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To: The Honorable Sean Quinlan, Chair;  
The Honorable Daniel Holt, Vice Chair;  
and Members of the House Committee on Economic Development

From: Isaac W. Choy, Director  
Department of Taxation

Date: February 10, 2021  
Time: 9:30 A.M.  
Place: Via Video Conference, State Capitol

**Re: H.B. 1209, Relating to Taxation**

The Department of Taxation (Department) offers the following comments regarding H.B. 1209, for your consideration. H.B. 1209 proposes to suspend and refund all personal and corporate income tax received or withheld by the state enacts a law imposing state real property tax. Thus, the bill repeals the personal and corporate income taxes if a state imposed real property tax is enacted. The bill depends on state authority to impose real property tax that would be provided via the constitutional amendment proposed by H.B. 1208.

The Department notes that this bill may be premature. It may be wise to wait until the proposed constitutional amendment is authorized by the legislature and ratified by the voters before committing the state to suspension of its personal and corporate income taxes.

The Department further notes that this bill proposes to repeal the second highest source general fund tax revenue in Hawaii. As such, the bill must be more specific and explicit in its intent and proposed effect. The bill as written does not contain sufficient detail for it to be administered.

For example, the suspension of income tax will certainly lead to a large revenue loss, however the event triggering the suspension, the adoption of “a state law specifying real property tax amounts to be levied” says nothing about the amount of revenue to be generated by the state property tax before such suspension takes effect.

Relatedly, the preamble of the bill cites the growing amounts of Hawaii real property purchased by non-residents and unequivocally states such growth is “due to the low property tax rates.” If the growing non-resident purchase of real property is indeed “due to the low property tax rates,” then increasing those rates will lead to less purchases of real property by non-

residents. Therefore, if the preamble is accurate, the proposal will not result in increased real property tax revenue. However, as currently written, the effective repeal of the personal and corporate income taxes would still be effective, independent of the amount of revenue the state imposed real property tax generates. This could lead to a dramatic shortfall in general fund revenue.

Thank you for the opportunity to provide comments.

# TAX FOUNDATION OF HAWAII

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**UBJECT:** REAL PROPERTY, INCOME, Refund income tax if state real property tax is enacted

**BILL NUMBER:** HB 1209

**INTRODUCED BY:** HASHEM, LUKE, SAIKI, YAMASHITA, Belatti

**EXECUTIVE SUMMARY:** By 1/1/2026, requires the department of taxation to suspend and refunds certain income tax amounts received or withheld upon the enactment of a state law specifying real property tax amounts. Takes effect upon the ratification of a constitution amendment authorizing the State to have additional real property taxing authority.

**SYNOPSIS:** Enacts a non-codified law requiring the Department of Taxation to suspend and refund personal and corporate income tax if the State starts taxing real property.

**EFFECTIVE DATE:** Upon the ratification of a constitutional amendment of article VIII, section 3, authorizing the State to additionally have real property taxing authority.

**STAFF COMMENTS:** A tax increase of any magnitude in Hawaii's fragile economy will, no doubt, have a negative impact as costs soar due to higher taxes. As costs and overhead increase, employers must find ways to stay in business by either increasing prices to their customers or cut back on costs. This may take the form of reducing inventory, shortening business hours, reducing employee hours, or even laying off workers. A tax increase of any magnitude would send many companies, especially smaller ones, out of business taking with them the jobs the community so desperately needs at this time.

There are no specified limits to the amount of the tax increase. The surcharge could be less than the current property tax, or it could be many times the current property tax. In other words, once the amendment passes, the genie is out of the bottle. It may not even be under control of the members now in the legislature, because future legislators (note that this year is an election year) may have different ideas from current members.

We observe that the two major taxes collected by the Department of Taxation are now the general excise tax and the individual income tax. According to the DOTAX's annual report for FY2020, the GET brought in \$3.44 billion; the individual income tax brought in \$2.36 billion; and all other taxes combined brought in \$1.65 billion. To replace the individual and corporate income taxes, the state would have to impose a whopping amount of property tax just to stay even. If the idea is to bring in \$2.5 billion, for example, the State's valuation total is just \$355 billion so the new state property tax would need to bring in \$70 per \$1000 of assessed valuation for all property assessed. That would be a nasty surprise to those who now pay \$3 to \$15 per \$1000 of assessed valuation depending on the property class.

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We need to ask ourselves if we want to or need to give the genie that much power. If we do, then we only have ourselves to blame for what happens when the genie does come out. If we don't, then we should either kill the constitutional amendment or write strict limits into it.

Digested 2/8/2021

**HB-1209**

Submitted on: 2/8/2021 9:32:47 PM

Testimony for ECD on 2/10/2021 9:30:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Paul Bernstein	Individual	Support	No

Comments:

Aloha Chairman Quinlan and Members of the Economic Development Committee:

I am writing to express my support for HB 1209. This bill addresses the long needed changes that should be made to Hawaii's tax code that punishes workers in favor of land owners. The current tax code favors wealthy out of staters who own Hawaii real estate and local high income property owners at the expense of the everyday working person.

If Hawaii hopes to make its economy less dependent on tourism, it must changes its tax code so it encourages high wage jobs. Hawaii's current income tax code that is nearly proportional rather than progressive combined with a GET that taxes labor deters working. While the nationally low property tax rates encourage outside investors to buy real estate thus increasing the cost of housing for locals and again deterring one from wanting to work in Hawaii.

I understand that HB 1209 could cause tension between the state and counties as they compete for tax revenues, but if Hawaii hopes to bring in high paying jobs and entice companies to locate here, it is imperative to change the existing tax code. Therefore, the state should work with the counties to develop a taxation system that works holistically, equitably, and economically. HB 1209 will help move this process forward by providing an opportunity to raise property tax on high value properties while making the income tax rates much more progressive by changing the income tax rates to be lower until the \$300,000 AGI is reached (e.g., change the tax rates so that they are less than 4% for the first \$25,000/\$50,000 (single/joint), gradually rising by say 1% for every \$25,000/\$50,000 (single/joint), then follow the existing tax rate table for the very high earners).

Mahalo nui loa for hearing my testimony.

Kind regards,

Paul Bernstein