

## **TAX REVIEW COMMISSION**

MINUTES OF THE FOURTH MEETING OF THE  
TAX REVIEW COMMISSION  
HELD AT 830 PUNCHBOWL STREET, ROOM 221  
IN THE CITY AND COUNTY OF HONOLULU  
STATE OF HAWAII, ON MONDAY, OCTOBER 17, 2005

The Commissioners of the Tax Review Commission met at the Department of Taxation, Director Conference Room, in the City and County of Honolulu, State of Hawaii, on Monday, October 17, 2005.

**Members Present:** Chair Isaac Choy, Manoa Consulting Group, LLC CPA's  
Vice-Chair Ronald Heller, Torkildson Katz Fonseca Moore &  
Hetherington, AAL, ALC  
Christopher Grandy, UH Manoa, Public Administration Program  
Lon Okada, Hawaiian Electric Industries, Inc.

**Absent:** Carolyn Ching, Carolyn L. Ching CPA  
John Roberts, Niwao & Roberts, CPA's

**Staff:** Tu Duc Pham, Bernard Wilson, Josephine Malama

**Other:** Diane Erickson, Department of Attorney General  
Peter Fritz, Chun Kerr Dodd Beaman & Wong  
Lowell Kalapa, Tax Foundation of Hawaii  
Sandra Yahiro, DOTAX  
Titin Liem, DOTAX  
James Masters, DOTAX

### **I. CALL TO ORDER**

Chair Choy called the meeting to order at 10:00 a.m.

### **II. APPROVE MINUTES FROM PREVIOUS MEETING**

Corrections were made to the minutes on page 3, regarding the 1995-97 TRC principles.

Item #1 should read:

The Commission expresses no preference for priority among the principles; but if we do have a priority, the Commission should consider efficiency first and equity second.

Item #3 should incorporate the two additional points listed:

Recognize that the tax resources do come from the citizens and that those resources are expended on mutually desired public goals.

It was moved by Mr. Heller and seconded by Dr. Grandy to approve the minutes of September 27, 2005, with the corrections noted above. The motion was carried unanimously.

### III. COMMUNICATION TO THE COMMISSION

- Letter from Chair Choy to Director Georgina Kawamura of Budget and Finance and Director Kurt Kawafuchi of DOTAX, dated 9/28/05, regarding the Tax Review Commission Supplemental Budget.
- Email from Stacy Hadano, CPA, with input on High Tech Credit and processing EFT payments for new businesses. These suggestions were from ASWA and will be added to the 34 suggestions received. They will be categorized under Category VI.

Chair Choy reminded the Commissioners to submit their Ethics Commission packet by November 1<sup>st</sup>.

### IV. PRIORITIZE TOPICS FOR STUDY/RESEARCH

Chair Choy reported that he met with staff before the meeting and regrouped the topics in Dr. Grandy's matrix according to what would be done internally and what would be contracted out. He thanked Dr. Grandy's for preparing the matrix, which the TRC will use as a starter. The topics were regrouped as listed. The remainder of the meeting was spent reviewing/discussing and compiling the matrix.

- Combine 1 and 14 for outside study
- Combine 6 and 7 for outside study
- Combine 15, 16, and 17 for internal study
- #4 by itself for outside study
- #5 by itself for internal study with the possibility that 2a may be outside study

**COMPILATION OF INSIDE/OUTSIDE STUDY TOPICS AND  
NOTES ON POSSIBLE SPECIFICATIONS AND TERMS**

**OUTSIDE STUDIES**

**GENERAL EXCISE TAX**

1. Effect of County Surcharges on General Excise Tax

**For Honolulu County**

a. Economic Impact

(1) Estimate the net change in total output, income and jobs of the county  
GE surcharge, including:

- (a) the effects due to the tax increase, and
- (b) the effects due to the expected increase in government spending
- (c) the effects due to additional Federal monies

b. Revenue Impact

(1) Estimate net revenue impacts for Honolulu County, and State of Hawaii

c. Distribution Impact

(1) Estimate the shares by income quintile of additional revenue paid  
by residents

**For Other Counties**

a. Similar estimates, presuming that Honolulu County surcharge is in effect  
(speculative for other counties)

2. Conversion to a Sales Tax.

a. What is equivalent percentage for converting the 4% GET to a Sales Tax

- (1) Estimate the rate of taxation needed to compensate for eliminating  
pyramiding (taxing only the final consumer) using the existing GE/UT base
- (2) Estimate the rate of taxation required to raise the existing amount of GE/UT  
revenue from a "typical" sales tax: excluding, for example, usually untaxed  
services and other activities

## CORPORATE AND FRANCHISE TAXES

### 1. Effects of Eliminating Corporate and Franchise Taxes

#### a. Domestic vs. Foreign

- (1) Estimate expected revenue loss and quantify portion from Hawaii corporations vs. foreign corporations doing business in Hawaii
- (2) Estimate the reduction in tax liability for Hawaii residents
- (3) Estimate the economic effects on output, income, and jobs in Hawaii from
  - (a) Firms currently operating in Hawaii
  - (b) Potential new businesses in Hawaii

**(Note: Bank and insurance companies will be highly impacted by this. For homework, Chair Choy suggested everyone come up with different scenarios and their effects. In the meantime, this will be on hold.)**

## PERSONAL INCOME TAX

### 1. Effects of Eliminating Personal Income Tax

- a. Estimate loss of revenue
- b. Estimate increase in GET necessary for revenue neutrality
- c. Estimate net economic effects (output, income, jobs) of a revenue-neutral shift from personal income to GET
- d. Efficiency of the Tax Department

## TAX CREDITS

### 1. Benefit/cost studies for selected recent tax credits: high tech and research and development

#### a. Economic benefit

- (1) Review any existing analyses of Hawaii high tech and research and development tax credits
  - (a) Identify strengths and weaknesses of the analyses
  - (b) Where appropriate and feasible, extend the analyses to remedy weaknesses

b. Economic liability/cost

- (1) In the absence of adequate cost/benefit analyses, conduct such analyses, including:
  - (a) Tax revenue changes due to tax credits
  - (b) Estimated skewing effects on investment decisions
  - (c) Increases in output, income, and jobs from high tech and research and development activity
  - (d) Resulting changes in output, income, and jobs in other economic sectors

c. Transparency

- (1) Assess public availability of information related to the extent of tax credits claimed by specific beneficiaries.

**(Note: Barney to expand in this area. Also, include hotel renovation credit.)**

## **INTERNAL STUDIES**

### GENERAL EXCISE TAX

1. Effects of General Excise Tax Exemptions

a. Tax Expenditures

- (1) Itemize existing general excise and use tax exemptions (including deductions and credits)
- (2) For each, estimate the net effect on tax revenues, including:
  - (a) Direct revenue foregone
  - (b) Indirect revenue changes, such as due to additional targeted activity, and reduced activity elsewhere
- (3) For each (or the 5 largest in terms of direct revenue foregone), estimate economic effects, including output, income, and jobs

**(Note: Items 2b and 3 may be outside study)**

2. Updating "Is Hawaii's Tax System Adequate" report by James Mak and Shamsuddi Ahmad

- a. Estimate long-run and short-run income elasticities of tax revenue by tax instrument and for the general fund
3. Updating "Budget Stabilization Funds" by Marcia Y. Sakai
    - a. Following Sakai methodology, survey state stabilization and general funds and report as percentage of expenditures
  4. Updating "The Cost of Unemployment Insurance and Worker's Compensation Programs in Hawaii" by James Mak and Alison Abe
    - a. Following Mak and Abe methodology, repeat the Unemployment Insurance and Worker's Compensation analyses

Chair Choy asked if there were any additions to the matrix. There was none.

#### **LIST AGENDA ITEMS FOR NEXT MEETING**

Follow-up on homework assignment. Work on criteria for outside study. Define and prioritize topics for internal (staff) studies.

#### **NEW BUSINESS**

Mr. Heller shared the September 2005 issue of AICPA Understanding Tax Reform: A Guide to 21<sup>st</sup> Century Alternatives. It is available on the AICPA website. Chair Choy suggested the members go on the Google website and take a look at the tax structure of other states.

#### **VI. ANNOUNCE NEXT MEETING**

The next meeting is scheduled for October 25, 2005, at 10:00 a.m. in the Tax Director Conference Room.

#### **VII. ADJOURNMENT**

It was moved by Mr. Heller and seconded by Mr. Okada to adjourn the meeting at 11:30 a.m. The motion was carried unanimously.