

NEIL ABERCROMBIE
GOVERNOR

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LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
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HOUSE COMMITTEE ON FINANCE

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING SB 570 SD2 PROPOSED HD1 RELATING TO TAXATION

TESTIFIER: FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR
DESIGNEE)
COMMITTEE: FIN
DATE: APRIL 4, 2011
TIME: 2:00PM
POSITION: SUPPORT

This measure has four parts. Part I amends the current law that excludes employer-funded pension income from income tax. It treats employer-funded pension income like all other income, similar to that of the federal tax code. It starts in the 2011 tax year. Part II makes the deduction for state taxes paid inoperative. Part III caps itemized deductions. Part IV delays the standard deduction and personal exemption increases approved under Act 60, Session Laws of Hawaii 2009, but makes the increases permanent.

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

PART I: TAXATION OF PENSION INCOME

FAIRNESS—This proposal makes taxation of pensioners more "even handed." Currently, retirees without employer-funded pensions are taxed on their retirement income, such as 401K, dividends, rental income, and other sources of income. It is a fair tax policy to treat the taxation of employer-funded retirement income similar to the self-funded retirement income.

The 1995-1997 and 2001-2003 Tax Review Commission recommended a phase in taxation of all pension income. Similarly, the 2005-2007 Tax Review Commission recommended conforming to the federal tax treatment of retirement income, excluding an annual base amount (e.g.: \$50,000). Hawaii is one of only ten (or 20%) states that exclude all federal, state and local pension income from taxation¹. Forty (or 80%) states taxed pension.

¹ The ten (10) states are as follows: Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, New York and Pennsylvania.

PRESERVE THE EXEMPTION FOR THOSE WITH MODEST INCOME—

This measure proposes to preserve the exemption of the pension income for those with a federal Adjusted Gross Income of less than:

- \$100,000 for single or married filing separately;
- \$150,000 for head of household;
- \$200,000 for joint returns or surviving spouse.

The Abercrombie-Schatz Administration proposes to preserve the exemption of the pension income for those with a federal Adjusted Gross Income of less than:

- \$37,500 for single or married filing separately;
- \$56,250 for head of household;
- \$75,000 for joint returns or surviving spouse.

The thresholds chosen by the Administration took into consideration the average household income and average pension amount. According to the US Census Bureau, average Hawaii household income in 2008 was \$66,701. According to the 2008 Federal Individual Income tax data, the average Hawaii residents' pensions and annuities taxed at the federal level was \$22,686. According to the 2009 State Individual Income tax data, the amount of pensions taxed at the federal level but not by the State is \$2.61 billion. This exemption currently benefits approximately 96,200 taxpayers, or only 18% of Hawaii resident taxpayers².

This measure will impact 3,988 taxpayers (or approximately 0.7% of Hawaii resident taxpayers), whereas the Administration's proposal will impact 43,520 taxpayers (or approximately 8.1% of Hawaii resident taxpayers).

REVENUE GAIN FROM PART I—This measure will result in an estimated revenue gain of \$17.2 million per year for FY 2012 and thereafter, whereas the Administration's proposal will result in an estimated revenue gain of \$112.3 million per year for FY 2012 and thereafter.

PART II: STATE TAX DEDUCTION

SOUND TAX POLICY—It is a fundamental tax policy to eliminate an absurd deduction allowed by the same source that is taxing the income. The current deduction is irrational and poor tax policy. It also simplifies the tax code. Only a handful (approximately 5) other states allow a state tax deduction for state income tax paid.

² Total number of 2009 resident individual income tax returns is 535,996.

PRESERVES THE DEDUCTION FOR THOSE WITH MODEST INCOME—

This measure proposes to preserve the state tax deduction for those with a federal Adjusted Gross Income of less than:

- \$100,000 for single or married filing separately;
- \$150,000 for head of household;
- \$200,000 for joint returns or surviving spouse.

ABERCROMBIE-SCHATZ ADMINISTRATION'S PROPOSAL REPEALS THE DEDUCTION ENTIRELY BUT PHASES-OUT THE REPEAL FOR THOSE WITH MODEST INCOME—

Eliminates the deduction for the 2011 tax year for those earning:

- \$75,000 or more for single or married filing separately;
- \$112,500 or more for head of household or surviving spouse;
- \$150,000 or more for joint returns.

Phases-out the deduction by reducing it over two taxable years for all others:

- 50% reduction for 2011
- 75% reduction for 2012
- 100% reduction for 2013.

This measure will impact 26,313 taxpayers (or approximately 4.9% of Hawaii resident taxpayers), whereas the Administration's proposal will impact 313,470 taxpayers (or approximately 58.5% of Hawaii resident taxpayers).

REVENUE GAIN FROM PART II—This measure will result in an estimated revenue gain of \$17.9 million per year for FY 2012 and thereafter, whereas the Administration's proposal will result in an estimated revenue gain of \$63.7 million for FY 2012, \$79.0 million for FY 2013, \$94.4 million for FY 2014 and thereafter.

PART III: ITEMIZED DEDUCTION LIMITATIONS

The measure caps itemized deductions at \$50,000 in the case of a joint return with an adjusted gross income of over \$200,000; \$37,500 in the case of a head of household with adjusted gross income of over \$150,000; and \$25,000 in the case of an individual with an adjusted gross income of over \$100,000.

In addition, the proposed HD1 of this bill would also adopt the limitation on itemized deductions provided in section 68 of the Internal Revenue Code. Section 68 of the Internal Revenue Code provides that individuals whose adjusted gross income is over \$100,000 (\$50,000 for married individuals filing a separate return) must reduce their amount of itemized deductions by the lesser of (1) 3 percent of the excess of adjusted gross income over \$100,000 (\$50,000 for married individuals filing a separate return), or (2) 80 percent of the amount of the itemized deductions otherwise

allowable for such taxable year. However, the section 68 limitations do not apply to medical expense deductions, investment interest deductions, and casualty or theft losses. The proposed HD1 would require taxpayers to limit their itemized deductions to the lowest amount provided under either section 68 of the Internal Revenue Code or the new cap on itemized deductions of a flat amount based on adjusted gross income by filing status, as discussed in the first paragraph of this section. **This bill should be amended to provide that sections 68(f) and (g) should not apply** since these subsections operate as the federal effective dates, which make section 68 currently inoperative at the federal level.

The Department supports limiting itemized deductions for wealthy individuals in these trying economic times.

REVENUE GAIN FROM PART III—The impact of capping the itemized deductions results in a revenue gain of approximately \$47.9 million per year for FY 2012 to FY 2015. The state tax deduction for high income earners is about 50% of their total itemized deduction. Therefore, if the provision in Part II of this bill also pass, the estimated revenue gain from Part III will be reduced by 50% to account for the overlap. The net revenue gain from Part III is \$22.4 million per year for FY 2012 to FY 2015. It will impact approximately 22,706 returns or 3.8% of taxpayers.

PART IV: DELAYED DEDUCTION INCREASES

This measure delays implementation of the standard deduction and personal exemption increases of Act 60, Session Laws of Hawaii 2009 which are scheduled to take effect beginning this tax year. The measure also makes them permanent as the increases were set to sunset in tax years after December 31, 2015.

The Department of Taxation (Department) supports this measure.

The Department notes that Act 60, Session Laws of Hawaii 2009 increased the standard deduction and exemption amounts by 10%. Compared to the federal standard deduction and exemption amounts, the State amounts are extremely low, even after the scheduled increases.

REVENUE GAIN FROM PART IV—The impact of delaying the 10% increase in standard deduction will result in estimated revenue gain of \$3.2 million per year for FY 2012 and FY 2013, and revenue loss of \$3.2 million per year for FY 2014 and thereafter. The impact of delaying the 10% increase in personal will result in estimated revenue gain of \$8.3 million per year for FY 2012 and FY 2013, and revenue loss of \$8.3 million per year for FY 2014 and thereafter.

OVERALL REVENUE GAIN—This measure will result in an estimated revenue gain of \$69.0 million for FY 2012, \$69.0 million for FY 2013, and \$46.0 million for FY 2014 and thereafter.

TO : COMMITTEE FINANCE
Representative Marcus Oshiro, Chair

FROM: Eldon L. Wegner, Ph.D.
POLICY ADVISORY BOARD FOR ELDER AFFAIRS (PABEA)

HEARING: 2:00 pm Monday, April 4, 2011
Conference Room 308, Hawaii State Capitol

SUBJECT: SB 570 SD2 Proposed HD 1 Relating to Taxation

POSITION: The Policy Advisory Board for Elder Affairs supports the intent of SB 570 SD2 Proposed HD1. However, we suggest amending the bill to tax pensions above a lower threshold in order to spread the tax among a higher percentage of retirees, which would create a sliding scale of taxation and raise more revenue and possibly phasing in the tax.

RATIONALE:

The Policy Board for Elder Affairs has a statutory obligation to advocate on behalf of the senior citizens of Hawaii. While we advise the Executive Office on Aging, we do not speak on behalf of the Executive Office of Aging.

- We believe that retirees should be taxed on at least a portion of their employer pension, except for persons in the lowest income category. As retirees, we continue to benefit from public services and programs and have an obligation to do our share to support programs for all Hawaii residents. Furthermore, an increasing proportion of the workforce receives retirement income from contributory tax-deferred retirement plans and their retirement income is subject to state taxation.
- However, the tax should be modest for current retirees since planning finances is a challenge and changing the rules after the game can be seen as unfair. A phase-in of the tax would be fairer for current retirees.
- The Proposed HD1 is flawed because it creates an arbitrary line, below which no tax is due and above which the entire pension is taxed. Creating a sliding scale by taxing the portion of the pension above a threshold would more equitable.
- The current draft would tax only 6.7 percent of Hawaii taxpayers or 36,157 taxpayers and raises far less revenue than the Governor proposed. Furthermore, as

amended the bill eliminates the state deduction for state income tax only for these same taxpayers. The measure does not spread the tax burden broadly over the retired population but creates a relatively large burden for a small percentage of retirees.

- Nevertheless, we support the intent of the proposed draft. The state needs a realistic level of revenues in order to provide the essential services and meet the needs of our community, especially the needs of the most vulnerable residents, including the elderly. Further cuts of programs and services can have the consequence of creating more serious and costly health and social problems.
- Thank you for the opportunity testify.

PROPOSED AMENDMENT TO HB 1092 HD 1 SD 1

TO : COMMITTEE FINANCE
Representative Marcus Oshiro, Chair

FROM: Eldon L. Wegner, Ph.D.
POLICY ADVISORY BOARD FOR ELDER AFFAIRS (PABEA)

HEARING: 2:00 pm Monday, April 4, 2011
Conference Room 308, Hawaii State Capitol

SUBJECT: SB 570 SD2 Proposed HD 1 Relating to Taxation

POSITION: The Policy Advisory Board for Elder Affairs **supports the intent** of SB 570 SD2 Proposed HD1. However, we suggest amending the bill to tax pensions above a lower threshold in order to spread the tax among a higher percentage of retirees, which would create a sliding scale of taxation and raise more revenue and possibly phasing in the tax.

SUGGESTED AMENDMENTS TO INCREASE EQUITABILITY:

- 1) Exemption of employer pensions would be limited to \$37,500 of pension income. Pension income above this threshold would be taxable income for the State of Hawaii.

Rationale:

The current draft would tax only 6.7 percent of Hawaii taxpayers or 36,157 taxpayers and raises far less revenue than the Governor proposed. Furthermore, as amended the bill eliminates the state deduction for state income tax only for these same taxpayers. The measure does not spread the tax burden broadly over the retired population but creates a relatively large burden for a small percentage of retirees.

The current draft uses an arbitrary ceiling, below which no pension is taxed and above which the entire pension is taxed – rather than a sliding scale which would tax only pension income above a threshold..

- 2) Phase in the tax for current retirees.

Rationale:

The tax on pensions should be modest for current retirees since planning finances is a challenge and changing the rules after the game can be seen as unfair.

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Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax on certain pension income; limit deduction for state income taxes; limit itemized deductions; delay increase in standard deduction and personal exemption

BILL NUMBER: SB 570, Proposed HD-1

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to provide that beginning after December 31, 2010 pension income under HRS sections 88-91, 235-7(a)(2), and 235-7(a)(3) shall be excluded from state income taxation if a taxpayer's **federal** adjusted gross income (FAGI) is: (1) less than \$100,000 for a taxpayer filing a single return or a married person filing separately; (2) less than \$150,000 for a taxpayer filing as a head of household; or (3) less than \$200,000 for a taxpayer filing a joint return or as a surviving spouse. The amendments made to HRS section 235-7(a) by this act shall not be repealed when that section is reenacted on January 1, 2013 by Act 166, SLH 2007.

Amends HRS section 235-2.4(h) to provide that the deduction for state taxes **shall not be operative** to corporate taxpayers and **shall be operative** if a taxpayer's **federal** adjusted gross income (FAGI) is: (1) less than \$100,000 for a taxpayer filing a single return or a married person filing separately; (2) less than \$150,000 for a taxpayer filing as a head of household; or (3) less than \$200,000 for a taxpayer filing a joint return or as a surviving spouse.

Adds a new section to HRS chapter 235 to provide that itemized tax deductions under the state income tax shall not exceed the lesser of: (1) the limit of itemized deductions under section 68 of the Internal Revenue Code (IRC); or (2) \$25,000 for taxpayers filing a single return or married person filing separately with a FAGI \$100,000 or more; \$37,500 for taxpayers filing as a head of household with FAGI of over \$150,000 or more; and \$50,000 for taxpayers filing a joint return or as a surviving spouse with FAGI of \$200,000 or more. This section shall be effective between January 1, 2011 and December 31, 2016. Repeals this section on January 1, 2016.

Amends Act 60, SLH 2009, to: (1) delay the increase in the standard deduction and the personal exemption from tax years beginning after December 31, 2010 to tax years beginning after December 31, 2012; and (2) make these increases permanent. This section shall take effect retroactive to December 30, 2010.

EFFECTIVE DATE: Tax years beginning after December 31, 2010

STAFF COMMENTS: While Hawaii does not currently tax pension income, this measure recognizes those who depend on that pension income for their basic needs by setting a floor before pension income is to be included in gross income for state income tax purposes. As proposed by this measure, this "floor," or threshold, is set at \$100,000 of federal adjusted gross income for individuals, \$150,000 for

heads of households, and \$200,000 for those filing a joint return.

The problem with using "federal adjusted gross income" is that not only does it already include pension income but it may also include one-half or more of the taxpayer's Social Security benefits. Thus, this proposal not only changes the policy regarding the taxation of pension income, but it also changes the policy with regard to the taxation of Social Security benefits. It is not that the state tax will be levied on Social Security benefits per se, but because federal adjusted gross income includes Social Security benefits which then defines whether or not one's pension becomes taxable for state income tax purposes, it has an indirect effect of taxing those benefits. This approach also ignores the actual size of the retiree's pension income as exceeding the threshold or floor and throws all of the retiree's income on the table in determining whether or not one's pension will be taxable for state income tax purposes.

So, the retiree may have been employed at a business where the pension plan met the bare minimum requirements of the law and the contributions to the plan may have been relatively small in favor of paying more generous wages. That retiree, being prudent, set aside some of those generous wages either in savings or purchased equities to provide for his or her retirement. As a result, the earnings of those savings and investments provide for the bulk of the retiree's income. Because these sources of income are included along with what might be considered a pittance of pension income, the retiree exceeds the threshold subjecting all of the pension income to the state income tax. On the other hand, another retiree's only source of income is his pension, but that pension falls just below the proposed threshold of federal adjusted gross income and thus escapes any state income tax. It would seem fairer that if pension income is now to be taxable for state income tax purposes, the threshold be measured only against the form of income called pensions. Treatment of this form of income would be identical regardless of other sources of income and regardless of the federal definition of income.

Of the forty-four other state which levy a state personal income tax, 18 states set a dollar floor amount with the most generous being Michigan at \$45,120 followed by Kentucky which grants a \$41,110 floor before pension income is subject to state taxes in the Bluegrass State. Of those states with income taxes, 17 states tax pension income from dollar one with no exclusion, four states, including Hawaii, tax some form of retirement income and four states completely exempt all retirement income.

Further, it should be noted that of the exclusions listed under HRS 235-7 where the pension exclusion is currently lodged, the exclusion applies to amounts of the types of income excluded. For example, in the case of income received by components of the army reserve and national guard (\$5,800 for the 2010 tax year), it is specific dollar amounts that are excluded from the state income tax. None of these excluded amounts are contingent upon the taxpayer's adjusted gross income. Thus, it would seem only consistent and fair that an amount of pension income be excluded as opposed to the method proposed which would make one's entire pension subject to tax if the taxpayer's FAGI goes over the threshold by a single dollar. Setting a specific amount of pension income that would be exempt and excluded from state gross income would give current retirees some certainty with respect to their pension income and lessen the resistance to the proposal if retirees knew that a certain amount of their pension income would continue to be exempt.

That said, lawmakers should also be aware that within the next twenty years there will be no private sector retiree receiving pensions from a defined benefit plan. Since the early 1990's companies in the private sector have terminated their defined benefit plans and moved their retirement benefits into

401(k) plans, the distributions of which are taxable. Thus, even an exclusion or the trigger proposed in this measure should be phased out over time to insure that the state tax law does not discriminate between the types of retirement income.

That said, one has to ask why has it come to this point that the state has to tax a source of income that traditionally has been exempt? All taxpayers, both workers and retirees, must share the blame as few paid attention to how lawmakers frittered our tax dollars away on this or that program. Now that many of those programs and services lawmakers initiated in the last few years have constituencies, it has been difficult for lawmakers to rein in that spending. The swift and vehement rejection of the proposal to tax pensions lies not so much in the fact that it will now tax income that was formerly exempt as much as it is the fact that taxpayers already reel under the heavy burden of taxes in Hawaii. As one senior noted, "What have lawmakers been doing with all the taxes we pay?"

While a previous draft of this measure eliminated the deduction for state taxes paid for all taxpayers, this draft retains the deduction for taxpayers whose FAGI is: (1) less than \$100,000 for a taxpayer filing a single return or a married person filing separately; (2) less than \$150,000 for a taxpayer filing as a head of household; or (3) less than \$200,000 for a taxpayer filing a joint return or as a surviving spouse.

Although the state administration may argue that the federal Code does not allow for the deduction of federal income taxes withheld, it should be remembered that the federal code does allow for the deduction of state income taxes paid and withheld. In its effort to conform as closely as possible with the federal definition of income, the state picks up this provision which recognizes that to **NOT** allow the deduction of state income taxes withheld and paid would be to impose the state income tax on state income taxes. That said, if the intent is to generate additional revenue from the state income tax, then lawmakers should just raise rates which is much more honest. Lawmakers should remember why the state conforms to the federal law, to reduce administrative and compliance costs for both the tax department and the taxpayer. Falling out of conformity merely increases the cost of compliance and should be viewed as an additional "tax" imposed by policymakers.

If the sole intent of eliminating the deductibility of state income taxes is to generate additional monies for the general fund, then an implicit increase in income tax rates would certainly be more honest. No doubt taxpayer's income tax liability will rise should this deduction be eliminated, the same could be accomplished with an increase in rates. The difference is that taxpayers would know that lawmakers increased income tax rates. With the elimination of the deduction it would cause an increase in the taxpayer's bill without setting out that the reason was the loss of the deduction. Given that Hawaii's standard deduction is so low, taxpayers in Hawaii are more likely to itemize than in other states because income taxes are so high along with the cost of housing that drives up the mortgage interest deduction and the fact that people in Hawaii tend to be more generous and, therefore, have more charitable contribution deductions than income taxpayers in other states. Therefore, the elimination of the deductibility of state income tax amounts to nothing more than an income tax increase for which lawmakers should shoulder the responsibility.

This measure proposes to put a limit on itemized deductions. At the federal level, taxpayers with high adjusted gross incomes may see some of their itemized deductions limited. The types of itemized deductions that are pared by the limit include deductions for taxes, interest paid, charitable contributions, job expenses and certain other miscellaneous deductions. Those itemized deductions

that are not limited because of high incomes include: medical and dental expenses, investment interest expenses, casualty and theft losses, and gambling losses. This measure provides that for state income tax purposes, the itemized deductions claimed shall not exceed the lesser of: (1) the limitation on itemized deductions under Section 68 of the Internal Revenue Code or: (A) \$25,000 for a taxpayer filing a single return or married person filing separately with a FAGI of \$100,000 or more; (B) \$37,500 for a taxpayer filing as a head of household with a federal adjusted gross income of \$150,000 or more; and © \$50,000 for a taxpayer filing a joint return or as a surviving spouse with a federal adjusted gross income of \$200,000 or more.

It should be noted that the federal limitation on certain itemized deductions as provided for under IRC Section 68 expired on December 31, 2009. This proposed measure references section 68 of the IRC.

It should be noted that a similar measure to limit itemized deductions was vetoed by the governor last year. In her veto message, she stated "it is a defacto tax increase that will adversely hurt certain individuals and businesses at a time when we should be encouraging investment and spending to recharge the economy. The tax increase not only impacts taxpayers, but also disincentivizes activities such as charitable giving and homeownership. Since itemized deductions are allowed for qualifying medical and dental expenses, contributions to qualifying charitable organizations, payment of certain taxes, home mortgage interest, and qualifying job-related expenses, capping the deduction will act to discourage these expenses. Nonprofits and charitable organizations that depend on contributions to serve needy populations are particularly concerned that their ability to raise funds through donations and charitable giving would be adversely affected."

This measure also proposes to delay the increase in the standard deduction and the increase in the personal exemption for two years, it also proposes to make these increases permanent. The legislature by Act 60, SLH 2009, provided for an increase in the standard deduction from \$4,000 to \$4,400 for joint returns or surviving spouses, from \$2,920 to \$3,212 for head of households; and from \$2,000 to \$2,200 for individuals or married taxpayers filing separately. Act 60 also provided for an increase in the personal exemption from \$1,040 to \$1,144.

While both of these increases are scheduled to take effect for tax years beginning after December 31, 2010, they are scheduled to be repealed on December 31, 2015. While it appears that this measure delays these increases for two years due to the state's financial condition, if the state's financial condition does not improve, there is no doubt that the implementation of the increases will be postponed again. For taxpayers, the proposed changes will represent a "surprise" for many when they file their income tax returns for the 2011 year as it is more than likely that their state withholding or their estimated payments will be insufficient as no allowances will have been made with the inclusion of pension income or the loss of the deductions proposed in this measure.

That said, this increase in both the standard deduction and the personal exemption are long overdue. What few dollars gained by the delay would be more than offset by the amount of money the legislators would put back into taxpayers' pocketbooks to be spent in an economy hungry for activity. This measure would certainly be one more stall in the road to economic recovery.

While this and other "revenue enhancement" measures are proposed to address the state budget deficit, it should be remembered that the adoption of this and other similar "revenue enhancement" measures will not be effective unless government expenditures are also curtailed.

LATE



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**TESTIMONY BEFORE THE HOUSE COMMITTEE ON
FINANCE**

RE: SB 570, SD2, PROPOSED HD1 – RELATING TO TAXATION

APRIL 4, 2011

**WIL OKABE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION**

Chair Oshiro and Members of the Committee:

The Hawaii State Teachers Association recognizes the challenges that the legislators and the governor face to balance the budget. We hope that as we move forward, we have explored every option possible that is fair and equitable for all of Hawaii's taxpayers.

Thank you for the opportunity to testify.



To: House Committee on Finance
Representative Marcus R. Oshiro, Chair

Date: April 4, 2011, Conference Room 308, 2:00 p.m.

Re: **SB 570 SD2, HD1 Proposed – RELATING TO TAXATION**

Chair Oshiro and Committee Members:

My name is Barbara Kim Stanton, State Director of AARP Hawaii. AARP is a membership organization of people 50 and older with nearly 150,000 members in Hawaii. We are committed to championing access to affordable, quality health care for all generations, providing the tools needed to save for retirement, and serving as a reliable information source on issues critical to Americans age 50+.

AARP offers the following comments on SB 570, SD2, HD1 Proposed, which amends Hawaii tax law by providing for the taxation of pension income based on Federal Adjusted Gross Income (FAGI) thresholds; eliminates the deduction for state taxes paid for certain taxpayers; limits the amount of itemized deductions for certain taxpayers; and delays the standard deduction and personal exemption increases. AARP notes that under this proposal some seniors would get three tax increases. However, AARP's comments pertain to the portion of the bill relating to the taxation of pension income.

Most seniors believe that all Hawaii residents need to collectively work to address the state's approximate \$1.3 billion two-year budget deficit. The staggering size of this deficit will affect all of us. Due to this broad impact, most seniors fundamentally believe that, in order to be effective, the solutions to this problem must also be broad-based. Hawaii seniors are willing to do their fair share to help solve this problem, but believe this sacrifice must be shared as equitably as possible. Viewed through these objectives, AARP therefore has serious concerns regarding SB 570, SD2, HD1 Proposed, both in terms of its fairness and effectiveness.

AARP is concerned that this proposal is the "foot in the door" that will lead to taxing pensions of seniors at moderate and lower income levels, sooner rather than later. This bill will only raise an estimated \$17.1 million, according to the Department of Taxation. This amount will fall far short of the approximate \$112 million in revenues projected in the Governor's proposal. Furthermore, recent events in Japan have begun to negatively impact Hawaii's economy and may lead to an even larger State budget deficit.

Many retirees realize that their pensions may not be taxed by this bill, however, it can become easily taxed, by simply lowering income thresholds. The taxing of pensions can become a convenient means to help close the growing deficit. Thus the burden of fixing the state's budget problems will be unfairly placed on the shoulders of vulnerable retirees on fixed incomes, with limited options to increase income to offset increased taxes.

Many retirees also feel that the enactment of this pension tax is unfair, as it would change the "rules" after the fact. Retirees and near retirees worked their entire careers and planned on their full pension incomes in retirement. A tax on pensions would cause an unplanned and unexpected reduction to retirees' incomes, and retirees would face the daunting challenge of surviving with less

income. It is unfair for retirees who have dutifully paid their share of taxes for their 30-40 year working career, to now be expected to pay even more taxes.

Hawaii retirees are very concerned that the proposed pension tax will further erode seniors' retirement security. This erosion has been especially noteworthy over the past two decades, as consumer costs, as reflected by the CPI, have increased by 67 percent nationally, and 70 percent in Honolulu.

In particular, health care costs are especially burdensome as more than 200,000 Medicare beneficiaries in Hawaii already spend about 30 percent of their income on health care in the form of out-of-pocket premiums, co-pays and deductibles.

Brand-name and specialty drugs costs have also skyrocketed. In the 12 months ending March 2010, prices for widely used brand name and specialty drugs rose by more than nine percent, on average. There is also the looming challenge of long-term care. In Hawaii, the median price of a private room in a nursing home is \$115,000 per year, according to the latest Genworth study.

The proposed legislation also has "technical" flaws that cause unfairness and inequities.

- An individual's entire pension income would be unfairly taxed, if it was only \$1 over the FAGI threshold, while it would not be taxable if under the FAGI threshold.
- Social Security benefits are also used to qualify pensions for taxation by its inclusion in the FAGI threshold, which results in an indirect taxation of Social Security benefits.
- This bill is retroactive to January 1, 2011, and would create an unfair financial hardship for many individuals upon discovering an additional tax liability when they file their 2011 tax return.

The effectiveness of this bill is also of concern. Because of current laws at the federal and state levels, certain groups of individuals would be exempt from this proposed bill. For instance, despite the Governor's stated intent to target wealthy nonresident retirees who pay no taxes on the pension part of their income, these individuals would be exempt from this legislation. The reason they will remain exempt is that current federal law (Public Law No. 104-95) prohibits states from taxing distributions from nonresident pension and other retirement income plans. As a result, many wealthy retirees may legally avoid tax on their pensions.

We also note that Article XVI, Section 2 of the Hawaii Constitution states that the accrued benefits of retirees in the State retirement system shall not be "diminished or impaired." As such, this pension tax proposal may have legal repercussions if applied retroactively, particularly to current retirees.

We respectfully request that this bill be deferred for the reasons herein.

Thank you for the opportunity to present our views to help ensure the retirement security of Hawaii retirees.



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TESTIMONY ON SENATE BILL 570, SENATE DRAFT 2, HOUSE DRAFT 1, RELATING TO TAXATION

House Committee on Finance
Hon. Marcus R. Oshiro, Chair
Hon. Marilyn B. Lee, Vice Chair

Monday, April 4, 2011, 2:00 PM
State Capitol, Conference Room 308

Honorable Chair Oshiro and committee members:

I am Kris Coffield, representing the IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 60 local members. On behalf of our members, we offer this testimony in support of the proposed draft of SB 570, SD2, HD1, relating to taxation, with suggestions for amendments.

Currently, Hawaii is one of only ten states that exclude all local, state, and federal pension income from taxation. At the same time, following the financial devastation wrought by the recent tsunami, the state's deficit for this fiscal year has surpassed \$200 million, with the biennium shortfall now estimated at \$1.3 billion. To help rectify that gap, part one of this bill proposes to tax pension income at or above three threshold levels: single individuals and married retirees filing separate returns whose federally adjusted gross income exceeds \$100,000, heads of household whose AGI exceeds \$150,000, and joint filers or surviving spouses whose AGI exceeds \$200,000. As drafted, this amendment to Chapter 235, Hawaii Revised Statutes, would impact just short of 4,000, or 0.7 percent, of taxpayers statewide, generating approximately \$17.2 million annually for state coffers. Additionally, part two of this bill repeals the state income tax deduction and part three restricts the amount of itemized deductions claimed by the same taxpayers impacted under the threshold levels contained in part one, raising \$17.9 million per year in the case of the deduction repeal. Finally, part four of this draft delays, but perpetuates, the standard deduction and personal exemption increases approved under Act 60, which, according to the Department of Taxation, originally meant that for tax years 2011-2015, the personal exemption would increase from \$1,040 to \$1,144, with the standard deduction set at \$4,400 in the case of a joint return or surviving spouse, \$3,212 in the case of a head of household, and \$2,200 in the case of an individual return.

The IMUAlliance fully supports efforts to raise revenue via the enactment of a pension tax, but we encourage the committee to consider decreasing the threshold levels defined in parts one, two, and three of this measure to income cutoffs tendered and vetted, earlier this session, by the Senate

Committee on Ways and Means (proposed draft of SB 162, SD1), thereby more accurately reflecting the average income of local residents (according to the U.S. Census Bureau, the average Hawaii household income, in 2008, was \$66,701) and boosting the islands' tax base to combat an ongoing financial emergency. Lowering the income thresholds of SB 570, SD2, HD1 to those levels proffered by the Senate—\$75,000 for single individuals and married retirees filing separate returns, \$100,000 for heads of household, and \$125,000 for joint filers—would affect 3 percent of taxpayers statewide and nearly triple the revenue generated by this bill, if prior estimates are to be believed.

Mahalo for the opportunity to testify in support of this bill.

Sincerely,
Kris Coffield
Legislative Director
IMUAlliance

GREGORY J. SWARTZ
Honolulu, Hawaii 96817

April 2, 2011

The Honorable Marcus R. Oshiro, Chair
The Honorable Marilyn B. Lee, Vice Chair
House Committee on Finance
State of Hawaii 96813

Dear Chairs and Members of the Committee:

Re: S.B. No. 570, SD 2, HD 1 Proposed

I am totally opposed to this proposed legislation which: (1) institutes an unfair and unjust income tax on the pensions of currently retired persons, (2) severely limits the ability of all individual taxpayers to take an itemized deduction for State of Hawaii income taxes or excise taxes, and (3) severely limits the ability of all individual taxpayers to take itemized deductions for catastrophic medical costs and other legitimate expenditures. These proposals will result in serious detriments to senior citizens and disabled persons. Governor Abercrombie has called for us all to share the burden of the budget shortfall and I agree, but instituting a pension tax and capping itemized deductions for catastrophic medical costs results in a disproportionate and inequitable impact on senior citizens and disabled persons. In addition to my objections to increased income taxes in general, there are several technical and tax policy deficiencies with the bill as drafted that will be discussed below.

Many seniors and disabled persons are seriously struggling to make ends meet with the increased demands caused by the recession. There are ever increasing costs of living, particularly for health care and housing for senior citizens and disabled persons, and looming cutbacks at the Federal and state levels on health care, social security, pensions and other retirement benefits. Increased tax liabilities for senior citizens and disabled persons on top of all of this are untenable.

Currently retired senior citizens planned their retirements on the basis of income and expenditure estimates (including tax estimates) which were reasonable when they retired, but the State of Hawaii will now throw all of their planning out the window, causing serious economic harm to seniors. Disabled persons are in a much worse situation because their working lives were cut short, and the disability benefits they receive through defined benefit plans are generally much less than if they reached full retirement age. It is obvious that a prime target of this legislation is State of Hawaii and county government retirees. This is unconscionable. The tax exempt status of pension income was a significant factor in negotiating the levels set for the actual pension benefits to be received by State of Hawaii and county retirees.

The State Director of Taxation testified before the Committee on Finance on HB 1092 (a related bill) on February 25, 2011 that:

Hawaii is one of only ten (or 20%) states that exclude all federal, state and local pension income from taxation.¹ [1. The ten (10) states are as follows: Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, New York, and Pennsylvania.] Forty (or 80%) states taxed pension.

This statement is incorrect.

In reality, more states have income tax exclusions for state and local government pensions to one degree or another. These exclusions were a way to allow lower pension benefits to be paid to state and local government workers, by saying "Look, your pension benefits will be exempt from state income taxes."

Seven (7) states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) have no personal income tax. Two (2) other states have very limited personal income taxes - Tennessee (6% tax on dividends and interest from bonds and stocks) and New Hampshire (5%

tax on dividends and interest) -- and thus, do not tax pension income. At least four (4) other states do not tax Federal, State or local government pensions or private pensions (Alabama, Illinois, Mississippi and Pennsylvania).

Of the remaining 36 states with broad-based income taxes (not counting Hawaii), at least nine (9) states do not tax Federal, state and local government pensions in full or in part, but tax private pensions usually with an exemption amount (Kansas - government pensions fully tax exempt, Louisiana - government pensions fully tax exempt (\$6,000 exclusion for private pensions for each person receiving pension income if 65 or over or disabled irrespective of whether single filer or joint filers), Massachusetts - government pensions fully tax exempt, Michigan - government pensions fully tax exempt (\$45,120 exclusion for private pensions for single filers and \$90,290 for joint filers), New York - government pensions fully tax exempt (\$20,000 exclusion per person receiving pension income for private pensions irrespective of whether single filers or joint filers), Missouri - government pensions are exempt up to \$85,000 for single and married filing separately and \$100,000 for joint filers (\$25,000 exclusion for private pensions of single filers, \$16,000 for married filing separately and \$32,000 for joint filers), Kentucky - government pensions are partially tax exempt (Federal, State or local government pension amounts earned before January 1, 1998 are not taxed; all pensions, including Federal, State and local government pension amounts earned after December 31, 1997, are taxed but allowed a \$41,110 exclusion per person receiving pension income irrespective of whether single filers or joint filers), North Carolina - government pensions exempt for those with with at least five years of creditable service before August 12, 1989 and exempt up to \$4,000 per person receiving pension income for others (\$2,000 exemption for private pensions per person receiving pension income), and West Virginia - state and local government pension tax exemption for police and fire and up to \$2,000 per person receiving pension income for others (\$8,000 exemption per person receiving pension income if 65 or older or disabled). Of the remaining 27 States, most have exclusions or credits for pension income depending in some cases on source, age or income, including Georgia (\$35,000 in retirement income for each taxpayer if 62 or over or disabled,

with an increase to \$65,000 if 65 or over in 2012), Maryland (\$26,100 per person receiving pension income if 65 or over or disabled), Colorado (\$20,000 per person receiving pension income if below 65 and \$24,000 per person receiving pension income if 65 and over), New Jersey (\$10,000 for 62 or over or disabled if married filing separately, \$15,000 if single, and \$20,000 if joint filers subject to an AGI limit), Delaware (\$2000 below 60 per person receiving pension income, \$12,500 to \$14,500 if 60 or over per person receiving pension income), Oklahoma (\$10,000 per person receiving retirement income) and South Carolina (\$3000 exclusion below 65 per person receiving retirement income and \$10,000 per person receiving retirement income if 65 and above; \$15,000 exclusion for all over 65 regardless of income source). Only six states (California, Connecticut (50% military retirement exclusion), Minnesota, Nebraska, Rhode Island, and Vermont) do not appear to allow any exclusions or tax credits for pension and other retirement income per se, but may have other tax relief mechanisms for seniors and disabled persons such as deductions or credits for long-term care insurance or costs.

In addition to pension income, a number of states have separate exclusions for disability income including, but not limited to, Indiana, Michigan, New Jersey, South Carolina, and Virginia (up to \$20,000). Exclusion of disability income from State of Hawaii income taxes is particularly appropriate.

It is obvious that the State Administration does not fully understand the true impact of its pension tax proposal. The Federal AGI thresholds in the State Administration's original proposal, with \$37,500 for single or married filing separately, \$56,250 for head of household or surviving spouse, and \$75,000 for joint filers, were much, much too low. The State Director of Taxation testified that the "average Hawaii household income in 2008 was \$66,701" and "the average Hawaii residents' pensions and annuities taxed at the federal level was \$22,686." This data clearly demonstrates that, under the State Administration's original proposal, virtually all pension income would be taxed. The Federal AGI thresholds in S.B. No. 570, SD 2, HD 1 Proposed are much more reasonable.

Personally, I believe that, if pension income is taxed at all, the \$100,000 for married filing separately, \$150,000 for other single filers and \$200,000 for joint filers, respectively. As explained below and by other testifiers, married taxpayers should not be given twice the amount of threshold (or exclusion) over single taxpayers. Also, as explained below, surviving spouses should not be given any better tax treatment than other single taxpayers. Disability income should be exempted entirely.

Several testifiers have shown why use of Federal AGI thresholds, instead of pension income exclusions, is inappropriate. Most importantly, this included the fact that a taxpayer with \$1.00 over the Federal AGI threshold (which includes taxable social security payments) will have his or her entire pension taxed. In addition to the reasons expressed by other testifiers, it is important to recognize that Federal AGI thresholds do not take into consideration excessive health expenditures faced by many senior citizens and disabled persons. These excessive health expenditures are subtracted as itemized deductions after Federal AGI is determined. To solve these problems, it is clearly much better to use a pension income exclusion such as used in H.B. No. 1092, HD 1 Proposed B which was considered at one point by the Committee on Finance, with adjustments to the brackets. However, I believe that higher pension income exclusions should be used such as the amounts in the present S.B. No. 570, SD 2, HD 1 Proposed with adjustments to the brackets or the amounts and brackets I have suggested above.

I am also opposed to the limitations on the deductibility of State of Hawaii income taxes or excise taxes. These limitations will have detrimental impacts on all taxpayers, particularly senior citizens and disabled persons. In his testimony before the Committee on Finance, the State Director of Taxation stated that "It is a fundamental tax policy to eliminate an absurd deduction allowed by the same source that is taxing the income. The current deduction is irrational and poor tax policy." To the contrary, it is obviously inappropriate for a state to impose an income tax on its own state income and sales taxes. The Director of Taxation acknowledged that a number of states allow income tax deductions for

state income or sales taxes. However, it should also be mentioned that several other states take the better approach of allowing deduction of Federal income taxes, including Alabama, Iowa, Louisiana, Missouri (up to \$5,000 or \$10,000), Oklahoma (with limits), Oregon (up to \$5,000) and Utah (50%). Replacement of the current State of Hawaii income/sales tax deduction with a Federal income tax deduction for State of Hawaii income tax purposes would certainly eliminate the absurdity and irrationality that concerns the State Director of Taxation. However, it would probably result in a greater loss of revenue for the State. As with the proposed pension tax, the brackets unfairly discriminate against single people compared to married people and surviving spouses.

I am also opposed to the overall limitations on itemized deductions. My biggest concern is with catastrophic medical costs. The limitation on itemized deductions should not apply to medical and dental expenses which already must exceed 7.5% of AGI before they are deductible. These limitations will have detrimental impacts on all taxpayers, but will adversely impact senior citizens and disabled persons most significantly. As with the proposed pension tax and the limit on the deductibility of State of Hawaii income taxes and excise taxes, the brackets unfairly discriminate against single people compared to married people and surviving spouses. In this case, the discrimination is compounded by using both a lower cap and a lower AGI threshold for single people. On the other hand, married people and surviving spouses receive a much more generous cap and AGI threshold.

I would also like to note that the bill uses the term "surviving spouse" in the provisions relating to the taxation of pension income and the provisions relating to the deductibility of State of Hawaii income and excise taxes and itemized deduction caps, but the bill does not define the term "surviving spouse." If the bill is intended to define "surviving spouse" as that term is used in Section 2(a) of the Internal Revenue Code, then it should say so. This would limit the "surviving spouse" preferential treatment to those surviving spouses with a qualified dependent child who do not remarry and would limit the preferential treatment to a maximum of two years after the year of death. If the bill is intended to create a new

long-term classification for surviving spouses and give them long-term preferential tax treatment, this new classification and preferential tax treatment is both unfair and unjustifiable. I am sympathetic to those who have lost their spouses and I am sympathetic to those who may wish to provide added financial benefits to their spouses in the future, but there is absolutely no justification for doubling the Federal AGI thresholds for pension tax purposes, income/sales deductibility, or itemization deduction cap purposes for surviving spouses who are in an identical financial situation to single taxpayers who are not surviving spouses. Personally, I don't believe any preferential tax treatment should be given to surviving spouses beyond the year of death, but in no event should preferential tax treatment be given to surviving spouses on a permanent basis. Other states do not recognize such a surviving spouse distinction. In most of the other states, there are only two or three classifications for pension exclusion purposes, i.e. (1) single filers or joint filers, or (2) single, married filing separately and married filing jointly. Moreover, the pension tax exclusions for married persons in other states are normally not double that of single filers. To the contrary, the pension income of all taxpayers is generally considered individually for exclusion or credit purposes. Thus, joint filers only receive one exemption for each person receiving a pension, not a double exclusion for the same pension. However, S.B. No. 570, SD 2, HD 1 allows an unfair double Federal AGI threshold even if only one spouse receives a pension. The same unfair threshold doubling occurs with the provisions relating to the deductibility of State of Hawaii income and excise taxes and itemized deduction caps. The itemized deduction cap provisions also unfairly allowed married persons to claim double the amount of itemized deductions with no justification. As others have testified, a married couple does not require twice the amount of money to live as a single person. And the same is even more true for surviving spouses. Also, how the Federal AGI thresholds are to be calculated for those qualifying under the State of Hawaii's new civil union classification should be made clear.

Finally, I believe the retroactive application of this legislation, taxing pension income, limiting the deductibility of State of Hawaii income taxes

or excise taxes, and capping itemized deductions beginning January 1, 2011 is inappropriate. This retroactive application gives seniors and disabled persons no opportunity to plan for their futures. Obviously, many seniors and disabled persons may have chosen to make the difficult decision of moving to another more retirement-friendly jurisdiction rather than allowing the State of Hawaii to eat away at the little money they saved for their retirement. Seniors and disabled persons should at least be given the time and opportunity to make this critical decision about their futures before they are impacted by this and other tax increases.

Please do not target currently retired seniors and disabled persons. We fully contributed to the care, health, education and financial well-being of younger generations throughout our working lives as well as to the care, health, and financial well-being of older generations. Now, we need the same consideration and help. Other states are not expecting current retirees to finance the salaries and benefits of active employees. Many of these active employees have years remaining to address their retirement needs through alternative savings mechanisms or employment opportunities. Currently retired persons do not.

Also, to me, it seems that this bill as drafted gives preferential tax treatment to married people, possibly surviving spouses and I assume those in civil unions, while imposing much harsher tax treatment on single people. This takes unfair advantage of one segment of society to benefit another.

Thank you for your attention and consideration.

Sincerely,


Gregory J. Swartz

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, April 03, 2011 10:04 AM
To: FINTestimony
Cc: reinze@hotmail.com
Subject: Testimony for SB570 on 4/4/2011 2:00:00 PM

Testimony for FIN 4/4/2011 2:00:00 PM SB570

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: Reinze Young
Organization: AARP
Address:
Phone:
E-mail: reinze@hotmail.com
Submitted on: 4/3/2011

Comments:

To: House Committee on Finance, Rep. Marcus Oshiro, Chair
Date: Monday, 4/4/11, State Conference Rm 308, 2:00pm
Re: SB 570, SD2, HD1

Chair Oshiro and Committee Members. My name is Reinze Young and I live in the Hilo area. I am opposed to SB 570, SD2, HD1 because increasing taxes does not solve the problem of Hawaii state not being able to live within their budget, which I do see as the problem. The Finance Committee needs a different mantra than 'increase taxes'.

Thank you for allowing me to submit testimony.

Reinze Young

Hilo, Hawaii

April 3, 2011

TO: House Committee on Finance, Representative Marcus R. Oshiro, Chair
DATE: Monday, April 3, 2011, State Capitol Conference Room 308, 2:00 p.m.
RE: SB570, SD2, HD1 Proposed

Chair Oshiro and Committee Members,

My name is Edmund F. Austen and I am a retiree and a family caregiver for my wife. I live in the Waiakea Uka area on the Big Island. I am opposed to SB570, SD2, HD1 Proposed because this bill targets retiree pensions. I need assurances that all other income generation options are being considered. This bill, I'm afraid, will open a "foot in the door" opportunity for future legislation that will impact retirees.

This resolution, if passed, will only provide a bandaid for our budget woes. It will unfairly tax a group of people who are on fixed incomes and have no other means of generating revenue.

Please vote "NO" on this proposal. Thank you for the opportunity to submit testimony.

Sincerely,

Edmund F. Austen
P. O. Box 6637
Hilo, Hawaii 96720

To: House Committee on Finance, Representative Marcus R. Oshiro, Chair
Date: Monday, April 4, 2011, State Capitol Conference Room 308, 2:00 p.m.,
Re: SB570, SD2, HD1 Proposed

I am Jenny Howard, a retired teacher with 38+ years of service in the Department of Education. I oppose the proposed tax regulation on retiree pensions described in Senate Bill 570,SD2,HD1.

-An online article by the *National Conference of State Legislatures*, dated February 2011, states that various state policies on retirement income exclusions have one or both of two purposes: 1) to protect the income of taxpayers who are no longer in the workforce, and 2) to serve as an economic development tool by attracting retired people to, or retaining them in, a state. The current tax law in Hawai'i accomplishes both objectives, and this law is one of the very few things that make retirement in Hawai'i financially feasible.

-The high thresholds in the proposed legislation certainly show that an effort is being made by legislators to protect the income of most retirees, and I for one appreciate that. However, many of us are concerned that this protective shield will eventually fall by the wayside. In other words, changes in the provisions in the law will be determined by the economic situation at the moment, rather than by a general principle of protection for retiree income.

-This legislation clearly signals a change in priority in regard to the second purpose stated above, and for this reason, the legislation may not generate the level of revenue anticipated. This measure will not serve to encourage people to retire in Hawaii. And, retirees now living in Hawai'i who stand to be taxed the most may decide to move away. This would leave the state without the revenue generated by various state and local taxes these retirees now pay, as well as the anticipated pension tax revenue. Businesses and organizations would also be adversely affected, and we would lose the many non-monetary contributions these people make to our community.

- The proposed legislation places retirees with incomes that hover around the threshold in an "all or nothing" tax situation. These taxpayers may try to avoid reaching this threshold by, for example, giving up a certain amount of variable income, or they may adjust their expenditures and financial resources, such as withdrawals from tax protected 401K accounts, to at least partially offset the effect of the added tax on their pensions. This kind of maneuvering would result in less tax revenue than anticipated.

-Concerned that pensions are now "fair game" for state taxation, active employees planning to retire in the near future may decide to postpone retirement. Believing that their pensions may at some point become taxable, they will choose to work more years to offset the cost. In the public sector, postponements of retirement would provide a short-term respite for the state retirement system, but would not help balance the state budget right now. Employees near retirement have salaries that are at the high end of the scale, costing the state much more than entry level salaries for new employees. And, in the long run, the retirement system would be obligated to pay higher benefits to employees who have accrued additional work years. Tax money from public sector pensions is, in effect, revenue running around in circles within the state system. Our pension income supports the welfare of the general community only when we spend it as consumers.

- For these reasons, I don't believe the proposed pension tax provides an equitable or practical solution for the state budget problem. If more taxation is needed, I think the added burden should be spread among most taxpayers, so that no particular group is severely affected.

Your consideration of this testimony is appreciated. Aloha.

To: House Committee on Finance, Representative Marcus R. Oshiro,
Chair

Date: Monday, April 4, 2011, State Capitol Conference Room 308, 2:00
p.m.

Re: SB 570, SD2, HD1 Proposed

Chair Oshiro and Committee Members.

My name is Barbara J. Service and I am a retired voter who lives in
the Kahala area. I am opposed to SB 570, SD2, HD1 Proposed because:

I am concerned about any means to raise funds on the backs of seniors,
many of whom have few, if any, options to make up the loss of income
by paying taxes on their pensions.

First of all, the amount which might be generated is only a fraction
of what is needed. What other options are being considered to raise
funds?

Of greater concern is the fact that, if this bill passes, the
thresholds could easily be lowered later, as more and more revenue is
needed.

Other methods of generating revenues must be explored before taxing
retirees.

Thank you for the opportunity to submit testimony.

Barbara J. Service
Waialae - Kahala

To: House Committee on Finance, Representative Marcus R. Oshiro, Chair

Date: Monday, April 4, 2011, State Capitol Conference Room 308, 2:00PM

RE: SB 570, SD2, HD1 Proposals

Aloha Chair Oshiro and Committee Members. My name is Elaine C. Goldberg and I live in Kapolei.

I retired from Federal Government on November 2009 after 22 years of services, after I discovered the details of the Windfall Elimination Act, Public Law for CSCR /offset employees which reduced my amount of retirement by \$350.00 at age 62. Also be aware of lack of raises since the start of the War (10 years ago) and remember that 25% COLA of Federal Employees salaries that did not go into retirement funding.

On January 1, 2011, my health insurance cost increased approximately 25% and co-payments to medical providers and doctors providing ancillary services have increased substantially. I must restrict doctors' visits as I cannot afford the copayments. My net check from the Federal Government is \$840.00/month.

Although, my salary was almost \$50,000/year, I was shocked to see that now I need welfare and often have no money to buy food. The increase of Federal taxes this year and substantial increase of purchases in Hawaii terrifies me. It is impossible to make \$1.00 into \$3.00.

I strongly oppose SB 570, SD2, HD1. **Do not take retirees minimum wages away from them by incurring a tax on retirement wages. Do not tax pensions. Do not eliminate the deduction for state income taxes and place caps on itemized deductions.** Taxes to my pension rather than helping the state will decrease my spending and ability to pay co-payments for medical care. Be advised that Federal Insurance policies do not include dental care. My Federal BC/BS (the best Plan) does not pay for dental care other than \$13.00 for cleanings from the government's one provider accepting Federal BC/BS.

Please oppose SB 570, SD2, HD1.

Thank you for the opportunity to submit testimony.

Elaine C. Goldberg

Kapolei, HI April 2, 2011.

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, April 03, 2011 7:05 PM
To: FINTestimony
Cc: johngaillau@hawaiiantel.net
Subject: Testimony for SB570 on 4/4/2011 2:00:00 PM

Testimony for FIN 4/4/2011 2:00:00 PM SB570

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: Johnson Lau
Organization: Individual
Address:
Phone:
E-mail: johngaillau@hawaiiantel.net
Submitted on: 4/3/2011

Comments:

I am a State government retiree testifying in opposition to both HB 1092, HD1, proposed A and B versions.

The taxation of pension income, including government retiree pensions, is fundamentally unfair.

The proposed tax violates a long-standing State tax policy that pension income would not be subject to income taxation as provided under section 235-7 Hawaii Revised Statutes.

This administration-sponsored proposal also disproportionately targets retirees to offset the estimated \$700 million budget shortfall.

Given the current employment situation, the proposed tax will impact those least able to go back to work to meet the ever rising living expenses and to pay the proposed tax.

It seems the budget deficit for FY2013 is so large that spending cuts, taxing retirees' pensions, and other revenue enhancement proposals will not solve the deficit problem. A fairer and broad-based "everyone helping to paddle the canoe" way is to raise the general excise tax rate for two years. The income tax credit can be expanded to offset the regressivity of the tax increase for low-income families.

Thank you for the opportunity to submit testimony on these proposed bills.

FINTestimony

From: Joel Fischer [jfischer@hawaii.edu]
Sent: Sunday, April 03, 2011 1:28 PM
To: FINTestimony
Subject: SB570; FIN; 4/4/2011; 2PM, Rm 308

Importance: High

SB570, SD2, HD 1; Relating to Taxation
FIN; Chair, Rep Oshiro

PLEASE KILL THIS BILL, MAKE-DIE-DEAD!!

I have never seen any set of bills -including HB1041 and SB570- that are more anti-worker and anti-elderly. How can a democratic Governor and Democrat-controlled legislature countenance this attack on your most important constituencies? Even Republican administrations would never submit these attacks on workers and the elderly. **HEWA!**

The high income requirements are **shibai!** It is a slippery slope to using much lower income requirements, a certainty if this bill is passed.

The budget problems in Hawai'i nei are not the fault of workers and retirees. But there is a clear line of blame for these problems: first, the hundreds of millions of dollars wasted on tax credits that do virtually nothing to create jobs, and, second, the tax changes introduced in faux-liberal Ben Cayetano's regime that absolutely robbed the state of hundreds of millions of tax dollars from the rich under the absolutely false assumptions of the trickle-down theory.

Until the Governor and Legislature really attack these inequities, I am unalterably opposed to the bills on today's agenda.

"Everybody" sharing the burden does NOT mean only the poor, elderly and state workers!!

Aloha, joel

Dr. Joel Fischer, ACSW
Professor (Ret.)
University of Hawai'i, School of Social Work
Henke Hall
Honolulu, HI 96822

"It is reasonable that everyone who asks justice should DO justice."
Thomas Jefferson

"There comes a time when one must take a position that is neither safe, nor politic, nor popular, but one must take it because one's conscience tells one that it is right."
Dr. Martin Luther King, Jr.

"Never, never, never quit."
Winston Churchill

It is better to be "over the hill" than under it.
Anonymous



FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Saturday, April 02, 2011 6:20 PM
To: FINTestimony
Cc: barbarajservice@hawaii.rr.com
Subject: Testimony for SB570 on 4/4/2011 2:00:00 PM

Testimony for FIN 4/4/2011 2:00:00 PM SB570

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: Barbara J. Service
Organization: Individual
Address:
Phone:
E-mail: barbarajservice@hawaii.rr.com
Submitted on: 4/2/2011

Comments:

To: House Committee on Finance, Representative Marcus R. Oshiro, Chair
Date: Monday, April 4, 2011, State Capitol Conference Room 308, 2:00 p.m.
Re: SB 570, SD2, HD1 Proposed

Chair Oshiro and Committee Members.

My name is Barbara J. Service and I am a retired voter who lives in the Kahala area. I am opposed to SB 570, SD2, HD1 Proposed because:

I am concerned about any means to raise funds on the backs of seniors, many of whom have few, if any, options to make up the loss of income by paying taxes on their pensions.

First of all, the amount which might be generated is only a fraction of what is needed. What other options are being considered to raise funds?

Of greater concern is the fact that, if this bill passes, the thresholds could easily be lowered later, as more and more revenue is needed.

Other methods of generating revenues must be explored before taxing retirees.

Thank you for the opportunity to submit testimony.

Barbara J. Service
Waialae - Kahala

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Saturday, April 02, 2011 4:27 PM
To: FINTestimony
Cc: maucrowe@gmail.com
Subject: Testimony for SB570 on 4/4/2011 2:00:00 PM

Testimony for FIN 4/4/2011 2:00:00 PM SB570

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: James Crowe
Organization: Individual
Address:
Phone:
E-mail: maucrowe@gmail.com
Submitted on: 4/2/2011

Comments:

SB570 is a bad precedent that could lead to more encroachment on us middle and lower income and lower income retirees.

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Saturday, April 02, 2011 3:18 PM
To: FINTestimony
Cc: toddhairgrove@yahoo.com
Subject: Testimony for SB570 on 4/4/2011 2:00:00 PM

Testimony for FIN 4/4/2011 2:00:00 PM SB570

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: Todd Hairgrove
Organization: Individual
Address:
Phone:
E-mail: toddhairgrove@yahoo.com
Submitted on: 4/2/2011

Comments: