

JAN 29 2015

A BILL FOR AN ACT

RELATING TO STATE FINANCES

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that current revenue
2 estimates are "static" and fail to account for behavioral
3 changes caused by new regulations and taxes. Developing a model
4 that considers the probable behavioral responses of taxpayers,
5 businesses, and other citizens to changes in state tax laws will
6 ensure proposed regulatory and tax changes will promote economic
7 growth. "Dynamic" revenue analysis considers the macroeconomic
8 impact of legislative decisions, including behavioral responses
9 to tax decisions. Such models are currently being used in twenty
10 states. The legislature recognizes a dynamic tax model must be
11 constructed in order to consider dynamic revenue estimates. The
12 benefits of building a dynamic tax model system will:

- 13 (1) Improve the State's ability to predict the
14 responsiveness of tax revenue to changes in the tax
15 code;
- 16 (2) Enrich the State's insights into how taxes affect
17 Hawaii's competitiveness in a national and global
18 economy; and



1 (3) Enhance the State's capacity to identify what segments
2 of Hawaii's economy are most sensitive to tax changes
3 and which segments bear the burden of government
4 finance.

5 Accordingly, the purpose of this Act is to appropriate
6 funds for a public finance economist to construct and maintain a
7 dynamic tax modelling system at the Economic Research
8 Organization at the University of Hawaii (UHERO).

9 SECTION 2. Chapter 304A, Hawaii Revised Statutes, is
10 amended by adding a new section to be appropriately designated
11 and to read as follows:

12 "**§304A-___ Dynamic tax modelling.** (a) The Economic
13 Research Organization at the University of Hawaii (UHERO) shall
14 develop and maintain a dynamic tax model.

15 (b) "Dynamic tax model" is defined as "Dynamic" revenue
16 analysis that would allow the consideration of the macroeconomic
17 impact of legislative decisions, including the direct and
18 indirect behavioral responses brought about by those decisions.

19 (c) Commencing with the regular session of 2016, the
20 Economic Research Organization at the University of Hawaii shall
21 submit an annual report to the legislature not later than twenty



1 days prior to the convening of each regular session, containing
2 the following:

3 (1) Status updates on any progress that is made with
4 respect to the development of the model;

5 (2) A detailed explanation of all assumptions that are
6 used to construct the model; and

7 (3) Any recommendations to the legislature on how dynamic
8 tax revenue estimates can be included as part of the
9 public budgeting process.

10 (d) Once the dynamic tax modelling system has been
11 developed and tested for accuracy, the Economic Research
12 Organization at the University of Hawaii shall:

13 (1) Make the model accessible to the legislature and
14 executive, as well as the public at large;

15 (2) Upon written request by any legislator apply the
16 dynamic tax model to any proposed or existing tax or tax repeal
17 with an anticipated revenue impact of more than fifty million
18 dollars and provide written findings in response within a
19 reasonable time; and

20 (3) Upon reasonable notice in writing by any legislator or
21 the Legislature provide testimony on any bill that proposes any
22 tax or tax repeal with an anticipated revenue impact of more



1 than fifty million dollars; however nothing in this subsection
 2 shall prohibit or limit testimony to be given at the discretion
 3 of the Economic Research Organization at the University of
 4 Hawaii.

5 SECTION 3. There is appropriated out of the general
 6 revenues of the State of Hawaii the sum of \$150,000 or so much
 7 thereof as may be necessary for fiscal year 2015-2016 and the
 8 same sum or so much thereof as may be necessary for fiscal year
 9 2016-2017 for the economic research organization at the
 10 University of Hawaii to construct and maintain a dynamic tax
 11 modelling system.

12 The sums appropriated shall be expended by the University
 13 of Hawaii for the purpose of this Act.

14 SECTION 3. This Act shall take effect on July 1, 2015.

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INTRODUCED BY:

Mike Goffard
Clarence K. Kiehl

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S.B. NO. 1330

Report Title:

State Finances; Dynamic Tax Model; Economic Research
Organization at the University of Hawaii

Description:

Provides funding to construct a dynamic tax model.

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