DAVID Y. IGE
GOVERNOR

CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAI'I EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAIʻI
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAIʻI 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY

TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2242

February 2, 2022
10:00 a.m.
Room 211 and Videoconference

RELATING TO TAXATION

The Department of Budget and Finance (B&F) offers comments on this bill.

Senate Bill No. 2242 amends Chapter 235, HRS, to: increase personal income tax revenues for high earning taxpayers by establishing new income tax brackets and rates for taxable years beginning after December 31, 2022; increase the tax on capital gains; increase the corporate income tax by establishing a single corporate income tax rate of 9.6%; and exempt income received as unemployment compensation benefits under Chapter 383, HRS, from the State personal income tax beginning retroactively from January 1, 2022.

B&F notes that the federal American Rescue Plan (ARP) Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

- By enacting policies to raise other sources of revenue;
- By cutting spending; or
- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai‘i complies with this ARP restriction.

Thank you for your consideration of our comments.

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR

ISAAC W. CHOY
DIRECTOR OF TAXATION

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

To: The Honorable Donovan M. Dela Cruz, Chair;
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

From: Isaac W. Choy, Director
Department of Taxation

Date: Wednesday, February 2, 2022
Time: 10:00 A.M.
Place: Via Video Conference, State Capitol

Re: S.B. 2242, Relating to Taxation

The Department of Taxation (Department) offers the following comments regarding S.B. 2242 for your consideration. S.B. 2242 makes the following changes relevant to Hawaii income tax:

- Adds new individual income tax brackets for high income taxpayers;
- Adjusts several existing tax brackets;
- Eliminates the marginal tax rate structure for high income taxpayers;
- Increases the capital gains rate from 7.25 percent to 11 percent;
- Imposes a single corporate income tax rate of 9.6 percent; and
- Exempts unemployment insurance contributions from income tax.

The bill applies to taxable years beginning after December 31, 2021. The exemption of unemployment benefits from income tax is made retroactive to January 1, 2022.

Individual Income Tax Rates

S.B. 2242 increases individual income tax for higher income taxpayers and repeals the marginal rate structure for higher income taxpayers. The Department has concerns regarding the proposed individual income tax rate structure. The proposal gradually eliminates marginal tax brackets for taxpayers facing rates above 8.25 percent. In doing this, the proposal creates tax cliffs, which are dramatic increases in tax liability due to small increases in income. Income tax brackets are structured so that having one additional dollar of income never results in a disproportionate and significant increase in tax liability.

For example, as currently written, a joint filer with taxable income of $200,000 would owe tax of $15,007, but the same filer with an income of $201,000, only $1,000 more taxable income, would owe tax of $16,141. The extra $1,000 of income generates additional tax liability of $1,134. This net loss for the taxpayer means that the taxpayer was better off not earning the additional income as the tax owed exceeds the income. The Department strongly suggests restructuring the income tax brackets contained in this measure to avoid tax cliffs.

If the intent is to increase the tax liability of high-income taxpayers, the Department recommends leaving the marginal bracket structure in place but amending the tax rates applicable to the higher tax brackets. For example, the current 9, 10, and 11 percent rates could simply be increased to 11, 12, and 13 percent for each filing status.

Capital Gains Tax Rates

The bill increases the capital gains rate from 7.25 percent to 11 percent. The Department appreciates the intent of this proposal but notes that the proposal would limit the beneficial capital gains rate to only the highest income taxpayers. Under current law, any single filer with income above $24,000 and joint filer with income above $48,000 may benefit from the lower capital gains rate depending on their precise circumstances. This bill would reserve the benefit of the capital gains to joint filers with income above $450,000. If the intent is to impose the ordinary rates on long-term capital gains, the Department recommends repealing the capital gains rate altogether.

Corporate Income Tax Rates

The bill amends the corporate income tax rate to 9.6 percent. The Department is able to administer this provision as currently written.

Taxation of Unemployment Benefits

Finally, the bill exempts unemployment benefits from individual income tax. The Department is able to administer the proposed exclusion of unemployment benefits as drafted.

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

SB-2242
Submitted on: 1/27/2022 12:37:11 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Laurie Field	Testifying for Planned Parenthood Alliance Advocates	Support	No

Comments:

Planned Parenthood Alliance Advocates supports SB 2242 as it is a needed tax fairness measure. Thank you for your consideration.

Pono Hawai'i Initiative

Friday, January 28, 2022

Relating to Taxation
Testifying in Support

Aloha Chair and members of the committee,

The Pono Hawai'i Initiative (PHI) **supports SB2242 Relating to Taxation. Part of this measure would exempt unemployment payments from the state's income tax.**

This measure is essential to ensure that unemployment benefits that were received during the pandemic are not taxed, and any taxes paid are refunded. For many, there may be penalties and interest charged for late or nonpayment of taxes. At the very minimum, these charges should be waived.

These individuals and families need support. For these reasons, we urge the Committee to **vote in favor of SB2242.**

Mahalo for the opportunity to testify,

Gary Hooser
Executive Director
Pono Hawai'i Initiative

MAILING ADDRESS
P.O. Box 23404
Honolulu
Hawaii 96823

January 28, 2022

TO: Chair Dela Cruz and Members of the WAM Committee

RE: SB 2242 Relating to Taxation

Support for a Hearing on Februrary 2

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

Americans for Democratic Action Hawaii supports this bill as it increases personal income tax revenues from high earning taxpayers by establishing new income tax brackets and rates, increases the tax on capital gains, increases the corporate income tax and establishes a single corporate income tax rate. It also exempts unemployment payments from the State's personal income tax. We like all of those provisions. They make our tax system less regressive.

Richard Wilkinson and Kate Pickett wrote a book entitled The Spirit Level. In it they argue that greater equality makes societies stronger. The book is full of graphs. Each graph shows how a greater inequality causes social problems such as mental health, physical health, obesity, educational performance, teenage births, violence, social mobility, and sustainability. The more you can do to use the tax code to reduce income inequality, the more progress we will make on a host of other issues and will probably save money in the long run.

Thank you for your consideration.

Sincerely,

John Bickel, President

TAX FOUNDATION OF HAWAII

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

SUBJECT: INCOME, Individual and Corporate Rate Hikes, Exclusion of Unemployment Benefits

BILL NUMBER: SB 2242

INTRODUCED BY: CHANG, ACASIO, RHOADS

EXECUTIVE SUMMARY: Increases personal income tax revenues for high earning taxpayers by establishing new income tax brackets and rates that are applied against a broader level of taxable income for taxable years beginning after 12/31/2021. Increases the tax on capital gains. Increases the corporate income tax and establishes a single corporate income tax rate. Exempts unemployment payments from the State's personal income tax from 1/1/2022. This is a general income tax hike, with very little in economic justification for it given that we now have sufficient funds to motivate the Governor to propose a refund of $100 to all Hawaii taxpayers and their families.

SYNOPSIS: Amends section 235-51(a) through (c), HRS, to add new rate schedules for individuals for taxable years beginning after 12/31/2021. The following table, for married filing joint and surviving spouse filing status, illustrates the changed brackets.

From	To	Base Tax in Bracket	Plus Tax Rate	For Taxable Income Over
-	4,800	0.00	1.40%	0
4,800	9,600	67.00	3.20%	4,800
9,600	19,200	221.00	5.50%	9,600
19,200	28,800	749.00	6.40%	19,200
28,800	38,400	1,363.00	6.80%	28,800
38,400	48,000	2,016.00	7.20%	38,400
48,000	72,000	2,707.00	7.60%	48,000
72,000	96,000	4,531.00	7.90%	72,000
96,000	200,000	6,427.00	8.25%	96,000
200,000	300,000	4,531.00	9.00%	72,000
300,000	400,000	2.016.00	10.00%	38,400
400,000	450,000	749.00	11.00%	19,200
450,000	500,000	67.00	12.00%	4,800
500,000		0	13.00%	0

Amends section 235-51(f), HRS, to increase the maximum tax rate on capital gains from 7.25% to 11%.

Amends section 235-71, HRS, to replace the current graduated tax rates for corporations (4.4%, 5.4%, and 6.4%) with a flat rate of 9.6%. This rate also would apply to regulated investment companies (RICs), sometimes known as mutual funds; and real estate investment trusts (REITs).

Amends section 235-7(a), HRS, to add an exclusion for unemployment compensation.

Makes technical and conforming amendments to sections 383-161, 383-163, and 383-163.6, HRS. Repeals section 235-69, HRS.

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2021; provided that the exclusion for unemployment benefits shall take effect retroactive to January 1, 2022.

STAFF COMMENTS: This is a tax hike bill, purely and simply.

The preamble to the bill trying to justify the increases says that we are in a pandemic and state government needs to "increase revenue for essential public services and uplift Hawaii's most vulnerable workers."

Pandemics don't last forever, however. These tax increases do. There is no sunset on any of the bill's provisions.

Data from the Census Bureau show what we have suspected all along, that our population is going down. A press release from the Census Bureau on Dec. 21, 2021 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%. (https://www.census.gov/newsroom/press-releases/2021/2021-population-estimates.html).

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. To what lengths will we go to chase people out of our state?

This bill, if enacted, will reinforce the image that Hawaii is a poor place to live, work, and invest, underscoring the poor business climate. When our 9%, 10%, and 11% rates were enacted in 2009, the national Tax Foundation was motivated to write:

> **Taxing High-Income Earners Has Failed Before as Sound Fiscal Policy**
>
> The trend may be new, but the policy has been tried before. Through the early 1990s, several states maintained double-digit income tax rates, including California (11% until 1996) and Hawaii (10% until 1998). These rates came down due to a combination of booming tax revenues from all sources, and growing expert understanding that location decisions of highly mobile entrepreneurs are sensitive to state income tax rates, particularly in the interstate context. To attract and keep good talent, create jobs and drive economic growth, legislators knew that state tax systems had to be competitive with their neighbors.
>
> We still see elements of that today. Even in adopting its millionaires' tax, New York did not let its rate go above neighboring New Jersey, and other states are wary of crossing the 10% psychological barrier. The California Franchise Tax Board has taken pains to deny

> that their 10.3% top tax rate is in the double digits, referring on their website and on tax forms to a 9.3% top rate and elsewhere noting that there is a 1% surcharge. Now those rates are 9.55% and 10.55% (see Table 1).
>
> If states are still concerned about interstate tax competition, what has really changed? The short answer is priorities. States that adopt new taxes on high-income earners are ones where policymakers are persuaded to ignore concerns about long-term economic growth in favor of a short-term budget fix that avoids deep spending cuts. In New Jersey, while the new millionaires' tax raised revenue for the state and helped reduce a budget shortfall, it reduced the state's overall economic output and harmed its ability to grow during and after the recession.
>
> This is the tradeoff that proponents of taxes on high-income earners usually fail to acknowledge. Yes, such taxes will generally raise revenue in the short term without a sudden exodus of wealthy people fleeing to the state next door, especially in Hawaii. But over the medium term, the taxes will negatively impact location decisions. People expanding old businesses or creating new ones will incorporate the higher cost of doing business into their decision-making, and steer clear of the state. California currently faces an enormous brain drain of dynamic individuals after five years of double-digit income taxes, and it seems that New Jersey may now be seeing the evidence of a brain drain from its millionaires' tax. Hawaii has long been accused of chasing out its best and brightest, and it can only be exacerbating that problem with these new tax rates.

Tax Foundation, *Fiscal Fact No. 169*, at 5 (May 2009) (footnotes omitted) (accessible at http://taxfoundation.org/sites/taxfoundation.org/files/docs/ff169.pdf).

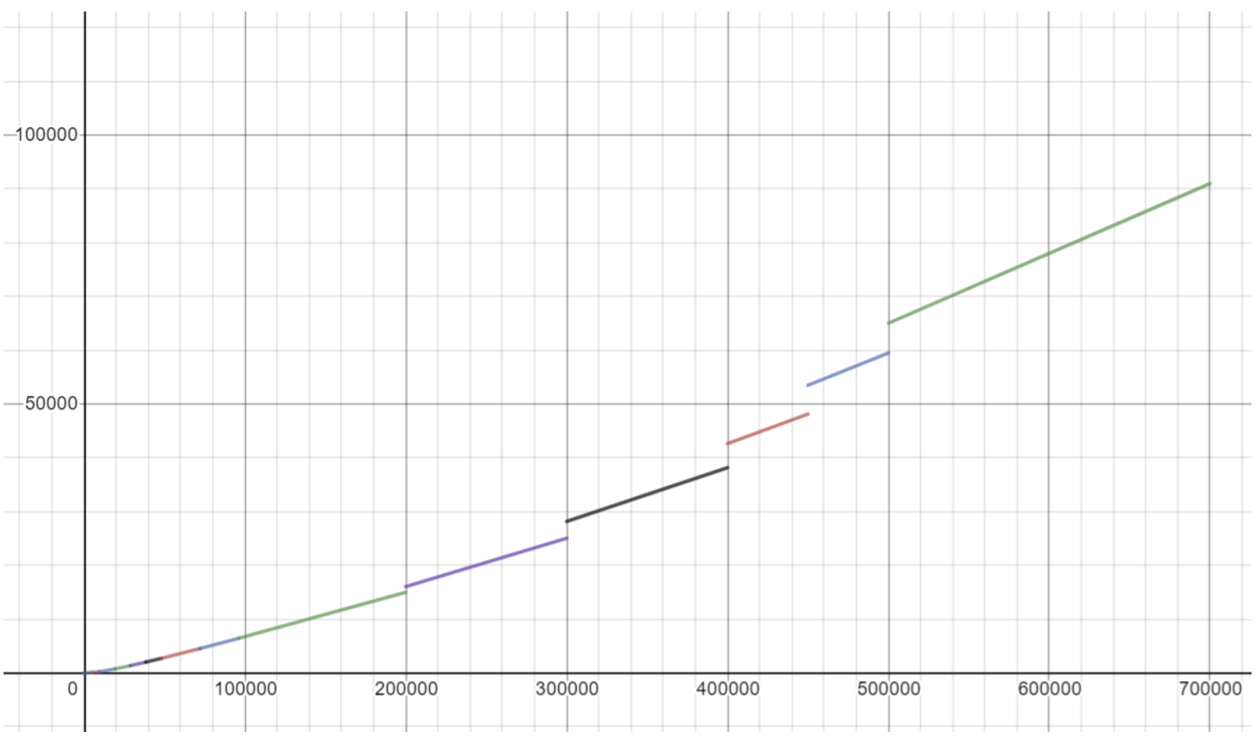
To similar effect is a study sponsored by the American Legislative Exchange Council (ALEC), which states:

> When competing for residents, relative tax burdens among states matter most. States with lower relative tax burdens can expect higher growth, while states with higher relative tax burdens experience slower economic expansion. Contrasting state-specific economic metrics of the states with the lowest and highest tax burdens highlight the importance of tax policy (Table 3).
>
> Data clearly shows that low tax burdens enhance a state's chances of performing well economically (Table 3). On the other hand, a high tax burden reduces a state's chances of performing well. Of course, other policy variables impact economic performance, but tax burden is most consequential. In addition to comparing a state's economic performance to its tax burden, we also examine the 11 states that adopted an income tax since 1960 to show how their economies fared afterwards (Table 4).
>
> Every one of the 11 states that introduced a state income tax since 1960 declined relative to the rest of the nation in population growth, gross state product (GSP) growth, and state and local tax revenue growth. That state and local tax revenue growth in New Jersey and Connecticut underperformed by relatively smaller amounts than the other nine states is

> partially attributable to their adoption of an income tax most recently and their proximity to high-tax New York City.
>
> The new cap on federal deductibility of state and local taxes will materially change the competitive outlook for states. States with a combination of exceptionally high personal income tax rates and large percentages of high income earners tend to underperform on job growth, GSP growth, and income growth under the new tax law compared to previously. Unless high-tax states mend their ways, low-tax states with pro-growth policies will benefit from the resulting flow of capital and people.
>
> Once migration trends begin, it can be difficult to stop them. Just look at population dynamics of Michigan, Connecticut, and West Virginia (see Figure 2). These are three of the 11 states that adopted an income tax since 1960. Once a downward spiral commences, reversal is nearly impossible due to political roadblocks to pragmatic economic policy changes.

American Legislative Exchange Council, *Rich States, Poor States* 45 (11th ed. 2018) (available at https://www.richstatespoorstates.org/app/uploads/2018/04/RSPS-2018-WEB.pdf).

The new brackets not only add higher top rates, in this case 12% and 13%, but are also designed to phase out the lower rates in previous brackets for taxpayers with taxable income in higher brackets. Here is a graph of the proposed new tax amounts by taxable income:



The proposed new brackets have discontinuities at the bracket break points, which means that if taxable income increases by $1 at a break point, such as from $200,000 to $200,001, the increase in tax will be substantially more than $1. In this example the tax would go from $15,007 to

$16,051. Substantial discontinuities such as these may unnaturally motivate behavior of taxpayers near a break point.

And, of course, the question needs to be asked: Why a tax increase now? The Grassroot Institute of Hawaii calculated that, thanks to higher than expected revenues and an infusion of federal funds, Hawaii has a $3 billion budget windfall. (https://www.grassrootinstitute.org/-2022/01/governors-tax-refund-proposal-on-the-right-track-institute-says/) The Governor has proposed squirreling away $1 billion in the emergency budget stabilization fund and refunding $100 to every man, woman, and child here in Hawaii.

Digested: 1/27/2022

Committee on Ways and Means
Chair Dela Cruz, Vice Chair Keith-Agaran

February 2, 2022, 10 AM Room 211 and Videoconference
SB2242 — RELATING TO TAXATION

TESTIMONY
Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

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

The League of Women Voters of Hawaii supports SB2422 which increases taxes on high earners and exempts unemployment compensation from taxation.

The League of Women Voters supports tax measures that improve the equity of the income tax while working to incorporate progressivity into the tax system. SB2422 fits squarely with each of these priorities.

Hawaii's overall tax structure is not progressive: In 2018, local households with incomes at the bottom 20th percentile contributed 15 percent of their income to state and local taxes. Conversely, local households in the top 1 percent contributed less than 9 percent of their income to these same taxes (Refunding Hawaii, Hawaii Kids Count, January 2022). SB2422 Parts I, II and III would make our overall tax system more progressive by increasing taxes on high earners.

In 2020, annual unemployment benefits for an individual could not exceed $16,848 (General Unemployment Benefits Fact Sheet, DLIR, April 2020). The preamble to SB2422 makes a clear case for exempting this income from income taxes: "taxing unemployment compensation worsens the financial hardship faced by people who have lost their jobs." Hawaii should join the many states who have already taken this step.

Thank you for the opportunity to present this testimony.

League of Women Voters of Hawaii
P.O. Box 235026 ◆ Honolulu, HI 96823
Voicemail 808.377.6727 ◆ my.lwv.org/hawaii ◆ voters@lwvhi.org

Chamber of Commerce HAWAII
The Voice of Business

Testimony to the Senate Committee on Ways and Means
Wednesday, February 2, 2022, at 10:00 A.M.
Via Videoconference

RE: SB 2242 Relating to Taxation

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

The Chamber of Commerce Hawaii ("The Chamber") **strongly opposes** SB 2242, which:

- Increases personal income tax revenues for high earning taxpayers by establishing new income tax brackets and rates that are applied against a broader level of taxable income for taxable years beginning after 12/31/2021.
- Increases the tax on capital gains.
- Increases the corporate income tax and establishes a single corporate income tax rate.
- Exempts unemployment payments from the state's personal income tax from 1/1/2022.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

This bill, if enacted, will reinforce the image that Hawaii is an extremely high-cost place to live, work, invest and do business. It will undermine efforts made to turn Hawaii's economy around with the affects we have seen from COVID-19. Hawaii's business community is at a critical point -- where any additional taxes could mean the difference between closing their doors, bankruptcy or laying off employees. Due to the pandemic, many local establishments, some of which have faithfully served consumers for generations, are going out of business. This bill would only compound that by imposing increases in the personal income tax, corporate income tax and the tax on capital gains.

The capital gains tax is the most important tax a small business must contend with at the start of the business and at the end of the entrepreneur's association with the business.

To put the capital gains tax into perspective, we ask that you consider the following scenario for a small business. Suppose you had an idea for a new product or service, and as an entrepreneur, you decided to start your own business to take advantage of this opportunity.

733 Bishop Street, Suite 1200 • Honolulu, Hawaii 96813 • Phone: (808) 545-4300 • Facsimile: (808) 545-4369

Chamber of Commerce HAWAII
The Voice of Business

One of the first tasks is to raise the capital needed to open your doors. As is well known, the traditional capital markets are generally available only to established businesses, so you talk to your local banker only to learn that banks usually make loans to on-going businesses. He will make you the loan, however, if you can collateralize the entire amount, which means digging deep into your savings or relying on family and friends to help raise seed money.

If you are like most small businesses, your hopes for turning a profit lie somewhere in the future, but healthcare, social security tax, unemployment tax and payroll seem to drain the life blood of the fledgling business—your cash flow.

After a few years, you turn a profit, but capital gains tax continues to stunt business growth by limiting the ability to attract investors. Anyone lending capital, particularly for such a risky venture as a new business, does so with the expectation of a large return on his or her investment. The capital gains tax diminishes the after-tax value of that return, thereby discouraging the investment.

Capital gains taxes impose costs on the economy because they reduce returns on investment and thereby distort decision making by individuals and businesses. This can have a substantial impact on the reallocation of capital and the level of entrepreneurship.

On top of the Capital gains tax, increasing the corporate income tax and personal income tax would further hurt our small business owners and entrepreneurs. At the early stages of a start-up company, business owners put most of their earnings back into their business and back into their employees. By increasing the corporate income tax, this would further slow down the economy and dissuade people from owning, operating and starting businesses here in Hawaii.

While we understand the intent, we question whether the increase in capital gains, personal income and corporate income are appropriate mechanisms and at the risk of constraining entrepreneurship, capital infusion and investments in Hawaii. This bill will slow down the recovery of Hawaii's economy. Hawaii's corporations and small businesses are at a breaking point, and by increasing taxes and overall costs to do business in this state, it would further hurt our economy and slow the momentum we are seeing in the recovery from the impacts of the COVID-19 pandemic.

Thank you for the opportunity to testify.

Hawai'i Association of REALTORS®
808-733-7060
808-737-4977
1259 A'ala Street, Suite 300
Honolulu, HI 96817

February 2, 2022

The Honorable Donovan Dela Cruz, Chair
Senate Committee on Ways and Means
Via Videoconference

RE: S.B. 2242, Relating to Taxation

HEARING: Wednesday, February 2, 2022, at 10:00 a.m.

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

I am Ken Hiraki, Director of Government Affairs, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its over 10,800 members. HAR **strongly opposes** Senate Bill 2242, which increases the personal income tax revenues for high earning taxpayers by establishing new income tax brackets and rates that are applied against a broader level of taxable income for taxable years beginning after December 31, 2021. Increases the tax on capital gains. Increases the corporate income tax and establishes a single corporate income tax rate. This measure also exempts unemployment payments from the State's personal income tax from January 1, 2022.

A capital gain happens when one sells an investment for a profit, such as stocks, real estate or businesses. HAR believes that Hawaii's capital gains rate should be taxed at a lower rate than ordinary income to both factor in inflation and because a lower rate would factor in the high amount of risk it takes to start a business or invest in the stock market, where one could also lose a lot of money. Furthermore, the capital gains tax has a disproportionate impact on our kupuna who rely on their investments to convert their assets to spendable income during their retirement.

HAR would further note that Hawai'i, after California, has the second highest income tax bracket in the nation at 11%. Additionally, Hawaii's highest tax bracket starts at a lower threshold of $200,001, unlike California, which starts at $359,408 for the 11.3% rate. Coupled with the fact that Hawai'i has the highest cost of living and higher housing costs compared to other States, an income tax increase may not be prudent. HAR would also note that upon the sale of real estate, one must also pay the Conveyance Tax on the sale, unlike other assets.

Finally, based on Council of Revenues projections, there is a projected $890 million surplus, so a tax increase of this magnitude seems unnecessary. Additionally, the pandemic is still ongoing and businesses in various sectors have been struggling with many closing its doors. We should instead focus on attracting new industries and diversifying our economy, and a capital gains tax increase would be counter to those efforts.

Mahalo for the opportunity to testify.

SB 2242, RELATING TO TAXATION

FEBRUARY 2, 2022 · SENATE WAYS AND MEANS COMMITTEE · CHAIR SEN. DONOVAN DELA CRUZ

POSITION: Support.

RATIONALE: Imua Alliance **supports SB 2242**, relating to taxation, which increases personal income tax revenues for high earning taxpayers by establishing new income tax brackets and rates that are applied against a broader level of taxable income for taxable years beginning after 12/31/2021; increases the tax on capital gains; increases the corporate income tax and establishes a single corporate income tax rate; and exempts unemployment payments from the state's personal income tax from 1/1/2022.

At the peak of Hawai'i's economic downturn in 2020, the islands experienced levels of unemployment not seen since the Great Depression. For example, as the preamble to this measure notes, the unemployment rate in Kahului skyrocketed to 35 percent in April, nearly 10 percent higher than the national unemployment rate at the peak of the Great Depression and the highest of any metropolitan area in the United States at the time, according to the United States Bureau of Labor Statistics.

Additionally, Hawai'i residents face the highest housing costs in the nation, at more than twice the national average. Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2021* report found that a full-time worker would need to earn $37.69/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 2005 and 2015. Average rent for a two-bedroom unit surpassed $2,000 in recent years, with minimum wage workers needing to log 114 hours per week to afford a modest one-bedroom apartment at fair market value and 149 hours per week to afford a two-bedroom–a number that is equivalent to working over 20 hours a day with no days off year-round.

Notably, housing costs increased during the pandemic. In Honolulu, median single-family home prices reached a record of $1.06 million last December, driven largely by sales to residential property investors. Unsurprisingly, our state is now experiencing population decline. Hawai'i saw domestic out-migration increase for a fifth consecutive year in 2021, as the state's high cost of living continued to push people to the mainland. Census estimates show that our state's population dropped by 10,358 people from July 2020 to July 2021.

Taxing unemployment compensation worsens the financial hardship faced by people who have lost their jobs, like the hundreds of thousands of local workers who were laid off or saw their positions terminated during the pandemic. Currently, fifteen states–including Alabama, Alaska, California, Florida, Montana, Nevada, New Hampshire, New Jersey, Pennsylvania, South Dakota, Tennessee, Texas, Virginia, Washington, and Wyoming–do not tax unemployment compensation. Moreover, **Hawai'i was one of only thirteen states that levied its personal income tax on the first $10,200 of unemployment income received by individuals in 2020, when the first emergency public health orders went into effect.**

With regard to the tax fairness portions of this measure, it is time for Hawai'i to tax the rich. Hawai'i saddles our low-income neighbors with the second-heaviest state and local tax burden in the nation. While families who earn less than $20,000 per year pay 15 percent of their income in state and local taxes, those who make over $450,000 annually pay only about 9 percent. This measure institutes tax fairness in a number of ways. To begin, the measure raises personal income tax rates and establishes a rate recapture mechanism for our state's highest earners. Hawai'i currently allows its wealthiest households to benefit from lower tax brackets designed for middle and lower-income residents. Even multimillionaires benefit by having the first $400,000 they earn in any given year taxed at marginal income tax rates that start as low as 1.4 percent. The bill also closes our state's capital gains loophole.

Hawai‘i is also one of only nine states that taxes all capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—at a lower rate than ordinary income. This capital gains tax loophole privileges almost entirely high-income taxpayers, including non-residents who profit from investing in real estate in the islands. If Hawai‘i were to tax capital gains at the same rates as regular income, as most states do, Hawai‘i would bring in over $160 million in new revenue, according to Hawai’i Department of Taxation estimates, 97 percent of which would be paid by the top 5 percent of income earners in our state, while the bottom 80 percent would pay nothing at all. **When coupled with an analysis from the Institute on Taxation and Economic Policy about the proposed income tax increase and rate recapture mechanism contained in this bill, these provisions would generate roughly $380 million for our state.**

Furthermore, this proposal increases the tax rate on corporate profits to a flat rate of 9.6 percent. It is estimated that nearly 60 percent of Hawai‘i's corporate income tax is paid by non-residents. Corporate taxes differ from individual income taxes in an important way: corporate taxes are applied only to profits, so companies facing losses don’t pay. The federal Tax Cuts and Jobs Act cut the federal corporate income tax rate by 14 percentage points, from 35 percent to 21 percent, so companies are getting a huge tax break at the federal level. **If Hawai‘i were to have a single tax rate on corporate profits of nearly 10 percent, it would raise at least $103 million in revenue per year.** Hawai‘i's current top corporate tax rate of 6.4 percent is well below the national median. We are ranked 34th among states in per capita corporate tax collections, at $103 per person, while the number one state, New Hampshire, collects $582 per person.

SENATE BILL 2242, RELATING TO TAXATION

FEBRUARY 2, 2022 · SENATE WAYS AND MEANS COMMITTEE · CHAIR SEN. DONOVAN DELA CRUZ

POSITION: Support.

RATIONALE: The Democratic Party of Hawai'i Education Caucus supports SB 2242, relating to taxation, which increases personal income tax revenues for high earning taxpayers by establishing new income tax brackets and rates that are applied against a broader level of taxable income for taxable years beginning after 12/31/2021; increases the tax on capital gains; increases the corporate income tax and establishes a single corporate income tax rate; and exempts unemployment payments from the state's personal income tax from 1/1/2022.

At the peak of Hawai'i's economic downturn in 2020, the islands experienced levels of unemployment not seen since the Great Depression. For example, as the preamble to this measure notes, the unemployment rate in Kahului skyrocketed to 35 percent in April, nearly 10 percent higher than the national unemployment rate at the peak of the Great Depression and the highest of any metropolitan area in the United States at the time, according to the United States Bureau of Labor Statistics.

Additionally, Hawai'i residents face the highest housing costs in the nation, at more than twice the national average. Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2021* report found that a full-time worker would need to earn $37.69/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 2005 and 2015. Average rent for a two-bedroom unit surpassed $2,000 in recent years, with minimum wage workers needing to log 114 hours per week to afford a modest one-bedroom apartment at fair market value and 149 hours per week to afford a two-bedroom–a number that is equivalent to working over 20 hours a day with no days off year-round.

Notably, housing costs increased during the pandemic. In Honolulu, median single-family home prices reached a record of $1.06 million last December, driven largely by sales to residential property investors. Unsurprisingly, our state is now experiencing population decline. Hawai'i saw domestic out-migration increase for a fifth consecutive year in 2021, as the state's high cost of living continued to push people to the mainland. Census estimates show that our state's population dropped by 10,358 people from July 2020 to July 2021.

Taxing unemployment compensation worsens the financial hardship faced by people who have lost their jobs, like the hundreds of thousands of local workers who were laid off or saw their positions terminated during the pandemic. Currently, fifteen states–including Alabama, Alaska, California, Florida, Montana, Nevada, New Hampshire, New Jersey, Pennsylvania, South Dakota, Tennessee, Texas, Virginia, Washington, and Wyoming–do not tax unemployment compensation. Moreover, **Hawai'i was one of only thirteen states that levied its personal income tax on the first $10,200 of unemployment income received by individuals in 2020, when the first emergency public health orders went into effect.**

With regard to the tax fairness portions of this measure, it is time for Hawai'i to tax the rich. Hawai'i saddles our low-income neighbors with the second-heaviest state and local tax burden in the nation. While families who earn less than $20,000 per year pay 15 percent of their income in state and local taxes, those who make over $450,000 annually pay only about 9 percent. This measure institutes tax fairness in a number of ways. To begin, the measure raises personal income tax rates and establishes a rate recapture mechanism for our state's highest earners. Hawai'i currently allows its wealthiest households to benefit from lower tax brackets designed for middle and lower-income residents. Even multimillionaires benefit by having the first $400,000 they earn in any given year taxed at marginal income tax rates that start as low as 1.4 percent. The bill also closes our state's capital gains loophole.

Hawai'i is also one of only nine states that taxes all capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—at a lower rate than ordinary income. This capital gains tax loophole privileges almost entirely high-income taxpayers, including non-residents who profit from investing in real estate in the islands. If Hawai'i were to tax capital gains at the same rates as regular income, as most states do, Hawai'i would bring in over $160 million in new revenue, according to Hawai'i Department of Taxation estimates, 97 percent of which would be paid by the top 5 percent of income earners in our state, while the bottom 80 percent would pay nothing at all. **When coupled with an analysis from the Institute on Taxation and Economic Policy about the proposed income tax increase and rate recapture mechanism contained in this bill, these provisions would generate roughly $380 million for our state.**

Furthermore, this proposal increases the tax rate on corporate profits to a flat rate of 9.6 percent. It is estimated that nearly 60 percent of Hawai'i's corporate income tax is paid by non-residents. Corporate taxes differ from individual income taxes in an important way: corporate taxes are applied only to profits, so companies facing losses don't pay. The federal Tax Cuts and Jobs Act cut the federal corporate income tax rate by 14 percentage points, from 35 percent to 21 percent, so companies are getting a huge tax break at the federal level. **If Hawai'i were to have a single tax rate on corporate profits of nearly 10 percent, it would raise at least $103 million in revenue per year.** Hawai'i's current top corporate tax rate of 6.4 percent is well below the national median. We are ranked 34th among states in per capita corporate tax collections, at $103 per person, while the number one state, New Hampshire, collects $582 per person.

Kris Coffield · Chairperson, DPH Education Caucus · (808) 679-7454 · kriscoffield@gmail.com

Hawaiʻi Children's Action Network Speaks! is a nonpartisan 501c4 nonprofit committed to advocating for children and their families. Our core issues are safety, health, and education.

To: Senate Committee on Ways and Means

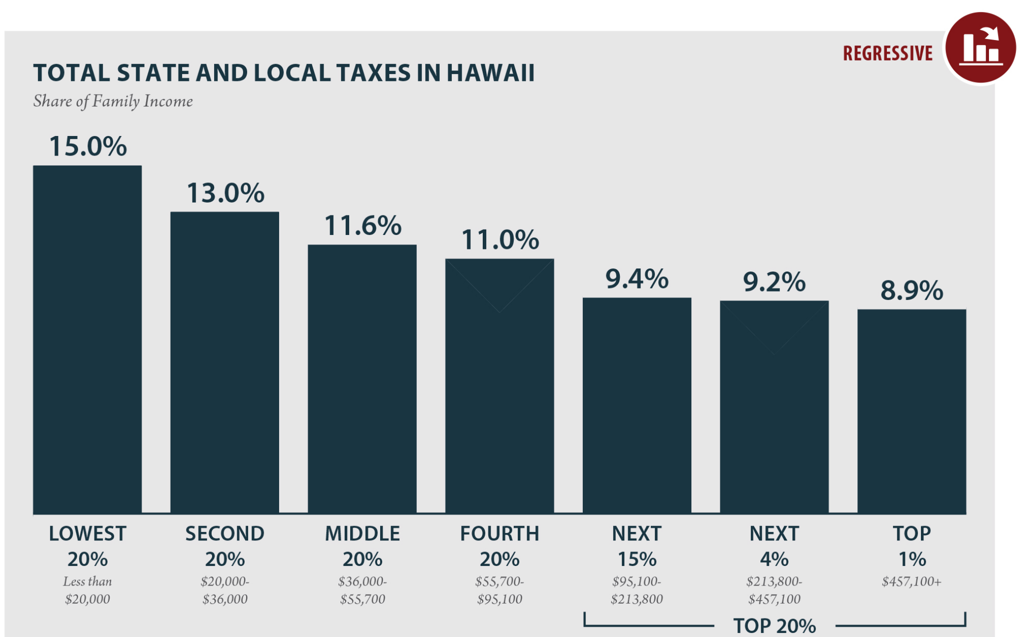
Re: **SB 2242 - Relating to taxation**
Hawaiʻi State Capitol, Conference Room 211 & Videoconference
February 2, 2022, 10:00 AM

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and committee members,

On behalf of Hawaiʻi Children's Action Network Speaks!, I am writing in SUPPORT of SB 2242, relating to taxation. This bill would increase personal income tax revenues for high earning taxpayers, the tax on capital gains and the corporate income tax. It would also exempt unemployment payments from the State's personal income tax.

This bill would help make our tax system more fair by asking those who are fortunate enough to be able to afford it to pay a little more, in order to help their unemployed neighbors.

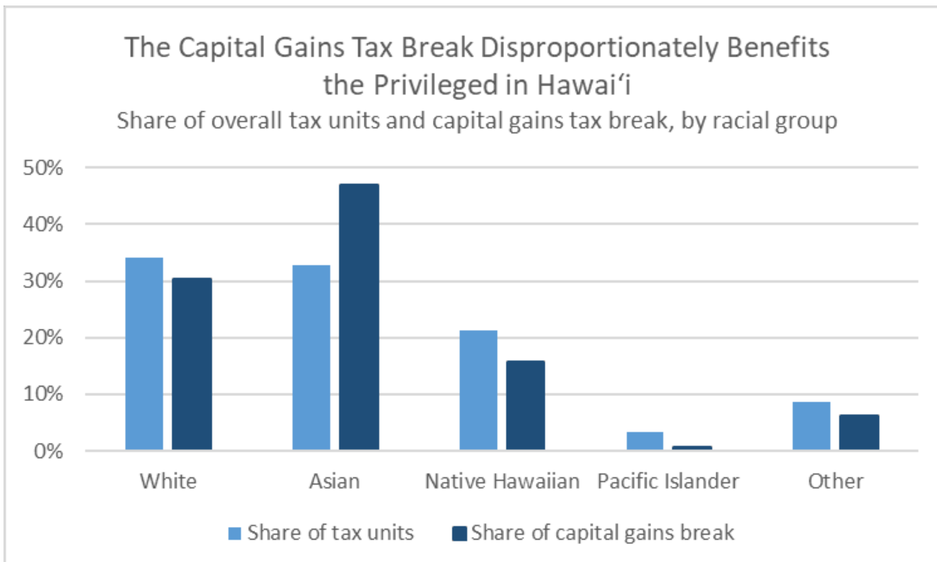
One way that this bill does that is by increasing the personal income tax rate for those at the top. Currently, Hawaiʻi's tax system is upside down. Families who earn less than $20,000 per year pay 15% of their income in state and local taxes, while those who make over $450,000 pay only about 9%. In fact, our state saddles our low-income families with the second-heaviest state and local tax burden in the nation. [1]



[1] Institute on Taxation and Economic Policy, https://itep.org/whopays/hawaii/

The second way that this bill helps balance our tax system is by closing the capital gains tax loophole, which benefits the highest-income taxpayers, including non-residents who profit from investing in real estate in Hawaiʻi. Hawaiʻi is one of only nine states that allows capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—to be taxed at a LOWER rate than ordinary working people's income.[2]

In 2019, the 7.7% of taxpayers who earned $400,000 or more received 79.4% of the capital gains income in the state.[3] And while Native Hawaiians and Pacific Islanders are 24% of the tax units in Hawaiʻi, they receive only 17% of the capital gains tax breaks.[4]



The third way that this bill raises revenues is by increasing the corporate income tax rate as well as applying a single rate. This makes sense for many reasons. For example, it is estimated that **nearly 60 percent of Hawaiʻi's corporate income tax is paid by non-residents.**[5]

In addition, Hawaiʻi's current top corporate tax rate of 6.4% is below the median of the states. We are ranked 34th among states in per capita corporate tax collections, at $103 per person, while the 1st state, New Hampshire, collects $582 per person.[6] And the federal Tax Cuts and Jobs Act cut the federal corporate income tax rate by 14 percentage points, from 35% to 21%, so they are getting a huge tax break at the federal level.[7]

Mahalo for the opportunity to provide this testimony. Please pass this bill.

Thank you,
Nicole Woo, Director of Research and Economic Policy

---

[2] Center on Budget and Policy Priorities, https://www.cbpp.org/research/state-budget-and-tax/state-taxes-on-capital-gains
[3] Hawaii Department of Taxation, https://files.hawaii.gov/tax/stats/stats/indinc/2019indinc.pdf
[4] Institute on Taxation and Economic Policy, unpublished analysis, January 2022
[5] Hawaii Department of Taxation, https://files.hawaii.gov/tax/stats/trc/docs2022/sup_210317/Who_Pays_and_Revenue_Sustainability.pdf
[6] Tax Foundation, https://taxfoundation.org/state-corporate-income-tax-collections-per-capita-2020/
[7] Tax Policy Center, https://www.taxpolicycenter.org/briefing-book/how-did-tax-cuts-and-jobs-act-change-business-taxes

Hawaii Bankers Association

TEL:
808-524-5161
FAX:
808-521-4120
ADDRESS:
1000 Bishop Street, Suite 301B
Honolulu, HI 96813-4203

Presentation to The
Committee on Ways and Means
Wednesday, February 2, 2022, 10:00 AM
State Capitol Conference Room 211 & Videoconference

Testimony on SB 2242 In Opposition

TO: The Honorable Donovan M. Dela Cruz, Chair
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair
Members of the Committee

My name is Neal K. Okabayashi, Executive Director of the Hawaii Bankers Association (HBA). HBA represents seven Hawai`i banks and three banks from the continent with branches in Hawai`i.

The question must be posed: Why is a tax increase necessary when Hawai`i has a very large surplus? Hawai`i estimates its surplus to be $1 billon, so large that the Governor proposed a $100 tax refund to taxpayers and dependents totaling $110 million, which, in his words, will inject $110 million into the economy. Of course, by giving the populace more money increases economic growth and increases tax revenue, and by contrast, decreasing money available to the population will decrease economic growth, reducing tax revenue. In addition, Hawai`i will or has received an estimated $2.882 billion from the CARES Act and the American Rescue Plan Act (ARPA), not to mention roughly $3.841 billion in PPP funding.

In an article published by the Tax Review Commission of 2020, it is said "Over long term, growth is more important than tax law changes." They also said "the growth of the economy is more important to long-term tax adequacy. Therefore the structure of the tax system must encourage economic growth". Their study shows that higher the growth rate, the higher the tax revenue. Another study showed that tax increases will not help the economy grow as a study on state corporate tax changes from 1970 to 2010 showed that tax increases were "almost uniformly harmful".

The income tax increase can occur at the $100,000 level depending on your tax bracket status. To buy a HUD affordable unit, an individual would be eligible to buy an affordable unit at an income up to $114,360, while a family of four would be eligible to buy an affordable unit with an income up to $163,280. However, those who want to buy an affordable unit would see their income diminish to pay their State income tax and may be unable to buy an affordable unit. That is certainly an anomaly.

If the bill is enacted, Hawaii will be on the verge of the undesirable standing of the highest income tax rate in the country as it creeps ever so closer to the 13.3% California rate.

Population is key to economic growth; for one thing it provides a healthy tax base. Hawaii has been suffering from a population drain for a few years, which drain is also a brain drain. Increasing taxes on the middle- and upper-income populace will encourage them to move to another state, such as Nevada. As Civil Beat said in a January 8, 2022 article that we have lost more residents that all but three states. DBEDT has said we are losing our best and brightest as 15% of Hawaii born who live on the mainland are between 18 and 44 and have a college degree or more but only 7% of Hawaii residents share the same characteristic. At a time when Movers & Shakas seeks to decrease the brain drain, this bill will move us in the opposite direction.

Studies have shown that the biggest reason people move from Hawai`i is the cost of living. Taxes are part of the cost of living, and we should not create a tax system encouraging our population and businesses to move to the continent. Hawai`i taxes are even more costly since enactment of the SALT provisions which increased taxes for a substantial number of our population.

The capital gain tax rate will increase 50% to slightly more than 11%, thereby disincentivizing investment in innovative startup companies or investing in economic growth. At a time when Hawaii seeks to diversify its economy, the last thing we should do is increase the capital gains tax rate. This bill and SB 2485 are counterproductive to other efforts to grow and diversify our economy as shown by SB 2805, SB 2806, and SB 2808, which are designed to encouraging startups and innovative companies.

The same could be said for increasing corporate income tax to a flat tax rate of 9.6%, which is an increase of 50% or as much as 118%, depending on your current tax rate. A flat tax rate is regressive and not progressive so it should not be done.

Increasing the corporate income tax rate may have the same impact on corporations as an increase of the income tax rate will have on population drain. Corporations may move to other states. That has already happened already in California with companies such as Tesla, Oracle and Hewlett-Packard have or will move to Texas.

The corporate income tax rate increase may have a similar effect to interest rate hikes that the Federal Reserve Bank (FRB) will make this year to stem inflation, among other factors. The purpose of FRB interest rate hikes is to cool the economy and the corporate tax increase has the potential to do the same as well as negatively impact consumers, employees, philanthropy, research and innovation as the funds for those issues will diminish.

Hawai`i already has one of the worst reputations in the nation for business climate. We do not need to enhance that reputation since that will not serve to grow our economy.

In short, increasing taxes is not only not needed at a time when we have a billion-dollar surplus but we will lose tax revenue because when we lose our tax base because we have less taxpayers and less taxable income. In other words, tax increase means less tax revenue.

Thank you for the opportunity to submit this testimony in opposition to SB 2242. Please let us know if we can provide further information.

Neal K. Okabayashi
(808) 524-5161

GRASSROOT
INSTITUTE OF HAWAII

February 2, 2022
10 a.m.
Conference Room 211 and Videoconference

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

From: Grassroot Institute of Hawaii
Joe Kent, Executive Vice President

RE: SB2242 — RELATING TO TAXATION

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on SB2242, which seeks to create additional tax brackets, thus raising the state's top income tax rate from 11% to 13%.

If enacted, this bill also would increase the capital gains tax from 7.25% to 11% and hike the corporate income tax rate and income tax rates on investment companies and real estate investment trusts from the graduated rates of 4.4%, 5.4% and 6.4% to a flat 9.6%.

The purported rationale for this bill is to address the economic damage caused by the COVID-19 crisis, especially the state's high cost of living and unemployment. However, the strategy pursued here is perplexing and demonstrates a willful refusal to accept the fact that Hawaii's high cost of living is not due to the pandemic, but to policies pursued for decades prior to the crisis — and that this bill would only make worse.

The suggestion that the bill is needed to bring in additional revenues following the pandemic is patently false. In fact, Hawaii is enjoying a budget surplus due to higher-than-expected revenues combined with an infusion of federal funds. Not only does the state not need more revenues, the Legislature is currently considering a proposal to issue a tax refund to Hawaii taxpayers.

More important, the tax hikes outlined in this bill would have the opposite effect from the goal mentioned in the introduction. Rather than help working families, this bill would help increase the cost of living in Hawaii, drive away businesses and discourage investment, thereby contributing to the unemployment problem.

A significant hike in the top income tax rate also is likely to increase the number of high-earners who leave the state. The minor and speculative increase in revenue that this tax hike would possibly generate would be offset by the damage it would cause to the rest of the state's economy.

Hawaii businesses are still struggling to recover from the effects of the pandemic lockdowns. Many have closed their doors forever; others are barely hanging on. Raising the capital gains tax and corporate income tax would send a clear message that Hawaii is not open for business and is not friendly to entrepreneurs or new business owners. Moreover, the mere fact that this bill is even being considered is a bad sign by itself.

The experience of the past year demonstrates that there are far better ways to generate more tax revenues than by levying higher taxes on Hawaii's struggling residents and businesses. In our rebounding economy, even small economic gains have big effects. Thus, policymakers should focus on growing the economy, which would bring in more state revenues than a tax hike — and without any negative effects on business.

We are gravely concerned about the impact of the tax hikes proposed in this bill. Hawaii residents are already among the most taxed in the country; the state has the second-highest overall tax burden in the U.S. That high tax burden contributes to Hawaii's cost of living and is one of the reasons why so many Hawaii residents have been leaving in search of greater opportunities elsewhere.

Given the state's already-high tax burden, there is never a good time to raise taxes. But this proposal appears to ignore the reality of our state's budget surplus and the challenges that our businesses and residents have had to face over the past two years. Hawaii's economy will take years to recover from the pandemic and lockdowns. The last thing Hawaii residents and businesses need at this point is a tax hike.

There are myriad reasons we should be wary of implementing tax hikes. Here are just a few:

>> Hawaii cannot sustain a hike in taxes since its already-damaged economy was hit harder by the lockdowns than any other state in the nation.[1]

[1] Dave Segal, "Hawaii's unemployment rate hit nation-high 15% in September," Honolulu Star-Advertiser, Oct. 20, 2020.

>> State lawmakers increased taxes and fees substantially following the Great Recession of 2007[2008,[2] despite a windfall in revenues from an economic boom over the past decade. Taxes and fees ballooned on motor vehicles, transient accommodations, estates, fuel, food, wealthy incomes, property, parking and businesses.

>> Hawaii's population reduction of 32,237 people since fiscal 2016[3] has left Hawaii's remaining taxpayers with a greater tax burden.

>> Hawaii already has a regressive general excise tax that disproportionately hits the poor.[4]

>> Hawaii has a progressive income tax that taxes high-income earners at 11%, second only to California at 13.3%.[5] Hawaii's top 1% already pays 23% of all income taxes in the state.[6]

If policymakers are serious about helping working families, they should abandon the high-tax approach that has already established Hawaii as the state with the highest cost of living.

Instead, they should focus on strategies to lower those costs, such as reducing income taxes, creating an exemption to the general excise tax for groceries and medical services, lowering fees and reducing regulations that limit opportunities and stifle economic growth.

Thank you for the opportunity to submit our comments.

Sincerely,

Joe Kent
Executive Vice President
Grassroot Institute of Hawaii

[2] "Tax Acts (by Year)," Tax Foundation of Hawaii, accessed Feb. 8, 2021.
[3] "Annual Estimates of the Resident Population for the United States, Regions, States, the District of Columbia and Puerto Rico: April 1, 2010 to July 1, 2020 (NST-EST2020)" U.S. Census Bureau, Population Division, December 2020. See also, "U.S. Census data," accessed Jan. 3, 2022.
[4] "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index: "Sales Tax Burden," American Legislative Exchange Council, 2021. Note that Hawaii does not have a sales tax, but a state general excise tax that is levied on almost all goods and services, and imposed multiple times throughout the production chain.
[5] Katherine Loughead, "State Individual Income Tax Rates and Brackets for 2020," Tax Foundation, Feb. 4, 2020.
[6] "Hawaii Individual Income Tax Statistics," Hawaii Department of Taxation, December 2020, Table 13A.

HAPA
HAWAI'I ALLIANCE for PROGRESSIVE ACTION

LATE

Senate Committee on Ways and Means

Wednesday, February 2, 2022, 10:00 a.m. Conference Room 211

Hawai'i Alliance for Progressive Action Strongly Supports: SB2242

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

On behalf of the Hawai'i Alliance for Progressive Action (HAPA) I am submitting testimony in **strong support of SB2242**. HAPA is a state-wide organization that engages approximately 10,000 local residents annually.

SB2242 would exempt unemployment insurance payments from the state's income tax; and increase taxes on the wealthy, including personal income taxes on high earners and the capital gains tax.

Why Exempt Unemployment Insurance Payments?

By exempting PUA and other unemployment benefits from state income tax, the legislature can make sure that more money stays in people's pockets. This will help to unload at least some of the financial burdens that workers are facing right now. It will also allow working class families to have enough to spend on local businesses and to save up to help their families make it through this pandemic and economic crisis.

Why Increase Taxes on High Earners?

Those lucky enough to be doing well in this economy should pay their fair share.

The COVID-19 recession has devastated many workers in low-wage tourism and hospitality jobs who were already struggling to make ends meet before the pandemic hit.

During the past year, many of those at the top have benefitted from the record-breaking stock market and skyrocketing high-end real estate prices.

Hawaii saddles our low-income neighbors with the second-heaviest state and local tax burden in the nation. While families who earn less than $20,000 per year pay 15% of their income in state and local taxes, those who make over $450,000 pay only about 9%.

Lawmakers should ask those who can afford it to pay a little more in taxes to help close the deficit without slashing critical government spending.

Why Increase Capital Gains Tax?

Hawaiʻi is one of only nine states that allows capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—to be taxed at a lower rate than ordinary working people's income.

The capital gains tax loophole is a tax break for the richest and most privileged people in Hawaiʻi.

This capital gains tax loophole benefits the highest-income taxpayers, including non-residents who profit from investing in real estate in Hawaiʻi. In 2019, the 7.7 percent of taxpayers who earned $400,000 or more received 79.4 percent of the capital gains income in the state.

While Native Hawaiians and Pacific Islanders are 24 percent of the tax units in Hawaiʻi, they receive only 17 percent of the capital gains tax breaks.

Those making at least $1 million a year have a lower average effective tax rate than those in the income group just below them. The Hawaiʻi State Department of Taxation (DOTAX) explains, "The reason for this drop is that Hawaiʻi taxes net long-term capital gains at 7.25 percent and the highest income groups are more likely to utilize it."

"Capital gains are heavily concentrated in the high end of the income distribution especially for nonresidents. The higher the income of taxpayers the greater the share of capital gains in their taxable income," according to DOTAX.

For those who made more than $400,000 a year in 2019, long-term capital gains were 41.4 percent of the total taxable income of residents, and 49.4 percent of nonresidents. "This partially explains why the average effective tax rates for this income group stay two to three percentage points below the marginal tax rate of 11 percent … while the rate on net long-term capital gains is set at 7.25 percent," according to DOTAX.

Taxing capital gains like regular income would generate a lot of revenue, paid for by those at the top.

Long-term capital gains constitute 11.5 percent of total taxable income in the state, or nearly $4.3 billion in 2019.

If Hawaiʻi were to tax capital gains at the same rates as regular income, as most states do, Hawaiʻi would bring in about $72.3 million in new revenue per year. And 97 percent of it would be paid by the top 5 percent of earners in Hawaiʻi, or those making at least $124,000 a year. Meanwhile the vast majority of taxpayers, those in the bottom 80 percent, would pay nothing at all.

Thank you for your leadership on this issue and for the opportunity to support Hawaii’s workers and working families. HAPA is a member of the Hawaiʻi Tax Fairness Coalition.

Mahalo for your consideration,

Anne Frederick
Executive Director

The Hawaiʻi Alliance for Progressive Action (HAPA) is a public non-profit organization under Section 501(c)(3) of the Internal Revenue Code. HAPA’s mission is to catalyze community empowerment and systemic change towards valuing ʻaina (environment) and people ahead of corporate profit.

LATE

LIBERTARIAN

TESTIMONY

LIBERTARIAN PARTY OF HAWAII
℅ 92-149 Kohi Place
Kapolei, HI 96707

RE: **SB 2242** to be heard on Wednesday February 2

Please oppose this bill.

Raising taxes at the same time trying to increase the minimum wage for certain employees is not only the end of small businesses in Hawaii, it is the end for medium size businesses and the nail in the coffin for any chance of lowering the cost of living in Hawaii too.

The cost of a pack of strawberries, a gallon of milk, and a box of cereal at Foodland was almost $30! After this tax hike and raising minimum wages that same bundle will be almost $40, and then $50 for inflation. In another 7 years it will be time to raise them all again because the dollar will be almost worthless.

Taxes are milked out of every pocket at every transaction, we are taxed on money that has already been taxed. Please consider cutting some spending, selling assets, or soliciting charitable organizations to help fund these essential services and uplift Hawaii's most vulnerable workers.

There are people and organizations that want to help, the government does not have to do it alone. Take for instance last month Mark Zuckerberg donated 50 million to UH, the largest donation they have ever received.

You, the lawmakers, have the power to make a way for people to give freely what they can without the use of force or coercion. Thank you for your consideration.

Sincerely,

Feena Bonoan

Feena Bonoan
Vice Chair
February 1, 2022

SB-2242
Submitted on: 1/27/2022 1:33:20 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
lynne matusow	Individual	Oppose	No

Comments:

Only commenting on increase in capital gains rate, which I oppose.

This is not tax fairness, it is an assault on many who rely on capital gains to pay their bills, their rent, their property tax, etc. to supplement their retirement income allowing them to live in hawaii and buy necessities. You are lumping these people, some of whom are needy, in with wealthy (not defined) individuals. To be fair, you need to be reducing taxes, not increasing any. This is shameful. Please delete this part of the bill.

I also suggest that the printed name of all introducers be placed under the illegible signatures on all bills and resolutions. Public has a right to know who introduced the bill/resolution instead of trying to decipher scribbles.

SB-2242
Submitted on: 1/27/2022 10:19:10 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Bret Mossman	Individual	Support	No

Comments:

Dropping the taxes on unemployment income is an important policy that Hawai'i should implement. The increase on corporate tax to 9.6% is a little high, especially for smaller businesses, I would suggest splitting these two bills to ensure that the unemployment section can be passed. The other section proposed are also important, but will likely require much more discussion. Despite these issues I request that the committee support this legislation.

SB-2242
Submitted on: 1/28/2022 11:29:44 AM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Nanea Lo	Individual	Support	No

Comments:

Hello,

My name is Nanea Lo. I'm a lifelong resident and Kanaka Maoli (Native Hawaiian) of these lands that I'm ancestrally tied to. I fully support this bill, SB 2242. We need to be taxing the rich.

me ke aloha ʻāina,

Nanea Lo

SB-2242
Submitted on: 1/30/2022 6:34:48 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Jacquelyn Esser	Individual	Support	No

Comments:

Strong support. Mahalo for the opportunity to provide testimony on this bill.

SB-2242
Submitted on: 1/30/2022 9:44:47 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Christy MacPherson	Individual	Support	No

Comments:

Aloha members of the Committee on Ways and Means,

I am in strong support of SB 2242. Taxing higher income earners in Hawai`i is not only the right thing to do, but also an opportunity to bring much needed revenue into the state budget.

Mahalo for your consideration.

Will Caron
Pālolo Valley
willcaronforhawaii@gmail.com

January 31, 2022

TO: Senate Committee on Ways & Means
RE: Testimony in Support of SB2242

Aloha Committee Members,

I support SB2242 and ask that the committee pass this bill as is on to the full senate with your support.

The COVID-19 recession has devastated many workers in low-wage tourism and hospitality jobs who were already struggling to make ends meet before the pandemic hit.

At the same time, many of those at the top have benefitted from the record-breaking stock market and skyrocketing high-end real estate prices and are doing better than ever before.

Hawai‘i saddles our low-income neighbors with the second-heaviest state and local tax burden in the nation. While families who earn less than $20,000 per year pay 15 percent of their income in state and local taxes, those who make over $450,000 pay less than 9 percent. Source: https://itep.org/whopays/hawaii/

Lawmakers should ask those who can afford it to pay a little more in taxes to help support investments in the community that will help working families emerge from the pandemic recession stronger than before, rather than in greater financial trouble.

Exempting unemployment benefits from state income tax is another sound decision that will make sure more money stays in the pockets of working families, helping to unload at least some of the financial burdens of Hawai‘i's working families and boosting the economy.

Mahalo for the opportunity to support this important measure.

LATE

SB-2242
Submitted on: 2/1/2022 1:43:22 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Siobhan Coad	Individual	Support	No

Comments:

I am in firm support of this bill as it supports local families who are still reeling from the pandemic. Income earned from unemployment should not be taxed. Thank you for taking the time to consider this bill.

LATE

SB-2242
Submitted on: 2/2/2022 10:09:11 AM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Benjamin Sadoski	Individual	Support	No

Comments:

Aloha,

I believe that SB2242 takes several steps to make the tax system in Hawai'i fairer. I strongly support this measure.

Mahalo,

Ben Sadoski