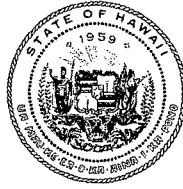


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**HOUSE COMMITTEE ON FINANCE
TESTIMONY REGARDING HB 1747
RELATING TO TAXATION**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 26, 2009

TIME: 1PM

ROOM: 308

This measure seeks to eliminate the income tax on persons with taxable income of \$40,000 or less. The measure also provides for an income tax increase for those earning in excess of \$750,000.

The Department of Taxation (Department) **provides comments.**

SUPPORT FOR TAX RELIEF FOR THE POOR—As a matter of tax policy, the Department supports eliminating the income tax on the poorest in Hawaii. These people cannot afford to pay taxes, let alone cover the average necessary living expenses in Hawaii with the high cost of living. The Department has concerns over any revenue loss that would be created.

COMMENTS ON THE TAX INCREASE—The Department points out that this measure creates an extremely broad bracket at the rate of 8.25% for those earning more than \$96,000 and up to \$750,000 to be taxed at the current highest rate. A new rate of 15% is assessed on those earning more than \$750,000 in taxable income. The Department does not support increasing taxes; however is open to exploring bracket adjustments. The Department's primary concern in tax policy discussions regarding bracket modifications and tax rates is to protect the middle class, which in Hawaii can easily be characterized as those earning between \$100,000 and \$200,000 for a family of four. The middle class cannot continue to shoulder the burden of paying a majority of Hawaii taxes without some relief. The Department points out that those earning more than \$750,000 are less sympathetic.

REVENUE IMPACT—The Department acknowledges that this measure raises revenue. This measure is anticipated to result in a revenue gain of approximately \$49.0 million annually from FY 2010 to FY 2016.

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SUBJECT: INCOME, Adjust income tax rates

BILL NUMBER: HB 1747

INTRODUCED BY: Say

BRIEF SUMMARY: Amends HRS section 235-51 to amend the tax rate schedules for tax years beginning after 12/31/08 as follows:

Joint filers: 7.2% over \$40,000 taxable income to 15.0% over \$750,000 - 5 steps

Head of Household: 7.6% over \$40,000 taxable income to 15.0% over \$750,000 - 4 steps

Single, Married filing separate: 7.9% over \$40,000 taxable income to 15% over \$750,000 - 3 steps

No change for estates and trusts.

Repeals this act on December 31, 2015.

EFFECTIVE DATE: Tax years beginning after December 31, 2008

STAFF COMMENTS: It appears that the intent of the proposed measure is to provide that taxpayers with \$40,000 of taxable income shall not be subject to state income taxation as it removes income brackets below income levels of \$40,000. And while that is understandable in that lawmakers want to be champions for the poor and downtrodden, the drafting in this bill is a true reflection of the ignorance of how the tax tables work. It appears that the drafters of the measure whacked off the bottom brackets below \$40,000 and then attempted to keep the rates above that the same, but they made the mistake of rounding out the brackets so that they all begin at \$40,000. The result is that the actual dollar amounts of tax at the beginning of each subsequent step in brackets does not reflect the calculation of tax based on the prior bracket dollar amount and the rate imposed on income over and above the minimum income level.

That said, the real thrust of this bill is to impose a tax rate nearly double the current top tax rate on the "super-rich" who have more than \$750,000 in income. The 15% rate is identical to the prior minimum federal tax rate for individuals. Although this might sound like a way to tax the rich ala Robin Hood, what the authors of this measure fail to realize is that those with this magnitude of income put up the capital that Hawaii so sorely needs to create jobs and keep the economy running. Without the capital from these investors, be they residents or nonresidents, there will be no resources for the economy to draw upon for expansion. While it may appear to be progressive, the sharp jump from the previous rates and brackets to the top rate makes this rate confiscatory. It certainly sends a strong message that Hawaii is not a place where one would want to invest or do business.

Digested 2/25/09