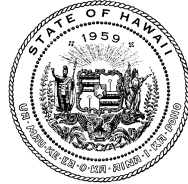


**JOSH GREEN, M.D.**  
GOVERNOR

**SYLVIA LUKE**  
LT. GOVERNOR



**COUNCIL ON REVENUES**

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

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September 11, 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 September 7<sup>th</sup>, 2023. The Council lowered its forecast to 1.3% from 4.0% for Fiscal Year (FY) 2024. The Council increased its forecast from 3.5% to 5.2% for FY 2025. The Council maintained its forecast for FYs 2026-2030 at 3.5%.

The decrease in the FY 2024 revision accounts for the economic impacts of the Maui Fires, which will affect tourism revenues and other economic activity. The Council expects that the recovery efforts and the large influx of Federal assistance will mitigate some of the immediate impacts of the fires and their repercussions. The forecast reduction also reflects slower tourism spending that was occurring independent of the Maui disaster. The Council increased its FY 2025 forecast to account for the spending that will come from the recovery construction in response to the Maui fires.

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 an unfavorable foreign currency exchange rate.

Given the prominent role of tourism in Hawaii's economy, the number of visitors to the State will have a major impact on the economy and tax collections.

The new forecasts for the State General Fund tax revenues FY 2024 through FY 2030 are shown in the table below.

### General Fund Tax Revenues

Fiscal Year	Amount (in Thousands of Dollars)	Growth From Previous Year
2024	\$9,319,912	1.3%
2025	\$9,804,547	5.2%
2026	\$10,147,706	3.5%
2027	\$10,502,876	3.5%
2028	\$10,870,477	3.5%
2029	\$11,250,944	3.5%
2030	\$11,644,727	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 2023 Legislature, including the following:

- Act 62, SLH 2023 amends the cigarette tax and tobacco tax. Beginning January 1, 2024, the Act imposes a tax of 70% of the wholesale price of each electronic smoking device or e-liquid sold, used, or possessed by a wholesaler or dealer, whether or not sold at wholesale, or if not sold, then at the same rate upon the use by the wholesaler or dealer. The Act increases the wholesaler and dealer license fee from \$2.50 to \$250. It also increases the retail tobacco permit fee from \$20 to \$50. The Act became effective on July 1, 2023. The estimated gain to the General Fund is \$6.4 million in FY 2024, \$15.8 million in FY 2025, \$16.3 million in FY 2026, \$18.6 million in FY 2027, \$17.3 million in FY 2028, \$17.8 million in FY 2029, and \$18.3 million in FY 2030.
- Act 163 SLH 2023 amends the household and dependent care services credit by increasing the cap on employment-related expenses that may be used to claim the credit from \$2,400 to \$10,000 for one qualifying individual and from \$4,800 to \$20,000 for two or more qualifying individuals. The Act also amends the EITC by increasing the amount of the credit from 20% to 40% of the federal EITC allowed. The Act amends the refundable food/excise tax credit by doubling the amount of credit per qualified exemption and increasing the adjusted gross income limits by \$10,000 in all income brackets. Act 163 became effective on June 30, 2023, applies to taxable years beginning after December 31, 2022, and will be repealed on December 31, 2027. The estimated decline to the General Fund is \$89.2 million in FY 2024, \$88.0 million in FY 2025, \$87.6 million in FY 2026, \$87.7 million in FY 2027, and \$88.2 million in FY 2028. There are no General Fund impacts expected in FY 2029-30 due to the expiration date.
- Act 115, SLH 20222 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.

The Honorable Josh Green, M.D.  
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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 2023 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", with a stylized flourish at the end.

KURT KAWAFUCHI  
Chair, Council on Revenues

Attachments