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To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Tuesday, March 13, 2018
Time: 10:00 A.M.
Place: Conference Room 329, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.C.R. 30, Requesting the Department of Taxation to study the impact of recent changes to federal income tax law

The Department of Taxation (Department) offers the following comments on S.C.R. 30 for the Committee's consideration.

S.C.R. 30 requests the Department to study and report on the impact of the changes made to federal income tax law by the Tax Cuts and Jobs Act of 2018. S.C.R. 30 requests the Department to report its findings to the Legislature by March 23, 2018.

The Department has completed a thorough analysis of all recent changes to the federal income tax law. The Department has reported the results of this analysis to the relevant Committees at each stage of the 2018 Regular Legislative Session. The Department's analysis covers changes made by the following federal Public Laws:

1. Bipartisan Budget Act of 2015, P.L. 114-74, enacted on November 22, 2015, amended by the Protecting Americans from Tax Hikes Act of 2015, P.L. 114-113, enacted December 18, 2015;
2. Tax Cuts and Jobs Act, P.L. 115-97, enacted December 22, 2017; and
3. Bipartisan Budget Act of 2018, P.L. 115-23, enacted on February 9, 2017.

The Bipartisan Budget Act of 2015 enacted new partnership audit rules. These rules went into effect January 1, 2018. The Department has studied the new rules and has made comprehensive recommendations for conformity to the new rules. The Department's recommendations are included in the Department's testimony on its administration bill, S.B. 2821/H.B. 2394.

The Tax Cuts and Jobs Act contains the most sweeping tax changes of the three bills. The Department has studied the provisions of this bill extensively and has made comprehensive recommendations for and against conformity to its provisions. The Department's recommendations are included in the Department's testimony on its administration bill, S.B. 2821/H.B. 2394.

The Bipartisan Budget Act of 2018 ended the second government shutdown of 2018. Additionally, it extended several expired federal tax provisions that are relevant to Hawaii income tax law. The Department has studied these provisions and has prepared recommendations regarding this bill and its provisions. The Department's recommendations regarding this bill have not been included in the Department's testimony on either conformity bill because the hearings for both bills were held before enactment of the bill of February 9, 2018. The Department is prepared to provide its recommendations to the Legislature upon request.

As described above, the Department is able to comply with the request made in S.C.R. 30 by March 23, 2018. The Department has already conducted a thorough analysis of each bill and the results have been included in the Department's testimony when possible.

Thank you for the opportunity to provide comments.



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**TESTIMONY FOR SENATE CONCURRENT RESOLUTION 30/SENATE
RESOLUTION 14, REQUESTING THE DEPARTMENT OF TAXATION TO STUDY
THE IMPACT OF RECENT CHANGES TO FEDERAL INCOME TAX LAW**

**Senate Committee on Ways and Means
Hon. Donovan M. Dela Cruz, Chair
Hon. Gilbert S.C. Keith-Agaran, Vice Chair**

**Tuesday, March 13, 2018, 10:00 AM
State Capitol, Conference Room 211**

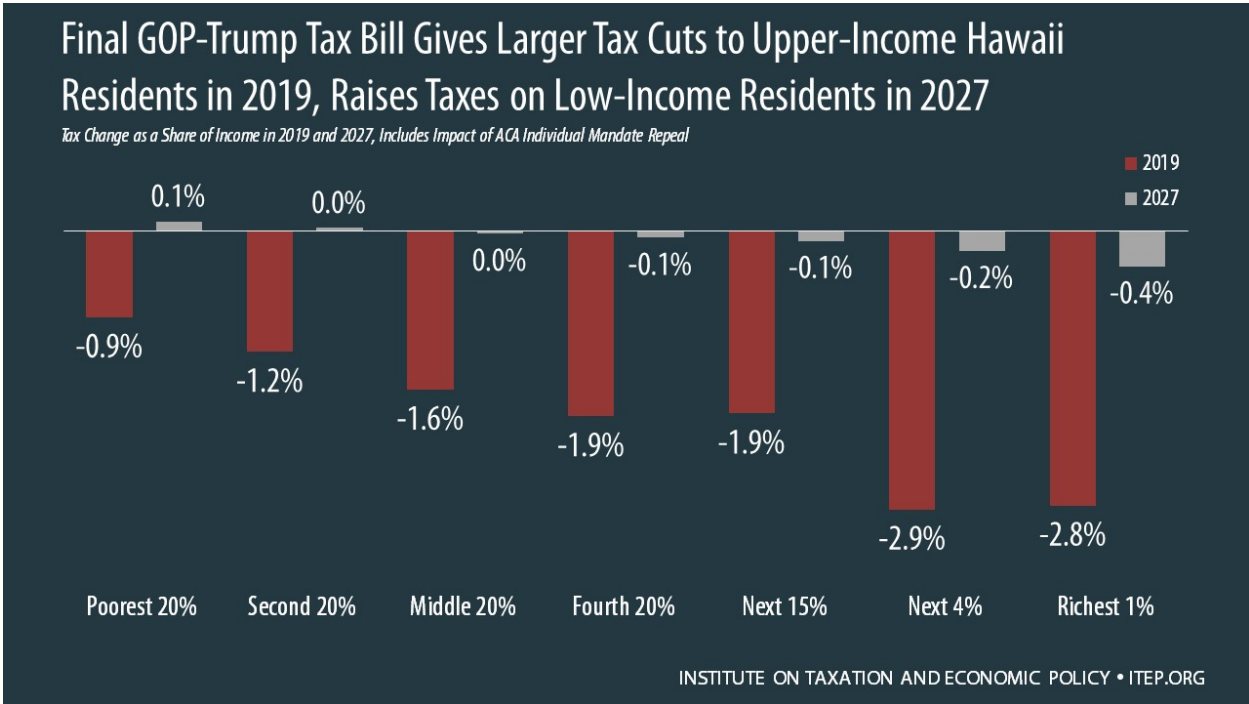
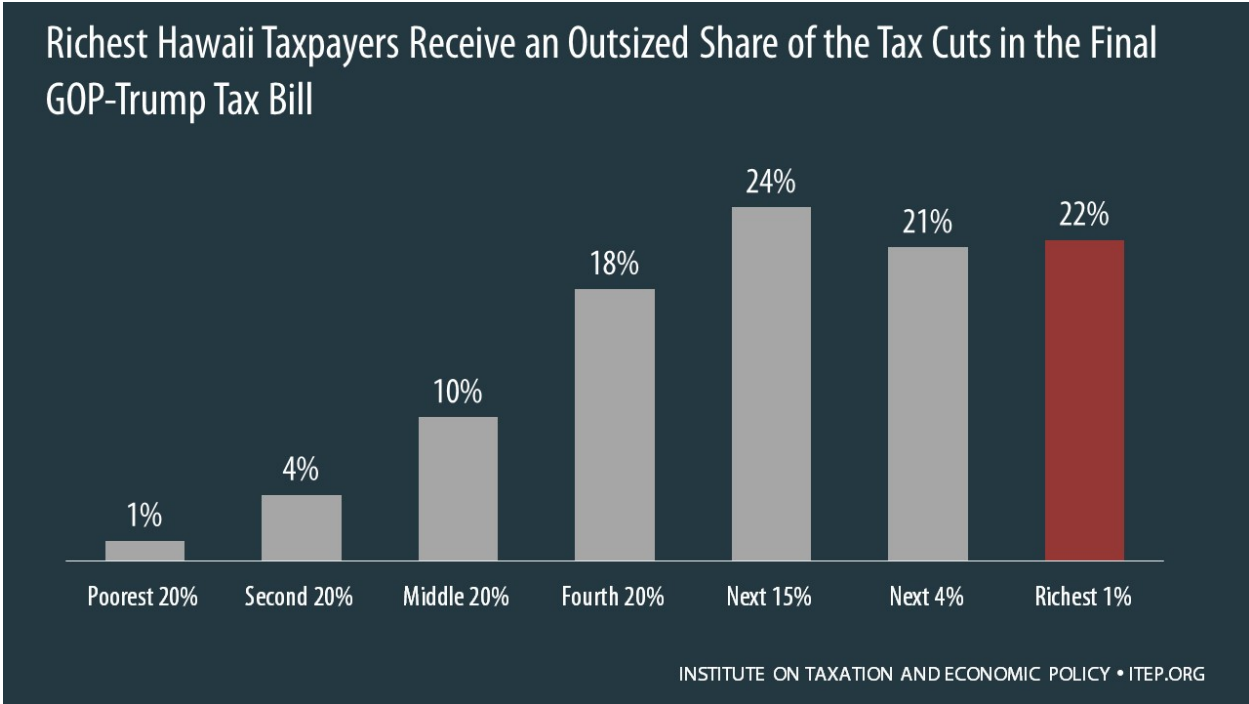
Honorable Chair Dela Cruz and committee members:

I am Kris Coffield, representing IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 400 members. On behalf of our members, we offer this testimony in support of Senate Concurrent Resolution 30/Senate Resolution 14, requesting the Department of Taxation to study the impact of recent changes to federal income tax law.

According to the Institute on Taxation and Economic Policy, the benefits of the recently approved Republican tax cuts are disproportionately felt by high-income households and foreign investors, as low- and middle-income Americans face further economic challenges. In Hawai'i, 22 percent of the measure's tax cuts are extended to the richest 1 percent of our state's residents, with 67 percent going to the wealthiest 20 percent. The bottom 20 percent of Hawai'i earners, meanwhile, are set to receive only 1 percent of the tax package's benefits. Similarly, as a share of individual income, ITEP's analysis shows that the richest 5 percent of local residents will see a nearly 3 percent tax reduction, while the poorest 20 percent of residents will experience a tax break of less than 1 percent. Our wealthiest 1 percent will receive an average tax cut of \$6,970. In contrast, the bottom 40 percent of Hawai'i earners will be encumbered with an average tax *hike* of \$20, which they can hardly afford.

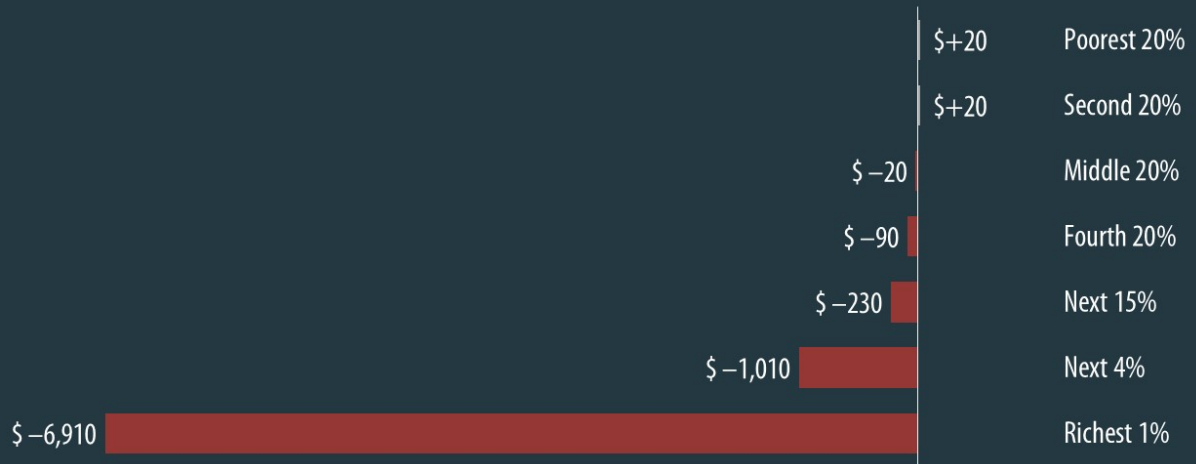
Trump's tax cuts become even more problematic in light of the looming cuts to government spending to which they're prospectively attached. Ultimately, the Trump tax cuts will shift the burden of caring for vulnerable residents even more to states and municipalities. In repealing the individual mandate, for example, the GOP tax cut package undercuts healthcare for millions of Americans, including many Hawai'i citizens, requiring state government to subsidize coverage and medical care for people who've been bumped from Obamacare's rolls. It is imperative to

assess the impact of Trump’s tax cuts on the islands, then, so that we may best determine how to alleviate their detrimental impact on local residents.



Richest Hawaii Taxpayers Receive the Largest Average Tax Cuts under the Final GOP-Trump Tax Bill in 2027, Lower-Income Groups Face Tax Hikes

Includes Impact of ACA Individual Mandate Repeal



INSTITUTE ON TAXATION AND ECONOMIC POLICY • ITEP.ORG

Mahalo for the opportunity to testify in support of this resolution.

Sincerely,
Kris Coffield
Executive Director
IMUAlliance