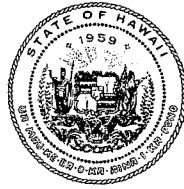


LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



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**HOUSE COMMITTEE ON FINANCE  
TESTIMONY REGARDING HB 1773  
RELATING TO INCOME TAXES**

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

**DATE: FEBRUARY 26, 2009**

**TIME: 1PM**

**ROOM: 308**

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This measure seeks to conform to the federal income tax bracket dollar amounts. This measure also modifies the income tax rates, effectively increasing the income tax on those earning over \$131,450.

The Department of Taxation (Department) **opposes the income tax rate increases** provided in this measure.

**OPPOSED TO SUBSTANTIAL INCOME TAX INCREASES ON THE MIDDLE CLASS**—This measure also seeks to raise the current maximum income tax rate of 8.25% to 9.8% when taxable income exceeds \$131,450; 12.1% when taxable income exceeds \$200,300; and 14.6% when taxable income exceeds \$357,700. The Department opposes the income tax increases in this measure because they are overly punitive to the middle class. Persons making between \$100,000 and \$200,000 in Hawaii for a family of four are still "middle class" in every sense of the phrase due to the extremely high cost of living. The middle class cannot continue to shoulder the burden of paying a majority of Hawaii taxes without some relief. The tax increase in this measure is not tax relief, but a major tax increase. The Department points out that higher income earners do become less sympathetic beyond \$300,000 or so. The Department cannot support such drastic increases in personal income tax proposed in this measure. Any tax increase policy discussions this session must rationally reflect the "middle class."

**REVENUE IMPACT**— Annual revenue loss is estimated at \$90.3 million for FY 2010 and after.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Conform to federal brackets, adjust rates

BILL NUMBER: HB 1773

INTRODUCED BY: M. Oshiro

BRIEF SUMMARY: Amends HRS section 235-51 to conform the state tax bracket to the federal brackets and adjust the rate schedules for tax years beginning after 12/31/08 as follows:

Joint filers: 1.4% up to \$16,050 taxable income to 14.6% over \$357,000 - 6 steps  
Head of Household: 1.4% up to \$11,450 taxable income to 14.6% over \$357,700 - 6 steps  
Single, Married filing separate: 1.4% up to \$8,025 taxable income to 14.6% over \$357,000 - 6 steps  
Estates and trusts: 1.4% up to \$8,025 taxable income to 14.6% over \$357,700 - 6 steps

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure proposes to adopt the federal income tax brackets and adjusts the tax rates. If this measure is adopted, the standard deduction and personal exemption must also be adjusted to take into account the change in the income tax rates.

While the measure slightly reduces income tax rates for low to moderate-income Hawaii taxpayers, it proposes an increase at the upper end of the scale to 14.6% for all taxpayers. Unfortunately, there is a substantial tax increase on those who would otherwise be considered middle-income wage earners and a substantial 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.

Digested 2/25/09