



Hawaii Taxes Hit Poor & Middle Class Far Harder than the Wealthy

Low- and middle-income families in Hawaii pay a far higher share of their income in state and local taxes than do the richest families in Hawaii, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Hawaii has an unfair tax system.”

Hawaii’s Tax Code: Tax the Poor and Middle Class, Spare the Rich

When all Hawaii taxes are totaled up, the study found that:

- The richest Hawaii taxpayers—with average incomes of \$458,000—pay 8.0% of their income in Hawaii state and local taxes before accounting for the tax savings from federal itemized deductions. After the federal offset, they pay only 5.8%.
- Middle-income Hawaii taxpayers—those earning between \$27,000 and \$42,000—pay 11.2% of their income in Hawaii state and local taxes before the federal deduction offset and about the same after it—or nearly twice the effective rate of wealthiest.
- Hawaii families earning less than \$14,000—the poorest fifth of Hawaii non-elderly taxpayers—pay 12.6% of their income in Hawaii state and local taxes, more than twice the effective rate of the most well-off.

“Hawaii’s income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Hawaii.”

MORE . . .

Tax Regressivity Has Worsened Since 1989

The study also examined the impact of changes in the regressivity of Hawaii taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Tax burdens rose for all families except for the wealthiest families.
- Excise taxes rose regressively.

"Hawaii lawmakers took an already regressive tax structure and gave the benefit of rate reductions to those who needed it least," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers."

Two pages of tables detailing the Hawaii findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

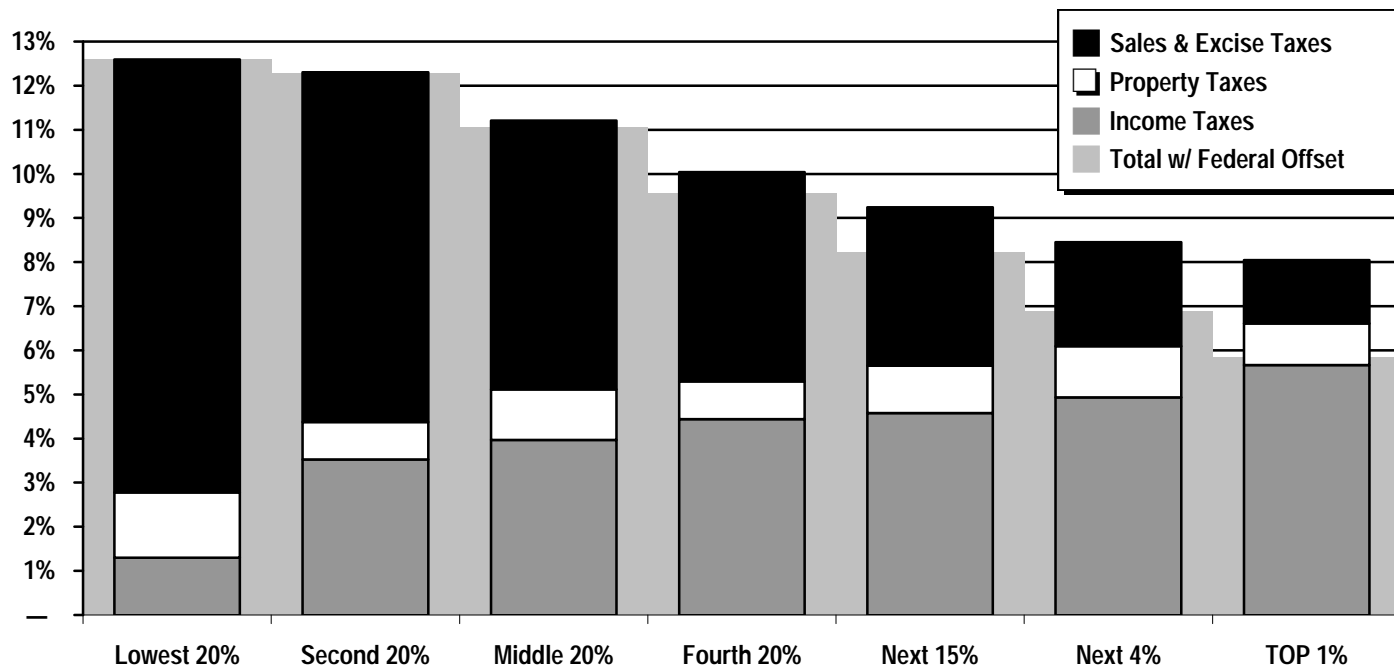
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

MORE . . .

Hawaii

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$14,000	\$14,000 – \$27,000	\$27,000 – \$42,000	\$42,000 – \$68,000	\$68,000 – \$124,000	\$124,000 – \$238,000	\$238,000 or more
Average Income in Group	\$8,400	\$20,200	\$33,100	\$52,500	\$89,200	\$164,000	\$458,000
Sales & Excise Taxes	9.8%	7.9%	6.1%	4.7%	3.6%	2.4%	1.4%
General Sales—Individuals	4.4%	3.6%	2.8%	2.1%	1.6%	1.0%	0.6%
Other Sales & Excise—Ind.	1.9%	1.4%	1.0%	0.8%	0.5%	0.3%	0.2%
Sales & Excise on Business	3.5%	3.0%	2.3%	1.8%	1.5%	1.0%	0.7%
Property Taxes	1.5%	0.8%	1.1%	0.9%	1.1%	1.2%	0.9%
Property Taxes on Families	1.4%	0.8%	1.1%	0.8%	0.9%	0.9%	0.5%
Other Property Taxes	0.1%	0.0%	0.1%	0.1%	0.2%	0.3%	0.5%
Income Taxes	1.3%	3.5%	4.0%	4.4%	4.6%	4.9%	5.7%
Personal Income Tax	1.3%	3.5%	4.0%	4.4%	4.6%	4.9%	5.6%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL TAXES	12.6%	12.3%	11.2%	10.0%	9.2%	8.4%	8.0%
Federal Deduction Offset	-0.0%	-0.0%	-0.2%	-0.5%	-1.0%	-1.6%	-2.2%
TOTAL AFTER OFFSET	12.6%	12.3%	11.1%	9.5%	8.2%	6.9%	5.8%

Note: Table shows 2002 tax law at 2000 income levels.

Hawaii Tax Trends

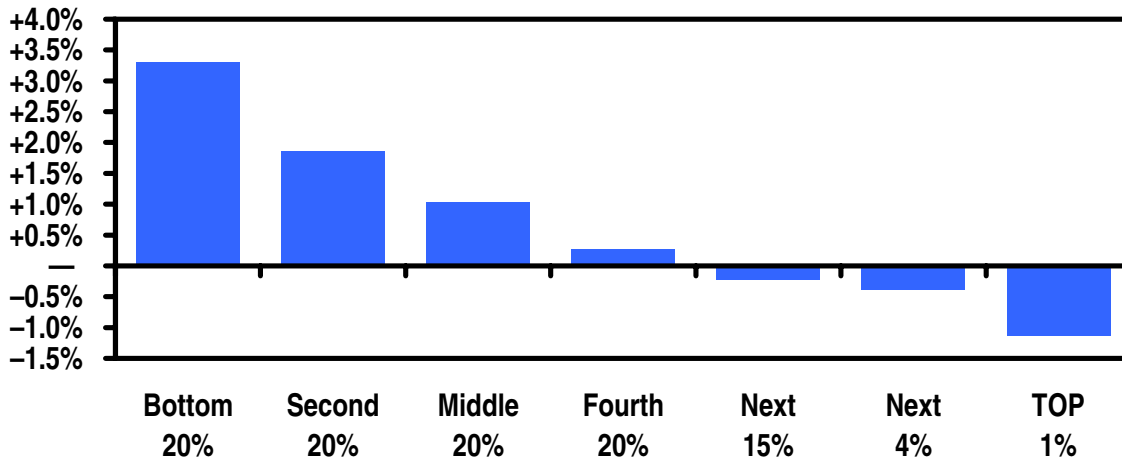
Progressive Features

- ✓ Refundable low income credits
- ✓ Property tax homestead exemption

Regressive Features

- ✗ Groceries subject to sales tax
- ✗ Income tax not indexed

Changes in Taxes as Shares of Income, 1989 – 2002

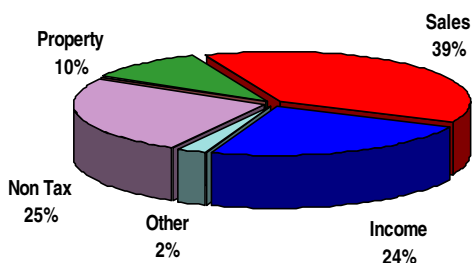


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+0.4%	+0.3%	+0.2%	+0.2%	+0.1%	+0.1%	+0.0%
Property	+0.1%	-0.1%	+0.1%	-0.2%	-0.3%	-0.1%	+0.2%
Income	+2.7%	+1.7%	+0.8%	+0.3%	-0.2%	-0.6%	-1.1%
Federal Offset	-0.0%	-0.0%	-0.0%	-0.1%	+0.1%	+0.3%	-0.3%
Overall Change	+3.3%	+1.9%	+1.0%	+0.3%	-0.2%	-0.4%	-1.1%

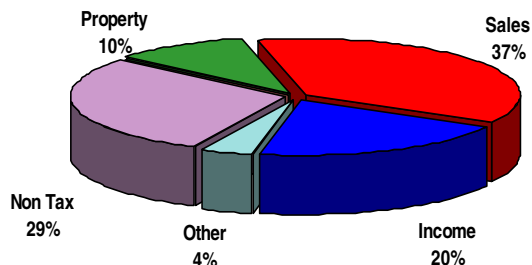
Hawaii implemented regressive tax changes in the 1990s. Income taxes fell due to lower rates, giving a larger share of the benefit to the upper-income taxpayers, while excise taxes-especially cigarette taxes-rose significantly, falling mostly on low-income taxpayers.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census