

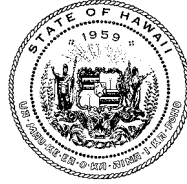
SB573

Relating to Taxation

EDU, WAM

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
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FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Education

Date: Wednesday, February 6, 2013

Time: 3:00 p.m.

Place: Conference Room 414, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 573 Relating to Taxation

The Department of Taxation (Department) appreciates the intent of S.B. 573, and offers the following information and comments for your consideration.

S.B. 573 authorizes a state income tax credit of up to \$500 for certain expenses paid or incurred by a school teacher during a taxable year. The measure is effective upon approval and applies to taxable years beginning after December 31, 2012.

Under the 2012 American Taxpayer Relief Act, the federal deduction for elementary and secondary school teachers, which had expired at the end of 2011, was extended for 2012 and 2013. Through conformity, the State will generally adopt changes made to the Internal Revenue Code.

While this measure provides that no other credit can be taken with the expenses claimed for this credit, it would not prevent a taxpayer from claiming both a deduction and this tax credit at the same time. The Department also notes that taxpayers would be receiving duplicate tax benefits for the same expenditure. Expenses paid by the teacher would be deducted from the teacher's gross income on their federal income tax return; the adjusted federal adjusted gross amount is then used as the basis for calculating the teacher's state income tax liability. The expenses could then be used to claim state income tax credits.

The Department notes that as written, the term "certain expenses" is extremely broad, and should be more thoroughly defined to avoid future compliance problems. The Department also notes that due to technological and staffing constraints, the Department will have difficulty developing the required changes to the tax forms and instructions in time for the 2013 tax filing season.

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax credit for expenses of school teachers

BILL NUMBER: SB 573

INTRODUCED BY: Kidani, Baker, Gabbard, Galuteria, Green, Ruderman, Tokuda and 4 Democrats

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, a charter school, or a private school in Hawaii that instructs students between junior kindergarten and twelfth grade. Defines “certain expenses” as expenses paid or incurred by a qualified taxpayer who incurs the expenses in connection with books, supplies (other than athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and supplementary materials used by the qualified taxpayer in the classroom. The credit shall be available for tax years beginning after 12/31/12.

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: Tax years beginning after December 31, 2012

STAFF COMMENTS: This measure proposes a tax credit of \$500 for out-of-pocket expenses incurred by a teacher. While the credit 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 state income tax law already recognizes the federal “above the line” deduction for educator expenses. This deduction is taken before determining adjusted gross income and allows up to \$250 of qualified classroom expenses made by an educator (\$500 if the spouse is also an educator). This deduction was scheduled to expire at the end of 2012, but the American Taxpayer Relief Act, which was signed into law on January 2, 2013, extended the deduction. Should state lawmakers update the conformity statute, the deduction will again be available for state income tax.

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

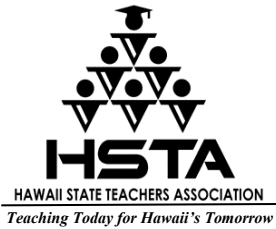
is frustrating. Thus, instead of using the tax system to “compensate” these teachers, first consideration should be given to “fixing the system.”

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.

Should lawmakers adopt the proposed credit, then the federal deduction should be made inoperable as having both would provided a double benefit for the same expenses.

Digested 2/5/13



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TESTIMONY BEFORE THE SENATE COMMITTEE ON TAXATION

Wil Okabe
President

Joan Kamila Lewis
Vice President

Colleen Pasco
Secretary-Treasurer

Alvin Nagasako
Executive Director

DATE: WEDNESDAY, FEBRUARY 06, 2013

RE: S.B. 573 – RELATING TO TAXATION.

PERSON TESTIFYING: WIL OKABE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

The Honorable Chair Tokuda and Members of the Committee:

The Hawaii State Teachers Association (HSTA) **strongly supports SB 573** relating to taxation, which authorizes a state income tax credit for certain expenses paid or incurred by a teacher during the taxable year.

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 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 appreciate 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, 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 for 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

TESTIMONY FOR SENATE BILL 573, RELATING TO TAXATION

**Senate Committee on Education
Hon. Jill N. Tokuda, Chair
Hon. Michelle N. Kidani, Vice Chair**

**Wednesday, February 6, 2013, 3:00 PM
State Capitol, Conference Room 414**

Honorable Chair Tokuda 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, with proposed amendments for SB 573, relating to taxation.

In 2011, 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 the Departments of Education. Moreover, NSSEA attributes the 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 second-worst in a Center for Budget and Policy Priorities ranking of per-pupil spending cuts, with Hawaii cutting \$1,175 in per-pupil spending between FY 2008 and FY 2012, adjusted for inflation. Similarly, Hawaii has the highest ACCRA value in the country, typically hovering between 160 and 165, leading to our state being ranked last, year after year, in teacher salaries adjusted for cost-of-living, with the average teacher

making a COL-adjusted income of \$31,854 per year, roughly \$4,000 below the next-to-last state on the list (Maine), according to statistics compiled and released by the U.S. Census Bureau. Pay cuts (including teacher furloughs and DLWOP days), 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.

In the past, 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 and in a self-fulfilling fashion, 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. Unfortunately, when budget cuts pose an existential threat 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, overarching programmatic needs, crowding out concerns about the efficient 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. Therefore, 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—today, approximately 50 percent of teachers leave our state's classrooms every five years, giving Hawaii the distinction of having the highest turnover rate in the nation. 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, whose longterm benefits are extremely likely to outweigh its immediate costs.

That said, we encourage the committee to extend this tax credit to cover librarians working within the Hawaii State Public Library System, who also spend personal money to expand educational resources and programs for Hawaii's schoolchildren. To enact this amendment (which has been considered as part of previous versions of this measure), we urge you to amend the definition of "qualified tax payer" to mean "a school teacher, special education teacher, school librarian, or counselor employed by the department of education, a charter school, ~~or~~ a private school in Hawaii that instructs students between junior kindergarten and twelfth grade, **or a public service librarian employed by the Hawaii state public library system.**"

Again, 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 highly effective teachers who might otherwise leave the profession, or even the state, because of financial hurdles.

Mahalo for the opportunity to testify in strong support of this measure.

Sincerely,
Kris Coffield
Legislative Director
IMUAlliance

From: mailinglist@capitol.hawaii.gov
To: [EDU Testimony](#)
Cc: pstanfield@gmail.com
Subject: Submitted testimony for SB573 on Feb 6, 2013 15:00PM
Date: Sunday, February 03, 2013 11:41:20 AM

SB573

Submitted on: 2/3/2013

Testimony for EDU on Feb 6, 2013 15:00PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Patty Stanfield	Individual	Support	No

Comments: As a school librarian I spend upwards of \$1000.00 a year out of my own personal rent/food/gas/electric/insurance/clothes/lcar-loan budget on additional books and supplies for my school. And I am not alone. Teachers, in addition to taking huge imposed financial hits over the last four years continue to subsidize the system out of their own empty pocket. Please do the right thing and pass this bill. Mahalo.Patty, a 25-year veteran teacher (who's spent a heck of a lot of money out of pocket on other people's children over the years!)

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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