CIVIC EDUCATION COUNCIL

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TESTIMONY IN OPPOSITION TO SB 2821 - Relating to Conformity to the Internal Revenue Code

Dear Chair Dela Cruz and members of the committee,

Our richest taxpayers will now save, under new federal law, between 18% and 40% in federal tax on estates between $5.5 million and $11 million. Since they'll be getting a huge tax break at the federal level, they can afford to pay more at the state level.

SB 2821 asks Hawaii to match federal exemption levels, effectively doubling the benefit for the wealthy at the expense of the public. We are not required to match the federal exemption levels. In fact, Hawaiʻi and Delaware already have the highest exemption levels among the states that have estate taxes because they match the federal amount.

The new federal tax law doubles the amount of inheritances that are exempt from the estate tax from an already sky-high $5.5 to $11 million. Even if we do not match the federal exemption levels, our richest taxpayers will save between 18% and 40% in federal tax on estates between $5.5 million and $11 million.

The wealthy few in Hawaii can now afford to pay more at the state level. And they should. Let's spend our policy-making energy trying to figure out how to serve working families in Hawaii - and pursuing the *common good*.

Sincerely,

Dr. Amy Perruso

Chair Cruz and Vice Chair Keith-Agaran
Senate Committee on Ways and Means
February 6, 2018
10:00 AM

TESTIMONY IN OPPOSITION OF SB2821 RELATING TO CONFORMITY TO THE INTERNAL REVENUE CODE

Aloha Chair Cruz, Vice Chair Keith-Agaran, Members of the Ways and Means Committee,

My name is Jun Shin and I am a board member at-large for Young Progressives Demanding Action – Hawaii (YPDA Hawaii). I am testifying in opposition to SB2821, which is due for a hearing on February 6, 2018 at 10:00 AM.

I am in opposition to this bill because with our national government enriching those who already have so much with the "tax reform" efforts, Hawaii should be taking a stand against the Trump administration like we have been doing so far, and we should be making sure that the rich pay their fair share of taxes while actually doing what the Trump presidency promised but didn't come through on, and lower taxes for the people who are living paycheck by paycheck.

As a student and a concerned community member, I am amazed. There are people without homes right now, our education system needs help as literally there are classrooms overstuffed, teachers not being paid properly, and schools without working bathrooms, and more and more talented young people moving away from the islands because they cannot afford to stay here. We are in no position to be matching the national government and giving rich people more money to be passed on to their kids. We need to instead "help" our fellow citizens who are in the tops of our income bracket contribute to the betterment of society, because it is a fact, that they are getting the money from the national government anyway, so they can afford to help out.

Please invest in our future. I am 18, and I do not want to leave Hawaii. I want to be able to afford to buy a house one day with my very own money and I want to be able to repay my Mother for working hard in order to help me succeed. I want to send my kids to schools where the teachers are able to give it their all without worrying about paying the bills, and where the schools are in top condition to be a place for learning. I want to be able to get a job in which I can find meaning and I can give it my all, and not a job I am doing just for health insurance or because I have to pay the bills. I want my kids to understand what fairness is, and not have to learn to learn it from me.

Thank you for your hard work and deliberation on this issue,

Jun Shin,
Board Member At-Large
Young Progressives Demanding Action – Hawaii
1561 Kanunu St. #2106 Honolulu, HI 96814
Cell: 808-255-6663
Email: junshinbusiness729@gmail.com

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, ESTATE, Conformity to Internal Revenue Code

BILL NUMBER: SB 2821; HB 2394 (Identical)

INTRODUCED BY: SB by KOUCHI by request; HB by SAIKI by request

EXECUTIVE SUMMARY: Conforms the Hawaii income tax and estate and generation-skipping transfer taxes to federal changes adopted through December 31, 2017. In view of the extensive changes wrought by the Tax Cuts and Jobs Act of 2017 and what will probably be substantial amendments requested by the Department of Taxation, we suggest treating the current bill the same as a short form bill and recommitting it for the purpose of taking input on a proposed committee draft.

SYNOPSIS: Amends HRS section 235-2.3(a) by changing the date references to make the Internal Revenue Code (IRC) applicable for state income tax purposes as it was amended on 12/31/17 for tax years beginning after 12/31/17. Amends HRS section 236E-3 by changing the date references to make the IRC applicable for state estate and generation-skipping tax purposes as it was amended on 12/31/17 for tax years beginning after 12/31/17.

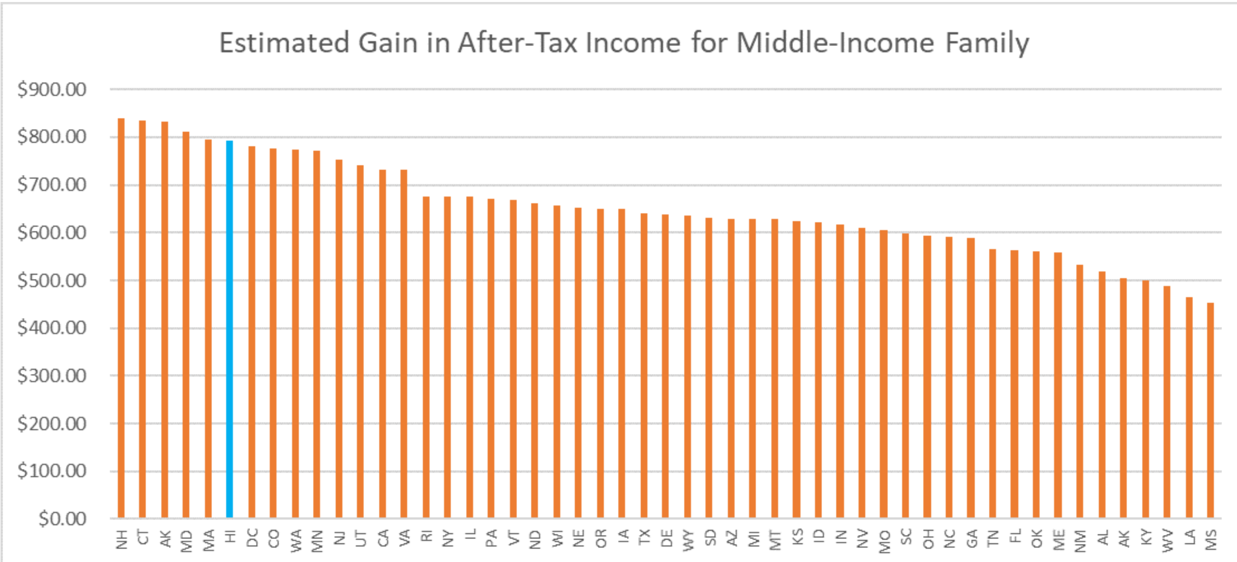
EFFECTIVE DATE: Upon approval, income tax changes shall apply to taxable years beginning after December 31, 2017 and estate and generation-skipping transfer tax changes shall apply to decedents dying or taxable transfers occurring after December 31, 2017.

STAFF COMMENTS: This is the annual conformity measure submitted by the department of taxation TAX-01 (18) in compliance with HRS section 235-2.5 which requires the department to annually submit a measure to maintain state income tax conformity with the federal Internal Revenue Code, and in compliance with HRS section 236E-4 which requires the department to annually submit a measure to maintain state estate and generation-skipping tax conformity with the federal Internal Revenue Code.

Most states, including ours, conform to federal tax law. That means we generally adopt the federal law provisions that tell us what is income and what we can deduct, so that most of us don't have to figure out our taxable income many different ways. In fact, our most frequently filed income tax form, the Hawaii N-11, starts off with amounts reported on the federal return, and then adds and subtracts a few things to get Hawaii taxable income.

Every year, our legislature is required to consider a bill to make our state income tax law conform to the federal changes made in the previous year. (This is the bill.) The legislature will have its work cut out for it this year, because Trump Tax made sweeping changes to the federal law.

In a nutshell, Trump Tax did two major things regarding taxation of individuals: it dropped the tax rate for most people, but it limited or wiped out many deductions, making the tax base higher. The tax you need to pay to the federal government is figured by multiplying the two, and the net effect is what you see here, according to data put out by the national Tax Foundation:



Source: Tax Foundation

On this chart, Hawaii middle-income families take home more money on average. Hawaii families also appear to be doing well against their counterparts in other states.

When our state legislature conforms to federal tax changes, we typically adopt the federal provisions regarding what's taxed and what's deductible, but typically do not change the tax rates. If our lawmakers stick to that script this year, they will be hurting taxpayers, who will pay tax on a larger tax base but with the same rate as before.

You might remember that the Tax Reform Act of 1986 also dropped rates and broadened the tax base to accomplish tax reform. Our legislators reacted by enacting Act 239 of 1987, which dropped our tax rates to offer relief from the base broadening.

At the time, our Conference Committee made the following observations, many of which are pertinent to the Tax Cuts and Jobs Act of 2017:

> <u>Tax Reform Act of 1986</u>
>
> The Federal Tax Reform Act of 1986 is said to be one of the most important pieces of tax legislation enacted by Congress during the past ten years. Certainly, the Act is massive and extensive. For some, the Act is tax simplification in that taxpayers are dropped from the tax rolls due to increased personal exemptions and standard deductions. For others, the Act complicates income taxes.
>
> Some of the major changes to the Income Tax Law contained in the Tax Reform Act of 1986 and adopted in this bill are the repeal of the zero-bracket amounts and the

> substitution of standard deduction amounts. These amounts in the state income tax law have been increased to maintain a one-third relationship between the federal amounts and the state amounts. This one-third relationship is based on the federal amounts as they will exist in 1988.
>
> . . . .
>
> For the first time since 1965, state income tax brackets and rates are substantially amended. The number of income tax brackets are reduced from the present 12 to 8. The top income tax rate is reduced from 11 per cent to 10 per cent. This reduction in rates is reflected in all brackets. The lower tax rates and reduced number of brackets will help to alleviate bracket creep due to increased income and inflation. Coupled with the food tax credit discussed later, the new rates and brackets will maintain progressivity while providing relief from the income base broadening effects of the Tax Reform Act. In all, about 88 per cent of all single filers, 79 per cent of all joint returns, and 90 per cent of all head of household filers will have a net savings in income taxes.

Conf. Comm. Rep. No. 108 (1987) (on SB 320).

This time, our legislature should consider doing something similar. If not, it will be functionally the same as raising taxes.

Given the breadth and depth of the federal legislation, we view the present bill the same as a short form bill, and we recommend that the bill be recommitted for the purpose of hearing the numerous changes that the Department is expected to propose.

Digested 2/2/2018

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
Opposing SB 2821 – Relating to Conformity to the Internal Revenue Code
Senate Committee on Ways and Means
Scheduled for hearing Tuesday, February 6, 2018, at 10:00 am, in Conference Room 211

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee:

Thank you for the opportunity to OPPOSE **SB 2821**, which would conform Hawaii income and estate and generation-skipping transfer tax laws to the Internal Revenue Code of 1986, as amended as of December 31, 2017

Even before the passage of the federal Tax Cuts and Jobs Act (TCJA), Delaware and Hawaiʻi had the highest estate tax exemption thresholds among the states that have estate taxes, due to their and our conforming to the federal level. We should follow the example of the other states and decouple our estate tax exemption amounts from the federal law.

If we fail to decouple, the TCJA's doubling of the already-high 2017 exemption amounts (see table on next page) will cause Hawaiʻi to lose significant amounts of revenue. It would mean that the state would lose estate tax revenue on inheritance amounts between $5.5 and $11 million for singles (and between $11 and $22 million for couples).

With Hawaiʻi – especially this Committee – facing tremendous budget pressures, can we really afford to give up this revenue, due to a change in federal law that none of our elected Congressional representatives voted for?

Regardless of whether or not Hawaiʻi continues to conform to the federal law, wealthy taxpayers will no longer be required to pay between 18 and 40 percent of their estate values between $5.5 million and $11 million for singles (and between $11 million and $22 million for couples) in federal tax. That is tremendous tax break for literally the richest among us. Do they need another from the state of Hawaiʻi?

Thank you for your consideration of this testimony.

Federal Estate Tax

Year	Exclusion Amount	Max/Top tax rate
2001	$675,000	55%
2002	$1 million	50%
2003	$1 million	49%
2004	$1.5 million	48%
2005	$1.5 million	47%
2006	$2 million	46%
2007	$2 million	45%
2008	$2 million	45%
2009	$3.5 million	45%
2010	Repealed	
2011	$5 million	35%
2012	$5.12 million	35%
2013	$5.25 million[29]	40%
2014	$5.34 million[30]	40%
2015	$5.43 million[31]	40%
2016	$5.45 million[6]	40%
2017	$5.49 million	40%
2018	$11.2 million	40%

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February 4, 2018

Senate Committee on Ways and Means
Tuesday, February 6, 2018, 10:00am
Conference Room 211

SB2821 – Relating to Conformity to the Internal Revenue Code

Aloha Chair Dela Cruz, Vice-Chair Keith-Agaran, and Committee Members:

I am submitting testimony on behalf of Hawaiian Community Assets (HCA), the State's largest HUD-approved housing counseling agency and its Department of Treasury certified nonprofit Community Development Financial Institution (CDFI), Hawaii Community Lending, to **OPPOSE SB2821**.

SB2821 would adopt the part of the federal tax cut law and double the amount of inheritances that are exempt from the estate tax from and already-high $5.5 million to $11 million for singles (and from $11 to $22 million for couples). Our State economy will lose significant estate tax revenue if we continue to couple to the federal exemption level, leaving less financial resources for us to invest in homeless services, affordable housing, and public programs that combat our growing homeless and affordable housing crises.

Hawaii should decouple from the federal estate tax exemption levels, as several other states do. Regardless of whether or not Hawaii continues to conform to the federal law, wealthy taxpayers will no longer be required to pay between 18% and 40% federal tax on their estate values between $5.5 million and $11 million for singles (and between $11 million and $22 million for couples). That's a huge savings for literally the richest among us.

Hawaii should capture additional estate tax revenue for investment in affordable housing by increasing our state's estate tax rates. We could raise Hawaii's top estate tax rate to 20%, to match the highest state tax rate in 2017 or go higher, since these taxpayers will be saving 18% to 40% in federal taxes stating in 2018.

At a time when Hawaii reports the highest homeless rate per capita of any state in the nation and 57.6% of our renters pay more than 30% of their monthly income toward housing, passage of SB2821 would strip much needed financial resources from our State economy for homeless services, affordable housing, and public programs that keep workers and families in permanent housing. For these reasons, we believe it is critical for this committee to **OPPOSE SB2821**.

Mahalo for your time, leadership and consideration. Please contact me directly at 808.587.7653 or jeff@hawaiiancommunity.net should you have any questions or need additional information.

Sincerely,

Jeff Gilbreath
Executive Director

COMMITTEE ON WAYS AND MEANS
TUESDAY, FEB. 6, 10:00 AM, Room 211
SB2821, RELATING TO CONFORMITY TO THE INTERNAL REVENUE CODE
TESTIMONY
Beppie Shapiro, testifying as an individual

Chair Committee DELA CRUZ, Vice-Chair KEITH-AGARAN and Committee Members:

I oppose SB2821 that would create a new law requiring that from 2017 forward, Hawaii's Estate Tax and Generation-skipping transfer tax laws must conform to the IRS code.

The Estate Tax rightly aims to prevent the increasing concentration of wealth in a limited number of families, by taking part of an estate's value and returning it to government where it will benefit the public. Estate taxes generally increase with the size of an estate as they do in Hawaii under current law.

As we are all aware, Congress passed and President Trump signed the "Tax Cuts and Jobs" Act in December 2017. This law doubles the amount of wealth which is exempt from the federal Estate Tax from an already generous $5,490,000 to $11,200,000 for an individual and from $10,980 to $22,400,000 for a surviving spouse. Thus from this year on, those who inherit money from estates up to these very large amounts will no longer pay the federal estate tax.

Hawaii's Estate Tax exemption value has been tied to the federal Estate Tax exemption value for years, which has resulted in more estates being untaxed, or taxed at a lower amount, than any other state except Delaware.

With so many urgent demands on the State general fund - the homelessness crisis, unfunded pension liabilities, education, the looming cost of addressing sea level rise, etc. - it seems fool-hardy to lower the amount of money recouped from these very wealthy estates just when those estates will be paying no federal estate tax.

Please do not pass this unwise bill.

Thank you for the opportunity to submit testimony.

SB-2821
Submitted on: 2/3/2018 6:54:55 PM
Testimony for WAM on 2/6/2018 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Greg and Pat Farstrup		Oppose	No

Comments:

Please do NOT be complicit with imposing the republi-cons tax scam on Hawaii.

Please vote NO on all versions of this type of tax scam bill.

SB-2821
Submitted on: 2/4/2018 3:13:26 PM
Testimony for WAM on 2/6/2018 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Barbara Barry		Oppose	No

Comments:

SB-2821
Submitted on: 2/4/2018 8:04:00 PM
Testimony for WAM on 2/6/2018 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Karl Magnacca		Oppose	No

Comments:

I strongly oppose the bill as written. We should not be conforming to the ill-advised, financially reckless tax policy recently enacted at the federal level. That will be affecting the federal government badly enough; we don't need to cripple the finances of our already-tight state government as well. That especially goes for the increase in the estate tax exemption, which allows unearned income to be acquired tax-free while the income derived from actual economically valuable work is taxed.

SB-2821
Submitted on: 2/4/2018 9:38:23 PM
Testimony for WAM on 2/6/2018 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Jennifer Noelani Ahia		Oppose	No

Comments:

Aloha,

My name is Jennifer Noelani Ahia and I oppose this legislation. People with wealth should not receive further tax breaks.

Mahalo,

Jennifer Noelani Ahia

Wailuku, Maui

SB-2821
Submitted on: 2/4/2018 10:06:59 PM
Testimony for WAM on 2/6/2018 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Marion McHenry		Support	No

Comments:

SB-2821
Submitted on: 2/5/2018 8:52:50 AM
Testimony for WAM on 2/6/2018 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Nathan Yuen		Oppose	No

Comments:

I strongly oppose SB 2821 which enables the wealthiest Hawaii residents to reduce their State taxes. We do not need to give the wealthuest among us more money. We should be increasing their tax burden at the state level of compensate for the reduction they will recieve at the federal level. I strongly oppose SB 2821.

TESTIMONY in **OPPOSITION** to **SB 2821**, RELATING TO CONFORMITY TO THE INTERNAL REVENUE CODE

COMMITTEE ON WAYS AND MEANS

Senator Donovan Dela Cruz, Chair, Senator Gilbert Keith-Agaran, Vice-Chair
Tuesday, Feb 6, 10:00 am
Conference Room 211

My name is Bart Dame and I am testifying today as an individual in OPPOSITION to SB2821, which would cause the State of Hawaii to adopt the same radical changes to the estate tax which were recently passed by the Republican-controlled Congress and signed into law by President Trump.

While it often makes sense that changes to the federal tax code would be adopted by the state. This simplifies the filing for residents as well as monitoring of those filings by the State Department of Taxation. However, the benefits of that convenience can and, in this case should, be set aside when the federal changes reflect values at sharp odds with those of the people and elected officials of Hawaii.

This bill would double the value of an estate before it is subject to the estate tax. Only a tiny percentage of estates are currently large enough to be subject to the estate tax. I have seen it estimate at something like two tenths of a percent nationwide. So the benefits of this change would go to only the wealthiest of families. In exchange, it would cause the state to lose millions of dollars of revenue each year. Revenue which is sorely needed for the state to pay for services and programs already underfunded or for needs which remain unmet for the lack of sufficient funds.

The recent cuts in taxes at the federal level will undoubtedly result in cuts in federal spending, including assistance to the state. The State of Hawaii will be faced with a choice: whether to raise funds locally to replace lost federal dollars or to let local needs go unmet. This bill suggests we should give a significant tax cut to the wealthiest families rather than take care of the needs of working and middle class Hawaii residents.

I reject the values in such an approach and ask that you do as well. Please do not pass SB 2821.

Than you for this opportunity to testify.