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COUNCIL ON REVENUES

STATE OF HAWAII
P.O. BOX 259
HONOLULU, HAWAII 96809-0259

September 07, 2018

The Honorable David Y. Ige
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Ige:

At its meeting on September 6, 2018, the Council on Revenues kept its forecast for the growth rate of the State General Fund tax revenue in fiscal year (FY) 2019 unchanged at 5.0%. The growth rate for General Fund collections for FY 2018 came in slightly higher than forecast: 7.6% v. 7.3% (0.3% higher). The Council expects slightly lower revenue growth in FY 2019 after the robust growth for FY 2018. The Council also kept its growth forecast rates for FY2020 to FY 2025 unchanged at 4.0%.

The Council believes that Hawaii's economy continues to be strong, but cited uncertainty about the future. Concerns were expressed that the economy may have reached the end of its current expansionary cycle during the seven-year budget window. The Council also discussed and considered international, national, and state events and factors affecting the Hawaii economy. They noted that overall visitor arrivals and expenditures, job counts, and construction activities, all continue to be strong. Although the Big Island experienced recent losses in visitor arrivals and expenditures due to natural disasters, this was offset by more visitors to Maui and other islands. Members cited that the construction cycle may have reached a sustained plateau after falling from its peak several years back.

In reaching its forecasts, the Council also discussed and considered the major Federal tax law changes of the 2017 Tax Cuts and Jobs Act and Hawaii state tax conformity legislation and changes in Hawaii tax laws that would affect the growth forecast rates.

The new forecasts for State General Fund tax revenues for FY 2019 through

FY 2025 are shown in the table below.

General Fund Tax Revenues

Fiscal Year	Amount (in Thousands of Dollars)	Growth From Previous Year
2019	7,135,838	5.0%
2020	7,421,272	4.0%
2021	7,718,123	4.0%
2022	8,026,848	4.0%
2023	8,347,922	4.0%
2024	8,681,839	4.0%
2025	9,029,113	4.0%

The Council adopted specific adjustments recommended by the Department of Taxation to reflect effects on General Fund tax revenues due to tax law changes enacted by the 2018 Legislature, including the following:

- Act 27, SLH 2018 selectively conforms Hawaii income tax laws and estate tax laws to the Internal Revenue Code as of February 9, 2018, and as of December 31, 2017, respectively. The Act is effective June 7, 2018, and applies to taxable years beginning and to decedents dying after December 31, 2017. The estimated gain to the General Fund is estimated to be $9.2 million in FY 2019, $14.2 million in FY 2020, $20.1 million in FY 2021, $26.9 million in FY 2022, $34.9 million in FY 2023, $37.9 in FY 2024, and $37.1 in FY 2025.

- Act 39, SLH 2018 increases the aggregate amount of the GET cost exemption for developing affordable rental housing from $7 million to $30 million per year and extends the exemption from June 30, 2022, to June 30, 2030. The Act is effective July 1, 2018, and applies retroactively to taxable years beginning after December 31, 2017. The loss to the General Fund is estimated to be $23.0 million in FY 2019, $23.0 million in FY 2020, $23.0 million in FY 2021, $23.0 million in FY 2022, $30.0 million in FY 2023, $30.0 million in FY 2024, and $30.0 million in FY 2025.

- Act 41, SLH 2018 provides that a person is engaging in business in the State for the purpose of the general excise tax law if, in the current or immediately preceding calendar year, the person has $100,000 or more in gross income, or two hundred or more separate transactions, from the sale of tangible personal property delivered in the State, services used or consumed in the State, or intangible property used in the State. The Act is effective July 1, 2018, and applies to taxable years beginning after December 31, 2017. The gain to the General Fund is estimated to be $6.8 million in FY 2019, $7.6 million in FY 2020, $7.9 million in FY 2021, $8.1 million in FY 2022, $8.3 million in FY 2023, $8.6 million in FY 2024, and $8.9 million in FY 2025.

- Act 86, SLH 2018 reduces the allocations of TAT to the Convention Center Special Fund from $26.5 million to $16.5 million and the Tourism Special Fund from $82 million to $79 million. The Act is effective July 1, 2018. The estimated annual revenue gain to the General Fund is $13 million from FY 2019 to FY 2025.

- Act 122, SLH 2018 increases the withholding on the amount realized from the disposition of Hawaii real property by nonresidents (HARPTA) from 5% to 7.25%. The Act is effective July 5, 2018, and applies to real estate dispositions that occur on or after September 15, 2018. The expected revenue gain is $8.1 million in FY 2019 and $2.6 million per year from FY 2020 to FY 2025.

- Act 211, SLH 2018 imposes the TAT on transient accommodations brokers, travel agencies, and tour packagers that enter into arrangements to furnish transient accommodations at noncommissioned negotiated contract rates on their share of the proceeds. The Act is effective July 1, 2018, and applies to taxable years beginning after December 31, 2018. The expected revenue gain to the General Fund is $14.7 million in FY 2019, $36.6 million in FY 2020, $38.0 million in FY 2021, $39.3 million in FY 2022, $40.6 million in FY 2023, $42 million in FY 2024, and $45.6 million in FY 2025.

The Council also took into account provisions from earlier legislation, including the following:

- Act 107, SLH 2017 reinstates three tax rates and brackets (9.0%, 10.0%, and 11.0%) for the highest-income taxpayers originally imposed by Act 60, SLH 2009, for taxable years beginning after December 31, 2017. The gain to the General Fund is estimated to be $50.7 million in FY 2019, $53.3 million in FY 2020, $55.9 million in FY 2021, $58.7 million in FY 2022, $61.6 million in FY 2023, and $64.7 in FY 2024.

- Act 107, SLH 2017 establishes a nonrefundable earned income tax credit (EITC) equal to 20 percent of the federal EITC. The tax credit applies to tax years 2018 through 2022. The loss to the General Fund is estimated to be $16.7 million in FY 2019, $20.4 million in FY 2020, $23.8 million in FY 2021, $27.1 million in FY 2022, $30.1 million in FY 2023, and $0.0 in FY 2024.

- Act 107, SLH 2017 repeals the sunset date (December 31, 2017) for the amendments to the refundable food/excise tax credit by Act 223, SLH 2015. The loss to the General Fund is estimated to be $6.5 million per year from FY 2019 to FY 2024.

- Act 143, SLH 2017 amends the motion picture, digital media, and film production tax credit by limiting the total amount of the credit to $35 million/year and extending the credit to January 1, 2026. Total tax credits claimed per qualified production shall not exceed $15 million. The estimated annual revenue loss to the General Fund is $35 million from FY 2020 to FY 2024.

- Act 54, SLH 2017 exempts certain affordable rental housing projects from general excise and use tax. The legislation limits total amount of exemptions to $7 million per year starting July 1, 2017 through June 20, 2022. The expected annual revenue loss is $7 million in FY 2019-2022.

- Act 1, SSLH 2017 increases the TAT rate from 9.25% to 10.25%, effective January 1, 2018 through December 31, 2030, and allocates the tax revenue generated from the increase to the Mass Transit Special Fund. The Act also increases the annual allocation to the counties from $93 million to $103 million, beginning in FY 2018. The expected annual revenue loss to the General Fund is $10 million from FY 2018 to FY 2024.

- Acts 117 and 121, SLH 2015 changed allocations of the TAT. According to Act 121, TAT allocations for FY 2016 and later are as follows: Tourism special fund $82 million; Counties $93 million (except $103 million in FY 2016 and FY 2017); Convention Center special fund $26.5 million; and Turtle Bay conservation easement $1.5 million. Act 117 allocated $3 million annually to the Special Land Development fund starting in FY 2017. The changes in allocations are expected to yield $2 million in additional annual General Fund tax revenues in FY 2017 and thereafter. Note that Act 107, SLH 2017 directs $103 million from FY 2018 and beyond.

- Act 120, SLH 2015 provides a tax credit for converting cesspools to a septic system or connecting to a wastewater system. The tax credit expires December 31, 2020 and is estimated to reduce General Fund tax revenues by $5 million annually from FY 2017 through FY 2021.

- Act 223, SLH 2015 modifies the food/excise tax credit (an increase for certain taxpayers) for tax years 2016 and 2017. The Act is estimated to reduce General Fund tax revenues by $6.5 million in FY 2017 and in FY 2018.

- Act 89, SLH 2013 amends the motion picture digital media and film production tax credit. The Act increases the credit rate from 15% to 20% for productions on Oahu and from 20% to 25% for productions on the neighbor islands. The Act also increases the cap on the amount of the credit per production from $8 million to $15 million and moves the expiration date for the credit from January 1, 2016 to January 1, 2019. The Act is estimated to raise the annual cost of the tax credit by about $21 million per year.

The Department of Taxation has prepared a report (attached) detailing line-item forecasts for various components of the General Fund, reconciled to the Council's forecast growth rate for total General Fund tax revenues. The line-item forecasts include components, such as revenues from the General Excise Tax and from the Individual Income Tax that the Council does not forecast separately. Also, the Department of Budget and Finance has prepared the attached report to update its projections for change in non-tax and special tax revenues from its report on June 1, 2018.

Please advise us if we can be of further assistance or if we can answer any questions.

Very truly yours,

Marilyn M. Niwao

MARILYN M. NIWAO, M.S.P.H., J.D., CPA, CGMA
Acting Chair, Council on Revenues

Attachments