

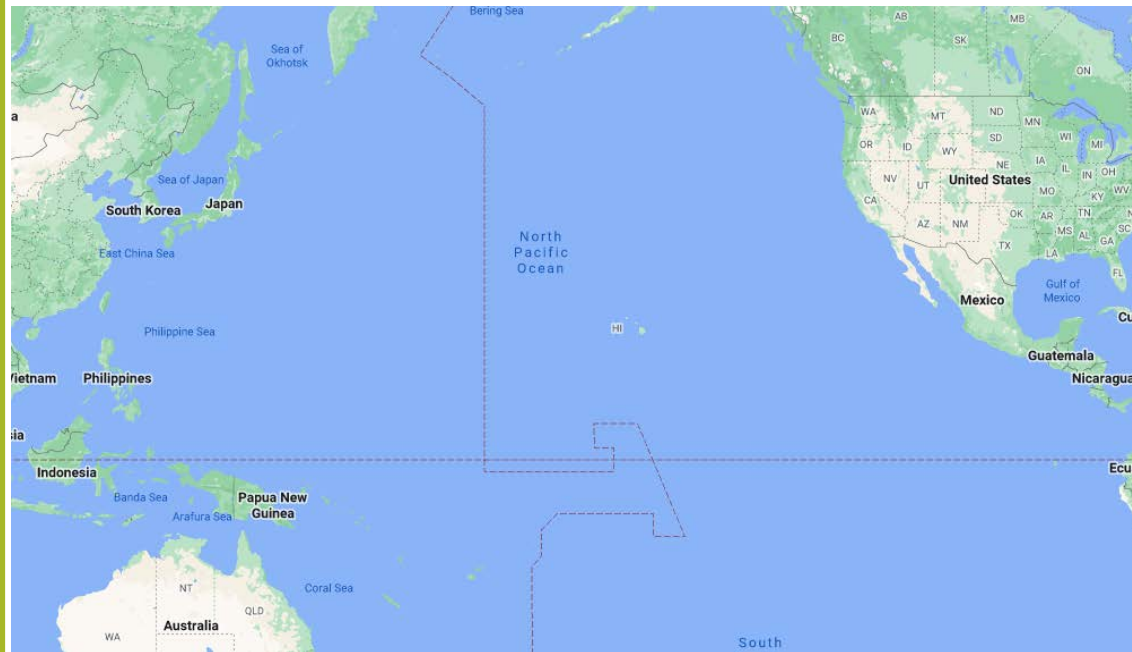
# INFLATION AND TAXES IN HAWAII

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**HAWAII'S  
ECONOMY IS  
MAINLY DUE  
TO ITS  
UNIQUE  
GEOGRAPHY**

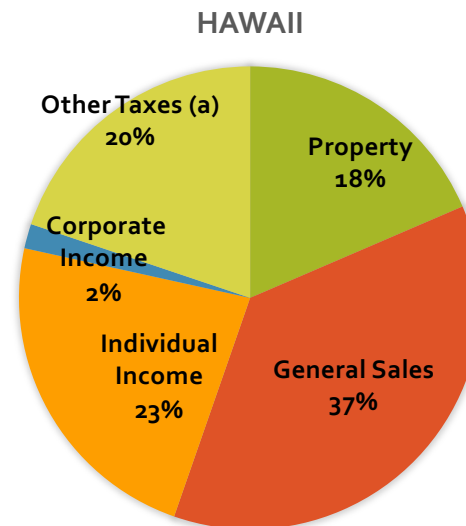
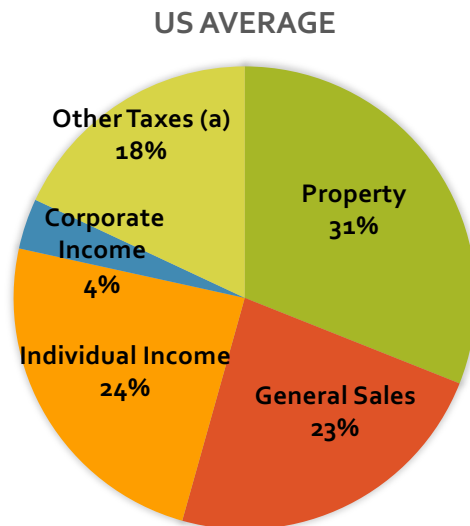
# Hawaii's economy is dominated by two industries

- **Tourism**
  - ~23% of GDP
  - Multi-sector industry
- **Government/ Military**
  - Pacific Command headquarters
  - Active military and dependents make up 9% of inhabitants

Industry Group	% of Total Additional Real GDP, 2001-2020		
	Hawaii	U.S.	HI above U.S.
<b>Top 5 Sectors in the State of Hawaii</b>	77.6%	46.4%	31.2%
Real estate and rental and leasing	27.8%	14.2%	13.5%
Government	18.9%	4.0%	14.9%
Health care and social assistance	15.3%	10.3%	5.0%
Retail trade	8.0%	4.9%	3.1%
Professional, scientific, and technical services	7.6%	12.9%	-5.4%
<b>Top 5 Sectors in the U.S.</b>	57.3%	66.4%	-9.1%
Information	7.1%	17.4%	-10.3%
Real estate and rental and leasing	27.8%	14.2%	13.5%
Professional, scientific, and technical services	7.6%	12.9%	-5.4%
Manufacturing	-0.5%	11.5%	-12.0%
Health care and social assistance	15.3%	10.3%	5.0%

Source: BEA and DBEDT, READ.

Hawaii's tax system relies more on sales taxes and less on property taxes than the national average



# MOST STATE COLLECTIONS COME FROM THREE MAIN TAX TYPES

Tax Type	Amount*	Percent
General Excise and Use Taxes	3,541	44%
Individual Income Tax	2,569	32%
Transient Accommodations Tax	600	8%
Fuel Tax	206	3%
Motor Vehicle Taxes & Fees	196	2%
Corporate Income Tax	164	2%
Public Service Companies Tax	127	2%
Cigarette & Tobacco Tax	113	1%
Unemployment Insurance Tax	110	1%
Other	357	4%

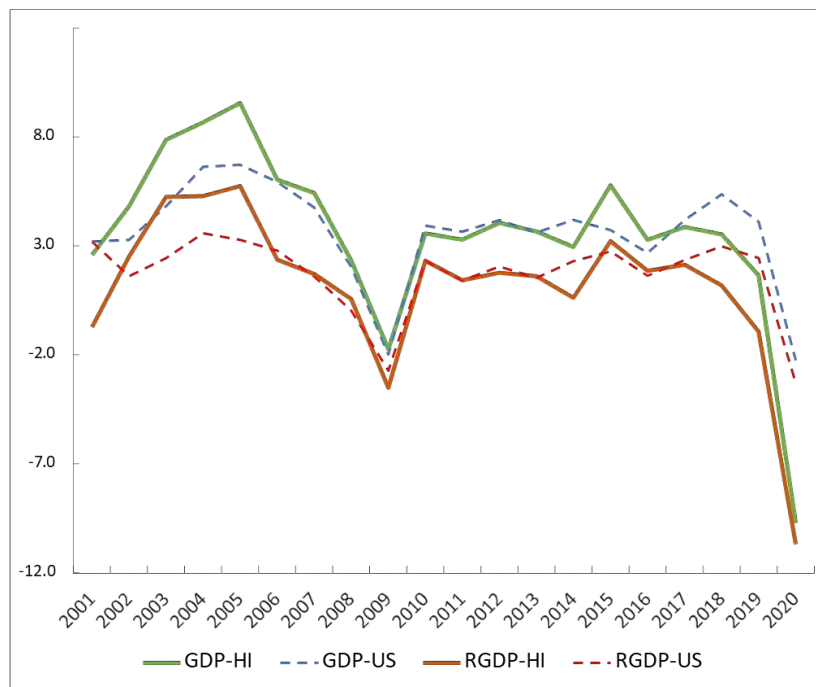
\*\$ thousands

Fiscal Year 2019

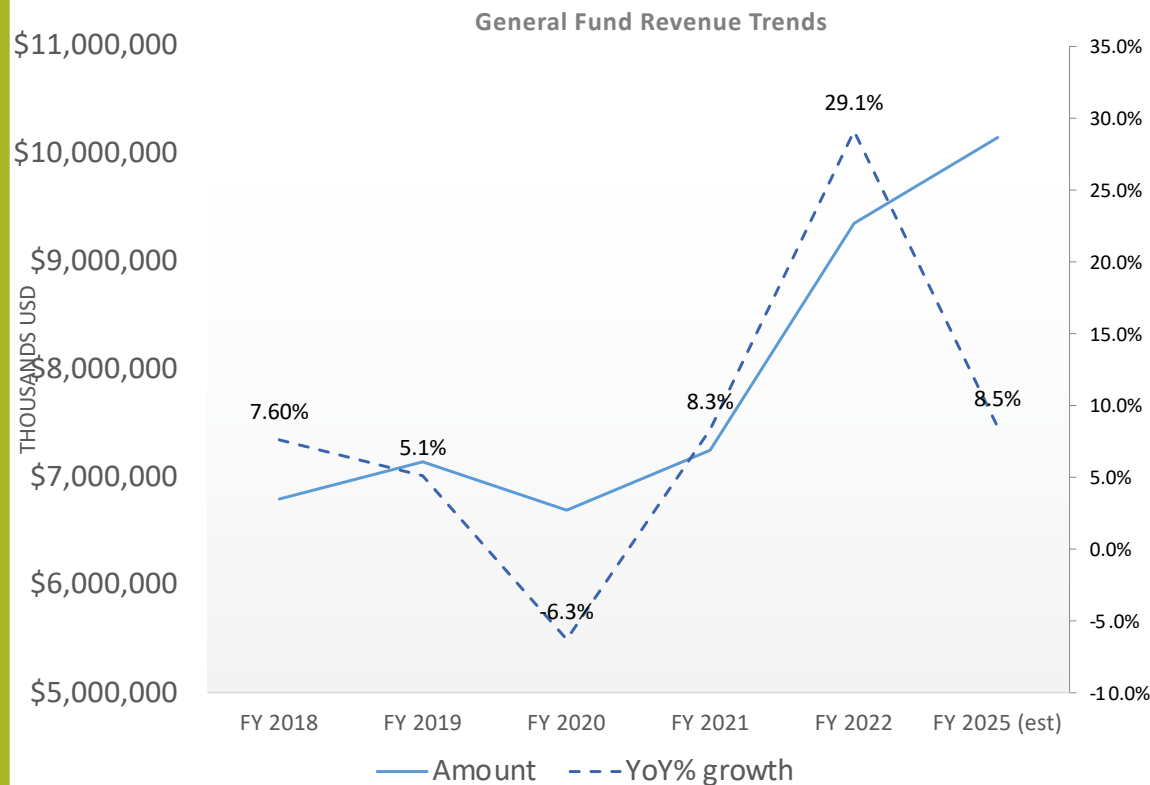
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# Hawaii's economy was severely affected by the Covid-19 pandemic

Annual GDP Growth of Rate of HI vs US



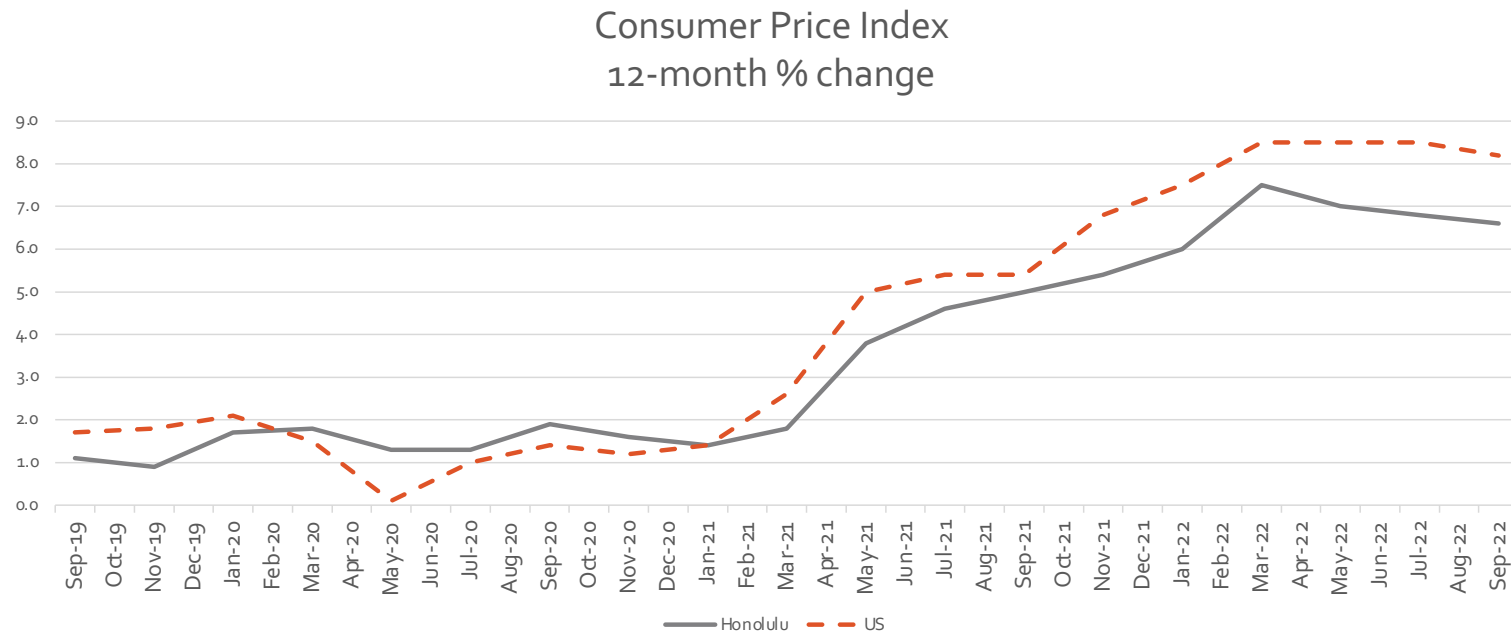
- Tourism came to a halt in 2020 due to the pandemic and the government's decision to restrict air travel to the islands
- The pandemic had larger fiscal impacts on Hawaii than other states



Revenues declined during the pandemic and rebounded sharply.

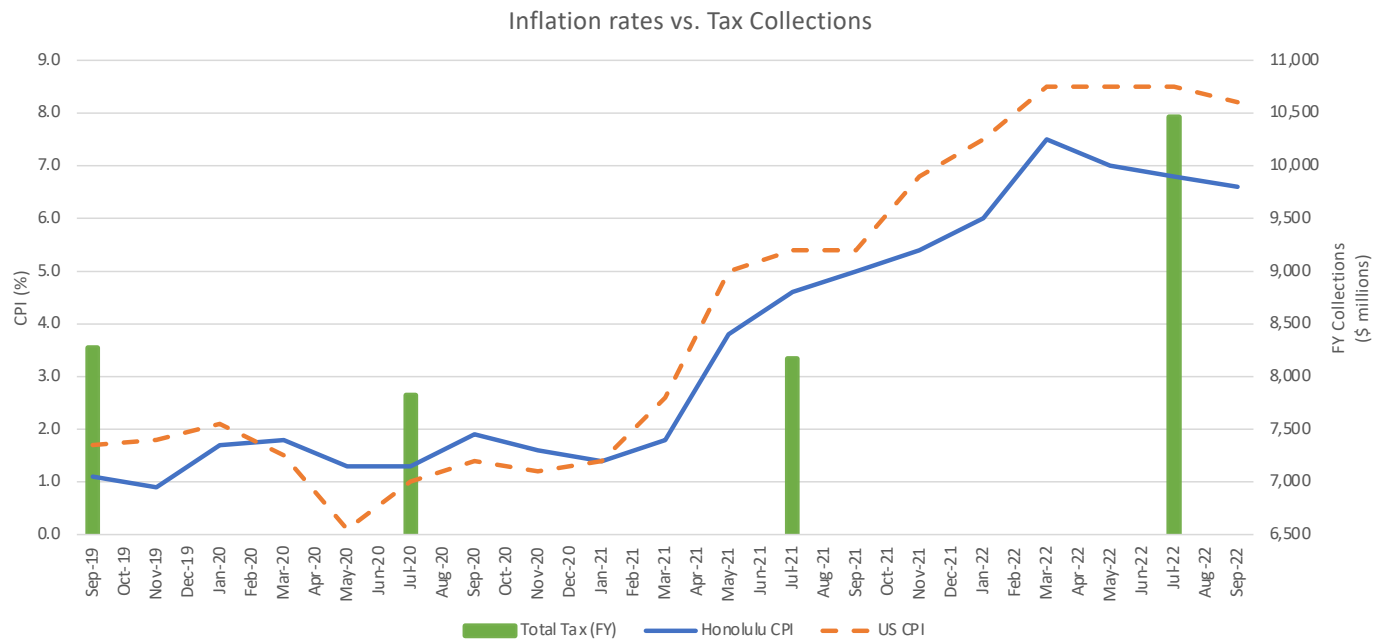
Continued growth is in part due to inflationary pressures.

# Inflation is lower in Hawaii than the Nation





# Tax revenues correlate with changes in prices



## Factors contributing to higher revenues

- **Fiscal stimulus effects still being felt**
  - Federal money is still being spend
  - Households still have more savings than before the pandemic
- **Visitor industry is still recovering**
  - Asian visitor have yet to return due to Covid-19 restrictions in their countries
- **Inflationary pressures**
  - Price increases lead to increase in sales and room tax revenues

**PRELIMINARY COMPARATIVE STATEMENT OF STATE GENERAL FUND TAX REVENUES**  
**September 2022**

(Dollars in Thousands)

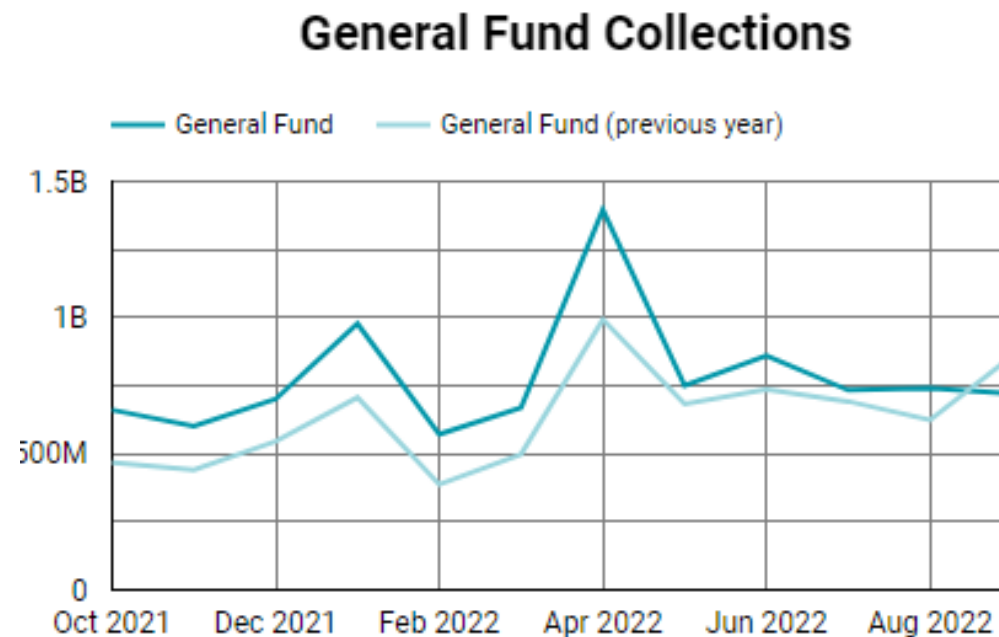
	Sep 2022	CUMULATIVE TOTALS		DIFFERENCE	
		2022-2023	2021-2022	AMOUNT	%CHANGE
<b>GE/Use Taxes</b>	<b>\$357,822</b>	<b>\$1,116,236</b>	<b>\$989,482</b>	<b>126,754</b>	<b>12.8%</b>
<b>Income Tax - Corp.</b>	<b>59,819</b>	<b>79,762</b>	<b>66,155</b>	<b>13,607</b>	<b>20.6%</b>
Decl. Est. Taxes	57,704	81,307	81,191		
Payment w/ Returns	4,130	5,743	9,049		
Refunds	(2,015)	(7,288)	(24,085)		
<b>Income Tax - Ind.</b>	<b>345,118</b>	<b>807,063</b>	<b>809,229</b>	<b>(2,167)</b>	<b>-0.3%</b>
Decl. Est. Taxes	166,471	236,077	256,605		-8.0%
Payment w/ Returns	19,362	50,500	52,897		-4.5%
WH Tax on Wages	189,139	615,019	576,636		6.7%
Refunds	(29,854)	(94,533)	(76,909)		22.9%
<b>Trans. Accom. Tax</b>	<b>71,052</b>	<b>235,217</b>	<b>193,346</b>	<b>41,871</b>	<b>21.7%</b>
<b>All Others</b>	<b>53,994</b>	<b>156,010</b>	<b>148,575</b>	<b>7,435</b>	<b>5.0%</b>
<b>TOTAL GENERAL FUND</b>	<b>\$880,907</b>	<b>\$2,355,929</b>	<b>\$2,172,633</b>	<b>\$183,296</b>	<b>8.4%</b>

Note: General Fund allocations are in bold print.

\*Includes Conveyance Tax and Insurance Premium Tax.

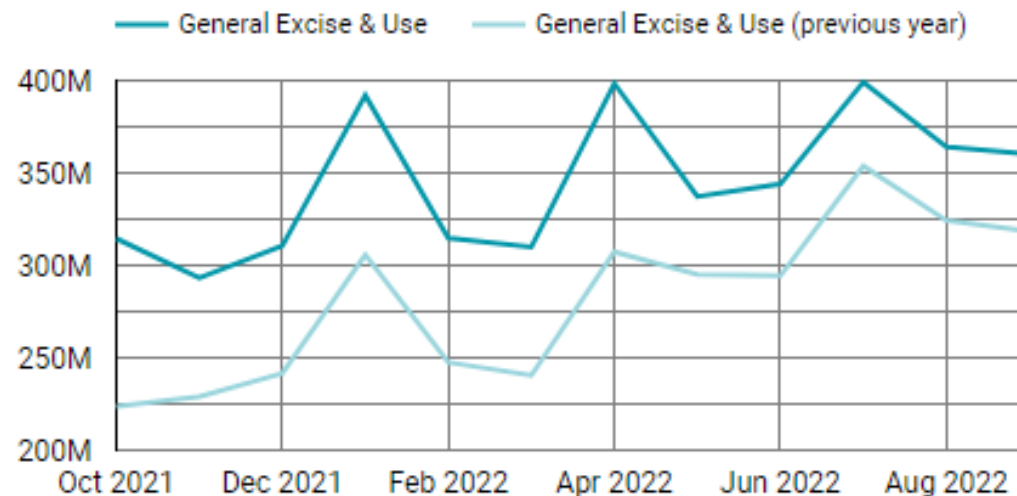
\*\* Impact of Constitutional Refund has been removed

# General fund collections remain elevated but the size of the YoY is decreasing



Sales tax revenues remain elevated, which is due to economic recovery and inflation

### General Excise & Use Tax Collections



# General Excise and Use Tax: What is it?

- **General Excise and Use Tax**

- The GET is a gross receipts tax that is imposed on the privilege of doing business in the State of Hawaii. The Use Tax applies to purchases from out-of-state vendors that are not required to collect tax on their sales to Hawaii

- **Vs Sales Tax**

- A sales tax is levied on the customer but collected by business. The GET is levied on the business
- A sales tax is usually limited to retail sales of tangible goods whereas the GET is levied on almost all business activity

- **Vs Value Added Tax (VAT)**

- A VAT only taxes the value added by business. The GET taxes the gross receipts of the business, so it taxes some business-to-business transactions

## GET raises significant revenue through a low rate and a broad base

### Amongst the lowest sales tax rates in the country

State	State Tax Rate	Rank	Avg. Local Tax Rate	Combined	Rank
La.	5.00%	33	4.98%	9.98%	1
Tenn.	7.00%	2	2.46%	9.46%	2
Ark.	6.50%	9	2.80%	9.30%	3
Ala.	4.00%	40	5.01%	9.01%	4
Wash.	6.50%	9	2.42%	8.92%	5
Okla.	4.50%	37	4.36%	8.86%	6
Ill.	6.25%	13	2.39%	8.64%	7
Kans.	6.50%	9	2.12%	8.62%	8
N.Y.	4.00%	40	4.49%	8.49%	9
Calif.	7.25%	1	1.00%	8.25%	10
Hawaii	4.00%	40	0.35%	4.35%	45

### Highest p.c. collections of any state

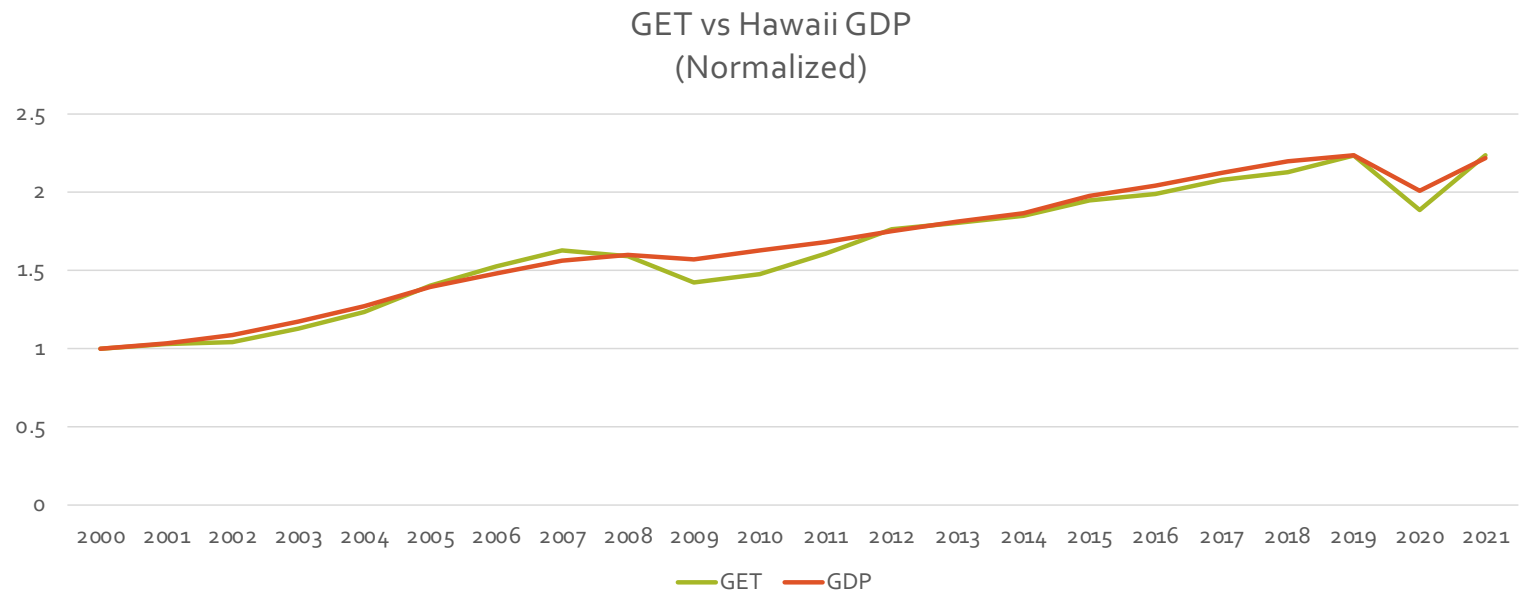
State	Collections per Capita	Rank
Hawaii	\$ 2,090	1
N.D.	\$ 1,835	2
Wash.	\$ 1,746	3
Nev.	\$ 1,412	4
Wyo.	\$ 1,384	5
Tex.	\$ 1,226	6
Miss.	\$ 1,144	7
Conn.	\$ 1,137	8
S.D. (b)	\$ 1,131	9
Ind.	\$ 1,100	10

### Broadest scope of sales tax of any state

State	Sales Tax Breadth	Rank
Hawaii (a)	104%	1
N.D.	73%	2
S.D. (a)	65%	3
Wyo.	62%	4
N.M. (a)	59%	5
Nev.	49%	6
Miss.	47%	7
Ark.	43%	8
Tex.	42%	9
Maine	41%	10

Source: Tax Foundation

# GET revenues a robust and correlated with economic output





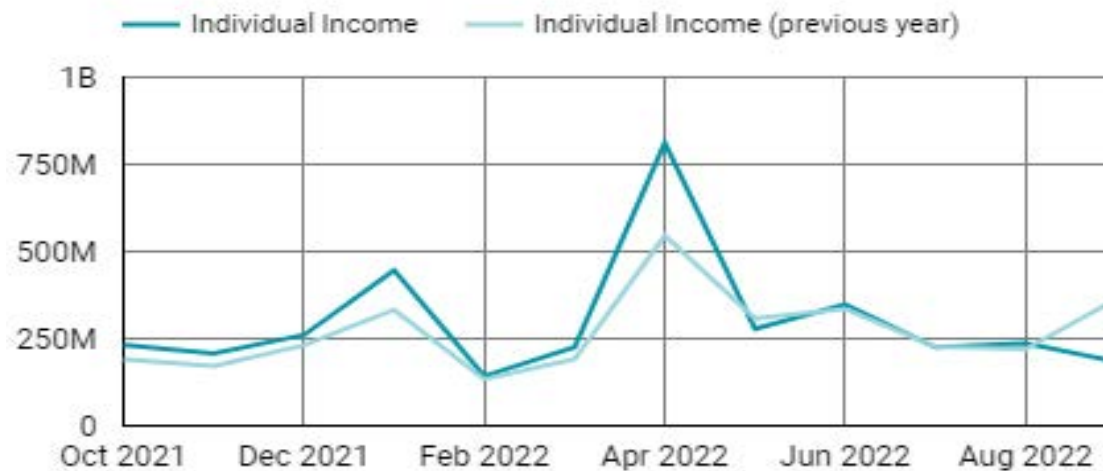
# Collections from Transient Accommodation Tax remain elevated

## Transient Accommodation Tax



# Individual Income taxes are essentially flat YoY

## Individual Income Tax Collections



Price increases are now surpassing wage growth. This is reflected in the tax data.



# Conclusions

- Inflation can explain some but not all of tax revenue growth in Hawaii
- Inflation is affecting some tax types more than others
  - It is mainly affecting sales tax (GET) and room taxes (TAT)
  - It is not showing up in the individual income tax (IIT)
- Slowing earnings relative to consumer prices may explain the differences in growth rates between sales and income taxes
  - Lower capital gains also a potential cause

# Communication challenges in inflationary environments

- **Common heuristics devices of decision-makers do not hold up**
  - **Inflation is bad for the economy → bad economy → tax revenues should go down**
    - Inflation leads to increased revenue growth because taxes are assessed on nominal prices
  - **Recession is discussed in the press → tax revenues should go down**
    - People have hard time understanding the delayed effects of monetary policy
    - People have hard time understanding that FED is actively trying to reduce growth
  - **What I read in national newspapers must be happening at the local level**
    - Hawaii's economy is closely correlated with the national economy, but the effects are attenuated at the local level due to unique dynamics

# WHAT QUESTIONS DO YOU HAVE?

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