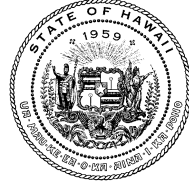


JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



COUNCIL ON REVENUES

STATE OF HAWAII
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January 9, 2023

The Honorable Josh Green, M.D.
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Green:

The Council on Revenues held a meeting to forecast revenue growth for the State General Fund on January 5th, 2023. The Council lowered its forecast to 5.5% from 6.5% for fiscal year (FY) 2023. The Council increased its forecast to 5.0% from 4.0% for FY 2024. The Council maintained its forecast for FYs 2025-2029 at 3.5%.

The 1.0% decrease in the FY 2023 revision is due to the Constitutional Refund, which is expected to reduce revenues by approximately \$335 million in the first half of the fiscal year. The Council did not consider the revenue impact of the Constitutional Refund in its September 2022 meeting. As a result, January was the first opportunity that the Council had to adjust its forecast for the Constitutional Refund's impact on tax revenues. Strong tax collections in the first half of the year mitigated some of the impact of the Constitutional Refund.

Tax collections remain robust due to the recovery of tourist arrivals, renewed consumer spending, and additional tax collections due to inflation. Risks that may inhibit the economic recovery include new variants of the COVID-19 virus, inflation and an aggressive monetary policy response from the Federal Reserve, high oil and commodity prices, geopolitical events including economic disruptions associated with the war in Ukraine, severe labor shortages, supply chain disruptions, sustained travel hesitancy from Asian markets due to the Pandemic, and the reduction in Federal stimulus spending

Due to the recent strength of the U.S. dollar compared to foreign currencies, Hawaii also faces strong competition from international travel destinations, such as Europe. Tourists from Japan may be especially less likely to travel to Hawaii due to unfavorable foreign currency exchange rates for them.

The Council expects visitor spending will plateau in the coming months with an increase in foreign visitors making up for a slight shortfall in domestic visitors. 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 new forecasts for the State General Fund tax revenues FY 2023 through FY 2029 are shown in the table below.

General Fund Tax Revenues

Fiscal Year	Amount (in Thousands of Dollars)	Growth From Previous Year
2023	\$9,873,585	5.5%
2024	\$10,367,264	5.0%
2025	\$10,730,118	3.5%
2026	\$11,105,672	3.5%
2027	\$11,494,371	3.5%
2028	\$11,896,674	3.5%
2029	\$12,313,058	3.5%

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 2022 Legislature including the following:

- Act 115, SLH 2022 provides a one-time tax refund of either \$100 or \$300 per qualifying exemption depending on federal adjusted gross income for Hawaii residents. The act also makes deposits to the emergency and budget reserve fund and pension accumulation fund, pursuant to article VII, section 6, of the Hawaii State Constitution. The Act became effective on July 1, 2022. The estimated loss to the General fund is \$334.6 million in FY 2023.
- Act 80, SLH 2022 clarifies the amounts received or accrued for stevedoring services, wharfage, and demurrage services are exempt under the general excise tax law within section 237- 24.3, HRS. The Act became effective on June 27, 2022. The estimated loss to the General Fund is \$5.6 million in FY 2023, \$6.3 million in FY 2024, \$6.5 million in FY 2025, \$6.7 million in FY 2026, \$6.9 million in FY 2027, \$7.1 million in FY 2028, and \$7.3 million in FY 2029.
- Act 114, SLH 2022 makes the State earned income tax credit (EITC) refundable and permanent. The State EITC becomes refundable beginning with the 2023 tax year. All carryforwards of nonrefundable EITC expire at the end of the 2024 tax year. Act 114 also adds new incremental increases to both minimum wages and tip credits beginning on October 1, 2022 and increasing through January 1, 2028. The Act became effective on June 27, 2022. The estimated loss to the General Fund is \$0.0 million in FY 2023, \$47.1 million in FY 2024, \$48.4 million in FY 2025, \$49.4 million in FY 2026, \$50.5 million in FY 2027, \$51.6 million in FY 2028, and \$52.7 million in FY 2029.
- Act 216, SLH 2022 reinstates the Renewable Fuels Production Tax Credit (RFPTC), which was previously codified at section 235-110.31, HRS, before its duly scheduled repeal on

December 31, 2021. Act 216 also allows the RFPTC to be refunded under certain conditions. The Act became effective on June 27, 2022 and applies to taxable years beginning after December 31, 2021. The estimated loss to the General Fund is \$20 million per year from FY 2023 to FY 2029.

- 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.

The Honorable Josh Green, M.D.
January 9, 2023
Page 4

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 September 2022 report.

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

Very truly yours,

A handwritten signature in black ink, appearing to read "Kurt Kawafuchi", written in a cursive style.

KURT KAWAFUCHI
Chair, Council on Revenues

Attachments