To: The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair;
and Members of the House Committee on Finance

From: Rona M. Suzuki, Director
Department of Taxation

Re: H.B. 2385, Relating to Taxation

Date: Wednesday, February 5, 2020
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

The Department of Taxation (Department) provides the following comments on H.B. 2385. This measure amends and adds new income tax brackets and rates for high income earners for taxable year beginning after December 31, 2020, as follows:

- The amended 9% rate applies to taxable income over $100,000 for Single, $150,000 for Head of Household, and $200,000 for Joint filers;
- The amended 10% rate applies to taxable income over $150,000 for Single, $225,000 for Head of Household, and $300,000 for Joint filers;
- The 11% rate applies to taxable income over $200,000 for Single, $300,000 for Head of Household, and $400,000 for Joint filers;
- The new 12% rate applies to taxable income over $250,000 for Single, $375,000 for Head of Household, and $500,000 for Joint filers; and
- The new 13% rate applies to taxable income over $300,000 for Single, $450,000 for Head of Household, and $600,000 for Joint filers.

The estimated revenue gain from H.B. 2385 is $59.8 million for FY 2022, $61.7 million for FY 2023, $63.7 million for FY 2024, $65.7 million for FY 2025, and $67.8 million for FY 2026. This estimate is based on data about individual tax returns filed for taxpayers in the impacted income categories.

The Department will be able to administer the measure with its current effective date.

Thank you for the opportunity to provide comments.
SUBJECT: INCOME, Tax Hike

BILL NUMBER: HB 2385

INTRODUCED BY: SAIKI by request

EXECUTIVE SUMMARY: Changes income tax rates for taxable years beginning after 12/31/2020. We recommend that lawmakers think long and hard before further raising the income tax rates that have put Hawaii on the map for the wrong reasons.

SYNOPSIS: Amends section 235-51, HRS, to add new 12% and 13% income tax brackets.

The following table illustrates the changed brackets.

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<th>From</th>
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<th>Rate</th>
<th>Tax for This Bracket</th>
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STAFF COMMENTS: This bill, if enacted, will reinforce the image that Hawaii is a poor place to live, work, and invest, underscoring the poor business climate. When our 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 exacerabating that problem with these new tax rates.


To similar effect is a study sponsored by the American Legislative Exchange Council (ALEC), which states:

> When competing for residents, relative tax burdens among states matter most. States with lower relative tax burdens can expect higher growth, while states with higher relative tax burdens experience slower economic expansion. Contrasting state-specific economic metrics of the states with the lowest and highest tax burdens highlight the importance of tax policy (Table 3).

> Data clearly shows that low tax burdens enhance a state’s chances of performing well economically (Table 3). On the other hand, a high tax burden reduces a state’s chances of performing well. Of course, other policy variables impact economic performance, but tax burden is most consequential. In addition to comparing a state’s economic performance
to its tax burden, we also examine the 11 states that adopted an income tax since 1960 to show how their economies fared afterwards (Table 4).

Every one of the 11 states that introduced a state income tax since 1960 declined relative to the rest of the nation in population growth, gross state product (GSP) growth, and state and local tax revenue growth. That state and local tax revenue growth in New Jersey and Connecticut underperformed by relatively smaller amounts than the other nine states is partially attributable to their adoption of an income tax most recently and their proximity to high-tax New York City.

The new cap on federal deductibility of state and local taxes will materially change the competitive outlook for states. States with a combination of exceptionally high personal income tax rates and large percentages of high income earners tend to underperform on job growth, GSP growth, and income growth under the new tax law compared to previously. Unless high-tax states mend their ways, low-tax states with pro-growth policies will benefit from the resulting flow of capital and people.

Once migration trends begin, it can be difficult to stop them. Just look at population dynamics of Michigan, Connecticut, and West Virginia (see Figure 2). These are three of the 11 states that adopted an income tax since 1960. Once a downward spiral commences, reversal is nearly impossible due to political roadblocks to pragmatic economic policy changes.


Data from the Census Bureau show what we have suspected all along, that our population is going down. A press release from the Census Bureau on Dec. 30, 2019 states that ten states lost population between 2018 and 2019, and Hawaii made the list. (https://census.gov/newsroom/-press-releases/2019/popest-nation.html).

To what lengths will we go to chase people out of our state?

Digested 2/1/2020
Chair Luke, Vice-Chair Cullen, and Committee Members:

The League of Women Voters of Hawaii supports this bill, which increases income taxes on taxpayers with higher incomes than the present tax code considers. We also suggest an amendment to address the lowest tax brackets.

It is a truism that our society suffers from unprecedented and deplorable inequality. Those of us who live in or pass through Honolulu see this starkly illustrated in the contrast between new high rise condo buildings offering views and luxurious amenities, and the homeless living in tents and under tarps.

HB2385 offers a first and modest step toward addressing this inequality by recognizing two additional tax brackets at the upper end of Hawaii’s income tax law, and taxing them at a higher rate than is possible under existing tax law. The increased income to the state will help address some of our urgent needs: updating aging infrastructure, raising teacher salaries and working conditions, addressing the unfunded state pension liability, and supporting more affordable housing. The League strongly supports this action.

However we are puzzled that this bill does not address the lowest tax brackets, leaving them unchanged. Hawaii is one of only two states which require its poorest residents to pay income taxes. When I looked at the tax brackets for the lowest income taxpayers after not seeing them for a few years, I was astounded that we ask (for example) married taxpayers filing jointly with taxable incomes of less than $9,600 (including, shockingly, even those with incomes less than $4,800) to pay income taxes. Even acknowledging that some higher income taxpayers fall into these brackets because of deductions and exemptions, these brackets also catch extremely impoverished people.

We respectfully request an amendment to HB2385 removing the two lowest brackets entirely. The additional income available from the increase in taxes in the top brackets will easily compensate for this change (Institute for Taxation and Economic Policy).

Thank you for the opportunity to submit testimony.
February 2, 2020

TO: Chair Luke and members of Finance Committee

RE: HB 2385 Relating to Taxation

Comments for hearing on February 5

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We like the increase in the top tax rate. It would place our top tax rate at about 13% which is close to the top rate in California. Nevertheless we are a little concerned that it does not do enough to shift the bottom tax brackets up. We should not tax our citizens in poverty. The first tax bracket should start at a much higher level.

Thank you for your favorable consideration.

Sincerely,

John Bickel, President
Aloha Chair Luke, Vice Chair Cullen and Committee Members,

The LGBT Caucus of the Democratic Party of Hawai‘i stands in full support of the passage of House Bill 2385.

Mahalo for the opportunity to testify,

Michael Golojuch, Jr.
Chair
LGBT Caucus of the Democratic Party of Hawai‘i
Tuesday, February 4, 2020

Relating to Taxation
Testifying in Support with Amendments

Aloha Chair and members of the committee,

The Pono Hawai‘i Initiative (PHI) supports with amendments HB2385 Relating to Taxation which increases the income tax rate for Hawaii’s top 5th percent; those earning a joint income of $200,000, $150,000 for Head of Household and $100,000 for single filers. At the Federal level, this bracket received a substantial tax cut due to the Tax Cuts and Jobs Act of 2017.

Hawai‘i places as 2nd-highest for state and local tax burden on low-income households in the nation. Those households on average pay 15% of their income into state and local taxes, while those at the top 5th percent pay only 9% of their income. PHI requests amendments asking for the increased revenue, that would result from taxing the top 5th percent, be put toward eliminating the income tax liability for those in the State’s lower brackets.

Lets do what we can to support low-income families thrive in Hawai‘i.

For all these reasons, we urge you to move this bill forward with amendments.

Mahalo for the opportunity,
Gary Hooser
Executive Director
Pono Hawai‘i Initiative