had the exemption and deduction issue included more in the introduction to the report around general tax policy.

Mr. Bauer said he hoped too that some of what they talked about in terms of making the system less regressive by like expanding the standard deductions or making some of the credits refundable was things that were going to add on other sides of the structure. He said there was a real case to be made because Hawaii had such a broad base GET that they might also want to approach the subject of how could they use the overall structure to make it a little less regressive.

Commissioner Knox said another potential great biggie was the Simpson-Bowles Commission idea from last time because they did have the challenge and was unable to address spending from their perspective and somebody ought to. He thought the TRC should consider reiterating.

Commissioner Cook said to restate the Simpson-Bowles, was Commissioner Knox talking about a commission to look at spending cuts.

Commissioner Knox said a commission to look at the issue from the perspective of you could solve it both by increased revenue and/or by spending reduction decisions. The TRC was not allowed to get into that spending reduction decisions. The legislature sometimes has problems we think if they brought together the appropriate people with the appropriate resources, and gave them that mandate, the legislature could then have a package of ideas to consider.

Commissioner Cook asked if the TRC was just throwing out things.

Commissioner Kaina said the TRC was throwing out things, and then we have a general agreement upon and then move forward. The TRC was not going to just throw things out. She said she like how Commissioner Blouin was grabbing those points that had more people which was a good place to start.

Commissioner Blouin said there was a lot of ink on E-Cigarettes and a lot of ink on AirBnb, TAT most likely. He said that's in place already. He said there was also a lot of ink on

collecting tax in general which could also be related to collecting for those businesses that have AirBnB or bed and breakfast things of that nature not registered to pay TAT.

Commissioner Knox said there has been enormous attention to that on the part of both state and local government forming committees and they're going to get into a lot of specifics. What sort of specifics was the TRC going to recommend or should we want to do just general recommendations?

Mr. Bauer said there were two avenues there. One was making sure that occupancy taxes reflect the fact that those AirBnB kinds of situations were taxable. The other was enforcement and that's where you just need to dedicate resources to.

Commissioner Blouin said in the administration section and that goes back to efficiency that was talked about earlier. By providing additional resources to tax administration to retrieve taxes, collections, accounts receivable processes, specifically compliance programs was there as well.

Mr. Bauer said they identified in their report that just about any state that did a return on investment analysis on whether it was GET or any specific tax, if you put more resources into the auditors' side you would collect more tax.

Commissioner Kaina said compliance enforcement and then adding education. She asked Mr. Bauer of when he talked about ROI was there something in their report that they could refer to.

Chair Takamura said that was good because it's not like they would have to put in new legislation for compliance, the bill were there. It's getting people to comply with the rules.

Commissioner Cook said because the TRC was talking about the AirBnB issue and enforcement, one of the things from the list not wanting to make it one of those huge things and could be taken separately or include with the AirBnB was HARPTA. HARPTA was a withholding tax that's imposed when real property was sold and the rate has been fairly low, well hasn't been changed since 1991. He said it came under income tax because it was a withholding against income tax returns for an individual's income tax liability but could be seen as part of the liability enforcement for rentals, GET along with education.

Commissioner Cook said sometimes that could be a rude awakening as former tax accountant on the mainland that had clients with investments in Hawaii real property; it could be a shock that there would be the GET and TAT that would arise when there was a sale of the property and suddenly their scrambling to do old tax returns.

Commissioner Knox said he finds himself saying that made sense to him but doesn't remember it being something the TRC studied.

Chair Takamura said it was compliance of the laws, that's what it was.

Commissioner Blouin said again we ask ourselves was their findings and was the answer yes or no.

Dr. Rousslang said when you have CPAs on your committee which was one of the reasons the TRC was formed and could you go with your own expertise.

Chair Takamura said she brought that up because she did a lot of it and sometimes it was devastating for the taxpayer.

Commissioner Blouin said should the TRC make a comment perhaps for future TRCs to look at that.

Chair Takamura said there was some information about HARPTA, not that much. The TRC had the amounts collected through HARPTA but the TRC doesn't know the tax portion of HARPTA.

Commissioner Blouin said he didn't know how that worked.

Dr. Colby said he thought that only applied to non-residents.

Chair Takamura said yes, that only applied to non-residents and they usually don't know the tax laws here.

Commissioner Blouin said so what we wanted to do here was hook the seller before the sales closes to pay all back taxes especially if the property was rented under TAT usage and they didn't know it.

Chair Takamura said it was a tax compliance thing, right?

Commissioner Cook said he didn't know the history of HARPTA and said maybe Dr. Rousslang knew it better but on the federal side, there was FIRPTA was when you had foreign and non U.S. people who invest in the U.S. and then sell their property. There was a withholding tax that was fairly high and it was a deposit not liability but an enforcement mechanism. What they did was hold it and the individual would file a tax return on the sale and calculate gain or losses.

Ms. Kaawa said wasn't that the same premise for HARPTA.

Commissioner Kaina said it was not a tax, it's a withholding.

Commissioner Blouin said it was a withholding to cover unpaid taxes.

Chair Takamura said it was a mechanism for the seller to file a tax return.

Commissioner Blouin said it should be in an area of opportunity for the future TRC.

Commissioner Knox said he liked that better. He said he thought if the TRC as a group didn't study it very carefully, the he doesn't think they should be making recommendations but liked the idea and it made sense as Commissioner Kaina pointed out that some things future TRCs

could benefit by, hopefully standing on their shoulders hearing some of the things they've heard and didn't get into.

Commissioner Kaina said she wanted to go back to E-Cigarettes/Vapor tax and there were four commissioners that seemed to be okay with basically making it mirror the cigarette tax.

Commissioner Blouin said going back to a comment earlier and the subject was breached, and it could be the future years for this to come to flourish, many remember the vacation ownerships, the timeshares and how there was an inequity there and over the course of years caught up to the hotel type TAT.

Chair Takamura said it was not taxed at the same revenue level.

Commissioner Blouin said it was different equations but that wasn't his point. He said over the course of time, they've reached an equitable situation in the industry. For the E-Cigarettes industry, they could do the same thing over the course of a few years to have it become equitable moving in the right direction.

Chair Takamura asked what about the individual standard deduction and exemptions on page four. She thought it was pretty low compared to the federal amounts.

Commissioner Knox said was the TRC going to just recommend increasing it or a principle or legal policy benchmarking for inflation following the federal standard, something more specific than just increasing it.

Dr. Rousslang said you know the Republicans proposal now was a huge increase for the standard deduction and personal exemption, so if the state conformed, that could be a very different thing.

Dr. Colby said generally what would need to happen was to adjust all tax rates and the TRC would have to think of that in its entirety. If you're going to increase the standard deduction and exemption, you're going to increase the standard deduction and exemptions for everybody. If the idea was to be absolutely regressive or progressive, what you should have to do was to alter the tax brackets and raise the standard deduction. He said there were a number of moving parts and if you just say one, it would be real expensive and it's not going to be a targeted program.

Dr. Rousslang said modernizing the code was exactly what was needed to be done because it was so outdated.

Commissioner Knox said that was a global recommendation and needed to have some underlying principle. Benchmarking for inflation would be one instead of writing into the law specific dollar figures which is what would need to change every year or every so many years, make something more automatic or just conform to the federal.

Dr. Rousslang said you would have slightly higher cost of living. The idea of the standard deduction and personal exemptions was to give people enough to live on before you start taxing

them. So conforming to the federal was sort of a minimum because we had a higher cost of living here.

Commissioner Cook asked if there was ever a time when we were or when did the divergence happen historically.

Dr. Rousslang said he didn't know the last time they changed the standard deduction and personal exemption but it was done not that long ago.

Mrs. Sakata said in 2006 the state brought it up to 40% of the federal level and that was almost doubling it at that time and that was eleven years ago and we don't index for inflation so we keep falling further and further behind.

Commissioner Knox asked why don't we index for inflation and did we ask before?

Dr. Rousslang said when you conform like Dr. Colby pointed out, you'll want to change the brackets and rates to make the whole thing revenue neutral, and all you're doing was modernizing instead of using tax credits to help the very, very poor, and just remove them from the tax brackets. If you did that over a period of time, you would have to keep changing the brackets. So if you indexed it for inflation like the feds do, the brackets, standard deductions and personal exemptions presumably, you got a machine that would stay operational until something unexpected.

Dr. Colby said to be fair, he would say the individual income tax increases about 6% a year. So if real inflation was 2% that meant we're benefiting from the fact that people were getting pushed into other tax brackets all the time and the State of Hawaii was benefitting from that. He said that was the corollary to it not being fair was if it was helping us maintain revenue. Our revenue would not be growing as quickly if we indexed for inflation. So now the question of how much that could be would require some type of analysis.

Dr Rousslang said except if we had huge inflation which would be coming one day and everyone might be paying at the 11% rate.

Commissioner Knox said what made sense about how to craft their particular recommendation, was there wording there that does it or should they entertain the recommendation with specific wording from Dr. Colby or Dr. Rousslang.

Commissioner Cook said the 2005 TRC report recommendation number two under income tax said for Hawaii's individual income tax, the standard deduction /personal exemption and tax brackets should be indexed for inflation.

Commissioner Knox said they could just readapt that.

Commissioner Kaina said the issue was whether or not it was going to be cost neutral. Right now in the PFM report, they were saying that just increasing the standard deduction to \$7,500 for single filers, \$15,000 for married and \$11,000 for head of household and she guessed that

indexed would be a loss of \$61 million in revenue. So she thought that would be the question, to index it to be cost neutral or just increase that.

Commissioner Cook said he thought the purpose of indexing was to keep things revenue neutral.

Dr. Rousslang said it wasn't revenue neutral compared to current alternative minimum tax. It had been biting more and more, and the feds never got rid of it because of the cost but inflation was giving the feds extra money. If they indexed the alternative minimum tax for inflation, they would have lost money. So usually, indexing would cause you to lose compared to not indexing which was why we had allowed ours to get so out of whack.

Commissioner Cook said in theory if you index, all you're doing was keeping the relative, the base the same because income was going up.

Dr. Rousslang said you're not allowing for inflation to automatically increase the tax rate which is what it does if you don't index.

Dr. Colby said it doesn't affect anybody. For example, he got an increase in the cost of living of \$2,000 earns \$50,000 for a total of \$52,000 and was now in a higher tax bracket even if it was suppose to keep up with inflation and that was a separate issue from the standard deduction. They were all related and linked.

He said in his experience, the TRC should just make a recommendation that may be to have the standard deduction to fit the poverty line or something like that and adjust the tax brackets to insure that it was revenue neutral because you can't make an explicit rate without moving things around and if the legislature were to propose something like that, it would be his office developing, scoring and figuring out the cost.

Dr. Rousslang said that was something that should have been done for the legislature.

Chair Takamura asked how they wanted that one worded.

Commissioner Blouin said Ms. Kaawa could help with the verbiage that was shared, and then Commissioner Kaina and Chair Takamura could pick it up from there.

Commissioner Kaina said indexing with revenue neutrality.

Commissioner Cook said that he basically read the recommendation from the 2005 TRC report.

Dr. Rousslang said they could go even further by modernizing the brackets, standard deduction, personal exemptions and then indexing for inflation so it would be revenue neutral from the year you did it and after that you'd lose a little bit compared to not indexing.

Mrs. Sakata said was the base the standard deduction and personal exemption to date or were they going to bring the base up first and then index it going forward because the base was very low. So you may want to bring that base up so the people at poverty level won't pay taxes.

Dr. Colby said if you want to complicate everything, we had those refundable credits and increased the exemptions less people would claim them. He said it was hard to estimate or score what the impact was because there was a number of moving parts. So if you increased the deduction would less people file? If less people filed would less people be claiming the tax deductions even if they're not required to file and would give the money back?

Dr. Rousslang said you could cut the tax credits.

Dr. Colby said one of the things in their presentation was that tax liability was pretty low depending on which end you would be on the income spectrum.

Dr. Rousslang said Mrs. Sakata gave a presentation taxing those in poverty, but if you modernized the tax system, the standard deduction, personal exemptions sort of stops taxing those in poverty and then the recommendation could be to make DoTAX come up with a revenue neutral tax law.

Mrs. Sakata said you would need to look at the brackets and the rates.

Commissioner Cook said they discussed the rates and he was in favor of that recommendation of modernizing the brackets in a revenue neutral way, and then index for inflation.

Commissioner Kaina said to add in not to tax people in poverty.

Commissioner Cook said to make it revenue neutral, there would be a need to take into account credits.

Dr. Colby said if there was legislation to eliminate these credits and then readjust all the tax brackets, that was one thing, but to remove all the tax credits and personal deductions, we would not consider.

Dr. Rousslang said you could tell them what you thought.

Dr. Colby said if they thought some tax credits could be eliminated and then increase the food/renters credit to be fair. Those tax credits were meant to compensate for the GET.

Chair Takamura said but if they were on food stamps, they don't pay GET so they were getting a credit for something they were not paying.

Commissioner Kaina said she wanted to make sure they had correct information and she didn't think federal poverty guideline limit was where the eligibility point for food stamps.

Dr. Colby said for Hawaii it was different. He said the poverty line for a single person was \$13,000.

Commissioner Kaina said the one item left that had a lot of discussion and a lot of points was elimination of the corporate income tax.

Commissioner Knox said he was the one that said to ask Dr. Rousslang who then pumped in some language and he thought the recommendation part of what he wrote was raising Hawaii's rates by half to help cover expensive increases and curb the tax credits.

Dr. Colby said looking at our tax credit report and tax credits going to corporations represent 65% of their tax liabilities. So we basically reduce their tax liabilities.

Commissioner Cook said his recommendation was eliminating the corporate income tax because in a prior study didn't recommend outright abolishing it but talked about benefits of eliminating it and talked about whose pocket paid the corporate income tax. He said that study supported the idea that workers in Hawaii would be beneficiaries of eliminating the corporate income tax to some extent. The other consideration was if the federal government were to eliminate the state income tax deduction then that would flip the recommendation from an economic point of view.

Dr. Rousslang said actually the whole thing depended on what they called supernormal profits and the latest Republican proposal was not going to eliminate the deduction for state income tax for individuals, but not for corporations, but there was a way to eliminate the adverse affect on workers and consumers here and that was to expense instead of depreciate.

He said he thought the feds current proposal now would do that, give complete expensing so if we just conformed to that proposal that could give us all the benefits of eliminating corporate tax without these transfers and for the feds and for the feds, those transfers don't matter much, it was all amongst themselves and of course there was no federal offset. So for any state the shareholders were not residents and you could ignore the residents share and to the extended supernormal profits that tax was borne by the shareholders and so all of that was exported and the federal offset, all of that was exported.

He said when they drop the rate to 20% that would reduce the federal offset and they were estimating 60% - 70% of corporate profits now were supernormal. Apple, Google were dominating equity values now were intellectual properties rights and the taxes on that were pretty much rents. In other words, if you taxed Apple they weren't going to raise prices in their stores or cut wages on workers here, it was going straight to the bottom line and the shareholders.

Chair Takamura said when Dr. Rousslang talked about expensing, he was talking about expensing of what?

Dr. Rousslang said you immediately deduct the cost of any new investment. You don't have to depreciate it over time.

Dr. Colby said another thing he learned yesterday was a couple of years ago they did an accelerated rate expensing which meant you could expense 50% of your initial expenses according to federal law, but Hawaii did not follow that. We take the more traditional approach

and if we were to do conformity under the new law, we would not follow the full expensing regulation.

Commissioner Knox said he would propose the TRC consider the subject, the content of what Dr. Rousslang had written although he thought it blends the findings and recommendations together and thought they should be clear what the recommendation part of it was and should be rewritten that way.

Commissioner Kaina asked what the recommendation was.

Commissioner Cook said was to conform to the federal expensing. Conform to the federal proposal because actually we don't know if it was going to pass.

Dr. Rousslang said he thought the study would support going to expensing even if the feds don't. The recommendation there was to increase the rate 50%. It was from the PFM Group's recommendations.

Dr. Colby said in the Republican proposal, full expensing would only be applicable for the first five years.

Commissioner Knox asked if Dr. Rousslang could possibly for the next meeting rewrite in a way it sort of calls out what the actual action recommendation was.

Commissioner Blouin asked if there was any advantage to phase in the change from our existing to conforming to expensing. In other words, everyone was depreciating at this time, was there an advantage from the state point of view.

Dr. Rousslang said there would be if he was talking about cutting the rates but we're talking about expensing probably not. For example, for hotel owners here and we reduced the rate to zero, the immediate effect would be giving them money. There would be no response like in the first year, they won't be building any new hotel; there would be no new employment, why should they change their prices.

He said if you expense, that transfer doesn't occur. You're not affecting the existing stock of investments that they had or the profits they got, you're just going forward. So there would be no need to phase that in. However, if you cut the rates, there was an argument that maybe you should phase that in because after their investments fully responds then those transfers aren't happening anymore. He said in his report it was technical but the analysis was in the long run those transfers stop but the temporary short run period like in the first year you're just giving money to the current shareholders and they were all non-residents.

Dr. Colby said the other side of the coin of expensing was the interest rate deduction. He said our tax code favors investments and you could deduct corporate interest but the rationale was if you were fully expensing all investment people should be indifferent whether they were using cash or debt, and if you kept that other exemption in, you were actually favoring debt over cash.

He said when follows what's going on at the federal level, when you insert one you're suppose to eliminate the other. He thought the other question was since we were only 6.5% or 7% what we do at the state level was questionable in terms of thriving investments and other things relative to the federal level.

Dr. Rousslang said for the state level, the cut in the federal rate wasn't going to do that much for investments here. It was only going to do what it does for the average. At the state level, what we do here could matter a lot because investments were very mobile between states. He said certainly the United States as a whole would use the closed economy model, but for a state you would use the open economy model. He said it was much more likely for example that the burden of the corporate tax at the state level was passed on to workers and consumers here whereas the national level was mostly borne by shareholders even without supernormal profits.

Chair Takamura asked if Dr. Rousslang wouldn't recommend increasing the rate.

Dr. Rousslang said he would increase the rate because it was such a champion tax exporter. With the federal offset, the non-resident shareholders, and the supernormal profits were all paid for by outsiders. As he said in his basic premise, he cared only about the welfare of residents and people eligible to vote in our elections.

Commissioner Kaina said so here was what the TRC had up to that point in terms of the discussion and didn't think there was anything else listed that had multiple support but if there was anything else anyone wanted to pull out, and she had the Simpson-Bowles that was raised. So if anyone was feeling particularly strong about an item then there should be a conversation about that.

Commissioner Knox said there was one thing he would like to throw out there because what was being decided now was just a list. He said on the last page were lessons for future TRCs and not necessarily for the legislature, but the last bullet was aimed for the legislature and it was sort of an uberish issue of the actual statutory wording about the mission of the TRC, which was to do a comprehensive analysis of the state tax structure.

He said he was going to remind the TRC of the attempted study he did early on which went back and looked at all the past TRCs, what their actual scope was and what their resources were, and it did seem like a lot of it had changed up and down over time, and that only the first two TRCs really tried to do, in his opinion, met the very broad language of the statute.

He said since then, TRCs attempted to look at big things in the tax structure but not necessarily comprehensively and resources had varied, and the nature of the folks on TRCs has varied. So he was raising the idea that the legislature might want to take a look at what historically has happened, and maybe that was just fine, they may say they're happy with the information they've been getting from recent TRCs including this TRC, keep it don't worry about it, they may also say well no we should be doing something different and he thought the Tax Foundation had occasionally prodded us no we should be doing more of sort of applying the tax principles to do that kind of analysis which he didn't feel expert enough to do. He said he was throwing that out there as a possible important issue to raise with the legislature.

Commissioner Blouin said what Commissioner Knox was saying was perhaps it would be better for future TRCs to have tax policy matter experts rather than broad base experience.

Commissioner Knox said he felt it should be explicitly considered.

Commissioner Blouin said he liked the idea of having more than one commissioner with that type of subject matter expertise.

Commissioner Cook asked was that something the legislature does.

Mrs. Sakata said the governor appoints the TRC but the legislature confirms.

Commissioner Cook said what Commissioner Knox was talking about was changing the mission of the TRC.

Commissioner Knox said no not necessarily.

Commissioner Blouin asked if Commissioner Knox was saying that perhaps it would be advantageous to have two appointees, one from administration and one from the tax policy industry.

Commissioner Knox said that was certainly one approach. He said right now he seen a mismatch between that language and what historically has been happening lately, and he thought there were a couple of big reasons for it, one of which was the folks on the TRC, possible other thing was resources.

Commissioner Kaina said she didn't feel like the TRC needed to dive into that and that was taking it too far. There was a constitutional amendment plus a statute for that and he was going into another place and she didn't feel comfortable telling the governor, telling the legislature who they should appoint to the TRC.

She said it could depend on the composition of the people and a tax expert may not have any irrelevance or relevant experience in the community. She thought it would be based on the personalities of the individuals you had on the TRC.

Commissioner Knox said there might be a reasonable compromise on that and he would add that he also looked at a lot of other states and whom they put on there's and it was not that common across the country to have a community stakeholder type of approach and was more common to have professors, former tax directors, former B & F directors or maybe the current B & F director or current tax director. He said he thought that would be a reasonable thing to bring to their attention and ask them.

Chair Takamura said she didn't think it was a recommendation regarding tax policy and she thought that's why Mrs. Sakata had listed it under lessons learned/information for future TRCs, and it wasn't really for future TRCs because we don't determine who that was. She said it was a

consideration and thought it varies on what the administration was each year and she wasn't sure or maybe it had to worded differently.

Commissioner Blouin said the TRC had a lot of support during their meetings and guessed the question was if there were any advantages the administration seen or from a legal point of view that would give the TRC a competitive edge compared to other TRCs Commissioner Knox has seen by having someone or more than one person with subject matter expertise.

Commissioner Cook said that was an interesting topic. He said he was struggling with whether it was appropriate to put in the report and wondered what the format would be. He said it sounded like it would be a recommendation to the governor who appoints if the TRC was not going to recommend changing legislation or amending the constitution.

Commissioner Blouin said he thought there was division in the TRC. He said all he did was ask a question if there were any advantages to having one or two individuals with subject matter expertise on the TRC compare to not having them on the TRC.

Mrs. Sakata said in the past, the TRC consisted of a broad group of individuals from tax experts, tax professionals, economists and business people to get a different point of view would be presented in the TRC. She said the TRC was comprised of different people from different walks of life.

Commissioner Blouin asked if it would be beneficial to have someone from the tax administration, retired.

Mrs. Sakata said the TRC was an independent body and no one from administration or any state department sits on the TRC as to not influence the recommendations and independent from political pressure.

Commissioner Kaina said again, she wanted to make sure that there wasn't something here that someone was feeling really strongly about and for the items that were not discussed, they could be review and checked off quickly.

She said she would go down the summary list of items with general agreement that don't need too much additional stuff was:

1. E-Cigarettes tax parody with cigarettes
2. Increasing enforcement, compliance and education to include alternative, TAT
3. E-Commerce
4. Indexing, modernization, revenue neutrality and stop taxing people below the poverty level

She said there were items subject to more discussion was the carbon tax, pension exemptions, corporate taxes and streamline sales tax. Other pending items was the Simpson-Bowles Commission, future considerations, HARPTA increase, and there may be a few others.

Commissioner Knox said it seemed at the very highest level, the most attention given, and the most resources the most analysis had to do with the unfunded mandates and the TRC was going to come up with some specific recommendations but nothing global. He said that was the one thing that rises through that global response.

Commissioner Cook said it sounded like Commissioner Knox was saying the Simpson-Bowles would be the recommendation for the unfunded liability issue.

Commissioner Knox said it was the recognition of the importance of spending as well as revenue enhancements.

Chair Takamura asked if it should be part of the findings, where we talked about the unfunded liability and possibly look at that model in addressing the unfunded liability, or was he thinking it should be a separate recommendation.

Commissioner Knox said it was "the" recommendation from the previous TRC and it did seem like a recommendation and not a finding. He said the TRC didn't have to go into it in great depths.

Dr. Rousslang said that was a PFM Group study on the distribution of taxes.

Commissioner Cook asked why the legislature didn't act on that.

Dr. Rousslang said they did. They passed Act 268 which would take out funding for retirees health benefits starting July, 2018 and if B & F doesn't find the money to do that, funding will come directly out of the GET before going into the general fund.

Colleen asked the TRC if there was anything else.

Commissioner Cook said he liked the idea of the carbon tax, but felt a little torn. The TRC would recommend changes to the tax system and felt constrained by spending cuts. He felt like the TRC might be overstepping and telling the legislature how to solve the problem, but he realized they were asking a commission to make recommendations, and I guess that made sense too.

Commissioner Knox said the legislature could do it themselves.

Chair Takamura said the TRC would come back to the carbon tax at the next meeting.

Commissioner Blouin asked why the TRC needed to wait till the next meeting to discuss the Simpson Bowles recommendation.

Chair Takamura said she wanted to go back and look at the recommendation for the Simpson Bowles Commission and write up the language for it and hopefully by the next meeting, have all the recommendations written up.

WRITTEN COMMENTS ON HAWAII TAX STRUCTURE OR ITEMS LISTED ON THE AGENDA:

There were no written comments to the TRC.

PUBLIC COMMENTS ON HAWAII TAX STRUCTURE OR ITEMS LISTED ON THE AGENDA:

Mr. Fritz said he wanted to say one thing, he was old enough and has been practicing in that area long enough to remember job creation and workers assistance act of 2002, and was

(Unable to hear Mr. Fritz due to talking at the table)

NEXT MEETING:

The meeting scheduled for Monday, December 11, 2017 at 1:00 PM was cancelled.

The next meeting was scheduled for Monday, December 18, 2017 at 1:00 PM.

ADJOURNMENT:

The meeting was adjourned at 3:42 PM.