

STAND. COM. REP. NO.

681

Honolulu, Hawaii

March 4, 2011

RE: H.B. No. 1092
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Sixth State Legislature
Regular Session of 2011
State of Hawaii

Sir:

Your Committee on Finance, to which was referred H.B. No. 1092 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this bill, as received by your Committee, is to improve Hawaii's tax system by:

- (1) Indexing income tax amounts for inflation;
- (2) Repealing the state tax deduction for state income tax paid;
- (3) Capping the income tax exemption on employer-funded pension income;
- (4) Eliminating extension of the royalties exclusion to certain persons involved in performing arts products;
- (5) Amending the Transient Accommodations Tax (TAT) base for timeshare owners; and
- (6) Increasing the TAT rate for timeshare owners.

For purposes of a public hearing on this bill, your Committee circulated a proposed draft, and notified the public that it would be accepting testimony on the proposal, which:

HB1092 HD1 HSCR FIN HMS 2011-2842



- (1) Provides for the taxation of pension income that exceeds various thresholds;
- (2) Repeals the deduction for state taxes paid, with a phaseout for taxpayers with lower incomes; and
- (3) Modifies the exclusion for royalties.

Your Committee received testimony from the following organizations and individuals on H.B. No. 1092, as introduced, and on the proposed draft:

H.B. No. 1092: Several individuals testified in support of this bill. MusicLand Hawaii and numerous concerned individuals testified in opposition to this measure. The Governor submitted comments.

H.B. No. 1092, Proposed Draft: The Military Officers Association of America, Hawaii Chapter; MusicLand Hawaii; and several concerned individuals testified in opposition to this measure. The Department of Taxation; Department of Budget and Finance; Tax Foundation of Hawaii; AARP Hawaii; Americans for Democratic Action/Hawaii; SheeHandsomeDevil Records; Robert Sterling Music New York Publishing Company; Aumakua Records, Soul Sound LLC; the Policy Advisory Board for Elder Affairs; and several concerned individuals commented on this measure.

Your Committee considered the merits of both H.B. No. 1092, as introduced, and the proposed draft, and upon careful consideration, recommends passage of a measure, the purpose of which is to:

- (1) Tax the pension income of:
 - (A) An individual filer or married person filing separately with federal adjusted gross income of \$100,000 or more;
 - (B) A joint or surviving spouse filer with federal adjusted gross income of \$200,000 or more; and



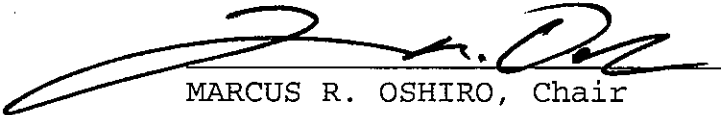
(C) A head of household with federal adjusted gross income of \$150,000 or more;

and

- (2) Make subject to the foregoing limitations the exemption under Section 88-91, Hawaii Revised Statutes (HRS); certain exclusions from gross, adjusted gross, and taxable income under Section 235-7, HRS; and for certain taxpayers the deductions under sections 164(a)(3) and 164(b)(5) of the Internal Revenue Code.

As affirmed by the record of votes of the members of your Committee on Finance that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1092, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1092, H.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on
behalf of the members of the
Committee on Finance,



MARCUS R. OSHIRO, Chair



