HAWAI'I CAN PULL ITS ECONOMY OUT OF RECESSION BY USING TAX FAIRNESS MEASURES TO RAISE REVENUE & AVOID CUTS

Revenue Proposal	Revenue Estimate (Millions)	
	Low	High
Raise income taxes on the richest 2%	$12.6	$100.2
Phase out low tax rates for those at the top	$18.5	$153.9
Tax investments the same way regular income is taxed	$80.2	$80.2
Increase taxes on wealthy inheritances	$6.6	$18.3
Raise corporate taxes	$2.9	$103.0
Make global corporations pay taxes in Hawai'i	$38.0	$38.0
Make REITs pay their fair share of taxes	$30.0	$60.0
Increase taxes on the sales of mansions	$17.0	$71.5
Tax vaping and increase other tobacco taxes	$21.1	$24.1
Place a fee on sugary drinks	$65.8	$65.8
Suspend some GET exemptions	$254.6	$254.6
TOTAL	**$547.3**	**$969.6**

Calculations for these revenue estimates are drawn from a variety of sources and are based on a normally-functioning economy. With Hawai'i currently facing an unprecedented economic downturn, actual revenues are likely to differ from these estimates. However, they still serve as a guide to where progressive and significant revenues can be found.

As Hawai'i's leaders head into 2021 while facing high unemployment rates, an economic recession, and state budget shortfalls, it's 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 have become more and more essential during the pandemic crisis.

That's because spending is the fuel that keeps our economic engines running. As the private sector engine of our economy sputters, the government needs to throttle up its spending in order to keep the economy going. Past recessions have shown us that state spending cuts just exacerbate the economic damage.

At this crucial time, cutting government spending would be akin to taking our foot off the pedal and letting the second engine of the economy sputter as well. In fact, the International Monetary Fund has found that every dollar of reduced government spending results in as much as $1.50 in lost economic activity.

Instead, we should look for every opportunity to keep the economy running. One important way to do so is by avoiding government worker furloughs, as a reduction in their pay would hurt not just state workers and their families, but also the local Hawai'i businesses that they support, and therefore inflict more damage to the economy.

Our leaders should also remember that social service cutbacks during the Great Recession continue to be felt and seen on our streets. Social service providers still haven't been able to undo all the damage inflicted on nonprofits and the state's mental health system by funding slashed a decade ago.

Especially now, with record-low interest rates and a high credit rating, the best course for Hawai'i would be to tap progressive revenue sources and borrow some funds in order to maintain operations and avoid budget cuts. It will pay off in the long run with a healthier economic recovery.

Lawmakers can, and should, utilize a range of progressive tax options to close the deficit without slashing critical government spending.

PERSONAL INCOME TAXES

RAISE INCOME TAXES ON THE RICHEST 2% ($12.6–$100.2 MILLION)

Hawaiʻi's top 1 percent earn more than $557,600 per year, with an average income of about $1.3 million. The federal Tax Cuts and Jobs Act gives each of them an average federal income tax break of $35,460 in 2020. This would be a good time for them to share some of those federal tax savings—estimated to total $253 million—with the state.

If Hawaiʻi's millionaires, top 1 percent, or top 2 percent 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 ($18.5–$153.9 MILLION)

Hawaiʻi currently allows its wealthiest households to benefit from the lower tax brackets designed to benefit middle and lower-income residents. While Hawaiʻi's top marginal tax rate of 11 percent kicks in at $200,000 for a single taxpayer and $400,000 for married couples filing jointly, these households do not pay 11 percent tax on all of their income. Even multimillionaires benefit by having the first $400,000 they earn in any given year taxed at the state's lower rates of 1.4 percent to 10 percent.

Three states—Arkansas, Connecticut and New York—have made their tax systems more fair by gradually phasing out these lower rates for the very richest taxpayers. Adopting a similar approach in Hawaiʻi would raise $18.5–$153.9 million in additional tax revenues.

TAX INVESTMENTS THE SAME WAY REGULAR INCOME IS TAXED ($80.2 MILLION)

Hawaiʻi is one of only nine states that allows capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—to be taxed at a lower rate than ordinary income. That's a tax break that goes almost entirely to high-income taxpayers, including non-residents who profit from investing in real estate in Hawaiʻi.

Long-term capital gains constitute 10 percent of total taxable income in the state, or nearly $3.5 billion in 2018. If those capital gains were taxed at regular individual income tax rates, it would yield about $80.2 million in new revenue annually.

INCREASE TAXES ON WEALTHY INHERITANCES ($6.6–$18.3 MILLION)

The federal Tax Cuts and Jobs Act gave a tremendous tax break to literally the richest among us, shielding $11 million for singles (and $22 million for couples) of property transferred from the deceased to their heirs from taxation.

Among the states that have estate taxes, Hawaiʻi has the fourth-highest exemption amount of $5.5 million for singles (and $11 million of couples). The exemption amount was only $675,000 in 2001, or less than one-eighth of the exempted amount today.

If Hawaiʻi'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.

POSSIBLE REVENUE: $117.9–$352.6 MILLION

CORPORATE TAXES

RAISE CORPORATE TAXES ($2.9–$103 MILLION)

The federal Tax Cuts and Jobs Act cut the federal corporate income tax rate by 14 percentage points, from 35 percent to 21 percent, so companies are getting a large tax break at the federal level.

Hawaiʻi's current top corporate tax rate of 6.4 percent is below the median of the states. We are ranked 34th among states in per capita corporate tax collections, at $103 per person, while the 1st state, New Hampshire, collects $582 per person.

Corporate taxes differ from individual income taxes in important ways. First, the corporate tax is applied only to profits, so companies facing losses do not pay corporate income tax. Second, having different income tax brackets makes sense for individual income taxes because those with lower incomes are less able to afford a high tax bill. However, there is no similar "ability to pay" concept for corporations. Hawaiʻi has three corporate tax brackets, while more than 30 other states have a single corporate tax rate.

If Hawaiʻi were to have a single tax rate on corporate profits of between 6.4 and 10 percent, it would raise an additional $2.9–$103 million in revenue per year. It is estimated that nearly 60 percent of Hawaiʻi's corporate income tax is paid by non-residents.

MAKE GLOBAL CORPORATIONS PAY TAXES IN HAWAI‘I ($38 MILLION)

Corporations use complicated schemes to shift earnings to subsidiaries in offshore tax havens —countries with minimal or no taxes—in order to reduce their tax liability by billions of dollars. The result is that large multinationals have an unfair advantage, avoiding taxes that small local competitors must pay.

Worldwide combined reporting requires a corporation to report their total global profits and the portion of their overall business activity in a given jurisdiction. So if a state makes up 2 percent of a company's global business, then 2 percent of their taxable profit would be subject to state tax.

If Hawai‘i adopted worldwide combined reporting, it would collect an additional $38 million per year from large multinational corporations.

POSSIBLE REVENUE: $40.9–$141 MILLION

REAL ESTATE TAXES

MAKE REITS PAY THEIR FAIR SHARE OF TAXES ($30–$60 MILLION)

Real Estate Investment Trusts (REITs) own approximately $17 billion worth of Hawai‘i real estate and earn about $1 billion in profits every year. Hawai‘i REITs should be taxed, as is every other individual and corporation doing business in Hawai‘i. If REITs paid regular corporate taxes on their profits, that would mean $60 million in potential tax revenue every year.

While Hawai‘i has more land value tied up in REITs than any other state in the nation, relatively few Hawai‘i residents own shares in REITs—we rank 40th in the nation for the number of REIT shareholders as a percentage of the population. As a result, not only is income produced on Hawai‘i property leaving the state, but the income that is funneled out of the state is not getting taxed here either.

Even if REITs were able to find a way to avoid half of the corporate taxes that could be assessed, removing the REITs tax loophole would still yield about $30 million in new revenue per year.

INCREASE TAXES ON THE SALES OF MANSIONS ($17–71.5 MILLION)

Real estate is one of the few sectors of Hawai‘i's economy that's been booming during the pandemic, with home prices soaring to new record highs in 2020. However, sellers of high end properties are not paying their fair tax share. In fact, between January 2019 and September 2020, just over half (52 percent) of homes priced at or above $2 million were sold to non-Hawai‘i residents. And of homes worth at least $4 million, 62 percent were sold to non-Hawai‘i residents.

Our current real estate conveyance tax rates are only 0.50–1.25 percent on multi-million dollar mansions. We should not allow our real estate to be sold at such high prices with such low tax returns. If the conveyance tax were raised on properties valued at $2 million and above, that would mean a boost of $17–$45.4 million to the state's treasury. And if the tax were raised on properties valued at $1 million and above, that would generate up to $71.5 million. It is estimated that roughly half, if not more, of the revenue would be generated from out of state residents.

POSSIBLE REVENUE: $47–$131.5 MILLION

TAXES FOR PUBLIC HEALTH

PLACE A FEE ON SUGARY DRINKS ($65.8 MILLION)

Over the last 30 years, the State of Hawai‘i has seen unprecedented increases in obesity and chronic conditions like type 2 diabetes, heart disease, liver disease, and tooth decay. A clear and compelling body of evidence now points to consumption of sugary drinks as a major contributor.

Hawai‘i spends more than $470 million a year treating obesity-related health conditions and $770 million in diabetes-related health conditions. Evidence suggests that if the price increase is large enough, it can reduce consumption of sugary drinks.

Revenue for a 2 cent per ounce sugary drink fee could generate as much as $65.8 million per year. A SSB fee will reduce SSB consumption and chronic disease risks, significantly save on healthcare costs, and generate revenue that can be used to reduce health disparities and

support health promotion programs during austere post-COVID-19 times.

TAX VAPING AND INCREASE OTHER TOBACCO TAXES ($21.1–$24.1 MILLION)

The rise of vaping and use of e-cigarette among Hawai‘i's youth has erased decades of tobacco prevention and control progress. There is currently no state tobacco tax attached to e-cigarette products, making these lower-priced tobacco alternatives more appealing to youth even though their use carries health risks. Research has shown that increasing prices, such as through cigarette taxes, is proven to reduce the rate of smoking by adult and youth smokers.

About 25 states have imposed taxes on e-cigarette products. An ad valorem tax on e-cigarette products has been considered by the Hawai‘i legislature in recent years. Projected revenue at 95% of the wholesale price based on milliliter sold could generate revenue of $8.2 million in 2021.

Similarly, increasing the taxes on cigarettes which has remained stagnant in the last 10 years would raise an additional $12.9–$15.9 million in new tax revenues per year. Currently, no tobacco taxes are allocated to address tobacco prevention and revenue from new tobacco taxes could be spent on programs and resources for youth tobacco prevention and cessation.

POSSIBLE REVENUE: $86.9–$89.9 MILLION

GENERAL EXCISE TAX

SUSPEND SOME GET EXEMPTIONS ($254.6 MILLION)

In 2011, to address the economic crisis of the last recession, the state legislature suspended 31 General Excise Tax (GET) exemptions for FY2012 and FY2013.

These exemptions were worth about $254.55 million in 2018, should a comparable measure be considered as a response to the economic impacts of the COVID-19 pandemic.

POSSIBLE REVENUE: $254.6 MILLION