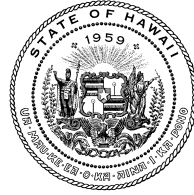


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COUNCIL ON REVENUES

STATE OF HAWAII
P.O. BOX 259
HONOLULU, HAWAII 96809-0259

January 3, 2019

The Honorable Donovan M. Dela Cruz
Chair, Senate Committee on Ways and Means
Hawaii State Capitol, Room 208
Honolulu, Hawaii 96813

The Honorable Sylvia Luke
Chair, House Committee on Finance
State Capitol, Room 306
Honolulu, Hawaii 96813
Chairpersons and Members of the Committees:

Thank you for inviting the Council on Revenues (Council) to appear before your committees to present the current tax revenue forecasts for the State of Hawaii. My name is Kurt Kawafuchi, and I am the Chair of the Council on Revenues. Today, I would like to present a review of recent trends and of the Council's latest forecasts.¹

Recent Revenue Trends

Results for fiscal year 2018

In fiscal year (FY) 2018, the state's general fund tax revenues increased by 7.6% over 2017. This was above the Council's March 2017 forecasted rate of 5.3%. This growth rate was also higher than the FY2017 rate of 2.0%. In dollar terms, General Fund revenue grew to \$6,796 million in FY18 from \$6,315 million in FY17, a \$481 million increase.

The general excise tax (GET) comprises slightly less than half of total general fund tax revenues. GET revenue grew by 4.8% from FY17 to FY18. Individual income tax revenue, the second largest source of General Fund revenue, grew by 13.7%

The acceleration in the revenue growth of the GET, individual income tax, and the general fund revenues was due to a robust economy and strong growth in the tourism sector. Part of increase in individual income tax revenue may have resulted from the passage of the Tax Cut and Jobs Act that generally became effective on January 1, 2018,

¹ The Council of Revenues will have its next general fund meeting during the afternoon of Wednesday, January 9, 2019.

e.g., expanded and accelerated write-offs of investments in certain business property, reductions in certain federal income tax rates, etc..

Results for the first five months of fiscal year 2019

At its meeting in September 6, 2018, the Council maintained its forecast for General Fund revenues at 5.0%. At that meeting, the Council noted that Hawaii's economy continued to be strong, but cited uncertainty about the future.

Subsequent to its September 2018 meeting, the preliminary data through November 30, 2017 shows a general fund growth rate of 4.8% for the first five months of FY19 compared to the same period in FY18, which is quite close to the Council's forecast of 5.0%. Cumulative net collections of GET revenue for FY18 were \$1,446M, compared to \$1,415M for the same period in FY18, for a year over year growth rate of 2.2%.

Below is the cumulative growth rate in General Fund revenues during FY19 over the same period in FY18 for each month.

July 2018	2.6%
August 2018	0.8%
September 2018	0.4%
October 2018	4.1%
November 2018*	4.8%

* Preliminary data

General fund collection figures have been volatile during the first half of the fiscal year in part due to the adoption Tax System Modernization (TSM) occurring at the Department of Taxation. The conversation of different tax types from the legacy system to the new system has led to temporal shifts in collection trends, which in turn has made it harder to make year over year comparisons when we only have a few months of data in the fiscal year. It is important to understand that the TSM process has not affected the amount of collections; rather, it has affected the timing of collections which impacts the year over year growth numbers. The volatility in the month to month revenue growth attributed to the TSM is expected to decline in the second half of the fiscal year since the conversation to the new system has been completed for the major tax types.

Cumulative net collections of individual income tax revenues for FY19 were \$955 million compared to \$888 million for the same period in FY18, for a year-over-year growth rate of 7.5%. Cumulative net collections of corporate income tax for FY19 were \$42 million compared to \$27 million for the same period in FY18, for a year-over-year growth rate of 57.1%.

Below is a breakdown of net individual and corporate income tax revenues through November 2016 compared to the same period of FY16.

Year-on-year net income tax collections FY18 and FY19 –by Component*

	FY17	FY16	DIFFERENCE	
			AMOUNT	% CHANGE
Income Tax - Corp.	42,405	26,992	15,413	57.1%
Decl. Est. Taxes	67,665	52,668	14,997	28.5%
Payment w/returns*	13,769	5,462	8,306	152.1%
Refunds	(39,029)	(31,138)	(7,891)	25.3%
Income Tax - Ind.	955,451	888,382	67,069	7.5%
Decl. Est. Taxes	159,416	189,857	(30,441)	-16.0%
Payment w/returns	51,453	48,545	2,908	6.0%
WH Tax on Wages	855,125	798,505	56,620	7.1%
Refunds	(110,542)	(148,525)	37,983	-25.6%

* Based on preliminary data for November

While generally comprising less than 1.0% of general fund revenue, the breakdown of net income tax revenues for corporations shows that the largest boost on corporate income tax revenues comes from higher Declared Estimated Taxes and Payment with returns.

On the other hand, individual income tax revenues has comprised approximately 35.0 – 37.0% of general fund revenue during the last two fiscal years. The component with the most significant increase is Withholding Taxes on Wages which is generally consistent with strong employment, e.g., withholding of income taxes from employees. At the same, there was a decrease in declaration of estimated taxes. Declaration of estimated taxes is comprised of profits from many businesses operated by sole proprietorships and pass through entities such as partnerships, limited liability companies, and Subchapter S corporations, and certain capital gains, e.g., stock sales and real estate sales.

November collection numbers are reasonably good predictors of the year-end general fund growth. Over recent years, the difference in absolute terms between the average growth figure for November collections and fiscal year end collections is 1.8%.

The Council's Forecasts of General Fund Tax Revenues

Before providing the Council's latest forecast, I will explain how the Council produces its forecasts and discuss some errors that have been made by the Council. The Council meets four times per year to forecast general fund tax revenues. The Council's forecasts are due by January 10, March 15, June 1, and September 10 of each year.

Prior to each General Fund meeting, each Council member completes a survey provided by the Office of Tax Research and Planning (TRP) in the Department of Taxation (Department). The survey asks for the member's forecasts for growth in key economic variables, including construction, the Honolulu consumer price index, total visitor arrivals coming to Hawaii by air, U.S. Gross Domestic Product (GDP), the U.S. GDP deflator (a measure of inflation in the national economy), total state wages, visitor expenditures, and Hawaii GDP in real (deflated) terms. After receiving the Council members' growth for key economic variables, the TRP staff inputs such variables into econometric models to estimate the implied growth in General Fund tax revenue.

The primary model used by TRP staff has a separate econometric equation to predict the growth in revenues from each major tax type (the Individual Income Tax, the Corporate Income Tax, the General Excise Tax, the Public Service Company Tax, and others). All of the models incorporate estimates for the effects of changes in tax law that will affect the General Fund tax revenues. TRP staff provide historic data on the economic variables to be forecast by the Council members, the econometric predictions of General Fund revenue growth based on the Council's economic forecasts (including incorporating the effects of changes in tax laws), and information about matters of tax administration that could affect the general fund tax revenues, such as delays in processing or unusual collections of delinquent taxes.

In their meetings, Council members review the results of the econometric models and consider other factors, such as the current trends in monthly collections and changes in the economy that might change the current revenue trends. Among the factors that the Council considers are tourist arrivals, tourist spending, construction activity and revenue, inflation, interest rates, rents, and energy prices, federal fiscal and monetary policy, major local events, geopolitical events, and other relevant and timely factors. The members then decide on the official forecast for the growth in General Fund tax revenue. The forecast may or may not agree with the results of the econometric models. The Council forecasts only the total general fund tax collections. The TRP staff imputes the implied growth in collections of the individual tax types using the Council's General fund forecast numbers.

Over the last seven years, the Council's forecasts have had an average margin of error of (<2.0%) for the March forecast.² During the last five years, the Council's forecasts have had an average margin of error of 1.44% (<1.5%) for the March forecast. During the last seven years when comparing the Council's March forecasts to actual year end revenue, the Council has underestimated revenue growth five times and overestimated growth two times.

The Council's Current Forecasts

At its latest General Fund meeting on September 6, 2018, the Council maintained its forecast of growth in General Fund revenues for FY19 at 5.0%. The Council also maintained the growth forecast of 4.0% for FY2020 to FY2025.

The Council believes that Hawaii's economy continues to be strong, but cited uncertainty about the future. Concerns were expressed that the economy may have reached the end of its current expansionary cycle during the seven-year budget window. They noted that visitor arrivals and expenditures, job counts, and construction activities, are all continuing strong. Members cited that the construction cycle may have reached a sustained plateau after falling from its peak several years back.

² Because at its September meeting, the Council has historically only had 1-2 months of actual general fund revenue for the current fiscal year, the Council's forecasts a 3.4% margin of error in absolute terms for the September forecast, compared to 1.9% for the March forecasts when it historically has had 7-8 months of actual revenue.

The new forecasts for the State General Fund tax revenues FY 2019 through FY 2025 are shown in the table below.

General Fund Tax Revenues		
Fiscal Year	Amount (in Thousands of Dollars)	Growth From Previous Year
2019	7,135,838	5.0%
2020	7,421,272	4.0%
2021	7,718,123	4.0%
2022	8,026,848	4.0%
2023	8,347,922	4.0%
2024	8,681,839	4.0%
2025	9,029,113	4.0%

The Council adopted specific adjustments recommended by the Department of Taxation to reflect effects on general fund tax revenues due to tax law changes enacted by the 2018 Legislature, including the following:

- Act 27, SLH 2018 selectively conforms Hawaii income tax laws and estate tax laws to the Internal Revenue Code as of February 9, 2018, and as of December 31, 2017, respectively. The Act is effective June 7, 2018, and applies to taxable years beginning and to decedents dying after December 31, 2017. The estimated gain to the General Fund is estimated to be \$9.2 million in FY 2019, \$14.2 million in FY 2020, \$20.1 million in FY 2021, \$26.9 million in FY 2022, \$34.9 million in FY 2023, \$37.9 in FY 2024, and \$37.1 in FY 2025.
- Act 39, SLH 2018 increases the aggregate amount of the GET cost exemption for developing affordable rental housing from \$7 million to \$30 million per year. Extends the exemption from June 30, 2022, to June 30, 2030. The Act is effective July 1, 2018, and applies retroactively to taxable years beginning after December 31, 2017. The estimated loss to the General Fund is estimated to be \$23.0 million in FY 2019, \$23.0 million in FY 2020, \$23.0 million in FY 2021, \$23.0 million in FY 2022, \$30.0 million in FY 2023, \$30.0 million in FY 2024, and \$30.0 million in FY 2025.
- Act 41, SLH 2018 provides that a person is engaging in business in the State for the purpose of the general excise tax law if, in the current or immediately preceding calendar year, the person has \$100,000 or more in gross income, or two hundred or more separate transactions, from the sale of tangible personal property delivered in the State, services used or consumed in the State, or intangible property used in the State. The Act is effective July 1, 2018, and applies to taxable years beginning after December 31, 2017. The estimated gain to the General Fund is estimated to be \$6.8 million in FY 2019, \$7.6 million in FY

The Honorable Donovan M. Dela Cruz
The Honorable Sylvia Luke
January 2, 2018
Page 6

2020, \$7.9 million in FY 2021, \$8.1 million in FY 2022, \$8.3 million in FY 2023, \$8.6 million in FY 2024, and \$8.9 million in FY 2025.

- Act 86, SLH 2018 reduces the allocations of TAT to the Convention Center Special Fund from \$26.5 million to \$16.5 million and the Tourism Special Fund from \$82 million to \$79 million. The Act is effective July 1, 2018. The estimated revenue gain to the General Fund is \$13 million from FY 2019 to FY 2025.
- Act 122, SLH 2018 increases the withholding on the amount realized from the disposition of Hawaii real property by nonresidents (HARPTA) from 5% to 7.25%. The Act is effective July 5, 2018, and applies to real estate dispositions that occur on or after September 15, 2018. The expected revenue gain is \$8.1 million in FY 2019 and \$2.6 million from FY 2020 to FY 2025.
- Act 211, SLH 2018 imposes the TAT on transient accommodations brokers, travel agencies, and tour packages that enter into arrangements to furnish transient accommodations at noncommissioned negotiated contract rates on their share of the proceeds. The Act is effective July 1, 2018, and applies to taxable years beginning after December 31, 2018. The expected revenue gain to the General Fund is \$14.7 million in FY 2019, \$36.6 million in FY 2020, \$38.0 million in FY 2021, \$39.3 million in FY 2022, \$40.6 million in FY 2023, \$42 million in FY 2024, and \$45.6 million in FY 2025.

That concludes my presentation. I am available to answer any questions you may have.

Very truly yours,



KURT KAWAFUCHI
Chair, Council on Revenues

Kurt Kawafuchi, Chair

Council on Revenues

Senate Ways and Means / House Finance Joint
Hearing

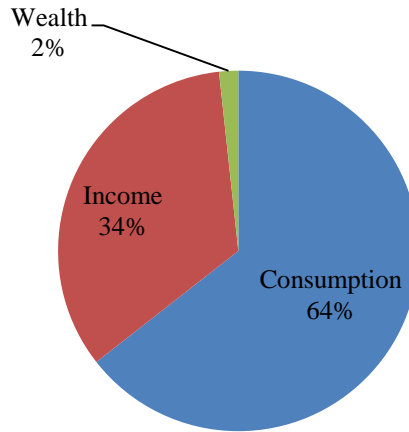
January 3, 2019

Where do Hawaii's tax dollars come from?

Information provided by
Tax Research & Planning Office
Department of Taxation

THE BULK OF HAWAII'S TAX REVENUE COMES FROM CONSUMPTION TAXES

STATE REVENUES BY TAX TYPE (FY 2016)

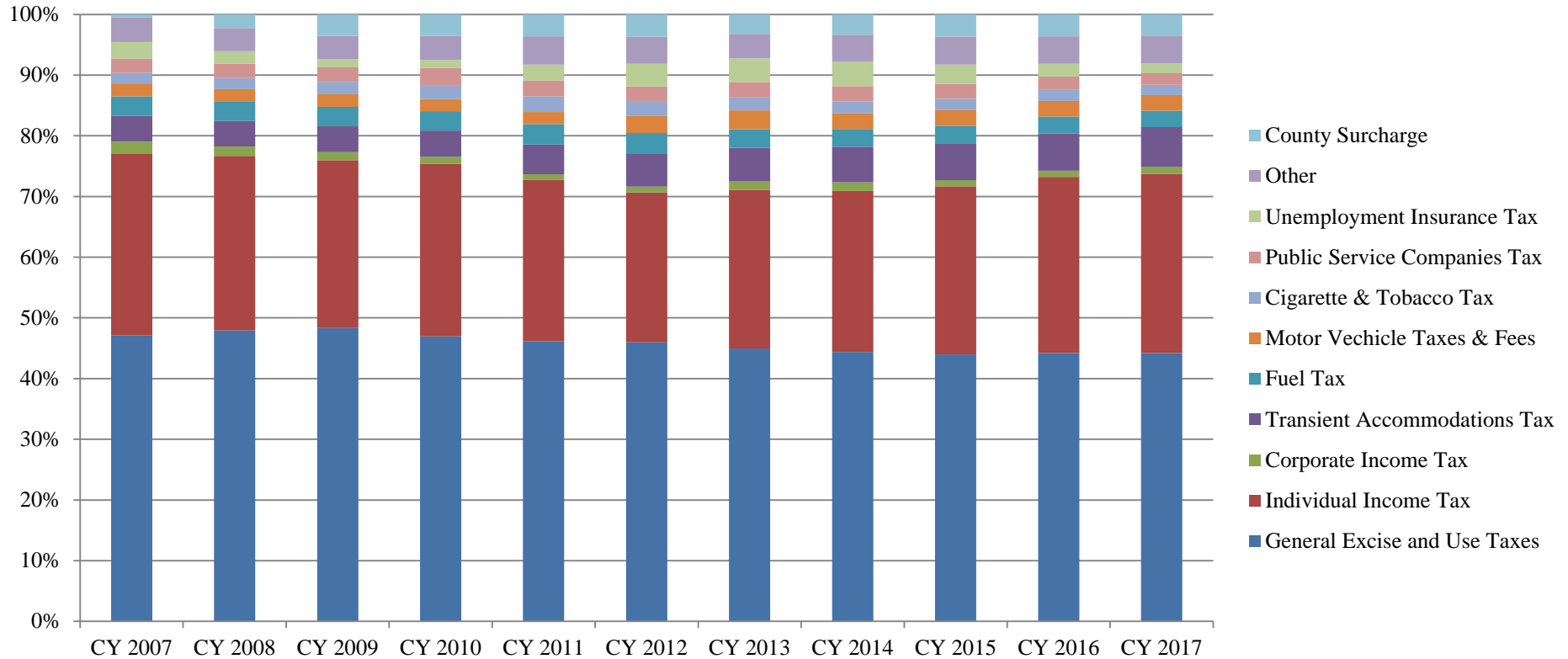


STATE TAXES BY TYPE

Consumption	Income	Wealth
<ul style="list-style-type: none"> • General Excise and Use Tax • Transient Accommodation Tax • Fuel Tax • Cigarette & Tobacco Tax • Public Service Companies Tax • Insurance Premiums Tax • Liquor Tax • Motor Vehicle Taxes & Fees • Franchise Tax 	<ul style="list-style-type: none"> • Individual Income Tax • Corporate Income Tax • Unemployment Insurance Tax 	<ul style="list-style-type: none"> • Estate Tax • Conveyance Tax

GET AND INDIVIDUAL INCOME TAXES COMPRISE APPROXIMATELY THREE QUARTERS OF STATE REVENUE

COMPOSITION OF STATE TAX REVENUES



General Excise & Use Tax

GENERAL EXCISE AND USE TAX: WHAT IS IT?

- What are the General Excise and Use Taxes?
 - The GET is a gross receipts tax that is imposed on the privilege of doing business in the State of Hawaii. Generally, the scope of the GET is broad and applies to all types of income and income producing activities. For example, the GET applies to TPP, services, contracting, rents, royalties, and other types of income. It also pyramids. The Use Tax applies to purchases from out of-state vendors and the import into Hawaii from out-of-state vendors, service providers, contractors. And Lessors/licensors. Beginning on January 1, 2019, the use tax also applies to intangibles.
- Vs. Sales Tax?
 - A sales tax is generally levied on the final customer but frequently collected by business. The GET is levied on the business.
 - A sales tax is usually limited to retail sales of tangible goods whereas the GET is levied on almost all business activity. Exemptions are often provided at the wholesale level, food, and medicine.
- Vs. Value Added Tax (VAT)?
 - A VAT only taxes the value added by business. The GET taxes the gross receipts of the business, so it taxes some business-to-business transactions with certain lower rates and exemptions.

GET RAISES SIGNIFICANT REVENUE THROUGH A LOW RATE AND A BROAD BASE

Amongst the lowest sales tax rates in the country

State	State Tax		Avg. Local		Rank
	Rate	Rank	Tax Rate	Combined	
La.	5.00%	33	4.98%	9.98%	1
Tenn.	7.00%	2	2.46%	9.46%	2
Ark.	6.50%	9	2.80%	9.30%	3
Ala.	4.00%	40	5.01%	9.01%	4
Wash.	6.50%	9	2.42%	8.92%	5
Okla.	4.50%	37	4.36%	8.86%	6
Ill.	6.25%	13	2.39%	8.64%	7
Kans.	6.50%	9	2.12%	8.62%	8
N.Y.	4.00%	40	4.49%	8.49%	9
Calif.	7.25%	1	1.00%	8.25%	10
Hawaii	4.00%	40	0.35%	4.35%	45

Highest per capita collections of any state

State	Collections per Capita	Rank
Hawaii	\$ 2,090	1
N.D.	\$ 1,835	2
Wash.	\$ 1,746	3
Nev.	\$ 1,412	4
Wyo.	\$ 1,384	5
Tex.	\$ 1,226	6
Miss.	\$ 1,144	7
Conn.	\$ 1,137	8
S.D. (b)	\$ 1,131	9
Ind.	\$ 1,100	10
N.M. (b)	\$ 1,082	11
Fla.	\$ 1,075	12
Ark.	\$ 1,069	13
Kans.	\$ 1,049	14
Ohio	\$ 1,025	15

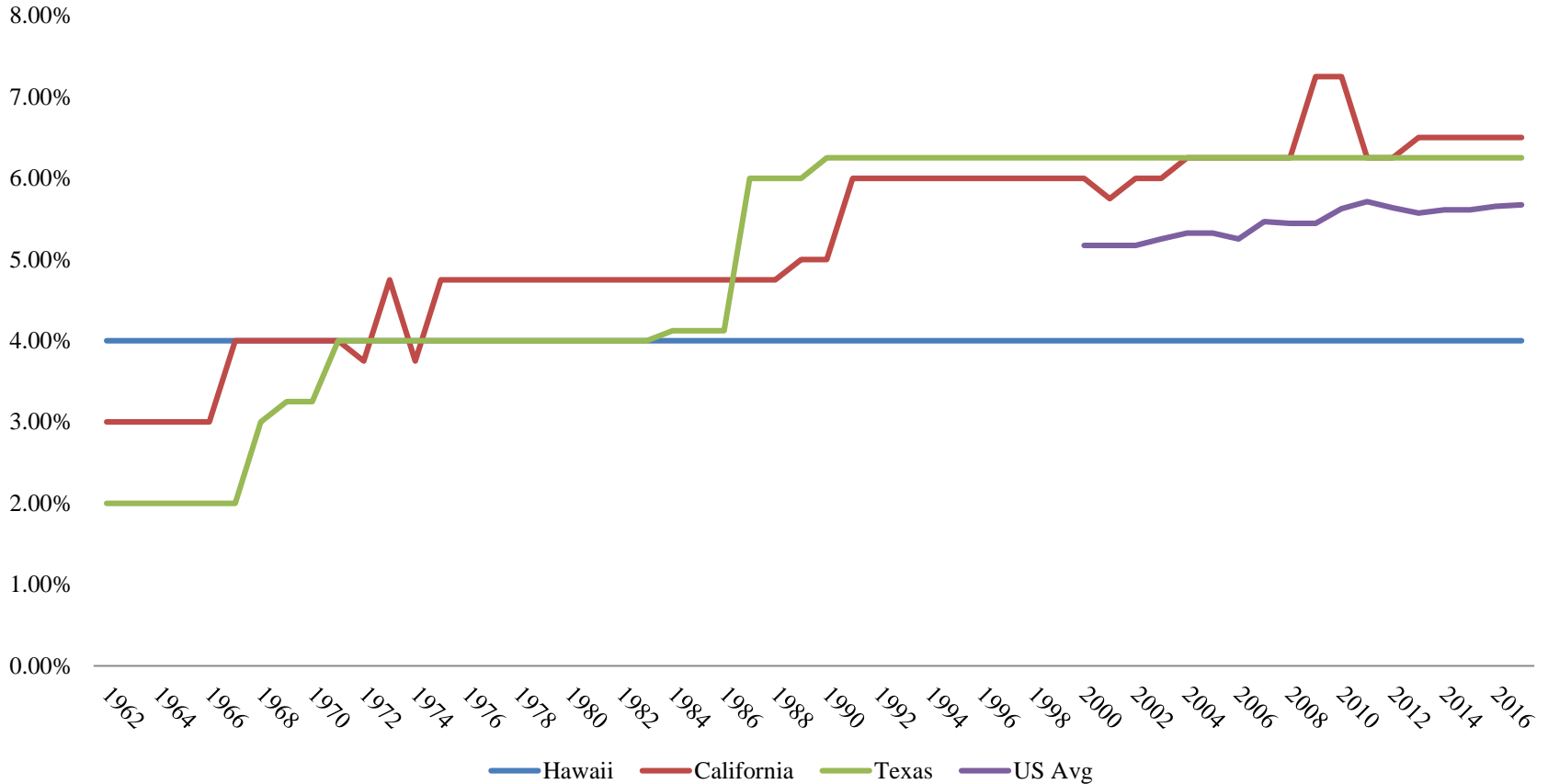
Broadest scope of sales tax of any state

State	Sales Tax Breadth	Rank
Hawaii (a)	104%	1
N.D.	73%	2
S.D. (a)	65%	3
Wyo.	62%	4
N.M. (a)	59%	5
Nev.	49%	6
Miss.	47%	7
Ark.	43%	8
Tex.	42%	9
Maine	41%	10
Ariz.	41%	11
Fla.	40%	12
Ind.	40%	13
Idaho	38%	14
Wash.	38%	15

Source: Tax Foundation

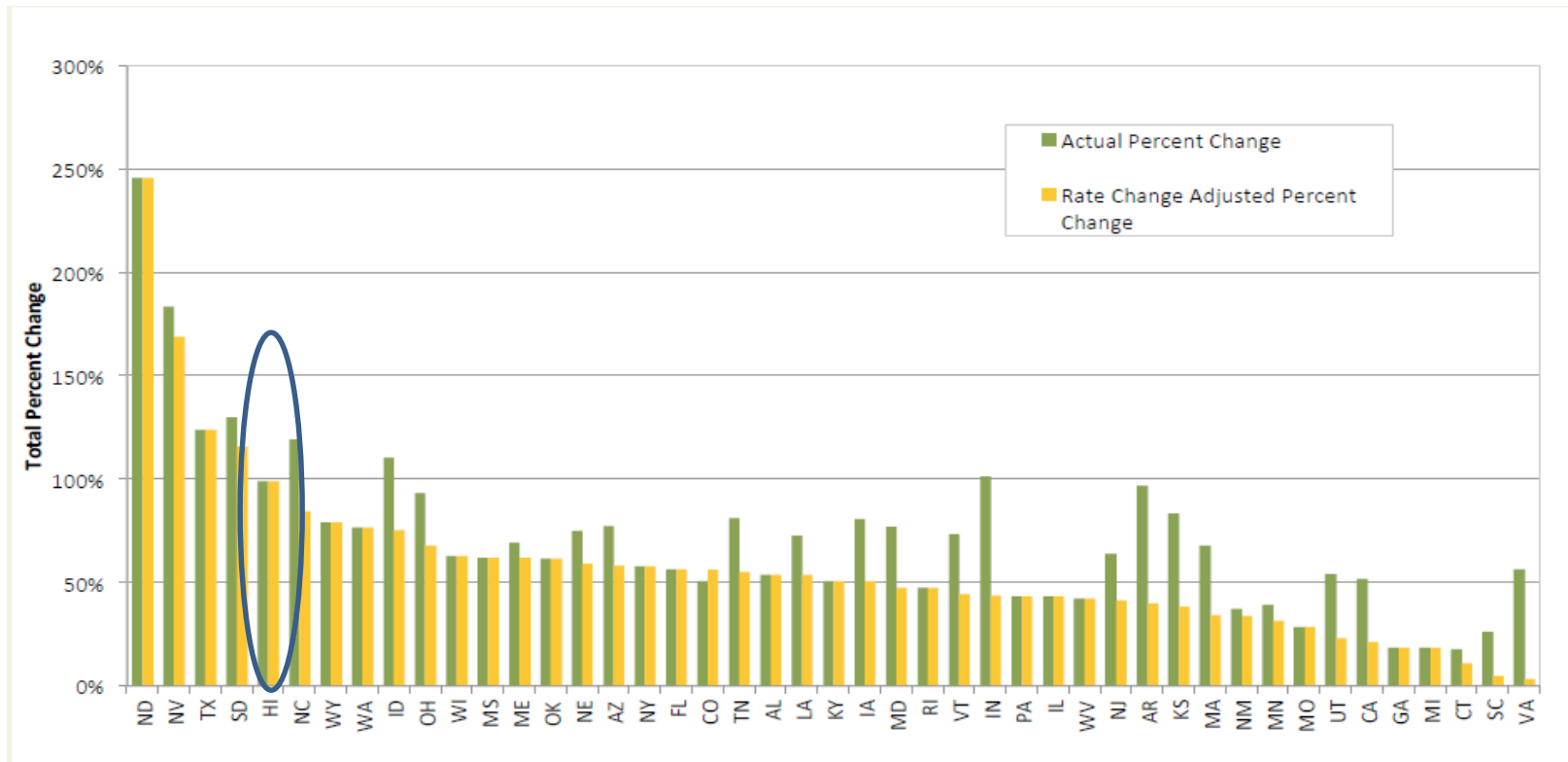
HAWAII'S GET RATE HAS BEEN REMARKABLY STABLE RELATIVE TO THE RATES OF SALES TAXES IN OTHER STATES

STATE SALES TAX RATES



HAWAII'S GENERAL EXCISE TAX HAS FARED BETTER THAN SALES TAX REVENUES IN OTHER STATES

ACTUAL AND TAX RATE ADJUSTED PERCENT CHANGE IN SALES TAX COLLECTIONS, 2000 - 2016



Source: Strategic Economics Group

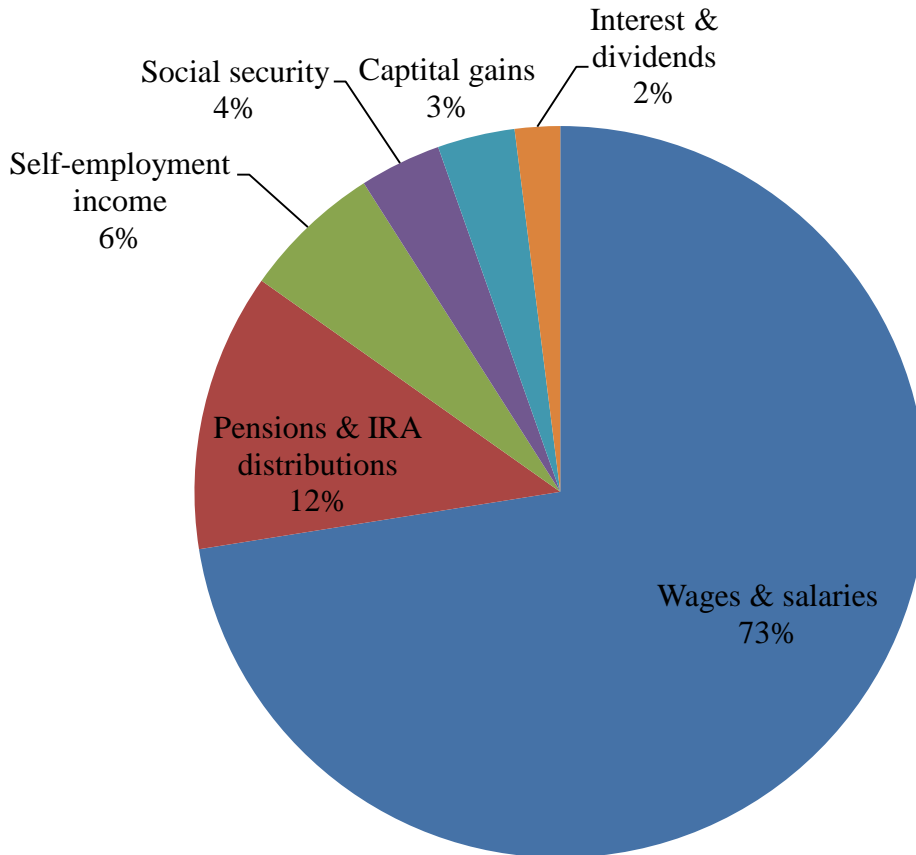
Individual Income Tax

NOTABLE FEATURES OF HAWAII INDIVIDUAL INCOME TAX

- Social tax credits very progressive relative to other states
- Brackets not indexed to inflation (like Federal rates)
- Relatively low standard deduction compared to Federal (MFJ: Federal \$24,000 (2018), HI: \$4,400)
- Refundable credits (social) offset burden for lower income individuals
- Prior to 2018, Hawaii exported a large amount of tax burden to Federal government, particularly at high income levels because of the SALT deduction (now limited to \$10k at federal level)
- There is a large state specific exemption for certain pensions and social security, which is expected to grow with time

HAWAII EXEMPTS 16% OF INCOME THROUGH PENSION DISBURSEMENTS

COMPOSITION OF FEDERAL INDIVIDUAL INCOME IN HAWAII



INCOME SOURCES	RATE
Wage & Salaries	Variable (See tax bracket)
Certain Pensions & IRA distributions	0% (Employer contributions exempt)
Self-employment income	Variable (see tax bracket)
Social security	0%, (exempt)
Capital Gains	7.25%
Interest & Dividends	Variable (see tax bracket)

HAWAII HAS ONE OF THE HIGHEST MARGINAL TAX RATES IN THE COUNTRY

- 43 states levy individual incomes taxes
- 8 states have a single-rate structures
- Hawaii will have the most brackets in the country (12 brackets in 2018, currently has 9). California and Missouri have the second most tax brackets with 10
- Hawaii has the second highest income tax rates of any state

Highest Marginal Tax Bracket		
1	California	13.30%
2	Hawaii (2018)	11.00%
3	Maine	10.15%
4	Oregon	9.90%
5	Minnesota	9.85%
6	Iowa	8.98%
7	New Jersey	8.97%
8	Vermont	8.95%
9	DC	8.95%
10	New York	8.82%
11	Hawaii (2017)	8.25%
11	Wisconsin	7.65%
12	Idaho	7.40%

THE MEDIAN HAWAIIAN HOUSEHOLD REPORTS ABOVE AVERAGE INCOME, BUT RESIDENTS IN THE TOP 1.0% REPORT BELOW AVERAGE INCOME

INCOME THRESHOLD OF TOP 1.0% OF FILERS BY STATE

\$64,859

Median HH income in Hawaii
(6th highest in nation)

\$121,860

Income threshold of top10% of
filers in Hawaii

Rank	State	Income threshold of top 1.0%
1	Connecticut	\$659,979
2	New Jersey	\$547,737
3	Massachusetts	\$539,055
4	New York	\$517,447
5	North Dakota	\$481,188
6	California	\$453,772
7	Texas	\$424,507
Avg	United States	\$389,436
45	Hawaii	\$281,620

Source: American Community Survey and DOTAX

Source: Economic Policy Institute

MOST RESIDENT FILERS ARE IN MIDDLE AND UPPER-MIDDLE TAX BRACKETS

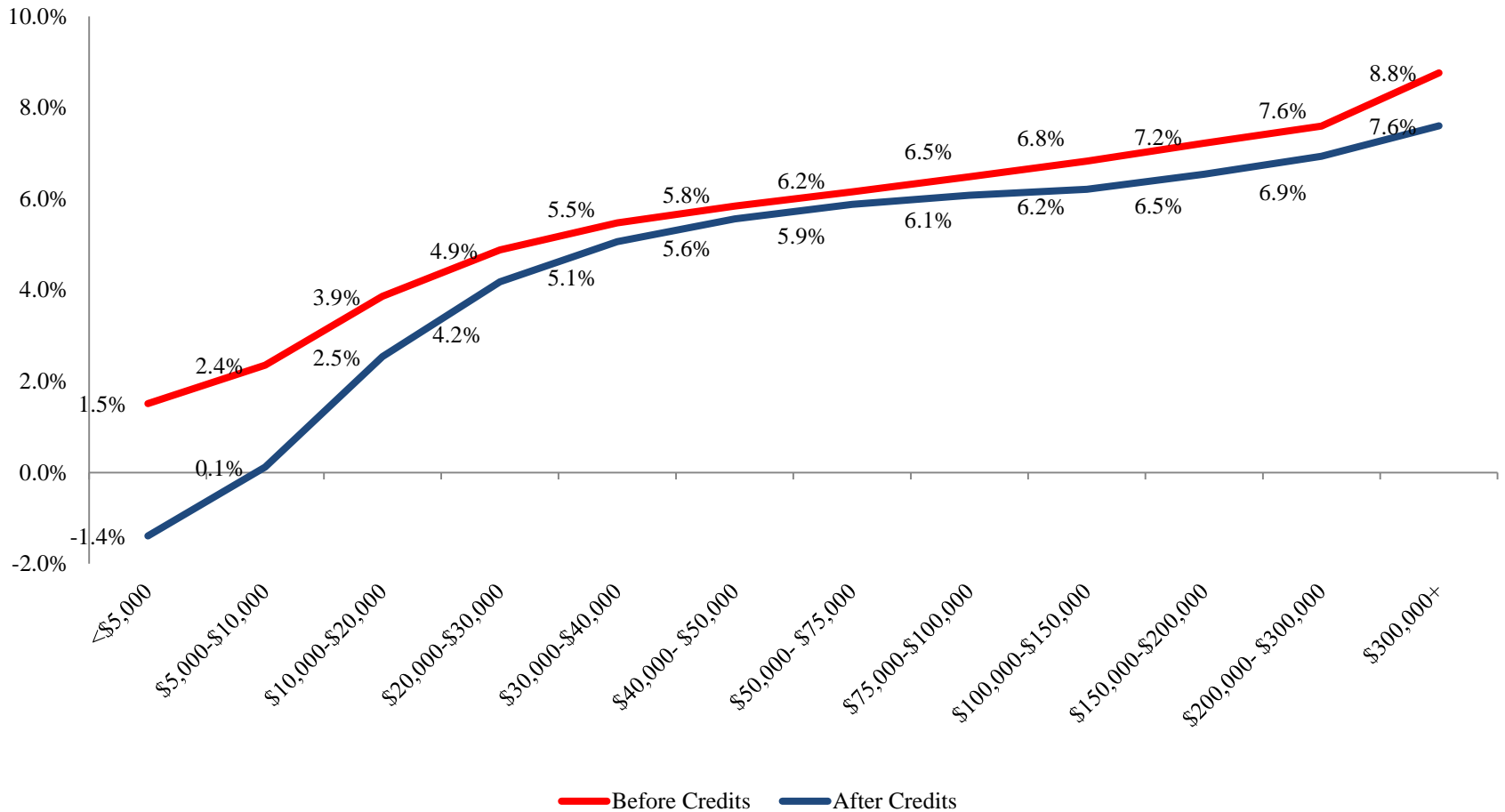
2013 JOINT FILERS BY TAX BRACKETS (RESIDENTS)

Status - Joint

Tax Bracket	Marginal Rate	Returns With Taxable Income In the Tax Bracket		
		Number of Returns	% of Total No. of Returns	Amount of Taxable Income
\$0 to \$4,800	1.4%	43,029	19.6%	19,151,351
\$4,801 to \$9,600	3.20%	8,101	3.7%	58,093,778
\$9,601 to \$19,200	5.50%	16,785	7.6%	242,009,824
\$19,201 to \$28,800	6.40%	17,147	7.8%	411,129,792
\$28,801 to \$38,400	6.80%	16,396	7.5%	550,098,981
\$38,401 to \$48,000	7.20%	15,781	7.2%	681,365,652
\$48,001 to \$72,000	7.60%	36,390	16.6%	2,169,779,414
\$72,001 to \$96,000	7.90%	26,291	12.0%	2,183,916,220
\$96,001 to \$300,000	8.25%	35,466	16.1%	5,062,150,292
\$300,001 to \$350,000	9.00%	1,058	0.5%	342,401,741
\$350,001 to \$400,000	10.00%	703	0.3%	263,097,729
\$400,001 & Over	11.00%	2,505	1.1%	2,678,825,866
ALL		219,652	100.0%	\$ 14,662,020,640

LOW INCOME FILERS HAVE LOW TAX LIABILITIES AND BENEFIT FROM REFUNDABLE CREDITS

EFFECTIVE TAX RATES BY INCOME



MAJOR STATE DEDUCTIONS AND EXEMPTIONS DERIVE FROM FEDERAL DEDUCTIONS

Deduction	Federal (2013)	Hawaii (2013)
Major Federal		
Employee Sponsored Health Insurance	\$260 Billion	\$1.3 Billion
New Pension Contribution and Earnings	\$140 Billion	\$700 million
Mortgage interest rate deduction	\$ 70 Billion	\$350 million
State		
Pension and Social Security exemption		\$226 million (expected to grow)*

*Between 2010-2016, three-quarters of the state's net population growth was attributable to residents 65 and older. From 14.3% of population to 17.1% in 2016

HAWAII EXPORTS A LARGE PORTION OF THE INDIVIDUAL INCOME TAX BURDEN TO FEDERAL GOVERNMENT

- The state and local tax deduction (SALT) reduced resident's federal tax burden by \$343 million (2015)
- The SALT deduction benefits high income earners subject to the Alternative Minimum Tax (AMT)

Value of the State & Local Tax Deduction to Hawaii Taxpayers by Deciles (2015)

Deciles	Fed AGI	Amount	Percent/total
0	<\$6,433	\$158,662	0.0%
0.1	\$6,433+	\$217,131	0.1%
0.2	\$13,994+	\$535,362	0.2%
0.3	\$21,811+	\$995,372	0.3%
0.4	\$29,435+	\$2,144,375	0.6%
0.5	\$38,177+	\$6,117,689	1.8%
0.6	\$49,042+	\$12,452,639	3.6%
0.7	\$64,283+	\$26,007,302	7.6%
0.8	\$86,163.5+	\$56,829,448	16.6%
0.9	\$121,860+	\$237,595,988	69.3%
Total		\$343,053,968	100%

Transient Accommodation Tax

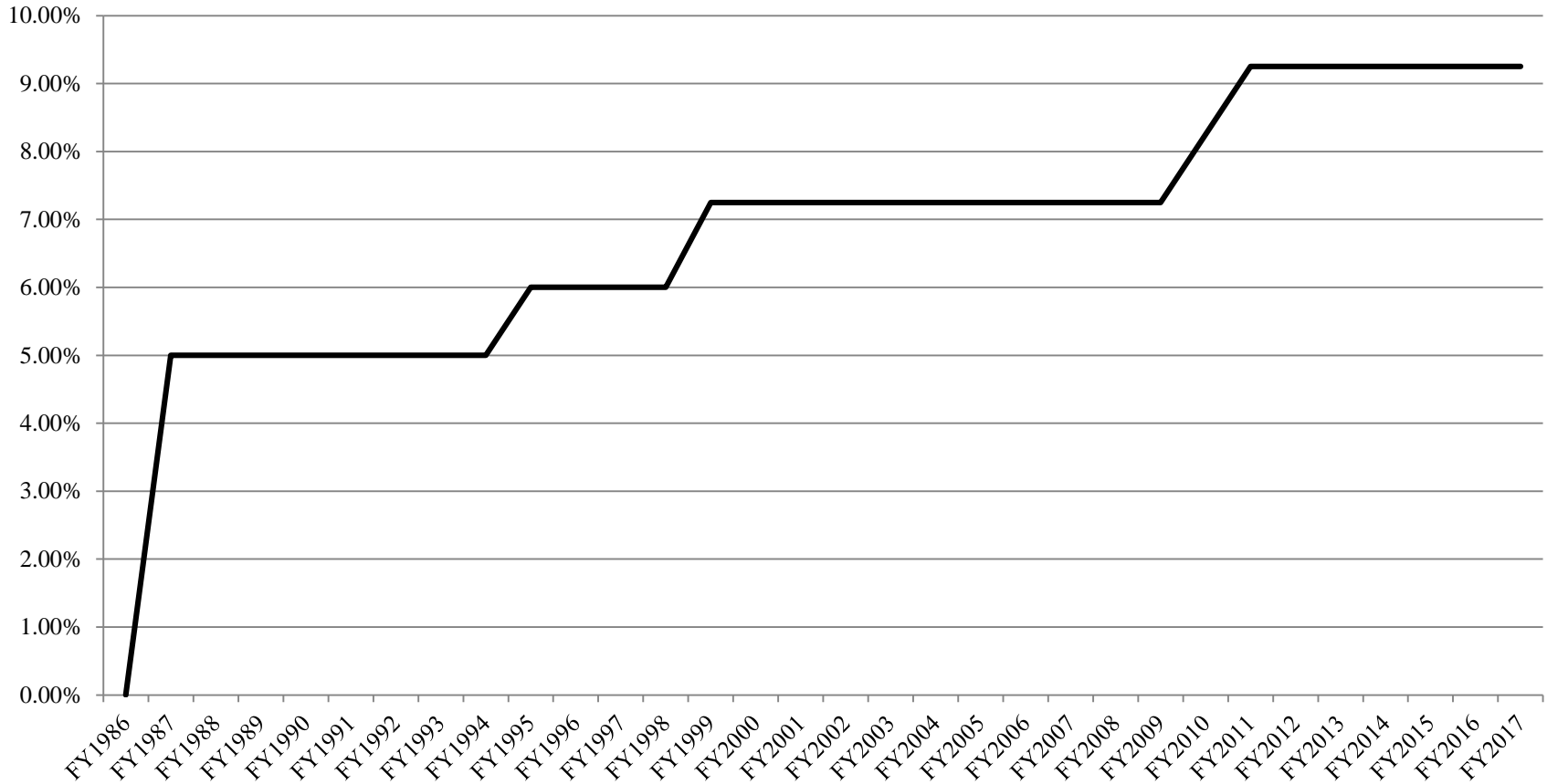
TRANSIENT ACCOMMODATION TAX

- Levied on gross rental proceeds derived from furnishing "transient accommodation" for less than 180 consecutive days
 - Transient Accommodation Tax: 10.25%
 - Timeshare Occupancy Tax: 10.25%

- **Exemptions:** NGOs (nonprofits and other non-governmental organizations , health care facilities, students, publicly subsidized lodging, military

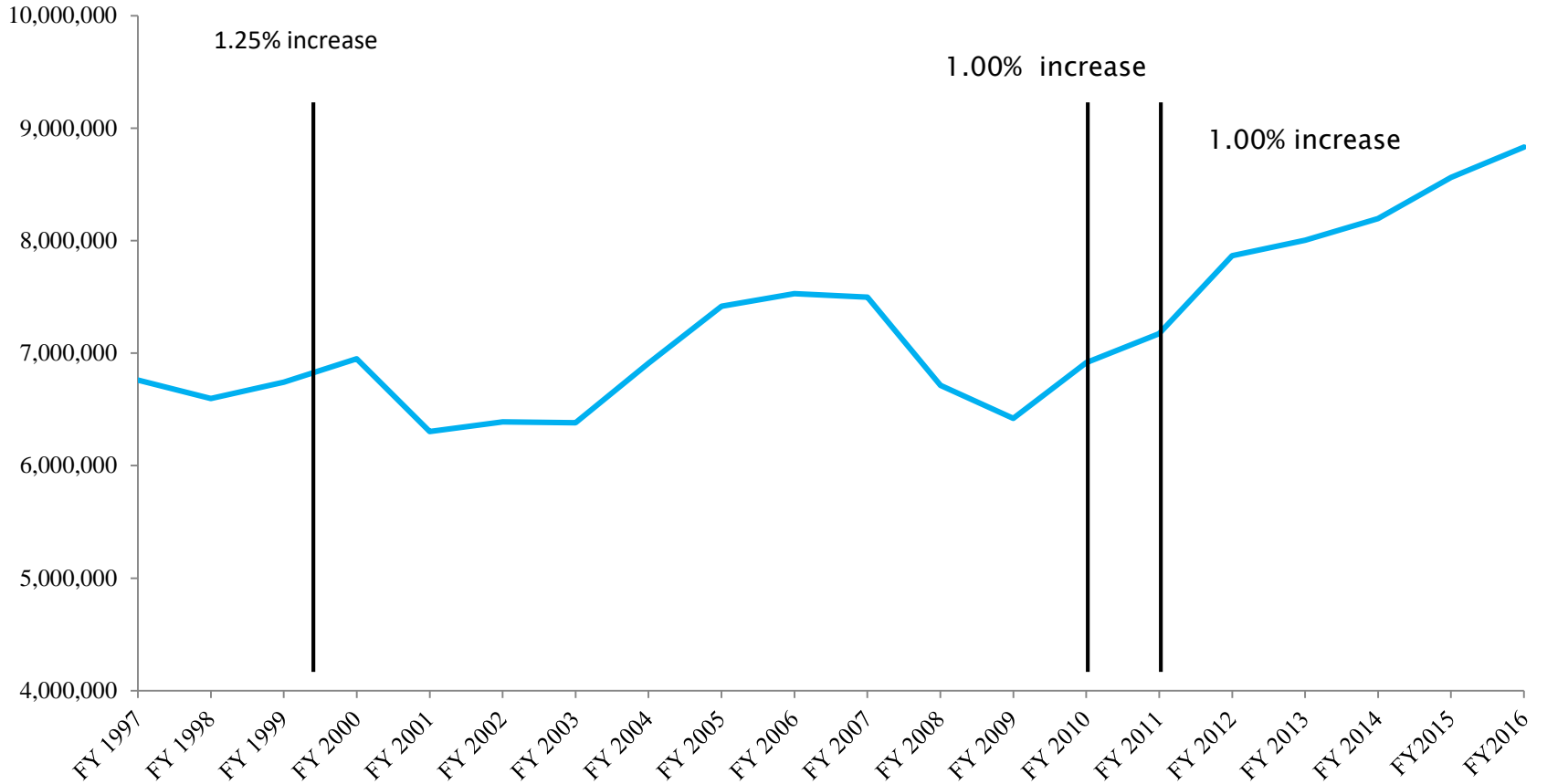
THE TAT HAS BEEN INCREASING SINCE ITS INCEPTION IN 1986, PARTLY DUE TO INCREASED TAX RATES OVER THE YEARS

TRANSIENT ACCOMMODATION RATE



TAT RATE INCREASES DO NOT APPEAR TO HAVE ADVERSELY AFFECTED VISITOR ARRIVALS IN THE PAST

VISITOR ARRIVALS

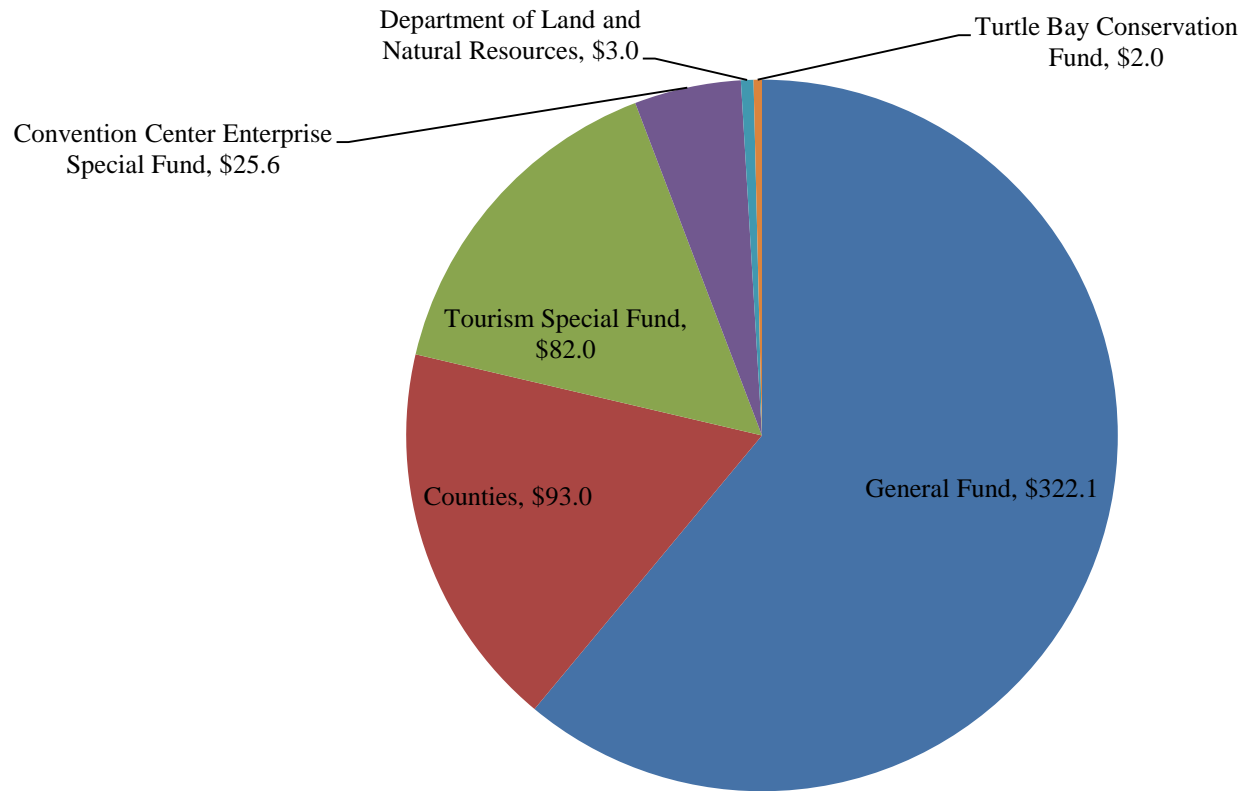


HONOLULU PROVIDES THE LARGEST AMOUNT OF TAT REVENUE COMPARED TO OTHER INDIVIDUAL COUNTIES

TAT Liability by county				
	Oahu	Maui	Hawaii	Kauai
2011	45.5%	33.5%	12.1%	8.9%
2012	46.5%	32.5%	12.0%	9.0%
2013	48.0%	31.4%	11.7%	9.0%
2014	49.9%	28.2%	12.5%	9.4%
2015	48.1%	29.5%	12.8%	9.6%
Mean	47.6%	31.0%	12.2%	9.2%
Allocation of TAT County Funds (\$103M/ year)				
	44.1%	22.8%	18.6%	14.5%

MORE THAN HALF OF ALL TAT REVENUE GOES TO THE GENERAL FUND

DESTINATION OF TAT REVENUES EXPECTED FY 2018
TOTAL : \$527M



Recent Revenue Trends

General Fund Year on Year Growth Rate Fiscal Year 2019

Month	General Fund Growth Rate
July	2.6%
August	0.8%
September	0.4%
October	4.1%
November 2018*	4.8%

PRELIMINARY COMPARATIVE STATEMENT STATE GENERAL FUND TAX REVENUES

November 2018

(Dollars in Thousands)

	CUMULATIVE TOTALS			DIFFERENCE	
	Nov 2018	2018-2019	2017-2018	AMOUNT	% CHANGE
GE/Use Taxes	\$277,212	\$1,446,260	\$1,415,069	31,191	2.2%
Income Tax - Corp.	5,538	42,405	26,992	15,413	57.1%
Decl. Est. Taxes	4,978	67,665	52,668		
Payment w/returns	3,607	13,769	5,462		
Refunds	(3,047)	(39,029)	(31,138)		
Income Tax - Ind.	173,453	955,451	888,382	67,069	7.5%
Decl. Est. Taxes	15,730	159,416	189,857		
Payment w/returns	4,738	51,453	48,545		
WH Tax on Wages	159,992	855,125	798,505		
Refunds	(7,007)	(110,542)	(148,525)		
Special Fund	0	0	0		
Trans. Accom. Tax	40,163	243,243	209,849	33,394	15.9%
Convention Ctr. Enterprise Fund	(1,375)	(6,875)	(11,042)		
Tourism Special Fund	(6,583)	(32,917)	(34,167)		
Turtle Bay Conservation Fund	(125)	(625)	(625)		
Land & Development Fund	(250)	(1,250)	(1,250)		
County Fund	(8,583)	(42,917)	(42,917)		
Mass Transit Fund	(3,619)	(22,874)	0		
SUB-TOTAL	19,628	135,785	119,849	15,936	
All Others	39,684	208,795	210,165	(1,370)	-0.7%
TOTAL GENERAL FUND	\$515,515	\$2,788,697	\$2,660,457	\$128,240	4.8%

Note: General Fund allocations are in bold print.

YTD Collection Figures in November Are Good Indicators of Year End General Fund Growth

FY	Nov Collections (% YoY)	Year End Collections (June) (% YoY)	Difference (absolute values)
2012	18.1%	15.0%	3.1%
2013	12.4%	9.9%	2.4%
2014	-0.8%	-1.9%	1.1%
2015	7.1%	6.8%	0.3%
2016	9.3%	8.0%	1.3%
2017	0.6%	2.0%	1.3%
2018	4.7%	7.60%	2.9%
Avg			1.8%

Forecasting Methods

COUNCIL ON REVENUES FORECAST CONSIDERATIONS

- The output of three economic models
 - Regular Model
 - UCLA Model
 - Single Regression Equation Model
- Tax laws and tax law changes affecting tax collections
- The impact of DOTAX administrative policies and procedures, such as:
 - Timing of the collection of taxes
 - Payment of tax refunds to taxpayers
 - Allocations to the City and County of Honolulu
- Other factors discussed at Council meetings

Council estimates improve throughout fiscal year

Forecasted versus Actual General Fund Growth Rates Year on Year Growth

Year	Forecast Meeting		Actual FY	Difference (Absolute Value)	
	September	March		September	March
2012	14.5%	12.0%	15.0%	0.5%	3.0%
2013	4.9%	6.7%	9.9%	5.0%	3.2%
2014	4.1%	0.0%	-1.8%	5.9%	1.8%
2015	3.5%	5.5%	6.8%	3.3%	1.3%
2016	6.0%	6.7%	8.0%	2.0%	1.3%
2017	5.5%	2.5%	2.0%	3.5%	0.5%
2018	4.3%	5.3%	7.6%	3.3%	2.3%
2019	5.0%				

The Council's Current Forecast

ESTIMATES OF GENERAL FUND TAX REVENUE FROM SEPTEMBER 6, 2018: FY 2019 TO FY 2025¹

(In thousands of dollars unless otherwise specified)

TYPE OF TAX	BASE		ESTIMATED						
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
General Excise and Use Tax	\$3,239,225	\$3,395,566	\$3,508,325	\$3,631,838	\$3,763,982	\$3,894,596	\$4,029,755	\$4,153,629	\$4,302,537
Individual Income Tax	2,192,341	2,491,942	2,608,577	2,691,825	2,806,334	2,928,552	3,060,118	3,196,549	3,344,254
Corporate Income Tax	76,761	69,012	106,089	121,854	128,056	139,808	150,069	155,970	153,637
Public Service Company Tax	122,159	117,641	122,183	126,635	131,272	135,938	140,524	145,264	150,165
Tax on Insurance Premiums	164,688	159,814	162,868	166,370	170,740	175,295	180,221	194,507	201,649
Cigarette and Tobacco Tax	82,792	79,914	81,364	83,136	85,701	88,230	91,001	93,837	96,790
Liquor Tax	51,167	51,383	52,498	53,274	54,026	54,718	55,326	55,941	56,565
Tax on Banks and Other Financial Corps.	9,174	13,712	11,384	11,368	10,324	10,295	9,627	23,136	24,764
Inheritance and Estate Tax	18,968	29,351	29,979	30,585	31,206	31,820	32,415	33,022	33,639
Conveyance Tax	49,737	55,803	59,322	63,192	67,733	72,440	77,458	81,866	87,334
Miscellaneous Taxes*	15,845	16,633	16,778	16,777	16,772	16,765	16,760	16,754	16,749
Transient Accommodations Tax	292,357	315,264	376,471	424,418	451,977	478,391	504,648	531,364	561,030
GENERAL FUND TOTAL	\$6,315,215	\$6,796,036	\$7,135,838	\$7,421,272	\$7,718,123	\$8,026,848	\$8,347,922	\$8,681,839	\$9,029,113
GROWTH RATE	2.0%	7.6%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

¹ Line item projections generated by Tax Research & Planning Office to be consistent with the Council's forecast for the total General Fund tax revenues.

*The figures on this line include penalty and interest charges, fees and license charges from various taxes, and allocations to the general fund from the environmental response, energy and food security tax.

FORECASTS OF KEY ECONOMIC INDICATORS FROM SEPTEMBER 6, 2018: FY 2019 to FY 2025

Fiscal Year	2019	2020	2021	2022	2023	2024	2025
	A. VALUE						
Hawaii Total Personal Income (1982-1984 Constant Million Dollars)	27,915	28,356	28,779	29,188	29,605	30,028	30,457
Hawaii Total Personal Income (\$Millions)	78,192	81,132	84,215	87,221	90,248	93,289	96,396
Construction Completed (\$Millions)	8,882	9,182	9,456	9,684	9,900	10,122	10,392
Honolulu CPIU (1982-1984 = 100)	280	286	293	299	305	311	317
Visitor Arrivals by Air (Thousands)	10,044	10,277	10,485	10,681	10,872	11,068	11,268
U.S. GDP (\$ Billions)	20,886	21,801	22,697	23,596	24,514	25,468	26,456
U.S. GDP Deflator (2005 = 100)	111	113	115	117	119	121	123
Calendar Year Wages (\$Millions)	33,539	34,673	35,835	36,971	38,073	39,185	40,306
Visitor Expenditures by Air (\$Millions)	18,486	19,177	19,854	20,489	21,044	21,612	22,198
Hawaii Real GDP (2009 Constant Million Dollars)	77,324	78,561	79,771	80,920	82,053	83,194	84,359
	B. ANNUAL PERCENTAGE GROWTH RATE						
Hawaii Total Personal Income (1982-1984 Constant Million Dollars)	1.67	1.58	1.49	1.42	1.43	1.43	1.43
Hawaii Total Personal Income (\$Millions)	3.86	3.76	3.80	3.57	3.47	3.37	3.33
Construction Completed (\$Millions)	4.22	3.38	2.98	2.41	2.23	2.24	2.67
Honolulu CPIU (1982-1984 = 100)	2.28	2.24	2.36	2.16	2.06	1.96	1.92
Visitor Arrivals by Air (Thousands)	4.21	2.32	2.02	1.87	1.79	1.80	1.81
U.S. GDP (\$ Billions)	4.61	4.38	4.11	3.96	3.89	3.89	3.88
U.S. GDP Deflator (2005 = 100)	2.14	2.02	2.03	1.97	1.87	1.87	1.87
Calendar Year Wages (\$Millions)	3.46	3.38	3.35	3.17	2.98	2.92	2.86
Visitor Expenditures by Air (\$Millions)	4.83	3.74	3.53	3.20	2.71	2.70	2.71
Hawaii Real GDP (2009 Constant Million Dollars)	1.69	1.60	1.54	1.44	1.40	1.39	1.40

Mean Forecast of the Council Members

FY 2019-2025

A. VALUE

<u>Fiscal Year</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Hawaii Total Personal Income (1982-1984 Constant Dollars)(\$Millions)	27,915	28,356	28,779	29,188	29,605	30,028	30,457
Hawaii Total Personal Income (\$Millions)	78,192	81,132	84,215	87,221	90,248	93,289	96,396
Construction Completed (\$Millions)	8,882	9,182	9,456	9,684	9,900	10,122	10,392
Honolulu CPIU (1982-1984 = 100)	280	286	293	299	305	311	317
Visitor Arrivals by Air (Thousands)	10,044	10,277	10,485	10,681	10,872	11,068	11,268
U.S. GDP (\$ Billions)	20,886	21,801	22,697	23,596	24,514	25,468	26,456
U.S. GDP Deflator (2012 = 100)	111	113	115	117	119	121	123
Calendar Year Wages (\$Millions)	33,539	34,673	35,835	36,971	38,073	39,185	40,306
Visitor Expenditures by Air (\$Millions)	18,486	19,177	19,854	20,489	21,044	21,612	22,198
Hawaii Real GDP (2009 Constant Dollars)(\$Millions)	77,324	78,561	79,771	80,920	82,053	83,194	84,359

B. ANNUAL PERCENTAGE GROWTH RATE

Hawaii Total Personal Income (1982-1984 Constant Dollars)(\$Millions)	1.67	1.58	1.49	1.42	1.43	1.43	1.43
Hawaii Total Personal Income (\$Millions)	3.86	3.76	3.80	3.57	3.47	3.37	3.33
Construction Completed (\$Millions)	4.22	3.38	2.98	2.41	2.23	2.24	2.67
Honolulu CPIU (1982-1984 = 100)	2.28	2.24	2.36	2.16	2.06	1.96	1.92
Visitor Arrivals by Air (Thousands)	4.21	2.32	2.02	1.87	1.79	1.80	1.81
U.S. GDP (\$ Billions)	4.61	4.38	4.11	3.96	3.89	3.89	3.88
U.S. GDP Deflator (2012 = 100)	2.14	2.02	2.03	1.97	1.87	1.87	1.87
Calendar Year Wages (\$Millions)	3.46	3.38	3.35	3.17	2.98	2.92	2.86
Visitor Expenditures by Air (\$Millions)	4.83	3.74	3.53	3.20	2.71	2.70	2.71
Hawaii Real GDP (2009 Constant Dollars)(\$Millions)	1.69	1.60	1.54	1.44	1.40	1.39	1.40

SELECTED ECONOMIC DATA: FY 2017 TO FY 2019

	FY 2017					FY 2018					FY 2019
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Annual	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Annual	Jul-Sep
1. U.S. GDP in Current Dollars (in billions)	\$18,800	\$18,979	\$19,163	\$19,359	\$19,075	\$19,588	\$19,832	\$20,041	\$20,412	\$19,968	\$20,658
2. U.S. GDP Implicit Price Deflator (2012=100)	106.2	106.7	107.3	107.6	106.9	108.1	108.8	109.4	110.3	109.1	110.7
3. Construction (in millions)	\$2,431	\$2,117	\$2,071	\$1,937	\$8,557	\$2,184	\$2,181	\$2,227	\$2,410	\$9,002	na
4. Total Private Building Authorizations (in millions)	\$889	\$846	\$920	\$821	\$3,476	\$722	\$665	\$700	\$1,109	\$3,196	\$743
5. Total Wages (in millions)	\$8,010	\$8,110	\$8,058	\$7,929	\$32,107	\$8,000	\$8,431	\$8,286	\$8,166	\$32,884	na
6. Total Personal Income (in millions)	\$72,813	\$73,606	\$74,694	\$74,926	\$74,010	\$75,620	\$76,181	\$76,790	\$76,940	\$76,383	\$77,613
7. Visitor Arrivals by Air (in thousands)											
a. Total State	2,266	2,200	2,233	2,318	9,017	2,399	2,327	2,439	2,478	9,643	2,499
b. Domestic	1,542	1,466	1,451	1,618	6,078	1,622	1,549	1,627	1,758	6,555	1,728
c. International	724	734	782	700	2,939	778	778	812	721	3,088	771
8. Average Daily Visitor Census (in thousands)											
a. Total State	218	216	235	223	223	228	228	253	239	237	240
b. Domestic	159	156	163	166	161	165	163	178	179	171	175
c. International	59	60	72	57	62	63	66	75	60	66	65
9. Honolulu CPIU (1982-84=100) 1/	266.5	266.5	270.7	270.7	268.6	273.3	273.3	275.2	275.2	274.2	278.7
10. State General Fund Tax Revenue (in millions)	\$1,546	\$1,500	\$1,576	\$1,694	\$6,315	\$1,692	\$1,524	\$1,711	\$1,869	\$6,796	\$1,698
11. General Excise & Use Tax (in millions)	\$801	\$784	\$832	\$822	\$3,239	\$901	\$795	\$959	\$741	\$3,396	\$880
12. Individual Income Tax (in millions) 2/											
a. Net Individual Income Tax	\$495	\$491	\$497	\$612	\$2,096	\$539	\$551	\$509	\$831	\$2,430	\$579
b. Declaration of Estimated Taxes	\$86	\$75	\$178	\$213	\$552	\$150	\$88	\$185	\$277	\$700	\$114
c. Withholding Tax on Wages	\$464	\$461	\$526	\$465	\$1,916	\$460	\$498	\$465	\$611	\$2,033	\$507
13. TAT (in millions)	\$150	\$100	\$140	\$120	\$508	\$135	\$110	\$156	\$153	\$555	\$158
14. Civilian Unemployment Rate (%)	3.0	2.7	2.6	2.6	2.7	2.3	2.0	2.0	2.2	2.1	2.3
15. Non-Agricultural Wage and Salary Jobs (in thousands)	644	654	651	653	650	646	661	660	664	658	659
16. Hotel Occupancy Rate (%)	80.5	77.5	81.4	79.4	79.7	81.4	78.6	82.9	80.7	80.9	79.7
17. Average Daily Room Rate	\$257	\$260	\$274	\$254	\$261	\$261	\$267	\$293	\$268	\$272	\$273

1/ Semiannual data, if available, or the average of available bimonthly data.

2/ A new method was used to measure the amounts in the individual income tax categories in FYs 2017 and later. Therefore, data for percentage changes in FY2018 and later are not comparable to those for earlier years.

na - not available

SELECTED ECONOMIC DATA: FY 2017 TO FY 2019

	FY 2017					FY 2018					FY 2019
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Annual	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Annual	Jul-Sep
1. U.S. GDP in Current Dollars	2.6%	3.4%	4.1%	3.9%	3.5%	4.2%	4.5%	4.6%	5.4%	4.7%	5.5%
2. U.S. GDP Implicit Price Deflator (2012=100)	1.0%	1.5%	2.1%	1.7%	1.5%	1.8%	2.0%	2.0%	2.5%	2.1%	2.4%
3. Construction	18.1%	2.0%	8.5%	-2.9%	6.5%	-10.2%	3.0%	7.5%	24.4%	5.2%	na
4. Total Private Building Authorizations	-0.3%	-9.4%	68.5%	-14.5%	4.3%	-18.8%	-21.4%	-23.9%	35.0%	-8.1%	2.9%
5. Total Wages	8.6%	0.7%	7.9%	4.6%	5.4%	-0.1%	4.0%	2.8%	3.0%	2.4%	na
6. Total Personal Income	3.0%	3.1%	3.9%	3.6%	3.4%	3.9%	3.5%	2.8%	2.7%	3.2%	2.6%
7. Visitor Arrivals by Air											
a. Total State	3.1%	3.6%	2.8%	6.2%	3.9%	5.9%	5.8%	9.2%	6.9%	6.9%	4.1%
b. Domestic	3.9%	3.8%	1.7%	5.5%	3.8%	5.2%	5.6%	12.1%	8.6%	7.9%	6.6%
c. International	1.5%	3.4%	4.9%	7.7%	4.3%	7.5%	6.1%	3.8%	2.9%	5.1%	-0.9%
8. Average Daily Visitor Census											
a. Total State	2.6%	2.4%	3.9%	6.0%	3.7%	4.9%	5.5%	7.6%	7.1%	6.4%	5.1%
b. Domestic	2.5%	2.1%	2.6%	5.1%	3.1%	4.3%	4.0%	9.2%	7.8%	6.4%	5.8%
c. International	2.6%	3.4%	7.0%	8.5%	5.4%	6.5%	9.6%	3.9%	5.2%	6.3%	3.4%
9. Honolulu CPIU (1982-84=100) 1/	1.5%	1.5%	2.5%	2.5%	2.0%	2.5%	2.5%	1.6%	1.6%	2.1%	2.0%
10. State General Fund Tax Revenue	-3.0%	4.8%	4.8%	1.7%	2.0%	9.4%	1.6%	8.6%	10.4%	7.6%	0.4%
11. General Excise & Use Tax	-3.6%	3.9%	1.7%	2.5%	1.0%	12.5%	1.4%	15.3%	-9.9%	4.8%	-2.3%
12. Individual Income Tax 2/											
a. Net Individual Income Tax	na	na	na	na	na	8.9%	12.3%	2.3%	35.7%	16.0%	7.4%
b. Declaration of Estimated Taxes	na	na	na	na	na	74.9%	16.8%	4.3%	29.6%	26.8%	-23.8%
c. Withholding Tax on Wages	na	na	na	na	na	-0.9%	7.9%	-11.6%	31.3%	6.1%	10.3%
13. TAT	29.8%	3.6%	12.8%	7.1%	13.8%	-9.6%	10.9%	12.0%	27.8%	9.2%	16.4%
14. Civilian Unemployment Rate (change)	-0.5	-0.4	-0.4	-0.5	-0.5	-0.7	-0.7	-0.6	-0.4	-0.6	0.0
15. Non-Agricultural Wage and Salary Jobs	1.6%	0.9%	1.5%	1.2%	1.3%	0.4%	1.0%	1.4%	1.7%	1.1%	2.0%
16. Hotel Occupancy Rate (change)	1.1	-0.3	0.7	1.9	0.8	0.9	1.1	1.5	1.3	1.2	-1.7
17. Average Daily Room Rate	5.7%	5.7%	6.0%	6.0%	5.8%	1.5%	3.0%	6.9%	5.2%	4.2%	4.6%

1/ Semiannual data, if available, or the average of available bimonthly data.

2/ A new method was used to measure the amounts in the individual income tax categories in FYs 2017 and later. Therefore, data for percentage changes in FY2018 and later are not comparable to those for earlier years.

na - not available

Effects of Recent Passage of 2017 Tax Cuts and Jobs Act

Major elements of Federal Tax Code versus Hawaii's Tax Code 2018

Provision	Federal	Hawaii
Personal Income Tax		
Standard Deduction	\$12,000 for Singles \$24,000 for Joint Filers	\$2,200 for Singles \$4,400 for Joint Filers
Personal Exemption	Use of personal deductions suspended	\$1,144 per exemption
State & Local Tax Deduction	Capped at \$10,000	No Limit
Mortgage Interest Deduction	Deduction limit of interest on new indebtedness is \$750,000	Deduction limit of interest on indebtedness is \$1M, \$100k home equity
Corporate Income Tax		
Bonus Depreciation	Allows accelerated bonus depreciation on a temporary basis	No bonus depreciation
Pass Through Entities	Entitled to take a 20% income deduction	No such deduction
Estate Tax		
Estate Tax	Applies to estates over \$10M \$11.18M (2018); \$11.22M (2019)	Applies to estates over \$5M