

STAND. COM. REP. NO.

765

Honolulu, Hawaii

March 6, 2009

RE: H.B. No. 1747

H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fifth State Legislature
Regular Session of 2009
State of Hawaii

Sir:

Your Committee on Finance, to which was referred H.B. No. 1747 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this bill is to assist Hawaii's lower income residents while maintaining the integrity of Hawaii's general fund revenues by:

- (1) Eliminating the income tax for all filing categories on taxable incomes of \$40,000 or less; and
- (2) Increasing the income tax for all filing categories on taxable incomes of \$750,000 or more.

The Department of Taxation and Hawaii Tax Foundation provided comments on this bill.

At a February 26, 2009, public hearing, your Committee was informed that passage of this bill would result in a net revenue gain of \$49,000,000. Recognizing the need to be fiscally responsible and prudent in creating a better, stronger, and more prosperous Hawaii, your Committee requested more information on the economic impacts of this measure. Since that time, figures have been recalculated and your Committee has learned that the fiscal impact of this bill would actually result in a revenue loss of \$131,000,000.

HB1747 HD1 HSCR FIN HMS 2009-2869



Your Committee finds that if this bill, as originally proposed, were to move forward, the impacts on those with incomes near the \$40,000 threshold could be dramatic. For example, an individual earning \$39,999 per year who receives a \$1 raise in pay would go from paying no taxes to paying over \$1,300 in taxes.

Guided by fiscal responsibility faced with enormous financial challenges, your Committee recognizes the importance of a sound tax policy to help our economy. Upon further reflection, your Committee finds that this measure must be amended to be more equitable to all taxpayers while still providing some economic relief to those with lower incomes.

Accordingly, your Committee has amended this measure by:

- (1) Reinstating the tax brackets and corresponding tax rates for all filing categories with incomes below \$40,000;
- (2) Eliminating the tax bracket and 15 percent tax rate increase for all filing categories with incomes of \$750,000 or more;
- (3) Inserting new tax brackets and new tax rates of 9, 10, 11, and 12 percent for joint filers with incomes in excess of \$250,000;
- (4) Inserting new tax brackets and new tax rates of 9, 10, 11, and 12 percent for head of household filers with incomes in excess of \$187,500;
- (5) Inserting new tax brackets and new tax rates of 9, 10, 11, and 12 percent for single filers with incomes in excess of \$125,000;
- (6) Increasing standard deductions for all filers by 10 percent;
- (7) Increasing the personal exemption by 10 percent;
- (8) Changing the effective date to specify that:
 - (A) The tax bracket and tax rate changes will be applicable to taxable years beginning after December 31, 2008; and



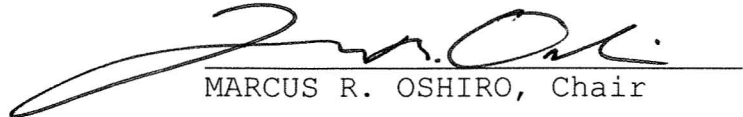
(B) The standard deduction increases are applicable to taxable years beginning after December 31, 2010;

and

(9) Making technical, nonsubstantive amendments for clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Finance that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1747, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1747, H.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on
behalf of the members of the
Committee on Finance,



MARCUS R. OSHIRO, Chair



