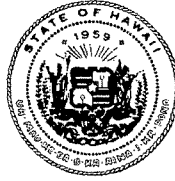


LINDA LINGLE  
GOVERNOR



LILLIAN B. KOLLER  
DIRECTOR

HENRY OLIVA  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF HUMAN SERVICES  
P. O. Box 339  
Honolulu, Hawaii 96809-0339

February 26, 2009

MEMORANDUM

TO: The Honorable Marcus R. Oshiro, Chair  
House Committee on Finance

FROM: Lillian B. Koller, Director

SUBJECT: **H.B. 1745 - RELATING TO LOW-INCOME REFUNDABLE TAX  
CREDIT**

Hearing: Thursday, February 26, 2009; 1:00 p.m.  
Conference Room 308, State Capitol

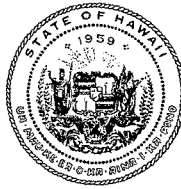
**PURPOSE:** The purpose of H.B. 1745, is to change the eligibility for the low-income refundable food and excise tax credit by requiring taxpayers to be eligible for state public assistance and repeals the tax credit on December 31, 2015.

**DEPARTMENT'S POSITION:** The Department of Human Services (DHS) defers to the Department of Taxation regarding the change in eligibility for the low income refundable food and excise tax credit.

Thank you for the opportunity to provide comments on this bill.

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



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**HOUSE COMMITTEE ON FINANCE  
TESTIMONY REGARDING HB 1745  
RELATING TO LOW-INCOME REFUNDABLE TAX CREDIT**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: FEBRUARY 26, 2009**

**TIME: 1PM**

**ROOM: 308**

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This measure modifies the eligibility for the low-income refundable income tax credit by requiring those persons to be on public assistance. This measure also repeals the low-income refundable income tax credit on December 31, 2015.

The Department of Taxation (Department) **opposes this measure.**

**PENALIZES THOSE THAT NEED RELIEF THE MOST**—This measure effectively penalizes the working poor and encourages people to rely on the State rather than work. Also, the government should not look to the poor to raise revenue by modifying the qualifications for the low-income credit.

**REPEAL OF THE CREDIT IN 2015**—Though the projected budget shortfalls are predicted to extend into the foreseeable future, the low-income refundable income tax credit has served an important function in Hawaii's income tax system. The Department suggests that it may be too soon to repeal this incentive. The economy could tumble further or recover. The Department suggests a "wait-and-see" approach when considering repeal. However, if the intent is to repeal the credit as a matter of furthering the tax policy that all credits should have a built-in repeal date, the Department supports tax policy efforts to ensure that all tax incentives are revisited by the Legislature regularly.

**REVENUE GAIN**—This measure is expected to result in a revenue gain of \$4.5 million annually from FY 2010 to FY2016 and an \$8 million gain annually for FY17 and after.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Low income refundable tax credit

BILL NUMBER: HB 1745

INTRODUCED BY: Say and Evans

BRIEF SUMMARY: Amends HRS section 235-55.85 to provide that the low-income refundable food/excise tax credit shall not be available to any person not eligible to receive public assistance under HRS section 346-29.

Repeals the low-income food/excise tax credit on December 31, 2015.

EFFECTIVE DATE: Tax years beginning after December 31, 2008

STAFF COMMENTS: The proposed measure would disallow the claiming of the low-income refundable food/excise tax credit unless the taxpayer is receiving state public assistance benefits. The measure also proposes to eliminate these credits on December 31, 2015.

It should be remembered that the legislature by Act 134, SLH 1995, reduced the food tax credit from \$55 to \$27 and eliminated the general excise and medical services tax credits also in response to the state's financial crisis. Subsequently, the legislature by Act 157, SLH 1998, repealed the food tax credit and established a low-income refundable tax credit which grants a maximum tax credit of \$35 for taxpayers with under \$10,000 in adjusted gross income and a credit of \$10 for those with income under \$20,000. The legislature by Act 211, SLH 2007, further expanded the credit and renamed it to the refundable food/excise tax credit to increase the number of people who qualify for the credit and raised the amount of the tax credit for each bracket to provide tax relief to lower-income families. As the conference committee reported, "the new brackets and credit amounts more accurately reflect current needs and incomes of those who are struggling to pay for necessities."

It should be noted that the concept of credits has been a part of the state law since the 1960's and is generally designed to reduce the regressivity in Hawaii's overall tax system, targeting individuals with lower incomes. While this measure proposes to allow only those taxpayers receiving Temporary Assistance to Needy Families (TANF) funds or public assistance to claim the refundable food/excise tax credit, it would result in an immediate tax increase to those taxpayers who do not receive public assistance as they would be ineligible for the credit. It should be remembered that there are many families who are poor but are ineligible to receive public assistance. For example, there is a five-year limitation of being able to receive public assistance which was adopted at the federal level as a means to encourage the poor to gain the necessary skills to leave the public assistance roles. And while they have done so, they are still at the bottom edge of the income scale barely able to make ends meet. The same can be said about the elderly pensioners living on fixed incomes and who probably are not eligible for public assistance because they have their meager pension income.

HB 1745 - Continued

This credit was intended to relieve the very poor from the imposition of the general excise on the necessities of life like food, proprietary drugs, and clothing. Limiting the credit to only those who receive public assistance misses a large part of the target population and for those who would not qualify under this proposal, it would mean that much less in their pocketbooks to pay for the food they eat and the clothing they wear.

In addition, when the food/excise tax credit is repealed on December 31, 2015, it would result in an instant tax increase for all taxpayers, including those receiving public assistance.

While it is acknowledged that every stone has to be overturned to find new sources of revenue to address the state's financial condition, the repeal of the food/excise tax credit may send more taxpayers to the poor house and place them on public assistance or out in the street. Though well-intended, this proposal really has very little heart for those in need.

Digested 2/25/09