HOUSE OF REPRESENTATIVES
TWENTY-EIGHTH LEGISLATURE, 2016
STATE OF HAWAII

H.R. NO. 52

HOUSE RESOLUTION

REQUESTING THE TAX REVIEW COMMISSION TO CONDUCT A STUDY ON THE FEASIBILITY OF USING A PERCENTAGE OF A TAXPAYER'S FEDERAL INDIVIDUAL INCOME TAX TO CALCULATE THE TAXPAYER'S STATE INDIVIDUAL INCOME TAX, AND TO DETERMINE WHY THE CURRENT STATE INDIVIDUAL INCOME TAX APPEARS TO BE RELATIVELY REGRESSIVE, COMPARED TO THE FEDERAL INDIVIDUAL INCOME TAX, WITH REGARD TO TAXPAYING HOUSEHOLDS OF MEDIAN AND LOWER INCOMES IN HAWAII.

WHEREAS, the State of Alaska, primarily because of the falling value of oil, finds its current finances out of balance, and its Governor has proposed bringing back a state income tax for the first time in thirty-five years; and

WHEREAS, in order to quickly establish a completely new individual income tax that is relatively fair and equitable, the Governor of Alaska proposed that the state individual income tax be six per cent of an Alaskan taxpayer's federal income tax liability, so that a person who owes $10,000 to the Internal Revenue Service would also simply write a $600 check to the State of Alaska; and

WHEREAS, in the past, other states have used or considered using a similar arrangement, whereby state individual income taxes would be a percentage of their federal individual income taxes; and

WHEREAS, many local jurisdictions have used, or are currently using, a similar arrangement, whereby taxes imposed by a local government are calculated as a percentage of either a taxpayer's federal or state individual income taxes; and

WHEREAS, a majority of Hawaii individual taxpayers file tax returns that could be modified relatively easily so that their state individual income tax liability would be based primarily on a percentage of their federal individual income tax, which would be much simpler and easier to file; and

WHEREAS, according to the State Data Book, in 2012, the federal individual income tax liability for taxpayers in Hawaii was $3,049 per capita; and

WHEREAS, the income tax paid to the State for that year was $1,106 per capita; and

WHEREAS, the ratio between these two numbers is approximately 100:36, meaning that a taxpayer who owed $10,000 to the Internal Revenue Service would generally also have owed $3,600 to the State of Hawaii; and

WHEREAS, a hypothetical typical family in Hawaii might be described as follows: a married couple with two dependent children, income from wages and no adjustments to income, standard deductions, regular income tax and no other taxes, no child-care credit, their children not receiving more than half their support from public agencies, and the family claiming the refundable food/excise tax credit and the income tax credit for low-income household renters; and

WHEREAS, based on the 2012 federal Form 1040, the state Form N-11, and their instructions, such a typical family with an adjusted gross income of $40,000 would owe no federal income tax and, instead, would receive a federal tax refund of $1,974; and

WHEREAS, if the same family calculated their state income tax liability as thirty-six per cent of their federal income tax liability, they would owe no state income tax and, instead, would receive a state tax refund of $710.64; and

WHEREAS, under Hawaii's current tax system, the same family would receive no refund and would owe a tax of $1,469; and

WHEREAS, for this family, the gap between calculating their state income tax liability as a percentage of their federal income tax liability, versus calculating their state income tax liability under Hawaii's current tax system, is $2,179.64, demonstrating how much worse off this typical family would be because of the Hawaii's current tax system; and

WHEREAS, this result appears to persist for taxpaying families of median and lower incomes, as shown in the following examples:

(1) An income of $10,000 results in a gap of $1,377.60;

(2) An income of $20,000 results in a gap of $2,523.32;

(3) An income of $30,000 results in a gap of $2,606.52;

(4) An income of $50,000 results in a gap of $2,050.96; and

(5) An income of $80,000 results in a gap of $2,685.96; and

WHEREAS, the mission of the Department of Taxation is to administer the tax laws of the State in a consistent, uniform, and fair manner; now, therefore,

BE IT RESOLVED by the House of Representatives of the Twenty-eighth Legislature of the State of Hawaii, Regular Session of 2016, that the Tax Review Commission is requested to study the feasibility of using a percentage of a taxpayer's federal individual income tax to calculate the taxpayer's state individual income tax; and

BE IT FURTHER RESOLVED that, in its study, the Tax Review Commission is requested to suggest how features in Hawaii's current tax system, such as not counting pensions as ordinary income, could be retained when using a percentage of a taxpayer's federal individual income tax to calculate the taxpayer's state individual income tax; and

BE IT FURTHER RESOLVED that, in its study, the Tax Review Commission is requested to determine why the current state individual income tax appears to be relatively regressive, compared to the federal individual income tax, with regard to taxpaying households of median and lower incomes in Hawaii; and

BE IT FURTHER RESOLVED that the Tax Review Commission is requested to submit a report of its findings and recommendations, including any proposed legislation, to the Legislature not later than twenty days prior to the convening of the Regular Session of 2017; and

BE IT FURTHER RESOLVED that a certified copy of this Resolution be transmitted to the Chairperson of the Tax Review Commission.

OFFERED BY: ____________________

MAR 10 2016