EXECUTIVE CHAMBERS
KE KEʻENA O KE KIAʻĀINA

JOSH GREEN, M.D.
GOVERNOR
KE KIAʻĀINA

House Committee on Finance
Tuesday, February 27, 2024
10:00 a.m.
State Capitol, Conference Room 308 and Videoconference

In Support of Intent
H.B. No. 2779 Relating to Taxation

Chair Yamashita, Vice Chair Kitagawa, and members of the House Committee on Finance:

The Office of the Governor supports the intent of H.B. No. 2779, Relating to Taxation. This bill incrementally increases the amount of the income tax standard deduction from 2024 to 2031.

The Governor is in strong support of proposals that would be directed at helping Asset Limited, Income Constrained, Employed (ALICE) households. With our recent rises in inflation many families are struggling. As such, the relief proposed in this bill would be a welcome approach.

The Office of the Governor prefers the language on H.B. No. 2404 (administration bill) Relating to Income Tax as the administration bill is more comprehensive and extensive. H.B. No. 2404 will provide support for working families paying for daycare, babysitting, summer camps, after-school care, and dependent care. This tax credit will also provide relief for working families and help reduce the choice families may face in deciding whether to start a family or invest in a career.

Hawaii has the highest cost of living in the country at nearly twice the national average and our high cost of living is hurting families and individuals and our community well-being. The high cost of living in the State has made it extremely difficult for working families to afford necessities.

Thank you for the opportunity to provide testimony on this measure.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAIʻI
DEPARTMENT OF TAXATION
Ka ʻOihana ʻAuhau
P.O. BOX 259
HONOLULU, HAWAIʻI 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
H.B. No. 2779, Relating to Taxation

BEFORE THE:
House Committee on Finance

DATE: Tuesday, February 27, 2024
TIME: 10:00 a.m.
LOCATION: State Capitol, Room 308

Chair Yamashita, Vice-Chair Kitagawa, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 2779 for your consideration.

H.B. 2779 amends section 235-2.4(a), Hawaii Revised Statutes (HRS), by deleting the current standard deduction amounts and replacing them with incrementally increasing amounts, initially every other year, starting with taxable years beginning after December 31, 2023, through taxable years beginning after December 31, 2029. A subsequent increase is then proposed for the taxable year beginning after December 31, 2030. The current standard deduction amounts are:

Standard Deduction Amount	Current
Joint/Surviving Spouse	$4,400
Head of Household	$3,212
Single/Married Filing Separate	$2,200

The proposed increased standard deduction amounts are as follows:

Beginning after December 31, 2023:

Standard Deduction Amount	2024 Proposed
Joint/Surviving Spouse	$10,000
Head of Household	$7,500
Single/Married Filing Separate	$5,000

Beginning after December 31, 2025:

Standard Deduction Amount	2026 Proposed
Joint/Surviving Spouse	$16,000
Head of Household	$12,000
Single/Married Filing Separate	$8,000

Beginning after December 31, 2027:

Standard Deduction Amount	2028 Proposed
Joint/Surviving Spouse	$18,000
Head of Household	$13,500
Single/Married Filing Separate	$9,000

Beginning after December 31, 2029:

Standard Deduction Amount	2030 Proposed
Joint/Surviving Spouse	$20,000
Head of Household	$15,000
Single/Married Filing Separate	$10,000

Beginning after December 31, 2030:

Standard Deduction Amount	2031 Proposed
Joint/Surviving Spouse	$24,000
Head of Household	$18,000
Single/Married Filing Separate	$12,000

The Department is able to administer this bill as drafted. The expected revenue loss is estimated as follows:

General Fund Impact ($ millions)

FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
-83.5	-87.4	-217.1	-226.9	-286.1	-298.6

Thank you for the opportunity to provide comments on this measure.

126 Queen Street, Suite 305 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME TAX; Standard Deduction; Incremental Increase

BILL NUMBER: HB 2779

INTRODUCED BY: YAMASHITA

EXECUTIVE SUMMARY: Incrementally increases the amount of the income tax standard deduction from 2024 to 2031.

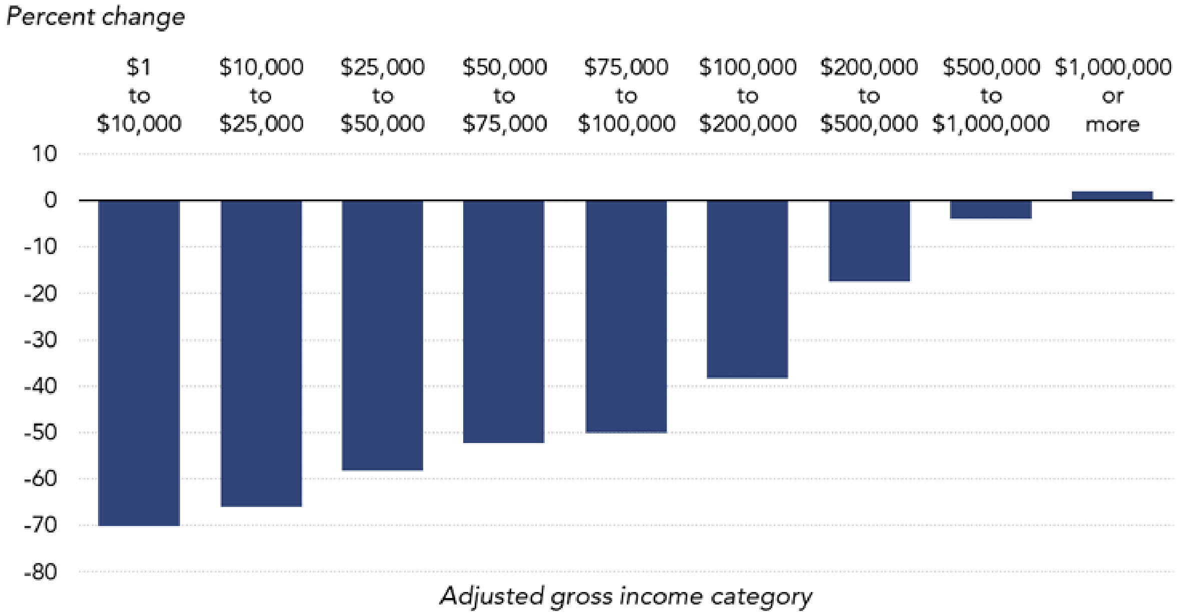
SYNOPSIS: Amends section 235-2.4(a), HRS, such that for taxable years beginning after December 31, 2023, the standard deduction increases incrementally as follows:

	2024, 2025	2026, 2027	2028, 2029	2030	2031+
Joint return/ surviving spouse	$ 10,000	$ 16,000	$ 18,000	$ 20,000	$ 24,000
Head of household	7,500	12,000	13,500	15,000	18,000
Not married	5,000	8,000	9,000	10,000	12,000
Married filing separate return	5,000	8,000	9,000	10,000	12,000

EFFECTIVE DATE: Upon approval, applicable to taxable years beginning after December 31, 2023.

STAFF COMMENTS: This bill proposes to raise the amount that taxpayers can claim as a deduction against their income taxes without itemizing. It would result in some measure of tax relief. However, beneficiaries of itemized deductions, such as charities, may experience adverse effects because potential donors would only have a tax incentive to donate to charity if their itemized deductions are greater than the threshold amount. When the federal government enacted the Tax Cuts & Jobs Act of 2017, the federal standard deduction was significantly increased. The number of taxpayers taking charitable deductions dropped sharply, as shown in this chart from the Urban Institute and Brookings Institution:

FIGURE 2
Percent Change in Charitable Deductions, Federal Individual Income Tax



Source: IRS SOI Historic Table 2, years 2017 and 2018: https://www.irs.gov/statistics/soi-tax-stats-historic-table-2

[McClelland, Using State-Level Data to Understand How the Tax Cuts And Jobs Act Affected Charitable Contributions (July 2022)[1],]

Instead, the Legislature may wish to consider tax relief in terms of tax rate reduction.

When people are squeezed economically by the cost of living, taxes, and inefficient bureaucracy, they can and do vote with their feet – by getting on planes, for example. Data from the Census Bureau show what we have suspected all along that our population has been, and still is, going down. A press release from the Census Bureau on Dec. 21, 2021[2] states that of the ten states that lost the most population between July 1, 2020 and 2021, Hawaii was No. 4 on the list, losing 0.7%.

The national Tax Foundation, analyzing the data, found that Americans were on the move in 2022 and chose low-tax states over high-tax ones. Fritts, "Americans Moved to Low-Tax States in 2022,"[3] might help to slow or reverse the population trend.

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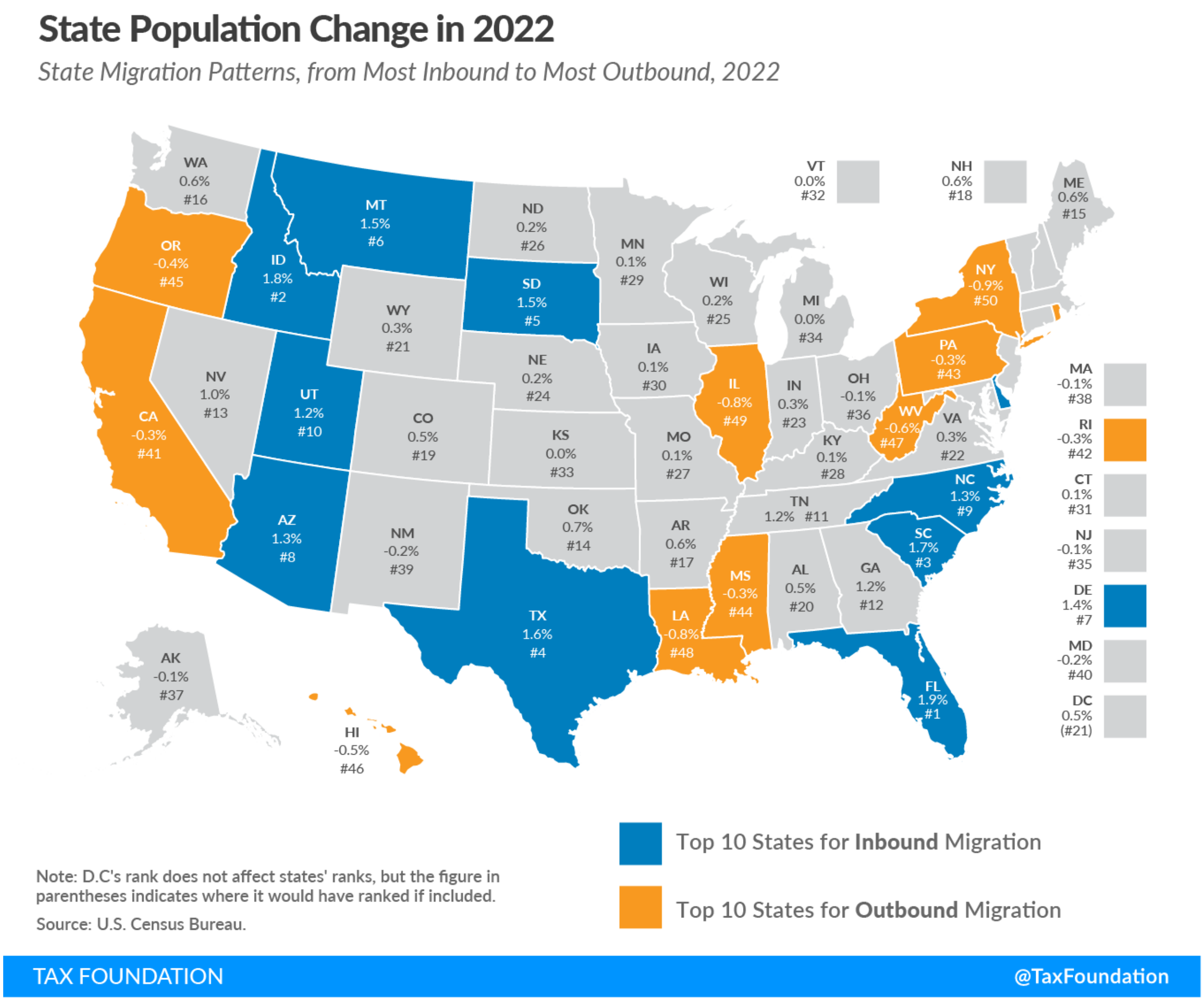
[1] https://www.taxpolicycenter.org/sites/default/files/publication/164292/using_state-level_data_to_understand_how_the_tax_cuts_and_jobs_act_affected_charitable_contributions_1.pdf#:~:text=Taxpayers%20who%20take%20the%20standard%20deduction%20lose%20the,tax%20liability%20than%20if%20they%20itemized%20their%20deductions

[2] https://www.census.gov/newsroom/press-releases/2021/2021-population-estimates.html

[3] https://taxfoundation.org/state-population-change-2022/



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Digested: 2/24/2024

GRASSROOT
INSTITUTE OF HAWAII

1050 Bishop St. #508
Honolulu, HI 96813
808-864-1776
info@grassrootinstitute.org

Removing barriers to Hawaii's prosperity

Feb 27, 2024, 10 a.m.
Hawaii State Capitol
Conference Room 308 and Videoconference

To: House Committee on Finance
Rep. Kyle T. Yamashita, Chair
Rep. Lisa Kitagawa, Vice-Chair

From: Grassroot Institute of Hawaii
Ted Kefalas, Director of Strategic Campaigns

RE: TESTIMONY SUPPORTING HB2779 — RELATING TO TAXATION

Aloha Chair Yamashita, Vice-Chair Kitagawa and Committee Members,

The Grassroot Institute of Hawaii would like to offer its support for HB2779, which would gradually increase Hawaii's personal income tax standard deduction between tax years 2024 and 2031. For example, for individuals, the deduction would increase from $2,200 to $12,000 over the seven-year period. For individuals filing jointly, the deduction would increase from $4,400 to $24,000.

Boosting the value of the standard deduction would provide much-needed tax relief for Hawaii residents, especially those with lower and middle incomes. It also would bring Hawaii in line with most other states that offer standard deductions. Currently, Hawaii's deductions are on the lower end in terms of dollar value.[1]

Hawaii's high tax rates and compressed brackets don't help. A review from the state Department of Taxation found that a Hawaii household making the median income of $88,005 pays $5,086 in income taxes each year.

This makes Hawaii the second highest-taxed state in terms of what a household earning the median income must pay in income taxes — behind only Oregon, which has no sales tax.[2]

[1] Andrey Yushkov, "State Individual Income Tax Rates and Brackets, 2024," Tax Foundation, Feb. 20, 2024.
[2] Seth Colby, "Comparing Hawaii's Income Tax Burden to Other States," Hawaii Department of Taxation, June 2023. It is worth pointing out that Hawaii's education system is funded at the state level, without county property taxes. This comparison must be understood in that context.

Further, Hawaii's high tax burden contributes to the state's cost of living, which is a key factor in driving Hawaii residents to the mainland.

Tens of thousands of Hawaii residents have moved to the mainland over the past six years[3] — and mainly to states without income taxes, such as Washington, Nevada, Texas and Florida.[4] Their departure from the islands is not only emotionally distressing, but economically depressing as well.

Research shows that lowering income taxes — as this bill would do, though indirectly — has a number of benefits. The national Tax Foundation compiled a list of studies finding that income taxes tend to lower gross domestic product, decrease unemployment and increase wages.[5]

Please pass HB2779 to provide much-needed tax relief.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

[3] Maria Wood, "Where People from Hawaii Are Moving to the Most," 24/7 Wall Street, Jan. 23, 2022.
[4] Katherine Loughead, "How Do Taxes Affect Interstate Migration?" Tax Foundation, Oct. 11, 2022.
[5] Timothy Vermeer, "The Impact of Individual Income Tax Changes on Economic Growth," Tax Foundation, June 14, 2022.

TO: Members of the Committee on Finance

FROM: Natalie Iwasa, CPA, CFE
808-395-3233

HEARING: 10 a.m. Tuesday, February 27, 2024

SUBJECT: HB2779, Increased Standard Deduction 2024-2031 – **SUPPORT**

Aloha Chair Yamashita and Committee Members,

Thank you for allowing the opportunity to provide testimony on HB2779, which would increase the standard deduction several times from 2024 – 2030.

Hawaii's standard deduction has not changed in about 10 years. I support the increases, as it would allow taxpayers to keep more of their hard-earned money.

Please vote "yes" on HB2779.