LATE

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
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 David Ige, Chair
and Members of the Senate Committee on Ways and Means

Date: Tuesday, January 29, 2013
Time: 9:00 a.m.
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 98 Relating to Taxation

The Department appreciates the intent of S.B. 98 and provides the following information and comments for your consideration. The Department defers to the Department of Budget and Finance on the impact of this measure on the State's financial plan due to the potential significant revenue loss.

S.B. 98 reduces the tax liability for low-income individuals by creating a tax credit that will reduce or eliminate a taxpayer's state income tax to zero, if their federal adjusted gross income (AGI) falls below the federal poverty guidelines as established by U.S. Department of Human Services. The bill also reduces a taxpayer's income tax liability by 50% if the person's federal AGI falls between 100% and 125% of federal poverty guidelines. The proposal, upon its approval, would apply to taxable years beginning after December 31, 2012.

The Department notes that comparing federal AGI against federal poverty levels will produce skewed results due to the fact that these measurements reflect different approaches at measuring "low-income." An individual's federal AGI is determined after allowing for a reduction of an individual's gross income due to business losses, capital losses, depreciation, and other allowable deductions. In other words, federal AGI is not necessarily reflective of whether an individual is "low-income" or not; in some cases, a low federal AGI could be the result of a large capital loss, or large deductions for depreciation on rental properties.

The Department also notes that for tax purposes, the federal and state tax laws exclude some types of income from taxation; therefore, the measurement of "income" is defined many different ways. Also, it is unclear whether this credit would be applied before or after applying all other applicable state income-based tax credits, such as the food/excise tax credit, low-income renter's credit, and the child and dependent care credit. The Department suggests that the credit as proposed in S.B. 98 should be applied after all other income tax credits have been applied.

Due to the different factors which affect an individual's income tax level, the Department has concerns with using the federal AGI as a measure to identify "low-income" individuals. The Department has initiated discussions with the Department of Human Services to explore other avenues which may better identify and assist low-income individuals.

Thank you for the opportunity to provide comments.

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Date: January 28, 2013
To: Senator David Y. Ige, Chair, Senator Michelle N. Kidani, Vice-Chair, and members of the Committee on Ways and Means
From: Pamela Menter, member of Partners in Care Advocacy Committee; Program Director, Safe Haven/Mental Health Kokua
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 Pamela Menter; I am a member of the Partners in Care (Oahu's Homeless Coalition) Advocacy Committee, and Program Director of Safe Haven, Mental Health Kokua's transitional shelter for homeless severely mentally ill individuals. Persons served at our facility – similar to those accessing homeless services with other Partners in Care agencies - often begin their participation in our program without any income at all. These individuals are assisted in obtaining benefits such as General Assistance or SSI/SSDI. Our agency's core mission articulates the belief that all citizens should have an opportunity to live and participate in and contribute to their communities. We facilitate our clients' ability to achieve optimum recovery and functioning in the community, by promoting skills development while accessing resources for living expenses.

Consumers of Safe Haven services, among other Hawai'i residents living in poverty, are faced with a number of severe economic challenges to attaining and maintaining self-sufficiency, particularly in view of their mental health challenges. Because our state has the highest cost of living in the United States, our low-income citizens face a virtually impossible likelihood of escaping poverty. Partly because of this high cost of living, Hawaii's residents additionally earn the lowest adjusted incomes than anywhere else in the country. This dilemma, often called the "Price of Paradise," has a particularly harsh effect on those living in poverty.

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 a majority of those living in poverty while also reducing tax liability for people who are just above the poverty line.

Again, thank you for providing the opportunity to testify in strong support of SB98.

Pamela Menter
Program Director
Safe Haven/Mental Health Kokua

Hawai`i Appleseed Center for Law and Economic Justice
119 Merchant Street, Suite 605 ◆ Honolulu, Hawai`i, 96813 ◆ (808) 587-7605