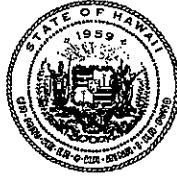


NEIL ABERCROMBIE  
GOVERNOR

BRIAN SCHATZ  
LT. GOVERNOR



FREDERICK D. PABLO  
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF TAXATION

P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

To: The Honorable Roy Takumi, Chair  
and Members of the House Committee on Education

Date: March 12, 2012  
Time: 2:00 P.M.  
Place: Conference Room 309, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: S. B. 2484 SD2 Relating to Taxation

The Department of Taxation (Department) appreciates the intent of S.B. No. 2484, and offers the following comments for your consideration.

S. B. 2484 SD2 provides a non-refundable tax credit to qualified taxpayers for certain expenses, not to exceed \$500.00.

For tax years 2002 through 2011, Section 62(a)(2)(D) of the Internal Revenue Code (IRC) allowed expenses of an elementary and secondary school teacher, not in excess of \$250, to be deducted from their gross income. The State of Hawaii conformed to these provisions, which expired on December 31, 2011. As opposed to the federal deduction, S.B. 2484 proposes a dollar-for-dollar tax credit which directly reduces the tax liability of the "qualified taxpayer."

The Department notes that the measure, as written, does not require that the purchased items are used in the classroom, only that they are purchased by the qualified taxpayer. To avoid potential for abuse, the Department recommends that the language be clarified.

Thank you for the opportunity to provide comments.

NEIL ABERCROMBIE  
GOVERNOR



RICHARD BURNS  
STATE LIBRARIAN

STATE OF HAWAII  
HAWAII STATE PUBLIC LIBRARY SYSTEM  
OFFICE OF THE STATE LIBRARIAN  
44 MERCHANT STREET  
HONOLULU, HAWAII 96813

**House Committee on Education  
Monday, March 12, 2012  
State Capitol, Room 309**

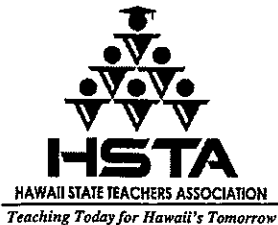
**SB2484, SD2 - Relating to Taxation**

The Hawaii State Public Library System supports SB 2484 SD2, with one requested amendment.

Please consider adding on page 2, line 9 " ... or a public service librarian in the Hawaii State Public Library System."

Just as the other qualified taxpayers identified in this bill spend considerable personal funds on expenses in connection with books, supplies, computer equipment(including related software and services) and other equipment, and supplementary materials, public service librarians in the Hawaii State Public Library System (HSPLS) spend their personal funds on these same items as they build their library collections, present programs, events and craft activities, and provide academic support for our school-aged patrons in a variety of settings.

Thank you for considering this amendment and for the opportunity to submit testimony on this bill.



1200 Ala Kapuna Street • Honolulu, Hawaii 96819  
Tel: (808) 833-2711 • Fax: (808) 839-7106 • Web: www.hsta.org

**Wii Okabe**  
President

**Karolyn Mossman**  
Vice President

**Joan Kamifa Lewis**  
Secretary-Treasurer

**Alvin Nagasako**  
Executive Director

HOUSE COMMITTEE ON  
EDUCATION

RE: SB 2484, SD 2 -- RELATING TO TAXATION.

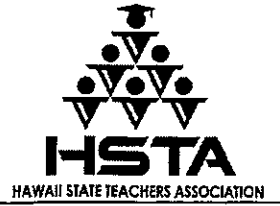
MONDAY, MARCH 12, 2012

WIL OKABE, PRESIDENT  
HAWAII STATE TEACHERS ASSOCIATION

Chair Takumi and Members of the Committee:

The Hawaii State Teachers Association strongly supports SB 2484, SD2, relating to taxation, which authorizes a \$500 tax credit for teachers who spend personal income on educational materials, including books, supplies, computer equipment, and supplemental classroom materials.

To put this matter in context, across the nation, teachers face growing financial challenges specific to the classroom. According to a report released by the National School Supply and Equipment Association (NSSEA), public school teachers spent \$1.33 billion out of pocket on school supplies and instructional materials during the 2009-2010 school year, an average of \$356 per teacher. While down from previous years, NSSEA attributes the decrease not to funding increases, but the fact that educators, who are paid comparatively less than professionals with similar work experience and training, were hit hard by the recent recession and had less discretionary income to spend. These stark figures are likely worsened by Hawaii's high cost-of-living. Our state was recently



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Executive Director

ranked last in a MoneyRates.com evaluation of adjusted-average income—at \$22,107.96, Hawaii was more than \$7,000 behind Maine, the next-to-last state on the list.

At the local level, pay cuts (including teacher furloughs); rising health care costs, adjusted insurance co-pays, and the loss of the state's \$1,690-per-special-education-teacher classroom supply fund have all aggravated the financial burden borne by teachers' pocketbooks. In a recent survey conducted by HSTA, 47 percent of respondents cited personal expenditures between \$250 and \$500 each year on classroom supplies, with many claiming expenditures in excess of \$1,000. Not surprisingly, these same teachers have called upon HSTA—and lawmakers—to take action to lighten their financial load. We have appreciated your efforts to address our teacher concerns.

Some opponents of this bill have argued that a tax credit for teachers amounts to a *de facto* pay increase for a selected class of citizens, one that would not rectify the structural barriers hindering the DOE's appropriation of funds for supplies. We agree with our opponents that it should not take up to six months for funding requests to be approved and facilitated. At the same time, though, we understand that structural inefficiencies result, in part, from a lack of adequate funding. Mandatory budget cuts have crippled the DOE, in recent years, leading to reconsideration of whether or not to continue successful learning programs. When budget cuts pose threats to successful learning centers and categorical programs, the DOE's priorities shift from classroom support to programmatic savings. Put simply, in times of economic austerity, the DOE must spend more time accounting for basic programming needs, with less concern on the allocation of funds for individual teachers.

Additionally, it must be said that the “pay increase” contention cuts both ways. Granted, tax credits do lessen the individual tax burden of educators. Ensuring that educators have more money in their pocketbooks, however, effectively increases their purchasing power. Thus, providing a tax credit for teachers incentivizes the teaching profession, at a time when our state's high cost-of-living and low adjusted-average income compel many would-be teachers to choose more highly compensated professions or, even worse, leave the state altogether. If policymakers are truly interested in enhancing the DOE's ability to recruit highly effective teachers into our schools, providing fiscal incentives that offset cost-of-living problems is a worthy path to take. These benefits certainly outweigh the costs.

Again, teachers are constantly being pushed to be more creative with their lesson plans and classroom techniques, but with limited funding. Few employees are expected to pay for their own work supplies at the rate of teachers. And ultimately, when teachers benefit from state support, students reap the rewards. We look forward to working with you as this bill moves forward.

Thank you for the opportunity to testify.



46-063 Emepela Pl. #U101 Kaneohe, HI 96744 · (808) 679-7454 · Kris Coffield · Co-founder/Legislative Director

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**TESTIMONY FOR SENATE BILL 2484, SENATE DRAFT 2**

**House Committee on Education  
Hon. Roy Takumi, Chair  
Hon. Della Au Belatti, Vice Chair**

**Monday, March 12, 2012, 2:00 PM  
State Capitol, Conference Room 309**

Honorable Chair Takumi and committee members:

I am Kris Coffield, representing the IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 150 local members. On behalf of our members, we offer this testimony in strong support of SB 2484, SD2, relating to taxation.

Last year, the National School Supply and Equipment Association released a report stating that public school teachers spent \$1.33 billion of their discretionary income on supplementary school supplies and instructional materials during the 2009-2010 school year, an average of \$356 dollars per teacher. Though less than previous years in which a report was issued, that number, when broken down, nonetheless amounts to \$170 for supplies and \$186 on instructional materials not provided for by Departments of Education. Moreover, NSSEA attributes the estimate drop not to increased classroom funding, but the impact of the recent recession upon educators' discretionary income levels.

The trend is, if anything, worse in Hawaii, which has consistently ranked at or near the bottom in national cost-of-living studies and was recently ranked last in a MoneyRates.com evaluation of adjusted-average income—at \$22,107.96, Hawaii was more than \$7,000 behind Maine, the next-to-last state on the list. Additionally, the Department of Business, Economic Development, and Tourism projects a consumer price index increase of approximately 3 percent, in 2012, underscoring the rising cost of goods in Honolulu, particularly in the urban core, which is a particularly cumbersome burden for certificated employees in the DOE, who have been forced to struggle with repeated pay cuts, furloughs, and elevated medical costs in recent years.

Thus, we urge your committee to increase state educators' purchasing power by instituting tax credits for supplies, computer equipment, and supplementary materials, which will assist in the recruitment and retention of effective teachers who might otherwise leave the state,

or even the profession, because of financial hurdles. Mahalo for the opportunity to testify in strong support of this measure.

Sincerely,  
Kris Coffield  
*Legislative Director*  
IMUAlliance

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, Tax credit for expenses of school teachers

**BILL NUMBER:** SB 2484, SD-2

**INTRODUCED BY:** Senate Committee on Ways and Means

**BRIEF SUMMARY:** Adds a new section to HRS chapter 235 to allow qualified taxpayers to claim a tax credit of up to \$500 for “certain expenses” which shall be deductible from the taxpayer’s income tax liability for the taxable year the credit is properly claimed. Defines “qualified taxpayer” as a school teacher, special education teacher, school librarian, or counselor employed by the department of education, charter school, or a private school in Hawaii that instructs students between K-12th grade. Defines “certain expenses” as expenses paid or incurred by a qualified taxpayer who incurs the expenses in connection with books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment, and supplementary materials used by the qualified taxpayer in the classroom. The credit shall be available for tax years beginning after 12/31/11.

Credits in excess of a taxpayer’s income tax liability shall be credited against a taxpayer’s subsequent income tax liability. Claims for the credit, including any amended claims, must be filed on or before the end of the 12th month following the close of the taxable year. Allows the director of taxation to adopt necessary rules and forms pursuant to HRS chapter 91 to carry out this section.

**EFFECTIVE DATE:** July 1, 2050; applicable to tax years beginning after December 31, 2011

**STAFF COMMENTS:** This measure proposes a tax credit of \$500 for out-of-pocket expenses incurred by a teacher. While the credits proposed in this measure would be granted without regard to a taxpayer’s need for tax relief or for that matter undertaking any specific action other than to be a teacher, it can be characterized as a backdoor pay increase for teachers as the credit is a dollar-for-dollar reduction of state income tax liability. It should be remembered that using the tax system to achieve social goals, as this measure proposes, is an inefficient means of accomplishing such goals. Credits are appropriate for alleviating an undue tax burden which certainly is not the case.

It should be noted that The Working Families Tax Relief Act of 2004 extended provisions for educator expenses beyond its initial adoption in 2001 and is now set to expire with the close of 2011. This provision allowed educators to deduct up to \$250 of qualified expenses incurred. Since the federal provisions have expired, it appears that this measure proposes to adopt similar provisions on the state level albeit a more generous credit instead of a deduction which is a reduction of gross income.

While there is much empathy for the anecdotal reports of teachers using their own funds for classroom materials, the problem is with the bureaucratic system of requesting the funds and having the system take as much as six months to approve the money. The money has been appropriated, and it is the system that



is frustrating. Thus, instead of using the tax system to “compensate” these teachers, first consideration should be given to “fixing the system.”

The suggestion has been made time and time again to give teachers debit like cards for the classroom supplies budget under EDN 100. The cards could be credited with a predetermined amount and could be encoded so that only defined classroom supplies could be purchased with that debit card. Such a system already has been employed to administer the state’s food stamp program, why can’t a similar system be established for classroom supplies rather than “mucking up” the tax system?

Instead of just throwing money at a problem, which in this case uses a tax credit, lawmakers should demand that the department fix the problem with the money that is there. It is the bureaucracy that needs to be addressed. Since the tax credit is an indirect additional burden on all remaining taxpayers as it shifts the burden to those not so favored, this proposal amounts to a tax increase and steals money from other programs. If lawmakers approve this financing scheme for classroom supplies, then a reduction in the appropriation for such supplies is in order. If not, then the tax credit merely increases the appropriation for education.

From an administration and compliance point of view, one has to question how the tax department will enforce the appropriate expenditures for “certain items” as enumerated in the measure. Given that this is a dollar-for-dollar offset, the revenue impact could be substantial. Between public and private schools, there are more than 14,000 “teachers” which does not include counselors or librarians who would also qualify for the \$500 credit, the tab could be a minimum \$7 million. If lawmakers believe this is an extension of what was available under the federal law for the ten-year period between 2002 and 2011, it should be remembered that the \$250 extended to teachers for purchase of classroom supplies was a deduction and not a tax credit. A deduction reduces income subject to tax as opposed to a tax credit which reduces the amount of tax revenue from the claimant taxpayer.

Digested 3/9/12

Dear Chair Roy M. Takumi and Vice Chair Della Au Bellatti,

I am writing in support of SB2484 relating to taxation and educators' expenses. In the slightly more than ten years I have taught in public schools, I have spent more than ten thousand dollars in school supplies. Often my decision to spend out of my own pocket comes down to the realization that I will have better student outcomes if I do. To tell the truth, I have had some ambivalence about this measure, since the root of the problem is in underfunded education; however, this measure if passed would lead directly to the classroom, with teacher discretion about the prioritizing of spending of up to \$500. I support the measure because of this direct link to the classroom.

Regards,

Claire Gearen  
Teacher, Mililani High  
Resident, 1212 Punahou St. #2601  
Honolulu, HI 96826