



LATE TESTIMONY

Tuesday, February 15, 2011, 3:30 PM
State Capitol Room 308

House Committee on Finance
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

Comments on HB 1319 Relating to the Progressive Tax Reform Task Force

Chair Oshiro, Chair Lee and Members of the House Committee on Finance:

Thank you for this opportunity to testify before the Committee on Finance. The Democratic Party of Hawai'i supports the intent of HB 1319, but has concerns regarding the makeup of the Task Force.

The genesis of this bill was a report titled "Who Pays: A Distributional Analysis of the Tax Systems in All 50 States," published by the Institute on Taxation and Economic Policy (ITEP), a non-profit, non-partisan research organization that studies tax policy issues on all levels of government.

This report found that the *cumulative tax burden* of the lowest earners in Hawai'i (those individuals making less than \$18,000 per year) comprises 12.2% of their annual income and the *cumulative tax burden* of the highest earners (those individuals making \$400,000 or more) comprises only 6.3% of their annual income.

This regressive tax structure unfairly burdens those individuals with the least ability to pay by taxing them at a significantly higher percentage of their total annual income than those individuals with the greatest ability to pay.

The economic and budgetary stresses of the last few years have resulted in cuts in education, social services, health services and other programs needed and utilized most by those at lower incomes who bear the highest proportional tax burden

Our concern with this bill stems from the inclusion of the Tax Foundation of Hawai'i, an organization whose roster of members includes many of the largest corporations in the State. As the goal of this task force is to reform the State's tax structure so as to protect our lower and middle income families, we feel that it would be more justly served by groups who represent the individuals we are trying to protect.

While it is up to you to determine the makeup of this task force, we feel it would make sense to include representation of all income groups. As an example, we might include representatives from organized labor as well as recognized advocates for lower income groups and the broad based perspective of professional research economists such as those within the University of Hawai'i system.

We would challenge the 26th Legislature to resolve budgetary and tax challenges with the goal of a fair and progressive tax structure, so that those with the greatest means contribute a more proportional share of the tax burden and, when cuts are required, those most in need are spared and a thriving middle class is protected.

We feel that this measure could serve as the first step toward realizing the Democratic ideal of economic justice in taxation if the task force were altered to include organizations who more accurately represent our lower and middle class. Thank you again for this opportunity to testify.

Respectfully Submitted,

Doug Pyle and Joy Kobashigawa Lewis,
Co-Chairs of the Legislation Committee of the Democratic Party of Hawai'i

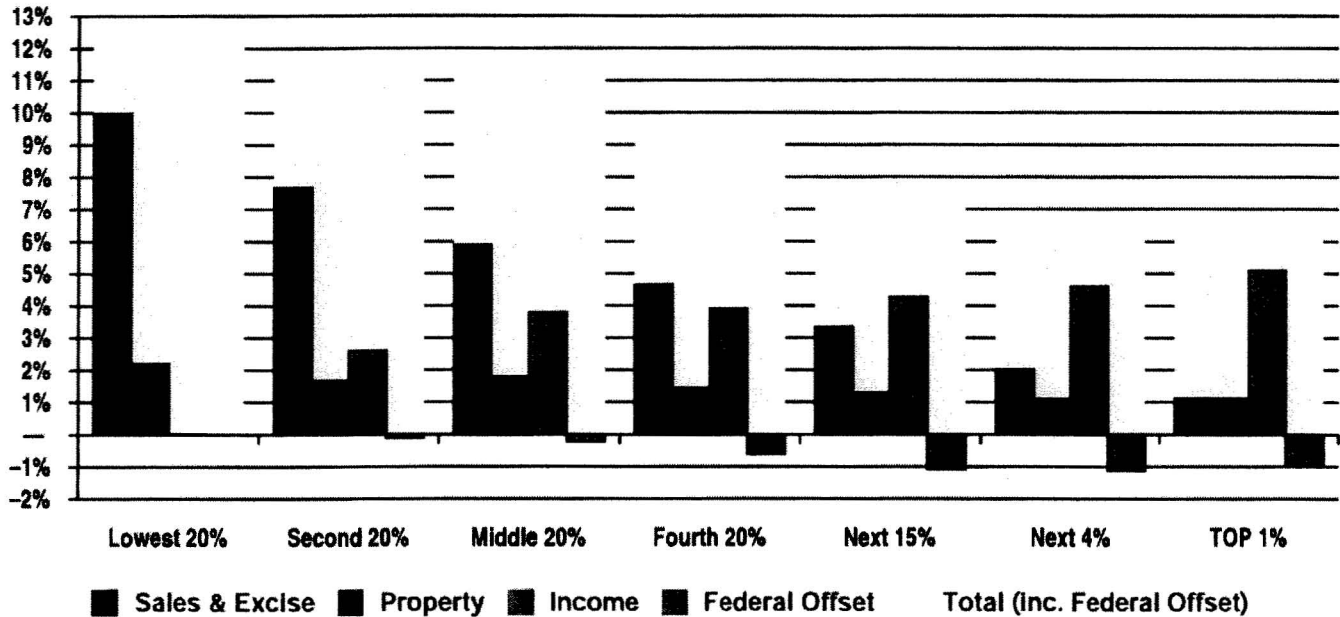
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Who Pays? State Specific Factsheet: Hawai'i

Hawaii

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$33,000	\$33,000 – \$51,000	\$51,000 – \$85,000	\$85,000 – \$176,000	\$176,000 – \$400,000	\$400,000 or more
Average Income in Group	\$9,800	\$24,700	\$41,400	\$65,900	\$117,800	\$251,100	\$1,040,300
Sales & Excise Taxes	10.0%	7.7%	5.9%	4.7%	3.3%	2.0%	1.1%
General Sales—Individuals	4.5%	3.5%	2.7%	2.1%	1.5%	0.9%	0.5%
Other Sales & Excise—Ind.	2.2%	1.5%	1.1%	0.8%	0.5%	0.3%	0.1%
Sales & Excise on Business	3.3%	2.7%	2.1%	1.7%	1.3%	0.8%	0.5%
Property Taxes	2.2%	1.7%	1.8%	1.4%	1.3%	1.1%	1.1%
Property Taxes on Families	2.1%	1.6%	1.7%	1.4%	1.2%	0.9%	0.4%
Other Property Taxes	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	0.7%
Income Taxes	0.0%	2.6%	3.8%	3.9%	4.3%	4.6%	5.1%
Personal Income Tax	0.0%	2.6%	3.8%	3.9%	4.3%	4.6%	5.0%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL TAXES	12.2%	11.9%	11.4%	10.0%	8.9%	7.7%	7.3%
Federal Deduction Offset	—	-0.1%	-0.2%	-0.6%	-1.1%	-1.1%	-1.0%
TOTAL AFTER OFFSET	12.2%	11.8%	11.2%	9.4%	7.8%	6.6%	6.3%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Hawaii

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Provides refundable income tax credits to reduce impact of sales, excise, and property taxes

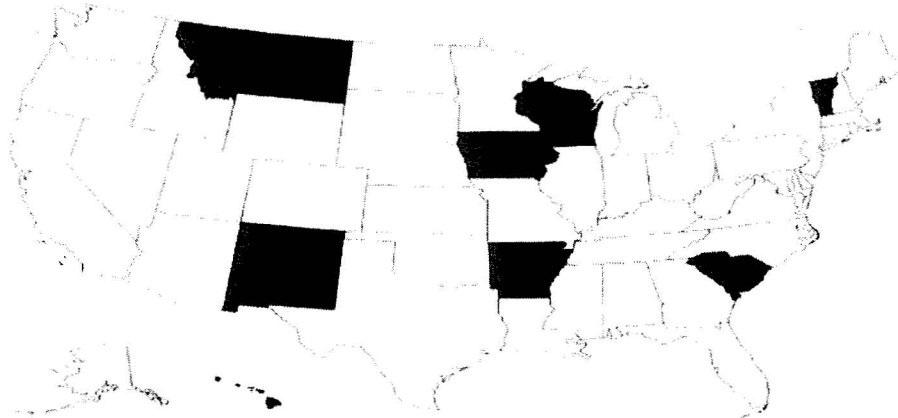
Regressive Features

- ✗ Provides preferential income tax rates for income from capital gains
- ✗ Comparatively high reliance on sales and excise taxes
- ✗ Sales tax base includes groceries

Recent Developments

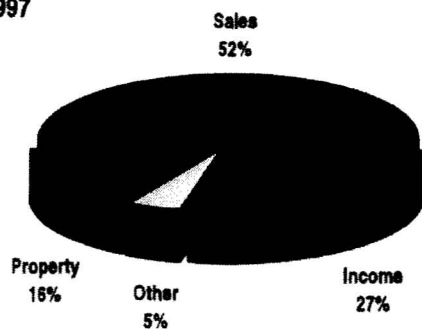
- ▲ Increased standard deduction and personal exemption on a temporary basis
- ▲ Added several new upper-income tax brackets on a temporary basis
- ▲ Increased value of, and expanded eligibility for, the state's "grocery tax" credit

States with Notable Capital Gains Income Tax Preferences

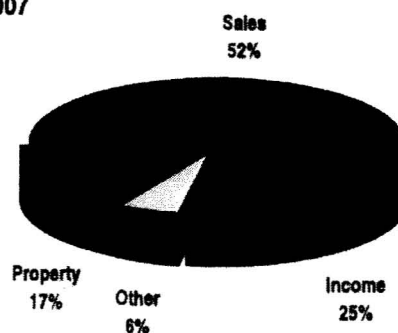


Change in the Composition of Tax Revenue

1997



2007



Source: U.S. Census Bureau, Government Finances