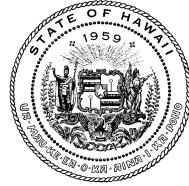


**JOSH GREEN, M.D.**  
GOVERNOR

**SYLVIA LUKE**  
LT. GOVERNOR



**COUNCIL ON REVENUES**

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

May 22, 2025

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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 May 21<sup>st</sup>, 2025. The Council lowered its forecast to 4.4% from 5.0% for Fiscal Year (FY) 2025. It also lowered the forecast to -3.50% from -2.25% for FY 2026, 1.0% from 2.9% for FY 2027, and 1.5% from 2.5% for FY 2028. The growth forecast for FYs 2029, 2030, and 2031 was left unchanged at 2.6%, 1.9%, and 3.1%, respectively.

The downward revision in FY 2025 reflected unexpected corporate refunds that were not accounted for in the March 2025 forecast. There is a tremendous amount of policy uncertainty that will influence collections over the next several fiscal years. Policy decisions taken at the Federal level related to tariffs, tax law changes, budget cuts, workforce reductions, cuts to other jobs and programs, and immigration will affect Hawaii's economy. Additionally, there is a risk that the number of international tourists will go down in light of foreign policy disputes, including Canadian tourists.

The negative 3.5% growth number in FY 2026 is due in large part to a higher base in the previous fiscal year due to a one-off \$315 million boost in estate tax collections and an expected close to flat growth rate. The lower forecast in FY 2026, FY 2027, and FY 2028 also reflects the heightened economic uncertainty caused by policy changes at the Federal level.

The forecast accounts for the tax relief legislation passed by the 2024 Legislature. Act 46, SLH incrementally decreases the State's income tax burden over a seven-year period that includes lower taxes and withholdings. 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, the slow return of Japanese visitors, a tight labor market, and a strong construction outlook help to offset the political uncertainty facing Hawaii. The Council will be watching for developments related to tariffs, reductions in the Federal workforce, changes in Federal transfers to the state, interest rate

levels, and the elimination of Federal support for local NGOs and other organizations.

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	\$9,989,319	4.4%
2026	\$9,639,693	-3.5%
2027	\$9,736,090	1.0%
2028	\$9,882,131	1.5%
2029	\$10,139,066	2.6%
2020	\$10,331,708	1.9%
2031	\$10,651,991	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 2024 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

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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.

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 March 2025 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