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**HOUSE COMMITTEE ON FINANCE  
TESTIMONY REGARDING HB 1605  
RELATING TO TAXATION**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: FEBRUARY 18, 2009**

**TIME: 2PM**

**ROOM: 308**

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This measure proposes to create the Hawaii Tax Review Initiative. The initiative will be comprised of five local and national tax and economic experts. The initiative is to provide a report to the Legislature on its finding on Hawaii tax policies and is to participate in a symposium.

The Department of Taxation (Department) offers comments.

**SUPPORT FOR STUDYING HAWAII'S TAX POLICY**—As a general matter, the Department supports the concept of periodically studying Hawaii's tax policies, especially from a historical perspective and provided in this measure. As the fundamentals of economics and the local industries change, it is important to evaluate tax policies and their impacts on them.

**MAY BE UNNECESSARY BECAUSE OF THE TAX REVIEW COMMISSION**—This measure may be inherently unnecessary because state law already provides for a mechanism synonymous with the proposed Hawaii Tax Review Initiative, which is the Tax Review Commission. Chapter 232E sets forth the priorities, authority, and structure of the Tax Review Commission, which is very similar to the proposal in this measure. The Tax Review Commission is constitutionally established and is required to meet every five years, pursuant to Article 7 § 3. The next Tax Review Commission is set to be formed in 2010, near the times set forth in this measure.

**ATTACH TO DEPARTMENT OF TAXATION**—The Department presumes that the Tax Review Initiative will need access to the Department's Research & Planning and legal staff. If these services will be necessary, the Department suggests attaching it to the Department of Taxation rather than the Department of Budget & Finance.

**UNBUDGETED APPROPRIATION**—The Department points out the unbudgeted revenue impact of this measure. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

TESTIMONY BY GEORGINA K. KAWAMURA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 1605

February 18, 2009

RELATING TO TAXATION

House Bill No. 1605 proposes a commission to implement the Hawaii tax review initiative, the purpose of which is to explore the historical development and evolution of Hawaii's tax system to determine if the State's tax policies are relevant and effective in achieving our current long-term economic and social goals.

We believe that the purpose of the bill is laudable. A focused review of the State's tax system in the context of our long-term goals for Hawaii would be beneficial in identifying and clarifying the public policies and direction that we need in planning for the future. However, instead of creating a new commission, we recommend that the next Hawaii Tax Review Commission be charged with this purpose when it is established on July 1, 2010, as expected and pursuant to the State Constitution and Chapter 232E of the Hawaii Revised Statutes.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Hawaii tax review initiative

BILL NUMBER: SB 1207; HB 1605 (Identical)

INTRODUCED BY: SB by Chun Oakland, 2 Democrats and 1 Republican; HB by Say

**BRIEF SUMMARY:** Establishes the Hawaii tax review initiative which shall explore the historical development and evolution of taxation in Hawaii to determine if the state's tax policies are relevant and effective in achieving Hawaii's current long-term economic, social goals and objectives. The initiative shall be attached to the department of budget and finance for administrative purposes and consist of five appointed local and national tax and economics specialists who shall review the state's tax code and comment on how the state's tax policies impact: (1) economic development and diversification; (2) low, middle, and upper income resident taxpayers; (3) state and county government operations; (4) urban, agricultural, rural, and conservation land uses; and (5) relevancy and effectiveness of the tax code under current circumstances.

Requires the Hawaii tax review initiative to submit a written report of its findings and recommendations, including any proposed legislation, to the 2010 legislature and to participate in a statewide tax symposium to be presented to the legislature and general public during the regular session of 2010. The Hawaii tax review initiative shall cease to exist on June 30, 2010.

Appropriates \$\_\_\_\_\_ in general funds for fiscal year 2010 for the operations of the Hawaii tax review initiative.

**EFFECTIVE DATE:** July 1, 2009

**STAFF COMMENTS:** This measure proposes a Hawaii tax initiative as a five-member body to perform a review of Hawaii's taxes and recommend whether they are still relevant, recommend changes, and submit legislation to the 2010 legislative session. The purpose of this body is similar to the duties of the Tax Review Commission.

Article VII, Section 3, was added to the State Constitution in 1978 as a result of the 1978 Constitutional Convention. This provided for the establishment of a Tax Review Commission to review the state's tax structure every five years. The Committee on Taxation and Finance of the 1978 Constitutional Convention found that a Tax Review Commission was needed since neither the Executive Branch nor the legislature had examined the state tax structure against standards such as equity and efficiency. At the time of the 1978 Constitutional Convention, there had not been any type of review of the state's tax structure for at least 20 years.

The first Tax Review Commission was appointed in 1980 and subsequently found it could not conduct a review with the limited funds that were appropriated for its work. When the legislature denied their request for additional funding, the members resigned. Another Commission was convened in 1983, 1988,

SB 1207; HB 1605 - Continued

1995 and 2001. The most recent commission convened in 2005 and submitted their final report on December 1, 2006.

While the proposed measure proposes that the Hawaii tax review initiative conduct a similar review of Hawaii's tax structure, if this measure is approved, the reconvening of the next Tax Review Commission should be postponed since the proposed body performs similar duties. Further, while the measure only gives the initiative less than a year to complete its duties, it is questionable whether this is sufficient time to perform the review of Hawaii's tax system as required by this measure.

Should this measure fail to pass, lawmakers should recall the lack of appropriately funding the constitutionally mandated Tax Review Commission the next time the Commission is formed. The last Commission that was adequately funded was the 1989 Commission which received more than \$300,000 and whose work formed the basis of a number of subsequent Commission and their recommendations.

Digested 2/17/09

**JAMES W. Y. WONG**

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February 17, 2009

Honorable Representative Marcus Oshiro, Chair  
Members of Committee on Finance  
Committee on Finance

RE: House Bill 1605

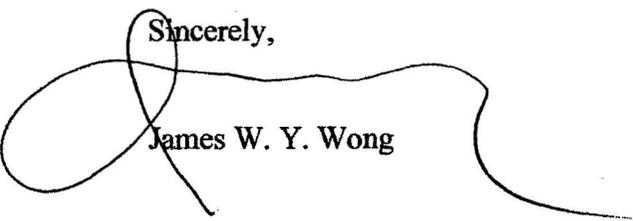
Dear Honorable Chair Oshiro and Members of the Committee on Finance:

I wish to support passage of House Bill 1605 which provides for obtaining information and perspectives to enact legislation to improve and adjust Hawaii's tax codes to meet the State's goals.

I concur that taxes are necessary to operate government and concur that it's necessary to determine whether the current tax laws need to be revised to meet our social and economic policies as they may change from time to time. As one of the supporters of this bill, I intend to work with private businesses to help raise fund to pay for half of the cost of hiring an independent firm to conduct such study.

I urge your approving House Bill 1605.

Sincerely,



James W. Y. Wong

Honorable Representative Marcus Oshiro, Chair  
Members of Committee on Finance  
Committee on Finance

RE: House Bill 1605

Dear Honorable Chair Oshiro and Members of the Committee on Finance:

PETITION:

We wish to support passage of House Bill 1605 which provides for obtaining information and perspectives to enact legislation to improve and adjust Hawaii's tax codes to meet the State's goals.

We urge your approval of this bill.

Print Name	Signature	Address
<i>Wahne Wong</i>	<i>Wahne Wong</i>	1936 Punahoa Dr. Honolulu HI 96822
<i>M. Turner</i>	<i>M. Turner</i>	3737 Manoa Road Honolulu HI 96822
<i>Roz Moore</i>	<i>Roz Moore</i>	3358 ALOHA AVE. Honolulu HI 96816
<i>Chail Smyth</i>	<i>Chail Smyth</i>	3737 Manoa Rd. 96822
<i>Lauren Estern</i>	<i>Lauren Estern</i>	3737 Manoa Rd. 96822
<i>Ross Yara</i>	<i>Ross Yara</i>	45-507 Naliwahi St. <del>96822</del> 96704
<i>Colin Lau</i>	<i>Colin Lau</i>	47-695 Hui Ulili St, Kaneohe 96744
<i>Lori Lee</i>	<i>Lori Lee</i>	3737 Manoa Road; Honolulu HI 96822
<i>Nguelani Wong</i>	<i>Nguelani Wong</i>	1577 Nehoa St. Honolulu HI 96822