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TESTIMONY BEFORE THE HOUSE COMMITTEE ON FINANCE

RE: HB 2991 – RELATING TO PUBLIC FINANCE.

February 17, 2010

WIL OKABE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Oshiro and Members of the Committee:

The Hawaii State Teachers Association strongly supports HB 2991 and asks this committee to advance this bill.

This bill is needed because the State does not have the revenue to maintain education and other vital services at levels that will meet the needs of our citizens. In order to meet vital and essential needs in the areas of education, health and safety, and social services, the State of Hawaii must increase tax revenues. There will be no solution to “furlough Fridays,” other education cut backs, reductions in mental health services, slashed programs for the needy and elderly, and the many other worthy programs that have felt the ax without a **tax increase**. The question is not **whether** additional revenue is needed, but **how** to raise that additional revenue in the most equitable way.

The HSTA advocates HB 2991 as the most equitable approach to increasing taxes and providing the revenue the State needs to meet its obligations to our citizens—especially our children, the elderly, the poor and the needy.

To summarize, this bill has the following features:

- A. Adjust the income tax for those in the bracket with earnings greater than \$200,000 but less than \$400,000 and to adjust the income tax for those in the bracket with earnings more than \$400,000.
- B. Tax capital gains at ordinary income tax rates.
- C. Begin to eliminate corporate tax loopholes.
 - a. Repeal NOL - NOL (Net Operating Loss) carry-back provision, which allows businesses to take current-year losses against a previous year’s profits (and hence receive a retroactive tax break).
 - b. Establish a minimum Corporate Tax of \$250.
- D. Create a commission with the following purposes:
 - a. Increase school capacity and accountability by improving the adequacy and equity of school funding in the state; and
 - b. Promote school success by improving the foundation of financial support provided by the economy and tax structure of the state.

Currently the bottom 20 percent of Hawaii's taxpayers pay 12.2 percent of their income in state and local taxes; while the top 1 percent pay only 6.3 percent; and the next 4 percent pay only 6.6 percent. Attached to this testimony is a graph that illustrates this disparity more clearly and fully. The citizens who have benefited the most from Hawaii's past prosperity and who have been affected the least by the current recession now must be relied upon to address the urgent needs of our state. This bill could be appropriately named the "Fair Share Tax Act," because it would require those at the top of the income scale to pay the same share in taxes as those on the bottom rung.

This bill provides for capital gains to be taxed at ordinary income rates. This is a matter of simple equity. It means that the carpenter, nurse, teacher, janitor and other wage earners will no longer subsidize those who earn large sums through buying and selling stocks and other investments.

This bill also provides for a minimum corporate tax and closing the net loss carry-back loophole. The ordinary person who falls on hard times does not get a tax refund from previous years, and corporations should not have that advantage either.

Finally, this bill would establish a special commission to examine how our State funds education, including the equity of our tax structure. Given the current crisis in education finances, this commission would have the potential to identify a way out of our State's financial wilderness.

There are those who argue that any tax increase is negative, because taxes take money out of the economy. Taxes do NOT hurt the economy, because the money is immediately spent by the government on goods and services provided by the private or nonprofit sectors, thereby putting the money back into circulation. Money spent by the government is just as powerful as money spent in the private sector; and in some ways it is even more economically beneficial. For one thing, government expenditures go almost entirely to Hawaii citizens and businesses. On the other hand, private expenditures may often go to investments outside the State, mainland or foreign travel, or other non-Hawaii purposes. One important way that government spending can help the economy more than private spending is by **investing in Hawaii's future**—meaning in our public schools. Most economists agree that investments in public education and educating a state's work force pay off in future economic growth.

What about raising the excise tax? From a tax policy point of view, an excise tax hike would only increase the regressive nature of Hawaii's tax system, because it affects those least able to pay the most. From a political point of view, raising taxes on everyone is much more difficult than raising taxes on the 5 percent of the population who earn the most. This bill, if passed, would represent better policy and better politics.

Some maintain that taxpayers won't support tax increases to maintain essential services. Oregon voters recently proved that conventional wisdom wrong. According to news reports, the Oregon "referendum's 1.2 million voters decisively passed Measures 66 and 67 by margins of over 53 to 46. Briefly, those measures explicitly protected state outlays for education, medical care and public safety over the next two years by raising over \$700 million in additional taxes on corporations and on wealthy individuals." Certainly, Hawaii's voters are just as enlightened as those in Oregon.

The president of the Tax Foundation told the Star-Bulletin that if you "tax the rich; you drive them out of the State." (He also sent a letter to the editor of the paper, insulting the intelligence of public school teachers; yet he says he has "no ax to grind.") Hopefully, the members of this Committee can see through these kinds of cynical remarks.

Does anyone seriously believe that the architects, CPAs, lawyers, doctors, business executives and other high-income individuals will abandon their investment of time and money here, investments which provide them the ability to maintain their obviously successful careers, practices, or businesses in Hawaii? Would they pick up and move to another location and go to the expense and effort of re-establishing their lives merely because their taxes go up marginally?

Are we to believe that the professional who has adjusted gross income of \$600,000 and has to pay additional taxes will walk away from that career, practice or business? They will abandon their green pastures in Hawaii and go where? To California, which has laid off over 20,000 teachers, almost went bankrupt, and is seeing out-migration? To Oregon, where the taxpayers just passed a tax bill comparable to the one being considered here today? To Las Vegas, to live in the desert and have their children grow up closer to gambling? Why would those who are doing best in our economy suddenly uproot their families, careers and businesses, move away from Hawaii Loa Ridge, Kahala, Nuuanu, Lanikai or other wonderful neighborhoods here in paradise to a less desirable mainland location all because their marginal tax rate increased?

In our current economic climate, the real danger to our State of losing citizens is if they give up on our education system, if they fear for the safety of their families as they watch those who need mental health assistance go un-served, if they watch much needed government services providing for health and safety deteriorate due to loss of funding. This committee has heard testimony (on other bills) from professionals committed to our public schools who have expressed just such sentiments.

Last year the Legislature and this committee took a first step toward having those in the high-income group pay their fair share. HSTA's proposal would meet that objective. Attached to this testimony is a table comparing the changes made last year to those proposed in this bill.

Last week, when this committee considered a bill to use the "rainy day fund" to end furlough Fridays, we saw the spectacle of retirees and social services advocates pitted against teachers and parents, with both sides making stirring arguments for their priorities. The HSTA—as teacher advocate—views education as the top priority, but not the only priority. In these troubled times, we need to generate enough revenue to fund all essential services, not just one. Shame on us if we are unable to do so.

The chair of the Council on Revenues has stated that we are not going to cut our way out of the state's budget deficit. Increasing some taxes has to be part of the solution. Estimates provided to HSTA indicate that this proposal would generate enough revenue to end furlough Fridays, restore cuts made to the education budget, and fund other important services, such as health and human services programs.

Some who have testified before this committee on other bills regarding funding of education have pleaded with this committee and this legislature to provide leadership. It may be helpful to step back and look at the underlying reasons for these pleas. We are accustomed to getting leadership from the executive branch—meaning our governor.

Unfortunately, the governor has not stepped up to the plate and, in fact, has even put up roadblocks to efforts to find balanced solutions. By taking taxes off the table and only recently and reluctantly giving in to calls for use of the "Rainy Day" fund and the Hurricane Relief fund; by using across the board furloughs even for federally funded and trust fund positions that do not rely on the general

fund; and by failing to set priorities and instead slashing programs across the board, our governor has failed the test of leadership.

Understandably, those in pain have turned to this body as the last resort. While we recognize the difficulty the legislature faces in developing consensus and overcoming gubernatorial opposition, those of us who represent the needs of education, health and safety and social services in our community turn to you in the hope that you can expand on your traditional role and fill the current vacuum of leadership.

The president of the Tax Foundation says this bill “has gotten buried.” Thank goodness the Chair schedules bills for hearing without regard to pronouncements by the Tax Foundation. We ask that this committee reject the undertaker’s metaphor and give this bill the life it deserves.

Thank you for this opportunity to testify.