DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

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 Richard H.K. Onishi, Chair
and Members of the House Committee on Tourism

Date: Tuesday, February 14, 2017
Time: 10:00 A.M.
Place: Auditorium, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1586, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 1586 and provides the following comments regarding the tax provisions for your consideration.

Parts II and III: Transient Accommodations Tax allocation

Parts II and III of H.B. 1586 reduce the portion of Transient Accommodations Tax (TAT) revenues allocated to the counties to zero over the next four fiscal years. Part II reduces the counties' portion of TAT to $31 million by fiscal year 2019-2020. Part III reduces the counties' portion of TAT to $0 for fiscal years 2020-2021 and after. Part II becomes effective July 1, 2017. Part III becomes effective July 1, 2020. The resulting allocation schedule is as follows:

Fiscal Year	Total Counties' Share
2016-2017	$103 million
2017-2018	$93 million
2018-2019	$62 million
2019-2020	$31 million
2020-2021	$0

Part IV: New Income Tax Brackets and Rates

Parts IV of H.B. 1586 amends the income tax brackets for joint, head of household, and single income tax filers. The bill reduces the number of brackets for each filing status to four, including a zero bracket below a certain income threshold. Currently, there are nine income tax brackets. There is no zero bracket.

For each filing status, the bill increases the income threshold for the zero bracket and amends the rates for each of the other brackets over the course of the next three taxable years.

The new brackets are as follows:

Filing Status: Joint and HOH

Tax Year: 2018	
	Marginal Rate
Not over $15,000	0%
Over $15,000 under $75,000	6.64%
Over $75,000 under $225,000	7.79%
Over $225,000	8.50%
Tax Year: 2019	
Not over $16,125	0%
Over $16,125 under $75,000	5.38%
Over $75,000 under $225,000	7.34%
Over $225,000	8.75%
Tax Year: 2020 and after	
Not over $17,500	0%
Over $17,500 under $75,000	4.12%
Over $75,000 under $225,000	6.88%
Over $225,000	9.00%

Filing Status: Single & Married Filing Separate

Taxable Year: 2018	
	Marginal Rate
Not over $7,500	0%
Over $7,500 under $37,500	6.64%
Over $37,500 under $112,500	7.79%
Over $112,500	8.50%
Taxable Year: 2019	
Not over $8,062	0%
Over $8,062 under $37,500	5.38%
Over $37,500 under $112,500	7.34%
Over $112,500	8.75%
Taxable Year: 2020 and after	
Not over $8,750	0%
Over $8,750 under $37,500	4.12%
Over $37,500 under $112,500	6.88%
Over $112,500	9.00%

Part V: Increased Personal Exemption

Part V of the bill doubles the personal exemption available to all taxpayers from $1,144 to $2,288. Part V of the bill applies to taxable years beginning after December 31, 2016.

Part VI: Itemized deduction limitations

Part VI of the bill imposes hard caps on itemized deductions. The proposed caps are in addition to the limits imposed through section 68 of the Internal Revenue Code. The proposed caps are: $100,000 for taxpayers filing as single or married filing separately; $150,000 for taxpayers filing as heads of households; and $200,000 for taxpayers filing joint returns or as a surviving spouse. The caps apply to all taxpayers; the caps are not dependent upon the income of the taxpayer. The caps apply to taxable years beginning after December 31, 2016.

In previous limits to itemized deductions (Act 97, SLH 2009, as amended by Act 256, SLH 2013), the deduction for charitable contributions was excluded from the limitations. This carve-out expired with the previous limitations. H.B. 1586 contains no such carve-out. If it is the Committee's intent to exclude deductions for charitable contributions from the proposed limits, then that exclusion should be included in the bill.

Finally, the Department notes that the changes to individual income tax in this measure are substantial. If the Committee wishes to move this measure forward, the Department requests that Parts IV, V, and VI be made applicable to taxable years beginning after December 31, 2017. This will allow sufficient time to make the necessary form, instructions, and computer system changes to ensure proper implementation.

Thank you for the opportunity to provide comments.

Hawai`i State Association of Counties (HSAC)
Counties of Kaua`i, Maui, Hawai`i and City & County of Honolulu
200 S. High Street, Wailuku, Hawaii 96793 (808) 270-7665 www.hicounties.com

February 13, 2017

TO: The Honorable Richard H.K. Onishi, Chair
House Committee on Tourism

FROM: Stacy Crivello
HSAC President

SUBJECT: **HEARING OF FEBRUARY 14, 2017; TESTIMONY IN OPPOSITION TO HB 1586, RELATING TO THE TRANSIENT ACCOMMODATIONS TAX**

Thank you for the opportunity to testify on behalf of the Hawaii State Association of Counties in **opposition to** this measure. The purpose of this measure is to phase out the county allocation of transient accommodations tax revenues over a 3-year period.

This measure is in contrast to HB 317, which is included in the 2017 Hawaii State Association of Counties Legislative Package. I submit this testimony on HSAC's behalf.

HSAC opposes this measure for the following reasons:

1. A phase out of the counties' share of the TAT would impose a heavy financial burden to our tax paying residents – constituents both the state and counties serve. Counties will have to adjust real property taxes to cover the increasing operational costs for county-maintained services used by our visitors such as water and sewer service; police, fire and ocean safety protection; development and upkeep of most roads; and park development and maintenance. Why should local residents be responsible for expenses that visitors have already paid for through the TAT?

2. We strongly urge you to consider the approach recommended by the State-County Functions Working Group in 2015 to allocate TAT funds to the State and counties on a percentage basis. HSAC supports measure HB 317 which reflects a more equitable distribution of TAT funds using a proposed 55-45 percent split.

Mahalo for your consideration.

HSAC:FY2017:17Testimony:HB1586a_mkz

Bernard P. Carvalho, Jr.
Mayor

Wallace G. Rezentes, Jr.
Managing Director

OFFICE OF THE MAYOR
County of Kaua'i, State of Hawai'i
4444 Rice Street, Suite 235, Līhu'e, Hawai'i 96766
TEL (808) 241-4900 FAX (808) 241-6877

Testimony of
Mayor Bernard P. Carvalho, Jr.

Before the Committee on Tourism
Wednesday, February 14, 2017
10:00 a.m.
Auditorium

HB 1586, Relating to Taxation

Aloha Honorable Chair Onishi, Vice Chair Tokioka, and Members of the Committee,

On behalf of the County of Kaua'i, allow me to express my strong opposition HB 1586 Relating to Taxation, and the "phasing" out of the counties allocation for transient accommodations tax (TAT). While the legislature rejected the findings of its own state-county functions working group last year, HB 1586 reduces the counties share of TAT for each year starting with FY 2017-2018, and finally eliminates the counties share after FY 2019-2020.

On an island where approximately one in four is a visitor, to eliminate the very revenue stream that is used of offset the impacts of our visitors, on our parks, infrastructure, public safety as it relates to frequent search and rescue, seems counter intuitive to a collaborative working relationship between the county and the state.

Again, as Mayor of our beautiful island, let me express my strong opposition to HB 1586 Relating to Taxation.

Mahalo for the opportunity to provide my testimony.

Sincerely,

Bernard P. Carvalho Jr.
Mayor

Submitted By	Organization	Testifier Position	Present at Hearing
Office of the County Clerk, Council Services Div.	Individual	Oppose	No

Comments: Please find testimony for Council Chair Rapozo of the Kauai County Council in opposition of HB 1586. Mahalo.

Harry Kim
Mayor

Wil Okabe
Managing Director

Barbara J. Kossow
Deputy Managing Director

County of Hawaiʻi

Office of the Mayor

25 Aupuni Street, Suite 2603 • Hilo, Hawaiʻi 96720 • (808) 961-8211 • Fax (808) 961-6553
KONA: 74-5044 Ane Keohokalole Hwy., Bldg. C • Kailua-Kona, Hawaiʻi 96740
(808) 323-4444 • Fax (808) 323-4440

February 10, 2017

Representative Richard H.K. Onishi
Tourism Committee
Hawai'i State Capitol
Honolulu, HI 96813

Dear Chair Onishi and members:

RE: **HB 1586**

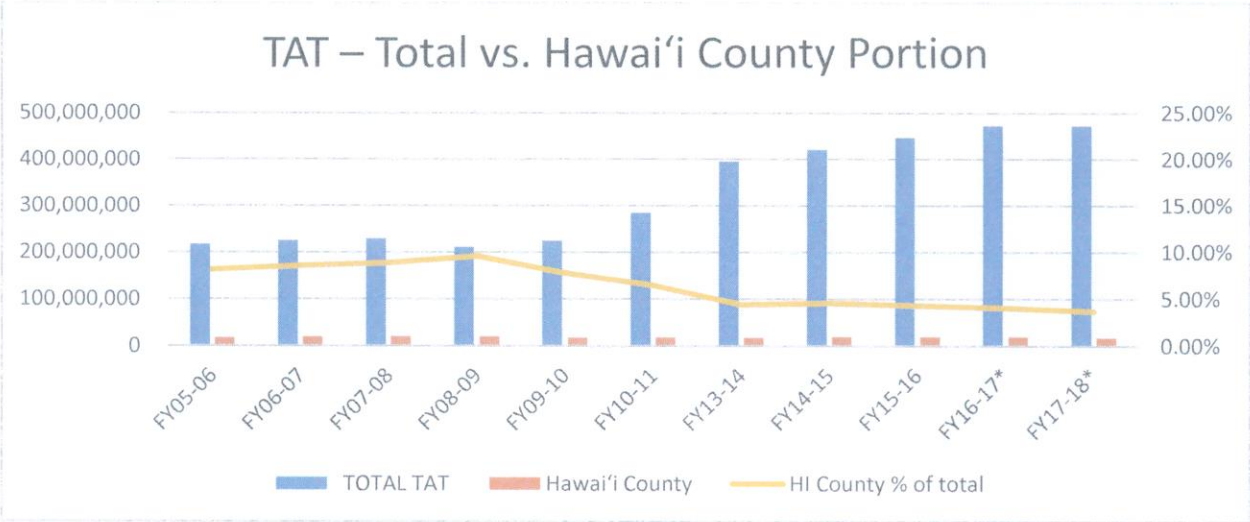
Thank you for this opportunity to testify in strong opposition to the provisions in HB 1586 that would reduce and then eliminate the counties' share of TAT.

The stated purpose of HB 1586 is to address the high cost of living by reducing the tax burden on low- and middle-income earners. While I fully support that purpose, I cannot agree that HB 1586 offers a reasonable solution to the problem. The "low- and middle- income earners" that HB 1586 refers to are citizens of both the State and a county. We represent and serve the same people. Decimating the budgets of the counties in order to reduce the State tax burden would not be beneficial; it would simply force the counties to drastically reduce services or increase other taxes for our shared constituents.

TAT is a very important source of revenue to the County of Hawaii (and the other counties), and we rely on it to balance our budget and maintain services for our citizens and visitors. HB1586 would deal a punishing blow to us, and therefore to our taxpayers. Please remember that TAT was established in part to help the counties, but the State of Hawaii already gets the major portion of the TAT revenues. Without the limited share that we currently receive, we would be pressed to raise property taxes about $19M (5.1% of our total budget), and that would worsen the pressures on the portion of the population that is currently managing a paycheck-to-paycheck financial existence. It would hurt a major portion of our population, affecting renters and homeowners alike. Property taxes, after all, are not simply absorbed by a landlord, they are passed on, in whole or in part, to the tenant.

My priority this session is to seek an <u>increase</u> in the TAT, not a reduction. The current portion of TAT revenues received by Hawaii County is too low, not too high. The chart below reflects how small a portion of the TAT comes to Hawaii County, and how the percentage has shrunk over the years.

Please help us help our fellow citizens by increasing, not decreasing, this vital component of the County budget.



Respectfully submitted,

Harry Kim
Mayor

COUNTY COUNCIL
Mel Rapozo, Chair
Ross Kagawa, Vice Chair
Arthur Brun
Mason K. Chock
Arryl Kaneshiro
Derek S.K. Kawakami
JoAnn A. Yukimura

OFFICE OF THE COUNTY CLERK

Jade K. Fountain-Tanigawa, County Clerk
Scott K. Sato, Deputy County Clerk

Telephone: (808) 241-4188
Facsimile: (808) 241-6349
E-mail: cokcouncil@kauai.gov

Council Services Division
4396 Rice Street, Suite 209
Līhuʻe, Kauaʻi, Hawaiʻi 96766

February 13, 2017

TESTIMONY OF ARTHUR BRUN
COUNCILMEMBER, KAUAʻI COUNTY COUNCIL
ON
HB 1586, RELATING TO TAXATION
House Committee on Tourism
Tuesday, February 14, 2017
10:00 a.m.
Auditorium

Dear Chair Onishi and Members of the Committee:

Thank you for this opportunity to provide testimony in strong opposition to HB 1586, Relating to Taxation. My testimony is submitted in my individual capacity as a Councilmember on the Kauaʻi County Council.

The purpose of this Bill is to effectuate the following:

1. Phase out the counties' allocation of transient accommodations tax (TAT) revenues over a three-year period;
2. Implement new income tax brackets and rates over a three-year period;
3. Double the amount of the personal exemption; and
4. Places limitations on claims for itemized tax deductions.

Passage of this Bill will undoubtedly increase the burden on the counties by decreasing over a three-year period, a vital source of revenue that all counties need to continue providing public safety, public works, and parks & recreation services to residents and visitors alike. The continual loss of TAT revenues since the counties' share was capped a few years ago has meant that our island residents must now cover this needed revenue via real property taxes and other taxes and fees in order for the essential public services to continue. Our residents cannot shoulder any additional tax or fee increases should the counties' share of the TAT revenue be phased out.

For the reasons stated above, I urge the House Committee on Tourism to oppose this measure. Should you have any questions, please feel free to contact me or Council Services Staff at (808) 241-4188.

Sincerely,

ARTHUR BRUN
Councilmember, Kauaʻi County Council

Council Chair
Mike White

Vice-Chair
Robert Carroll

Presiding Officer Pro Tempore
Stacy Crivello

Councilmembers
Alika Atay
Elle Cochran
Don S. Guzman
Riki Hokama
Kelly T. King
Yuki Lei K. Sugimura

Director of Council Services
Sandy K. Baz

COUNTY COUNCIL

COUNTY OF MAUI
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.MauiCounty.us

February 13, 2017

TO: The Honorable Richard H.K. Onishi, Chair
House Committee on Tourism

FROM: Mike White
Council Chair

SUBJECT: **HEARING OF FEBRUARY 14, 2017; TESTIMONY IN STRONG OPPOSITION TO HB 1586, RELATING TO TAXATION**

Thank you for the opportunity to testify in **strong opposition** of this measure. The main focus of my opposition is on the phasing out of the county allocation of the transient accommodations tax ("TAT") revenues over a three-year period.

The Maui County Council has not had the opportunity to take a formal position on this particular measure. Therefore, I am providing this testimony in my capacity as an individual member of the Maui County Council. However, the Hawaii State Association of Counties, including the Maui County Council, supports the TAT allocation to the counties equal to 45 percent of the amount of revenues remaining after all other allocations are made.

I strongly **oppose** this measure for the following reasons:

1. Reducing the counties share of the TAT contradicts the conceptual basis for the tax, which was established to help the counties fund **visitor-related expenses** based on a **percentage of earned revenue**.

2. Over an eight year period, the counties have incurred $170 million in cost ***increases*** in fire, police, roads, and park services. County expenditures for tourism-related services continue to rise at a pace far exceeding the current distribution of TAT revenue. Sound fiscal practices favor a policy that **increases** the distribution of TAT revenue to the counties at the same rate that revenues grow – **NOT a decrease** in the distribution. By unfairly decreasing TAT revenue to the counties, the state has been effectively requiring residents to pay for the visitors' share of expenses.

3. The State-County Functions Working Group created under Act 174 (2014) issued a report that found the counties are responsible for 54 percent of net expenditures directly supporting tourism, while the State provides 46 percent. They recommended that after specific appropriations, the remainder of the TAT should be allocated to the State and counties, with the State receiving 55 percent, and the counties receiving 45 percent. **It did not recommend a decrease in the distribution.**

4. If TAT revenue is decreased, the counties will be forced to raise property taxes and **will place the burden of paying for visitor-related services on our local residents**. This is unfair, especially those who may rent their home. They will be left to pay more in their rent due to the trickle-down effect, and will likely compound Hawaii's affordable housing and homeless crises.

5. According to visitor-industry consultant HVS, Hawaii counties receive the lowest amount of taxes compared to our peers across the nation. Counties in Hawaii on average receive a 2.26 percent accommodations tax rate, which is less than a quarter of the 9.08 percent average among our national peers.

For the foregoing reasons, I **strongly oppose** this measure.

*ocs:proj:legis:17legis:17testimony:hb1586_*

Submitted By	Organization	Testifier Position	Present at Hearing
Chief of Police Darryl Perry	Kauai Police Department	Oppose	No

Comments: The Kauai Police Department opposes HB1586, as the impact of reduced and eventual total elimination of the TAT would negatively impact our ability to maintain public services and public safety because of diminished funding.

OFFICE OF THE MAYOR

CITY AND COUNTY OF HONOLULU

530 SOUTH KING STREET, ROOM 300 • HONOLULU, HAWAII 96813
PHONE: (808) 768-4141 • FAX: (808) 768-4242 • INTERNET: www.honolulu.gov

KIRK CALDWELL
MAYOR

ROY K. AMEMIYA, JR.
MANAGING DIRECTOR

GEORGETTE T. DEEMER
DEPUTY MANAGING DIRECTOR

CITY AND COUNTY OF HONOLULU
BEFORE THE HOUSE COMMITTEE ON TOURISM

TUESDAY, FEBRUARY 14, 2017; 10:00 AM

TO: THE HONORABLE RICHARD H.K. ONISHI, CHAIR
THE HONORABLE JAMES K. TOKIOKA, VICE CHAIR
AND MEMBERS OF THE HOUSE COMMITTEE ON TOURISM

FROM: KIRK CALDWELL, MAYOR
CITY AND COUNTY OF HONOLULU

SUBJECT: OPPOSITION TO HB1586 RELATING TO TAXATION

The City and County of Honolulu (City) opposes HB1586, which, among other things, phases out the county allocation of Transient Accommodations Tax (TAT) revenues over three years. The City takes no position on any of the other provisions of this measure.

Each county expends significant amounts to accommodate the 8.9 million tourists who visit our State. Each county relies on the counties' portion of the TAT revenues to provide such services. According to the Auditor's State-County Functions Working Group December 2015 Report, the City spends approximately $116 million on visitor-related expenses. Currently, the City receives about $44 million, which means that Oahu taxpayers fund the remaining $72 million. This measure takes away all of the revenue from the TAT, which means that the residents of Oahu would continue to spend $116 million and receive nothing in return.

On behalf of the 1 million residents of Oahu, I oppose this measure and hope that you defer this measure indefinitely.

CITY COUNCIL
CITY AND COUNTY OF HONOLULU
530 SOUTH KING STREET, ROOM 202
HONOLULU, HAWAII 96813-3065
TELEPHONE: (808) 768-5010 • FAX: (808) 768-5011

IKAIKA ANDERSON
Council Vice Chair
Councilmember, District 3
Email: landerson@honolulu.gov
Phone: 808-768-5003
Fax: 808-768-1235

February 13, 2017

TO: The Honorable Representative Richard H.K. Onishi, Chair
House Committee on Tourism

FROM: Councilmember Ikaika Anderson, Vice Chair
Honolulu City Council

SUBJECT: TESTIMONY IN OPPOSION OF HB 1586

HEARING: Tuesday, February 14, 2017, 10:00 am
Auditorium, Hawaii State Capitol

I am Testifying in opposition of HB 1586, Relating to Taxation

Over the past years, HSAC has sought for a more equitable distribution of the TAT between the state and counties. This measure will phase out the county allocation of the TAT over a 3-year period. This revenue is needed for the counties to provide services to our residents.

For these reasons I oppose the passage of HB 1586 and would like to thank the committee for the opportunity to testify on this important measure.

COUNTY COUNCIL
COUNTY OF MAUI
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.MauiCounty.us

February 13, 2017

TO: The Honorable Richard H.K. Onishi, Chair
House Committee on Tourism

FROM: Riki Hokama
Councilmember, Maui County Council

SUBJECT: **HEARING OF FEBRUARY 14, 2017; TESTIMONY IN STRONG OPPOSITION TO HB 1586, RELATING TO TAXATION**

Thank you for the opportunity to testify in **strong opposition** to this measure. The purpose of this measure is to phase out the county allocation of transient accommodations tax revenues over a three-year period.

I support the testimonies submitted by Maui County Council Chair Mike White and Hawaii State Association of Counties President Stacy Crivello in opposition to this measure.

Reducing the counties share of the TAT contradicts the conceptual basis for the tax, which was established to help the counties fund visitor-related expenses based on a percentage of earned revenue. County expenditures for tourism-related services continue to rise at a pace far exceeding the current distribution of TAT.

By unfairly decreasing TAT revenue to the counties, the State has been effectively requiring residents to pay for the visitors' share of expenses for police, fire, roads, and park services.

For years, the counties have fought for a fair share of the TAT to cover increasing operational costs of visitor-related expenses. This year, counties are faced with even more fiscal challenges as negotiations for all 14 collective bargaining contracts have begun, which may include salary increases and additional fringe benefits for thousands of employees for all of the counties.

Further the increased burden of the Employee's Retirement System and post-employment benefits will place an even greater strain on the counties budget. The Legislature's proposed response to further burden the taxpayers by phasing out our share of the TAT is unacceptable.

Is the Legislature forcing county program funding to be cut or reduced to provide visitor-related expenses? Is it fair to burden our residents by increasing real property taxes and other fees to pay for expenses our visitors have already paid for?

Is it fair for the State Legislature to continue to balance their budget on the backs of the counties and its residents?

I **strongly oppose** this measure.

LATE

HONOLULU CITY COUNCIL
CITY AND COUNTY OF HONOLULU
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Ron Menor
CHAIR & PRESIDING OFFICER

IKAIKA ANDERSON
VICE CHAIR

Kymberly Marcos Pine
FLOOR LEADER

CITY AND COUNTY OF HONOLULU
BEFORE THE HOUSE COMMITTEE ON TOURISM

TUESDAY, FEBRUARY 14, 2017, 10:00 AM

TO: THE HONORABLE RICHARD H. K. ONISHI, CHAIR
THE HONORALBLE JAMES KUNANE TOKIOKA, VICE CHAIR
AND MEMBERS OF THE HOUSE COMMITTEE ON TOURISM

FROM: COUNCIL CHAIR RON MENOR

SUBJECT: TESTIMONY IN OPPOSITION OF HB1586, RELATING TO THE TRANSIENT ACCOMODATIONS TAX

My name is Ron Menor and I am offering this testimony as the Chair of the Honolulu City Council.

This legislation proposes to phase out the County allocation of Transient Accommodation Tax revenues over a 3-year period. We are strongly opposed to this measure.

The Counties' share of TAT revenue was capped at $93 million in 2010, in part to compensate for the economic recovery following the international economic downturn of 2008. In 2013, that cap was increased to $103 million.

In 2010, the TAT generated $244 million in revenues with the Counties dividing their $93 million share. By 2015, TAT revenues increased 43% to $435 million but the counties share was capped at $103 million.

If the City & County of Honolulu loses our share of the TAT revenue, we will be forced to consider significantly raising taxes and fees to cover the operational and maintenance costs associated with road repairs, park upkeep, public safety, and other core services. It is not fair to force local people to pay a greater share when visitors are already paying the TAT.

In 2015, the State-County Functions Working Group was directed by the state legislature to come up with an appropriate allocation of the TAT revenues between the State and the Counties. The group released their study in December 2015 and proposed a 55-45 percent split based on a comprehensive review of County and State functions.

Despite their work, the 2016 legislature decided that $103 million would be divided among the Counties, using the same allocation percentages set in 1990.

We support the findings and proposals of the State-County Functions Working Group. Currently, City & County of Honolulu residents are paying for road repairs, trash collection, water service, sewer service, police, fire, emergency services, ocean safety, park maintenance, and other County services that should be paid with revenues from the 9.25% TAT.

As our costs increase, we need a more equitable share of TAT revenue to cover our visitor-related expenses.

Thank you for the opportunity to offer testimony on this important matter.

The House of Representatives
The Twenty-Ninth Legislature
Regular Session of 2017

To: Rep. Richard Onishi, Chair
Rep. James Tokioka, Vice Chair

Date: February 14, 2017

Time: 10:00 a.m.

Place: Auditorium
Hawaii State Capitol

RE: **House Bill 1586, Relating to Taxation**

Chair Onishi, Vice Chair Tokioka and Members of the Committee:

Rental By Owner Awareness Association (RBOAA) is a Hawaii non-profit corporation founded in 2011, representing over 1000 members. Our mission is to provide Hawaii property owners with information to help them comply with the applicable State and County regulations, support the Hawaii economy by offering visitors choice in accommodation, and to advocate for the rights of Hawaii vacation property owners. RBOAA members provide transient vacation rentals in full compliance with existing tax and county regulations. RBOAA fully supports full enforcement of existing regulations.

RBOAA **comments** on the bill.

The preamble to the bill reads "*The legislature finds that the current property tax structure caters to non-residents and burdens local residents, particularly the senior population. Non-residents are afforded the luxury of an investment in highly appreciable land while, at the same time, they are able to export their income tax to a state where the rate is lower. This results in raising the cost of living for Hawaii residents*."

The preamble is not supported by evidence.

In testimony submitted to the legislature in 2016, the Chancellor of the University of Hawaii testified: "Another significant feature of Hawaii property tax system is that <u>it is structured to shift the property tax burden disproportionately to non-resident property owners</u> and visitors."

The Committee may not be aware that there is already a difference in the property tax rates for residents and for non-residents.

	Resident	Non-Resident
CC Honolulu	$ 3.50	$ 12.90
Maui	2.70	8.71
Kauai	3.05	8.85
Hawaii	6.15	10.85

The House Tourism committee is undoubtedly aware that the only industry in Hawaii which bears two forms of tax is the tourism industry. While all industries bear the GET, the tourism industry also bears the TAT.

Thank you for the opportunity to testify on this measure.

Sincerely,

Neal Halstead
President,
Rental by Owner Awareness Association

SUBJECT: INCOME, TRANSIENT ACCOMMODATIONS, Raise Income Tax Rates and Phase Out County Allocation of TAT

BILL NUMBER: HB 1586

INTRODUCED BY: YAMASHITA, CACHOLA, CHOY, CULLEN, DECOITE, HASHEM, JOHANSON, KEOHOKALOLE, LOPRESTI, LOWEN, LUKE, NAKASHIMA, OHNO, ONISHI, OSHIRO, TAKAYAMA, TAKUMI

EXECUTIVE SUMMARY: Phases out the county allocation of transient accommodations tax revenues over a 3-year period. Implements new income tax brackets and rates over a 3-year period. Doubles the amount of the personal exemption. Places limitations on claims for itemized tax deductions.

SYNOPSIS: Amends HRS section 237D-6.5 to phase out the allocation to the counties:

Fiscal Year	Allocation to Counties
2016-2017 (current law)	$103 million
2017-2018	$93 million
2018-2019	$62 million
2019-2020	$31 million
2020-2021 and subsequent	-0-

Amends HRS section 235-51 to gradually raise income tax rates. The following rates are for married filing jointly or surviving spouse.

Taxable Income	2018 Rate	Taxable Income	2019 Rate	Taxable Income	2020 Rate
Up to $15,000	-0-	Up to $16,125	-0-	Up to $17,500	-0-
Up to $75,000	6.64%	Up to $75,000	5.38%	Up to $75,000	4.12%
Up to $225,000	7.79%	Up to $225,000	7.34%	Up to $225,000	6.88%
Over $225,000	8.50%	Over $225,000	8.75%	Over $225,000	9.00%

Amends HRS section 235-54 to raise the personal exemption amount from $1,144 to $2,288.

Adds a new section to HRS chapter 235 to cap itemized deductions (except for charitable contributions) at the following amounts:

Filing Status	Itemized Deduction Limit
Single or Married Filing Separately	$100,000
Head of Household	$150,000
Married Filing Jointly or Surviving Spouse	$200,000

EFFECTIVE DATE: Upon approval, the TAT phaseout takes effect on July 1, 2017, the new income tax rates apply to taxable years beginning after December 31, 2017, and the personal exemption and itemized deduction provisions apply to taxable years beginning after December 31, 2016.

STAFF COMMENTS: The bill recites that its purpose it to address the high cost of living by enacting tax reform that reduces the tax burden for low- and middle-income earners. In that respect, the income tax changes do appear to put the brakes on the proclivity of the current tax system to tax the poor deeper into poverty.

Make no mistake, there are income tax rate hikes here. These, however, are a bit more tame than other bills in the session that would revive the 9%, 10%, and 11% rate brackets that sunset at the end of 2015.

Caution should be exercised with any tax rate hike because there will be economic and political implications. Higher tax rates create an image that Hawaii is a poor place to live, work, and invest, underscoring the poor business climate. When the 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:

> State personal income taxes provide one of the most problematic areas where the tax wedge affects the incentives of individuals in harmful ways. Personal income taxes are collected on the wages of employees, the investment income of those savers directing capital toward productive ends and all business earnings from those firms not organized as C-corporations, known as “pass-through” income. In all three cases, these items represent the fruit of productive labor. When these elements are taxed, the incentive to engage in these productive activities is diminished, leading to less work, less investment and less business activity.
>
> As noted previously, numerous studies conclude that taxing the various forms of personal income and corporate taxes are the most damaging taxes for economic growth and economic performance. But the simple comparison of those nine states refraining from taxing personal income against those nine states taxing income at the highest level is telling of this economic connection. Table 7 details this comparison for the most recent available decade’s worth of data on population growth, net domestic migration, non-farm payroll employment growth, personal income growth, gross state product growth and even the growth of government revenue. It should be noted that though Tennessee and New Hampshire decline to collect taxes on personal wage income, they do tax investment income. The contrast between these two groupings of nine states is quite telling on the dangers of personal income taxation as a means for collecting government revenue. On every metric, the states without a personal income tax are outperforming their high tax counterparts, and are doing so in a significant way.

TABLE 7 | The Nine States with the Lowest and Highest Marginal Personal Income Tax (PIT) Rates (10-Year Economic Performance)

	1/1/15	2004-2014	2005-2014	2004-2014	2004-2014	2004-2014	2002-2012
State	Top Marginal PIT Rate**	Population	Net Domestic Migration†	Non-Farm Payroll Employment	Personal Income	Gross State Product	State & Local Tax Revenue‡
Alaska	0.0%	11.7%	-2.9%	11.2%	65.5%	60.7%	318.8%
Florida	0.0%	14.2%	4.4%	4.6%	43.1%	31.8%	44.0%
Nevada	0.0%	21.0%	7.0%	5.4%	35.9%	27.7%	65.1%
South Dakota	0.0%	10.7%	2.8%	10.3%	57.4%	49.0%	57.2%
Texas	0.0%	20.4%	5.4%	21.7%	75.9%	78.6%	65.7%
Washington	0.0%	14.3%	4.3%	12.3%	54.5%	57.2%	50.8%
Wyoming	0.0%	14.7%	4.9%	14.6%	76.4%	86.4%	111.5%
New Hampshire^	0.0%	2.8%	-0.3%	3.3%	43.0%	34.6%	46.5%
Tennessee^	0.0%	10.8%	4.5%	4.0%	45.6%	36.3%	54.0%
Average of 9 No Income Tax States*	0.0%	13.4%	3.3%	9.7%	55.3%	51.4%	90.4%
50-State Average*	**5.6%**	**8.8%**	**0.7%**	**6.1%**	**48.4%**	**43.6%**	**63.0%**
Average of 9 Highest Income Tax States*	10.4%	6.8%	-2.1%	4.7%	44.3%	40.1%	58.4%
Kentucky	8.2%	6.4%	1.3%	3.9%	42.7%	38.7%	39.4%
Maryland	9.0%	7.7%	-2.5%	4.0%	42.1%	40.9%	52.0%
Vermont	9.0%	1.1%	-1.5%	2.3%	41.8%	31.4%	63.6%
Minnesota	9.9%	7.3%	-1.3%	4.9%	41.7%	36.4%	52.3%
New Jersey	10.0%	3.5%	-6.0%	-0.9%	36.5%	29.5%	55.5%
Oregon	10.6%	11.2%	5.1%	7.2%	46.7%	51.3%	64.3%
Hawaii	11.0%	11.5%	-2.6%	7.2%	52.9%	45.2%	74.8%
New York	12.7%	3.0%	-7.5%	7.4%	47.3%	47.2%	70.7%
California	13.3%	9.1%	-3.4%	6.3%	47.1%	40.6%	52.5%

** Equal-weighted averages.*
*** Top marginal PIT rate is the top marginal tax rate on personal earned income imposed as of 1/1/2015 using the tax rate of each state's largest city as a proxy for the local tax. The deductibility of federal taxes from state tax liability is included where applicable.*
† Net domestic migration is calculated as the ten-year (2005-2014) sum of net domestic in-migrants divided by the mid-year (2010) population.
‡ 2002-2012 due to Census Bureau data release lag.
^ Tennessee and New Hampshire tax interest and dividend income but not ordinary wage income.

Source: Laffer Associates, U.S. Census Bureau, Bureau of Labor Statistics and Bureau of Economic Analysis

These numbers in a table fail to tell the full story of this comparison in sufficient detail with respect to quality of life. The boost to economic performance, unlocked by avoiding taxation of personal income, provides citizens faster income growth, more opportunity to

> find a job or climb the career ladder and even faster government revenue growth, which allows for greater public capacity to meet social needs through greater economic growth, not higher tax rates.
>
> This reality is also true for those states choosing to tax personal income at lower levels and to tax income with one flat rate, instead of graduated rates that see highly productive workers facing increased rates of taxation as they earn greater levels of income. Though many taxpayers avoid paying top marginal rates of state income taxes due to various carve-out provisions and graduated rates, there are many taxpayers that do face those rates, or must fear the possibility of facing those top marginal rates, and make economic decisions based on that possibility. The expectations and uncertainties of taxpayers have a major impact on their decisions to produce, invest or grow their businesses.
>
> This effect of top marginal rates is particularly true for investors and pass-through businesses subject to the personal income tax code. Many advocates of high income taxes like to portray high earners as gilded millionaires undeserving of their large incomes. These advocates of "soak the rich" taxation ignore that investors directing capital or businesses reinvesting profits toward hiring expansion or wage enhancing capital investments, grow opportunity for all citizens of a given state.

American Legislative Exchange Council, *Rich States, Poor States* 35-36 (8th ed. 2016) (available at https://www.alec.org/app/uploads/2015/10/RSPS_8th_Edition-Final.pdf).

For these reasons, we recommend that lawmakers think twice before committing to high individual rates that had put Hawaii on the map for all the wrong reasons.

The bill also recites that "the current property tax structure caters to non-residents and burdens local residents, particularly the senior population. Non-residents are afforded the luxury of an investment in highly appreciable land while, at the same time, they are able to export their income tax to a state where the rate is lower. This results in raising the cost of living for Hawaii residents." The bill deals with this by killing the allocation of the TAT to the counties, which would force all counties to raise their property taxes.

Some of the premises behind this second argument are questionable. First, the bill casts aspersions on nonresidents, asserting they don't pay their fair share in income tax. Our income tax, however, is like the tax systems in most other states. Nonresidents get taxed on income with its source in Hawaii. Residents get taxed on income regardless of source BUT get a credit for tax paid to another state or country on income that has its source in that state or country. So a taxpayer's tax, resident or not, depends on where the income comes from and whether other jurisdictions are also taxing it. The system was reviewed and upheld most recently in *Comptroller v. Wynne*, 575 U.S. ___ (2015). If that system fails to tax people fairly, why do most states with an income tax use it?

Next, we question whether low property taxes drive up the cost of living. Conventional wisdom is that the prices are set by market forces, but taxing the transaction has the effect of driving up prices and driving down demand. Thus, the bill's remedy of forcing up property taxes appears to be counterproductive. DBEDT was directed to conduct a study on this very topic by a proviso in the 2016 supplemental budget, so it would be informative to see the study results.

Digested 2/11/2017

Coalition for Equal Taxation

RE: **House Bill 1586, Relating to Taxation**

Dear Chair Onishi, Vice Chair Tokioka and Members of the Committee:

On behalf of the Coalition for Equal Taxation, we must ***OPPOSE*** this Bill.

HB1586 states: "current property tax structure caters to non-residents and burdens local residents, particularly the senior population." A review of the property tax structure among the counties does not support this conclusion.

	Owner occupied Exemption	Additional Senior Exemption	Owner occupied Tax Rate per $1,000	Resort Zone
CC Honolulu	$ 80,000	$120,000	3.50	12.90
Maui	$200,000		2.70	8.71
Kauai	$160,000	$180,000 - $200,000	3.05	8.85
Co. Hawaii	$ 40,000	$ 80,000 - $100,000	6.15	10.85

Additionally: Many counties also have further exemptions for disabled owner occupied dwellings.

Thus, it is clear to see that a non-resident is paying, in many situations, as much as 700% higher property taxes relative to owner occupied rates *for the exact same dwelling.*

In the past, on other bills that relate to property tax rates, the Tax Foundation of Hawaii has testified to the disparity of property taxation relative to those who are allowed a homeowners' exception and those that cannot. The University of Hawaii, through testimony, has also recognized the heavier burden upon properties that cannot claim a homeowners' exemption.

Further, a number of the counties have set 270 days of occupancy to qualify for a homeowners' exemption. Thus a person who lives in their dwelling 73% of the year, still may not use the homeowners' exemption.

It is unclear how it could be perceived that a person who lives in their home for 73% of the year and pays 700% higher property tax rates, is considered to be the recipient of a "structure that caters to non-residents and burdens local residents, particularly seniors." And that as a result of others paying 700% percent more, this has "resulted in raising the cost of living for Hawaii residents."

This Bill is based upon conclusion that are not borne out when the issues are given study. We urge you the please defer this Bill.

Thank you for the opportunity to testify.

John Chang
Coalition for Equal Taxation

LATE

Maui Hotel & Lodging ASSOCIATION

Testimony of
Lisa H. Paulson
Executive Director
Maui Hotel & Lodging Association
on
HB1586
Relating To Taxation

COMMITTEE ON TOURISM
Tuesday, February 14, 2017, 10am
Auditorium

Dear Chair Onishi, Vice Chair Tokioka and Members of the Committee,

The Maui Hotel & Lodging Association (MHLA) is the legislative arm of the visitor industry. Our membership includes over 175 property and allied business members in Maui County – all of whom have an interest in the visitor industry. Collectively, MHLA's membership employs over 25,000 residents and represents over 19,000 rooms. The visitor industry is the economic driver for Maui County. We are the largest employer of residents on the Island - directly employing approximately 40% of all residents (indirectly, the percentage increases to 75%).

MHLA **opposes HB 1586**, which phases out the county allocation of transient accommodations tax revenues over a 3-year period.

MHLA believes our county governments should receive a more equitable amount of funding support from the state government. Our counties absorb many of costs associated with community growth and provide public services to residents and visitors alike that include all forms of public safety: roads; parks and public facilities; water and sewage infrastructure; public transportation. Oftentimes, the counties are not reimbursed for services that they provide at the request or on behalf of the federal and state governments, particularly in the area of public safety.

Phasing out the county allocations of transient accommodations tax revenues would leave our counties nowhere else to turn for that revenue other than increasing real property taxes. In Maui County, our hotel and timeshare properties already carry the burden of real property taxes in comparison with their property valuations. Keeping our costs level is critical to our ability to compete against other sun destinations, especially now when we are seeing an increased amount of competition with new resort locations and other destinations' deeply discounted air/hotel packages.

MHLA recognizes and appreciates the efforts of all of the county governments in sustaining the visitor industry as we, in turn, continue to support our county government in their efforts to secure an equitable share of tourism-generated revenue from the Legislature.

Thank you for the opportunity to testify.

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Council Services Division
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Līhuʻe, Kauaʻi, Hawaiʻi 96766

February 13, 2017

TESTIMONY OF MASON K. CHOCK
COUNCILMEMBER, KAUAʻI COUNTY COUNCIL
ON
HB 1586, RELATING TO TAXATION
House Committee on Tourism
Tuesday, February 14, 2017
10:00 a.m.
Auditorium

Dear Chair Onishi and Members of the Committee:

Thank you for this opportunity to provide testimony in strong opposition to HB 1586, Relating to Taxation. My testimony is submitted in my individual capacity as a Councilmember on the Kauaʻi County Council.

Perhaps the most glaring portion of this Bill and the portion that I am vehemently opposed to is the phasing out of the counties' allocation of the transient accommodations tax (TAT) over a three-year period.

By reducing the amount of TAT revenues to the counties, this Bill will ultimately leave the counties no choice but to raise real property taxes and other fees to make up this budgetary shortfall. Each county has had to deal with inflation and increased costs such as collective bargaining and increased retirement and other post employment benefit contributions. A further decrease in TAT revenues to the counties would most likely mean a decrease in the various services provided by the counties for not only the residents, but for visitors as well.

For the reasons stated above, I urge the House Committee on Tourism to oppose this measure. Should you have any questions, please feel free to contact me or Council Services Staff at (808) 241-4188.

Sincerely,

MASON K. CHOCK
Councilmember, Kauaʻi County Council

Submitted By	Organization	Testifier Position	Present at Hearing
Shyla Moon	Individual	Oppose	No

Comments:

Submitted By	Organization	Testifier Position	Present at Hearing
Jaana Makipaa	Individual	Oppose	No

Comments:

Submitted By	Organization	Testifier Position	Present at Hearing
Maria Maitino	Individual	Oppose	No

Comments: Dear Representatives, I am writing to OPPOSE this bill. I find it incredulous that the state wants to take even more of the counties TAT (visitor-paid) taxes away and shift more of the burden of roads, parks, police, fire, garbage and rescue back onto the residents‘ responsibility. When statistics show that about 1/5 of our population, on any given day, is here on vacation it is only right that we all share in the burden of paying for what is utilized. The bill states, "While the legislature believes that the tax burden should be shifted to non-residents..." then why would you begin by taxing residents for the first 3 years? I am completely opposed to this bill. Thank you, Maria Maitino Kilauea, Kauai

Submitted By	Organization	Testifier Position	Present at Hearing
david sutton	Individual	Oppose	No

Comments: Please do not do this!!!!

Submitted By	Organization	Testifier Position	Present at Hearing
Paul Marshall	Individual	Oppose	No

Comments: Aloha, I am strongly opposed to this measure. Please do not support it. Mahalo, Paul Marshall

Submitted By	Organization	Testifier Position	Present at Hearing
Yuki Lei Sugimura	Individual	Oppose	No

Comments:

LATE

Submitted By	Organization	Testifier Position	Present at Hearing
Felicia Cowden	Individual	Oppose	No

Comments: Please OPPOSE HB1586 that reallocates the remaining portion of the Transient Accommodation Tax from the counties to the state. We have enough of a problem with the residents resenting the visitors as we are at an overwhelmed level. It is only fair if the visitors are able to contribute to the costs of the roads, parks, garbage, police and rescue as they utilize all of these services. Shifting that burden onto property taxes accelerates our housing insecurity. So many people can barely hold on to their properties. Forcing Kauai to essentially pay for Oahu‘s bad judgement on the rail project, convention center, etc. is almost criminal. We should be getting the TAT back to the counties not having the remainder stolen. The TAT was designed to help the counties. I remember when Gary Baldwin came up with the original idea. I strongly oppose this bill. Felicia Cowden Kilauea, Kauai

LATE

Submitted By	Organization	Testifier Position	Present at Hearing
elizabeth	Individual	Oppose	No