EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

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

Before the

Senate Committee on Human Services and Public Housing

Saturday, February 2, 2008, 1:15 p.m.
State Capitol, Conference Room 16

SB 3117 Relating to Income Tax Credit

Chair Chun Oakland, Vice Chair Ihara, and Members of the Committee:

Thank you for the opportunity to testify on SB 3117, a bill we refer to as the "Aging in Place Home-Safe-Home bill." As in my previous testimony, I want to thank the Committee members and the Chair for scheduling a hearing on this bill early in the legislative session.

Caregiving and helping our seniors is one of the priority issues receiving bipartisan support this legislative session. This bill is one of the basic components of the Governor's package to aid those who are entering their golden years.

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.

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."

The proposed amendments will provide the necessary financial support for qualified elderly and disabled by providing a refundable income tax credit up to 50% of qualified costs as follows:

Filing Status	Maximum Qualified Costs
Single or Married Filing Separately	$5,000
Head of Household or Surviving Spouse	$7,500
Joint Return	$10,000

Examples of the types of changes that would qualify include ramps or elevators, grab bars and hand holds, lower tub and shower thresholds, or wider doorways for wheelchair access.

All elderly and the individuals who care for them would be eligible for this tax credit, which we hope to provide $8 million per year in tax incentives for seniors to stay in their own homes--far below the costs of an aging parent moving into a skilled nursing facility or care home. The funds have been accommodated within the six-year financial plan.

We hope you will move to favorably vote this bill out of Committee and encourage your colleagues to support its final enactment.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT GOVERNOR

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SENATE COMMITTEE ON HUMAN SERVICES & PUBLIC HOUSING

TESTIMONY REGARDING SB 3117
RELATING TO TAXATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 2, 2008
TIME: 1:15PM
ROOM: 016

This measure provides a much-needed refundable income tax credit for modifications to a home for purposes of accommodating aging and disability access, known as the "Aging in Place Home-Safe-Home Act of 2008."

The Department of Taxation (Department) **strongly supports** this Lingle-Aiona Administration measure. The Department encourages the Committee to pass this measure unamended.

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.

This Administration measure provides 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).

II. IMPORTANT FEATURES OF THIS LEGISLATION.

The Department points out the following important features contained in this Administration measure, compared to other similar measures considered by the Committee this session—

GENEROUS CREDIT AMOUNT—This bill contains credit caps that are meaningful given the high costs associated with retrofitting a home to accommodate the aging or disabled. For example, this bill provides up to $5,000 (50% of $10,000 in costs) for a married couple filing jointly. These very generous amounts will make the credit a viable option for taxpayers, as well as provide the meaningful relief to encourage people to retrofit a home for the intended purposes.

APPLIES TO BOTH DISABLED & ELDERLY—This measure provides incentives for improvements for both the elderly and disabled. Each of these groups of individuals need incentives in order to ensure they live and age in a safe and accessible environment.

CREDIT APPLIES TO ANYONE THAT PAYS FOR IMPROVEMENTS—Importantly, this legislation applies to any taxpayer that makes the improvements for an aged or disabled person. For example, if a son or daughter who provides housing for a parent in their home incurs costs to make the home safer for their parent, the son or daughter will qualify for the credit. Or, if an elderly couple is independent and in their own home and not considered a dependent, they will qualify. The bill has been designed to encourage individuals to either pay for the costs of retrofitting their own home or pay the costs of retrofitting the home of a loved one.

SPECIFIED COSTS—This measure also provides important flexibility and identifies qualified costs to include:

- Any ramps;
- Lift mechanisms;
- Grab bars for any room, including sitting areas. (other bills have limited grab bars to bathrooms).
- Any costs approved by the Director;
- Any costs required by a doctor;

These flexible and broad costs will allow for 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.

The Department strongly encourages the Committee to pass this measure unamended.

AARP[SM]

To: **Senate Committee on Human Services and Public Housing**
Sen. Suzannne Chun Oakland, Chair

Date: **February 2, 2008**
Conference Room 016
1:15 pm

Re: **<u>SB 3117 RELATING TO INCOME TAX CREDIT</u>**

Chair Chun Oakland and Members of the Committee:

My name is Ed Thompson and I am the Associate State Director for 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 3117 which provides a refundable income tax credit for up to 50% of costs incurred in retrofitting a primary residence for purposes of accommodating aging and disability access. 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 3117 will help to remove some of these barriers.

Thank you for the opportunity to testify before your committee on behalf of our 156,000 Hawaii members.

KOKUA COUNCIL

Laura Manis Testifier

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COMMITTEE ON HUMAN SERVICES AND PUBLIC HOUSING

Senator Suzanne Chun Oakland, Chair
Senator Les Ihara, Jr., Vice Chair

Saturday, February 2, 2008 1:15 p.m Conference Room 016

SB 3117 **RELATING TO INCOME TAX CREDIT.**
Provides a refundable income tax credit for up to 50% of costs incurred in retrofitting a primary residence for purposes of accommodating aging and disability access.

SUPPORT

Kokua Council whose mission includes advocating for the health of the elderly and those vulnerable populations who cannot advocate for themselves support this bill.

This bill fits Kokua Council's principle to help the elderly to Age in Place. We are very cognizant that the elderly want to avoid institutionalization as long as possible.

A refundable tax credit recognizes the fact that while many elderly are not subject to State taxes and so are not eligible for tax credits, they pay most of the costs of caregiving out of pocket at great expense to themselves and their families.

We also realize that making it possible for the elderly to avoid institutionalization relieves overcrowded hospitals and long term care facilities.

While the tax credit will take some money out of the general fund, in the long run the state will save money by not having the responsibility of paying for institutional long term care when the can not provide for themselves.

We ask that you will support this bill.

Laura G. Manis, Legislative Chair, Kokua Council
tel. 597-8838

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THE SENATE
THE TWENTY-FOURTH LEGISLATURE
REGULAR SESSION OF 2008

COMMITTEE ON HUMAN SERVICES AND PUBLIC HOUSING

Hearing February 2, 2008
Testimony on S.B. 3117
(Relating to Income Tax Credit)

Chair Chun Oakland, Vice-Chair Ihara, members of the Committee:

I strongly support this bill.

This bill provides for a refundable income tax credit for the costs of modifying the principal residence of an elderly or disabled individual.

Having grown up in a household with a disabled sibling, I have personal knowledge of the importance for modifications to improve accessibility. Such modification can have a substantial impact on the quality of life.

I am concerned that the requirement 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" in subparagraph (f) may be a trap for the unwary. 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.

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. I recommend deleting subparagraph (f) so that a taxpayer will have the normal three years to amend their tax return should they fail to claim the credit when they originally file their tax return.

Thank you for the opportunity to testify.

Very truly yours,

Peter L. Fritz

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Aging in place tax credit

BILL NUMBER: SB 3117; HB 3195 (Identical)

INTRODUCED BY: SB by Hanabusa by request; HB by Say by request

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim an aging in place tax credit that shall be deductible from a taxpayer's income tax liability for the year the credit is properly claimed. 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.

The amount of the credit shall be 50% of the qualified cost to renovate a residence to provide "handicapped accessibility" or "aging in place" up to a maximum of: $5,000 for taxpayers filing as single or married filing separately; $7,500 for taxpayers filing as head of household or a married surviving spouse; or $10,000 for taxpayers filing a joint return. In order qualify for the tax credit: (1) all qualified costs must be incurred in Hawaii and be subject to HRS chapter 237; (2) the residence for which the qualified costs are incurred must be located in Hawaii; and (3) at least one elderly person or person with a disability must physically reside in the renovated residence.

Defines "aging in place," "disability," "elderly person," "handicapped accessibility," "qualified costs" and "residence" for purposes of the measure.

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 shall be refunded provided such amounts are over $1. 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 is an administration measure submitted by the department of taxation TAX-13(08). This measure proposes to allow taxpayers to claim an income tax credit equal to 50% of 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 to allow the taxpayer to "age in place."

SB 3117; HB 3195 - Continued

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. As evidenced by the justification sheet submitted with this measure, the adoption of this measure will cost $8,000,000 per year in general fund revenues, it is a substantial sum that will be handed out through the back door.

Like the credit for renewable energy devices, the taxpayer must have the capital up-front and make the expenditure in order to qualify for the credit. If it is a substantial retrofit of a home, the taxpayer may not be able afford it and therefore qualify for the credit. At the other end, a well-to-do taxpayer could manipulate the law so as to take advantage of the credit for multiple yeas by stretching out the improvements over time as, unlike the renewable energy credit, there are numerous projects which qualify for the credit. Finally, there is no way to monitor the abuse of the credit. A handyman could go to the local hardware store and buy a bunch of grab bars for $25 and bill the client $4,000 for the installation. With so many installations, it would be difficult for the department to monitor and audit such abuse.

If the intent of this measure is to subsidize the modification of a dwelling to accommodate a disability, then a low-interest, no-interest loan program that can be overseen by an agency that understands the various needs of the disabled would be far more efficient than using the tax system to dole out these funds.

Digested 2/01/08