L E G I S L A T I V E

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SUBJECT: INCOME, Repeal increase in income tax rates

BILL NUMBER: HB 694

INTRODUCED BY: Souki

BRIEF SUMMARY: Amends Act 60, SLH 2009, to provide that the temporary increase in income tax rates shall be repealed on December 31, 2014 instead of December 31, 2015.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: The 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 While Act 60 is scheduled to be repealed on December 31, 2015, this measure would change the repeal date to December 31, 2014. It should be remembered that Act 60, SLH 2009, was enacted with other revenue enhancement measures to generate additional revenues to address the state's fiscal woes. If it is the desire to repeal the increased income tax rates proposed by this measure, the enactment of this measure should be accompanied by a reduction in state expenditures of an equal amount.

The question arises as to why the repeal goes into take effect for the next tax year, 2014? If, in fact, lawmakers believe that the higher rates are unnecessary, then the sooner the rates are repealed the better the outlook would be for the state's economic attractiveness. It would also be interesting to learn just how productive these higher tax rates have been. While they may have caught many unwary sole proprietors off guard, one has to ask whether or not these higher rates were avoided by those individuals who had invested in the generous Act 221 tax credits and, therefore, avoided any kind of tax liability. If so, then the negative perception created by the higher tax rates generated nothing for the state but an image that it is a poor place to live, work, and invest, underscoring the poor business climate.

Digested 2/12/13