TO : COMMITTEE ON FINANCE
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice chair

FROM: Eldon L. Wegner, Ph.D.
Policy Advisory Board for Elder Affairs (PABEA)

HB 2866 RELATING TO TAXATION

3:00 pm Wednesday, February 17, 2010
Conference Room 308, Hawaii State Capitol

PABEA supports passage of HB 2866.

for Elder Affairs has a statutory obligation to advocate on behalf of the senior citizens of Hawaii. While we advise the Executive Office on Aging, we do not speak on behalf of the Executive Office of Aging.

During this time of economic crisis and revenue shortfalls for our state government, we need to find alternative revenue in a way that assures that everyone shares in the cost rather than to further cut the programs and services needed by our most vulnerable populations.

Our current tax system is highly regressive and contributes to the extreme inequalities in our community. This bill would help correct this imbalance.

Especially in this time of revenue crisis, we need to look to those who can most afford to pay higher revenue. The income tax is the most transparent way to assure that the fiscal burden is shared by those most able to afford more taxes.

Thank you for allowing me to testify.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Adjust income tax rates

BILL NUMBER: HB 2866

INTRODUCED BY: Say

BRIEF SUMMARY: Amends HRS section 235-51 to amend the tax rate schedules for tax years beginning after 12/31/09 and ending before 1/1/16 as follows:

Joint filers: 1.4% over $4,800 taxable income to 11.55% over $400,000 - 12 steps
Head of Household: 1.4% over $3,600 taxable income to 11.55% over $300,000 - 12 steps
Single, Married filing separate: 1.4% over $2,400 taxable income to 11.55% over $200,000 - 12 steps
No change for estates and trusts.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: It should be noted that an increase in income tax rates for higher income taxpayers was approved by the 2009 legislature and sent to the governor who subsequently vetoed the measure. In the veto message, the governor stated that the bill would "increase the tax burden on Hawaii's families and small businesses by increasing the marginal income tax rate by as much as 33.3%. Hawaii has the highest top personal income tax rate in the United States. By increasing the top marginal tax rate from 8.25 to 11 percent, this bill will make Hawaii the state with the highest personal income tax rate in the nation. Although there is the misconception that only wealthy people will be affected, this bill will adversely impact almost 37,000 persons, of which about 27,000 are sole proprietors, partnerships, or subchapter S corporations whose owners report their business income through personal income tax returns. In this broad recession which affects both the wealthy and poor and where recovery depends on people investing, buying consumer goods, and donating to charities, a tax increase will put an unnecessary strain on everyone's pocket book. Small business owners who count their business income as personal income will find it more difficult to support and grow their enterprises. This could mean more business closures, layoffs, and fewer job opportunities."

The 2009 legislature overrode the governor's veto and the measure became Act 60, SLH 2009. While this measure proposes yet another increase of up to 5% in income tax rates, it is questionable whether taxpayers can afford to live in the state. What lawmakers have also learned is that despite the increase in the tax rates on the higher income categories of taxpayers last year, net income tax collections through the seven months of the fiscal year are still 6.7% percentage points below collections for the same period of the previous year. This proposal increases the tax rates on what many would consider "middle income" families and individuals. It should be noted that for the tax year 2005 - latest study available from the department of taxation - individuals in these categories already carry 65% of the tax burden. Joint returns where tax rates will be increased already carry 80% of the collections from that category. Thus, these taxpayers are being asked to carry even more of the income tax burden and at a time when the economy needs increased consumer spending that will create a demand for goods and services that, in turn, will drive employment opportunities.

Digested 2/16/10

OUR UNION OUR FAMILY

UPW

AFSCME LOCAL 646 AFL-CIO

The House of Representatives
The Twenty-Fifth Legislature
Regular Session of 2010

<u>Committee on Finance</u>
Rep. Marcus Oshiro, Chair
Rep. Marilyn Lee, Vice Chair

DATE: Wednesday, February 17, 2010
TIME: 4:30 P.M.
PLACE: Conference Room 308

TESTIMONY OF THE UNITED PUBLIC WORKERS, LOCAL 646, ON HB 28~~78~~66, RELATING TO TAXATION

My name is Dayton M. Nakanelua, state director of the United Public Workers, AFSCME, Local 646, AFL-CIO (UPW). The UPW represents approximately 8,800 blue collar non-supervisory employees in bargaining unit 1 and 2,900 institutional, health, and correctional workers in bargaining unit 10 under chapter 89. UPW's members are also beneficiaries of the Employer-Union Health Benefits Trust Fund.

HB 2878 repeals certain exemptions under the general excise, use, and public service company taxes. **The UPW strongly supports this measure**.

Thousands of government workers have been layed-off, forced to retire, or seen their paychecks drastically reduced. This has only exacerbated the downward economic spiral: As workers become unemployed, families cut spending; businesses are deprived of sales, prompting more lay-offs. This measure addresses the issue of reversing the economic downturn by preventing further layoffs and furloughs.

Delegates at our State Convention last summer was unanimously in support of legislation that enhances state revenues to keep our people working. We urge the favorable passage of this measure.

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