



Hawai'i Organizations Urge Lawmakers to Use Tax Fairness Measures to Avoid Government Cuts and Furloughs

Dear Hawai'i State Senators and Representatives,

As you and your colleagues tackle Hawai'i's budget gap this legislative session, it is important to keep in mind that deep government spending cuts would have a devastating effect on our already injured economy, as well as hobble social services that are becoming more and more essential to working families during this pandemic crisis.

The International Monetary Fund has found that every dollar of reduced government spending results in as much as \$1.50 in lost economic activity, while studies of past recessions have shown that state spending cuts exacerbate economic damage and slow recovery. Instead, our state government needs to increase its spending in order to keep Hawai'i's economy going, as well as support our working families.

We, the 33 undersigned civic organizations, nonprofits, government agencies and service providers, **call on you to support tax fairness measures to avoid program and service cuts, government worker furloughs, and layoffs.** These [tax fairness proposals](#) are designed to target profitable corporations and wealthy individuals who can afford to pay a little more to keep Hawai'i going strong during this pandemic.

Utilizing these proposals will not only allow the state to plug its current budget gap, but will also ensure that state operations are more equitably-funded well into the future, creating greater economic opportunity for the working families of Hawai'i who will then be able to power our economy into a full recovery.

By enacting the following progressive revenue solutions, our state could collectively **raise \$547.3 – \$969.6 million in additional revenue** without slashing government spending:

- **Raise income taxes on the richest 2%.** Hawai'i's top 1% earn an average annual income of ~\$1.3 million and received big tax cuts from Trump's tax reform. If Hawai'i's millionaires, the top 1% or 2%, were subject to higher personal income tax rates, that would raise between \$12.6–\$100.2 million in additional revenues per year.
- **Phase out low tax rates for those at the top.** Hawai'i currently allows its wealthiest households to benefit from the lower tax brackets designed to benefit middle and lower-income residents. If Hawai'i made its tax systems more fair by gradually phasing

out these lower rates for the very richest taxpayers, our state would raise \$18.5–\$153.9 million in additional revenues per year.

- **Tax investments the same way regular income is taxed.** Hawai'i is one of only nine states that allows profits from the sale of stocks, bonds, investment real estate, and other "capital gains" to be taxed at a lower rate than ordinary income. Long-term capital gains make up 10% of total taxable income in the state. If those capital gains were taxed at regular individual income tax rates, it would yield about \$80.2 million in new revenue annually.
- **Raise taxes on wealthy inheritances.** Among the states that have estate taxes, Hawai'i has the fourth-highest exemption amount, allowing estates valued up to \$5.5 million to go to heirs without taxes. If Hawai'i's estate tax exemption were dropped to between \$1 million and \$3.5 million, that would generate between \$6.6–\$18.3 million in additional taxes per year.
- **Raise corporate taxes.** Trump's tax reform cut the federal corporate income tax rate by 14%, while Hawai'i's current top corporate tax rate of 6.4% is below the median of the states. The corporate tax is applied only to profits, so companies facing losses do not pay corporate income tax. If Hawai'i were to have a single tax rate on corporate profits of between 6.4 and 10%, it would raise an additional \$2.9–\$103 million in revenue per year.
- **Make global corporations pay taxes in Hawai'i.** Large multinational corporations can shift profits to subsidiaries in offshore tax havens, or countries with minimal or no taxes, giving them an unfair advantage over small local competitors who must pay taxes in the U.S. By adopting "worldwide combined reporting" to help end offshore tax haven abuse, Hawai'i would collect an additional \$38 million per year from these large multinational corporations.
- **Make Real Estate Investment Trusts (REITs) pay their fair share of taxes.** REITs own \$17 billion in Hawai'i real estate and earn about \$1 billion in profits every year. Unlike individuals and corporations, REITs pay no taxes to the state on this income. Removing the tax loophole on REITs would raise about \$30–\$60 million in revenue each year.
- **Increase taxes on the sales of mansions.** Between 2019 and September 2020, \$8.4 billion dollars of homes were sold in Hawai'i, with multi-million dollar mansions usually sold to non-Hawai'i residents. Our current real estate conveyance tax rates are only 0.50–1.25% on mansions. If the conveyance tax were raised on properties valued at \$2 million and above, that would raise \$17–\$71.5 million each year.
- **Tax sugary drinks.** Consumption of sugary drinks contribute to Hawai'i's unprecedented increases in obesity and chronic health conditions. A 2¢ per oz fee on sugar-sweetened beverages would raise \$65.8 million for state public health programs while reducing consumption and disease risks.

- **Tax vaping and increase other tobacco taxes.** About 25 other states have already imposed taxes on e-cigarette products. Establishing a tax on e-cigarette products could generate \$8.2 million each year, while increasing the existing taxes on cigarettes would raise an additional \$21.1–\$24.1 million in state revenues.
- **Suspend some General Excise Tax (GET) exemptions.** The state tax code allows many kinds of businesses to reduce their tax liability through exemptions or credits. In 2011, to address the economic crisis of the last recession, the state legislature temporarily removed 31 special exemptions from paying the GET for two years. A similar suspension now could add \$254.6 million in tax revenues.

We acknowledge the difficult decisions surrounding our state budget, but believe there are several progressive tax solutions that should be considered before program and service cuts, government worker furloughs, and layoffs. We urge you to prioritize these tax fairness proposals during the 2021 legislative session to generate hundreds of millions in badly-needed revenue, avoid damaging cuts, and restore Hawai'i's economy to full strength as quickly as possible.

Mahalo for your leadership and service to Hawai'i during these challenging times.

Sincerely,

AF3IRM Hawai'i

Americans for Democratic Action

Breastfeeding Hawai'i

Community Alliance on Prisons

Democratic Party of Hawai'i Education Caucus

Democratic Party of Hawai'i

Faith Action for Community Equity

Hawai'i Alliance for Community-Based Economic Development

Hawai'i Children's Action Network Speaks!

Hawai'i Public Health Institute

Hawai'i Alliance for Progressive Action

Hawai'i Appleseed Center for Law & Economic Justice

Hawai'i Health and Harm Reduction Center

Hawai'i Public Health Institute

Hawaiian Community Assets, Inc.

Healthy Mothers Healthy Babies Coalition of Hawai'i

HOPE Services Hawai'i

IHS, The institute for Human Services, Inc.

Imua Alliance

Kanu Hawai'i

LGBT Caucus of the Democratic Party of Hawai'i

Life of the Land

Living Wage Hawai'i

Ma'i Movement Hawai'i

Mental Health America of Hawai'i

Our Revolution Hawai'i

Partners In Care, Oahu's Continuum of Care

PHOCUSED

Planned Parenthood Votes Northwest and Hawai'i

RYSE (Residential Youth Services & Empowerment)

Sierra Club of Hawai'i

Women's Caucus of the Democratic Party of Hawai'i

Young Progressives Demanding Action