NEIL ABERCROMBIE
GOVERNOR

PATRICIA McMANAMAN
DIRECTOR

BARBARA A. YAMASHITA
DEPUTY DIRECTOR

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

March 12, 2013

MEMORANDUM

TO: The Honorable Mele Carroll, Chair
House Committee on Human Services

FROM: Patricia McManaman, Director

SUBJECT: **S.B. 98, S.D. 1 - RELATING TO TAXATION**

Hearing: Tuesday, March 12, 2013; 9:30 a.m.
Conference Room 329, State Capitol

PURPOSE: The purpose of S.B. 98, S.D. 1 is to reduce the tax liability for low-income taxpayers by creating a tax credit that will reduce a taxpayer's income tax to a minimum amount if the taxpayer's federal and Hawaii adjusted gross income falls below certain thresholds..

DEPARTMENT'S POSITION: The Department of Human Services (DHS) supports the intent of this bill, provided it does not adversely impact nor replace the priorities in the Executive Biennium Budget.

It is important that our working low-income families have the opportunity to make a livable wage, and to realize self-sufficiency through their earnings and ability to asset-build. We believe that this measure is a step towards creating such an opportunity, however we respectfully defer to the Department of Taxation (DOTAX) on the feasibility of its implementation.

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

UNIVERSITY OF HAWAI'I

Bridge to Hope
Serving UH Welfare Recipient Students

Date: March 10, 2013

To: HOUSE Committee on HUMAN SERVICES
Rep. Mele Carroll, Chair
Rep. Bert Kobayashi, Vice-Chair

From: Teresa Bill, Univ. Hawai'i Bridge to Hope Coordinator
Ph: 956-9313

Re: Supporting SB98, SD1, Relating to Taxation; Poverty Tax Credit
Tues. March 12, 2013 9:30 a.m.
Conference Room 329 Committee Clerk, room 304

I am Teresa Bill, **testifying in support of SB98, SD1,** creating a low-income tax credit for low-income families. am the Coordinator of a Univ. of Hawai'i program called "Bridge to Hope" that supports welfare participants in their pursuit of higher education as a means of economic self-sufficiency. However, my testimony is not the official testimony of UH.

Working with low-income families and as a member of both the Dept. of Human Services' Financial Assistance Advisory Council and the 2008 Hawai'i State Asset Building and Financial Education Task Force,

Through my work with low-income families and as community member advocating for financial literacy, asset building, increased housing and social services for our families, it is quite clear that our lowest earning families pay a disproportionate amount of taxes.

As the Tax Foundation of Hawaii shares, Hawaii's threshold at which one begins paying state income tax is one of the lowest in the nation. We impose income tax on an individual who earns $2,000 of taxable income! The non-partisan Institute on Taxation and Economic Policy has identified Hawaii as one of the worst States (4th worst) to tax individuals and families earning the lowest incomes. Hawaii is one of 15 States that collects income tax from a family of 3 earning only minimum wage (gross: $15,080 annually).

The SD1 of SB98 substantially changed the originally proposed Poverty Tax Credit. **Hawaii really needs to readjust the tax tables** to increase the amount a low-earning, working families can earn before it must pay any income tax. Since that is not an option this year, I support SB98, SD1 replacing the current refundable $85 Food Tax Credit (per eligible exemption) with a non-refundable $300 tax credit (per eligible exemption). Since the proposed tax credit is non-refundable, perhaps the minimum taxable income threshold could also be raised.

I urge you to **support SB98,SD1** and continue the discussion about how best to achieve a more equitable tax structure for low-earning families, including an option for families earning below the federal poverty level to substantially reduce their state income tax.

Thank You

2600 Campus Road, Queen Lili'uokalani Center for Student Services 211, Honolulu, Hawai'i 96822-2205
Telephone: (808) 956-8059, Facsimile: (808) 956-9314, Email: bth@hawaii.edu

TESTIMONY IN SUPPORT OF SB 98 <u>with comments</u>: RELATING TO TAXATION

TO: Representative Mele Carroll, Chair, Representative Bertrand Kobayashi, Vice Chair and members of the Committee on Human Services

FROM: Trisha Kajimura, Social Policy Director, Catholic Charities Hawai‘i

Hearing: Tuesday, March 12, 2013, 9:30 am; CR 329

Thank you for the opportunity to testify on SB 98, which reduces the tax liability for low-income people. **Catholic Charities Hawaii supports the original language of this bill prior to the current Senate Draft (S.D.1). The original language of the bill creates a tax credit that will reduce a person’s income tax to zero if their federal adjusted gross income falls below federal poverty guidelines, as well as reducing a person’s tax liability by 50% if their income falls between 100% to 125% of the poverty line.** We are a member of Partners in Care, Oahu’s coalition of homeless providers, which supports this bill as a homelessness prevention strategy.

Catholic Charities Hawai’i has a strong commitment to decreasing poverty. Poverty is clearly linked to poor social and health outcomes. People living below the poverty line are especially hard hit in Hawaii, with the highest cost of living in the U.S. A family of four in Hawaii pays 61% more for food than families on the mainland. Our cost for housing is also the highest in the nation. 75% of people at or below the poverty line spend more than 50% of their income on housing. This population is frequently teetering at the brink of homelessness. Any change to their financial situation like a decrease in wages or increase in rent will tip them over into homelessness. Increasing their resources through this measure is much more cost-effective than trying to help them out of homelessness once they have lost everything.

Hawaii’s working poor families pay higher taxes than in all but 5 other states. In fact, Hawaii is one of only 15 states that tax full-time workers in families of three making the minimum wage ($15,080). In 2011, this family would have owed $258 in taxes. Hawaii’s poorest taxpayers pay an average tax rate of 12% of their income (including the GET tax), while those earning over $400,000 pay closer to 4% of their earnings. Exempting those living in poverty from paying income tax would not only make the tax system fairer, it will help them with their basic survival.

Families just above the poverty line are also struggling to make ends meet and avoid homelessness. This bill would also provide a reduced tax credit of 50% if their incomes fall between 100% and 125% of the poverty line.

We thank you for your concern and dedication to helping the poor in our community become more financially stable. We urge your support for this bill in its original form.

kobayashi1-Joni

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 11, 2013 2:22 PM
To: HUStestimony
Cc: gpcolton@gmail.com
Subject: Submitted testimony for SB98 on Mar 12, 2013 09:30AM

Categories: Maroon

SB98
Submitted on: 3/11/2013
Testimony for HUS on Mar 12, 2013 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Gary P Colton	Catholic Charities Hawaii	Comments Only	No

Comments: We respectfully propose the following amendments: • Revert to the original language of Senate Bill 98, which creates a Poverty Tax Credit that would eliminate all state income taxes for those living in poverty while preserving the refundable food/excise tax credit as currently provided in HRS § 235-55.85. • If the committee chooses to keep the language of SD 1 creating a nonrefundable low-income credit, preserve the refundable food/excise tax credit. Removing this refundable credit and replacing it with a nonrefundable income tax credit would actually increase the tax burden on the lowest-income households.

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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Goodwill
Industries of Hawaii, Inc.

CS13:013T:SF

To: The Honorable Mele Carroll, Chair of the House Human Services Committee.
The Honorable Bertrand Kobayashi, Vice Chair of the House Human Services Committee

From: Laura Smith, President/CEO
Scott Fuji, Assistant Director of Community Services
Goodwill Industries of Hawaii, Inc.

Date: March 11, 2013

Re: **Testimony in Support of SB98 SD1– Relating to Taxation**

Goodwill Industries of Hawaii, Inc. (Goodwill) is among the largest human service non-profit organizations in Hawaii. Our mission is to help people find and succeed in employment, to become self-sufficient. With a Statewide footprint, and offices on Oahu, Maui, Hilo, Kona and Kauai, last year Goodwill served over 15,000 people, placing more than 1,500 into jobs in our community.

Goodwill submits this testimony in strong support of Senate Bill 98 SD1. Goodwill Industries of Hawaii supports SB 98 because of the importance that asset building can have on an individual's life. Goodwill served approximately 3,800 TANF participants last year through the state's First-to-Work program and has extensive knowledge of problems facing TANF participants. One such concern is asset building.

Eliminating the tax liability for low-income individuals and households is a critical component to any tax reform plan with a focus on assisting those in the greatest need. Families living at or below the poverty line should not have to be concerned about owing money to the state at the start of every year. Guaranteeing that a family will not have a state tax liability will also allow families to adjust their state withholdings to increase the amount in every paycheck. While the addition to each check may appear small at a glance, there is power in every dollar added to a check to a family making under $17,000 a year.

We humbly ask for your support of Senate Bill 98. Thank you for this opportunity to provide testimony on this matter.

HAWAI'I APPLESEED CENTER LAW AND ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting SB 98 Relating to Taxation
House Committee on Human Services
Scheduled for Hearing on Tuesday, March 12, 2013 at 9:30 AM, Room 329

Hawai'i Appleseed Center for Law and Economic Justice is a nonprofit, 501(c)(3) law firm created to advocate on behalf of low income individuals and families in Hawai'i on civil legal issues of statewide importance. Our core mission is to help our clients gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.

Thank you for an opportunity to comment on and propose amendments to Senate Bill 98 SD 1, which would eliminate the refundable food/excise tax credit and replace it with a nonrefundable tax credit. We **support the intent** of this bill but comment that it is not the most effective way to alleviate the tax burden on low-income people.

We respectfully propose the following amendments:

- Revert to the original language of Senate Bill 98, which creates a Poverty Tax Credit that would eliminate all state income taxes for those living in poverty while preserving the refundable food/excise tax credit as currently provided in HRS § 235-55.85.

- If the committee chooses to keep the language of SD 1 creating a nonrefundable low-income credit, preserve the refundable food/excise tax credit. Removing this refundable credit and replacing it with a nonrefundable income tax credit would actually increase the tax burden on the lowest-income households.

Replacing the Food/Excise Will Actually *Increase* the Tax Burden on the Poorest
We appreciate the intent of this bill to reduce the tax burden on low-income earners. While SD 1's changes would provide tax relief to some low-income families, it would actually *increase* the total tax burden on our poorest families. This is because the poorest households (1) have no income tax liability as a result of deductions and refundable tax credits and (2) because it eliminates the refundable food/excise tax credit, which is a significant source of tax relief because it reduces the impact of the GET—the most regressive tax.

This increase in taxes for a hypothetical single parent with two children earning $9,000 is illustrated below. Under the current law, this household would receive a refund of $342 thanks to two *refundable* credits (the low-income renter credit and the GET food credit). By replacing the *refundable* GET credit with the *non-refundable* poverty income tax credit, this household's refund would actually *decrease* significantly.

Current law HRS § 235-55.85	
Income	$9,000
Standard deduction (head of household)	$3,212
Personal exemptions	$3,432
Taxable income	$2,356
Pre-credit tax liability, from tax table	$33
Refundable low-income renter credit	$150
Refundable food GET credit	$225
Income Tax	**$342** refund

As illustrated in the following table, the amendments in SD 1 would result in a lower refund, providing less tax relief for the GET already paid. Essentially, the lowest-earners would see a tax increase of $225.

SB 98 SD 1	
Income	$9,000
Standard deduction (head of household)	$3,212
Personal exemptions	$3,432
Taxable income	$2,356
Pre-credit tax liability, from tax table	$33
Refundable low-income renter credit	$150
Tax after refundable renter tax credit	$117 refund
Nonrefundable low-income tax credit	$ 900
Income Tax	**$117** refund

The Price of Paradise: Too High for Low-Income Families
Residents in Hawai'i who are living in poverty are faced with a number of severe economic challenges to attaining and maintaining self-sufficiency.

- Our state has the highest cost of living in the United States. The monthly food cost alone for a family of four in Hawai'i is 61% higher than on the mainland.
- The cost for shelter in Hawai'i is also the highest in the nation, with 75% of those living at or below the poverty level spending more than 50% of their income on housing.
- With the ever-rising costs in Hawai'i of food and shelter, low-income citizens are facing a daunting struggle to escape poverty. In addition, partly because of our high cost of living, our residents earn the lowest adjusted incomes than anywhere else in the country. This dilemma is often called the "Price of Paradise" but it has a particularly harsh effect on those living in poverty.

Low-income Families Are Overburdened with Regressive Taxes

- According to a study released this February by the Institute for Taxation and Economic Policy, Hawai'i's working-poor families pay higher tax bills than those in all but three other states. The Center on Budget and Policy Priorities reported in 2011 that Hawai'i is one of only 15 states that levy an income tax on full-time workers in families of three making minimum wage ($15,080). The federal poverty threshold for a family of three was $17,922 in 2011 with the family in Hawai'i owing $258 in state income taxes.
- In fact, the poorest taxpayers in Hawai'i pay 12 cents in taxes for every dollar in income (in large part because of the regressive nature of the GET tax), while the wealthiest among us pay only 7.6 cents in taxes for every dollar earned.
- Exempting those living in poverty from paying income tax not only will make the tax system fairer, it will help them survive the many economic challenges to their basic survival. The Poverty Tax Credit will eliminate the anomaly of taxing further into poverty those individuals and families who are earning the state's lowest incomes.

The Poverty Tax Credit: Helping Make Ends Meet

- The Poverty Tax Credit proposed in the first version of SB 91 would eliminate personal income tax liability entirely for any family in poverty while also reducing tax liability for families just above the poverty line.
    - Using the 2012 federal poverty guidelines for Hawaii, this would involve eliminating any income tax on single individuals earning less than $12,860, or married couples earning below $17,410. A single parent with two children would see the family's income tax liability eliminated if they earned less than $21,960 in a year, and a two parent family with two children would pay no income tax if their combined income was below $26,510.
- Larger families would face a slightly higher income cut-off for eligibility, and the cut-offs would change each year as new poverty data for Hawaii are released.
- Finally, in order to avoid a "cliff" in tax liability where taxpayers above the poverty line lose their entire tax credit, those families with incomes between 100% and 125% of the poverty line would receive a credit cutting their tax liability in half.

We greatly appreciate the intent of this bill to reduce the tax burden on low-income people, but strongly encourage the committee to <u>revert to the original language of SB 98</u>. Should the committee choose to retain the nonrefundable income tax credit contained in SD 1, we respectfully urge you to <u>retain the current food/excise tax exemption</u>.

Thank you again for the opportunity to testify, and please do not hesitate to contact Victor Geminiani (victor@hiappleseed.org) or Jenny Lee (jenny@hiappleseed.org) at Hawai'i Appleseed Center for Law and Economic Justice at 587-7605 if you have any questions or for more information.

PARTNERS IN CARE
Oahu's Coalition of Homeless Providers

TESTIMONY IN SUPPORT OF SB 98 <u>with comments</u>: RELATING TO TAXATION

TO: Representative Mele Carroll, Chair, Representative Bertrand Kobayashi, Vice Chair and members of the Committee on Human Services

FROM: Gladys Peraro, Co-Chair Advocacy Committee, Partners In Care

Hearing: Tuesday, March 12, 2013, 9:30 am; CR 329

Thank you for the opportunity to testify on SB 98 on behalf of Partners In Care (PIC), which reduces the tax liability for low-income people. I am Gladys L. Peraro, Advocacy Committee Co-Chair for Partners In Care, the coalition care providers focused on the needs of homeless persons and strategies to end homelessness. ***PIC supports the original language of this bill prior to the current Senate Draft (S.D.1). The original language of the bill creates a tax credit that will reduce a person's income tax to zero if their federal adjusted gross income falls below federal poverty guidelines, as well as reducing a person's tax liability by 50% if their income falls between 100% to 125% of the poverty line.***

Partners In Care has a strong commitment to advocating for decreasing poverty. Poverty, which is clearly linked to poor social and health outcomes, especially as it relative to those individuals and families living below the poverty line, who are especially hard hit in Hawaii, with the highest cost of living in the U.S. A family of four in Hawaii pays 61% more for food than families on the mainland and our cost for housing is also the highest in the nation- 75 percent of people at or below the poverty line spends more than 50% of their income on housing. This population is frequently teetering at the brink of homelessness. Any change to their financial situation, like a decrease in wages or increase in rent will tip them over the edge and into homelessness. The opportunity of increasing their resources through this measure is much more cost-effective than trying to help them out of homelessness once they have lost everything.

Partners In Care supports a ***State Earned Income Tax Credit (EITC)*** to help families in poverty and prevent homelessness. An EITC is a direct incentive for low income workers since it targets workers with families. Hawaii's working poor pay higher taxes than in all but five (5) other states. In fact, Hawaii is one of only 15 states that tax full-time workers in families of three making the minimum wage of $15,080. In 2011, a family this size would have owed $258 in taxes. Hawaii's poorest taxpayers pay an average tax rate of 12% of their income (including the GET tax), while those earning over $400,000 pay closer to 4% of their earnings.

Exempting those living in poverty from paying income tax would not only make the tax system more equitable, it will help them with their basic survival. Families just above the poverty line are also struggling to make ends meet and avoid homelessness. This bill would also provide a reduced tax credit of 50% if their incomes fall between 100% and 125% of the poverty line- a difference that will truly help the working poor in our community.

Thank you again, on behalf of Partners In Care, for your concern and dedication. **We respectfully urge your support for SB 98 in its original form**.

Partners In Care, c/o Aloha United Way, 200 N. Vineyard Blvd. Suite 700
Honolulu, Hawaii 96817

Partners in Care is a membership organization of homeless service providers, other service professionals, units of local and state government, homeless consumers, and other community representatives located in Hawai'i on O'ahu. It is a planning, coordinating, and advocacy body that develops recommendations for programs and services to fill gaps in the Continuum of Care on O'ahu.

Hawai'i Alliance for Community-Based Economic Development
677 Ala Moana Blvd., Suite 702 Honolulu, HI 96813
Ph. 808.550.2661 Fax 808.534.1199
Email info@hacbed.org www.hacbed.org

HACBED

Community Voice, Collective Action

Date: March 11, 2013
To: Representative Mele Carroll, Chair, Representative Bertrand Kobayashi, Vice-Chair, and members of the Committee on Human Services
From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)
Re: Support for SB98 SD 1 with Comments

Aloha Chair Carroll, Vice-Chair Kobayashi, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB 98, which establishes a Poverty Tax Credit to eliminate income taxes for those living in poverty, but has comments on the SD 1. HACBED was established in 1992 as a nonprofit statewide intermediary to address social, economic, and environmental justice concerns through community-based economic development and asset building strategies. It advances its mission with core competencies in the areas of community and organizational capacity building, community and economic development planning, and asset policy development and advocacy. HACBED played a facilitating role in the State Asset Policy Task Force and was a key contributor to the State Asset Policy Road Map. As such, HACBED supports the original language of the proposed bill that would enact a Poverty Tax Credit, which would eliminate personal income tax liability for any family in poverty while preserving the refundable food and excise tax credit. However, if the Committee chooses the language of SD 1, we ask that the Committee preserve the refundable food and excise tax credit.

A Poverty Tax Credit would provide an immediate lift for these families to pull themselves out of a financial crisis, smooth out fluctuations in family finances, and build on-going assets; however the changes proposed by SD 1 would actually increase the total tax burden on our poorest families. The poorest households have no income tax liability as a result of deductions and refundable tax credits and the elimination of the refundable food/excise tax credit would be a loss of a significant source of tax relief because it reduces the impact of the general excise tax.

HACBED uses a network approach to scale its work to increase family self-sufficiency and resilience as embodied in its Family and Individual Self-Sufficiency Program, which administers the Internal Revenue Service's Volunteer Income Tax Assistance (VITA) Program as part of a larger asset building approach through a network of over forty-six organizational partners. Since 2006, HACBED has served 16,871 low to moderate income families, saved them $2.7 million in filing fees, helped to claim $23.7 million in refunds, and brought $12.8 million in new federal funds to the State of Hawai'i through claiming the federal EITC and Child Tax Credit (CTC). Through our FISSP surveys, families have indicated that they have used the money to manage daily expenses, eliminate debt, open and maintain savings accounts, purchase a new home, cover education costs, and start a business. The passage of SB 98 would go a long way to supplement the needs of these families with a Poverty Tax Credit to assist these families in their efforts to truly build their assets.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Chief Operating Officer
Hawai'i Alliance for Community-Based Economic Development

PHOCUSED

PROTECTING HAWAII'S OHANA, CHILDREN, UNDER SERVED, ELDERLY AND DISABLED

P13:015T:LKR

March 11, 2013

TO: Representative Mele Carroll, Chair
Representative Bertrand Kobayashi, Vice Chair
Members, Committee on Human Services

FROM: Laura Kay Rand, Interim Executive Director, PHOCUSED

HEARING: Committee on Human Services
March 12, 2013 at 9:30 a.m.

Testimony with COMMENTS in Support of SB98
Relating to Taxation

Thank you for the opportunity to provide testimony with comments in support of SB98, which creates a poverty tax credit for families/individuals living in poverty. PHOCUSED is a coalition of health, housing, human services agencies and individual advocates voicing the needs of the marginalized and underserved in Hawaii.

We respectfully request a **return to the original language of SB98** as it best develops an anti-poverty strategy for working families/individuals, created through **the elimination of all state income tax for impoverished residents, while preserving the refundable food/excise tax credit as currently provided in HRS** § 235-55.85. The development of a poverty tax credit in SB's original language reduced a person's income tax to zero if their federal adjusted gross income falls below the federal poverty guidelines and reduces a person's tax liability by 50% if their income falls between 100% and 125% of the poverty guidelines.

Working families and individuals in Hawaii are striving towards financial self-sufficiency against powerful economic realities. Yet, they are working and they are striving. Should we not do everything we can to support them? Our residents experience the highest cost of living in the United States, paying significantly more for food and shelter than comparable families on the mainland. And they pay these elevated costs while earning the lowest adjusted income among all of the mainland states and experiencing among the highest tax rates for low-income households in the nation.

With SB98 and the creation of a poverty tax credit, we have an opportunity to help Hawaii families escape the crippling effects of poverty and change their financial family tree for generations to come. The Poverty Tax Credit will

200 N. Vineyard Blvd, Bldg B Honolulu, HI 96817 P: 808.521.7462
www.phocused-hawaii.org admin@phocused-hawaii.org

PROTECTING HAWAII'S OHANA, CHILDREN, UNDER SERVED, ELDERLY AND DISABLED

support families who are working hard toward self-sufficiency through the elimination of personal income tax liability entirely for working poor families and individuals in poverty while also reducing the tax liability for families and individuals who are living just above the poverty line.

Thank you for your dedication to helping our employed families and individuals who are working hard with a belief that employment is the road towards financial self-sufficiency. I urge your support of SB98 and the creation of a poverty tax credit. We appreciate the opportunity to testify in support of this measure and provide these comments respectfully requesting these amendments.

Sincerely,
Laura Kay Rand
Interim Executive Director

200 N. Vineyard Blvd, Bldg B Honolulu, HI 96817 P: 808.521.7462
www.phocused-hawaii.org admin@phocused-hawaii.org

SUBJECT: INCOME, Low-income tax credit

BILL NUMBER: SB 98, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 235-55.85 to replace the refundable food/excise tax credit with a nonrefundable, low-income tax credit. Repeals the existing tax credit schedule and provides that a taxpayer filing a singe return shall be eligible for a credit of:

Adjusted gross income	Credit per exemption
Under $15,000	$300
$15,000 under $25,000	150
$25,000 and over	0

For all other taxpayers:

Adjusted gross income	Credit per exemption
Under $15,000	$300
$15,000 under $25,000	150
$25,000 under $50,000	100
$50,000 and over	0

For the purposes of this section, "adjusted gross income" shall mean adjusted gross income as defined by the Internal Revenue Code or as defined under HRS section 235-1, whichever is greater.

EFFECTIVE DATE: July 1, 2050; applicable to tax years beginning after December 31, 2012

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

Under the existing food/excise tax credit schedule an individual taxpayer filing a single return with an adjusted gross income of $49,999 would be eligible for a food/excise tax credit of $25 while under the proposed measure, that taxpayer would not qualify for any tax credit, individual taxpayers with adjusted gross income of $25,000 and over filing a single return would not be eligible for any tax credit.

It should be remembered that the intent of the credits is to provide relief from the general excise tax imposed on the necessities of life, like food, proprietary drugs, and clothing. These taxpayers would receive no relief. Because the proposed credit can be used only to offset net income tax liability, the existing mechanism to mitigate the regressivity of the general excise tax is repealed.

This proposal takes a novel approach in that the tax credit is nonrefundable and may not be applied to any other year than the year for which it is claimed. Thus, the proposed credit can only be used to offset or reduce income tax liability. That said, then sponsors of the proposal need to address the issue of offsetting the regressive features of the general excise tax, the original purpose of the general excise tax credit when it was initiated in 1973. While this proposal would address the problem of imposing the state income tax on the low- income person, it fails to offset the total tax burden that plagues the low-income person or family. However, this proposal is a good beginning of the discussion that should take place about providing relief to low-income taxpayers. However, given that it has been more than 50 years since the state income tax rates and brackets have been truly adjusted to recognize the changes in the economic and financial landscape, that adjustment should take precedence over the quick fix that this proposal represents. This proposal would virtually wipe out any person with taxable income of less than $12,000 for single filers and $19,000 for joint filers. Note well, the qualifying income for the credit is based on federal adjusted gross income or state adjusted gross income, whichever is greater. Thus, retirees who would likely have less reportable adjusted gross income for taxable purposes would more than likely have to utilize their federal adjusted gross income as federal AGI which includes pension income that would otherwise be exempt under the state definition of AGI.

It should be noted that Hawaii's threshold for the state income tax is one of the lowest in the nation of those states that impose an income tax. If it is the intent to provide relief from that threshold, then the more appropriate approach is to establish a threshold before which state income taxes are due based on the combination of the standard deduction and personal exemption as well as an adjustment in the income tax rates.

Digested 3/11/13

kobayashi1-Joni

From:	mailinglist@capitol.hawaii.gov
Sent:	Monday, March 11, 2013 2:58 PM
To:	HUStestimony
Cc:	thelma.kealoha.1@gmail.com
Subject:	Submitted testimony for SB98 on Mar 12, 2013 09:30AM
Categories:	Maroon

SB98
Submitted on: 3/11/2013
Testimony for HUS on Mar 12, 2013 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Thelma Akita-Kealoha	Individual	Oppose	No

Comments: I am asking that you please: • Revert to the original language of Senate Bill 98, which creates a Poverty Tax Credit that would eliminate all state income taxes for those living in poverty while preserving the refundable food/excise tax credit as currently provided in HRS § 235-55.85. • If the committee chooses to keep the language of SD 1 creating a nonrefundable low-income credit, preserve the refundable food/excise tax credit. Removing this refundable credit and replacing it with a nonrefundable income tax credit would actually increase the tax burden on the lowest-income households. Our families that fall into this group already are struggling to pay for basic needs, some of them can't even afford this. Please make these changes. Thelma Akita-Kealoha

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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