EXECUTIVE CHAMBERS

HONOLULU

May 7, 2009

STATEMENT OF OBJECTIONS TO HOUSE BILL NO. 1747

Honorable Members
Twenty-Fifth Legislature
State of Hawaii

Pursuant to Section 16 of Article III of the Constitution of the State of Hawaii, I am returning herewith, without my approval, House Bill No. 1747, entitled "A Bill for an Act Relating to Taxation."

The purposes of House Bill No. 1747 are to increase the State income tax rates for certain income brackets and revise the standard deduction and personal exemption. The bill amends Hawaii's income tax law by (1) increasing the State income tax rates for income earners above a specified level for taxable years 2009 through 2015; (2) increasing the standard deduction amount and the allowable personal exemption amount, for taxable years 2011 through 2015; and (3) increasing the amount of the personal deduction by ten percent for the 2011 through 2015 tax period. The bill provides that no penalty or interest shall be imposed because of underpayment of taxes attributable to the increase in the tax rates. The bill also establishes a repeal (sunset) date of December 31, 2015.

This bill is objectionable because it increases the tax burden on Hawaii's families and small businesses by increasing the marginal income tax rate by as much as 33.3 percent. Hawaii currently has the eighth highest top personal income tax rate in the United States. By increasing the top marginal tax rate from 8.25 to 11 percent, this bill will make Hawaii the state with the highest personal income tax rate in the nation. Although there is the misconception that only wealthy people will be affected, this bill will adversely impact almost 37,000 persons, of which about 27,000 are sole proprietors, partnerships, or subchapter

"S" corporations whose owners report their business income through personal income tax returns.

In this broad recession which affects both the wealthy and poor and where recovery depends on people investing, buying consumer goods, and donating to charities, a tax increase will put an unnecessary strain on everyone's pocket book. Small business owners who count their business income as personal income will find it more difficult to support and grow their enterprises. This could mean more business closures, layoffs, and fewer job opportunities.

Furthermore, these tax increases will make it more difficult to attract high caliber talent to Hawaii--professions such as psychiatrists, neurosurgeons, astronomers, or engineers--who earn higher salaries and who will be deterred by our high taxes as well as our high cost of living. In an economy in serious need of top quality talent and a kick start, this is a bad idea that is not worth the revenue impact this bill is expected to produce.

During these difficult economic times, when we need to take action to support our families and businesses, we should not be taking actions to balance the State budget at the expense of the taxpayers.

For the foregoing reasons, I am returning House Bill No. 1747 without my approval.

Respectfully,

LINDA LINGLE
Governor of Hawaii