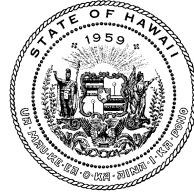


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COUNCIL ON REVENUES

STATE OF HAWAII
P.O. BOX 259
HONOLULU, HAWAII 96809-0259

May 26, 2022

The Honorable David Y. Ige
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Ige:

The Council on Revenues held a meeting to forecast revenue growth for the State General Fund on May 23rd, 2022. The Council increased its forecast to 28.0% from 21.0% for fiscal year (FY) 2022. The Council lowered its forecast to 5.0% from 6.0% for FY 2023. The Council reduced the FY 2024 forecast to 3.5% from 4.0%, and maintained its forecast for FYs 2025-2028 at 3.5%.

The 7.0% increase in the FY 2022 revision is due to strong economic and tax collection data year-to-date (approximately 32.8% as of April 30, 2022) and because there are only two months remaining in FY 2022. Further, the preliminary General Fund revenue data through the May 20, 2022 continue to indicate positive growth. The robust year-to-date collections stem from the rapid recovery of tourist arrivals, renewed consumer spending, additional tax collections due to high inflation, and a significantly larger share of the transient accommodations tax remaining in the General Fund.

Risks that may inhibit the economic recovery include new variants of the COVID-19 virus, an aggressive monetary policy response from the Federal Reserve to combat inflation, high oil and commodity prices, geopolitical events including economic disruptions associated with the war in Ukraine, significant supply chain disruptions, global and Hawaii labor shortages, sustained travel restrictions in Asian markets due to the Pandemic, burdensome regulations imposed on businesses for public health reasons, and the reduction in Federal stimulus spending.

The Council expects that visitor arrivals will recover through the end of the calendar year as countries wind down COVID-19 restrictions, with domestic travel returning more

quickly than foreign travel. Given the prominent role of tourism in Hawaii's economy, the number of visitors to the State will have major impacts on the economy and tax collections. The Council noted that the government's role in facilitating visitor arrivals in a safe and orderly manner is vital for the return of economic growth.

The new forecasts for the State General Fund tax revenues FY 2022 through FY 2028 are shown in the table below.

General Fund Tax Revenues

Fiscal Year	Amount (in Thousands of Dollars)	Growth From Previous Year
2022	\$9,280,334	28.0%
2023	\$9,744,351	5.0%
2024	\$10,085,403	3.5%
2025	\$10,438,392	3.5%
2026	\$10,803,736	3.5%
2027	\$11,181,867	3.5%
2028	\$11,573,232	3.5%

The Council adopted specific adjustments recommended by the Department of Taxation to reflect effects on General Fund tax revenues due to tax law changes enacted by the 2021 Legislature including the following:

- Act 1, SSLH 2021 authorizes the counties to establish and administer their own transient accommodations tax (TAT) at a maximum rate of 3%. The Act reduces the allocation to the convention center special fund from \$16.5 million to \$11 million. The Act also eliminates the \$79 million allocation to the tourism special fund, and the \$103 million allocation to the counties. The Act became effective on July 1, 2021. The estimated gain to the General Fund is \$187.5 million for FY 2022 through FY 2028.
- Act 226, SLH 2021 relaxes the rules on allocating the low-income housing tax credit (LIHTC). The Act also relaxes the installment method, at-risk, and passive activity loss rules and allows the Hawaii LIHTC to be claimed in the initial year even if Federal Form 8609 has not been received by the taxpayer. The Act prohibits the deductions and expenses claimed by Hawaii taxpayers to exceed the deductions and expenses claimed by all taxpayers on federal returns. The Act extends the shortened credit period provided by Act 129, SLH 2016, from tax year 2022 through tax year 2027. The Act became effective on July 1, 2021 and applies to taxable years beginning after December 31, 2020. The estimated loss to the General

Fund is \$7.8 million in FY 2022, \$24.1 million in FY 2023, \$24.9 million in FY 2024, \$25.6 million in FY 2025, \$26.4 million in FY 2026, \$27.2 million in FY 2027, and \$28.0 million in FY 2028.

- Act 2, SLH 2019 deems marketplace facilitators the sellers of tangible personal property, intangible personal property, and services sold through the marketplace. The Act also deems sales of tangible personal property and services by sellers to the marketplace facilitator to be sales at wholesale. The Act is effective January 1, 2020. The estimated gain to the General Fund is \$4.0 million in FY2020, \$9.8 million in FY 2021, \$10.1 million in FY 2022, \$10.4 million in FY 2023, \$10.7 million in FY 2024, \$11.0 million in FY 2025, and \$11.3 million in FY 2026.
- Act 3, SLH 2019 establishes a new estate tax rate bracket for taxable estates exceeding \$10 million. The new bracket is 20%. The Act is effective April 4, 2019 and applies to decedents dying after December 31, 2019. The estimated gain to the General Fund is \$1.9 million in FY 2021, \$2.0 million in FY 2022, \$2.1 million in FY 2023, \$2.2 million in FY 2024, \$2.3 million in FY 2025, and \$2.4 million in FY 2026.
- Act 20, SLH 2019 imposes the transient accommodations tax on resort fees and defines resort fees as "any mandatory charge or surcharge imposed by an operator, owner, or representative thereof to a transient for the use of the transient accommodation's property, services, or amenities." The Act is effective July 1, 2019. The estimated revenue gain to the General Fund is \$9.1 million in FY 2020, \$10.3 million in FY 2021, \$10.7 million in FY 2022, \$11.1 million in FY 2023, \$11.6 million in FY 2024, \$12 million in FY 2025, and \$12.4 million in FY 2026.
- Act 260, SLH 2019 establishes a new ship repair industry tax credit which is intended to offset costs incurred in constructing and placing into service a purpose-built floating dry dock at Pearl Harbor for use by the United States Navy. The tax credit expires December 31, 2026. The Act also repeals the capital infrastructure tax credit. The Act is effective January 1, 2020 and applies to taxable years beginning after December 31, 2021. The expected net loss to the General Fund is \$6.0 million per year in FY 2023 to FY 2027.
- Act 261, SLH 2019 amends the tax credit for research activities such that references to the base amount contained in section 41 of the IRC do not apply, and credit may be taken based upon all qualified research expenses incurred in Hawaii without regard to the amount of expenses for previous years. The Act establishes an annual aggregate cap of \$5 million. The Act extends the tax credit from tax year 2020 through tax year 2024. The expected loss to the General Fund is \$5.0 million per year for FY 2021 to FY 2025.

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- Act 275, SLH 2019 amends the motion picture, digital media, and film production income tax credit by increasing the credit annual aggregate cap from \$35 million to \$50 million. The Act is effective July 10, 2019 and applies to taxable years beginning after December 31, 2018. The tax credit expires December 31, 2025. The expected loss to the General Fund is \$15.0 million per year for FY 2020 to FY 2026.

The Department of Taxation has prepared a report (attached) detailing line-item forecasts for various components of the General Fund, reconciled to the Council's forecast growth rate for total General Fund tax revenues. The line-item forecasts include components, such as revenues from the general excise tax and the individual income tax that the Council does not forecast separately. The Department of Budget and Finance has also prepared the attached report to update its projections for change in non-tax and special tax revenues from its March 2022 report.

Please advise us if we can be of further assistance or if we can answer any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read "Kurt Kawafuchi".

KURT KAWAFUCHI
Chair, Council on Revenues

Attachments