

Hawaii Reporter

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The Cost of Living in Paradise Slated for Sharp Increases

By Frances Nuar, 4/13/2010 3:10:32 PM

Hawaii lawmakers have been working overtime to ram through various tax hikes and revoke tax credits in a desperate attempt to balance the state budget as mandated by law.

Wednesday is the impending deadline, as all bills presented to Gov. Linda Lingle by that time would force her to act on the bills before the 2010 legislative session adjourns at the end of April.

Typically the governor has 45 days to take action on bills passed at the end of session, but that decreases to only 10 days on bills passed 10 or more days before the session ends, accounting for the sudden frenzy of activity by the conference committee, which passed numerous bills yesterday. Legislators would rather override potential vetoes during session than in a special veto override session 3 months down the road.

TAX INCREASES

As of yesterday the conference committee passed the barrel tax bill, which in its final draft will increase the tax on each barrel of raw petroleum product from \$0.05 to \$1.05, instead of the previous Senate draft proposal of \$1.55 and \$5. Aviation fuel will still be exempted from the tax. Revenues from the tax are expected to generate approximately \$22 million a year, \$13.2 million to help reduce the deficit, with only \$8.8 million going to fund food and energy security programs, originally the intended revenue recipients.

Estate taxes will be raised in a bill which taxes the transfer of a taxable estate located in Hawaii by a nonresident, noncitizen of the United States. The tax will be determined by the value of the property and the gross estate value, and is expected to result in revenue gains of \$19.6 million.

Cigarettes and cigar sales will see a tax increase of one cent on July 1, 2010, to increase by an additional cent July 1, 2011. Such a tax increase would result in revenue gains of \$10.8 million in FY 2011 and 2012.

Certain insurance premium taxes are targeted for increases, but revenues are unclear due to undefined tax rates.

Internet sales made to Hawaii residents would be taxed under the Streamlined Sales and Use Tax Agreement, but revenues are unquantifiable as the tax is voluntary, not mandatory. The SSUTA would involve start up costs of several million dollars the first year in addition to ongoing costs, while estimates suggest it would provide Hawaii with less than \$10 million annually.

General excise tax exemptions on dozens of businesses will be lifted with these businesses paying a one-half percent GE tax through 2015, instead of the one percent tax hike originally proposed. It is expected to generate \$25.3 million in revenues.

REVOKING CREDITS

Another bill passed yesterday will limit the amount of itemized deductions that can be claimed on state income tax returns to \$50,000 for joint returns with adjusted gross income of over \$300,000 and \$25,000 for individuals with adjusted gross incomes of over \$150,000. The bill also removes the capital goods excise tax credit refund until January 1, 2016. It is expected to result in \$119.7 million in additional revenues for the state over a six year period.

Effective January 1, 2011 political campaign contributions cannot be deducted from income, expected to result in a revenue gain of approximately \$1.2 million per year. Businesses with net operating losses

exceeding their income are no longer allowed carrybacks to get a refund of taxes paid in prior years.

A bill to temporarily suspend the right to claim Technology Infrastructure Renovation and High Technology Business Investment Tax Credits has been deferred until tomorrow. If passed, the bill would retroactively repeal Act 221 investment credits already made, which were meant to give a full 100% return up to \$2 million per year on investments for qualified high tech businesses, and could bring up constitutional issues.

ALTERNATIVES TO TAX HIKES

House Republicans, under the leadership of Gene Ward, have proposed an alternative budget to find ways to balance the budget without raising taxes, rather than by increasing the cost of living for those living in Hawaii.

In today's press release Representative Ward (R-17th District – Hawaii Kai-Kalama Valley) spoke of the House Republican budget as "the first balanced budget and financial plan that does not raise taxes, fully funds Furlough Fridays, and ensures a sustainable safety net." Details of the budget include providing up to \$92 million to end school furloughs, restoring cuts to services for youth, increasing funds for Kapuna Care, libraries, and more.

The concept behind the proposed budget is to generate revenue without tax increases through means such as eliminating funding for vacant positions, reducing funds for lower priority programs, and reducing service contracts to manage whole school renovations. Under the proposal the state budget would see an estimated budget surplus of \$17 million in 2010, which would increase to an estimated \$261.4 million by 2015.

Taxpayers in Hawaii who oppose the proposed tax hikes have organized a Tea Party on April 15 starting on four islands, hoping to send a message to legislators that taxes are already high enough.

Here is the information on all islands:

Honolulu Tax Day TEA Party

Hawaii State Capitol, 4-7pm

Maui Tax Day TEA Party

Hoaloha Park, Kahului, 2-6pm

Kona Tax Day TEA Party

Queen Ka'ahumanu Hwy. (South of Borders and and Henry St.) 12-5pm

Hilo Tax Day TEA Party

Hilo Bayfront, King Kamehameha Statue (South of Borders and and Henry St.) 4-6pm

Kauai Tax Day TEA Party

Old County Building (Rice St.) 11am-1pm

A non-partisan event, the protest rallies are a few of the over 700 tax protests that will be held across the nation in an effort to stop the plethora of tax increases proposed this year.

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