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THE TAX SYSTEM OF HAWAII

by

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Summary

Unlike the mainland states, which share their fiscal authority with local units, in Hawaii the entire taxing authority is borne by the territorial government which itself receives some 94 per cent of all non-federal taxes paid in the territory. The counties of Hawaii--including the city and county of Honolulu--collect the following levies, all imposed by territorial law: motor vehicle tax, public utilities franchise tax, a miscellany of licenses and fees. In addition, all proceeds from the centrally administered property tax, plus shares of the motor fuel and general excise (gross income) taxes go to meet county expenses.

Compared with the composite tax structure of all forty-eight states, the Hawaii tax system reveals a heavy dependence on the taxation of general sales under the gross income tax, but relatively light use of specific excises, such as gasoline, liquor, and tobacco taxes. Taxation at progressive rates, in the form of levies upon net income and inheritance, is a small element in the Hawaii fiscal structure, comprising only about 7 per cent of total tax revenues. The flat-rate tax on compensation and dividends, however, furnished approximately one-sixth of all taxes in 1947, making the effective tax rate on wages and salaries higher than in any state of the Union.

Measured against five states selected for their general economic comparability, the 1946 per capita tax in Hawaii was neither markedly high nor low. In 1947, following increases of both tax rates and tax base, the average tax per person in this territory (aside from federal levies) approximated \$105, well above any of the five states. However, neither this comparison, nor that made with Alaska and Puerto Rico, can be regarded as an exact measurement of the relative tax burden of the people of Hawaii, for it would appear that some of the territorial taxes are actually shifted to persons on the mainland.

TABLE OF CONTENTS

	<u>Page</u>
1. Composition of the Tax System of Hawaii	2
2. Territorial Tax System Compared with Mainland States . . .	5
a. Sales and Gross Receipts Taxes	6
b. Income and Death Taxes	12
c. Compensation and Dividends Tax	16
d. Unemployment Compensation Tax	19
3. County Taxes in Hawaii	21
a. Motor Vehicle Taxes	21
b. Property Taxes	22
c. Other County Revenues	23
4. Hawaii's Tax System Compared with Alaska and Puerto Rico .	24
5. The Tax Burden in Hawaii	26
Appendices:	
I. Chart of the Tax System of Hawaii as of January 1, 1948	32
II. Territorial Tax Revenues for Biennium Ending in 1946: Alaska, Hawaii, and Puerto Rico	37
III. Computation of State-Local Taxes in Five Mainland States for 1946 and 1947	38
Selected Bibliography	40

List of Tables and Charts

Table 1. Territorial and County Tax Collections in Hawaii: 1946-47	3
Table 2. Percentage Distribution of Taxes Collected by Hawaii and the Mainland States: 1946-47	7
Figure 1. Percentage Distribution of Tax Revenues of the Territory of Hawaii: 1947	10
Figure 2. Percentage Distribution of Total Tax Revenues of all State Governments: 1947	11

	<u>Page</u>
Table 3. State and Federal Personal Income Tax Collections: 1947	18
Table 4. Taxes Accruing to Counties of Hawaii: 1946-47 . . .	21
Table 5. Per Capita Taxes Paid to Territories: 1946	26
Table 6. Per Capita State and Local Tax Collections in Five States Compared with Hawaii: 1946-47	30

THE TAX SYSTEM OF HAWAII*

Compared with the states of the mainland, Hawaii's fiscal system is distinguished by a virtually complete integration of taxing power in the hands of the central government. Neither the Organic Act which serves as a constitution for Hawaii nor its statutes provide for the discretionary levying of taxes by the counties (or the city and county of Honolulu), sole units of local government in this territory. The few taxes collected by the counties are imposed by territorial law.¹

As a consequence of this centralization of fiscal authority, the territorial government has collected all but 6 per cent of tax revenues in Hawaii during the past two years, aside from federal levies. This integrated tax structure is nowhere duplicated among the mainland states, in each of which receipts of local governmental units constitute an important part of state-local tax collections.²

The fiscal dominance of the territorial government must be taken into consideration when comparing its tax structure with those of mainland states. Notably, in Hawaii the central government collects the property tax (which is then transferred to the counties), source of more than a fifth of territorial

*This is the first part of a study of government finance in the Territory of Hawaii. The second part, Governmental Expenditures in Hawaii, is Report No. 5, 1948, of the Legislative Reference Bureau, University of Hawaii.

¹See Appendix I for a tabular digest of the tax laws of Hawaii.

²In 1942, when the most recent decennial census of public finance was made and therefore the last year for which comprehensive statistics for all levels of government are available, each state reported local tax receipts amounting to at least a third of state tax revenues. For the entire continental United States, state tax collections aggregated \$4,975 million, against \$4,680 million for all local governments. (U. S. Bureau of the Census, Governmental Finances in the United States: 1942.)

tax receipts, as shown in Table 1. On the mainland, where the bulk of property taxes are levied by and paid directly to local units, they have recently comprised but 4 per cent of state tax revenues.³ An increasing number of municipalities and other local governments on the mainland now impose taxes on income, sales, admissions, etc., while the four counties of Hawaii are limited to the public utility franchise tax and license taxes prescribed by territorial law,⁴

While the centralized nature of the territorial tax system in some instances excludes comparison with mainland states, such comparisons which can be made act to underscore its own distinguishing features. Thus the fact that the Territory of Hawaii depends heavily upon any given tax to finance its operations is more significant than the same statement applied to any of the mainland states, for in the latter case the large revenues of local governments have not been included in the overall base.

1. Composition of the Tax System of Hawaii

In the calendar year 1947 the Territory of Hawaii received more than \$55 million of taxes, an amount larger than the 1947 tax revenues of any of fifteen mainland states.⁵ The city and county of Honolulu and the counties of Hawaii, Kauai, and Maui collected additional levies in excess of \$3 million, bringing total territorial-county tax realizations to approximately \$59 million.

³See Table 2 and Figure 2. In the past decade, local property tax collections for the continental United States have averaged between \$4,000 million and \$4,500 million; those of the states around \$260 million.

⁴Among these county taxes, however, is the motor vehicle license tax, which on the mainland is collected by the state governments (with municipalities often empowered to impose additional license fees).

⁵Arizona, Delaware, Idaho, Maine, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Dakota, Rhode Island, South Dakota, Utah, Vermont, and Wyoming.

Table 1

Territorial and County Tax Collections in Hawaii
 Calendar Years 1946 and 1947
 (in thousands of dollars)

Tax	1946		1947	
	Yield	% of total	Yield	% of total
A. TERRITORIAL:				
1. General excise.....	\$11,641	25.19	\$18,291	30.93
2. Consumption.....	177	0.38	344	0.58
3. Compensating.....	.....	....	62	0.10
4. Liquor.....	1,651	3.57	1,441	2.44
5. Tobacco.....	444	0.96	545	0.92
6. Motor fuel.....	2,711	5.87	4,173	7.06
7. Real property.....	6,654	14.40	8,351	14.12
8. Personal property ^a	3,883	8.40	4,069	6.88
9. Corporate income.....	2,102	4.55	2,237	3.78
10. Personal income.....	991	2.14	960	1.62
11. Compensation-dividends...	8,504	18.40	9,785	16.55
12. Unemployment compensation	1,523	3.30	2,147	3.63
13. Inheritance & estate.....	549	1.19	882	1.49
14. Public utility.....	1,938	4.19	1,650	2.79
15. Insurance company.....	488	1.06	500 ^b	0.85
16. Bank excise.....	50	0.11	125	0.21
17. Taxes levied in former years.....	68	0.15	45	0.08
18. Penalties & interest.....	20	0.04	16	0.03
Total - Territory.....	\$43,394	93.92 ^c	\$55,623	94.07 ^c
B. COUNTY:				
1. Vehicle.....	\$ 1,880	4.07	\$ 2,454	4.15
2. Utility franchise.....	318	0.69	306	0.52
3. Other.....	613	1.32	746	1.26
Total - County.....	\$ 2,811	6.08	\$ 3,506	5.93
GRAND TOTAL.....	\$46,205	100.00	\$59,129	100.00

a Repealed effective January 1, 1948.

b Estimated.

c Due to rounding, detail does not add to total.

Sources: Report of the Tax Commissioner, 1948; Report of the Treasurer, 1947; county auditors' reports.

Hawaii's tax structure is widely varied, consisting of eighteen territorial and county taxes and a miscellany of county licenses, and contains every major type of levy imposed by the several states. Examination of the tax receipts shown in Table 1 reveals, however, that this diversity is more apparent than real, since three taxes--the general excise (gross income), compensation-dividends, and real property--yield nearly two-thirds of all territorial and county tax receipts. Last year almost a third of taxes collected by territorial and county governments were forthcoming under the general excise tax and its auxiliaries, the consumption and comsating taxes. This fraction will be even higher during 1948, since this is the first calendar year which will reflect in full the higher rates imposed by the legislature in 1947.⁶

Second-ranking tax in point of yield is the flat 2 per cent compensation and dividends tax, which is collected at the source on salaries, wages, and dividends earned or received in Hawaii. This levy furnished over 16 per cent of all territorial and county tax receipts in the past biennium. While revenues from the compensation and dividends tax rose from 1946 to 1947, the still larger expansion of total revenues caused a decline in the relative importance of this withholding tax, as indicated in Table 1.

Taxes on real property amounted to more than 14 per cent of all tax receipts last year. Payments under the personal property tax law, imposed for the last time in Hawaii under current legislation, constituted almost 7

⁶Act 111, Session Laws of 1947. The higher rates, which are listed in Appendix I, became effective July 1, 1947. During the first five months of 1948 general excise tax revenues were more than double receipts for the same period of 1947, while total collections of the Office of the Tax Commissioner had increased by approximately one-third.

per cent of total revenues. (The personal property tax was repealed by the 1947 legislature, effective January 1, 1948. Only delinquent or other pending tax bills will be collected this year.)

But one additional tax yielded more than 4 per cent of combined territorial-county revenues in 1947. This was the tax on motor fuels, which because of an increase in rates and a marked rise in gasoline consumption brought in one and one-half times as much as in 1946, last year comprising 7 per cent of all collections. Other territorial levies, including personal and corporate income taxes, death taxes, unemployment compensation taxes, excise taxes on tobacco, liquor, public utilities and insurance companies--all taxes which bulk large in the revenue systems of the mainland states--each failed to yield as much as 4 per cent of the total in 1947.

Among the few county-collected taxes, only motor vehicle weight tax collections amounted to as much as \$1 million during either of the past two years. In 1946 and 1947 motor vehicle taxes constituted about 4 per cent of territorial and county tax realizations. As Table 1 shows, public utility franchise taxes and all other county levies (excluding the motor vehicle tax) together totalled less than 2 per cent of the aggregate.

2. Territorial Tax System Compared with Mainland States

As remarked above, the centralized structure of taxation in Hawaii obviates a straightforward comparison with the states of the mainland, each of which grants a much larger area of fiscal authority to its local governments. The crux of the difficulty is that in Hawaii property taxes, though wholly allocated to the counties, are administered by the territory and therefore included with the tax revenues of the central government. On the mainland, however, all but a small fraction of property tax payments go directly to local governments, even if state officials have taken part in the assessment

process.⁷

To avoid this element of non-comparability, property tax receipts have been eliminated from territorial realizations, when contrasting the pattern of taxes collected by the Territory of Hawaii with that of the several states. Figure 1, therefore, as well as Table 2, on which the figure is based, presents territorial tax revenues in 1947 after deduction of property taxes. It is realized that this adjustment is not the only one required by strict consistency, for many state levies are allocated to localities in whole or in part, as indeed is the case of the general excise and motor fuel taxes in Hawaii, discussed below.⁸ However, for the purposes of this report, it did not seem necessary or appropriate to attempt to untangle the snarled skein of state-local fiscal relations.

a. Sales and gross receipts taxes

Consideration by groups of the taxes imposed in Hawaii reveals significant variations from the patterns of state taxation on the mainland. In Table 2, the classification of the Census Bureau publications on state finances has been used, with a single variation.⁹ The tabular comparisons of the distribution of tax receipts in Hawaii with those of the forty-eight states for the past two years shows that Hawaii's dependence upon a general excise (gross

⁷The division of territorial-county functions on the expenditure side is much closer to the state-local pattern in the mainland. Their own tax collections augmented by the property tax and shares of other territorial levies, as well as grants-in-aids, the counties in the past four years have spent approximately 40 per cent of non-federal governmental outlays in Hawaii. (See the second part of this study, Governmental Expenditures in Hawaii, Legislative Reference Bureau, Report No. 5, 1948.)

⁸See pages 23-24.

⁹Income and death taxes, here grouped together, are listed separately in the Census reports. (U. S. Bureau of the Census, Sources of State Tax Revenue in 1947; State Tax Collections in 1947.)

Table 2

Percentage Distribution of Taxes Collected by the
Territory of Hawaii and the Mainland States:
1946 and 1947

Tax	1946		1947	
	Hawaii ^a	48 States	Hawaii ^a	48 States
<u>SALES & GROSS RECEIPTS:</u>	<u>58.0</u>	<u>47.0</u>	<u>62.6</u>	<u>51.0</u>
1. General sales, use, or gross receipts.....	36.0	15.0	43.3	17.4
2. Motor fuel.....	8.3	14.7	9.7	16.6
3. Liquor.....	5.0	6.7	3.3	6.1
4. Tobacco.....	1.3	3.3	1.3	3.6
5. Public utilities.....	5.9	2.5	3.8	2.4
6. Insurance company.....	1.5	2.4	1.2	2.5
7. Other.....	....	2.4	....	2.4
<u>LICENSE AND PRIVILEGE:</u>	<u>....</u>	<u>13.1</u>	<u>....</u>	<u>13.2</u>
1. Motor vehicle and operators'.....	(b)	7.7	(b)	8.0
2. Other.....	....	5.4	....	5.2
<u>INCOME AND DEATH:</u>	<u>11.1</u>	<u>16.2</u>	<u>9.4</u>	<u>15.5</u>
1. Personal income.....	3.0	6.5	2.2	6.2
2. Corporate.....	6.4	7.3	5.2	6.8
3. Death and gift.....	1.7	2.4	2.0	2.5
<u>COMPENSATION-DIVIDENDS.....</u>	<u>25.9</u>	<u>....</u>	<u>22.6</u>	<u>....</u>
<u>PROPERTY.....</u>	<u>(b)</u>	<u>4.2</u>	<u>(b)</u>	<u>3.9</u>
<u>UNEMPLOYMENT COMPENSATION.....</u>	<u>4.6</u>	<u>17.2</u>	<u>5.0</u>	<u>14.3</u>
<u>OTHER.....</u>	<u>0.4^c</u>	<u>2.3</u>	<u>0.4^c</u>	<u>2.1</u>
TOTAL.....	100.0	100.0	100.0	100.0

^a Exclusive of property taxes, which are allocated to the counties.

^b For county purposes only.

^c Bank excise, taxes levied in former years, tax penalties and interest.

Sources: Report of the Tax Commissioner of Hawaii, 1948; Report of the Treasurer of Hawaii, 1947; U. S. Bureau of the Census, State Tax Collections in 1947.

income) tax is conspicuously great, this tax yielding more than two-fifths of the territory's tax revenues in 1947 (exclusive of property taxes), while the average of the mainland states, twenty-seven of which impose general sales or gross income taxes, was 17 per cent.¹⁰

The base of the Hawaii general excise (gross income) tax is wider than those of most general sales taxes imposed by mainland states.¹¹ Differential rates--shown in Appendix I--are applied to manufacturing, producing, wholesaling, retailing, sugar processing, canning, and other categories of economic endeavor. To supplement this tax and assist in its enforcement, the legislature has imposed a consumption tax applying to goods exempt from the general excise tax, and a compensating tax on purchases through manufacturers' representatives, brokers, sales agents, and other middlemen not covered under the general excise.

While Hawaii taxes general sales more heavily than the average of the states, specific excises are less important components of her tax structure than usually obtains in the mainland states. The difference in the relative importance of taxes on motor fuels in this territory and among the states is especially marked. On the mainland, taxes on gasoline (and other motor vehicle fuels) constituted more than 16 per cent of 1947 state tax revenues.

¹⁰It should be pointed out, however, that several individual states rely almost as strongly upon the taxation of general sales as does Hawaii. Thus, in 1946, the following ten states collected 30 per cent or more of their total tax receipts from this single source: Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, New Mexico, Washington, West Virginia, and Wyoming.

¹¹For a more detailed discussion of the general excise tax and a comparison with state sales and use taxes, see The Sales Tax: How It Applies to Hawaii, Legislative Reference Bureau, University of Hawaii, Report No. 1, 1948.

Hawaii, with limited improved road mileage,¹² collected less than 10 per cent of non-property tax receipts from the gasoline tax, despite the fact that her 6 cent per gallon tax rate is exceeded in only four states.¹³ (As noted below on page 23, one-third of the gasoline tax is levied for county purposes.)

Nor does Hawaii rely as heavily as do the states as a group upon the taxation of alcoholic beverages and tobacco. (See Charts 1 and 2.) While the forty-eight states, each of which imposes some form of levy upon the sale of liquor, collected more than 6 per cent of their total tax revenues from this source in 1947, Hawaii derived but 3.3 per cent of non-property taxes from liquor taxation. Similarly, cigarette and other tobacco taxes comprised 3.6 per cent of all state tax receipts last year, almost triple the percentage for Hawaii.

Taxes on the premiums of insurance companies also formed a relatively smaller portion of the tax structure in this territory than among the several states, as Table 2 indicates. However, levies on the gross receipts on public utilities companies were a somewhat larger constituent of the territorial tax system in Hawaii than in the mainland states. (Revenues here considered, it should be noted, are the amounts paid to the territorial government, totalling \$1,650,000 in 1947. The counties received an additional \$306,000 in public

¹²In 1944, total highway mileage in the territory approximated 1,900, according to a 1946 report of the Governor's Committee on Motor Vehicle Taxation. (Mimeographed materials of the Committee are filed in the library of the Legislative Reference Bureau at the University of Hawaii.)

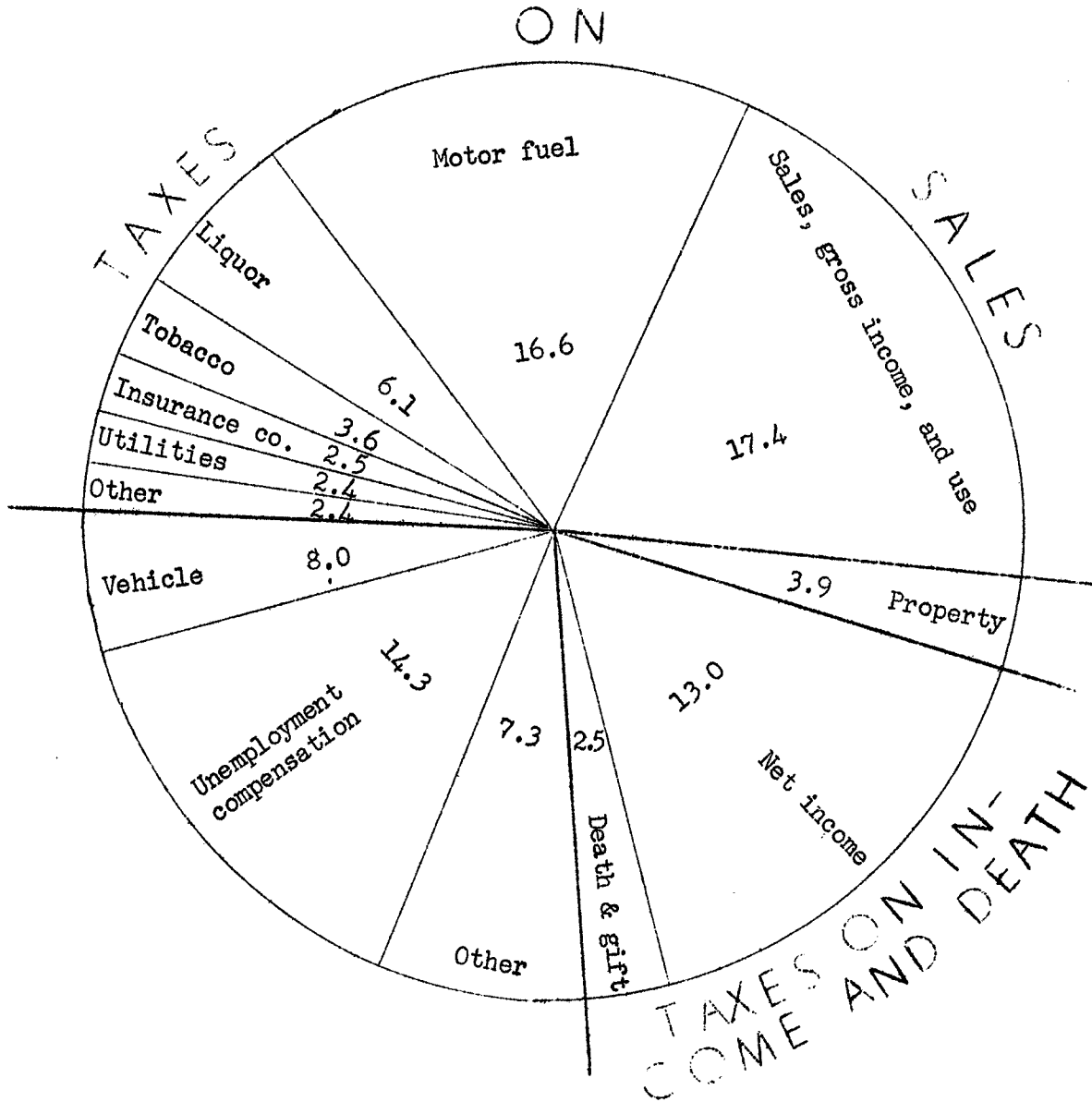
¹³The gasoline tax is set at 6½ cents in Arkansas, and at 7 cents in Florida, Louisiana, and Tennessee. A 6 cent tax is imposed by eight states (Alabama, Georgia, Idaho, Maine, Mississippi, North Carolina, South Carolina, and Virginia). Along with some of the mainland states (including Alabama, Georgia, Louisiana and Mississippi) fuel for non-highway use is taxed at a lower rate--i.e. 1 cent per gallon of diesel oil, but diesel oil used to run motor vehicles on public roads is taxed at the full rate of 6 cents. Aviation gasoline bears a tax of 5 cents per gallon.

Figures 1 and 2

Percentage distributions of the 1947 tax revenues of
Hawaii and of the forty-eight states are shown by
the charts on the following two pages.

Figure 2.

PERCENTAGE DISTRIBUTION OF TOTAL TAX REVENUES
OF ALL STATE GOVERNMENTS
Fiscal Year 1947



Source: Data from U. S. Bureau of Census, State Tax Collections in 1947.

utility franchise taxes.)

Considering the entire group of sales and gross receipts taxes, whether of general application against most types of purchases--as the general excise tax of Hawaii, or specifically levied on certain types of goods or services--as the taxes on gasoline or insurance premiums--the tax system of Hawaii shows a heavier use of such taxes than does the composite revenue structure of the mainland states. In 1947, the forty-eight states collected, on an average, 51 per cent of all tax revenues from the above mentioned taxes (including a small amount of miscellaneous levies falling in this category, as shown in Table 2). In Hawaii during 1947, such taxes amounted to almost 63 per cent of territorial tax realizations, exclusive of levies on property.

b. Income and death taxes

Graduated net income and inheritance taxes, by mainland standards, have a relatively unimportant place in the tax structure of Hawaii. Comparison of Charts 1 and 2 shows that in both 1946 and 1947, the percentage contribution of progressive taxes to the tax revenue of Hawaii was much smaller than (less than two-thirds) the average for all state governments. This contrast was especially marked because the average for the mainland was necessarily reduced by the sixteen states which imposed neither personal nor corporate income taxes. Among the thirty-four states which did impose one or both of these income tax levies, progressive income and death taxes (i.e. those imposed at graduated rates) comprised approximately 23 per cent of their entire 1947 tax revenues, compared with 9.4 per cent in Hawaii.¹⁴

¹⁴The Bureau of the Census reported that in 1947 these income tax states collected \$1,047 million in net income, inheritance, and gift taxes, or some 23 per cent of their total tax revenues of \$4,549 million. (U. S. Bureau of the Census, State Tax Collections in 1947, Table 4.)

Percentagewise, Hawaii utilized to a lesser extent than did the states all three taxes in this group: personal net income taxes, corporate income taxes, and death taxes. With two-thirds of the states levying net income taxes, but one--New Mexico--collected from this source less than Hawaii's average of 7.4 per cent of total revenues.¹⁵ The primary reason for the low yields from the Hawaii personal income tax is that the tax base has been narrowed to a small fraction of that typically obtaining under the income levies of the states. Hawaii statutes provide for separate taxation of wages and salaries, which form the bulk of income receipts, under the compensation and dividends tax, described below. Three-fourths of compensation-dividends tax payments may be credited against the computed personal income tax, in effect relieving most wage earners and dividend recipients from income tax liability. (However, as noted below, persons earning wages and salaries pay heavier taxes under the Hawaii compensation-dividends tax than they would under any state income tax.) As a result, the personal income tax base in Hawaii is composed of those owning their own businesses or farms, professional and other self-employed persons, trusts, estates, and other recipients of net rents, royalties, and profits. Thus, even after an upward revision of income tax rates in 1947, fewer than 27,000 persons filed returns indicating tax liability.¹⁶ This number, approximately 5 per cent of the entire population, constitutes little more than one-tenth of the income recipients in the territory.

¹⁵New Hampshire was reported to have received but 3 per cent of total tax collections from her income tax, but this levy is extremely limited in scope, applying only to personal income from stocks, bonds, and other intangibles. Tennessee's income tax, like Hawaii's, supplied approximately 7 per cent of total collections, but the personal income levy applies only to stock dividends and bond interest.

¹⁶Information supplied by Earl W. Fase, Deputy Tax Commissioner, Office of the Tax Commissioner of Hawaii.

Despite the fact that the corporate income tax rate in Hawaii has been among the highest imposed by state governments--the rate was increased from $7\frac{1}{2}$ to 10 per cent by the 1947 legislature--the yield from the tax in the past two years has been a smaller portion of all collections than among most of the states.¹⁷ Thoroughgoing investigation of the causes underlying this lag in income tax receipts would necessitate examination of the roles played by corporations in Hawaii and in the mainland states, as well as detailed comparisons of state corporate income tax laws, studies which lie outside the scope of this report. Two pertinent provisions which act to reduce the income tax yield, however, may be mentioned at this time.

The first is the ability of businesses in Hawaii to carry over net losses from one year to the next in the computation of their income taxes.¹⁸ Thus, in Hawaii a corporation having a profitable year following a period in which it took a loss is able, in effect, to average out its income for both years, while in most income-tax states the entire profit of the second year would be taxable. The second provision is the total exemption from both corporate and personal income taxation of all capital gains.¹⁹ Among the state corporate income tax laws but two, Iowa and Maryland, thus exclude realized appreciations in property, securities, and other capital values. All

¹⁷Tax Systems (Eleventh Edition, 1948, pp. 128-34) shows but one state currently levying corporate income taxes at a rate above that of Hawaii. In Massachusetts "temporary" surtaxes and additional taxes totalling 13 per cent of net income have been added to the basic rate of $2\frac{1}{2}$ per cent.

¹⁸Section 5508(i) of the Revised Laws of Hawaii 1945. This provision of the federal income tax has been adopted by few states.

¹⁹Section 5506(b) of the Revised Laws of Hawaii 1945. The Hawaii law, while generally excluding capital gains and losses from the tax base, follows the British practice of taxing such gains (and allowing deduction of such losses) in the case of persons engaged in the handling of capital items, *i.e.* real estate companies, investment firms, etc.

other income-tax states tap this source of business income, especially important in periods of rising prices. Similarly, in the field of personal income taxation, only a few states entirely exempt capital gains.²⁰

It may also be noted in this connection that banks are excluded from the coverage of this tax. In lieu of assessing the 10 per cent tax upon the corporate income of banks (and also in lieu of all other levies but that on real property), a special excise tax is applied against bank shares. Under this law the total tax paid by all banks in Hawaii is now set at \$125,000 annually, allocated according to the provisions of Chapter 97 of the Revised Laws.

The Territory of Hawaii, as most of the states, has not made of its death taxes an important source of revenue, the percentage contribution of this group of levies amounting in the past biennium to approximately 2 per cent of all (non-property) tax collections in Hawaii, and to about $2\frac{1}{2}$ per cent in the states. (All states but Nevada currently levy estate or inheritance taxes.) Death tax rates in Hawaii are set to take full advantage of the 80 per cent credit allowed under the federal estate tax, without imposing any further burden on estate or heirs. Following the lead of the mainland states, this was accomplished by the passage of an estate tax in 1931, which added to the existing tax on inheritances an additional amount to absorb exactly the entire 80 per cent credit.²¹ Gift taxes, currently imposed by a dozen

²⁰State Income Taxes, Federation of Tax Administrators, Research Report No. 18, 1946, p. 6. Several states have adopted the federal provision whereby capital gains are taxable at lower effective rates than is other income, sometimes distinguishing between "long-term" and "short-term" gains.

²¹Section 5562, Revised Laws of Hawaii 1945. The federal tax, based upon the value of the entire estate, rather than the shares going to the individual heirs, allows the application of state and territorial inheritance (and estate) taxes up to 80 per cent of the basic federal levy. This provision was intended to encourage the passage of state death taxes, since such taxes--up

states²² as well as by the federal government, have no counterpart in Hawaii's tax structure.

c. Compensation and dividends tax

Bulking larger in the Hawaii tax system than progressive income taxes is the flat-rate compensation and dividends tax. During the past biennium this levy supplied virtually one-fourth of all territorial (non-property) tax revenues, and with the general excise (gross income) tax formed the major sources of governmental income in Hawaii. As Figure 1 illustrates, these two levies last year supplied two-thirds of taxes going to support the territorial government.

This tax is without parallel among the states or other territories of the United States.²³ Without deductions or exemptions,²⁴ the 2 per cent compensation and dividends tax is collected at the source from the payrolls

²¹(contd.) to 80 per cent of the normal federal tax--would add no further tax liability on the corpus of the estate or the heirs. The states, thus given an opportunity to "keep the money at home" without fear of causing the emigration of wealthy residents, responded by passing new or higher death taxes, with the single exception of Nevada, noted above.

²²California, Colorado, Louisiana, Minnesota, North Carolina, Oklahoma, Oregon, Rhode Island, Tennessee, Virginia, Washington, and Wisconsin.

²³Among the states, the nearest counterpart to the compensation-dividends tax is found in Indiana, where gross income in excess of \$1,000 is taxed--in the case of personal compensation at the rate of 1 per cent. Several recently enacted municipal income taxes are still closer to the Hawaiian compensation-dividends levy. For example, the income taxes of Philadelphia, Toledo, Ohio, and Louisville, Kentucky apply a withholding tax of 1 per cent against salaries, wages, and commissions, as well as the net profits of businesses. (Corporate earnings, however, are excluded from the Philadelphia tax.)

²⁴The sole exclusions from the tax are relief payments, salaries of employees at the leper settlement of Kalawao, pensions, and compensation received by members of the armed forces on active duty. (Section 5344, Revised Laws of Hawaii 1945.)

and dividend-distributions of private firms and public employers.²⁵ To minimize double taxation of wages, salaries, and dividends, three-fourths of compensation-dividends tax payments are deductible from the computed personal income tax, in effect relieving most wage, salary, and dividend income of further taxation.²⁶

Although it does not provide the personal exemptions, deductions, or graduated rates typically incorporated in the personal income tax, the compensation-dividends tax nevertheless falls into this category of revenue laws. It is of interest, therefore, to compare Hawaii's yield from the compensation-dividend tax with those received by the leading income tax states. To judge the relative utilization which Hawaii and these states have made of their fiscal resources, in the following table the personal income taxes of the ten states which derived the largest portions of their revenues from this source in 1947 are computed as ratios of the federal personal income tax receipts in their jurisdictions.

²⁵Federal agencies, while not making deductions of the tax, furnish the Office of the Tax Commissioner with information concerning wage and salary payments of their civilian employees. The right of the territory to collect a tax upon their salaries is currently being contested by a group of these employees.

²⁶See Personal Exemptions under the Hawaii Income Tax, Legislative Reference Bureau, University of Hawaii, Report No. 3, 1947, pp. 7 and 14. (It should be noted that examples in the report here cited are made in terms of the 1947 federal income tax rates. The lower 1948 federal rates would generally be reflected in smaller deductions on that score from the territorial income tax and therefore in somewhat larger Hawaii income taxes. It is believed that this effect would not be great enough to modify the general conclusion that most wage, salary, and dividend income is not taxed under the Hawaii income tax law.)

Table 3

State and Federal Personal Income Tax Collections in 1947
(tax collections in thousands)

State	State income tax	Federal income tax	Ratio of state to federal taxes
North Carolina.....	\$24,783	\$217,571	11.39%
Oregon.....	19,972	191,750	10.42%
South Carolina.....	8,343	85,167	9.80%
Idaho.....	4,523	46,371	9.75%
Wisconsin.....	30,160	336,090	8.97%
Utah.....	3,177	48,954	6.49%
North Dakota.....	2,458	39,977	6.15%
Minnesota.....	17,063	311,068	5.49%
Montana.....	2,283	46,763	4.88%
Vermont.....	1,260	25,969	4.85%
HAWAII:			
Income tax	960	(68,569)	(1.40%)
Compensation-dividends tax	<u>9,785</u>	(68,569)	<u>(14.27%)</u>
Both Hawaii taxes.....	10,745	68,569	15.67%

Sources: Federal tax receipts from Report of the Commissioner of Internal Revenue for 1947; state tax receipts from State Tax Collections in 1947 (U. S. Bureau of the Census); Hawaii tax receipts from the Report of the Tax Commissioner, 1948, supplemented by mimeographed reports of collections for prior years.

As Table 3 indicates, through her compensation-dividends tax and secondarily through her income tax, Hawaii taxes certain personal incomes more heavily by far than does any of the states. The compensation-dividends tax alone amounted to more than 14 per cent of the 1947 federal personal income tax yield in Hawaii--compared with a state-to-federal ratio of somewhat above 11 per cent in North Carolina, which heads the list of the states in Table 3. Addition of the territorial personal income tax gives a ratio of 15.67 per cent for Hawaii, more than double that of all but five of the thirty-one states imposing net personal income taxes. Since the primary bases

of compensation-dividends tax receipts are salaries and wages--in 1947 taxes on dividends constituted but 6.3 per cent of the revenues from this levy--it must be concluded that income in the form of salaries and wages is taxed more heavily by Hawaii than by any state in the Union.

d. Unemployment compensation tax

Compared with the mainland states, Hawaii has collected a conspicuously small amount of unemployment compensation taxes. During the past biennium, as shown in Table 2, unemployment taxes assessed on the payrolls of employers formed less than 5 per cent of territorial tax revenues, exclusive of the property tax. The average for the forty-eight states was 17.2 per cent in 1946 and 14.3 per cent last year. In 1947 but three states--North and South Dakota and Oklahoma--reported unemployment compensation taxes of less than 5 per cent of total tax revenues. Six states received from 20 to 33 per cent of their taxes from this source.²⁷

The low yield of the Hawaii tax is especially striking when note is made of the unusually wide coverage provided by territorial law. As of March, 1947, Hawaii was among eight jurisdictions in the United States--also including five states, Alaska, and the District of Columbia--to impose unemployment compensation taxes upon all employers hiring at any time a single worker in occupations covered by law.²⁸

One factor making for relatively low unemployment taxes in Hawaii is

²⁷Connecticut (32), Nevada (21), New Jersey (33), New York (21), Pennsylvania (20), Rhode Island (33). (U. S. Bureau of the Census, State Tax Collections in 1947.)

²⁸These states are Idaho, Nevada, Pennsylvania, Utah, and Washington. Arkansas taxes firms employing a worker at least one day out of ten; Delaware, Massachusetts, Minnesota, Montana, and Wyoming if a worker is employed one day in each 20-week period. (Social Security Yearbook, 1946, Table 52, p. 38.)

the large number of workers on sugar cane and pineapple plantations and engaged in other agricultural labor exempted from coverage under the Social Security Act. However, this is a condition common to the states of the farm belt of the mainland.

More pivotal is the nature of the Hawaii tax and the recent industrial history of this territory. Along with most of the state unemployment tax laws, the Hawaii statute provides that the tax rate, based at 2.7 per cent, shall be reduced to reflect the labor-turnover experience of each employer--i.e. firms with records showing relatively few separations from their employment during the preceding year are taxed at a lower rate.²⁹ As of 1946, 99 per cent of rated employer accounts in Hawaii were taxed at a reduced rate averaging 0.7 per cent. The resultant loss in revenue between 1939 and 1946 amounted to \$13.6 million, or 47.6 per cent of the taxes which would have been collected if the standard tax rate had been imposed.³⁰

The condition of virtually full employment which Hawaii has enjoyed since the war has of course materially affected this phase of tax collections by keeping to a record low the percentage of unemployment compensation claimants, and therefore the tax rates themselves. Thus, up through 1946, benefits paid out in this territory under the unemployment compensation program totalled but 5.7 per cent of cumulative contributions. The lowest ratio among the states was 19.1, in Wisconsin.³¹

²⁹Sections 4248-54, Revised Laws of Hawaii 1945.

³⁰Social Security Yearbook, 1946, Table 51, page 37. The average revenue loss from this source for all states with experience-rating plans was 27.3 per cent. During the fiscal year ended June 30, 1947, of a total of 7,507 employer accounts, 3,572 were rated, 3,935 unrated because of lack of sufficient experience. (Annual Report of the Department of Labor and Industrial Relations, Territory of Hawaii, 1947, p. 30.)

³¹Social Security Yearbook, 1946, Table 50, p. 36.

3. County Taxes in Hawaii

a. Motor vehicle taxes

Contrary to the mainland pattern, where each state itself collects an automotive license tax, in Hawaii motor vehicle taxation is given over to the counties. As in the case of other county levies, the tax is imposed by territorial law, but administration is delegated to the local bodies and all receipts accrue to them.

The Hawaii tax is based upon the weight of the vehicle: one cent per pound for commercial vehicles; one-half cent per pound for passenger cars and busses.³² Revenues for all counties from this levy approximated \$2.5 million in 1947, thus accounting for all but \$1 million of county-collected taxes, as Table 4 indicates.

Table 4

Taxes Accruing to the Counties of Hawaii:
Calendar Years 1946 and 1947
(in thousands of dollars)

Tax	1946	1947
A. County administered:		
1. Motor vehicle	\$1,880	\$2,454
2. Public utility	318	306
3. Other ^a	<u>612</u>	<u>746</u>
	\$ 2,810	\$ 3,506
B. Territory administered:		
1. Real property	\$6,578	\$8,295
2. Personal property	3,585	3,764
3. General excise ^b	.....	3,874
4. Motor fuel ^c	<u>.....</u>	<u>630</u>
	<u>10,163</u>	<u>16,563</u>
Total	\$12,973	\$20,069

a Includes liquor and other business licenses, dog and bicycle tax licenses, and other miscellaneous licenses and fees.

b Share of territorial revenue, as provided by Act 111, Session Laws of Hawaii 1947.

c Share of territorial collections, as provided by Act 196, Session Laws of Hawaii 1947.

Source: Reports of county auditors; 1948 budget of the city and county of Honolulu

³²Examination reveals that few states impose higher motor vehicle tax rates. (For a listing of state automobile license taxes, see Tax Systems, Eleventh Edition, 1948, pp. 197-205.)

b. Property taxes

As noted in the introductory pages of this report, property taxes in Hawaii, although imposed by territorial law and administered by the Tax Commissioner of the territory, are commonly regarded, and with justification, as county levies. All real property taxes accrue to the county in which they are collected, after provision is made for the service of territorial bonds issued for county purposes and for county contributions to the territorial and county employees' retirement system. Total property tax collections, up to maximum amounts fixed by the legislature,³³ and assessment rates are determined in each county by its budgetary needs.

As shown above in Table 4, by far the largest portion of county revenues have been forthcoming from the property tax. In 1946 more than three-fourths of county receipts consisted of real and personal property taxes, and in 1947 this fraction was still close to two-thirds.

However, the county revenue system pictured in Table 4 is presently being modified to reduce reliance upon property taxation. Abolishment of the personal property tax effective January 1, 1948 will result in the loss of some \$3.5 million of annual county tax realizations, after currently delinquent taxes have been received. To compensate for this loss and to provide additional revenue, the 1947 legislature granted to the counties a share of the general excise (gross income) tax. As provided by Section 5254 of the Revised Laws, "one per centum of the tax base of all collections of said taxes [including the consumption and compensating taxes which are auxiliary

³³Section 5252 of the Revised Laws of Hawaii (as amended by the 1947 legislature). For 1948 and subsequent years, the following annual limits are set: for Honolulu, \$8,000,000; for Hawaii, \$1,200,000; for Maui, \$900,000; for Kauai, \$600,000.

to the general excise tax⁷ which have been made at the rate of two and one-half per centum"--i.e. 40 per cent of such tax receipts--is paid quarterly to the counties according to the formula prescribed by statute.³⁴ If the counties had been entitled to a portion of all taxable sales reported in 1947, their share of the general excise, compensation, and consumption taxes would have exceeded \$8 million. (Actual county allocations of this levy, shown in Table 4, were less than \$3.9 million. This was due to distribution commencing after July 1, 1947, the rate of 2½ per cent not having gone into effect until that date.)

c. Other county revenues

The counties also receive a share of the tax imposed by the territory on gasoline and other motor fuels. As amended by the 1947 legislature, one-third of the 6 cent gasoline tax goes directly to the counties.³⁵ In addition a portion of the fuel taxes paid into the territorial fund accrues to the benefit of the counties, for from this fund the treasurer pays to them sums required to cover payment of interest and principal of road bonds issued prior to 1945. Any balance remaining in the fund after deduction of charges for bond service and highway maintenance is expended by the territorial highway department for new construction in the counties in proportion to the amounts of fuel taxes collected in their jurisdictions, under Section 5260 of the Revised Laws.

³⁴Fifty-five per cent to Honolulu, 20 per cent to Hawaii, 15 per cent to Maui, and 10 per cent to Kauai. (This distribution may be compared with that of the personal property tax, as provided by the Revised Laws of Hawaii prior to repeal of the tax. In the same order of listing, the counties formerly received approximately 59, 18, 12, and 11 per cent.)

³⁵Act 196, Session Laws of 1947. Hawaii is treated differently than the other counties, for the collections under the "county of Hawaii extra tax" (a 2 cent gallonage tax, as in each of the other counties), instead of being paid directly to her, go into the territorial highway fund.

The counties themselves collect few taxes other than the motor vehicle weight tax, discussed above, and the public utility franchise tax, outlined in Appendix I of this report. A miscellany of county licenses are imposed by Title 19 of the Revised Laws of Hawaii, but their yields are relatively unimportant, except from the sale of liquor licenses. As shown in Table 4, all such licenses, fees, permits, etc., brought in approximately \$746,000 of county revenues in 1947, less than a third of the receipts from motor vehicle taxes alone.

In sum, the counties in Hawaii's integrated governmental structure themselves collect but a small fraction of their fiscal needs. Under the budgetary and revenue system of Hawaii, the territorial government administers the tax measures which go toward the chief support of the counties, paying over to them all of the property tax and a sizeable share of the general excise and fuel taxes.

4. Hawaii's Tax System Compared with Alaska and Puerto Rico

Comparison of the tax structures of the three major territories of the United States again highlights the distinguishing features of the Hawaii fiscal system: heavy dependence upon the general excise (gross income), compensation-dividends, and property tax (the latter devoted to the needs of the counties); relatively small use of specific excises, license taxes, or progressive income and inheritance taxation.

Reported tax revenues for the biennium ended in 1946 indicates that Alaska received almost a third of her territorial tax receipts from unemployment compensation contributions (compared with less than 4 per cent in Hawaii), approximately a fifth each from liquor taxes and license taxes paid by

commercial fishing firms.³⁶ The Puerto Rico territorial tax system stressed the taxation of income (with more than 40 per cent of all taxes coming from this source, against less than 8 per cent in Hawaii) and specific excises on tobacco and motor fuel (yielding 16 per cent and 11 per cent of total tax revenue, respectively, compared with 1 per cent and 5 per cent for Hawaii).

As shown in Appendix II, Hawaii was the only one of the three territories to collect substantial amounts of property taxes, both Alaska and Puerto Rico reserving this area of taxation for their local governments.³⁷ Conversely the other two territories themselves taxed motor vehicles, whereas in Hawaii collection of this license is made by the counties.

On a per capita basis, the average bill for territorial taxes in Hawaii during the biennium 1945-46 (i.e. the total for both years) was approximately \$154. In the same period, Table 5 below reveals that the population of Alaska paid an average about \$92 in territorial taxes, while territorial tax payments in Puerto Rico amounted to \$47 per head for the two-year period. This per capita tax comparison does not take into consideration county collected taxes in Hawaii and locally collected taxes in the other two territories.

Because of the widely differing economic conditions obtaining in

³⁶The tax system of Alaska was extended by act of the 1946 legislature, which imposed a 1 per cent tax on gross sales, exports, and remuneration for services, proceeds going to finance a program of veterans' bonuses and loans. Yields from this new tax equalled 26.4 per cent of a total of approximately \$5,766,000 in the fiscal year which ended June 30, 1947. Unemployment compensation contributions also supplied about 26 per cent of the total, compared with 15 per cent from liquor taxes, 12 per cent from taxes on fishing, 5 per cent from motor fuel taxes, 4 per cent from mining taxes, and 3 per cent from a poll tax. The sale of license plates brought in almost 2 per cent of 1947 tax revenues, the remaining 7 per cent being accounted for by miscellaneous imposts. (Annual Report of the Governor of Alaska, 1947, pp. 37, 58, and 83.)

³⁷Except for a small amount of property taxes collected by Puerto Rico, constituting less than 1 per cent of that territory's tax income.

Table 5

Per Capita Taxes Paid to Territories in Biennium Ended 1946

	Total Taxes (in thousands)	Population ^a	Per Capita Tax Payments
Hawaii	\$88,125	573,000	\$154
Alaska ^b	8,288 ^b	90,000	92 ^b
Puerto Rico	97,006	2,079,000	47

a Including military personnel stationed in territory.

b Except for unemployment compensation contributions, which are for calendar years, Alaska receipts are for 27-month period ending December 31, 1946.

Sources: Tax data from Office of the Tax Commissioner and Treasurer (Hawaii), Tax Systems, 1948 (Commerce Clearing House), Social Security Yearbook, 1945 and 1946 (for Alaska unemployment compensation taxes); population estimates for July 1, 1946 from Department of Health (Hawaii), Hearings on Statehood for Alaska (before Subcommittee on Territorial and Insular Possessions, 80th Congress, first session), Annual Book on Statistics of Puerto Rico (Puerto Rico Bureau of Commerce).

Alaska and Puerto Rico, no attempt has been made to compare the tax burden of these two territories with that of Hawaii. It would appear that Hawaii, with her more favorable economic position, is able to pay any given amount of taxes per capita with less real sacrifice than either Alaska, with relatively undeveloped resources and a population "density" of 0.1 per square mile, or Puerto Rico, where an average of almost 550 persons in each square mile has pushed the margin of cultivation to a low level.³⁸

5. The Tax Burden in Hawaii

It may be of interest, however, to measure the average territorial-county tax bill paid by the citizen of Hawaii against those imposed by mainland states and their local governments. To this end it was attempted to choose

³⁸Creamer, Daniel, The Net Income of the Puerto Rico Economy, 1940-1944.

several states with which to compare Hawaii, and to ascertain their tax collections during the past biennium.

The problem of selecting states which may purposefully be compared with Hawaii is a thorny one. Hawaii's economic structure, with heavy reliance upon plantation agriculture, federal expenditures, and the tourist trade, is no more to be duplicated on the mainland than is her climate. For the purpose of this study--to ascertain in a general way whether the tax burden imposed by the territory and its counties is relatively heavy or light--it was decided to choose for comparison states, which though in many respects quite different from Hawaii, were similar in certain essential regards.

First of all, states which have a concentration of population varying radically from that of Hawaii were eliminated on the grounds that their fiscal resources and governmental needs were categorically different from this territory. Thus neither Rhode Island, with 553 inhabitants per square mile, nor Nevada with 1, can be considered to be comparable in this regard with Hawaii, which has a population density of about 82 persons per square land mile.

For similar reasons it was decided to consider only those states which have a wage-earning group, relative to their total population, somewhat comparable to that of Hawaii, where last year approximately 11 per cent of the population was employed in year-round "mass-production" plantation agriculture or in manufacturing. Under this criterion of comparability, states such as New Mexico, where less than 2 per cent of the population are industrial workers and where plantation agriculture does not exist, or Connecticut, where more than 20 per cent of the population are wage-earners in manufacturing, were excluded.

Finally--and this factor is perhaps most decisive--all states with per capita incomes differing radically from that of Hawaii were not considered on

the grounds that their ability to pay for governmental services were either of a much higher or a much lower order. Preliminary estimates indicate that the per capita income in Hawaii for 1946 was within 12 per cent of the national average of \$1,200. Comparison with relatively high income states, as New York or California (with respective 1946 per capita incomes of \$1,633 and \$1,531), or relatively low income states, as Louisiana or Virginia (\$784 and \$952, respectively), was therefore eliminated.

On these basic criteria--density of population, composition of the working force, and per capita income--the following five states, despite their heterogeneous economic, geographic, and political characteristics, were selected for the purpose of estimating the relative tax load in Hawaii: Indiana, New Hampshire, Oregon, Vermont, and Wisconsin.

The nature of Hawaii's governmental structure precludes a direct comparison between the amount of taxes paid to this territory with those imposed by these or any other states. With over 94 per cent of all non-federal taxes in Hawaii collected by the territorial government--against a mainland average of somewhat less than 55 per cent of total state-local taxes going to the states--it is apparent that for purposes of ascertaining relative tax burdens account must also be taken of local tax collections.

Compilations of tax receipts of county, municipal, and other local units throughout the nation were last made in 1942, during the decennial census of government.³⁹ In order to obtain more recent data, tax commissioners of the five states selected for comparison were requested to furnish local tax revenues for 1946 and 1947. (In one state--Oregon--a minor portion of local

³⁹U. S. Bureau of the Census, Governmental Finances in the United States: 1942.

receipts had to be estimated, as noted in Appendix III.) State tax realizations are those reported to the U. S. Bureau of the Census. It is the totals of these state and local collections which were used to compute per capita tax payments shown in Table 6 and Appendix III.

Comparisons of the average amount of state and local tax payments per head of population for each of the five states selected with per capita territorial and county taxes in Hawaii for 1946 and 1947 are made in Table 6. During 1946, collections in Hawaii amounted to about \$80 per person, an amount smaller than the average for Wisconsin, and approximately equal to that of New Hampshire. Of the five states, only Indiana showed per capita tax collections far below Hawaii's.

However, in 1947 increases in both tax rates (especially those of the general excise tax) and base brought the per capita tax bill in Hawaii to approximately \$105, well above the average collection of state-local taxes in any of the five states chosen for comparison.⁴⁰ Among these states per capita taxes ranged from less than \$74 (in Indiana) to \$93 (in Oregon), the latter being only 89 per cent of the figure for Hawaii.

The amount by which the per capita tax in Hawaii exceeds those of the five states here considered is probably somewhat overstated by the use of the calendar year period for Hawaii and fiscal year period for the mainland states. The employment of different periods was necessitated by the fact that both territorial and county tax collections are reported as of December 31, while each of the five states reports as of June 30. As stated in Appendix III, in

⁴⁰That the per capita tax payments of the citizens of Hawaii were below the mainland average in the recent past is indicated by state and local collections in 1942, reported in the decennial census of government. In that year state and local taxes on the mainland aggregated \$9,655 million, or approximately \$72 per head. The 1942 per capita tax in Hawaii was about \$10 smaller.

a period of inflation and generally increasing tax revenues, use of year-end figures would yield somewhat higher averages than would collections as of mid-year.

Table 6

Per Capita State and Local Tax Collections
in Five States Compared with Hawaii:
1946 and 1947

	State and Local Tax Collections (in thousands)		Per Capita State and Local Tax Collections	
	1946	1947	1946	1947
Indiana	\$255,543	\$284,153	\$67.83	\$ 73.65
New Hampshire	41,213	47,067	79.76	86.05
Oregon	107,874	141,157	74.26	93.05
Vermont	26,931	29,442	76.29	80.88
Wisconsin	272,295	304,232	85.95	92.67
HAWAII	46,205	59,129	80.54	104.84

Source: See Appendix III.

It should be noted, however, that in making these computations the population of Hawaii--as those of the states--was reckoned to include military personnel stationed within its boundaries. Since the number of the members of the armed forces in Hawaii (averaging 38,000 during 1947) is proportionately much greater than in any of the above states, and in view of the fact that service incomes and many service expenditures are tax-free, the burden of taxes borne by civilians in this territory is greater than the amounts indicated in Table 6. Dividing total Hawaii tax payments in 1947 by the non-military population yields an average of more than \$112. This figure, of course, is not an accurate statement of the per capita civilian tax load, since it includes an unknown amount of taxes paid by soldiers, sailors, marines,

and members of the coastguard.

Finally, it must be emphasized that the concept of tax burden here used is only an approximate one. A more thoroughgoing study of the tax load borne by the people of Hawaii must consider that some of the taxes, while collected in the first instance from residents of this territory, are ultimately paid for by people outside Hawaii. This factor would apply, for example, to general excise (gross income) taxes on sugar and pineapple products which are included in the cost of shipments to mainland concerns, and to taxes paid by Hawaii corporations upon dividends going to non-resident stockholders.⁴¹ Differentials in the price levels of Hawaii and the mainland are also pertinent to a comparison of "real" tax burdens. Since the cost of food and other goods is higher in Hawaii than in most mainland areas,⁴² it must be expected that a given level of governmental services would also require the expenditure of a larger amount of money.

⁴¹This consideration also applies, of course, to states of the mainland, where interstate commerce and absentee ownership of property may be the means whereby taxes are shifted in part to residents of other jurisdictions.

⁴²Reports of the territorial Department of Labor and Industrial Relations indicate, for example, that food prices in Honolulu were about one-fifth higher than in the larger mainland cities during the first quarter of 1948. Compared with the 56 municipalities covered in the monthly survey of the United States Bureau of Labor Statistics, the Honolulu food price index was 17.9 per cent above the mainland average in January, 21.0 per cent higher in February, and stood at 23.5 per cent above the national index in March, 1948.

CHART OF THE TAX SYSTEM OF HAWAII AS OF JANUARY 1, 1948

[References to Revised Laws of 1945 as amended]

A. ADMINISTERED BY TAX COMMISSIONER

APPENDIX I

Kind of tax	Measure and rate of tax	Reports	Tax payable
1. Real property, ch. 94, secs. 5101-5170.	(1) Date of lien: Jan. 1. (2) Measure of assessment: (A) fair and reasonable value, assessed to owner or owners; (B) buildings, replacement less depreciation. (3) Rate: varies for tax divisions.	Returns filed, if required, on or before Jan. 31. Notices of assessments to taxpayers not later than Apr. 1. Appeals not later than Apr. 20. Net assessable set on or before May 1.	First half on or before June 20. Second half on or before Nov. 20. Taxes payable on assessor's value.
2. Net income, ch. 102, secs. 5501-5541.	(1) Period covered by return: Taxable year. (2) Entire net income from all property owned and every trade or business carried on in the Territory and compensation paid for or attributable to personal services performed within the Territory. (3) Rates: corporations, 10 per cent; individuals, graduated 3 to 6 per cent. (4) Tax credit: 75 per cent of the 2-per cent tax withheld from, or paid by taxpayers in respect to compensation and dividends included in the net income-tax returns as gross income subject to tax.	Returns filed on or before Mar. 20, or 20th of third month after close of fiscal year.	First installment at time of filing return. Other installments on 20th of third, sixth, and ninth months thereafter.
3. Public utility, ch. 106, secs. 5671-5676.	(1) In lieu of gross income and ad valorem real-property taxes. (2) Measure of assessment: gross revenue from public-utility business of public utilities for preceding calendar year. (3) Rate: if ratio of net to gross income is 15 per cent or less, 5 per cent; for each 1-per cent increase in ratio of net to gross, rate increases $\frac{1}{4}$ of 1 per cent.	Returns filed on or before Mar. 20.	Do.

Chart of the Tax System of Hawaii as of January 1, 1948--Continued

Kind of tax	Measure and rate of tax	Reports	Tax payable
4. Liquid fuel, ch. 100, secs. 5401-5416.	Distributors as defined in sec. 5401 are required to pay 6 cents per gallon of liquid fuel other than diesel oil, and 1 cent per gallon of diesel oil sold or used in the Territory. Gasoline used in airplanes is taxed at 5 cents per gallon. Distributors or others who use diesel oil in motor vehicles on public highways must pay an additional 5 cents per gallon on diesel oil so used.	Returns are due monthly on or before the 30th day of the following month.	At the time of filing of the monthly return.
5. Compensation and dividend, ch. 98, secs. 5341-5359.	(1) Method of collection: employers and local corporations required to withhold from compensation and dividends paid. (2) Measure of assessment: (A) gross compensation paid for or attributable to personal services performed within the Territory, including certain fees and other payments in the form of compensation; (B) dividends distributed out of earnings or profits by local corporations and dividends received by local residents from foreign corporations. (3) Rate: 2 per cent.	Returns filed on or before the 20th day of the succeeding calendar month.	At the time of filing of the monthly return.
6. Bank excise, ch. 97, secs. 5301-5323.	(1) (A) Assessment date: Jan. 1. (B) In lieu of all taxes except real property tax. (2) Measure of assessment: based on taxable value of shares of domestic banks and on fair and reasonable value of property and business of foreign banks (net worth of bank as enterprise for profit.). (3) Rate: such as will produce total annual revenue of \$125,000.	Returns filed on or before Feb. 1.	First half on or before June 20. Second half on or before Nov. 20.
7. Liquor, ch. 104, secs. 5601-5618.	"Dealers" as defined in sec. 5601 and certain others who sell liquor to a "purchaser" as defined in sec. 5601 must pay an excise tax equal	Returns filed by 20th of month following taxable month.	At time of filing of the monthly return.

Chart of the Tax System of Hawaii as of January 1, 1948--Continued

Kind of tax	Measure and rate of tax	Reports	Tax payable
	(cont.) to 8 per cent of the ordinary, or usual retail price.		
	A \$1 liquor-tax permit is required and must be renewed before July 1 of each year.		
8. Tobacco, ch. 109, secs. 5751-5765.	"Wholesalers" as defined in sec. 5751 and certain others must pay an excise tax of 8 per cent of wholesale prices on wholesale sales, and 8 per cent of wholesale purchase prices on retail sales, also 6 per cent of retail prices on products used. A \$1 tobacco-tax permit is required and must be renewed before July 1 of each year.	Do.	Do.
9. Gross income (general excise), ch. 101, secs. 5441-5482.	This is a business-privilege tax measured by gross proceeds of sales or gross income. The tax rate is 1 per cent on wholesaling; 1½ per cent on producing and manufacturing; sugar producers and canneries are taxed at the rate of 2½ per cent, which is also the applicable rate on retailing and all other taxable gross receipts. A \$1 license must be secured and renewed annually on a calendar year basis.	Returns are due and the tax payable on or before the 20th day of the following month. An annual summary and reconciliation return must be filed on or before Mar. 20 of each year.	At time of filing of the monthly return, also when annual return is filed if additional tax is due.
10. Consumption, ch. 99, secs. 5371-5389.	This is an excise tax which applies on the value of imported tangible personal property, for use or consumption, if purchased from anyone not taxable under the gross income tax law. The tax rate is 2½ per cent of fair and reasonable value (landed cost).	Returns are due and the tax payable on or before the 20th day of the following month. An annual return is due on or before Mar. 20 of each year. These returns have been consolidated with the gross income tax returns and are filed simultaneously.	At time of filing of the monthly return.

Chart of the Tax System of Hawaii as of January 1, 1948--Continued

Kind of tax	Measure and rate of tax	Reports	Tax payable
11. Compensating tax, ch. 98.01, secs. 5370.01-5370.14.	This is an excise tax which applies on the value of tangible personal property purchased through sales representatives or purchasing agents. For manufacturers, retailers, or contractors, licensed under the gross income tax, but not subject to such tax on goods purchased through sales representatives, the rate is 1 per cent of the purchase price; in all other cases $2\frac{1}{2}$ per cent.	Do.	Do.
12. Unemployment compensation (Federal), ch. 74, secs. 4246-4261.	(1) Date of lien: last day of following month. (2) Measure of assessment: based on gross payments to 1 or more employees with certain exceptions. (3) Rate: 0 to 2.7 per cent. Collected by tax commissioner for division of unemployment compensation.	Returns filed by last day of the month following the taxable month.	At time of filing of the monthly return.

-35-

B. ADMINISTERED BY TERRITORIAL TREASURER

Kind of tax	Measure and rate of tax	Reports
1. Inheritance and estate taxes, ch. 103, secs. 5551-5592.	Tax at various rates on net valuation of estate.	Filed with treasurer on territorial forms.
2. Insurance tax, ch. 161, secs. 8487, 8511.	Based on annual premium collected; rate, $2\frac{1}{4}$ per cent on life insurance, 4 per cent on surplus lines, $2\frac{1}{2}$ per cent on other premiums.	Filed with treasurer on Apr. 15 of each year. Tax due on June 30.
3. Miscellaneous licenses and fees.	Depending on class of business.	

Chart of the Tax System of Hawaii as of January 1, 1948--Continued

C. ADMINISTERED BY COUNTIES

Kind of tax	Measure and rate of tax	Reports
1. Vehicle-weight, ch. 108, secs. 5704-5712.	$\frac{1}{2}$ cent per pound on private vehicles, 1 cent on commercial vehicles.	Annually before Mar. 1.
2. Public utilities franchise, ch. 107, sec. 5681.	(1) Assessed against light and power companies whose franchise does not provide for payment of gross receipts tax to county in which it operates. (2) Rate: $2\frac{1}{2}$ per cent of gross receipts from power and light sold in county.	Filed on or before Jan. 31. Payable at same time to county treasurer.
3. Dog tax, ch. 134, secs. 7152-7154.	\$1 per license.	Annually.
4. Bicycle tax, ch. 108, secs. 5702-5703.	Do.	Do.
5. Miscellaneous licenses.	Depending on class of business.	

Sources: Report of the Tax Commissioner, 1948; Revised Laws of Hawaii 1945, as amended.

APPENDIX II

TERRITORIAL TAX REVENUES FOR BIENNIUM ENDING IN
1946: ALASKA, HAWAII, AND PUERTO RICO

Tax	Territorial tax revenues (in thousands)			Percentage distribution of territorial taxes		
	Alaska ^a	Hawaii	Puerto Rico	Alaska ^a	Hawaii	Puerto Rico
<u>Sales and Gross Receipts</u>	<u>\$3,250</u>	<u>\$38,919</u>	<u>\$46,500</u>	<u>39.22</u>	<u>44.16</u>	<u>47.93</u>
1. General sales or gross receipts	855	22,292	.....	10.32	25.30	.....
2. Motor fuel	310	4,643	11,148	3.74	5.27	11.49
3. Liquor	1,765	3,560	13,892	21.30	4.04	14.32
4. Tobacco	.....	866	15,570	.....	0.98	16.05
5. Utilities	19	3,835	.....	0.23	4.35	.....
6. Insurance	160	3,723	.....	1.93	4.22	.....
7. Other	141 ^b	.....	5,890 ^c	1.70	.....	6.07
<u>License</u>	<u>\$1,936</u>	<u>\$.....</u>	<u>\$ 6,524</u>	<u>23.36</u>	<u>.....</u>	<u>6.73</u>
1. Motor vehicle	191	(d)	4,477	2.30	(d)	4.62
2. Fishery	1,573	.....	.....	18.98	.....	.....
3. Other	172	.....	2,047	2.08	.....	2.11
<u>Net income and Death</u>	<u>\$ 156</u>	<u>\$ 7,402</u>	<u>\$40,752</u>	<u>1.88</u>	<u>8.40</u>	<u>42.01</u>
1. Income	77	6,628	39,816	0.93	7.52	41.04
2. Inheritance	79	774	936	0.95	0.88	0.97
<u>Compensation-dividends</u>	<u>\$.....</u>	<u>\$17,424</u>	<u>\$.....</u>	<u>.....</u>	<u>19.77</u>	<u>.....</u>
<u>Property</u>	<u>\$.....</u>	<u>\$20,804^e</u>	<u>\$ 832</u>	<u>.....</u>	<u>23.61^e</u>	<u>0.86</u>
<u>Unemployment compensation</u>	<u>\$2,602</u>	<u>\$ 3,412</u>	<u>\$.....</u>	<u>31.39</u>	<u>3.87</u>	<u>.....</u>
<u>Other</u>	<u>\$ 344</u>	<u>\$ 164</u>	<u>\$ 2,398</u>	<u>4.15</u>	<u>0.19</u>	<u>2.47</u>
1. Poll	344	64 ^f	.....	4.15	0.07	.....
2. Bank excise	.....	100	.....	.....	0.12	.....
3. Stamp	.....	.....	1,035	.....	.....	1.07
4. Admissions	.....	.....	1,363	.....	.....	1.40
Total	\$8,288	\$88,125	\$97,006	100.00	100.00	100.00

^a For 27-month period ending December 31, 1946 (except for unemployment compensation taxes, which are for calendar years). 1947 tax revenues are shown in footnote 36, above.

^b \$138,000 from tax on mines; \$3,000 from soft drinks tax.

^c From variety of specific excises; 2% gross income tax repealed in 1941.

^d Collected by the counties.

^e For county purposes only.

^f Back taxes; levy repealed in 1943.

Sources: Hawaii, Reports of Office of Tax Commissioner and the Treasurer; Alaska and Puerto Rico, Tax Systems, 1948; Alaska unemployment compensation taxes from Social Security Yearbook, 1945 and 1946.

APPENDIX III

COMPUTATION OF STATE-LOCAL TAXES IN FIVE
MAINLAND STATES FOR 1946 AND 1947

In order to compare total non-federal tax payments in Hawaii and in states of the mainland for the past biennium, it was necessary to obtain data concerning the tax receipts of local governments, last reported comprehensively by the U. S. Bureau of the Census in the decennial census of government in 1942.¹ To this end inquiries were addressed to the tax commissioners of Indiana, New Hampshire, Oregon, Vermont, and Wisconsin. In each case the actual total or an official estimate was furnished to this Bureau.

The figures supplied for these states covered all locally collected taxes, except for Oregon, where only local property taxes were listed. It was necessary, therefore, to estimate the amount of tax revenues, aside from levies on property, received by the local units of Oregon during fiscal 1946 and 1947. In making this estimate, it was assumed that in the period under study, non-property tax collections in Oregon continued to bear the same relation to property tax revenues as they had in 1942, *i.e.* that in each of the years taxes other than those on property constituted 3.56 per cent of total property taxes.² (It may be noted here that in Oregon all property taxes are realizations of local governments, so that no problem of tax sharing or other division of revenues arises.) Property tax collections, reported to be \$42,903,000 and \$51,975,000 for 1946 and 1947, respectively, were therefore each inflated by 3.56 per cent, to obtain the total local tax collections shown in the table below.

State and Local Tax Collections in
Hawaii Compared with Five States

	1946 ^a			Population ^b (thousands)	Per capita tax ^c
	State	Local	Total		
Indiana	\$139,710	\$115,833	\$255,543	3,767	\$67.83
New Hampshire	19,377	21,836	41,213	517	79.76
Oregon	63,444	44,430	107,874	1,453	74.26
Vermont	15,155	11,776	26,931	353	76.29
Wisconsin	146,893	125,402	272,295	3,168	85.95
HAWAII	43,394	2,811	46,205	574	80.54

¹U. S. Bureau of the Census, Governmental Finances in the United States: 1942, Table 3.

²In 1942 Oregon counties collected \$93,000 of taxes, aside from property levies, while cities received \$1,291,000--a total of \$1,384,000, or 3.56 per cent of property tax realizations, which amounted to \$38,891,000. (Ibid.)

State and Local Tax Collections in Hawaii
Compared with Five States--Continued

	1947 ^a			Population ^b (thousands)	Per capita tax
	State	Local	Total		
Indiana	\$149,855	\$134,298	\$284,153	3,858	\$ 73.65
New Hampshire	21,798	25,269	47,067	547	86.05
Oregon	87,332	53,825	141,157	1,517	93.05
Vermont	16,908	12,534	29,442	364	80.88
Wisconsin	159,100	145,132	304,232	3,283	92.67
HAWAII	55,623	3,506	59,129	564	104.84

a Fiscal year for each state; calendar year for Hawaii.

b As of July 1. For Hawaii includes 519,503 civilians and average of 54,165 military personnel in 1946; 525,477 civilians and 38,371 servicemen in 1947.

c Computed by dividing tax collections by unrounded population figures.

For each of the states, the population used to compute per capita taxes is that estimated as of July 1 by the Bureau of the Census. For Hawaii, civilian population figures are those of the territorial Department of Health, also estimated at mid-year. The number of military personnel stationed in the Hawaiian Islands for each year (54,165 for 1946; 38,371 for 1947) is an average reported by the Army, Navy, Coastguard, and Marine Corps.³ It may be noted that while the civilian population of Hawaii continued to grow in the past decade, the decline in the number of servicemen more than offset this increase, resulting in a decline of total population from 574,000 in 1946 to 564,000 in 1947. Breaking the per capita average into its mathematical components, therefore, the average tax bill in Hawaii rose from 1946 to 1947 because, (i) total tax collections increased; (ii) the total population decreased.

As pointed out on page 30 of this report, the relatively large number of military personnel in Hawaii, whose service income and post-exchange purchases escape taxation in whole or in part, acts to make the average tax burden on civilians in Hawaii higher than the above figures would indicate. On the other hand, the fact that Hawaii tax data are for the year ending December 31, while those of the states are for the fiscal period ending June 30, would in a period of inflation and generally increasing tax revenues somewhat understate the comparative size of state collections.

³Compiled in Income Statistics for the Territory of Hawaii, at page 35, by the Tax Research Department of the Honolulu Chamber of Commerce (January, 1948).

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* All materials here listed are available in the library of the Legislative Reference Bureau, University of Hawaii.