CENTER ON BUDGET AND POLICY PRIORITIES

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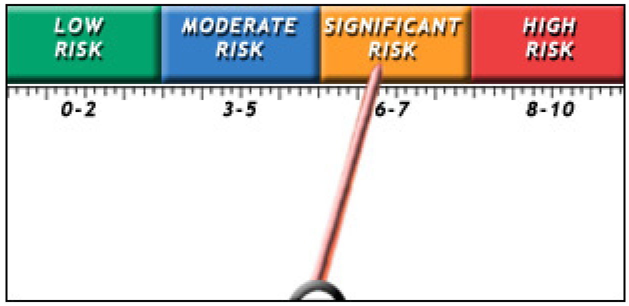
HAWAII



Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Hawaii is rated as having a significant risk of a structural deficit based on its score of seven on the risk scale for structural deficits.

- In Hawaii, the percent of sales subject to sales tax declined by 11.6 percentage points from 1990-2003, exceeding the US median decline of 8.0 percentage points.

- Hawaii could lose an estimated $157 to $246 million in revenue a year due to the growth of e-commerce. This loss is greater than the national average as a share of total revenue.

- Hawaii's income tax preferences for its seniors exceed the US average.

- During 1994-2000, Hawaii reduced both its personal income tax and, to a lesser extent, its sales tax. This is problematic since income taxes provide stronger growth over the long term than sales and excise taxes.

- Hawaii has a constitutional spending limit that restricts general fund spending to less than the average growth in personal income over the previous three years.

- Hawaii remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated $28.6 million per year.

- Three other national studies (Hovey 1998, Boyd 2002, and Besendorf & Kottlikoff 2002) found that Hawaii has a structural gap.

- Lastly, although this paper did not categorize Hawaii as having unusually high spending needs, it does face some spending pressure from a growing elderly population.