**Tax Review Commission**

**Meeting Minutes, December 1, 2021**

Virtual Zoom Meeting
Video [Recording]

Wednesday, December 1, 2021
12:00 p.m.

## PRESENT

Council Members:
Elizabeth Giesting (Chair), Alton Miyashiro (Vice Chair), Scott Teruya, Murray Clay, Sayle Hirashima, Winston Wong, Katharine Lloyd

Staff Members:
Department of Taxation (DOTAX): Seth Colby, Yvonne Chow, Dongliang Wu, Roderick Tuliao

TRC Consultant: Jonathan White

## CALL TO ORDER

Chair Giesting called the meeting to order at 12:00 p.m. A quorum was present.

## COMMUNICATIONS TO THE COMMISSION AND PUBLIC COMMENT

Chair Giesting asked if there was any communication to the Tax Review Commission (TRC). There was none.

## MINUTES OF THE MEETING OF NOVEMBER 17, 2021

Chair Giesting called for a motion to approve the minutes.

**It was moved by Vice-Chair Miyashiro and seconded by Mr. Hirashima that the minutes of the November 17th meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:**

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| **Elizabeth Giesting** | **Yes** |
| **Alton Miyashiro** | **Yes** |
| **Murray Clay** | **Yes** |

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|---|---|
| **Winston Wong** | **Yes** |
| **Scott Teruya** | **Yes** |
| **Sayle Hirashima** | **Yes** |
| **Katharine Lloyd** | **Yes** |

## REPORT ON BALANCING TAX SYSTEM

Chair Giesting asked Dr. Colby to share his findings with the Commission regarding their recommendations.

Dr. Colby provided a summary of the revenue implications for all of the Commission's recommendations. [The presentation is posted on the TRC website]

## DISCUSSION AND FINAL AGREEMENT ON RECOMMENDATIONS

Mr. Clay stated that in previous discussions he recalled a number around 300 million dollars or more compared to the 50 million dollars being provided in the revenue estimates for taxing pension income, and asked Dr. Colby if the cause for the drop was due to Social Security and the $25,000 exclusion.

Dr. Colby said that's correct and explained that Social Security is less than half of the amount which is exempt, and most retirees make less than $25,000. With the progressivity of the tax structure, most people earning less than $25,000 will have no tax liability.

Mr. Clay asked if the $25,000 is adjusted gross income or pension income.

Dr. Colby stated that right now there is an exemption for all pension income and that the numbers provided are based off of taxing any pension income over $25,000.

Vice-Chair Miyashiro shared his previous objective regarding measuring the $25,000 against AGI (adjusted gross income) and not just pension income which he felt would be a more equitable situation.

Dr. Colby responded that in order to grade that recommendation the Commission would need to specify and make clear what would qualify for the $25,000.

Mr. Clay agreed with Vice-Chair Miyashiro regarding measuring AGI and not pension income.

Chair Giesting asked Dr. Colby if he has all the information needed to provide the Commission with their request of measuring $25,000 against AGI.

Dr. Colby said that TRP would be able to provide the revenue estimates by Monday.

Chair Giesting asked Dr. Colby about Increase Personal Exemption to $1,400 and index to inflation and Only Index Personal Exemption for Inflation and if it was counted twice.

Dr. Colby responded that both lines were included just for the Commission's information but the total sum for the revenue estimates includes only the increase to $1,400.

Mr. Clay asked Dr. Colby if the reduction in revenues is mostly coming from the inflation adjustment and not from the plus up to $1,400.

Dr. Colby said that he would have to go back and look at the estimates but explained that they use the numbers from 2019 and adjust for inflation on that whole amount and then bringing it forward to adjust for inflation.

Mr. White asked the Commission about the final section of the report and its structure regarding Carbon Tax and Pension Exemption.

Mr. Clay suggested that the Commission shows two options for either Carbon Tax to start immediately or for Carbon Tax to start in five years and Mr. Clay would want the same thing done with the pension.

Chair Giesting agrees with Mr. Clay on having two options.

Dr. Colby asked the Commission to clarify that if the federal AGI is less than $25,000 then pension income will be exempt but if it's above then pension income will be subject to individual income tax was what the Commission would like to have modeled.

Mr. Wong agreed with Ms. Lloyd regarding the misunderstanding of the applying of the $25,000 of AGI and Mr. Wong explained that he believed that an exemption was specifically for pension income which in his opinion would be easier to administer and also avoid the problem of disincentivizing retirees to have any income above $25,000.

Mr. Hirashima agrees with Mr. Wong and Ms. Lloyd regarding an exemption of AGI up to $25,000 of pension income.

Ms. Lloyd asked a question in response to a previous question from Mr. White regarding the proposal on a five-year wait plan and said that in year one it would not generate that amount of income or any income until year six, that's because, in addition to the 25-year period, there is a five-year notice period in the recommendation.

Mr. Wong believes Ms. Lloyd is correct and if the Commission was to provide an estimate about the revenue impact of recommendations then the impacts would have to be shown starting in year six because prior to that revenue would be zero.

Chair Giesting asked the Commission if it would make more sense to show the recommendation over a 10-year period.

Ms. Lloyd and Mr. Wong both liked the idea.

Ms. Lloyd asked Mr. White that if the Commission kept the $25,000 limitation the five-year notice could still be eliminated and that would reflect some income in year one.

Mr. White said yes, the Commission could change the recommendation to tax pension income immediately which would be harder administratively, but it would basically take effect the same year as the other recommendations listed in year one.

Mr. White stated that he drafted the report based on recommendations made by previous Commissions.

Mr. Wong commented that by having the $25,000 exemption he doesn't know if there would be a need for the five-year stop gap. He thinks without it the plan would be more attractive and revenue neutral.

Chair Giesting agreed and suggests adding carbon taxes by year two.

Mr. Clay said that the only way to balance this would be to have the carbon tax and the pension income come in right away and by doing that it would look a lot better than to have everything pushed out five years but all the tax decreases in the immediate year.

Ms. Lloyd asked about estimated additional revenues due to support for DOTAX compliance.

Dr. Colby responded that the revenues are priced in this estimate in the same way they would be for the legislature, that is, if you increase the budget for compliance, no additional revenue would be realized due to the assumption that the compliance with the law is pretty high.

Mr. Clay asked Dr. Colby about whether the proposed elimination of three GET exemptions could be positive editions.

Dr. Colby said that the amount was $60,000 and usually anything less than $500,000 would show zero as the estimated change.

Chair Giesting commented that after looking over the recommendations the big-ticket items are personal exemptions and adjusting the tax brackets to inflation and standard deductions. She asked if members recommended any revisions to our initial proposals, given that these are unlikely to be adopted due to loss of revenue.

Ms. Lloyd suggested indexing the standard deduction to inflation but not increasing the base amount.

Mr. White provided an amount for FY2023 – FY2027 of -4.46 million dollars for indexing standard deduction amounts to Hawaii inflation with no base increase.

Mr. White explained that adjusting the $25,000 is a way to drive up the amount generated by the pension income and it is another way of getting a larger positive number in the table.

Chair Giesting asked Dr. Colby if there would be more benefits in adjusting the personal exemption rather than the standard deduction for low-income taxpayers.

Dr. Colby said that adjusting the standard deduction would more likely benefit low-income taxpayers compared to changing the personal exemption, which would benefit all taxpayers.

Mr. Clay said that given the Commission's desire to balance, Mr. Clay is leaning towards the recommendation of only indexing the personal exemption for inflation and not increasing it $1,400.

Chair Giesting agreed with Mr. Clay.

Chair Giesting asked the Commission their thoughts regarding the recommendations and reconsidering the following:

1. Including the Carbon Tax sooner
2. Taxing pensions on income from $25,000 to $20,000

Ms. Lloyd asked Dr. Colby to provide the current standard deduction.

Dr. Colby said that the standard deduction for single is $2,200 and for joint is $4,400.

Dr. Colby said that if the standard deduction was indexed to inflation it would be around four million dollars and doubling it would cost around 50 million dollars.

Mr. Teruya asked the Commission regarding these numbers if the goal of the commission is to come up with revenue neutrality or what's right.

Mr. Teruya also asked if there was a consensus regarding the Carbon Tax.

Chair Giesting stated our job is to do what's right but recommendations that produce a big reduction in revenue are not likely to be supported by legislators.

Mr. Murray said that he is in support of starting the Carbon Tax sooner.

Chair Giesting summarized the following and asked the Commission if they should have staff research the following:

1. Imposing the Carbon Tax sooner and coming up with an estimate
2. Leaving the income tax on pensions at $25,000
3. Personal Exemption and Standard Deduction
    a. Catch up to inflation since the last time it was adjusted
    b. Index to inflation going forward
    c. Index income tax brackets to inflation going forward

Mr. Clay said that he would be in support.

Ms. Lloyd said that she thinks it makes sense to see what the numbers and added that Mr. White will need to revise the report regarding pension by removing the five-year notice period.

Dr. Colby confirmed with the Commission that staff will be grading only standard deduction that's been adjusted for inflation and going forward.

Chair Giesting said yes.

Mr. Clay summarized the Commission's recommendation from the table with the removal of "Increase Personal Exemption to $1,400 and index to inflation" and get a new number to represent the catch up instead of a "doubling of the standard deduction for inflation".

Mr. Teruya asked if the forecast will still be for a 10-year period.

Chair Giesting asked the Commission's agreements regarding the remaining recommendations outside of the scope of the revenues listed in the report. Particularly, she proposed that the "Simpson-Bowles-like" commission assess and make recommendations not just on the state's capacity to meet all obligations and goals, but to also include the needs and resources of the counties in on the discussion. She noted that such a change could include a reference to real property taxes and the Commission could forego having a separate recommendation about them.

The Commission agreed, and Chair Giesting asked for suggestions about what to name the proposed Commission.

Vice-Chair Miyahsiro suggested that it should be called the Commission on Fiscal Responsibility and Sustainable Government Spending.

Ms. Lloyd asked Chair Giesting or Dr. Colby to expand or clarify on information sent previously regarding the following sentence when speaking about the committee “this commission recommends the committee give more taxation power to counties”

Dr. Colby said that the responsibilities in the revenue creation should be at the same level.

Chair Giesting suggested changing the sentence to be more general by stating “the commission considered the division of responsibility for taxation power”.

**NEXT MEETING:**

The Tax Review Commission tentatively agreed to meet on Monday, December 6, 2021, at 12:00 p.m. [The meeting date was changed to December 8, 2021 to comply with requirements for advanced notice.] It will be a virtual meeting.

**ADJOURNMENT:**

The Chair adjourned the meeting at 1:23 p.m.