

NEIL ABERCROMBIE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

FREDERICK D. PABLO  
DIRECTOR OF TAXATION

JOSHUA WISCH  
DEPUTY DIRECTOR

To: The Honorable David Y. Ige, Chair  
and Members of the Senate Committee on Ways and Means

Date: Thursday, March 20, 2014  
Time: 9:00 A.M.  
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: H.B. 2371, H.D. 1, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 2371, H.D. 1, and provides the following information and comments for your consideration. Each Part of H.B. 2371, H.D. 1 will be digested and commented on separately. This measure, if approved, would apply to unspecified taxable years.

#### Part I

Part I of H.B. 2371, H.D. 1 increases the credit amounts and adjusted gross income threshold amounts of the refundable food/excise tax credit provided under Hawaii revised Statutes (HRS) section 235-55.85.

#### Part II

Part II of H.B. 2371, H.D. 1 increases the credit amounts and adjusted gross income threshold amounts of the low-income household renters tax credit provided under Hawaii revised Statutes (HRS) section 235-55.7. Specifically, the adjusted gross income threshold is increased from \$30,000 to \$59,700 and the credit amount per exemption is increased from \$50 to \$146.

#### Part III

Part III of H.B. 2371, H.D. 1 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.

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.

Finally, if the Committee wishes to advance this Part of H.B. 2371, H.D. 1, 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 time to make the required form, instruction, and computer system modifications.

#### Part IV

Part IV of H.B. 2371, H.D. 1 creates a refundable earned income tax credit (EITC) at the state level. The credit is equal to an unspecified percentage of the federal EITC allowed under section 32 of the Internal Revenue Code, as amended.

The Department appreciates the intent of this bill, to provide additional resources to economically disadvantaged taxpayers, but notes that the tax system is not necessarily the most efficient structure for providing financial support to such taxpayers.

First, the Department has difficulty with compliance enforcement of refundable tax credits because they create an incentive and opportunity for fraud. Conversely, nonrefundable tax credits limit the incentive for fraud because they only benefit taxpayers to the extent of their tax liability.

For Fiscal Year 2012, the U.S. Department of the Treasury has reported that approximately 21-25% of the amounts paid for the federal EITC has gone to taxpayers improperly claiming the tax credit; this translates into approximately \$11.6 to \$13.6 billion dollars improperly paid.

Second, refunds are generally paid before a complete review of each return is done. Although on its face it seems simple to create a Hawaii EITC based on a percentage of the federal EITC, the Department has no independent way to obtain the information necessary to independently determine whether an EITC claim is proper. If this measure were enacted, the only way that the Department would know that a claim was improper would be through notification from the Internal Revenue Service (IRS).

The IRS, like the Department, generally does not conduct an EITC examination until months after a refund is paid out. Thus, by the time the Department is informed that a credit was improperly claimed under this section, the Department would already have paid out a refund that it would have no way of effectively retrieving.

Third, the Department also has serious concerns regarding its ability to recover any amounts which are improperly refunded. Specifically, once a refund is issued on a fraudulent or improper claim, there is a very chance of the Department being able to recover those amounts. The Department currently does not have sufficient data matching capabilities that could identify some of the improper claims from being refunded.

It is important to note that the IRS, which has extensive data matching capabilities with federal databases such as the Social Security Administration database, still has a 21-25% rate of

improper claims being filed and paid. Therefore, the Department believes that the Hawaii error rate will at least be equal to, if not greater than, the federal error rate of 21-25%, particularly if the State intends to use the federal EITC claim as the base upon which taxpayers may claim a state EITC credit. In addition to the substantial loss of revenue due to the high error rate, the Department is concerned that the high rate of errors will divert the Department's limited staff resources to enforcement of a tax credit, instead of revenue collection.

Thank you for the opportunity to provide comments.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase food/excise, renter credit; adopt low-income credit and earned income tax credit

BILL NUMBER: HB 2371, HD-1

INTRODUCED BY: House Committee on Human Services

EXECUTIVE SUMMARY: Increases the food/excise tax credit, renter tax credit and proposes a low-income tax credit and earned income tax credit. While these credits are proposed to provide tax relief to low-income taxpayers, consideration should be given to adjusting the income tax rates so those taxpayers that these credits are aimed to help will not be subject to income taxation. This would also lead to less taxpayer confusion and fewer implementation costs.

BRIEF SUMMARY: **Food/Excise Tax Credit** - Amends HRS section 235-55.85 to increase the food/excise tax credit based on the taxpayer's AGI:

Adjusted gross income	Tax credit
Under \$ _____	\$ 96
\$ _____ under \$ _____	_____
_____ under _____	_____
_____ under _____	_____
_____ under _____	_____
_____ under 56,500	_____
56,500 and over	0

**Renter Tax Credit** - Amends HRS section 235-55.7 to increase the income threshold to claim the renter credit from \$30,000 to \$59,700 and the amount of the renter credit from \$50 to \$146.

**Low-Income Tax Credit** - 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.

The director of taxation is 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.

**Earned Income Tax Credit** - Adds a new section to HRS chapter 235 to allow taxpayers to claim a state earned income tax credit equal to \_\_\_% of the federal earned income tax credit amount.

Credits in excess of tax liability shall be refunded to the taxpayer provided such amounts are over \$1. Requires claims, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit may be claimed.

Delineates that no credit shall be allowed in the disallowance period which is: (1) the period of 10 taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to fraud; and (2) the period of two taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to reckless or intentional disregard of rules and regulations, but not due to fraud. Any person who is a tax return preparer who fails to comply with due diligence requirements imposed by the Secretary of the U.S. Department of the Treasury with respect to determining eligibility, or the amount of the credit allowable by IRC section 32, shall be subject to a penalty of \$100 for each such failure.

Directs the director of taxation to: (1) prepare the necessary forms to claim the credit; (2) require proof of the claim for the tax credit; (3) alert eligible taxpayers of the tax credit; (4) prepare an annual report containing the number of credits granted for the prior calendar year, the total number of credits granted, and the average value of the credits granted to taxpayers whose earned income falls within various income ranges; and (5) adopt rules pursuant to HRS chapter 91 to effectuate this section.

EFFECTIVE DATE: 7/1/50; applicable to tax years beginning after December 31, \_\_\_\_

STAFF COMMENTS: **Food/Excise Tax Credit** - This measure proposes to increase the refundable food/excise tax credit. While it appears that this measure proposes tax relief to lower income taxpayers, consideration should be given to adjusting the income tax rates or the threshold amounts so those taxpayers that these credits are aimed to help will not need to claim these credits to get tax relief (or forfeit the credits if they fail to do so).

There are two more issues with refundable credits targeted at low-income people generally. First, a tax return is one of the most complicated documents for government agencies to process. The administrative costs associated with each one can quickly make heads spin. But when refundable credits are made available to folks who don't have much (or any) tax liability, those folks are motivated to file a return purely to get the refund check. When this happens, the department is visited by a number of folks who require special handling, homeless people for example. They might be able to provide a Social Security number, but they have no address and they don't have a bank account. Nevertheless, they are entitled to their refundable credit. Processing such people is even more expensive because higher level

workers within the department need to get involved once the established procedures prove inadequate. Second, as a policy matter lawmakers might prefer that the recipient of the refund not use the money obtained on such things as cigarettes, alcohol, or illegal drugs. But the tax system contains no way of restricting the uses of a refund check; other departments do have systems in place (EBT, for example). The solution? Get such people out of the tax system entirely. They receive peace of mind because they don't have to worry about tax returns, and the department doesn't have to worry about processing those returns. If additional relief to such people is considered desirable, funnel it through the agencies that are better equipped to do so.

**Renter Tax Credit** - The 1970 legislature adopted a system of tax credits for household renters which was intended to partially offset the higher tax burden on renters resulting from the lack of tax relief similar to the home exemption for homeowners and the 4% general excise tax levied on rental income. The current renter credit was established by the 1977 legislature at \$20 per exemption for those taxpayers with adjusted gross incomes of less than \$20,000 who paid more than \$1,000 in rent during the tax year. The 1981 legislature subsequently increased the credit amount to \$50. Act 239, SLH 1989, increased the adjusted gross income limit to \$30,000 to claim the credit. The proposed measure would increase the adjusted gross income limit to claim the credit from \$30,000 to \$59,700 and the amount of the credit from \$50 to \$146.

Currently, the amount of credit is calculated at a flat amount (now \$50), multiplied by the number of qualified exemptions to which a taxpayer is entitled, provided that a taxpayer 65 years of age or older may claim double the credit. We raise the question of whether the credit should be based on 4% of the rent paid in order to return to the original intent of the credit. That way taxpayers' relief would be linked to the amount of rent they need to pay.

**Low-Income Tax Credit** - This measure also 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. 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, 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.

**Earned Income Tax Credit** - The federal earned income tax credit (EITC) provides an incentive to low-income households to remain in the workforce. The credit is targeted at households with children but the credit is also available at a lower amount to low-income households without children. The credit is based on a number of tests for earned income, investment income, number of qualifying children, dependency, etc. Given the complexity of the credit, the IRS will optionally calculate the amount of the credit for taxpayers. The IRS reports an error rate of greater than 25% for this credit.

The proposed measure would adopt an earned income credit by merely taking a percentage of the amount that the taxpayer would be eligible for under the federal table or determination. It should be remembered that the federal EITC was established for low and moderate-income workers to offset the burden of Social Security payroll taxes that might have otherwise been paid to them but were instead paid to the federal government by the employer. Enacted in 1975 at the federal level primarily as a means of tax relief, the credit was expanded three times during the 1980's and 1990's by the federal government to boost income from work and lessen poverty among families with children. In other words, it became a tool by which the federal government undertook social policy beginning with the first expansion of the credit in 1986. It is interesting to note the date of the first expansion because that was also the year that the federal Code was dramatically restructured, eliminating a number of tax benefits such as the deduction of consumer credit interest, deduction of state sales taxes, and institution of a minimum tax for those taxpayers receiving generally exempt income. It was also the year that rates were dramatically reduced, and together with the standard deduction and personal exemption, rates were indexed. According to the IRS, 19.2% of the 146 million income taxpayers in 2011 claimed the EITC.

Thus, what started out as a mechanism to "refund" payroll taxes that might otherwise have been paid to low and moderate-income workers by the federal government has turned into a subsidy for these families. While federal policymakers have the luxury of expending millions of dollars to accomplish a social goal through the tax system, state lawmakers do not have the same level of resources.

Lawmakers also need to keep in mind that under the federal tax system, the process of calculating the credit has gotten complex enough so that the IRS offers taxpayers the option of having the IRS calculate the credit for them. This procedure requires the taxpayer to leave certain lines blank on the return. Naturally, a taxpayer who avails himself of this procedure will not be able to report the amount of credit to Hawaii for purposes of determining the Hawaii credit.

If the intent of state lawmakers is to alleviate the burden on the low and moderate-income workers in Hawaii who claim the federal EITC, their efforts should focus on the state income tax burden as it



affects these families. Hawaii has one of the lowest thresholds of the 43 states that levy a state income tax. An income tax threshold is the income level at which families begin to pay the state income tax. Despite the reduction in personal income tax rates in 1998 and adoption of a low-income tax credit, as well as a modest increase in the standard deduction, much more work needs to be done to adjust the standard deduction and the personal exemption.

While advocates point to a variety of national articles that hail the EITC as a means of helping the poor out of poverty and encouraging the poor to go to work, they miss the point that taking a percentage of the federal amount bears no relationship to the tax burden imposed by the state. Thus, the EITC amounts to nothing more than a back door welfare program, handing out money merely because a person falls into a low-income category and has joined the workforce with a dependent or two. So while welfare advocates may point to tomes of literature that praise the EITC as a way to lift the poor out of the abyss of poverty, there is just as much material that decries the EITC as poor tax policy and one that is fraught with errors and compliance difficulties. In other words, if the poor are to be helped, don't do it through the tax system as there is very little transparency and accountability. And despite claims that many of these problems have been resolved, there is general agreement from administrators and practitioners that this is one of the most difficult and complicated federal tax credits with which to administer and comply, especially viewed in relation to the population it is intended to benefit.

We need to remember that tax agencies are set up assuming that the vast majority of taxpayers will correctly self-assess their taxes. According to the 2001-2003 Tax Review Commission report, fewer than 2% of all taxpayers are audited. An unduly complex credit is something the department of taxation is not equipped to deal with.

Like many of the targeted tax credits aimed at encouraging business activities, the EITC comes with all of the problems outlined with those targeted business tax credits. There is no oversight as to how these refunds are aiding families, whether or not outcomes are being achieved or for that matter whether a family is getting sufficient assistance to actually leave the welfare rolls and become self-sufficient. As a recent study reported, nearly one-third of Hawaii's families are not self-sufficient. What will the EITC do for those families who are working two or three jobs to make ends meet but, as a result, make too much money to qualify for the EITC? Where is the tax relief for those families? Lawmakers can make much more of a difference by making the needed structural changes to the state income tax rates and brackets and by boosting the standard deduction. Again, one must ask what is the relationship between taking a percentage of the federal credit amount and the amount of state tax burden relieved?

Lawmakers should also consider the interaction of a state tax credit that produces negative income and how that will affect the amount of income that would then be exposed to the federal rate structure. There are comprehensive studies on the interaction of the credit with the overall federal income tax system. Adopting the credit for state tax purposes may disrupt the incentive to remain employed or to increase the number of hours worked. It should be noted that an EITC was not recommended by the 2005-2007 Tax Review Commission nor did the latest Commission even consider it. The 2005-2007 TRC examined the effects of what would have happened if an EITC was enacted equal to 20% of the federal EITC in 2006. Based on 2003 tax returns, the staff of the tax research and planning office of the department of taxation found that fewer than half of the Hawaii resident income tax returns would have benefitted from a Hawaii EITC. Of the 308,652 returns with AGI of under \$30,000, only 68,845, or

22.3%, claimed the federal EITC. They also estimated that there would be a \$23.2 million decline in tax collections if an EITC were adopted.

Finally, where would the revenue loss generated by this credit be taken? Which programs would be cut or not funded at all? What is known in the social services community is that unless the poor are given the tools and skills to become self-sufficient they will remain on welfare. The funds lost in this tax credit program would be far better spent on services that assist those, especially in public housing, in gaining the skills they need to hold gainful employment, provide child care so that those who need to go to work will have childcare, and learn how to manage what money they earn. Without these skills, merely subsidizing their earned income with a tax credit will not hold a promise of self-sufficiency. Rather than duplicating the federal earned income tax credit, the state should use its resources to instead complement the effort with more skill building and family support so these families can hold gainful employment. Thus, advocates must weigh the consequences of taking revenues from these capacity building programs against doling out the earned income tax credit based on some federal number that bears no relationship to the tax burden imposed by state taxes.

While it appears that this measure proposes tax relief to lower income taxpayers through a variety of income adjustments through tax credits, consideration should be given to adjusting the income tax rates so those taxpayers that these credits are aimed to help will not be subject to income taxation.

Digested 3/18/19



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

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

FROM: Scott Morishige, Executive Director, PHOCUSED

HEARING: **Senate Committee on Ways & Means**  
**Thursday, March 18, 2014 at 9:00 a.m. in Conf. Rm. 211**

**Testimony in Support of HB2371 HD1, Relating to Taxation**

Thank you for the opportunity to provide testimony in **strong support** of HB2371, which would establish a low income tax credit, establish a state earned income tax credit (EITC), and adjust the refundable low income household renters and food/excise tax credits for inflation. PHOCUSED is a coalition of health, housing, human services agencies and individual advocates committed to strengthening policies and programs to support the marginalized and underserved in Hawaii.

Households in Hawaii experience the highest cost of living in the nation – paying more for food, utilities 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. In addition, Hawaii's poverty rate of 17.3% makes Hawaii the 9<sup>th</sup> poorest State in the nation according to 2012 U.S. Census Bureau data.

The tax measures described in HB2371 will strengthen the financial security of Hawaii's low-income families and would positively impact these households in the following ways:

- Part I: Creation of a State EITC – The federal EITC is widely considered to be one of the most effective government anti-poverty programs, and provides a refundable tax credit targeted at working families with children. A Hawaii state EITC would create a refundable credit that is set at a percentage of the federal EITC, which would make the state EITC straightforward to administer while also providing a helpful “hand up” to Hawaii's low-income working families.
- Part II: Creation of a Low Income Tax Credit – Hawaii's families in poverty pay a larger share of their income in taxes than those in all but 3 other states. A low income tax credit would eliminate tax liability for households living in poverty, and would reduce it by half for those at 100-125% of federal poverty guidelines. Without such a credit, Hawaii's working families are essentially pushed deeper into poverty by taxes, which may increase their reliance on publicly funded social services.
- Parts III & IV: Adjusting the Refundable Low Income Household Renters and Food/Excise Tax Credits for Inflation – It has been several years since either the Low Income Household Renters (LIHR) credit and the Food/Excise tax credits have not been adjusted in several years – in fact, the LIHR was last updated in 1981. It is time to make adjustments to these credits to compensate for inflation.

Once again, PHOCUSED strongly urges your **strong support** of HB2371. We appreciate the opportunity to testify. If you have any questions, please do not hesitate to contact PHOCUSED at 521-7462 or by e-mail at [admin@phocused-hawaii.org](mailto:admin@phocused-hawaii.org).

The Twenty-Seventh Legislature  
Regular Session of 2014

THE SENATE  
Committee on Ways and Means  
Senator David Y. Ige, Chair  
Senator Michelle N. Kidani, Vice Chair  
Hawaii State Capitol, Conference Room 211  
Thursday, March 20, 9:00 a.m.

**STATEMENT OF THE ILWU LOCAL 142 ON H.B. 2371, HD1  
RELATING TO TAXATION**

The ILWU Local 142 supports H.B. 2371, HD1, which amends the amount and threshold of the refundable food/excise tax credit and income tax credit for low-income household renters and creates a new low-income tax credit and earned income tax credit.

Low wage earners need a break. The refundable food/excise tax credit and household renter tax credit were designed give low income taxpayers a little boost come tax time. A new low-income tax credit plus an Earned Income Tax Credit will provide even more of a boost and allow low wage earners the opportunity to begin to save and lift themselves from poverty.

The ILWU urges passage of H.B. 2371, HD1. Thank you for the opportunity to testify on this matter.



## CATHOLIC CHARITIES HAWAII

### TESTIMONY IN SUPPORT OF HB 2371, HD1: Relating to Taxation

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

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

Hearing: **Thursday, March 20, 2014, 9:00 am, Conference Room 211**

Thank you for the opportunity to testify in support of HB 2371, HD1, which updates the refundable food/excise tax credit and low-income household renters credit and establishes a low-income workers' tax credit and state earned income tax credit.

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.

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 shelter<sup>1</sup> in the country. A family of four in Hawaii pays 68% more for food than families on the mainland<sup>2</sup>. 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 these measures is much more cost-effective than trying to help them out of homelessness once they have lost everything

Hawaii's General Excise Tax is highly regressive in that the lower one's income is, the higher a percentage of it goes to paying GET. Alleviating the tax burden of those at the low end of the income spectrum will decrease their income instability. These four changes to Hawai'i tax policy will help the people that we serve pay for basic living expenses such as food, transportation, and rent. These policies very specifically target people living in poverty and will result in more money being put into the local economy.

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

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

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





## PARTNERS IN CARE Oahu's Coalition of Homeless Providers

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### TESTIMONY IN SUPPORT OF HB 2371 RELATING TO TAXATION

TO: Senator David Ige, Chair; Senator Michelle Kidani, Vice Chair; and members of the Senate Committee on Ways and Means

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

**Hearing: Thursday, March 20, 2014, 9:00 AM, Room 211**

Dear Chair Ige, Vice Chair Kidani, and members of the committee:

Thank you for the opportunity to provide testimony **in strong support** of HB 2371, to adjust the food/excise tax credit and low income household renters credit for inflation; eliminate taxes on people in poverty and reduce them for those close to poverty; and create a state earned income tax credit. 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.

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. 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.

Partners In Care supports these tax credits as a way to prevent homelessness and help households transition out of homelessness. 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. By raising the income of these vulnerable families, we can help them pay for basic necessities, avoid eviction due to nonpayment of rent, and build assets.

These four tax policies would make a real difference. Adjusting the low-income household renters credit would provide a significant boost to families struggling to make their rental payments. People at risk of homelessness would also benefit from an adjustment to the food/excise tax credit. Even our current clients with no personal income tax liability still pay taxes in the form of the General Excise Tax, and this credit helps those who can least afford to pay. The earned income tax credit is particularly helpful for our working families with children. We also 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 financially secure and move into stable housing. Again, thank you for the opportunity to testify in **strong support** of HB 2371.

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

## Aloha United Way

200 N. Vineyard Blvd., Suite 700  
Honolulu, Hawaii 96817-3938  
Telephone (808) 536-1951  
Fax (808) 543-2222  
Website: [www.auw.org](http://www.auw.org)



**Aloha United Way**

## Cover Sheet

**Testifying Agency:** Aloha United Way  
Kim Gennaula, President & CEO

**Senate Committee on Ways and Means**  
Senator David Y. Ige, Chair  
Senator Michelle N. Kidani, Vice Chair

**Thursday, March 20, 2014 at 9:00 A.M.**

**Conference Room 211**

**HB 2371, HD1: Relating to Taxation: Testimony in Support**

## Aloha United Way

200 N. Vineyard Blvd., Suite 700  
Honolulu, Hawaii 96817-3938  
Telephone (808) 536-1951  
Fax (808) 543-2222  
Website: [www.auw.org](http://www.auw.org)



March 17, 2014

Committee on Ways and Means  
Senator David Y. Ige, Chair  
Senator Michelle N. Kidani, Vice Chair  
Thursday, March 20, 2014 at 9:00 A.M.  
Conference Room 211

HB 2371, HD1: Relating to Taxation - SUPPORT

Dear Chair David Y. Ige, Vice Chair Michelle N. Kidani and Committee Members:

Aloha United Way strongly encourages your favorable consideration of HB 2371, HD1 which makes several changes to our tax policy to reduce the tax burden on our lowest income residents.

In January 2011, The Department of Business, Economic Development & Tourism published a report titled "Self-Sufficiency Income Standard – Estimates for Hawaii 2007". This report looks at the critical issue of family and individual self-sufficiency. DBEDT defines self-sufficiency as the ability to meet basic needs without government or other subsidies. The report clearly shows the impact of the ever-increasing cost of living in Hawaii on a workforce as fully 27% of Hawaii's families have inadequate income to be self-sufficient.

The federal earned income tax credit has proven to be the most efficient and effective way of providing tax relief to low income working families. This credit has lifted over 4.4 million Americans out of poverty every year. While our current "income-support" based welfare system is important to ensure our most needy are cared for, moving families from support to self-sufficiency requires a comprehensive set of asset building strategies – and a state earned income tax credit and the other tax relief provisions of HB 2371, HD1 target those who are emerging from reliance on state support programs.

HB 2371, HD1 provides an excellent start on a comprehensive set of programs that will eventually enable more of our citizens to enjoy a self-sufficient life and Aloha United Way strongly encourages favorable consideration of this important legislation.

Sincerely,



Kim Gennaula  
President & Chief Executive Officer





49 South Hotel Street, Room 314 | Honolulu, HI 96813  
www.lww-hawaii.com | 808.531.7448 | voters@lwwhawaii.com

## COMMITTEE ON WAYS AND MEANS

Thursday March 20, 2014  
Conference Room 211  
HB2371 HD1 RELATING TO TAXATION  
TESTIMONY Beppie Shapiro for the League of Women Voters of Hawaii

Chair Ige, Vice-Chair Kidani, Members of the Committee:

**The League of Women Voters of Hawaii supports HB2371 HD1**, which raises the threshold eligibility for the food/excise tax credit and the low income renters credit increases the amount of these credits; and reduces income tax liability for very poor taxpayers; and creates an earned income tax credit (EITC) for working poor taxpayers proportional to the federal EITC. Having read this bill draft and the testimony presented to the Committee on Human Services, the League has the following comments and respectful suggestions, acknowledging that we are not experts on taxation.

1. As just one sample statistic on the impact of poverty in Hawaii, the UH Center on the Family reports that in 2013, over a third of individuals who slept in homeless shelters were under age 17 (over 2,900 children), with 18%, or almost one fifth, under the age of five.<sup>1</sup> We urge you to consider the lives of these children – you don't need statistics to feel empathy for the chaos and insecurity they face, and the resulting under-performance in formal education and employability. HB2371 HD1 proposes measures to alleviate the most dire poverty in Hawaii.
2. Action to redress the impact on very poor residents of our regressive state excise tax, and the high cost of housing in Hawaii, is urgently needed. While we agree with the Department of Taxation that determining the Federal Poverty Level for a taxpayer will be challenging, we note that federal and state agencies often classify families by their FPL for eligibility for services. This determination is possible – error rates may falsely identify a few “nearly eligible” families as eligible, and vice versa, but do not exceed the benefit of this bill in identifying the very poor for targeted help. Identification is greatly simplified by data-sharing among agencies, which is a goal worth pursuing in Hawaii.

We have considered the testimony of the Tax Foundation, which suggests calculating the low income renters credit as a percentage of rent paid (the Foundation suggests 4%); this has the benefit of a built-in adjustment for inflation over the years, eliminating years of the

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<sup>1</sup>. UH Center on the Family: Homeless Service Utilization Report 2013.



49 South Hotel Street, Room 314 | Honolulu, HI 96813  
[www.lwv-hawaii.com](http://www.lwv-hawaii.com) | 808.531.7448 | [voters@lwvhawaii.com](mailto:voters@lwvhawaii.com)

credit falling behind inflation and much legislative time spent trying to adjust fixed dollar amounts. Therefore we support this suggestion, although since most very poor families must settle for a very low standard of housing, we believe the percentage should be higher to provide meaningful relief.

3. We agree with the Department of Taxation and the Tax Foundation that rather than using tax credits to redress Hawaii's inequitable and highly regressive income tax schedule, it would be simpler to significantly raise the threshold income which requires payment of taxes, and revise the schedule of taxes due to prevent over-taxation of those with low incomes compared with taxpayers with higher incomes.

4. Lastly the League strongly supports a state EITC as a proportion of the federal EITC, even given the testimony of the Department of Taxation about error rates and possibility of fraud. We note that fraud and error are associated with all taxation of individuals and businesses at all income levels, both federally and in Hawaii, which has not prevented Congress and the Legislature from using this comparatively effective tool for implementing social and fiscal policies. The federal EITC has been evaluated several times and its effectiveness in ameliorating extreme poverty, and the impact of poverty on the nutrition, health, and education of children as well as the well-being of families has been clearly demonstrated.<sup>2</sup> The federal EITC is available only to working families, and eligibility for families with children is a priority of the calculation.

We urge you to pass this bill, with or without the modifications suggested above. Thank you for the opportunity to submit testimony.

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<sup>2</sup> Sherman, A. Trisi, D., and Parrott, S. Various Supports for Low-Income Families Reduce Poverty and Have Long-Term Positive Effects On Families and Children, U.S.Center on Budget and Policy Priorities, July 20, 2013.

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Testimony of Hawai'i Appleseed Center for Law and Economic Justice  
Supporting House Bill 2371  
Senate Committee on Ways and Means  
Scheduled for Hearing Thursday, March 20, 2014, 9:00 AM, Room 211

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*Hawai'i Appleseed Center for Law and Economic Justice is a nonprofit 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.*

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Thank you for the opportunity to testify in **strong support** of House Bill 2371. The proposals in HB 2371 would promote a fairer, more progressive tax system by ending income taxes on people in poverty, alleviating the impact of regressive excise taxes, and helping workers keep more of what they earn through a state earned income tax credit. It would do much to restore economic vitality to Hawai'i's embattled and shrinking middle class by mitigating the obstacles our tax system places in the way working families and also help our most vulnerable households.

While Hawai'i is paradise of natural beauty and close community, the financial reality is tough for working families. Hawai'i has the highest cost of living in the U.S.—almost 160 percent of the national average. When adjusted for cost of living, our households have the lowest adjusted incomes in the country. Under the U.S. Census's Supplemental Poverty Measure, which figures in cost of living, we are the eighth poorest state in the country.

Despite the high costs facing working families, we are exacerbating their financial struggles through a regressive tax system. For the poorest among us, the state tax system is an additional burden to achieving financial stability, often pushing poor households deeper into poverty. The lowest-income taxpayers in Hawai'i pay an average of some 13 percent of their income in taxes, while the top earners pay a mere 8 percent. Hawai'i's families in poverty pay a larger portion of their income in taxes than those in all but three other states. **Our state should not worsen the hardships of poverty through taxation.**

---

HB 2371 makes four much-needed adjustments to the Hawai'i state income tax system: (1) creates a state earned income tax credit; (2) creates a low-income tax credit which eliminates income taxes on those in poverty; (3) adjusts the low-income household renters credit for inflation; and (4) adjusts the food/excise tax credit for inflation. These measures will not only provide much needed support for lower-income families to build assets and work their way up, but also shore up our shrinking middle class.

**Creates a State Earned Income Tax Credit**

The federal Earned Income Tax Credit (EITC) has been hailed by leaders across the political spectrum as *the* most effective anti-poverty measure in the U.S. It is a finely calibrated tax credit that puts money directly into the pockets of working families. It is particularly targeted at families with children, and only available to families who earn income and thus functions as a work incentive. In 2011, the EITC kept over 3 million children out of poverty, 15,000 in Hawai'i alone. It has been shown to increase positive outcomes for families ranging from dependence on social services, to educational achievement, even to dental health. Twenty-five other states and D.C. have recognized the

benefits of this credit and sought to supplement it by creating a state EITC. HB 2371 creates a very simple refundable credit set at 10 percent of a filer's federal EITC. This saves the significant administrative costs of traditional government assistance, and ensures that families have more money in their pockets to efficiently meet their needs.

Concerns have been raised that a state EITC pegged at a percent of the federal EITC would cede control of the credit to the federal government. However, this would not be an issue because the state legislature will always have the opportunity to adjust the percentage of the EITC. Some states have lowered or raised the percentage of their state EITC in response to budgetary needs. Since any federal changes to the EITC will be slow to implement, the Hawai'i Legislature will have time to respond to the proposed changes and adjust the state percentage accordingly.

**Creates a Low-Income Tax Credit:** HB 2371 also creates a non-refundable credit that would eliminate the tax burden on households living below the poverty line. When Hawai'i makes working families living in poverty pay income taxes, they push them deeper into poverty, ultimately increasing the costs to the state in terms of expensive social services and other social costs associated with high poverty.

The Center on Budget and Policy Priorities reported in 2011 that Hawai'i is one of only 15 states that levies an income tax on full-time workers in families of three earning minimum wage (\$15,080). In 2013, the federal poverty guideline for a family of three was \$22,470. That same year, a family of three would have owed \$497 in state income taxes—a significant sum for a family in poverty. Simply put, taxing people in poverty is expensive and inefficient, and does not comport with who we are as a community that cares deeply for all of its members.

**Updates the Low-Income Household Renters Credit for Inflation:** We face the highest cost of shelter in the nation, at more than twice the national average, combined with an affordable housing shortfall and the highest rate of homelessness. Currently, the low-income household renters credit provides a \$50 per exemption refundable tax credit to households making less than \$30,000 who pay more than \$1,000 in rent annually. The \$50 credit value has not been increased since it was created in 1981, and the \$30,000 income limit has not been increased since 1989.

Needless to say, the value of the credit has lost significant ground. What is more, between 2005 and 2012 alone, Hawai'i's median rent increased at almost three times as inflation. To ensure that the credit can make a significant difference in the lives of the 73 percent of extremely low-income households spending more than half of their income on shelter and other struggling families, it must be updated to more closely reflect current economic realities.

**Updates the Food/Excise Tax Credit for Inflation:** Like the low-income household renters credit, the food/excise tax credit was created to alleviate the tax burden on low and moderate-income families in Hawai'i. It currently provides a graduated credit (maximum \$85 per exemption) to families earning below \$50,000 annually. The credit has not been updated since its creation in 2007, and has lost 12 percent of its initial buying power due to inflation.

This credit is critical because Hawai'i has a sharply regressive system of taxation, with our lowest income households paying 11 percent of their income toward the GET. At the very least, the state needs to ensure that the measures we have adopted to mitigate the impact of this high excise tax burden keep pace with the rate of inflation to ensure that our low and moderate-income families do not lose even more ground.

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Again, thank you for the opportunity to testify in **strong support** of HB 2371. Growing wealth inequality in Hawai'i threatens not only our economic vitality, but the very fabric of our participatory democracy as our middle class is pushed toward poverty, and our low-income households are struggling just to survive. HB 2371 represents a straightforward, common sense, and comprehensive approach to helping families make ends meet. We respectfully urge you to **pass HB 2371**.

*For more information, see [hiappleseed.org/tax-advocacy](http://hiappleseed.org/tax-advocacy) or contact Victor Geminiani or Jenny Lee at 587-7605.*



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Date: March 18, 2014

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 HB2371 HD1

Aloha Chair Ige, Vice-Chair Kidani, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports HB2371 HD1, which establishes a refundable state earned income tax credit (EITC), a low-income tax credit, amends the amount and threshold of the refundable food tax credit as well as the income tax credit for low-income household renters.

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. HACBED also facilitates the Family & Individual Self-Sufficiency Program (FISSP), which administers the Internal Revenues Services' Volunteer Income Tax Assistance (VITA) program as a part of its larger asset building and financial education initiatives for needy families. As such, HACBED strongly supports the proposed bill that would provide needed assistance in the area of state taxes through the establishment of a state EITC, a low-income workers credit, and adjusting essential tax credits for inflation.

The Family Economic Self-Sufficiency Standard (FESS) 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.

These tax measures 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. Through the FISSP efforts, 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 the 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 HB2371 HD1 would go a long way to supplement the needs of these families with a refundable state earned income tax credit, a low-income tax credit, a more appropriate refundable food tax credit, and income tax credit for low-income household renters that would assist these families in their efforts to truly build their assets.

Mahalo for this opportunity to testify,

Brent N. Kakesako  
Executive Director  
Hawai'i Alliance for Community-Based Economic Development

**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
**To:** [WAM Testimony](#)  
**Cc:** [amymonk99@hotmail.com](mailto:amymonk99@hotmail.com)  
**Subject:** \*Submitted testimony for HB2371 on Mar 20, 2014 09:00AM\*  
**Date:** Monday, March 17, 2014 4:01:44 PM

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**HB2371**

Submitted on: 3/17/2014

Testimony for WAM on Mar 20, 2014 09:00AM in Conference Room 211

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Amy Monk	Individual	Support	No

Comments:

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Aloha, Chair Ige and Committee members:

It is an honor to testify in strong support of HB 2371 HD1. Poverty, like the policies that contribute to it, is complex and there is no quick fix. Pieces of legislation are adopted and do make a difference, but they are often just that: pieces. It's rare to have an opportunity to affect systemic change for the greater good; HB 2371 presents a rare chance to truly make a difference. Restructuring our tax system to lift people out of poverty rather than plunge them into it benefits all.

The GET is literally taxing our low-income families into poverty. It is the most regressive tax on the books and creates the need for social safety nets for people that would otherwise not rely on them. Adjusting the GET to stop disproportionately taking

Half of the states have a state EITC to expand the most effective anti-poverty measure ever created to help their most needy break free from the cycle of government dependence. The state with the highest cost of living should not rank as the 4<sup>th</sup> worst state for taxing people into poverty. The people of Hawaii deserve better; they deserve economic justice and social equity.

The price of housing is a significant contributing factor to our cost of living and it is felt most by our low-income household renters. The purpose of establishing the low-income household renters credit was to soften this blow, but it has not been adjusted since the 1980s. If the credit were to be created this year, it would reflect the current cost of housing. Let's give this progressive policy back its "teeth" and let it do the good it once did. We all know the help is needed now more than ever.

Each of this omnibus bill is proven to be effective and could not be more necessary. I strongly urge you to champion this signature piece of legislation and empower Hawaii's low-income families.

Very truly yours,

Jason Parasco



HB 2371 Relating to Taxation  
Senate Way and Means  
Thursday, March 20  
9:00AM

Chairman Ige and Members of the Committee:

Thank you for the opportunity to testify in **strong support** of House Bill 2371, which would implement progressive tax policies to help our low and moderate-income families. My name is JoAnn Farnsworth, and I have been working here in Hawaii in Family Support and Early Childhood programs for thirty years. Over and over again, I have been struck by the fact that we have yet to implement effective policies that will raise families out of poverty and economic insecurity. Economic insecurity impacts families with young children disparately, let me share some statistics with you;

- Approximately 89,149 young children under five years live in Hawaii
- Young children are more likely to live in families that are poor and low-income than older children
- 33% of Hawaii's infants and toddlers live in poor and low-income households
- **20% or 22,000 children under six live in low-income working families**
- 27% of Hawaii's infants and toddlers live in single adult families a rate more than twice as likely to live in poverty than families with two adults
- 48% of children live in rental units or are homeless

To support families with young children, Hawaii's tax policies need to initiate changes to the following tax credits that are critical to reducing the disproportionate share of taxes paid by low and moderate-income families and putting money into the pockets of those who need the most.

House Bill 2371 would create a state earned income tax credit and eliminate income tax liability on households living below the federal poverty guidelines. It would also adjust the food/excise tax credit and low-income household renters credit for the inflation that has occurred since they were last adjusted. All of these measures will provide much-needed economic relief to Hawaii's families in greatest need and put money directly in the pockets of working low income families. Passing this bill will have significant impact on, improving the lives of, Hawaii's youngest children.

Thank for the opportunity to testify on this bill and I respectfully urge the Committee to pass House Bill 2371 to provide critical relief to our families struggling to simply make ends meet.

JoAnn Farnsworth  
1555 Kalani Iki Street  
Honolulu, HI

## TESTIMONY

HB 2371 Relating to Taxation

Senate Committee on Ways and Means

Wednesday, March 20, 2014, 9:00a, Room 211

Aloha Honorable Senators:

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 and their contributions to supporting families with young children.

Thank you for the opportunity to testify in **strong support** of House Bill 2371, which would strongly support: 1) adjusting Food/Excise tax credits for inflation; 2) stop taxing working families living below poverty level; 3) eliminating taxes on households living below poverty level; and, 4) creating a State Earned Income Tax Credit.

Hawaii's cost of living is the highest in the nation at more than 160 percent of the national average. 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. Each of this bill's four parts provides fair and positive supports to low-income and poor families.

This is even more important when you consider that 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 by passing HB 2371. If we want to support families with young children, then we need to have these measures 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 2371. I respectfully urge the Committee to pass HB 2371 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