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 Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Wednesday, February 12, 2014
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 1719, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 1719, and provides the following information and comments for your consideration.

H.B. 1719 creates an income tax credit to eliminate the income tax liability of taxpayers with a federal adjusted gross income (FAGI) of less than 100% of the federal poverty guidelines and to reduce by half the income tax liability of taxpayers with a FAGI of 100 to 125% of federal poverty guidelines. H.B. 1719 would apply to taxable years beginning after December 31, 2013.

First, the Department notes that using the "federal poverty guidelines" as a limitation for a tax credit is very difficult for the Department to administer. It is the Department's understanding that the applicable "federal poverty guidelines" depends on the household size. It is also the Department's understanding that what is considered a household for purposes of the federal poverty guidelines may differ from who may file jointly and who may be claimed as a dependent for tax purposes.

The Department suggests that the income limitation be stated as a fixed amount for each filing status, by which an eligible taxpayer's FAGI and Hawaii adjusted gross income (HAGI) may not exceed. Such an amendment will relieve the inconsistency inherent in using federal poverty guidelines along with FAGI. The suggested amendment will also relieve the Department of implementing annual adjustments to the federal poverty guidelines.

Second, while the Department appreciates the desire to provide tax relief for taxpayers falling below federal poverty guidelines, the Department notes that the tax structure is not the most efficient means of providing or determining who is in need of financial support.

For example, the FAGI also takes into account any reduction of income due to business loss, capital loss, depreciation, and other allowable deductions. Taxpayers with low federal AGI may not necessarily be financially disadvantaged. As a result, a taxpayer's FAGI might fall below federal poverty guidelines due to a large capital loss or due to depreciation of various types of held property, not necessarily because the taxpayer is financially disadvantaged.

The Department also notes that the FAGI excludes amounts such as cost-of-living allowances for federal employees, contributions to the State employees' retirement system, and interest on out-of-state bonds; whereas HAGI captures those income sources. On the other hand, FAGI excludes certain pensions, social security benefits, first $5,881 of military reserve or Hawaii National Guard duty pay, payments to an individual housing account and other subtractions from Federal adjusted gross income. Thus, as stated above, the Department suggests requiring a taxpayer's FAGI and HAGI to each meet the income threshold to qualify for the credit.

Third, the Department notes that the State already provides relief to low and middle income taxpayers in the forms of income tax credits such as the refundable food/excise tax credit (food credit)[1] and the income tax credit for low-income household renters (renters' credit)[2]. The food credit is a graduated amount based on income level, which is determined by the FAGI and the number of qualified exemptions, ranges from $85 to $25 per exemption for taxpayers with income under $50,000. The renters' credit is $50 per exemption, provided that each taxpayer 65 years of age or over may claim double the tax credit, for taxpayers with HAGI under $30,000. Adjustments of these current credits would be substantially easier for the Department to administer.

Finally, if the Committee wishes to advance this measure, the Department requests the effective date of the bill be amended to apply to tax years beginning after December 31, 2014 or later to provide the Department with sufficient to make the required form and instruction modifications.

Thank you for the opportunity to provide comments.

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1 Act 211, Session Laws of Hawaii (SLH) 2007, replaces the low-income refundable tax credit with the refundable food/excise tax credit and increases the amount of the credit.
2 Act 15, SLH 1977, establishes the renters' credit. The amount of the credit was $20 per qualified exemption for each taxpayer with an adjusted gross income of less than $20,000. Act 230, SLH 1981, increases the amount of the credit to $50 per qualified exemption. Act 321, SLH 1989, increases the income threshold for the credit to less than $30,000. Act 98, SLH 1990, makes the credit refundable (provides the credit to resident taxpayer who has no taxable income).

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: HB 1719

INTRODUCED BY: Aquino

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 their state income tax liability by 50% if a taxpayer has a federal adjusted gross income (FAGI) between one hundred and one hundred twenty-five percent of the federal poverty guidelines. Taxpayers with a FAGI at or below the federal poverty guidelines shall receive a credit that eliminates their income tax liability. 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, 2014

STAFF COMMENTS: This measure proposes a low-income tax credit which 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. 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, the solution in this bill would seem to be unduly complex. 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. If the taxpayer fails to do so, or if the taxpayer doesn't file a return thinking that there will be no tax due for the year, the taxpayer will find that the credit disappears, resulting in tax due plus penalties and interest.

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 employer-funded 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. This may create disparities where lawmakers did not expect them.

If the policy concern here is that we don't want those taxpayers whose available income falls below the federal poverty guidelines to pay state income taxes, then the more appropriate approach is to establish a higher filing threshold (namely, the amount of income you need to make before an income tax return is required to be filed) based on the combination of the standard deduction and personal exemption equaling or exceeding the federal poverty guidelines.

Digested 2/11/14

UNITE HERE!
LOCAL 5 HAWAII

Eric Gill, Financial Secretary-Treasurer Hernando Ramos Tan, President Godfrey Maeshiro, Senior Vice-President

Monday, February 10, 2014

The Honorable Sylvia Luke - Chair and Committee Members
Hawaii State Legislature
House Committee on Finance
State Capitol
415 S. Beretania Street

RE: HB 1719 relating to taxation.

Chair Luke, and members of the House Committee on Finance:

UNITE HERE Local 5, a local labor organization representing 10,000 hotel, health care and food service workers employed throughout our State, hereby registers our support for House Bill 1719, relating to taxation.

HB 1719 would implement progressive tax policies to help our low and moderate-income families.

As the standard quality of life for ordinary working people in our islands continue to deteriorate, Hawaii's economic future and our ability as a community to secure good jobs for our local people remain one of our greatest concerns. Our State has the highest cost of living in the nation and the lowest average adjusted income rate, and our current tax system only makes it harder for our working families. Fifty-six percent of renters pay 30 percent or more of their income towards rent, fourth highest in the nation. And between 2006 & 2011 more than 3,200 jobs have been lost in the accommodations sector alone. Hundreds of good jobs have been lost in our hotels, and we are threatened with losing even more as we lose more of our hotel rooms to condominiums and timeshares.

Our people are being pushed off our islands while so many of us can't afford homes, and more and more of our local jobs go to mainland companies while locals struggle to earn a living wage. Added to all of this, we haven't seen an increase in our State's minimum wage for more than seven whole years. Our State government can play a bigger, more productive role in improving the lives of so many of our local people.

We ask for your support of HB 1719. Thank you.

1516 South King Street • Honolulu, Hawaii • 96826-1912 • Phone (808) 941-2141 • Fax (808) 941-2166 • www.unitehere5.org

HAWAI'I
AMERICANS FOR DEMOCRATIC ACTION

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February 10, 2014

TO: Chair Sylvia Luke, Vice Chair Aaron Johanson, Vice Chair Scott Nishimoto
Members of the House Committee on Finance

FROM: John Bickel, President
Americans for Democratic Action/Hawai'i

RE: Support and Comments on HB 1719 On Taxation

The Americans for Democratic Action, Hawai'i is strongly in support of HB 1719. It just does not make sense to tax those in poverty.

In Hawai'i, those in poverty pay more in state taxes than all but thee other states. We should be supplementing their income not taxing it. HB 1719 would eliminate a taxpayer's income tax liability if their federal adjusted gross income falls below federal poverty guidelines and reduces a taxpayer's income tax liability by 50% if the taxpayer's federal adjusted gross income falls between 100-125% of federal poverty guidelines. Give relief to those who need it most. The wealthy get their share of tax breaks; it is long past time for the least in society to get theirs.

HAWAI'I APPLESEED CENTER
LAW
AND
ECONOMIC
JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting HB 1719 Relating to Taxation
House Committee on Finance
Scheduled for Hearing Wednesday, February 12, 2014, 2:00 PM, Room 308

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 the opportunity to testify in **strong support** of House Bill 1719, which would create a low income tax credit that would eliminate state income tax liability on households living below the federal poverty guidelines. It would also provide a credit to reduce income tax liability by 50 percent for households living at 100–125 percent of the guidelines.

We should be supporting our low-income workers instead of driving them deeper into poverty through income taxes. But right now, we do just that. Hawai'i is one of only fifteen states that tax the income of those living below the poverty guidelines according to the Center on Budget and Policy Priorities. And based on the Institute on Taxation and Economic Policy's analysis, when all state and local taxes are figured in, we tax our families in poverty more heavily than all but three other states. One out of ten households in Hawai'i live below the official poverty guidelines, and our child poverty rate is 17 percent. Under the U.S. Census's Supplemental Poverty Measure, which adjusts for the cost of living and availability of government assistance, we are the **8th poorest state**, with over 17 percent of all households living in poverty.

Poverty's myriad negative effects on the well-being of individuals, families, children, and communities are all too apparent. The impact of poverty includes hunger, homelessness, poor health, lost educational opportunities, higher crime rates, and reduced productivity. These consequences not only weaken our communities but result in increased public expenditures for the social services needed to remedy the problems arising from poverty. Taxing those who are in poverty makes it more likely that they will remain poor and is an inefficient policy.

Creating a low-income tax credit that eliminates the burden Hawai'i state income taxes place upon poor wage-earners will help mitigate the effects of our high cost of living and relatively low wages. In almost all cases, only the working poor will be able to claim this credit. We also favorably note that the reduction of income tax liability by 50 percent for those living just over the poverty guidelines will prevent a steep tax cliff for these households. As the supplemental poverty measure indicates, even families above the poverty guidelines face significant economic hardship.

Again, thank you for the opportunity to testify in **support** of HB 1719. We respectfully urge you to pass this bill unamended so we can help our working families to achieve financial security instead of inhibiting it.

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

CATHOLIC CHARITIES HAWAI'I

TESTIMONY IN SUPPORT OF HB 1719: Relating to Taxation

TO: Representative Sylvia Luke, Chair, Representative Scott Nishimoto, Vice Chair, Representative Aaron Johanson, Vice Chair, Members of the Committee on Finance

FROM: Trisha Kajimura, Social Policy Director, Catholic Charities Hawaii

Hearing: Wednesday, February 12, 2014, 2:00 pm, Conference Room 308

Thank you for the opportunity to testify on HB 1719, which eliminates state income tax liability for those with a federal adjusted gross income of less than 100% of federal poverty level and reduces it by half for those with a federal adjusted gross income of 100% to 125% of the federal poverty level. I am Trisha Kajimura, Social Policy Director for Catholic Charities Hawaii. **I am testifying in support of SB 2207.**

Catholic Charities Hawai`i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai`i for over 60 years. CCH has programs serving elders, children, developmentally disabled, homeless and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawai`i. This bill speaks directly to our advocacy priority of reducing poverty in Hawai'i.

Hawai'i's high cost of living, including the highest cost of shelter in the country[1] and food costs for a family of four at 68% more than the mainland[2], makes living with a low-income very difficult. Not only are these people spending a high percentage of their income on basic living expenses but also on the regressive General Excise Tax (GET). The nature of Hawai'i's broad-based GET is such that the lower one's income is, the higher a percentage of it goes to paying GET.

Expecting these people to pay income tax as they struggle to stay sheltered and maintain nutrition is inhumane and unreasonable. Anyone earning the income required to benefit from this tax credit is earning far below a living wage and unable to afford all of the basic living expenses of rent, food and transportation. Taxing them further into poverty as we currently do will require them to seek public, charitable, or other assistance.

Allowing low-income workers to keep more of the wages they earn gives them a hand up rather than a hand-out. For example, a family of three earning the federal poverty level income of $22,470 in 2013 would have a Hawai'i state income tax liability of $497. With this policy established, that family can put that $497 back into the economy through purchase of food and household goods and be better able to meet their own needs.

Thank you for the opportunity to testify. Please contact me at (808)527-4810 or trisha.kajimura@catholiccharitieshawaii.org if you have any questions.

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[1] Hawaii 2013 State Housing Profile, National Low Income Housing Coalition. http://nlihc.org/sites/default/files/SHP-HI.pdf.

[2] Based on the U.S. Department of Agriculture's Thrifty Food Plan, which is used as the basis for Supplemental Nutrition Assistance Program benefits. See http://www.cnpp.usda.gov/usdafoodplanscostoffood.htm.

PARTNERS IN CARE
Oahu's Coalition of Homeless Providers

TESTIMONY IN SUPPORT OF HB 1719: RELATING TO TAXATION

TO: Representative Sylvia Luke, Chair; Representative Scott Nishimoto, Vice Chair; Representative Aaron Johanson, Vice Chair; and members of the House Committee on Finance

FROM: Peter K. Mattoon, Advocacy Committee Co-Chair, Partners In Care

Hearing: Wednesday, February 12, 2014, 2:00 PM, Room 308

Dear Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and committee members:

Thank you for the opportunity to provide testimony in **strong support** of House Bill 1719, to eliminate income tax liability on households below the federal poverty guidelines and to reduce liability by half for households at 100 to 125 percent of poverty. I am Peter K. Mattoon, and I am an Advocacy Committee Co-Chair for Partners In Care, a coalition of care providers focusing on the needs of homeless persons and strategies to end homelessness. We support this policy to help prevent low-income people from becoming homeless and to aid those transitioning out of homelessness to keep more of their earnings.

Homelessness is a pressing social crisis, and Hawai'i has the highest rate of homelessness in the nation. Many factors contributing to chronic, individual, and family homelessness. But for many households, especially families, their low income relative to the high cost of living—which is twice the national average—means they can barely make ends meet and are at risk of or actually end up homeless. Low-income families, especially those in poverty, struggle just to pay for necessities, including shelter, with virtually none left over to save for a rainy day. We also see households who have worked hard to get their lives back on track and find employment struggle to find affordable housing. As a result, these households who are ready to work and live in permanent housing are stuck in transitional housing because they cannot afford market rents. Unsurprisingly, many of our low-income families are severely cost-burdened—three out of four extremely low-income households are paying more than *half* of their income toward rent. In light of these major economic challenges, we should not make matters worse by taxing households in poverty, and we should provide tax relief to those close to the poverty guidelines.

Partners In Care supports this tax credit as a way to prevent homelessness and help working households transition out of homelessness by keeping more of what they earn. We should not be taxing people deeper into poverty, especially when these are the very households who are at risk of homelessness. Becoming homeless is a traumatic experience with lasting effects and requires costly social services. This bill will help families at risk of homelessness to stay housed, and help those who are currently homeless to become more financially secure and move into stable housing. Again, thank you for the opportunity to testify in **strong support** of HB 1719.

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

TESTIMONY
HB 1719 Relating to Taxation- Low Income Tax Credit
House Committee on Finance
Wednesday, February 12, 2014, 2:00 PM, Room 308

Aloha Sylvia Luke and Members of the Committee:

As a community member participating in the Action Strategy Teams of the Governor's Executive Office of Early Learning, I have carefully studied proposed laws supporting economic equity in Hawaii.

Thank you for the opportunity to testify in **strong support** of House Bill 1719, which would create a low-income tax credit that eliminates income tax liability on households living below the federal poverty guidelines and reduces it by half for households at 100–125 percent of poverty. This measure will provide much-needed economic relief to Hawai'i's families in greatest need.

Hawai'i's cost of living is the highest in the nation at more than 160 percent of the national average. The cost of shelter in Hawai'i is the highest in the nation, with 73 percent of extremely low-income households spending more than half of their income on housing. Groceries cost almost 60 percent more than the national average, and we also face the highest transportation and utilities expenses in the nation. Hawaii's tax system is one of the most regressive in the country, meaning that Hawaii taxes more families in poverty or who are close to poverty than other states. Hawaii has the 9th highest rate of poverty in the country.

Hawaii's poorest taxpayers pay, on average, approximately 13 cents of every dollar of income in state and local taxes, while those earning more than $400,000 pay closer to 8 cents on every dollar of income. We should not tax these families who are barely getting by. Virtually all households who would benefit from this credit are working households. It is counterproductive to reduce poor households' income and then rely on other public expenditures to help address the negative consequences of poverty. This low-income tax credit would also help those living close to the poverty guidelines but still struggle to survive

Families with young children are more likely to live in or close to the poverty line. Think about it: families with young children in Hawaii would benefit greatly from restoring economic equity through these this low-income tax credit. If we want to support families with young children, then we need to have this low-income tax credit in place.

Hawaii can choose to improve early childhood outcomes— social and emotional development, educational and later economic success— by working to restore economic equality and passing HB 1719. I respectfully urge the Committee to pass HB 1719 unamended to provide critical relief to our working families, especially those with young children, struggling to simply make ends meet.

Thank you and Mahalo!

Lynn B. Wilson, PhD
1188 Bishop Street, Suite 1502, Honolulu, HI 96813

finance8-Danyl

From:	mailinglist@capitol.hawaii.gov
Sent:	Monday, February 10, 2014 7:02 PM
To:	FINTestimony
Cc:	joycemcharles@gmail.com
Subject:	*Submitted testimony for HB1719 on Feb 12, 2014 14:00PM*

HB1719
Submitted on: 2/10/2014
Testimony for FIN on Feb 12, 2014 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Joyce Midori Charles	Individual	Support	No

Comments:

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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finance1

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 11, 2014 10:14 AM
To: FINTestimony
Cc: drodrigues2001@yahoo.com
Subject: Submitted testimony for HB1719 on Feb 12, 2014 14:00PM

HB1719
Submitted on: 2/11/2014
Testimony for FIN on Feb 12, 2014 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Darlene Rodrigues	Individual	Support	No

Comments: I strongly support this measure as it will provide tax relief to the greatest in need in our community, working class families who live in poverty. More money in their pockets for living expenses in a state which has one of the highest costs of living makes sense economically for the state and for that family. Let‘s help families out of poverty and towards greater self-sufficiency. Thank you for the opportunity to testify.

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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NATIONAL FEDERATION OF FILIPINO AMERICAN ASSOCIATIONS
NaFFAA REGION 12
HAWAII | GUAM | MARIANAS ISLANDS

LATE

TESTIMONY IN SUPPORT OF HB 1719

Tax Credit; Low-Income Tax Payers

Feb. 12, 2014, 2:00 p.m.│Hawai`i State Capitol Conference Rm. 308

To: House Committee on Finance
Rep. Sylvia Luke, Chair
Rep. Aaron Ling Johanson, Vice Chair & Rep. Scott Y. Nishimoto, Vice Chair
Members of the Committee on Finance

From: Rouel Velasco, Chair
National Federation of Filipino American Associations Region 12

Dear Rep. Luke, Chair; Rep. Johanson, Vice Chair; Rep. Nishimoto, Vice Chair; and Members of the House Committee on Finance:

My name is Rouel Velasco, Chair, NaFFAA Region 12, which supports this bill. NaFFAA Region 12 represents the interests of Filipinos in Hawaiʻi, Guam, and the Commonwealth of Northern Marianas Islands. We are an affiliate of the National NaFFAA. Washington policy-makers, private industry and national advocacy groups recognize NaFFAA as the Voice of Filipinos and Filipino Americans throughout the United States. We are a non-partisan, non-profit national affiliation of more than five hundred Filipino-American institutions and umbrella organizations that span twelve regions throughout the continental United States and U.S. Pacific territories.

NaFFAA supports this bill, which offers a tax credit to low-income tax payers who qualify, according to the criteria set in this legislation. This will allow people to have a little more income to meet their daily needs.

The members of NaFFAA Region 12 extend our appreciation to you for hearing this bill.

Sincerely,

Rouel Velasco, Chair
NaFFAA Region XII

c/o NaFFAA Region 12, 91-803 Oaniani Street, Kapolei, HI 96707
Rouel Velasco, Chair · Charlene Cuaresma, Vice Chair · Jake Manegdeg, Treasurer · Jason Espero, Secretary