AARP

To: **Senate Committee on Economic Development and Taxation**
Sen. Carol Fukunaga, Chair
Sen. Will Espero, Vice-Chair

Date: **February 12, 2008**
Conference Room 224
9:25 am

Re: **<u>SB 2047, SD1 RELATING TO TAXATION</u>**

Chair Fukunaga and Members of the Committee:

My name is Ed Thompson, Associate State Director of Advocacy for AARP Hawaii. We are a membership organization for people 50 and older with 156,000 members in Hawaii. AARP provides access to services and information, meaningful volunteer opportunities, and the opportunity for our members to create positive change in their lives.

AARP supports SB 2047, SD1, which provides the means to establish a tax credit for certain home improvements designed to increase accessibility for handicapped and elderly individuals. It is our belief that creation of such a credit would encourage and enable homeowners to find the help they need to make the proper modifications and to do so in a more affordable manner. Here are a few basic facts:

- In 2000, individuals 60 + represented 17% of the total population and by 2020 it is estimated that individuals 60 and over will comprise 25% of Hawaii's total population.
- Hawaii is experiencing an acute housing shortage.
- In 2003, the occupancy rate for long term care facilities was 93%.
- In a recently completed survey of Hawaii residents 18 and older commissioned by AARP Hawaii, 80% of respondents said it is very important to be able to stay at home for as long as possible and to receive long term care services in their home.

Aging in place is the preferred housing option for the vast majority of our older residents. However, a number of barriers hinder efforts to make this a viable alternative. These barriers include excessive housing expenditures, inadequate home maintenance, and a low rate of home modifications to accommodate health and mobility limitations. SB 2047, SD1, will help to remove some of these barriers.

Thank you for the opportunity to testify before your committee.

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**THE SENATE
THE TWENTY-FOURTH LEGISLATURE
REGULAR SESSION OF 2008**

COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION

**Hearing February 12, 2008
Testimony on S.B. 2047
(RELATING TO TAXATION)**

Chair Fukunaga, Vice-Chair Espero, members of the Committee:

I am testifying in my personal capacity. Having grown up in a household with a disabled sibling, I have personal knowledge of the importance of modifications to improve accessibility and quality of life.

I strongly support the intent of this bill which provides for a refundable income tax credit for the costs of modifying the principal residence of an elderly or disabled individual. However, I recommend amending the bill to remove a trap for the unwary and to allow the costs to be deducted on the taxpayer's federal income tax return.

First, I suggest that paragraph (f) be deleted because it could be a trap for the unwary. Unsophisticated taxpayers may neglect to claim the credit "before the end of the twelfth month following the close of the taxable year for which the credit may be claimed." A family that suddenly has to make modifications for a family member is disabled by a sudden event such as a stroke is not focusing on tax credits. This requirement, which is often included in credits involving sophisticated investors who have access to tax professionals is not appropriate for taxpayers who may not have the resources to hire a tax professional.

Second, taxpayers should be entitled to claim eligible costs as a deduction on their federal tax return. The refund that taxpayers receive from the State will be taxed on the on their federal tax return. It is unfair to deny a deduction for eligible costs on the federal tax return. Paragraph (g) should be amended to read as follows:

> (g) If a taxpayer claims the cost of accessibility features as a tax deduction or for claiming another tax credit under this chapter or as a tax credit, then no tax credit shall be claimed under this section.

Thank you for the opportunity to testify.

Respectfully,

Peter L. Fritz

L E G I S L A T I V E

TAXBILLSERVICE

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SUBJECT: INCOME, Home accessibility features for disabled tax credit

BILL NUMBER: SB 2047, SD-1

INTRODUCED BY: Senate Committee on Human Services and Public Housing

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a home accessibility features for the disabled tax credit of 50% of the qualified costs to renovate a residence with one or more accessibility features. Establishes the maximum amount of credit of $5,000 for taxpayers filing as single or married filing separately; $7,500 for head of household or surviving spouse; and, $10,000 for a joint return. Specifies that all qualified cost must be incurred in Hawaii and subject to HRS chapter 237 and at least one elderly person with a disability must reside in the renovated residence for which the credit is claimed.

Defines "accessibility features" as the installation of: (1) a no-step entrance; (2) lift or lift mechanisms; (3) interior passage doors with a thirty-two-inch wide opening; (4) reinforcements in bathroom walls and installation of grab bars; (4) wheelchair accessible light switches and outlets; and (5) universal design features or accessibility or adaptability features prescribed in the building codes of any county in the state. Also defines "disability," "elderly person" and "residence" for purposes of the measure.

Married taxpayers filing separately shall be entitled to only the amount of credit they would have been entitled to had they filed jointly. Taxpayers with no income tax liability and not claimed or not eligible to be claimed may also claim the credit. In order to claim the credit, the taxpayer must be in compliance with all applicable federal, state, and county statutes, rules and regulations. Credits in excess of a taxpayer's income tax liability may be refunded to the taxpayer. Claims for the credit, including any amended claims, must be filed on or before the end of the twelfth month following the close of the taxable year. The director of taxation may adopt rules pursuant to HRS chapter 91 and prepare the necessary forms to claim the credit and may require proof of the claim for the credit.

EFFECTIVE DATE: Tax years beginning after December 31, 2007

STAFF COMMENTS: This measure proposes to allow taxpayers to claim an income tax credit to offset the cost of renovations made to a residence to make it handicapped accessible or to accommodate an elderly or disabled person.

It should be noted that the tax credit proposed in this measure does not have any bearing on the claimant's ability to pay state income taxes that might be due. In fact, the credit would be made available to those who may have no income tax liability. Thus, this measure would merely use the tax system to hand out a subsidy for the renovations made to a residence.

Since this measure would amount to nothing more than an appropriation of taxpayer dollars through the back door by way of the tax credit, its enactment cannot be justified. It should be remembered that revenues foregone because of this credit mean that those not so favored will have to pick up the cost of the lost revenues. If it is the intent to help those taxpayers who because of their advancing age or disabilities need to make these improvements to their home, a program of low-interest, no interest loans would be more effective. It should be remembered that the taxpayer has to underwrite the cost of the project before being able to claim the credit. If the taxpayer does not have the financial wherewithal to make the improvements, then the credit cannot be claimed.

Digested 2/11/08

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SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION

TESTIMONY REGARDING SB 2047 SD 1
RELATING TO TAXATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 12, 2008
TIME: 9:25AM
ROOM: 224

This measure provides a refundable income tax credit for modifications to a home for purposes of adding home accessibility features.

The Committee on Human Services & Public Housing amended this measure by incorporating many of the suggestions of the Department of Taxation, including several components of the Administration measure, SB 3117.

The Department of Taxation (Department) **supports** this measure; however **requests additional amendments similar to the Administration measure, SB 3117**.

I. STRONG SUPPORT FOR AGING AND DISABILITY INDEPENDENCE

With the increasing aging population in Hawaii, it is important that the government support efforts to maintain the independence of these individuals. As independent aging persons, the home is the natural target for this relief. As elderly have lived in their homes for many years, it is not uncommon for the physical and structural aspects of the homes to be unsuited for the special needs of the elderly and disabled.

Independent elderly and disabled are faced with financing exorbitant costs to modify their residences in order to ensure their safety and welfare. Costs include planning, structural, construction, and other charges determined necessary for medical needs.

As amended, this measure adopts the Administration's calculation of the necessary financial support for the elderly and disabled by providing a refundable income tax credit equal to fifty percent of the costs incurred by a taxpayer in modifying a principal residence to allow for "aging in place." The amount of qualified costs incurred includes maximum amounts, depending upon the taxpayers filing status: $5,000 for taxpayers filing as single or married filing separately ($2,500 maximum credit); $7,500 for taxpayers filing as head of household or surviving spouse ($3,750 maximum credit); and $10,000 for taxpayers filing a joint return ($5,000 maximum credit).

The Administration's measure also includes several definitions to ensure compliance with the spirit and intent of this legislation and to avoid abuse.

II. TECHNICAL COMMENTS ON THE INSTANT MEASURE

SPECIFIED COSTS—The Department recommends that additional costs provided in the Administration's measure be adopted. The Administration's measure, however, provides flexibility and identifies qualified costs to include:

- Any ramps;
- Any costs required by a doctor;
- Grab bars for any room. (This legislation limits grab bars to toilets, tubs, and showers. At a minimum, extending qualified grab bars to any "sitting areas" would be appropriate).
- Any costs approved by the Director.

These flexible and broader costs will allow for more efficient administration of the credit and allow the credit costs to reflect changes in technology. Providing specific costs will also minimize abuse and allow the Department to enforce the spirit of the credit.

III. REVENUE IMPACT

This Legislation will result in a revenue loss of only $8 million per year and has been factored into the Executive Budget. Limits are the same as S.B. 3117. We assumed there were 4,000 qualified taxpayers and each qualified taxpayer made renovation at an average cost of $4,000.

EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

Testimony of Linda L. Smith
Senior Policy Advisor to the Governor

Before the

Senate Committee on Economic Development and Taxation

Tuesday, February 12, 2008, 9:25 a.m.
State Capitol, Conference Room 224

SB 2047, SD1 Relating to Taxation

Chair Fukunaga and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill 2047, Senate Draft 1, Relating to Taxation.

This bill provides a refundable income tax credit for costs incurred in modifying or retrofitting a primary residence for purposes of accommodating aging and disability cases for taxable years beginning after December 31, 2007.

The Administration supports this measure; however we request additional amendments similar to Senate Bill 3117 or the "Aging in Place Home-Safe-Home bill."

<u>Section 2</u>

We recommend that the "Qualified Costs" section from Senate Bill 3117 be added to SB 2047, SD 1. This would allow any ramp, cost required by a medical doctor, or grab bars (not limited to toilets, tubs, and showers) to qualify as a cost for this credit.

We also recommend, under the same section, that any cost deemed appropriate should be approved by the Director of Taxation as this allows consideration of costs not specifically enumerated in the bill.

Caregiving and helping our seniors is one of the priority issues receiving bipartisan support this legislative session. Many elderly and disabled residents have been living in their homes for years. As these populations age and/or their medical and access needs change, costly modifications are needed to upgrade the physical and structural aspects of their principal residences to allow them to maintain their independence and "age in place."

Thank you for the opportunity to testify.