

**HB 1747**



## HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

AFSCME Local 152, AFL-CIO

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The Twenty-Fifth Legislature, State of Hawaii  
Hawaii State Senate  
Committee on Ways and Means

Testimony by  
Hawaii Government Employees Association  
March 19, 2009

H.B. 1747, H.D. 1 – RELATING  
TO TAXATION

The Hawaii Government Employees Association supports H.B 1747, H.D. 1, which will make the state income tax system more progressive by creating new tax brackets for high-income earners. It also increases standard deductions for all filers by 10% and the personal exemption by the same percentage.

The current budgetary challenges can be addressed in three fundamental ways: cutting spending/programs; increasing revenues; and using one-time actions, such as drawing on reserve or special funds. It makes sense to include revenue increases as one part of solving the budget deficit. Addressing the deficit only through reductions in state spending and one-time actions will harm the economy and lengthen the recession in Hawaii.

One option we favor is taxing high incomes, which is fairer than imposing consumption taxes and is based on a person's ability to pay. Because the personal income tax is the major progressive tax levied by most states, it provides an important counterbalance to regressive sales/excise taxes. Income taxes are also a good source of revenue that tends to grow at the same rate as the overall economy.

Careful consideration of budget choices, including tax expenditures, is also warranted. Some tax increases will be needed to avoid the negative effects of deep budget cuts. While tax increases also reduce economic activity, they have a smaller impact on consumption because some of the money paid in taxes might otherwise have been saved rather than spent. Modest tax increases are less harmful to the economy than significant budget reductions.

The more that tax increases are focused on those with lower propensities to consume, that is on those who spend less and save more of each additional dollar of income, the less damage is done to the weakened economy. Since higher-income families tend to have lower propensities to consume than lower-income families, the least damaging

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approach in the short run involves tax increases concentrated on higher-income individuals and families.

Thank you for the opportunity to testify in support of H.B. 1747, H.D. 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Nora A. Nomura", with a long horizontal flourish extending to the right.

Nora A. Nomura  
Deputy Executive Director

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Adjust income tax rates, personal exemption, standard deduction

BILL NUMBER: HB 1747, HD-1

INTRODUCED BY: House Committee on Finance

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: 1.4% up to \$4,800 taxable income to 12.0% over \$550,000 - 13 steps

Head of Household: 1.4% up to \$3,600 taxable income to 12.0% over \$412,500 - 13 steps

Single, Married filing separate: 1.4% up to \$2,400 taxable income to 12% over \$275,000 - 13 steps

No change for estates and trusts.

Amends HRS section 235-2.4(a) to increase the standard deduction from \$4,000 to \$4,400 for joint returns or surviving spouses, from \$2,920 to \$3,212 for head of households; and from \$2,000 to \$2,200 for individuals or married taxpayers filing separately. This section shall take effect for tax years beginning after December 31, 2010.

Amends HRS section 235-54(a) to increase the personal exemption from \$1,040 to \$1,144. This section shall take effect for tax years beginning after December 31, 2010.

Repeals this act on December 31, 2015 and provides that HRS sections 235-2.4(a), 235-51(a) and 235-54(a) shall be reenacted in the form in which they read on the day before the effective date of this act.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: The proposed measure would increase the income tax rates between tax year beginning after December 31, 2008 to December 31, 2015, for joint filers with incomes in excess of \$250,000, head of household filers with incomes in excess of \$187,500 and single filers with incomes in excess of \$125,000. The measure also temporarily increases the standard deduction and personal exemption by 10%.

With a top rate of 12%, this measure results in a substantial tax increase on the "wealthy." While it is understandable that lawmakers are looking for ways to cover the forecasted budget shortfall, this is hardly a time to impose substantial tax increases on a population that is rapidly hitting the unemployment lines while businesses close their operations because of the economic slump. Inasmuch as the tax increase would go into effect for this calendar year, employers would have to increase withholding amounts on their workers to insure that there are sufficient amounts withheld to meet the employees' obligations under the new rate schedule. This means pay checks will shrink once this measure is signed into law. This will mean a shrinking of disposal income at the very time that the economy needs people to spend to hopefully jump start the economy. This is just not the right time for a measure like this despite the

financial woes.

That being said, of the many alternatives the legislature has contemplated up to this date, an increase in the personal income tax for high wage earners is the most progressive as those with more disposable income will be asked to contribute more. If this bill advances, it is critical to maintain the sunset provisions as future lawmakers should not take for granted the windfall of revenues once the economy improves. Hawaii is still amongst those states with one of the highest maximum tax rates and some of the lowest thresholds at which the maximum rate is imposed. In addition to the date definite sunset, lawmakers might consider a percentage of the general fund resources that the personal income tax contributes as another trigger to turn off the temporary increase. For example, the personal income tax has traditionally contributed about 34-35% of all general fund receipts. A trigger could be set at that percentage of contribution to the general fund when the increase would cease.

While lawmakers bemoan the lack of affordable housing at the same time adopting tax incentives for industries that they believe will create high paying jobs, any income tax rate increase would appear to be counter to that purpose of attracting new businesses to startup or relocate to Hawaii.

It should be also noted that the federal system is indexed for inflation to prevent nominal price increases from eroding the benefit of the personal exemption and the standard deduction. Thus, in addition to adjusting the standard deduction and the personal exemption, lawmakers should also consider indexing the state income tax system for inflation as a way to gradually maintain equity in the state tax system, as recommended by the most recent Tax Review Commission and prior Commissions.

Digested 3/18/09



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March 18, 2009

**The Honorable Donna Mercado Kim, Chair**  
Senate Committee on Ways and Means  
State Capitol, Room 211  
Honolulu, Hawaii 96813

**RE: H.B. 1747, H.D.1 Relating to Taxation**

**HEARING: Thursday, March 19, 2009 at 10:10 a.m.**

Aloha Chair Kim, Vice Chair Tsutsui and Members of the Committee:

I am Mary Begier, Chair of the Subcommittee on Taxation and Finance for the Government Affairs Committee of the Hawai'i Association of REALTORS® ("HAR"), here to testify on behalf of our 9,600 members in Hawai'i. HAR **opposes** H.B. 1747, H.D.1., which increases the income tax rate for various new tax brackets.

This measure effectively creates new tax brackets and tax rates of 9, 10, 11 and 12 percent for:

1. Joint filers with incomes in excess of \$250,000;
2. Head of household filers with incomes in excess of \$187,500;
3. Single filers with incomes in excess of \$125,000;

HAR would note that during these tough economic times, it is extremely difficult for individuals and families to make ends meet. The value of the dollar is not what it once was, particularly when factoring in inflation and the high cost of living in Hawaii. As a result, it is a continuing challenge for Hawaii residents to manage expenses, from purchasing basic necessities to owning a home.

Moreover, any additional individual taxes will result in less money being circulated into the economy, at a critical time when the economy needs it. These funds could instead be used by individuals to help a homebuyer with a first home purchase, or to provide small businesses with funds to invest and improve in their companies.

For the foregoing reasons, HAR opposes this measure.

HAR looks forward to working with our state lawmakers in building better communities by supporting quality growth, seeking sustainable economies and housing opportunities, embracing the cultural and environmental qualities we cherish, and protecting the rights of property owners.

Mahalo for the opportunity to testify.

## **kim4 - Elizabeth**

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**From:** Joel Fischer [jfischer@hawaii.edu]  
**Sent:** Monday, March 16, 2009 4:33 PM  
**To:** WAM Testimony  
**Subject:** HB1747;WAM;3/19/09;10AM;Rm211

**Importance:** High

HB1747,HD1, Relating to Taxation  
WAM; Chair, Sen Mercado Kim

### **PLEASE PASS THIS BILL!**

One of the main reasons the state and the country are in such dire economic straits is the passage of legislation that decreased taxes on the rich. In Hawai'i, these changes occurred during the Cayetano administration based on the patently false argument that decreasing taxes on the wealthy "trickles down" to the entire community. the actual **facts** are these: economic research shows convincingly that cutting taxes on the rich has only two effects on the economy: 1. It enriches the rich even more; and 2. It deprives the government of the tax income it needs to run itself.

Now we are in an enormous fiscal crunch and the rich will be telling us again not to cut their taxes or the economy will be hurt. How hilarious. look all around at almost every economic indicator to see how depriving the government of an adequate tax base almost completely destroys the economy.

Please do not let the selfish interests of a few control the needs of the many.

Thank you.

Aloha, joel

Dr. Joel Fischer, ACSW  
Professor  
University of Hawai'i, School of Social Work  
Henke Hall  
Honolulu, HI 96822

"It is reasonable that everyone who asks justice should DO justice."  
Thomas Jefferson

"There comes a time when one must take a position that is neither safe, nor politic, nor popular, but one must take it because one's conscience tells one that it is right."  
Dr. Martin Luther King, Jr.

"Never, never, never quit."  
Winston Churchill