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**From:** Tina Desuacido [tina500@juno.com]  
**Sent:** Wednesday, February 09, 2011 10:35 AM  
**To:** ERBtestimony  
**Subject:** Tax Foundation Testimony  
**Attachments:** h0807-11.pdf

**TRANSMISSION OF TESTIMONY**

**DATE:** Wednesday, February 9, 2011  
**TO:** House Committee on Economic Revitalization & Business  
**FROM:** Tax Foundation of Hawaii

**Total Pages 1**

**FOR:** Rep. Angus McKelvey, Chair  
**Testifier:** Lowell L. Kalapa, President - Tax Foundation of Hawaii

**(Mr. Kalapa will not appear in person at the hearing.)**

**Date of Hearing - Thursday, February 10, 2011**

**Position: Comments**

**Time of Hearing - 8:00 am**

**HB 807 - Relating to the Income Tax (1 page)**

**Number of copies - 4**

**Thank you.**

# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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**SUBJECT:** INCOME, Reduce state income tax withholding

**BILL NUMBER:** HB 807

**INTRODUCED BY:** Say

**BRIEF SUMMARY:** Amends HRS section 235-61(c) to reduce the maximum rate at which income taxes shall be withheld from 8% to 5%.

This act shall be repealed on June 30, 2013; provided that HRS section 235-61(c) shall be reenacted in the form in which it read on the date before the effective date of this act.

**EFFECTIVE DATE:** July 1, 2011

**STAFF COMMENTS:** The purpose clause of this measure states that the purpose of this measure is to increase the take home pay of taxpayers and revitalize the economy. From an economic stand point, taking more than is necessary from wage earners reduces the amount of money circulating in the economy and in some cases creates hardships for those whose paychecks barely cover their daily expenditures. While it may be desirable to temporarily reduce the current withholding rate of 8%, one has to remember that not all taxpayers are disciplined enough to put aside sufficient funds to meet their income tax obligations. As a result, while this proposal may look benign, it may leave some taxpayers scrambling to find the money to meet their income tax obligation next year.

If lawmakers truly want to put more money back in the hands of taxpayers they can start with reducing tax rates and reducing the spending which is dependent on tax revenues. Of course, lawmakers will dislike that idea as they are already struggling with reigning in current spending. Further, it should be noted that reducing income tax withholding will also affect the cash flow of the state in the near term. The state is already having difficulty paying its bills on time and this proposal would just exacerbate that situation. So this proposal may be well-intended but it fails to deal with reality.

Digested 2/9/11