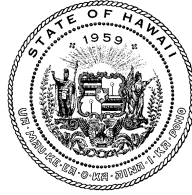


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



KURT KAWAFUCHI
CHAIR

MARILYN M. NIWAO
VICE-CHAIR

MEMBERS:

Carl S. Bonham
Jack P. Suyderhoud
Kristi L. Maynard
Wendell Lee
Scott Hayashi

COUNCIL ON REVENUES

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

September 9, 2021

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

Dear Governor Ige:

The Council on Revenues met to forecast revenue growth for the State General Fund on September 7th, 2021. The Council increased its forecast to 6.3% from 3.0% for fiscal year (FY) 2022. The Council forecasted that General Fund tax revenue growth will be 4.0% for FYs 2023-2028.

The upward revision in the 2022 forecast is due to robust year-to-date collections of general excise and income taxes, the rapid recovery of tourist arrivals, and renewed consumer spending. This follows the reduction of the Covid-19 infection rates and easing of pandemic restrictions in Hawaii due to vaccination efforts in the earlier part of the year. The economic impacts of the \$1.9 trillion American Rescue Plan Act also contributed to the improved economic outlook.

While increasing vaccination rates have helped, the recent surge in COVID-19 cases in Hawaii due to the highly infectious and more lethal Delta variant and the increased demands on local hospital beds and ICU units pose serious risks to public health and the economic outlook. Although herd immunity may not be reached due to vaccine reluctance and Delta's high transmissibility, a transition toward normalcy may be possible if Covid-19 is managed as an endemic disease. The level of uncertainty regarding the trajectory of the Covid-19 virus remains high.

Risks that may inhibit the economic recovery include significant new variants of the virus, vaccine reluctance, sustained travel restrictions, burdensome regulations imposed on businesses for public health reasons, and significant supply chain disruptions. Furthermore, the significant reduction in Federal stimulus spending that occurred in the

last fiscal year will also impact Hawaii's economy. The Council expects that domestic visitor arrivals will continue to recover through the end of the calendar year as the effects of vaccination efforts prompt more people to travel, while international travel will continue to be curtailed due to the effect of the pandemic in other counties.

Given the prominent role of tourism in Hawaii's economy, the number of visitors to the State will have major impacts on the economy and tax collections. The Council noted that the government's role in facilitating visitor arrivals in a safe and orderly manner is vital for the return of economic growth.

The new forecasts for the State General Fund tax revenues FY 2022 through FY 2028 are shown in the table below.

General Fund Tax Revenues

Fiscal Year	Amount (in Thousands of Dollars)	Growth From Previous Year
2022	\$7,707,027	6.3%
2023	\$8,015,308	4.0%
2024	\$8,335,920	4.0%
2025	\$8,669,357	4.0%
2026	\$9,016,131	4.0%
2027	\$9,376,776	4.0%
2028	\$9,751,847	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 2021 Legislature including the following:

- Act 1, SSLH 2021 authorizes the counties to establish and administer their own transient accommodations tax (TAT) at a maximum rate of 3%. The Act reduces the allocation to the convention center special fund from \$16.5 million to \$11 million. The Act also eliminates the \$79 million allocation to the tourism special fund, and the \$103 million allocation to the counties. The Act became effective on July 1, 2021. The estimated gain to the General Fund is \$187.5 million for FY 2022 through FY 2028.
- Act 226, SLH 2021 relaxes the rules on allocating the low-income housing tax credit (LIHTC). The Act also relaxes the installment method, at-risk, and passive activity loss rules and allows the Hawaii LIHTC to be claimed in the initial year even if federal Form 8609 has not been received by the taxpayer. The Act prohibits

- the deductions and expenses claimed by Hawaii taxpayers to exceed the deductions and expenses claimed by all taxpayers on federal returns. The Act extends the shortened credit period provided by Act 129, SLH 2016, from tax year 2022 through tax year 2027. The Act became effective on July 1, 2021 and applies to taxable years beginning after December 31, 2020. The estimated loss to the General Fund is \$7.8 million in FY 2022, \$24.1 million in FY 2023, \$24.9 million in FY 2024, \$25.6 million in FY 2025, \$26.4 million in FY 2026, \$27.2 million in FY 2027, and \$28.0 million in FY 2028.
- Act 2, SLH 2019 deems marketplace facilitators the sellers of tangible personal property, intangible personal property, and services sold through the marketplace. The Act also deems sales of tangible personal property and services by sellers to the marketplace facilitator to be sales at wholesale. The Act is effective January 1, 2020. The estimated gain to the General Fund is \$4.0 million in FY2020, \$9.8 million in FY 2021, \$10.1 million in FY 2022, \$10.4 million in FY 2023, \$10.7 million in FY 2024, \$11.0 million in FY 2025, and \$11.3 million in FY 2026.
 - Act 3, SLH 2019 establishes a new estate tax rate bracket for taxable estates exceeding \$10 million. The new bracket is 20%. The Act is effective April 4, 2019 and applies to decedents dying after December 31, 2019. The estimated gain to the General Fund is \$1.9 million in FY 2021, \$2.0 million in FY 2022, \$2.1 million in FY 2023, \$2.2 million in FY 2024, \$2.3 million in FY 2025, and \$2.4 million in FY 2026.
 - Act 20, SLH 2019 imposes the transient accommodations tax on resort fees and defines resort fees as "any mandatory charge or surcharge imposed by an operator, owner, or representative thereof to a transient for the use of the transient accommodation's property, services, or amenities." The Act is effective July 1, 2019. The estimated revenue gain to the General Fund is \$9.1 million in FY 2020, \$10.3 million in FY 2021, \$10.7 million in FY 2022, \$11.1 million in FY 2023, \$11.6 million in FY 2024, \$12 million in FY 2025, and \$12.4 million in FY 2026.
 - Act 260, SLH 2019 establishes a new ship repair industry tax credit which is intended to offset costs incurred in constructing and placing into service a purpose-built floating dry dock at Pearl Harbor for use by the United States Navy. The tax credit expires December 31, 2026. The Act also repeals the capital infrastructure tax credit. The Act is effective January 1, 2020 and applies to taxable years beginning after December 31, 2021. The expected net loss to the General Fund is \$6.0 million per year in FY 2023 to FY 2027.
 - Act 261, SLH 2019 amends the tax credit for research activities such that references to the base amount contained in section 41 of the IRC do not apply, and credit may be taken based upon all qualified research expenses incurred in Hawaii without

The Honorable David Y. Ige

September 9, 2021

Page 4

regard to the amount of expenses for previous years. The Act establishes an annual aggregate cap of \$5 million. The Act extends the tax credit from tax year 2020 through tax year 2024. The expected loss to the General Fund is \$5.0 million per year for FY 2021 to FY 2025.

- Act 275, SLH 2019 amends the motion picture, digital media, and film production income tax credit by increasing the credit annual aggregate cap from \$35 million to \$50 million. The Act is effective July 10, 2019 and applies to taxable years beginning after December 31, 2018. The tax credit expires December 31, 2025. The expected loss to the General Fund is \$15.0 million per year for FY 2020 to FY 2026.

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 the Individual Income Tax that the Council does not forecast separately. The Department of Budget and Finance has also prepared the attached report to update its projections for change in non-tax and special tax revenues from its May 2021 report.

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

Very truly yours,



KURT KAWAFUCHI
Chair, Council on Revenues

Attachments