

Honolulu, Hawaii

FEB 20 2009

RE: S.B. No. 1346  
S.D. 1

Honorable Colleen Hanabusa  
President of the Senate  
Twenty-Fifth State Legislature  
Regular Session of 2009  
State of Hawaii

Madam:

Your Committee on Education and Housing, to which was referred S.B. No. 1346 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to:

- (1) Increase the four per cent general excise tax to an unspecified amount, with a portion of the increased revenues allocated for public education;
- (2) Offset the effects of the tax increase by establishing a general excise tax exemption for food; medical expenses, including nonprescription medications, prescription eyewear, and physician and dental services; and a portion of rental income;
- (3) Establish a tax credit for individuals who volunteer their services at public schools and an earned income tax credit;
- (4) Increase the state standard deduction amounts; and
- (5) Establish an education funding commission to provide oversight for general excise tax revenues deposited into the newly created education special fund.



Testimony in support of this measure was submitted by two state agencies and one private organization. One state agency submitted comments. Copies of written testimony are available for review on the Legislature's website.

Your Committee finds that difficult economic times demand consideration of a varied array of fiscal measures. While the federal economic stimulus legislation will provide some relief, much more needs to be done at the state level. Your Committee further finds that an increase of the general excise tax, partnered with tax relief for low- and middle-income families, offers a long-term alternative to cutting vital education funding that has already been declared inadequate by approximately \$2,000 per student in a study conducted by an independent consultant.

The Department of Taxation has reported to your Committee that raising the general excise tax by one per cent increases revenue by \$600,000,000. Your Committee believes that an increase in the general excise tax, when combined with the following tax relief, will address the regressive nature of the present tax structure:

- (1) Exempting all non-prepared food purchases: \$135,000,000 savings to taxpayers;
- (2) Exempting physician services, dental services, glasses, and non-prescription drugs: \$126,000,000 savings to taxpayers;
- (3) Exempting the first \$800 of monthly rent: \$83,600,000 savings to taxpayers; and
- (4) Doubling the standard deduction: \$37,500,000 savings to taxpayers.

Your Committee finds that these measures would provide over \$380,000,000 in tax relief to Hawaii's families, especially to those with less than \$100,000 in income per year:

- (1) A family of four with an adjusted gross income of \$40,000 per year would have \$1,482 in tax savings;
- (2) An individual with an adjusted gross income of \$80,000 per year would have \$524 in tax savings; and



- (3) A family of four with an adjusted gross income of \$250,000 per year would have an additional tax burden of \$621.

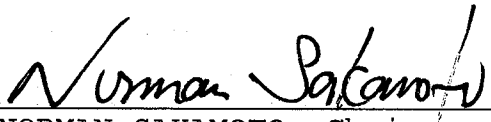
Based on this information, your Committee finds that this proposal would provide a much needed source of funding for education while simultaneously addressing Hawaii's regressive tax structure. Your Committee notes the Department of Taxation's support of general excise tax exemptions for food, and medical and dental services, in order to address the regressive nature of the general excise tax. Your Committee also notes the Department's strong support of increasing the standard deduction to reflect more accurately the cost of living in Hawaii. Your Committee has heard and approved a wide range of proposed education funding initiatives and encourages further legislative discussions on the proposals in this measure.

Your Committee has amended this measure by:

- (1) Deleting the earned income tax credit;
- (2) Amending the effective date to July 1, 2045, for the purpose of encouraging further discussion; and
- (3) Making technical amendments for the purposes of clarity and style.

As affirmed by the record of votes of the members of your Committee on Education and Housing that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 1346, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 1346, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on  
behalf of the members of the  
Committee on Education and  
Housing,

  
\_\_\_\_\_  
NORMAN SAKAMOTO, Chair



The Senate  
 Twenty-Fifth Legislature  
 State of Hawaii

**Record of Votes**  
**Committee on Education and Housing**  
**EDH**

Bill / Resolution No.:*	Committee Referral:	Date:		
GB 1340	EDH, WAM	2-11-09		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is:				
<input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
SAKAMOTO, Norman (C)	✓			
KIDANI, Michelle N. (VC)	✓			
CHUN OAKLAND, Suzanne	✓			
GALUTERIA, Brickwood	✓			
TSUTSUI, Shan S.				✓
HEMMINGS, Fred			✓	
<b>TOTAL</b>	4		1	1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <i>Michelle N. Kidani</i>				
<b>Distribution:</b> Original     Yellow     Pink     Goldenrod File with Committee Report     Clerk's Office     Drafting Agency     Committee File Copy				

\*Only one measure per Record of Votes