

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1528 SCOMM 55: JNT. SPEC. COMM. ON STATE TAX POLICY, 1986-1987 1328

TABLE 41
AVERAGE MONTHLY EARNINGS OF PUBLIC EMPLOYEES
State and Local Government Full-Time Equivalent Employees*
October 1983: By Function

State	Rank	State Av.	Public Educ. ^b	Higher Educ. ^c	Hwy.	Hth. Hosp.	Police Fire	Parks Rec. ^d	Water	Con- trol ^e	All Other ^f
HAWAII	20	\$1,673	\$1,639	\$2,074	\$1,585	\$1,424	\$1,942	\$1,565	\$1,653	\$1,760	\$1,499
U.S. Av.	--	1,674	1,665	1,891	1,539	1,459	1,940	1,544	1,606	1,649	1,663
Ala.	45	1,326	1,230	1,687	1,205	1,192	1,473	1,373	1,329	1,531	1,345
Alaska	1	2,746	2,949	2,231	2,443	2,578	3,540	2,565	3,142	2,772	2,782
Ariz.	9	1,816	1,749	2,097	1,668	1,610	2,041	1,716	1,738	1,697	1,804
Ark.	50	1,221	1,137	1,589	1,205	1,145	1,315	1,220	1,123	1,135	1,258
Calif.	3	2,101	2,089	2,271	1,967	1,870	2,499	1,880	2,203	2,087	2,039
Colo.	15	1,757	1,632	2,072	1,749	1,602	1,959	1,812	1,934	1,727	1,795
Conn.	14	1,758	1,737	1,963	1,868	1,578	1,978	1,544	1,794	1,721	1,694
Del.	28	1,569	1,571	1,986	1,428	1,175	1,887	1,428	1,355	1,488	1,473
Fla.	26	1,570	1,486	1,839	1,314	1,556	1,772	1,411	1,430	1,626	1,595
Ga.	47	1,316	1,223	1,893	1,201	1,266	1,396	1,305	915	1,399	1,327
Idaho	38	1,418	1,342	1,551	1,523	1,347	1,562	1,504	1,373	1,312	1,496
Ill.	7	1,837	1,870	2,117	1,895	1,540	2,082	1,531	2,050	1,523	1,753
Ind.	31	1,497	1,530	2,084	1,254	1,385	1,481	1,235	1,259	1,189	1,248
Iowa	25	1,583	1,545	1,966	1,485	1,385	1,702	1,623	1,587	1,507	1,499
Kans.	36	1,421	1,414	1,547	1,358	1,257	1,548	1,431	1,470	1,340	1,440
Ky.	39	1,401	1,385	1,706	1,466	1,119	1,519	1,157	1,316	1,401	1,388
La.	42	1,375	1,359	1,783	1,332	1,112	1,529	1,400	1,314	1,366	1,328
Me.	43	1,367	1,271	1,549	1,411	1,378	1,515	1,613	1,287	1,320	1,431
Md.	12	1,766	2,001	1,708	1,505	1,588	1,976	1,305	1,657	1,679	1,566
Mass.	19	1,698	1,755	1,766	1,584	1,387	1,952	1,421	1,516	1,603	1,723
Mich.	4	1,978	2,093	1,946	1,888	1,732	2,219	1,792	1,834	1,860	1,891
Minn.	10	1,815	1,726	2,130	1,983	1,516	2,151	1,830	1,880	1,933	1,794
Miss.	51	1,171	1,132	1,606	965	1,001	1,270	1,264	1,021	1,230	1,120
Mo.	35	1,432	1,450	1,699	1,381	1,185	1,707	1,327	1,369	1,347	1,394
Mont.	23	1,621	1,731	1,829	1,746	1,374	1,618	1,268	1,474	1,499	1,474
Neb.	34	1,446	1,454	1,347	1,346	1,259	1,807	1,308	1,549	1,326	1,610
Nev.	8	1,830	1,745	1,930	1,845	1,791	2,062	1,687	1,951	1,838	1,847
N. H.	37	1,419	1,341	1,680	1,273	1,350	1,685	1,545	1,276	1,523	1,335
N. J.	13	1,763	1,929	2,106	1,663	1,399	1,913	1,453	1,445	1,629	1,460
N. M.	32	1,466	1,475	1,674	1,521	1,181	1,600	1,429	1,377	1,459	1,387
N. Y.	5	1,956	2,107	2,044	1,606	1,670	2,313	1,662	1,863	1,864	1,925
N. C.	41	1,382	1,362	1,610	1,271	1,326	1,488	1,347	1,229	1,521	1,259
N. D.	21	1,642	1,835	1,786	1,460	1,226	1,607	1,606	1,576	1,379	1,467
Ohio	27	1,569	1,648	1,621	1,519	1,344	1,807	1,498	1,596	1,440	1,457
Okla.	40	1,383	1,330	1,700	1,248	1,244	1,472	1,372	1,170	1,498	1,375
Ore.	16	1,747	1,627	1,981	1,702	1,493	2,103	1,650	1,896	1,761	1,851
Pa.	22	1,625	1,650	1,904	1,462	1,456	1,865	1,613	1,607	1,459	1,575
R. I.	11	1,780	1,962	1,794	1,401	1,673	1,831	1,323	1,441	1,570	1,720
S. C.	49	1,305	1,211	1,777	1,084	1,261	1,329	1,238	1,232	1,343	1,299
S. D.	46	1,325	1,239	1,572	1,372	1,116	1,425	1,504	1,342	1,292	1,416
Tenn.	44	1,347	1,425	1,599	1,122	1,073	1,426	1,168	1,398	1,398	1,283
Texas	29	1,529	1,411	1,855	1,519	1,393	1,849	1,456	1,365	1,690	1,542
Utah	24	1,603	1,572	1,516	1,785	1,386	1,869	1,651	1,565	1,763	1,680
Vt.	33	1,454	1,297	1,798	1,442	1,450	1,658	1,519	1,577	1,477	1,498
Va.	30	1,515	1,492	1,889	1,786	1,378	1,675	1,383	1,466	1,583	1,398
Wash.	6	1,886	1,769	2,001	2,097	1,547	2,248	1,816	2,073	1,847	1,995
W. Va.	48	1,311	1,376	1,551	1,218	1,147	1,428	1,214	1,138	1,198	1,148
Wisc.	18	1,714	1,753	1,705	1,713	1,519	1,966	1,572	1,837	1,732	1,638
Wyo.	17	1,720	1,760	1,961	1,917	1,339	1,758	1,732	1,513	1,701	1,656
D. C.	2	2,263	2,336	2,159	1,959	2,163	2,566	2,020	2,442	2,347	2,169

- a. Computed by the Tax Foundation of Hawaii from October 1983 payroll data.
b. Includes instructional and other local school staff and local library personnel.
c. Includes instruction and other personnel.
d. Includes natural resources.
e. Includes financial administration and other general control.
f. Includes special schools, welfare, employment security administration, correction, sewerage and other sanitation, other general government functions, and public service enterprises other than water supply.

SOURCE: "Public Employment in 1983," Series GE 83, No. 1, U.S. Department of Commerce, Bureau of the Census, Washington, D.C., June 1984.

TABLE 42
EMPLOYEES' RETIREMENT SYSTEM
 Receipts, Expenditures, and Reserves
 State of Hawaii — Selected Fiscal Years
 (In Thousands)

	1984	1983	1982	1979	1974
SOURCE OF RECEIPTS					
Retirement System Contributions					
State	\$ 107,193	\$ 107,175	\$ 73,086	\$ 52,153	\$ 36,385
Counties	37,249	36,640	22,672	20,738	13,439
Employees	80,435	79,610	72,052	56,475	29,414
Social Security Contributions ^a					
State and Counties	59,843	55,276	49,634	33,498	18,718
Employees	58,664	55,276	49,634	33,498	18,718
Administration	1,868	1,215	1,145	823	488
Earnings from Investments	206,102	178,791	179,603	82,952	52,343
TOTAL	\$ 551,354	\$ 513,983	\$ 403,826	\$ 280,137	\$169,505
OBJECT OF EXPENDITURES					
Administration	\$ 1,868	\$ 1,215	\$ 1,145	\$ 823	\$ 488
Benefits	106,131	95,807	84,658	61,292	29,321
Refunds and Withdrawals	29,450	28,924	24,899	16,257	8,467
Social Security	118,507	110,552	99,268	66,996	37,437
TOTAL	\$ 255,956	\$ 236,498	\$ 209,970	\$ 145,368	\$ 75,713
CASH AND INVESTMENT AS OF JUNE 30					
Cash	\$ 14,709	\$ 6,405	\$ 5,380	\$ 3,188	\$ 2,305
Certificates of Deposit	24,027	33,275	25,524	210,931	122,036
Investments					
Bonds	1,177,591	1,013,292	898,987	389,327	109,851
Stocks	545,169	406,420	260,325	170,807	191,897
Mortgages	437,113	438,459	432,776	331,280	170,209
TOTAL	\$2,198,654	\$1,897,851	\$1,622,992	\$1,105,533	\$596,298
MEMBERS IN SYSTEM	51.6	51.6	49.8	47.5	43.4
Earnings as % of Investments^b	9.4	9.4	8.5	9.4	11.1

a. Calculated by dividing Social Security disbursements in half.

b. "Earnings from Investments" divided by total "Investments."

SOURCE: Compiled by the Department of Budget and Finance, Employees' Retirement System, State of Hawaii and "State Government Finances," 1974, U.S. Department of Commerce, Bureau of the Census, Washington, D.C.

TABLE 43
COMPENSATION RATES IN SELECTED POSITIONS
Private Industry and State-County Governments

Job Classification	Private Industry ^a		State-County Governments ^a		Private Industry		State-County Governments	
	Min.	Max.	Min.	Max.	Median	Mean	Median	Mean
Monthly Salary Rates								
Accountant (Entry)	\$1,294	\$1,910	\$1,140	\$1,868	\$1,600	\$1,483	\$1,278	\$1,298
Account Clerk (Sr.)	1,061	1,569	1,090	1,481	1,302	1,322	1,090	1,182
Cashier	981	1,362	1,090	1,481	1,193	1,148	1,159	1,209
Civil Eng. (Lic.)	2,184	3,182	1,868	2,817	2,574	2,787	2,343	2,241
Clerk	883	1,302	1,000	1,376	1,045	1,100	1,029	1,099
Clerk (Jr.)	766	1,123	915	1,193	898	949	915	933
Clerk (Personnel)	1,095	1,594	1,161	1,662	1,299	1,338	1,410	1,392
Clerk (Sr.)	1,032	1,558	1,090	1,481	1,250	1,332	1,244	1,248
Clerk (Steno.)	958	1,389	1,057	1,428	1,215	1,296	1,057	1,163
Cus. Serv. Clerk	908	1,414	1,128	1,558	1,328	1,400	1,217	1,299
Data Entry Oper.	848	1,286	1,029	1,376	1,078	1,134	1,029	1,101
Dietician	1,399	2,408	1,440	2,139	2,005	2,050	2,001	1,881
Engineering Aide	1,120	1,605	1,128	1,538	1,300	1,363	1,128	1,174
Engr. Draft Tech.	1,419	2,065	1,376	1,990	1,770	1,898	1,818	1,773
Hosp. Attendant	965	1,240	963	1,282	1,069	1,057	1,087	1,083
Hosp. Ward Clerk	1,104	1,224	971	1,481	1,213	1,210	1,029	1,116
Land Surveyor	1,376	2,019	1,419	1,845	1,597	1,731	1,762	1,731
Med. Technologist	1,779	2,106	1,440	2,139	2,004	2,019	1,750	1,783
Nurse (Practical)	1,186	1,451	1,158	1,616	1,449	1,426	1,300	1,380
Nurse (Staff)	1,793	2,605	1,652	2,151	2,019	1,978	1,785	1,860
Occup. Therapist	1,725	2,034	1,440	2,139	1,920	1,876	1,786	1,783
Physical Therapist	1,848	2,135	1,440	2,139	2,082	2,044	1,835	1,873
Secretary	1,095	1,627	1,164	1,737	1,300	1,341	1,489	1,469
Secretary (Private)	1,257	1,872	1,282	2,279	1,602	1,679	1,737	1,723
Switchboard Oper.	905	1,309	971	1,327	1,371	1,328	1,058	1,101
Hourly Wage Rates^b								
Auto Mechanic	\$ 6.37	\$10.70	\$ 8.08	\$ 9.23	\$ 9.22	\$10.15	\$ 8.08	\$ 8.33
Auto Mech. Helper	4.23	6.04	6.72	7.38	7.76	7.69	6.72	6.86
Bldg. Maint. Repair.	6.15	9.08	7.89	8.76	9.09	9.05	7.89	8.01
Carpenter (Maint.)	7.93	10.62	7.89	8.76	9.36	9.77	7.89	8.05
Cook (Assistant)	4.78	6.85	6.72	7.38	6.85	6.46	6.72	6.90
Cook (General)	6.02	8.21	7.33	8.13	9.25	8.30	7.33	7.45
Electrician (Maint.)	7.80	9.50	8.08	8.98	9.93	11.24	8.08	8.17
Electronic Tech.	11.88	18.00	8.34	12.55	14.38	14.30	10.97	10.12
Groundskeeper	4.90	6.89	6.27	6.83	6.46	6.36	6.27	6.40
Janitor (Heavy)	4.48	6.58	6.27	6.83	6.28	6.28	6.27	6.42
Kitchen Helper	4.50	6.31	6.27	6.83	5.65	5.40	6.27	6.39
Laborer (Heavy)	8.30	11.03	6.31	6.89	7.32	7.38	6.31	6.43
Laborer (Light)	4.53	6.17	6.27	6.83	6.59	6.69	6.27	6.34
Painter (Maint.)	8.77	10.64	7.89	8.76	9.32	9.77	7.89	8.00
Plumber (Maint.)	9.53	10.51	8.08	8.98	9.60	10.13	8.08	8.17
Security Attend.	5.24	7.10	5.43	7.13	6.67	6.52	5.43	5.69
Trades Helper	6.70	7.53	6.72	7.38	7.79	7.74	6.72	6.92
Truck Driver AC	5.22	6.91	6.51	7.13	7.95	7.44	7.13	6.92
Truck Driver BC	5.60	9.95	6.91	7.63	7.79	8.58	6.91	7.21
Truck Driver CC	7.24	9.33	7.13	7.89	9.19	9.87	7.13	7.40
Warehouse Worker	5.87	9.07	6.51	7.13	8.50	8.55	6.51	6.57
Washer	5.24	6.51	6.31	6.89	6.16	6.05	6.89	6.70

NOTE: Results of sampling 487 establishments and 13 government agencies employing 50,853 persons. Wages and salaries in effect on June 1, 1984 or scheduled to go into effect by August 31, 1984. Caution must be exercised in making comparisons due to variations among jobs and fringe benefits.

a. Average of salary ranges.

b. Federal minimum wage set at \$3.35 per hour.

c. A = capacity under 1.5 tons; B = 1.5 to 5 tons; C = 5 tons and over.

SOURCE: "Pay Rate in Hawaii, Private Employment, Government Employment," Hawaii Employers Council, Research Department, Special Publication No. 163, September 1984.

TABLE 44
CLASSROOM TEACHERS' SALARIES: 1983-1984
Estimated Average Annual Salaries^a

State	Elementary	Secondary	All Teachers		
			Amount	Rank	\$ Increase Over 1982-1983 ^b
HAWAII	\$25,300	\$24,000	\$24,357	9	(1.77)
U.S. Av.	21,465	22,570	21,935	--	5.89
Alabama	17,682	17,682	17,682	43	(0.94)
Alaska	37,580	38,000	37,807	1	11.25
Arizona	21,525	21,929	21,642	21	8.42
Arkansas	16,436	17,396	16,929	49	12.64
California	24,696	26,314	24,843	7	3.36
Colorado	23,100	23,835	23,276	13	8.41
Connecticut	22,385	23,036	22,627	19	9.15
Delaware	20,406	21,373	20,934	24	1.50
Florida	19,871	19,109	19,497	32	6.69
Georgia	18,300	19,070	18,631	37	7.00
Idaho	17,314	18,710	17,985	41	2.27
Illinois	23,183	26,069	24,191	11	8.41
Indiana	21,091	21,983	21,538	22	7.03
Iowa	19,375	20,819	20,149	28	4.63
Kansas	19,280	19,440	19,368	33	6.24
Kentucky	19,200	20,510	19,660	31	6.94
Louisiana	18,130	18,890	18,400	39	(0.11)
Maine	16,839	18,171	17,328	48	6.65
Maryland	23,052	24,471	24,095	12	5.74
Massachusetts	22,700	23,157	22,964	16	7.11
Michigan	27,250	26,770	27,049	4	1.86
Minnesota	23,460	25,170	24,350	10	9.21
Mississippi	15,554	16,118	15,812	51	10.42
Missouri	18,748	19,870	19,310	34	10.21
Montana	20,126	21,764	20,690	25	6.17
Nebraska	17,976	19,598	18,785	36	7.89
Nevada	21,940	22,810	22,360	20	1.31
New Hampshire	17,357	17,394	17,376	47	5.00
New Jersey	22,774	23,826	23,264	14	8.02
New Mexico	19,900	21,227	20,571	26	0.49
New York	26,545	27,964	27,319	3	9.28
North Carolina	18,248	18,397	18,311	40	4.13
North Dakota	18,990	19,690	19,260	35	4.73
Ohio	20,879	21,290	21,290	23	6.43
Oklahoma	18,080	19,140	18,580	38	1.70
Oregon	22,769	23,897	23,155	15	6.48
Pennsylvania	22,567	22,820	22,703	18	7.20
Rhode Island	24,986	25,748	25,337	5	9.33
South Carolina	16,862	18,079	17,384	46	5.21
South Dakota	16,200	16,700	16,480	50	5.67
Tennessee	17,860	18,000	17,910	42	3.05
Texas	19,692	20,858	20,170	27	3.17
Utah	19,347	21,022	20,007	29	0.75
Vermont	17,166	17,970	17,606	44	8.20
Virginia	18,973	20,589	19,676	30	6.16
Washington	23,995	24,789	24,365	8	3.73
West Virginia	17,002	18,098	17,489	45	0.96
Wisconsin	22,400	23,323	22,811	17	6.12
Wyoming	24,691	26,242	25,197	6	6.36
Dist. of Columbia	27,659	27,659	27,659	2	8.00

a. Limited to classroom teachers excluding principals, supervisors, librarians, guidance and psychological personnel, and related instructional workers.

b. 1982-1983 revised data.

SOURCE: "Estimates of School Statistics, 1984-85," NEA Research, National Education Association, 1985 (copyright 1985).

TABLE 45
ESTIMATED PUPIL-TEACHER RATIOS AND
PER CAPITA DIRECT SCHOOL EXPENDITURES

State	Pupil-Teacher Ratios ^a			Per Capita Direct Expenditures - Local Schools ^b			
	Elementary	Secondary	Total	Capital		Total Expenditures	
				Outlay	Other	Amount	Rank
HAWAII	19.3	20.4	20.1	\$ 28.80	\$ 383.42	\$ 412.22	41
U.S. Av.	20.1	16.3	18.4	30.77	451.94	482.71	--
Ala.	20.8	19.4	20.1	41.00	326.24	367.24	48
Alaska	13.9	18.4	15.6	329.45	1,151.33	1,480.78	1
Ariz.	21.3	22.8	21.8	76.26	404.95	481.21	22
Ark.	20.1	16.5	18.2	9.87	348.34	358.21	49
Calif.	26.3	18.7	23.4	16.06	454.21	470.27	27
Colo.	20.5	17.3	19.1	70.20	491.24	561.44	9
Conn.	17.4	11.9	15.1	27.30	487.36	514.66	16
Del.	18.5	15.5	16.8	17.59	458.75	476.34	24
Fla.	16.8	19.6	18.1	44.85	376.27	421.12	39
Ga.	18.8	18.3	18.6	31.74	377.99	409.73	42
Idaho	22.6	19.5	21.1	32.66	364.84	397.50	44
Ill.	19.3	16.3	18.3	24.25	440.73	464.98	29
Ind.	20.3	18.7	19.5	35.20	391.81	427.01	37
Iowa	18.6	14.2	16.2	21.79	481.10	502.89	19
Kans.	17.2	13.5	15.6	34.93	463.01	497.94	20
Ky.	20.5	19.0	19.9	39.21	329.27	368.48	47
La.	21.2	14.8	19.0	31.00	414.89	445.89	34
Me.	18.8	14.2	17.1	25.51	406.93	432.44	36
Md.	19.2	17.0	18.0	26.30	478.02	504.32	18
Mass.	27.2	18.4	15.5	9.36	471.04	480.40	23
Mich.	26.6	16.1	21.7	14.99	518.39	533.38	11
Minn.	18.3	17.4	17.8	34.51	541.38	575.89	7
Miss.	18.9	17.9	18.5	13.35	319.66	333.02	50
Mo.	23.4	10.7	17.0	13.74	372.24	385.98	46
Mont.	17.2	14.9	16.4	58.98	575.26	634.24	3
Neb.	16.2	14.3	15.3	35.02	473.95	508.97	17
Nev.	19.3	21.7	20.4	27.33	420.80	448.13	32
N. H.	19.4	13.2	16.2	17.96	406.44	424.40	38
N. J.	17.2	13.5	15.6	22.73	530.37	553.10	10
N. M.	19.0	19.0	19.0	76.57	541.79	618.36	4
N. Y.	17.1	14.9	15.9	24.79	590.58	615.37	5
N. C.	24.0	14.3	20.0	13.35	381.27	394.62	45
N. D.	17.0	12.9	15.6	45.35	481.94	527.29	12
Ohio	21.8	15.5	18.9	16.91	453.08	469.99	28
Okl.	18.3	15.3	16.9	56.98	425.24	482.22	21
Ore.	18.8	16.3	17.8	26.39	561.72	588.11	6
Pa.	17.5	16.5	17.0	22.76	424.48	447.24	33
R. I.	18.4	17.2	17.8	6.05	457.20	463.25	31
S. C.	20.7	15.5	18.8	48.09	350.44	398.53	43
S. D.	16.3	14.0	15.5	27.36	414.46	441.82	35
Tenn.	23.7	16.0	20.9	15.00	309.92	324.92	51
Texas	17.6	17.8	17.7	68.17	456.35	524.52	13
Utah	23.3	25.4	24.1	59.50	464.55	524.05	14
Vt.	16.8	12.6	14.5	20.67	455.13	475.80	25
Va.	17.9	15.8	17.0	22.56	441.62	464.18	30
Wash.	20.2	22.0	21.1	53.41	461.29	514.70	15
W. Va.	17.7	15.0	16.5	29.42	441.72	471.14	26
Wisc.	17.8	16.2	17.1	13.02	400.68	413.70	40
Wyo.	12.2	19.0	14.4	188.03	788.93	976.96	2
D. C.	15.0	16.8	15.7	32.91	532.38	565.29	8

NOTE: Per capita expenditures do not correspond with Table 34 since expenditures for supervision of local schools, state schools for the handicapped, and other similar special educational programs have been eliminated.

a. Estimated for the 1983-1984 school year by dividing public school fall enrollment by the number of classroom teachers as reported by the National Education Association.

b. As reported by the U.S. Department of Commerce for fiscal 1983.

SOURCE: "Estimates of School Statistics, 1984-85," NEA Research, National Education Association, 1985 (copyright 1985); "Governmental Finances in 1982-83," Series GF 83, No. 5, U.S. Department of Commerce, Bureau of the Census, Washington, D.C., October 1984.

TABLE 46
HAWAII PUBLIC SCHOOL COSTS
Selected Fiscal Years^a

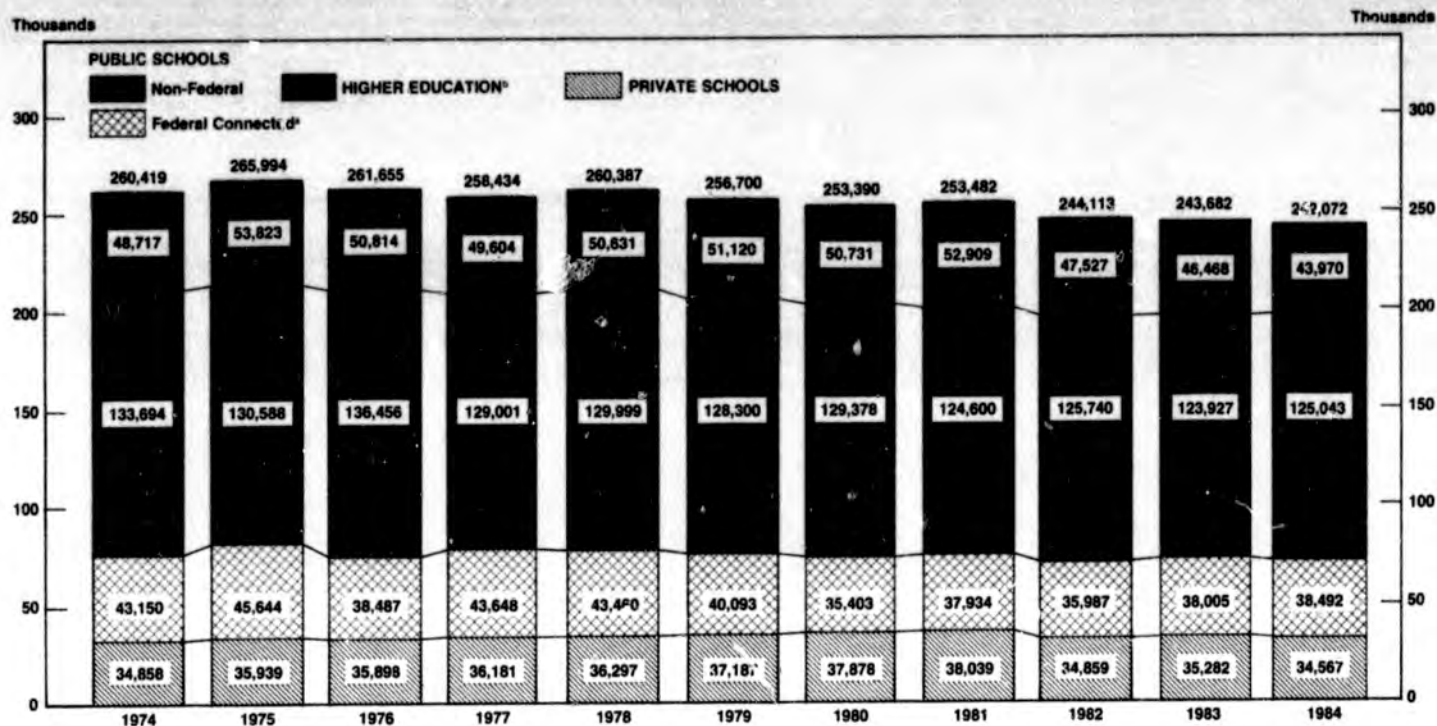
Object of Expenditure	1984	1983	1982	1979	1974
Administration	\$ 30,843,588	\$ 29,412,139	\$ 28,131,860	\$ 20,086,059	\$ 11,784,366
Instruction: Personal Services	250,174,735	249,025,383	226,836,099	180,111,478	118,710,391
Supplies	26,298,925	24,731,865	23,346,220	19,594,150	10,116,144
Food Services: Personal Services	15,399,843	16,326,378	13,846,412	11,208,249	6,839,796
Supplies	17,604,476	16,644,917	16,772,944	13,093,332	10,666,468
Attendance & Health Services	16,688,129	16,636,062	14,832,100	11,112,320	6,380,352
Pupil Transportation Services	15,500,134	14,741,192	13,293,991	8,123,967	3,791,164
Operation of School Plant ^b	28,260,101	29,532,847	28,630,406	16,641,751	9,610,830
Maintenance of School Plant	11,036,857	14,209,642	13,000,623	8,963,612	5,783,982
Retire., S.S., Med. Ins. Contrib.	92,692,925	83,922,347	50,871,562	41,835,718	27,184,240
Workers' Compensation ^c	3,475,422	986,477	1,063,610	1,608,195	1,547,897
Debt Retirement: Interest	121,874	160,812	207,876	408,459	1,004,806
Principal	901,392	1,349,306	1,368,330	2,272,826	3,878,320
Sub-Total	\$508,998,401	\$497,679,367	\$432,202,033	\$335,060,116	\$217,299,256
Capital Outlay ^d	11,941,000	23,304,890	17,237,000	21,628,000	33,618,196
Adult Education	2,858,035	2,882,074	2,920,821	2,508,417	10,057,762
Public Libraries	12,483,771	12,365,610	12,160,848	8,147,228	5,181,944
Summer School	1,012,194	849,705	848,660	549,651	474,592
Athletic Funds	723,177	744,997	753,915	839,644	617,695
Total	\$538,016,578	\$537,826,643	\$466,123,277	\$368,733,056	\$267,249,445
Average Daily Enrollment	160,528	160,661	160,042	168,453	176,494
Average Daily Attendance	150,137	149,696	148,636	154,263	160,892

NOTE: Data not strictly comparable due to revised reporting method.

- a. Includes expenditures from federal, state, and county funds; does not include all costs attributable to operation of the department of education.
- b. Includes appropriation for safety and security systems for 1982, 1983, and 1984.
- c. Includes unemployment compensation.
- d. Bond fund expenditures not included.

SOURCE: Annual Financial Reports, Office of Business Services, Department of Education, State of Hawaii.

CHART 12
TRENDS IN HAWAII SCHOOL ENROLLMENT
Fall 1974-1984



*Includes enrollment for partial as well as full federal impact-area aid, 1984 estimated.

*Fall full- and part-time enrollment in day time credit courses. Includes University of Hawaii system and enrollment in technical schools.

SOURCE: Student Information Services, Department of Education, State of Hawaii; University Relations, University of Hawaii.

TABLE 47
UNIVERSITY OF HAWAII
Current Income and Expenditures — Selected Fiscal Years*

	1984	1983	1982	1979	1974
REVENUES					
For Educational Purposes	\$(271,113,339)	\$(258,345,310)	\$(239,141,018)	\$(175,323,892)	\$(108,501,107)
Federal Funds	54,953,017	49,416,304	52,713,057	38,597,114	35,044,413
State Appropriations	196,862,600	192,173,378	171,342,782	125,675,089	66,016,095
University Funds	(19,297,722)	(16,750,628)	(15,085,179)	(11,051,689)	(7,440,599)
Student Fees ^b	6,676,790	6,246,644	5,793,798	3,787,563	3,325,707
Departmental Earnings	4,247,977	3,405,664	3,410,900	3,003,354	1,452,899
Gifts and Grants	7,153,322	6,517,692	5,181,526	3,664,955	2,209,919
All Other	1,219,633	580,628	698,955	595,817	452,074
For Non-Educational Programs	(25,967,358)	(25,591,274)	(23,159,975)	(16,459,562)	(11,022,346)
Auxiliary Enterprises	25,967,358	25,591,274	23,159,975	16,459,562	9,461,587
Other Sources	--	--	--	--	1,560,759
TOTAL REVENUES	\$ 297,080,697	\$ 283,036,584	\$ 262,300,993	\$ 191,783,454	\$ 119,523,453
EXPENDITURES					
For Educational Purposes	\$(267,960,321)	\$(259,236,133)	\$(234,793,488)	\$(172,921,723)	\$(110,027,334)
Instruction & Rel. Act	79,581,807	79,783,603	70,695,236	57,287,627	35,382,654
Community Colleges	47,830,039	47,754,297	41,323,184	30,031,451	14,064,871
Organized Research	58,328,513	52,803,868	49,978,396	35,293,343	25,422,075
Extension Services	6,164,907	5,881,688	4,605,831	3,378,897	2,186,274
Libraries	9,186,835	9,200,925	7,864,101	5,511,333	2,746,657
Plant Oper. & Maint.	17,322,175	16,642,360	15,040,034	8,638,461	3,755,864
Public Services	8,848,954	8,880,897	9,490,330	6,379,281	15,802,629
Admin. & Gen. Expenses	40,697,091	38,288,495	35,796,376	26,401,330	10,666,310
For Non-Educational Purposes	(23,803,184)	(24,209,257)	(21,992,491)	(14,444,382)	(8,930,509)
Auxiliary Enterprises	19,523,264	20,303,506	17,917,083	12,464,504	7,424,420
Other	4,279,920	3,905,751	4,075,408	1,979,878	1,506,089
TOTAL EXPENDITURES	\$ 291,763,505	\$ 283,445,390	\$ 256,785,979	\$ 187,366,105	\$ 118,957,843

NOTE: After 1977, auditors have included non-imposed fringe benefit costs, attributable to University employees but actually funded through other state agencies (primarily Department of Budget and Finance), as part of the University's expenditures.

- a. Encumbrances of funds not included in expenditure data; revenues may include advances by federal agencies. Detail not absolutely comparable between years because of changes in reporting.
- b. Fees from special programs only; tuition and fees for regular academic semesters are state general fund realizations and are not reflected in University data.

SOURCE: Central Accounting Office, and Financial Reports, University of Hawaii.

TABLE 48
DIVISION OF AIRPORTS
 Department of Transportation — State of Hawaii
 Revenues and Expenditures — Selected Fiscal Years

	1984	1983	1982	1979	1974
REVENUES^a					
Fuel Tax ^b	\$ 4,932,977	\$ 4,879,845	\$ 4,889,071	\$ 4,861,054	\$ 4,790,433
Revenue From Operations	83,268,824	80,719,376	65,013,562	53,593,388	25,551,919
Bond Funds	--	--	--	7,794,233	8,212,266
Federal Grants	6,045,928	6,016,004	12,797,184	--	--
All Other Revenues	19,232,891	17,537,035	23,555,432	17,703,770	5,074,462
TOTAL	\$113,480,620	\$109,152,260	\$106,255,249	\$83,952,445	\$43,629,080
EXPENDITURES^c					
Personnel Services	\$ 17,104,443	\$ 16,215,187	\$ 13,568,798	\$ 9,334,791	\$ 4,897,592
Other Operating Expenses	27,347,068	26,563,310	26,350,431	11,581,443	6,055,200
Capital Outlay	43,709,471	30,440,795	21,056,449	27,648,301	26,696,931
Bond Interest	26,604,588	26,298,511	24,265,613	19,487,180	14,068,051
All Other Expenditures	1,628,393	1,774,399	15,992,141	6,082,987	1,481,566
TOTAL	\$116,393,963	\$101,292,202	\$101,233,432	\$74,134,702	\$53,199,340

NOTE: Detail may not add to total due to rounding.

- a. Excludes advances from Treasurer and investments redeemed; Includes general fund appropriations.
- b. Rate at 1 cent per gallon.
- c. Excludes bond principal payments since expenditures from bond funds included; also, excludes investments purchased and transfers.

SOURCE: Airports Division, Department of Transportation, and Auditor's Report for the fiscal year, and Consolidated Statement of Receipts and Expenditures, Airports Division, Department of Transportation, State of Hawaii.

TABLE 49
DIVISION OF HARBORS
 Department of Transportation — State of Hawaii
 Revenues and Expenditures — Selected Fiscal Years^a

	1984	1983	1982	1979	1974
REVENUES					
Wharfage	\$ 8,965,619	\$ 8,057,975	\$ 7,540,070	\$ 6,849,545	\$ 4,705,670
Pilotage Fees	--	--	--	382,147	649,011
Docking & Mooring Fees	1,702,905	1,739,876	1,610,145	1,192,693	858,273
Rentals	9,447,769	9,303,944	9,082,608	5,485,553	3,573,523
Sales of Services & Materials	388,680	364,680	429,624	355,728	282,541
Income on Investments	3,248,655	3,833,794	3,768,105	2,498,219	460,737
Miscellaneous ^b	1,333,966	861,792	642,484	493,323	311,523
TOTAL REVENUES	\$25,087,594	\$24,162,061	\$23,073,036	\$17,257,208	\$10,841,278
EXPENDITURES					
Administration	\$ 1,350,075	\$ 1,267,194	\$ 995,868	\$ 1,060,978	\$ 1,140,255
Harbor Operations	1,211,140	1,242,239	1,290,539	789,096	1,627,903
General Maintenance	2,854,827	2,216,294	1,429,012	1,297,000	1,129,090
Engineering Svcs. & Overhead ^c	--	--	--	--	117,356
Salaries & Wages ^d	4,558,591	4,429,048	3,786,739	3,213,201	(e)
5% Surcharge on Gross Receipts	660,646	595,935	655,596	527,349	339,145
Interest on Bonded Debt	6,660,609	7,103,211	6,226,386	3,766,615	2,048,618
Principal on Bonded Debt	3,446,705	3,301,705	3,162,451	2,140,421	1,882,024
City & County Fireboat	786,910	875,712	692,778	591,018	469,748
Depreciation	2,592,696	2,537,747	2,084,642	1,798,375	1,406,425
Miscellaneous	98,692	179,076	461,747	20,150	125,852
TOTAL EXPENDITURES	\$24,220,891	\$23,748,161	\$20,785,758	\$15,205,003	\$10,286,416

- a. Report on the "public undertaking," as defined in the resolution authorizing issuance of harbor revenue bonds as all harbors and waterfront improvements and other properties under the Harbors Division, except those principally used for recreation and landing of fish.
- b. Includes permits to operate small power boats, recoveries for damage to property, sale of utilities, etc.
- c. After 1977, category allocated to "Salary and Wages" and "Administration".
- d. Retirement contributions were \$936,000 (1984), \$841,000 (1983), \$417,000 (1982), and \$357,000 (1979).
- e. "Salaries and Wages" and retirement assigned to appropriate function before 1977; retirement contributions were \$414,954 in 1974.

SOURCE: Financial Statement and Report of Certified Public Accountants, Harbors Division, Department of Transportation, State of Hawaii.

TABLE 50
DIVISION OF HIGHWAYS
 Department of Transportation — State of Hawaii
 Revenues and Expenditures — Selected Fiscal Years

	1984	1983	1982	1979	1974
REVENUES					
Fuel Tax	\$ 29,091,832	\$ 28,432,421	\$ 27,911,737	\$ 30,032,484	\$14,804,227
Weight Tax	8,417,107	8,096,584	7,776,343	7,431,306	--
Federal Aid	65,466,938	52,874,624	48,526,918	51,361,136	40,091,128
Land Sales	120,359	113,768	34,362	179,733	56,242
Rentals	130,292	95,716	94,371	68,550	191,675
Permit Fees	62,226	62,209	64,292	29,063	22,531
General Funds	--	--	--	--	204,915
Bond Funds	12,688,000	16,639,675	14,216,941	16,303,654	17,242,004
Vehicle Registration Fees	636,118	614,418	588,410	570,918	--
Gross Weight Fees	--	--	266	(42,138)	--
Other ^a	15,710,372	16,360,372	18,569,943	480,398	608,941
TOTAL REVENUES	\$132,323,244	\$123,289,787	\$117,783,583	\$106,415,104	\$73,221,663
EXPENDITURES					
Administration	\$ 4,447,507	\$ 4,264,923	\$ 3,700,382	\$ 2,806,984	\$ 1,319,422
5% Surcharge	1,673,657	1,701,845	1,858,417	1,223,334	331,659
Maintenance	20,492,303	24,174,459	22,880,782	17,019,584	6,132,124
Planning & Research	--	--	--	285,949	1,122,050
Debt Service	20,560,263	19,652,581	16,919,634	14,197,510	8,453,915
Capital Projects	83,158,826	81,219,510	63,097,640	70,483,265	57,441,183
TOTAL EXPENDITURES	\$130,332,556	\$131,013,318	\$108,456,855	\$106,016,626	\$74,800,353

NOTE: Includes expenditures from highway, general, and general obligation bond funds; interfund transfers are eliminated to avoid duplication.

a. Includes general excise tax collections of \$16,511,734 in 1982, \$15,538,477 in 1983, and \$15,122,115 in 1984 derived from the sale of gasoline under Act 159, SLH 1981.

SOURCE: Annual Report to the Governor, and Highways Division, Department of Transportation, State of Hawaii.

THE LONG TERM PUBLIC BONDED DEBT

Debt financing provides the wherewithal to fund long-lived public facilities while providing an even repayment schedule over the economic life of the project. Governments issue long term bonds to secure the money to plan, design, and construct capital projects such as schools, parks, and roads.

Hawaii's governments issue three types of bonds: 1) nonreimbursable general obligation (G.O.) bonds; 2) reimbursable G.O. bonds; and 3) revenue bonds. Non-reimbursable G.O. bonds are used to build public facilities and projects which are not backed by user taxes or fees. Debt services costs, i.e., principal and interest payments, are paid from general fund resources, including taxes as well as departmental earnings. The full faith and credit of the state or county pledged for repayment of these obligations.

Reimbursable bonds are similar to nonreimbursable G.O.'s in that the full faith and credit of the issuer is pledged to insure repayment; however, this type of debt is issued when earmarked revenues or user charges accrue to a special fund, which reimburses the general fund for the debt repayment costs. Examples of reimbursable G.O.'s issued by the state of Hawaii and the earmarked taxes or fees include: highway reimbursable G.O.'s and gasoline and diesel fuel taxes, and airport reimbursable G.O.'s and aviation fuel taxes.

Revenue bonds are issued when fees or charges stemming from a capital project are the resources which are to support the debt repayments. Unlike G.O.'s, the full faith and credit of the issuer is not pledged to repay debt costs in case the project does not realize sufficient revenues to cover the debt costs. Revenue bonds are issued when a steady revenue inflow is assured, such as parking facilities for government employees.

State government G.O. bond debt is limited by the state Constitution with a ceiling placed on debt service. Debt service in the year in which it is highest cannot exceed 18.5% of the average general fund revenues collected during the past three fiscal years. The limit includes only debt repayments which are charged directly to the general fund, thus reimbursable G.O.'s which are repaid from special fund revenues are excluded. In 1984, the debt limit was \$227.7 million while debt service charged to the limit totaled \$194.5 million leaving a \$33.2 million debt margin.

County G.O. debt is limited to 15% of the net assessed value of real property within the county. At the end of 1984, debt charged to the limit reached \$297 million, leaving a debt margin of \$5.9 billion.

TABLE 51
STATE AND LOCAL LONG-TERM DEBT
 Related to Population, Personal Income, and Tax Collections
 Debt Outstanding at June 30, 1983

State	Per Capita Debt		Per Cap. Debt as a % of Per Cap.			
			Personal Income ^a		Tax Collections ^b	
	Amount	Rank	Percent	Rank	Percent	Rank
HAWAII	\$ 2,541.17	13	20.98	17	174.41	26
U.S. Average	1,863.17	--	15.98	--	153.27	--
Alabama	1,477.01	37	15.98	28	183.16	20
Alaska	17,090.77	1	99.40	1	348.24	1
Arizona	2,489.67	15	23.36	13	233.93	10
Arkansas	1,349.50	42	15.05	33	175.11	25
California	1,329.01	43	10.02	48	99.41	49
Colorado	2,121.04	21	16.61	25	181.86	22
Connecticut	2,204.12	20	14.80	35	153.75	28
Delaware	3,695.83	4	29.18	7	290.37	4
Florida	1,371.84	41	11.83	44	141.77	36
Georgia	1,419.98	39	13.68	37	145.92	32
Idaho	924.92	50	9.68	49	105.73	47
Illinois	1,522.87	34	12.28	42	121.32	42
Indiana	912.42	51	8.71	51	100.79	48
Iowa	1,009.30	48	9.43	50	86.18	51
Kansas	2,273.11	18	18.56	20	201.38	15
Kentucky	2,520.13	14	26.82	9	283.73	6
Louisiana	2,626.58	12	25.58	11	249.97	8
Maine	1,498.68	35	15.22	30	138.51	38
Maryland	2,397.06	17	18.45	21	177.58	24
Massachusetts	2,070.53	23	15.61	29	145.35	33
Michigan	1,489.87	36	12.99	39	108.72	45
Minnesota	2,719.07	11	22.82	14	184.54	19
Mississippi	1,009.22	49	12.46	41	131.16	41
Missouri	1,120.82	47	10.22	47	120.40	43
Montana	1,794.72	29	18.04	23	152.24	29
Nebraska	3,256.70	7	29.05	8	284.08	5
Nevada	2,265.37	19	18.19	22	186.60	17
New Hampshire	1,983.21	24	16.50	26	208.64	13
New Jersey	2,113.88	22	14.97	34	145.11	34
New Mexico	2,488.55	16	25.81	10	239.05	9
New York	2,814.87	10	21.67	15	149.00	30
North Carolina	1,226.91	45	12.54	40	134.63	40
North Dakota	1,527.73	33	13.10	38	138.84	37
Ohio	1,173.98	46	10.47	46	106.72	46
Oklahoma	1,541.57	32	14.06	36	137.25	39
Oregon	3,480.80	5	32.41	3	283.33	7
Pennsylvania	1,735.04	30	15.16	31	148.40	31
Rhode Island	2,818.91	9	24.16	12	217.69	12
South Carolina	1,605.16	31	17.47	24	182.73	21
South Dakota	1,899.25	28	19.29	19	207.88	14
Tennessee	1,446.44	38	15.15	32	179.93	23
Texas	1,906.38	27	16.31	27	184.64	18
Utah	3,188.68	8	35.46	2	331.26	2
Vermont	1,944.36	26	19.48	18	170.84	27
Virginia	1,279.37	44	10.56	45	116.90	44
Washington	3,894.50	3	31.98	4	298.24	3
West Virginia	1,954.15	25	21.34	16	201.11	16
Wisconsin	1,394.19	40	12.27	43	97.80	50
Wyoming	3,477.83	6	29.20	6	142.33	35
Dist. of Columbia	4,735.49	2	30.08	5	222.07	11

a. Calendar 1983.

b. Fiscal 1983.

SOURCE: "Governmental Finances in 1982-83," GF 83, No. 5, U.S. Department of Commerce, Bureau of the Census, October 1984; "Survey of Current Business," Vol. 64, No. 8, U.S. Department of Commerce, Bureau of Economic Analysis, August 1984, Washington, D.C.

TABLE 52
PUBLIC BONDED DEBT IN HAWAII
 Bonds Outstanding by Agencies and Funds
 At December 31, 1984 and June 30, 1985^a

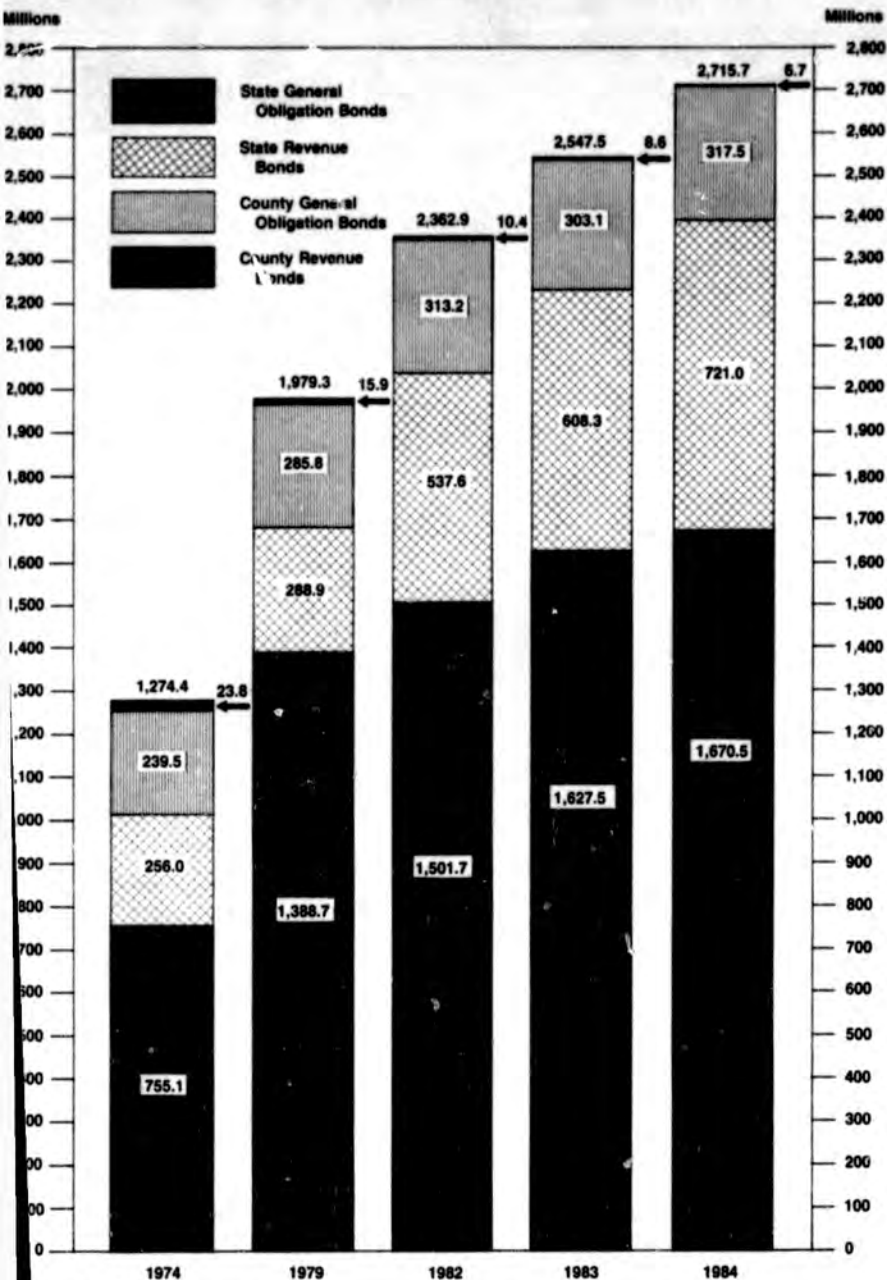
Governmental Unit and Funds Charged with Debt Service Costs:	Principal Outstanding at:	
	Actual 12/31/84	Estimated 6/30/85
STATE: Subtotal	\$(2,391,453,000)	\$(2,402,788,300)
General Fund	1,363,440,431	1,381,795,175
Highway Fund	151,135,488	149,724,076
Airport Fund	42,740,056	41,530,882
Harbor Fund	24,025,666	22,732,345
Land Revolving Fund	2,121,212	1,770,285
Sand Island Receipts	50,101	22,604
Veterans' Loan Fund	16,027	--
Univ. of Hawaii Fund	28,605,000	28,430,000
Economic Development Fund	180,000	180,000
Dwelling Unit Rev. Fund	54,157,000	51,658,000
Parking Facilities	4,029,019	3,991,933
Airport Revenues ^b	336,165,000	336,165,000
Univ. of Hawaii Revenues ^b	6,543,000	6,543,000
Harbor Revenues ^b	61,305,000	61,305,000
Hawaii Housing Authority ^b	316,940,000	316,940,000
HONOLULU: Subtotal	\$(221,004,000)	\$(215,503,000)
General Fund	153,008,509	149,392,484
Highway Fund	22,512,030	21,761,555
Off-Street Parking Fund	2,034,717	2,034,717
Special Assessment Fund	6,417,745	6,223,245
Water Fund	30,651,000	29,791,000
Water Revenues ^b	6,380,000	6,300,000
MAUI: Subtotal	\$(33,516,500)	\$(31,866,500)
General Fund	25,386,500	24,356,500
Water Fund	7,810,000	7,345,000
Water Revenues ^b	320,000	165,000
HAWAII: Subtotal	\$(50,887,000)	\$(50,097,000)
General Fund	50,887,000	50,097,000
KAUAI: Subtotal	\$(18,847,000)	\$(18,020,000)
General Fund	18,323,000	17,500,000
Water Fund	524,000	520,000
TOTAL	\$ 2,715,707,500	\$ 2,718,274,800

NOTE: Outstanding debt based on date upon which principal payments are made to the bearers of the bonds.

- a. Gross debt exclusive of cash reserves. Excludes bonds not chargeable to public funds and short-term bond anticipation notes. June 30 estimate does not include anticipated issues.
- b. Revenue bonds balance as of July 1, 1984.

SOURCE: Prepared by the Tax Foundation of Hawaii from data received from the State Department of Budget and Finance and the County Finance Departments.

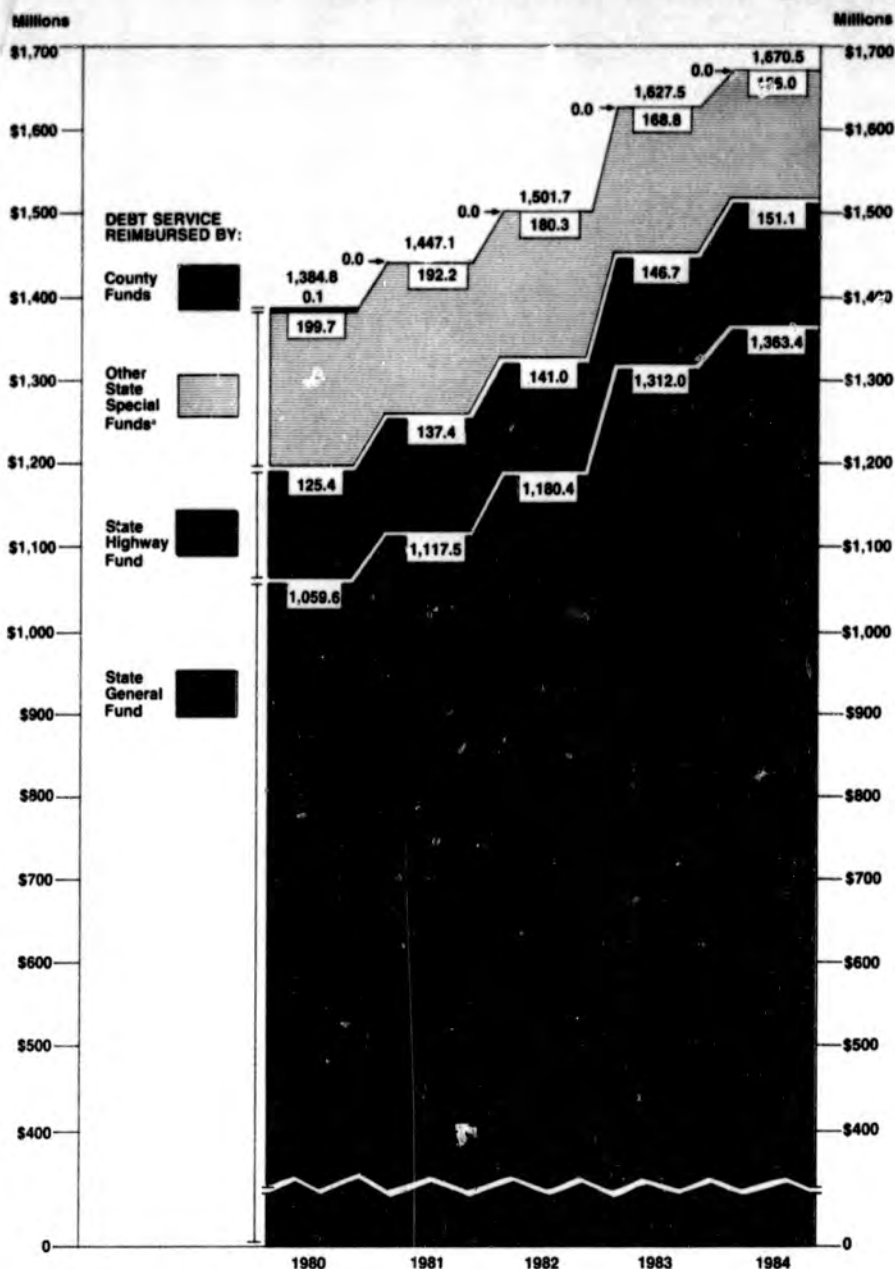
CHART 13
PUBLIC BONDED DEBT IN HAWAII
Bonds Outstanding By Agencies and Funds*
At December 31



*See Table 52 for detail.

SOURCE: Prepared by the Tax Foundation of Hawaii from data provided by the Department of Budget and Finance, State of Hawaii and the County Departments of Finance.

CHART 14
OUTSTANDING GENERAL OBLIGATION BONDS
State of Hawaii — By Fund*
At December 31



*See Table 54 for detail.

SOURCE: Prepared by the Tax Foundation of Hawaii from data provided by the Department of Budget and Finance, State of Hawaii.

TABLE 53
COUNTY DEBT MARGIN
At June 30, 1984 — Dollars in Thousands

Funds Charged with Debt Service	Honolulu	MauI	Hawaii	Kauai	Total
General Obligation Bonds:					
General Fund	\$ 161,639	\$ 25,387	\$ 74,992	\$ 18,726	\$ 280,744
Highway Fund	24,038	--	--	--	24,038
Water Fund	31,553	8,130	--	292	39,975
Off-Street Parking	2,369	--	--	--	2,369
Special Assessment	6,928	--	1,073	--	8,001
Other Debt ^a	11,583	10,051	1,276	4,640	27,550
Gross County Debt	\$ 238,110	\$ 43,567	\$ 77,341	\$ 23,658	\$ 382,677
Less: Special Assessment	\$ (6,926)	\$ --	\$ (1,073)	\$ --	\$ (7,999)
Water G.O.	(31,553)	(8,130)	--	(292)	(39,975)
Cash Reserves	(14,075)	--	(22,685)	--	(36,760)
DEBT CHARGED TO LIMIT	\$ 185,556	\$ 35,437	\$ 53,583	\$ 23,366	\$ 297,943
DEBT LIMIT AND MARGIN					
Fiscal 1984 Property Values ^b	\$28,004,555	\$5,565,837	\$4,020,329	\$2,089,933	\$39,680,655
Debt Limit ^c	4,200,683	834,876	603,049	313,490	5,952,098
Debt Charged to Limit ^d	185,556	35,437	53,583	23,366	297,943
Debt Margin	4,015,127	799,438	549,466	290,124	5,654,156
AS A % OF NET ASSESSED VALUES					
Gross County Debt	0.85	0.78	1.92	1.13	0.96
Debt Charged to Limit	0.66	0.64	1.33	1.12	0.75
Debt Margin	14.34	14.36	13.67	13.88	14.25

a. Includes lease-purchase agreements, long-term notes payable, agreements of sale, etc.

b. Gross valuation of real property less exemptions and 50% of valuations on appeal.

c. 15% of real property net assessed values.

d. Does not include principal repayment for current fiscal year which are excludable from debt charged against the limit.

SOURCE: County Finance Directors' Annual Financial Reports.

TABLE 54
STATE GENERAL OBLIGATION BONDS
State of Hawaii — December 31, 1984

Principal and Interest Payments Chargeable to: ^a	Total
General Fund	\$1,363,440,431
Highway Special Fund	151,135,488
Airport Special Fund	42,740,056
Harbor Special Fund	24,025,666
Land Revolving Fund	2,121,212
Sand Island Receipts	50,101
Veteran's Loan Fund	16,027
Dwelling Unit Revolving Fund	54,157,000
University of Hawaii	28,605,000
Parking Facilities	4,029,019
Economic Development	180,000
TOTAL	\$1,670,500,000

- a. Debt service on State issued general obligation bonds is a charge against the State's general revenues. However, special fund agencies (by law) are required to reimburse the State general fund for debt service charges on certain bonds issued for them by the State.

SOURCE: Compiled by the Tax Foundation of Hawaii from data provided by the Department of Budget and Finance, State of Hawaii.

TABLE 55
STATE DEBT SERVICE CHARGED TO DEBT LIMIT
State of Hawaii — July 1, 1984

Type of Debt Service	Excludable Debt Service	Charged to Debt Limit
Total General Obligation Bonds		\$229,121,030
Reimbursed by:		
Airports	\$ 6,355,942	
Highways	22,285,627	
Harbors	3,208,745	
University of Hawaii	2,089,591	
Parking Control ^a	642,153	(34,582,058)
Total^b	\$34,582,058	\$194,538,972
Debt Limit^c		\$227,779,482
Debt Margin		\$ 33,240,510

- a. Formerly "Multideck Parking."
b. Total net amount of principal and interest payable on outstanding general obligation bonds in highest debt service year (1986).
c. Limit is computed by multiplying the average general fund revenues for 1982, 1983, and 1984 (\$1,231,240,445) by 18.5%.

SOURCE: "State of the Debt Limit of the State of Hawaii as of July 1, 1984," Department of Budget and Finance, State of Hawaii.

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The Tax Reform Act

Analysis and planning opportunities



Arthur Young

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

The Tax Reform Act of 1986 contains the most sweeping changes to our nation's tax laws since the original enactment of the Internal Revenue Code in 1913.

Since the changes will have a significant impact on most taxpayers, the time to start tax planning is now. We have prepared this booklet to give you an overview of some of the major provisions affecting both individuals and business. In addition, to help you with your initial tax planning, we have included a number of planning tips for you to think about, as well as responses to some of the typical questions our clients have been asking us.

Of course, each taxpayer's situation is different, and no booklet can answer all of the questions you may have about such a massive legislative effort. Our tax professionals have therefore developed the Arthur Young Tax Reform AnalyzerSM—a comprehensive service designed to help you determine how you or your business will be affected by the new law, and to provide you with a valuable "action plan" to help you implement tax planning ideas appropriate to your special circumstances.

For more information about the Tax Reform Analyzer, or about the material in this booklet, please contact your local Arthur Young office (a list is provided on the inside back cover). We will also be conducting seminars on the new bill, and will have available publications on how the new law will affect a number of industries, including banking, thrift, construction, oil and gas, health care, aerospace and defense, high technology, insurance, law firms, real estate, retail, entertainment, and securities.

Arthur Young
August 1986

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Overview of the Provisions Affecting Individuals

Provision	New Bill
Individual tax rates	In 1987, five rates ranging from 11% to 38½% apply. In 1988, there will be three rates, 15%, 28%, and 33%.
Deduction for taxes	Sales taxes will no longer be deductible.
Consumer interest deductions	No longer deductible after phase-in period.
Miscellaneous itemized deductions	Most may be claimed only to the extent they exceed 2% of adjusted gross income.
Individual capital gains	Taxed at same rate as ordinary income.
Losses from passive investments	Losses and credits from passive investments may not offset other income, such as salary, interest, dividends, and active business income.

Planning Opportunities

For 1986 and 1987, consider deferring income and accelerating deductions. (This strategy may not be appropriate for those subject to the alternative minimum tax.)

If contemplating the purchase of a major item, such as a car or boat, consider buying it in 1986.

Consider financing college, medical, or other major expenditures by taking out a mortgage on your residence.

Consider paying for as many of these expenses as possible during 1986. In future years, consider "bunching" deductions.

To the extent advisable, long-term gains should be realized in 1986; short-term gains should be deferred. Long-term losses should be deferred, unless they will be offset in 1986 by short-term gains.

Consider ways of generating additional passive income.

Alternatively, consider becoming a material participant in a passive activity.

Provision	New Bill
Individual alternative minimum tax	Existing alternative minimum tax expanded.
IRAs	Deduction will only be available to those not covered by qualified plans or with income below certain levels.
401(k) plans	Contributions to these plans now limited to \$7,000 annually.
Distributions	Imposes excise taxes and reduces ten-year averaging to five-year averaging.
Income shifting	Certain investment income from property owned by a child under age 14 will be taxed at the parents' marginal rate. Income from Clifford and spousal remainder trusts will be taxed to the grantor.

Planning Opportunities

Consider deferring expenses to a year when you will be subject to the regular tax.

Employees covered by a qualified plan should consider making deferrals under a 401(k) plan when available.

Consider using nonqualified deferred compensation plans to defer more than \$7,000.

Individuals should reexamine their retirement, investment, and savings strategies.

Consider making annual gifts to your children—you will be no worse off paying tax on money in a child's possession than if you had never given it. When the child reaches age 14, there will be a substantial amount invested, and the income will be taxed at lower rates. Also consider paying your children for any services rendered to the family business. Earned income can still be offset by the standard deduction.

Analysis of the Provisions Affecting Individuals

Individual Tax Rates

Beginning in 1988, the taxation of individuals will be reduced to a three-step process.

Depending on your filing status (see the table below; note, we have not included the rate tables for head of household and married filing separately), a certain portion of your taxable income will be subject to a 15 percent rate, and any amount over that will be taxed at 28 percent. There will also be a 5 percent surcharge on higher levels of taxable income (in effect, imposing a third marginal rate of 33 percent). This will result in a phasing out of

the benefit of the 15 percent rate and the personal exemption.

In addition, both the standard deduction (see table) and the personal exemption (\$1,900 in 1987; \$1,950 in 1988; \$2,000 in 1989) have been increased. The personal exemption may no longer be taken by anyone who is eligible to be claimed as a dependent by another taxpayer, such as a dependent child.

In 1987, there will be five rates, but no phase-out of the benefit of the lower rates or the personal exemption.

1987

	<i>Taxable Income</i>	<i>Rate</i>	<i>Standard Deduction*</i>
Married filing jointly	\$0-\$3,000	11%	\$3,800
	\$3,000-\$28,000	15%	
	\$28,000-\$45,000	28%	
	\$45,000-\$90,000	35%	
	Over \$90,000	38.5%	
Single	\$0-\$1,800	11%	\$2,570
	\$1,800-\$16,800	15%	
	\$16,800-\$27,000	28%	
	\$27,000-\$54,000	35%	
	Over \$54,000	38.5%	

1988

	<i>Taxable Income</i>	<i>Rate</i>	<i>Standard Deduction*</i>
Married filing jointly	\$0-\$29,750	15%	\$5,000
	\$29,750-\$71,900	28%	
	\$71,900-\$149,250	33%**	
	Over \$149,250	28%	
Single	\$0-\$17,850	15%	\$3,000
	\$17,850-\$43,150	28%	
	\$43,150-\$89,560	33%**	
	Over \$89,560	28%	

*Taxpayers over 65 or blind will be able to claim an additional standard deduction of \$600 if married (\$750 for single individuals). This replaces the additional personal exemptions previously allowed. Taxpayers who may be claimed on another's return may use only \$500 of the standard deduction against investment income.

**The 33 percent bracket will be broader than indicated depending on the number of exemptions claimed. For each exemption claimed, the 33 percent bracket will be increased by \$10,920 in 1988 and \$11,200 in 1989. Thus, for example, for a married couple with no children, the 33 percent bracket will end at \$171,090 of taxable income in 1988.

Individual Deductions, Credits, and Exclusions

Certain deductions, credits, and exclusions that were available to individual taxpayers in the past have been modified as follows:

State and local taxes Sales taxes will no longer be deductible beginning January 1, 1987. Income and property taxes remain fully deductible.

Interest Mortgage interest on up to two homes will be deductible to the extent loans do not exceed the purchase price plus the cost of any improvements. Interest on loans in excess of this amount will be deductible only if incurred for educational or medical purposes. Investment interest will now be deductible only to the extent of investment income. (However, the definitions of both of these terms have been broadened.) Consumer and other nonbusiness interest will not be deductible. These limitations will be phased in over four years, with 65 percent still allowed in 1987, 40 percent in 1988, 20 percent in 1989, 10 percent in 1990, and none thereafter.

Example:

Assume a taxpayer filing a joint return has \$3,000 of investment income and \$26,000 of interest expense:

Medical expenses Medical expenses will be deductible only to the extent they exceed 7.5 percent of adjusted gross income.

Employee business and other miscellaneous itemized deductions These expenses—such as travel and transportation, tax return preparation, and investment expenses—will generally be deductible only to the extent they exceed 2 percent of adjusted gross income.

Hobby losses An activity will be presumed *not* to be a hobby (and therefore not subject to limitation) if it is profitable in three out of five consecutive years (two out of seven for horse breeding or horse racing).

Two-earner deduction This deduction will be repealed.

Political contributions credit This credit will be repealed.

Foreign earned income exclusion The amount of income earned abroad that may be excluded by American citizens from their U.S. taxable income will be decreased from \$80,000 to \$70,000 a year.

These changes will generally be effective for taxable years beginning after 1986.

	Current Law	New Law	
		1987	1991
Interest incurred on:			
Mortgage on purchase of home	\$15,000	\$15,000	\$15,000
Consumer purchases	4,000	2,600	0
Margin account used to acquire stock	7,000	5,600	3,000
	<u>\$26,000</u>	<u>\$23,200</u>	<u>\$18,000</u>

Question:

Should I accelerate my charitable contributions into 1986?

Answer:

To the extent feasible, taxpayers should consider making charitable contributions in 1986 that they would otherwise make in 1987. For itemizers, the higher marginal rates of current law generally yield a greater tax benefit for contributions than will the new rates. Also, although contributions of appreciated property will continue to be fully deductible next year, the untaxed appreciation will be subject to the alternative minimum tax. For nonitemizers, such contributions are fully deductible in 1986, but no deduction will be allowed in 1987.

Income Averaging

Income averaging has been repealed for taxable years beginning after 1986.

Individual Capital Gains

Beginning January 1, 1987, net capital gains for individuals will be taxed as ordinary income subject to a taxpayer's top marginal rate (33 percent in the phase-out range after 1987). For 1987, however, the top rate for capital gains cannot exceed 28 percent. Net capital losses will continue to be deductible up to a maximum of \$3,000 per year. No distinction will be made between short- and long-term gains or losses.

Question:

In light of the changes made by the new law, what should I consider in reexamining my investment strategy?

Answer:

Everyone's situation must be considered separately. However, there are some general ideas to keep in mind.

To the extent advisable, long-term capital gains which you plan to recognize in the near future should be realized in 1986. For 1987 and beyond, you should consider timing your capital gains to offset capital losses to the greatest extent possible. This strategy maximizes the amount of deductible capital losses.

Tax Shelters**Losses from Passive Investments**

Taxpayers may no longer use losses (or credits) from passive investments to offset income from salaries, active business income, or portfolio income (interest, dividends, and royalties). Instead, losses from passive investments may only be deducted against income from such investments (with a limited exception for certain active rental real estate activities, described below). Passive investments will include all rental activities, all limited partnership interests, and those other businesses in which the taxpayer is not involved in the operations on a regular, continuous, and substantial basis. Working interests in oil and gas properties will not, however, be considered passive investments.

Losses up to \$25,000 (or equivalent credits) from real estate rental activities in which the taxpayer actively participates may be used to

offset other types of income. This \$25,000 amount, however, is phased down to zero for those taxpayers with incomes of between \$100,000 and \$150,000. (A higher phase-out level is provided for rehabilitation and low-income housing credits.) Real estate losses in excess of these amounts will be treated as passive investment losses.

Losses disallowed under these rules will be deferred until there is income from passive investments to offset them, or until the investment generating the losses has been disposed of.

These limitations apply to passive investment losses incurred in taxable years beginning after December 31, 1986. However, losses attributable to investments made prior to the date the bill is signed by the President are deductible to the extent of: 65 percent in 1987, 40 percent in 1988, 20 percent in 1989, 10 percent in 1990, and none thereafter.

At-Risk Rules

The at-risk rules of prior law will now apply to real estate activities with an exception for third-party loans from commercial lenders.

Example:

Assume the following income (loss) from a taxpayer's investments (purchased prior to date of enactment):

Limited real estate partnerships	\$(20,000)
Limited cattle feeding partnerships	12,000
Actively managed real estate	(30,000)
	<u>\$(38,000)</u>

In addition, the taxpayer has \$100,000 in income (\$97,000 in salary income; \$3,000 in dividend income).

	Current Law	New Law	
		1987	1991
Losses from "passive" activities subject to disallowance:			
Limited real estate partnership	\$ (20,000)	\$ (20,000)	\$ (20,000)
Actively managed real estate	(30,000)	(5,000)*	(5,000)*
Income from passive activities:			
Limited cattle feeding partnership	12,000	12,000	12,000
Net loss subject to limitation	(38,000)	(13,000)	(13,000)
Percentage of loss allowed	100%	65%	0%
Allowable loss	<u>\$ (38,000)</u>	<u>\$ (8,450)</u>	<u>0</u>
Disallowed loss carried forward	<u>\$ 0</u>	<u>\$ (4,550)</u>	<u>\$ (13,000)</u>
Adjusted gross income:			
Salary and dividends	\$ 100,000	\$ 100,000	\$ 100,000
Allowable loss	(38,000)	(33,450)*	(25,000)*
AGI	<u>\$ 62,000</u>	<u>\$ 66,550</u>	<u>\$ 75,000</u>

*\$25,000 of the \$30,000 loss from actively managed real estate is not subject to disallowance.

Retirement Savings

Individual Retirement Accounts (IRAs)

One of the most significant and debated changes of the new bill results in many individuals being no longer able to fund and deduct a contribution to an IRA. These plans will only be available to the extent of earned income (see the table below).

Individuals not eligible to make deductible contributions may now make nondeductible contributions of up to \$2,000, the earnings on which would be tax-deferred. Spousal IRAs will continue to be available.

401(k) Plans

Voluntary salary deferrals will now be limited to \$7,000 a year. Highly compensated employees are further limited by reducing the multiple by which their deferrals may exceed those of lower-paid employees.

IRA Limitation

<i>Adjusted Gross Income</i>		<i>Allowable Deduction</i>	
<i>Married Filing Jointly</i>	<i>Single</i>	<i>Not an Active Participant in a Qualified Plan</i>	<i>Active Participant in a Qualified Plan</i>
\$0-\$40,000	\$0-\$25,000	\$2,000	\$2,000
\$40,000-\$50,000	\$25,000-\$35,000	\$2,000	\$0-\$2,000*
Over \$50,000	Over \$35,000	\$2,000	\$0

*The \$2,000 amount is reduced by 20 percent of the income in the indicated range, e.g., if the adjusted gross income of a single individual were \$30,000, the allowable deduction would be \$1,000.

Contribution Limits

While the limit for contributions to a defined contribution plan remains substantially intact at \$30,000, the benefit that may be provided by a defined benefit pension plan has been sharply reduced in certain situations. For example, defined benefit plans may continue to provide a \$90,000 benefit at retirement, but retirement age has been redefined as age 65. For anyone retiring before this age, the \$90,000 benefit must be actuarially reduced.

Distributions

For lump-sum distributions, ten-year averaging is replaced with five-year averaging. In addition, the bill encourages employees to take distributions as annuities at retirement, and imposes excise taxes in many cases where the distribution departs from the annuity form or begins prior to retirement or age 59½.

Individual Alternative Minimum Tax (AMT)

The alternative minimum tax will be modified and expanded. Its structure will be the same as in the past, but the rate will be raised to 21 percent. In addition, the \$40,000 exemption will be reduced by 25 cents for each dollar that minimum taxable income exceeds \$150,000 (for married couples) or \$112,500 (for single individuals).

The new tax preferences will include tax-exempt interest on certain "nongovernmental bonds" issued after August 7, 1986; untaxed appreciation of charitable contributions of property; excess depreciation on both real and personal property placed in service after 1986; and net losses from passive investment activi-

ties that have not been disallowed under the passive loss provision described earlier.

Minimum tax liability relating to certain preferences may be used to offset future years' regular tax liability.

Income Shifting

For children under age 14, the first \$500 of investment income may be offset by the child's standard deduction. The next \$500 is taxed at the child's tax rate, and any investment income over \$1,000 is taxed at the parents' marginal rate.

In addition, the income-shifting techniques of Clifford and spousal remainder trusts have been eliminated for trusts created, or additions to corpus made, after March 1, 1986 by taxing the income of such a trust to the person creating it. Such trusts created before March 1 may be subject to the rules described in the preceding paragraph if the beneficiary is a child under age 14.

Overview of the Provisions Affecting Business

Provision	New Bill	Planning Opportunities
ACRS depreciation	Additional class lives added. In some cases, provides for more rapid depreciation than in the past; in other cases, slower.	Consider revising the timing of capital investments to gain maximum tax advantages, e.g., placing real property in service in 1986 rather than 1987.
Expensing business property	Maximum limit raised to \$10,000, subject to a phase-out at \$200,000.	Taxpayers nearing \$200,000 in capital investments in any year after 1986 should consider delaying additional investments.
Cash method of accounting	Denied to most corporations.	Consider changing year-end to defer applicability of the change.
Taxable year-end	Certain entities required to adopt a calendar year-end.	Consider timing of income and deductions for the year of change (i.e., the short period).
Installment sales	Use limited for business taxpayers, based on the ratio of debt to total assets.	Consider minimizing the level of debt outstanding on measurement dates.
Capitalization of costs	Certain production, acquisition, inventory, and interest costs will be required to be capitalized.	Consider changing year-end to defer applicability of the change.
Reserve for bad debts	Eliminated except for certain financial institutions.	Consider maximizing reserves for 1986.
Employee Stock Ownership Plans	Current rules for ESOPs expanded and made more liberal.	Consider establishing an ESOP to take advantage of numerous new incentives.
Deferred annuity contracts	Nonindividual owners—e.g., corporations, partnerships, trusts, etc.—of annuity contracts to be taxed currently on inside build-up.	Corporations should explore alternative tax-exempt investments to fund executives' nonqualified compensation.
Fringe benefits	All fringe benefit plans subject to new, complex nondiscriminatory tests.	Perform a comprehensive review of all fringe benefit plans to determine compliance with the new bill.

Provision	New Bill	Planning Opportunities
Corporate rates	Top rate reduced from 46 % to 34 %.	Consider deferring income and accelerating deductions whenever possible.
Dividends received deduction	Reduced from 85 % to 80 %.	Despite the reduction, consider deferring the payment of dividends to 1987 to take advantage of the lower tax rate.
Corporate capital gains	28 % rate repealed.	To the extent advisable, consider recognizing gains in 1986.
Gain or loss recognition upon liquidation	Corporations must recognize gain or loss on distributions of property in complete liquidation as if they had sold the property at fair market value.	Carefully examine numerous transition rules.
Corporate alternative minimum tax	20 % rate will be applied to a base of regular taxable income plus preferences.	Planning strategies will vary, depending on the particular situation, e.g., it may be advantageous to accelerate income and defer expenses. S corporations and partnerships should be considered as alternative forms of doing business.
Foreign tax credit limitation	Separate limitations for different types of income.	Try to minimize actual foreign taxes paid through local country tax planning. Also consider intercompany debt, royalties, and special-purpose corporations planning.
Tax haven income—Subpart F rules	Subpart F income expanded to include commodity transactions, foreign currency gains, certain related party payments, and gains from property which do not produce active income. The exception for banking and shipping income will be repealed.	Review foreign subsidiaries and consider restructuring operations.
Foreign currency exchange gain or loss	Now determined by the currency utilized in the country of residence of the corporation.	Consider recognizing unrealized capital gain from foreign currency in 1986 and defer recognition of capital losses until 1987 (when they will be treated as ordinary).

Analysis of the Provisions Affecting Business

Depreciation

The law governing depreciation of business property will be substantially revised by the new bill. The rules are summarized in the following table:

<i>Class Life</i>	<i>Depreciation Rate*</i>	<i>Examples of Property</i>
3 year	200% declining balance, switching to straight line	Same as present law, but excluding cars and light trucks, which now have a five-year class life
5 year	200% declining balance, switching to straight line	Generally, property with asset depreciation range (ADR) midpoints between four and ten years
7 year	200% declining balance, switching to straight line	Generally, property with ADR midpoints of 10 to 16 years
10 year	200% declining balance, switching to straight line	Generally, property with ADR midpoints of 16 to 20 years
15 year	150% declining balance, switching to straight line	Generally, property with ADR midpoints of 20 to 25 years
20 year	150% declining balance, switching to straight line	Generally, property with ADR midpoints of 25 years or more, except real property with an ADR of 27.5 years or more
27 1/2 year	Straight line	Residential rental property
31 1/2 year	Straight line	All real estate other than residential

*Taxpayers may elect straight line depreciation, using specified depreciation lives.

Question:

Would it be advisable to place depreciable property in service this year rather than next year?

Answer:

Generally, it is more advantageous from a tax viewpoint to place depreciable property in service in 1986 versus 1987 even though the bill provides a more accelerated method of depreciation. This is due to the higher 1986 tax rates and the present value of the tax benefits of future depreciation deductions. For example, five-year property with a cost of \$100,000, placed in service in October 1986, will yield tax benefits (after financing costs) with a present value approximately \$3,000 greater than if placed in service in January 1987. This benefit will be even greater if the asset's class life has lengthened under the new law. Taxpayers subject to the alternative minimum tax in 1986 may be better off placing the property in service in 1987.

Expensing in Lieu of Depreciation ("Bonus" Depreciation)

Small businesses will be able to expense annually up to \$10,000 of the cost of business property. The \$10,000 deduction will be reduced dollar-for-dollar for amounts invested in business property in excess of \$200,000 during the year.

Investment Tax Credit (ITC)

The investment tax credit will be repealed retroactively for property placed in service after December 31, 1985. Transitional rules have been provided to protect taxpayers who made certain investment commitments before this date. ITC carried forward into 1987 and beyond will be reduced by as much as 35 percent of the amounts carried forward.

Accounting Provisions**Cash Method of Accounting**

Except in the case of certain personal service corporations, corporations with average annual gross receipts of \$5 million or less, and S corporations, all corporate taxpayers will now be required to use the accrual, rather than the cash, method of accounting. In addition, tax shelters may not use the cash method.

Installment Sales

In general, business taxpayers will not be able to use the installment method of reporting for a portion of their sales based on the ratio of their total debt to total assets. The method is also not permitted for sales under a revolving credit plan and for sales of publicly traded property. Several exceptions are provided.

Capitalization of Interest, Inventory, and Production Costs

New, more comprehensive cost capitalization rules provide that interest and certain costs of production—which in the past were deductible as incurred—must now be capitalized as part of the cost of the property produced. Similar rules apply to most wholesalers and retailers with average annual gross receipts of more than \$10 million, with respect to the acquisition and carrying of inventory.

Long-Term Contracts

Taxpayers using the completed contract method of accounting will be required to capitalize additional costs. The method will be adjusted so that the benefits of using it will be substantially curtailed.

Bad Debt Reserves

The reserve method of calculating the deduction for bad debts will no longer be allowed, except in the case of certain financial institutions.

Taxable Years

In general, partnerships, personal service firms, and S corporations will be required to use the calendar year as their taxable year, unless they can demonstrate to the IRS an adequate business purpose for doing otherwise.

Question:

How will the bill affect business recordkeeping requirements?

Answer:

Taxpayers will need to adopt new accounting procedures to gather additional information needed for tax purposes, e.g., many will be required to adopt a new method of accounting altogether; certain wholesalers and retailers will have to allocate a certain portion of their interest expense to inventory; manufacturers will have to allocate certain general, administrative, and other indirect costs to inventory; additional records will be required to substantiate business meals and entertainment; and the new corporate alternative minimum tax will virtually require a separate set of accounting records.

Entertainment and Business Meals

The new bill mandates that, in general, only 80 percent of the amount spent for business meals (including meals away from home on overnight business) and entertainment will be deductible. Substantiation requirements will also be tightened.

Corporate Provisions

Rates

The new corporate tax rate schedule will be as follows:

<i>Taxable Income</i>	<i>Rate</i>
\$0-\$50,000	15%
\$50,000-\$75,000	25%
\$75,000-\$100,000	34%
\$100,000-\$335,000	39%
Over \$335,000	34%

These rates will be effective July 1, 1987. Companies with a taxable year that includes this date will be subject to a blended rate.

Question:

Will one form of conducting business be more advantageous than others from a tax point of view?

Answer:

Regular corporations will pay a higher maximum rate than individuals. In addition, corporations will be subject to the corporate alternative minimum tax. Income earned by a regular corporation is also taxed twice, once when earned by the corporation and again when distributed to the shareholder. Taxpayers should consider whether to conduct business in regular corporate form or in a form that taxes business earnings directly to the owner of the business, e.g., partnerships or S corporations.

Dividends-Received Deduction

The corporate dividends-received deduction will be reduced from 85 percent to 80 percent for dividends received or accrued after December 31, 1986.

Capital Gains

The preferential corporate capital gains rate of 28 percent will be repealed. Capital gains will now be taxed at the same rate as ordinary income.

Net Operating Loss (NOL) Limitations

The bill limits the rate at which new owners of a loss corporation may use its net operating loss. In general, the amount allowed each year will be calculated by multiplying the value of the loss corporation by a specified tax-exempt rate. These limitations will apply generally to changes in ownership and reorganizations occurring after December 31, 1986.

Recognition of Gain or Loss in Liquidations (Repeal of *General Utilities*)

The bill will require gain or loss to be recognized by a corporation on a distribution or deemed distribution of its property in complete liquidation as if it had sold the property at fair market value. An exception will be provided for small closely held companies. This new rule generally applies to liquidations completed after 1986, with numerous transition rules.

Corporate Alternative Minimum Tax (AMT)

The add-on minimum tax will be replaced by a corporate alternative minimum tax that is calculated on a basis similar to the individual AMT. The rate is 20 percent. The exemption amount of \$40,000 is reduced by 25 cents for each dollar that minimum taxable income exceeds \$150,000.

Among the most important tax preferences are the following:

- One-half of the amount by which the company's financial statement income (with certain adjustments) exceeds its regular taxable income increased by all other preferences;
- Untaxed appreciation of charitable contributions of property;

- Certain "excess" accelerated depreciation on both real and personal property placed in service after 1986;
- Tax-exempt interest on certain "nongovernmental-purpose" bonds; and
- Completed contract method of accounting (the percentage-of-completion method must be used for minimum tax purposes).

Up to 25 percent of a company's minimum tax liability may be offset by available investment tax credits. Minimum tax liability relating to deferral preferences may be used to offset future years' regular tax liability.

Personal Holding Companies

Corporations actively engaged in the development of computer software may generally exclude royalties from such software from the computation of their personal holding company income. This provision will apply retroactively to any open tax years.

Compensation

Qualified Deferred Compensation Plans

The group in whose favor qualified deferred compensation plans (including 401(k) plans) and fringe benefit programs may not discriminate is now specifically set forth in statutory language.

Employer-matching and nondeductible employee contributions are now subject to new nondiscrimination tests similar to those for 401(k) plans. This will affect qualified thrift or savings plans.

Under the bill, a plan must satisfy three alternative coverage tests. Each plan must also cover a minimum of 40 percent of a business' employees. Stricter vesting rules will also apply.

An annual limit of \$7,000 has been imposed on each employee's elective 401(k) deferrals. Section 401(k) plans may not have an eligibility requirement of more than one year.

A nondeductible 10 percent excise tax has been imposed on most reversions received by an employer from a defined benefit plan.

The rules governing the integration of a qualified plan with the social security system have also been substantially modified.

Employee Stock Ownership Plans

The payroll-based ESOP tax credit will be repealed for compensation paid or accrued after December 31, 1986. The bill also makes a number of changes to the ESOP rules, expanding the class of loans eligible for the 50 percent interest exclusion and allowing distributions upon termination of an ESOP.

Deferred Annuity and Insurance Contracts

A nonindividual owner—e.g., corporation, partnership, trust, etc.—of a deferred annuity contract must include in income any increase in the cash surrender value of the deferred annuity contract over its basis during the taxable year.

An employer may not deduct interest paid on loans from insurance contracts in excess of \$50,000 per officer, employee, or certain owners of the company.

Fringe Benefits

The new bill provides that, if any fringe benefit plan discriminates in favor of highly compensated employees in either eligibility or benefits, it will result in income for these employees.

Question:

What needs to be done with existing qualified plans and fringe benefit packages?

Answer:

Most employers will need to reexamine their qualified plans and fringe benefit packages in light of the new coverage and nondiscrimination tests and make necessary amendments. Employers who will be hardest hit by these provisions are those whose plans cover only certain groups of employees.

Research and Development

The R&D credit has been extended for three years, to the end of 1988. The rate has been reduced to 20 percent, and the definition of qualifying expenditures has been narrowed considerably. In addition, in allocating expenses between U.S. and foreign income, 50 percent of domestic R&D may be allocated against U.S. income and the remainder apportioned in accordance with gross sales.

Provisions Affecting U.S. Multinational Companies

Foreign Tax Credit Limitation

The bill significantly changes the foreign tax credit limitation by establishing a new, separate limitation for passive income, as well as for banking and shipping income. As a result, income in a certain limitation will not be available to absorb excess foreign tax credits relating to other foreign source business income.

Foreign Source Income

The bill makes broad modifications to the rules for determining the source (foreign or domestic) of income earned by a U.S. taxpayer. Generally, for inventory sales of a foreign person, the source will now be determined by the "residence" of the taxpayer that earned it. However, U.S. exporters will retain their ability to treat a portion of export sales as foreign source income.

Expenses, principally interest, must now be allocated between foreign and domestic sources on a consolidated group basis, as if the affiliated members were a single corporation. In most cases, this change will result in more expenses being allocated against foreign source income than was done in the past.

Foreign Currency Exchange Gain or Loss

The bill clarifies prior law by mandating that generally (1) foreign currency gains and losses will be recognized when the transaction is completed, (2) their character will be ordinary income, and (3) their source will be deter-

mined by the residence of the corporate taxpayer or branch. The bill also requires that a foreign branch or subsidiary use the profit and loss method whenever translating foreign earnings into U.S. dollars.

Tax Haven Income: Subpart F Rules

The definition of Subpart F income has been expanded to include income from commodity transactions, foreign currency gains, certain related-party payments that reduce the Subpart F income of the payor, and gains from any asset that does not produce active income. In addition, the Subpart F income exceptions for banking and the reinvestment for shipping income will be repealed. Finally, the Subpart F de minimis test will now apply only if gross foreign base company income is lower than 5 percent of gross income or \$1 million, whichever is less.

Provisions Affecting Foreign Multinational Companies

Branch Level Tax

A new tax will be imposed on the earnings of a U.S. branch to the extent those earnings are remitted to the foreign head office. To the extent that the branch profits are reinvested in additional U.S. branch property, the imposition of the branch level tax will be deferred. The rules for applying the second-level withholding tax have also been modified.

Transfer Prices for Imports

A new rule requires that the transfer price between related parties may be no higher than the value used for customs purposes.

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