

STAND. COM. REP. NO.

986

Honolulu, Hawaii

MAR 24 2011

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

Honorable Shan S. Tsutsui
President of the Senate
Twenty-Sixth State Legislature
Regular Session of 2011
State of Hawaii

Sir:

Your Committee on Judiciary and Labor, to which was referred H.B. No. 1092, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Tax the pension income of taxpayers with certain federal adjusted gross wages; and
- (2) Preserve the state tax deduction for taxpayers with certain adjusted gross income levels.

Your Committee received testimony in support of this measure from the Department of Taxation, Policy Advisory Board for Elder Affairs, and Imua Alliance. Your Committee received testimony in opposition to this measure from AARP Hawaii; Oahu Chapter, Hawaii Government Employees Association Retirees Unit, Local 152, AFSCME, AFL-CIO; International Longshore and Warehouse Union, Local 142; Hawaii State Teachers Association; University of Hawaii Professional Assembly; and twenty-eight individuals. Your Committee received comments on this measure from the Department of Budget and Finance, Hawai'i Alliance for Retired Americans, Tax Foundation of Hawaii, and one individual.



Your Committee finds that the State is faced with an extreme budget crisis. A budget deficit of approximately \$500,000,000 is projected for each of the next two fiscal years. Therefore, an equitable solution that spreads the tax burden evenly is needed in the current fiscal crisis. Your Committee further finds that a possible tax on pensions has been proposed during previous legislative sessions. Your Committee notes that Hawaii is one of only ten states that exclude all federal, state, and local pension income from taxation.

Based on testimony received from the Department of Taxation, your Committee notes that the tax on pension proposed by Part I of this measure will affect four percent of pensioners in Hawaii. This measure will generate approximately \$17,100,000 in income for the State of Hawaii. Additional testimony received by your Committee suggested a process by which a threshold amount of pension income would be excluded and the remainder would be subject to tax. An excluded amount would not be contingent upon a taxpayer's adjusted gross income. Your Committee notes that if a threshold of \$50,000 in pension income were adopted, it would only generate \$593,887 in income to the State.

Your Committee finds that Part II of this measure lowers the threshold for existing resident Hawaii taxpayers. Based on testimony received by your Committee, Part II of the measure as received will generate \$17,900,000, affecting 4.9 percent of resident Hawaii taxpayers. Amendments proposed to your Committee suggest lowering the thresholds would generate an additional \$15,300,000, but would only increase the number of affected resident Hawaii taxpayers to 6.7 percent. The amendments proposed before your Committee would indeed impact 36,157 taxpayers in Hawaii. However, your Committee notes that this measure would not impact 499,849 Hawaii taxpayers.

Accordingly, your Committee has amended this measure by:

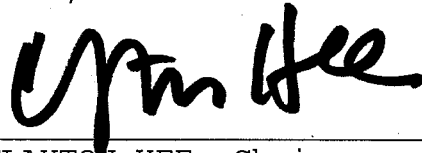
- (1) Amending the federal adjusted gross income levels of taxpayers subject to the deductions under sections 164(a)(3) and 164(b)(5) of the Internal Revenue Code as follows:
 - (A) Less than \$75,000 for a taxpayer filing a single return or a married taxpayer filing separately;
 - (B) Less than \$112,500 for a head of household; and



- (C) Less than \$150,000 for joint returns or a surviving spouse; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Judiciary and Labor that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1092, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1092, H.D. 1, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Judiciary and
Labor,



CLAYTON HEE, Chair



The Senate
Twenty-Sixth Legislature
State of Hawai'i

Record of Votes
Committee on Judiciary and Labor
JDL

Bill / Resolution No.:* HB 1092, HD 1	Committee Referral: JDL, WAM	Date: 3/23/11		
<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
HEE, Clayton (C)	✓			
SHIMABUKURO, Maile (VC)	✓			
GABBARD, Mike	✓			
IHARA, Jr., Les				✓
SLOM, Sam				✓
TOTAL	3	0	0	2
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes