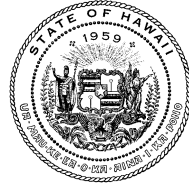


JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



COUNCIL ON REVENUES

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January 10, 2025

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 General Fund on January 8th, 2025. The Council increased the FY 2025 forecast and lowered the forecast for FY 2026-2029. The Council raised its forecast to 6.4% from 3.5% for Fiscal Year (FY) 2025. It lowered its forecast to -1.5% from 2.2% for FY 2026, 2.9% from 3.5% for FY 2027, 2.5% from 3.1% for FY 2028, 2.6% from 3.1% for FY 2029. The forecast for FY 2030 and FY 2031 was unchanged at 1.9% and 3.1%, respectively.

The upward revision in FY 2025 reflected a one-off boost of \$315 million to estate tax collections in September 2024. The negative growth number in FY 2026 is due in part to a higher base in the previous fiscal year. The Council lowered its growth forecast by 0.5% for each year in FY 2027-29, reflecting a slightly more pessimistic economic outlook surrounding the recent election and outmigration.

The forecast accounts for the significant tax relief legislation passed by the 2024 Legislature. Act 46, SLH 2024 incrementally decreases the State's income tax burden over a seven-year period. Act 47, SLH 2024 reduces GET collections through its exemption of medical and dental services paid with Medicare, Medicaid, and TRICARE. The revenue impacts of both laws are incorporated in the Council's forecast. See below for the expected revenue impacts of each law.

A recovery of tourists on the island of Maui in the wake of the 2023 fires, an expected gradual return of Japanese visitors, and a strong construction outlook make for a more favorable economic outlook for the State in the coming years. The Council believes these developments will provide a temporary boost to revenue growth in FY 2025 and FY 2026. After which, revenue growth will gradually revert to its long-term average rate.

The new forecasts for the State General Fund tax revenues FY 2025 through FY 2031 are shown in the table below.

General Fund Tax Revenues

Fiscal Year	Amount (in Thousands of Dollars)	Growth From Previous Year
2025	\$10,180,685	6.4%
2026	\$10,027,975	-1.5%
2027	\$10,318,786	2.9%
2028	\$10,576,756	2.5%
2029	\$10,851,752	2.6%
2020	\$11,057,935	1.9%
2031	\$11,400,731	3.1%

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 Legislature, including the following:

- Act 46, SLH 2024 increases the standard deduction amounts, with amendments taking effect in tax years 2024, 2026, 2028, 2030, and 2031. The act also amends the income tax brackets by increasing the income limits in each bracket, with amendments taking effect in tax years 2025, 2027, and 2029. The estimated revenue impact assumes the adjustment of the withholding tables on wages beginning January 1, 2025. The law became effective January 1, 2024. The estimated loss to the General Fund is \$240.3 million in FY 2025, \$596.6 million in FY 2026, \$740.1 million in FY 2027, \$922.7 million in FY 2028, \$1,052.6 million in FY 2029, \$1,262.3 million in FY 2030, \$1,347.5 million in FY 2031, and \$1,453.2 million in FY 2032.
- Act 47, SLH 2024 exempts medical services health care providers provide to patients who receive Medicaid, Medicare, or TRICARE benefits from the general excise tax. The exemption applies to taxable years beginning January 1, 2026. The estimated loss to the General Fund is \$33.6 million in FY 2026, \$77.5 million in FY 2027, \$81.0 million in FY 2028, \$84.5 million in FY 2029, \$88.2 million in FY 2030, and \$92.1 million in FY 2031.
- 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.

The Honorable Josh Green, M.D.

January 10, 2025

Page 3

- 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.

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 2024 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