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: January 27, 2013
To: Senator David Y. Ige, Chair, Senator Michelle N. Kidani, Vice-Chair, and members of the Committee on Ways and Means
From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)
Re: Strong Support for SB98

Aloha Chair Ige, Vice-Chair Kidan, 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. 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 strongly supports the proposed bill that would enact a Poverty Tax Credit, which would eliminate personal income tax liability for any family in poverty while also reducing tax liability for families just above the poverty line.

The Family Economic Self-Sufficiency Standard (FESS) further depicts the obstacles that Hawai'i families are facing. The FESS measures the amount of money that individuals and families require to meet their basic needs without government and/or other subsidies and the data shows the following percentage of families who fall below the self-sufficiency standard statewide:

- 25.9% of families with two adults and two children;
- 77.3% of single-adult families with one child; and
- 74.3% of single-adult families with two children.

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. 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. FISSP also incorporates financial education tools and strategies to push on long-term and sustained family asset building to empower families by helping them control their financial situation and in the process increase their overall self-sufficiency and resiliency. 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
Hawaiʻi Alliance for Community-Based Economic Development

L E G I S L A T I V E

# TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Low-income tax credit

BILL NUMBER: SB 98; HB 384 (Identical)

INTRODUCED BY: SB by Chun Oakland, Galuteria, Green, Ruderman and 4 Democrats; HB by Mizuno and Carroll

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to provide that low-income taxpayers shall be eligible for a tax credit to reduce or eliminate their state income tax liability.

Upon completion of the state income tax calculations, taxpayers with federal adjusted gross income (FAGI) below the federal poverty guidelines and with an income tax liability shall receive a credit that eliminates their income tax liability. Taxpayers with FAGI between one hundred and one hundred twenty-five percent of the federal poverty guidelines and with an income tax liability shall receive a credit that reduces their income tax liability by 50%. Taxpayers with income above one hundred twenty-five percent of the federal poverty guidelines shall be ineligible for the credit.

Defines "federal poverty guidelines" as the guidelines set forth by the U.S. Department of Health and Human Services each year for Hawaii.

Requires claims for a tax credit, including amended claims, to be filed on or before the end of the twelfth month following the close of the taxable year for which the tax credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

Directs the director of taxation to prepare any forms that may be necessary to claim a credit and also requires the taxpayer to furnish information to ascertain the validity of the claim for the tax credit.

EFFECTIVE DATE: Tax years beginning after December 31, 2012

STAFF COMMENTS: This measure would provide a tax credit that would effectively eliminate any state income tax that might be due if the taxpayer's federal adjusted gross income falls below the federal poverty guidelines or if the taxpayer's income falls between 100% and 125% of the federal poverty guidelines, the amount of the tax credit will be equal to 50% of the taxpayer's calculated state income tax liability. It should be noted that those poverty guidelines will differ depending on the size of the family unit.

Although this might sound like a great strategy to address the fact 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, this response may not be as simplistic as one would think. From a compliance and administrative stand point, the proposed credit will require additional calculations and steps in order for it to be claimed. The taxpayer would have to calculate federal adjusted gross income, then compare that with the federal poverty guidelines and then if the federal adjusted gross is more than the federal poverty guideline but less than 125% of the federal poverty guidelines the taxpayer would then have to calculate state taxable income and state tax liability in order to determine what 50% of that liability would be or the amount of the credit that could be claimed.

The other point to consider is that the adoption of this measure ignores some of the unique features of Hawaii's income tax law. For example, the state income tax extends a credit for general excise taxes paid based on state adjusted gross income. Some of the major differences between the definition of adjusted gross income for federal and state purposes are the taxation of Social Security and defined benefit pension payments. These sources of income may lift some state taxpayers above the federal poverty line whereas exclusion of these sources of income may currently place the same taxpayer in a position where no state income taxes are currently owed. So the question is whether or not it is fair that some taxpayers, based on federal adjusted gross income, pay federal taxes but pay no state income taxes and those whose income falls below the federal poverty line also pay no income taxes.

If the concern here is that those taxpayers whose available income falls below the federal poverty guidelines pay no state income taxes, 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 equaling or exceeding the federal poverty guidelines.

Digested 1/28/13

CATHOLIC CHARITIES HAWAI'I

**TESTIMONY IN SUPPORT OF SB 98: RELATING TO TAXATION**

TO: Senator David Y. Ige, Chair, Senator Michelle N. Kidani, Vice Chair, and Members, Committee on Ways and Means

FROM: Betty Lou Larson, Legislative Liaison, Catholic Charities Hawaii

**Hearing: Tuesday, 1/29/18; 9:00 am; CR 211**

Chair Ige, Vice Chair Kidani, and Members, Committee on Ways and Means:

Thank you for the opportunity to testify on SB 98, which reduces the tax liability for low-income people by creating 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. I am Betty Lou Larson, Legislative Liaison for Catholic Charities Hawaii. Catholic Charities Hawaii supports this bill. We are a member of Partners in Care, Oahu's coalition of homeless providers, which supports this bill as homeless prevention.

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% to 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.

# PHOCUSED

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



P13:004T:LKR

January 27, 2013

TO: Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair
Members, Committee on Ways and Means

FROM: Laura Kay Rand, Interim Executive Director, PHOCUSED

HEARING: Committee on Ways and Means
January 29, 2013 at 9:00 a.m.

Testimony in Support of SB98, Relating to Taxation

Thank you for the opportunity to provide testimony 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.

Working families and individuals in Hawaii strive towards financial self-sufficiency against powerful economic realities. 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 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.

I urge your support of SB98. We appreciate the opportunity to testify in support of this measure.

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

Date: January 26, 2013
To: Senator David Y. Ige, Chair, Senator Michelle N. Kidani, Vice-Chair, and members of the Committee on Ways and Means
From: Victor Geminiani, Hawai'i Appleseed Center for Law and Economic Justice
Re: Testimony on SB98, Scheduled for a hearing on January 29, 2013 at 9AM in Room 211

Dear Chair Ige, Vice Chair Kidani and committee members;

Thank you for an opportunity to testify on SB98, which would create a Poverty Tax Credit to eliminate state income taxes for those living in poverty.

My name is Victor Geminiani and I am the executive director of the Hawai`i Appleseed Center for Law and Economic Justice (formerly Lawyers for Equal Justice). 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.

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.

According to a study just released this month 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 an average tax rate of more than 12% of their income (partially because of the regressive nature of the GET tax) while those earning more than $400,000 pay closer to 6% of their earnings. 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 proposed Poverty Tax Credit 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.

Again, thank you for providing us with an opportunity to testify in strong support of SB98.

Aloha,

Victor Geminiani
Executive Director