

HB 1747



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

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LATE TESTIMONY

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

kim2 - Arline **LATE TESTIMONY**

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, March 19, 2009 10:19 AM
To: WAM Testimony
Cc: phahn86@gmail.com
Subject: Testimony for HB1747 on 3/19/2009 10:10:00 AM

Testimony for WAM 3/19/2009 10:10:00 AM HB1747

Conference room: 211
Testifier position: oppose
Testifier will be present: Yes
Submitted by: Pearl Hahn
Organization: Individual
Address: 1314 S. King Street Suite 1163 Honolulu, HI 96814
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E-mail: phahn86@gmail.com
Submitted on: 3/19/2009

Comments:

I respectfully oppose this measure in light of the current economic recession and the detrimental impact it would have on businesses, which are integral to employment and revenue in the state. Raising taxes for the bracket defined in this measure punishes job creators, which is precisely what Hawaii should avoid in a recession.

LINDA LINGLE
GOVERNOR
LATE TESTIMONY
JAMES R. AIONA, JR.
LT. GOVERNOR



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**SENATE COMMITTEE ON WAYS & MEANS
TESTIMONY REGARDING HB 1747 HD1
RELATING TO TAXATION**

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

DATE: MARCH 19, 2009

TIME: 10:10AM

ROOM: 211

This measure increases the current standard deduction and personal exemption amounts by 10%. The measure also provides for an income tax increase by adding 9%, 10%, 11%, and 12% rates for higher income earners.

The Department of Taxation (Department) opposes this measure in its current form.

GENERAL SUPPORT FOR INCREASED STANDARD DEDUCTION AND PERSONAL EXEMPTION AMOUNTS—The Department acknowledges that it has supported increases in these amounts in the past and in general is supportive of such measures. As a matter of tax policy, the Department supports the increase in standard deduction and personal exemption amounts, as these increases have the greatest beneficial effect upon those taxpayers with lower taxable income. However, the Department cannot support increases in these amounts where they are paid for by increasing taxes.

TAX RELIEF LAGS TAX INCREASE—Further to the Department's opposition to this measure is that any purported tax relief lags the tax increase. As provided in this measure, the increase in standard deduction and personal exemption do not occur until the 2011 tax year; however the tax increase occurs during the current tax year. The Department cannot support this measure where the accompanying tax relief is not immediate.

OPPOSE THE TAX INCREASE CAUSED BY THE ADDITION OF HIGHER INCOME RATE BRACKETS— While higher income earners are less sympathetic with regard to tax increases, increasing taxes on those who are part of this group creates disincentives and

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unintended consequences that could have adverse effects on Hawaii's economy. First, the higher income earners as a group are much more sophisticated with regard to tax laws and may end up pursuing and employing additional legal avenues of reducing their Hawaii tax burden with the unintended result that the State is actually collecting less from these taxpayers than it was before the tax increases.

Another effect of increasing taxes on higher income earners is the increase in the "deadweight loss" or "excess burden" of taxation on the State's economy. These terms describe a waste of resources resulting from taxation. By taking more from those successfully earning their higher income as a result of their own increased labors and risks, taxpayers are less likely to perform the additional work required to achieve the higher income, so the tax increase has the unintended effect of less production.

Most importantly, these higher-income individuals are also the small business owners upon which Hawaii's economy depends. Effectively, this measure creates a disincentive for a person to innovate, expand his or her business, which in turn slows the economy and keeps Hawaii's current economic climate stagnant.

REVENUE IMPACT & METHODOLOGY—The Department is cognizant that this measure results in a revenue gain, which are as follows—

- \$62.2 million per year for FY 2010 and FY 2011
- \$50.6 million per year for FY 2012 to FY 2016.

Using the 2006 Individual Income Data Set and SAS program, the Department divided the data into various AGI groups for the various statuses (single/married filing separately, joint/widower, and head of household). The proposed tax was then subtracted from the current tax to get the revenue impact.

Section 1, increase standard deduction by 10%, the revenue loss is \$3.3 million per year.

Section 2, adding new brackets for people with higher AGI, the revenue gain is \$62.2 million per year.

Section 3, increasing the personal exemption amount of \$1,040 by 10% (to \$1,144), the revenue loss is \$8.3 million per year.