TAX FOUNDATION
OF HAWAII

2016 Annual Activity Report
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Mission & Vision Statement

Mission Statement

To promote and encourage efficiency and economy in Hawaii governments through unbiased, non-political studies and surveys of a factual nature, making available and disseminating such information and data by publications, reports, talks, the radio and television.

Vision Statement

We envision a government of the State of Hawaii where its public is adequately informed about state and county government finances, and its policymakers about the consequences of their proposals - so that government is efficient and economical, and its tax system is fair and equitable.

Overview

The primary focus of the Tax Foundation still remains Hawaii’s tax and public finance issues and thus much of the staff’s time is occupied in dealing with proposed legislation that will shape the financing infrastructure of the state.

LEGISLATIVE ARENA

It is here that the Foundation puts in much of its efforts to educate and inform. Because lawmakers shape the policies of the state, informing these policymakers of the tenets of good tax policy is key to creating a fair and well-balanced system of taxes and other revenues.

Here are some examples from the 2016 legislative session.

More Surcharges Sought; None Passed

Legislators traditionally tread lightly in the taxation arena during an election year, and this one was no exception. A few blockbusters were proposed. One of them sought to hoist the base General Excise Tax (GET) retail rate by a full point, with the resulting proceeds going to
the Department of Education. Another sought to slap a second surcharge on the GET, this one for half a point, to create and fund a state defined benefit fund to pay long-term care expenses of residents (but for no more than a year). Both died on Leap Day 2016 in a hearing before the Senate Ways and Means Committee that saw the demise of those and three other tax bills of broad applicability, leading us to call February 29, 2016 “Jill’s Day of Carnage.”

Another interesting bill supported by the teachers’ union, which foreshadows the path the union may be pushing if there is no appetite for a GET hike, is one to commission a study on the deleterious effects of Hawaii’s low real property taxes. Wait—is low real property tax a bad thing? The bill’s preamble says, “The legislature finds that Hawaii has the lowest property taxes in the nation. Although this makes sense for low- and middle-income residents who own an average single-family home, this causes the counties to potentially forego additional tax revenue from high-value homes and second homes. The legislature further finds that many individuals and families who spend time in Hawaii are owners of high-value properties and do not pay state income tax, instead maintaining resident status in another state with a lower income tax rate. However, these individuals still use Hawaii’s infrastructure and services, and thus should pay their fair share. The legislature also finds that low property taxes can incentivize development of high-end, high-value properties, contributing to the high cost of land in Hawaii, driving up the cost of living and exacerbating our affordable housing and homelessness issues.” Although the bill wound up on the cutting room floor, the money for the study was appropriated in the state’s budget bill. Thus, we can expect an attack upon property taxation next year.

The Transportation Trifecta

The Department of Taxation wasn’t the only one concerned about tax increases. In the 2016 session, we were following bills sponsored by the State Department of Transportation (DoT) to raise the charges on vehicle ownership – specifically, the state fuel tax, state vehicle weight tax, and the state vehicle registration fee, all of which pour money into the state Highway Fund that the DoT controls. DoT pushed for the tax hikes and got one bill through the Senate, but the bill had to cross over to the House and died a fiery death in the House Transportation Committee with TV cameras rolling.

DoT’s reaction, as stated by Deputy Director for Highways Ed Sniffen in a Star-Advertiser article, was that DoT would be shelving capacity enhancement projects like additional lanes for Highway 130 on the Big Island, Lahaina Bypass 1C to the Kaanapali Connector, Kahekili Highway widening, or anything on Kauai. We “cannot see funding available to fund these projects in the next 20 years,” he said. But permits, environmental assessments, and the like for these projects have a shelf life, so a significant deferral means any progress made in clearing those hurdles may be nullified.

Although House Finance Chair Luke pointed out that the Legislature gave DoT an extra $37 million this year out of the general fund to make up the difference, Sniffen said that the projects could be freed up only if “we can get a continuing addition to our funding.” Apparently, he is looking for an earmarked tax before the chokehold on our highway capacity projects will be loosened. So, we can expect a renewed push for hikes in the Transportation Trifecta in 2017.
As mentioned in last year’s activity report, the Foundation filed suit against the State of Hawaii in October 2015, challenging the State’s skimming off 10% from all surcharge collections into the general fund, ostensibly to reimburse the State for expenses incurred in collecting the tax for the City. But the 10% turns out to be a massive amount of money, amounting to around 85% of the Department of Taxation’s budget while the surcharge represents perhaps 4% of the total revenue collected.

In March 2016, the First Circuit Court in Honolulu dismissed the Foundation’s suit, saying that suits challenging taxes need to go through the regular tax appeal process. The Foundation appealed, and the briefing papers for the appeal were completed at the end of 2016. (In early January 2017, we found out that the Supreme Court of Hawaii will be hearing the appeal directly.)

The Foundation’s mission to improve state and local tax systems and foster a positive Hawaii economic climate is accomplished through participation in the legislative process as a nonpartisan organization and through community groups and organizations. This participation allows the Foundation to disseminate its researched views and also allows the staff to monitor the economic and social pulse of key policymakers in the private sector and in government and the community at large.

Community Participation (33)

The Foundation maintains membership and plays a direct role in the activities of several community groups and organizations. In other cases, staff attends meetings to gather information and to monitor activities of decision makers in the community.
Committee Meetings (24)

- Hawaii State Bar Association Tax Section Meeting (5)
- Honolulu Japanese Chamber of Commerce Government Affairs Committee (3)
- The Grassroot Institute of Hawaii - Think Tank on REITs
- The Grassroot Institute of Hawaii Calabash Meetings (2)
- Goodwill (5)
- National Tax Foundation State Working Group (7)
- HANO
- Hawaii Association of Trade Executives (9)

Public Hearings and Meetings

The Foundation is often called upon to participate in public forums as a means of sharing its research and analyses of current public finance issues as part of its mission to improve equity and efficiency in the tax system. Although some may think otherwise, the Foundation is strictly prohibited by its charter from engaging in lobbying activities on behalf of specific interest groups. The Foundation takes extraordinary steps to convey to the public the information it has gathered so that better decisions can be made.

State Government

Legislative Hearings (146)

The Foundation’s role in the legislative hearing process is to provide an independent and unbiased viewpoint on tax and other public finance legislation. Given the breadth and reach of state government in Hawaii, much of the Foundation’s activity is weighted toward monitoring the state legislature and executive branch. The Foundation is often the only private sector representative at legislative hearings dominated by representatives from government agencies.

County government legislative activities are also monitored by the Foundation. However, with most taxing authority concentrated at the state level and given that Hawaii is an island state, the Foundation has, for the most part, limited its monitoring activity of county governments to real property taxes. The Foundation responds to all requests by county policymakers for its research and viewpoints on local government issues.

Below is the number of tax measures in which the Foundation presented testimony, either in oral and/or written format:

State Senate (117)
- Commerce & Consumer Protection (12)
- Economic Development & Technology (8)
- Education (4)
- Government Operations (3)
- Hawaiian Affairs (2)
- Housing (8)
- Human Services (2)
- Judiciary & Labor (7)
- Public Safety, Intergovernmental & Military Affairs (4)
The TAX BILL SERVICE provides summaries of all tax legislation introduced during the legislative session. The Foundation also includes an executive summary and brief comments on the impact each measure may have on the tax system, with the primary focus being on fairness and administrative concerns. The publication is provided to supporting members, subscribers, lawmakers, administrators and the media.

Weekly Commentary

The Foundation president authors commentaries that highlight issues of current interest within the Hawaii community. Some of the topics covered during the past year were:

- Significant State Policy Issues
  - Unfunded Liabilities at $24,500 Per Man, Woman, and Child Here (Oct. 31, 2016)
  - DHHL: Can’t Spend $60M, Asks for $500M (Oct. 10, 2016)
  - Boards of Review: Facing Extinction (Sept. 12, 2016)
  - Honolulu Grants in Aid (Jul. 11, 2016)
  - Our Fuel Tax: Schizophrenia in Motion (Apr. 11, 2016)
  - Transient Vacation Rentals (Mar. 28, 2016)

- Federal Tax Issues with Local Ramifications
  - What TrumpTax May Mean for Hawaii (Nov. 21, 2016)
  - Will They Come for You Next? (May 30, 2016)
Permanent Internet Tax Freedom (Jan. 4, 2016)

The commentaries are published weekly by Civil Beat, Hawaii Free Press, Maui News, the West Hawaii Today, the Hawaii Reporter, and the Garden Isle News. They are also made available on the Foundation’s web site.

Media (28)

The Foundation president is an often quoted source in the media, highlighting the Foundation’s analysis and knowledge base in tax and public finance issues. The Foundation is often quoted in the Honolulu Star-Advertiser and by the major network radio and television stations. The staff also participated in the form of talk shows or news interviews on the following radio and television program broadcasts: Civil Beat (4); Hawaii News Now (5); KHON-TV (6), KAAH-TV Trinity Broadcasting (2), KITV (7); KHPR Public Radio Interviews (2); Hawaiian Christian Coalition TV Broadcast (1); Honolulu Star Advertiser (17); Hawaii Free Press (2); 808 State Update with Duke Aiona (AM 940) (3); Pew Trust Interview (1); Insights on PBS (1); Pacific Business News (3); Summit Magazine interview (1); Maui News (4); West Hawaii Today (1); KSSK (2).

Presentations (12)

Speeches and Talks (5)

Membership Luncheon (1)

The membership luncheon provides members of the Foundation a chance to gather and hear a speaker of note in the community. During the past year, the Foundation held its annual membership luncheon on September 7 to a sell-out crowd at the Plaza Club in downtown Honolulu. Senator Jill Tokuda, Chair of the Senate Ways and Means Committee, spoke on “Balancing Hawaii’s Budget: Now and Moving Forward.”

Legislative Workshops (4)

Responding to requests for updates of tax and public finance legislation moving through the legislative maze, the Foundation has been providing educational workshops during the session to keep those who do not have the time to monitor the session up to date. Held at key times during the legislative process, these workshops inform interested individuals about which proposals are progressing through the process. In addition, the Foundation partners with the Hawaii Employers Council to also update participants about key labor related proposals wending their way through the legislature.

Educational Workshops (2)
# Officers

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<tr>
<th>Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>Manoj Samaranayake</td>
<td>Chair</td>
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<tr>
<td>Ronald I. Heller</td>
<td>Vice Chair</td>
</tr>
<tr>
<td>Thomas Yamachika</td>
<td>President, Secretary</td>
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<tr>
<td>Daniel K. Grebence</td>
<td>Vice President, Treasurer</td>
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# Executive Committee

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<tr>
<td>Manoj Samaranayake</td>
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<tr>
<td>Michael J. O’Malley</td>
<td>Lon K. Okada</td>
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<td>Ronald I. Heller</td>
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# Executive Advisory Committee

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<tr>
<td>Meredith J. Ching</td>
<td>Roger H. Epstein</td>
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<td>Richard Henderson</td>
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<td>Richard R. Kelley</td>
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# Board of Directors

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<tr>
<td>Dennis Brown</td>
<td>President, Big Brothers Big Sisters Hawaii</td>
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<tr>
<td>Helen Chang</td>
<td>Director, Corporate Tax, Hawaiian Airlines</td>
</tr>
<tr>
<td>Jay Chen</td>
<td>Small Business Owner</td>
</tr>
<tr>
<td>Ross Kohara</td>
<td>Business Development Director, Schmidt, Shimokawa &amp; Assoc. – Ameriprise Financial Services</td>
</tr>
<tr>
<td>Bennett Liu</td>
<td>Chief Financial Officer, Honolulu Board of Realtors</td>
</tr>
<tr>
<td>Michael J. O’Malley</td>
<td>Attorney, Goodsill Anderson Quinn &amp; Stifel</td>
</tr>
<tr>
<td>Melanie King</td>
<td>Tax Partner–Personal Finance Specialist, CW Associates, CPAs</td>
</tr>
<tr>
<td>Lon K. Okada</td>
<td>Manager of Taxes, Hawaiian Electric Industries</td>
</tr>
<tr>
<td>Ku’uhaku Park</td>
<td>Vice President, Government &amp; Community Relations, Matson</td>
</tr>
<tr>
<td>Manoj Samaranayake</td>
<td>Managing Director of Tax, Accuity LLP</td>
</tr>
<tr>
<td>Glenn Shigetomi</td>
<td>Tax Manager, KPMG LLP – Honolulu</td>
</tr>
<tr>
<td>Lauralei Tanaka</td>
<td>Assistant Controller, Castle &amp; Cooke Homes Hawaii Inc.</td>
</tr>
<tr>
<td>Kieran Yap</td>
<td>Corporate Tax Director, Outrigger Enterprises Group</td>
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# Staff

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