



**TESTIMONY OF  
THE DEPARTMENT OF THE ATTORNEY GENERAL  
TWENTY-SEVENTH LEGISLATURE, 2014**

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**ON THE FOLLOWING MEASURE:**  
S.B. NO. 2202, RELATING TO TAX CREDITS.

**BEFORE THE:**  
SENATE COMMITTEE ON WAYS AND MEANS

**DATE:** Wednesday, February 12, 2014      **TIME:** 10:30 a.m.

**LOCATION:** State Capitol, Room 211

**TESTIFIER(S):** David M. Louie, Attorney General, or  
Cynthia M. Johiro, Deputy Attorney General

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Chair Ige and Members of the Committee:

The Department of the Attorney General has the following comments on this bill, which amends the refundable food/excise tax credit.

This bill may be subject to constitutional challenge because the bill is facially discriminatory in that it restricts the tax credit only to taxpayers who physically reside in the State for more than nine months during the taxable year.

A court may conclude that the tax credit is unconstitutional because the bill does not expressly articulate a legitimate government interest served by the legislation, sufficient to withstand constitutional challenge based on the Equal Protection and/or Privileges and Immunities Clauses of the United States Constitution.

The Equal Protection Clause prohibits discrimination against a nonresident based solely on residency. *See, e.g., Williams v. Vermont*, 472 U.S. 14 (1985) (use tax credit for sales taxes paid on cars purchased in other states invalidated because it was only available to Vermont residents). The Hawaii Intermediate Court of Appeals has recognized that the Equal Protection Clause applies where a tax operates unequally on persons or property of the same class. *In re Swann*, 7 Haw. App. 390, 399, 776 P.2d 395, 402 (1989).

Similarly, under the Privileges and Immunities Clause, a state may not impose higher taxes on a nonresident individual than it imposes on its own citizens.<sup>1</sup> However, a

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<sup>1</sup> The Privileges and Immunities Clause does not apply to corporations. *Toomer v. Witsell*, 334 U.S. 385 (1948).

discriminatory tax could be sustained if legitimate reasons for the tax exist and the discrimination bears a substantial relation to those reasons. Lunding v. New York Tax Appeals Tribunal, 522 U.S. 287 (1998) (alimony deduction for residents only struck down as violating Privileges and Immunities Clause).

The physical residency requirement in the bill arguably violates the Equal Protection and Privileges and Immunities Clauses because it expressly favors residents over nonresidents.<sup>2</sup>

The wording in the bill that creates this potential constitutional problem is the phrase “provided further that a person who claims such an exemption shall have physically resided in the State for more than nine months during the taxable year” on page 3, lines 10 through 12, of the bill.

To insulate the bill from possible constitutional challenge, we recommend that the bill be amended to delete the phrase “provided further that a person who claims such an exemption shall have physically resided in the State for more than nine months during the taxable year” on page 3, lines 10 through 12.

Please note that as set forth on page 1, line 4, section 235-55.85(b), Hawaii Revised Statutes, includes the word “resident.” We understand that the Department of Taxation does not enforce this requirement because of possible constitutional challenge based on the reasons above. The word “resident” in section 235-55.85(b) should be repealed.

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<sup>2</sup> We are aware that a few existing tax statutes have residency requirements. To date, these statutes have not been subject to constitutional challenge.

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) 587-1530  
FAX NO: (808) 587-1584

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

Date: Wednesday, February 12, 2014  
Time: 10:30 a.m.  
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: S.B. No. 2202, Relating to Tax Credits

The Department of Taxation (Department) appreciates the intent of S.B. 2202 to increase the refundable food/excise tax credit and provides the following comments for your consideration.

S.B. 2202 increases the income thresholds and credit amounts of the refundable food/excise tax credit. The bill also provides for annual adjustment of the credit by the increase in the Consumer Price Index (CPI). The bill applies to taxable years beginning after December 31, 2014. However, the CPI adjustment applies to taxable years beginning after December 31, 2015.

The Department recommends the following technical amendment. In subsection (c) of the bill provisions, on page 2, line 16, the Department recommends deleting "in a calendar year after 2015" and inserting "after December 31, 2015" in lieu thereof. This amendment will make the reference clearer and more consistent with other provision of the tax code.

The Department also notes that an annual automatic CPI adjustment will make the credit very difficult for the Department to administer and confusing for taxpayers. Instead, the Department recommends that fixed amounts for adjusted gross incomes and credit amounts be adopted.

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, Food/excise tax credit

BILL NUMBER: SB 2202; HB 1805 (Identical)

INTRODUCED BY: SB by Chun Oakland, Baker, Ruderman, Shimabukuro and 6 Democrats; HB by Mizuno

BRIEF SUMMARY: 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 \$5,700	\$ 96
\$ 5,700 under \$11,300	85
11,300 under 17,000	74
17,000 under 22,700	62
22,700 under 34,000	51
34,000 under 45,300	40
45,300 under 56,500	28
56,500 and over	0

Beginning after December 31, 2015, each dollar amount in the table shall be increased by an amount equal to such dollar amount multiplied by the percentage by which the consumer price index for the preceding calendar year exceeds the consumer price index for calendar year 2015.

EFFECTIVE DATE: Tax years beginning after December 31, 2014

STAFF COMMENTS: This measure proposes to increase the refundable food/excise tax credit and provides that the amounts shall be adjusted according to the consumer price index beginning in 2016. 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.

Digested 2/10/14

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**Executive Director**

Victor Geminiani, Esq.

Testimony of Hawai'i Appleseed Center for Law and Economic Justice  
Senate Bill 2202 Relating to Tax Credits  
Senate Committee on Ways and Means  
Scheduled for Hearing Wednesday, February 12, 2014, 10:30 AM, Room 211

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*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.*

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Thank you for the opportunity to testify in **strong support** of Senate Bill 2202, which would adjust the food/excise tax credit value and income eligibility thresholds for inflation. These adjustments would be a much-needed update to the credit, giving more families greater tax relief from the regressive the impact of the General Excise Tax (GET).

Hawai'i is the most expensive place to live in the country, with a cost of living at almost 160 percent of the national average. Groceries cost 57 percent more than they do on the mainland, and the cost of shelter is more than twice as much. Meanwhile, our wages are considered the lowest in the country when adjusted for the cost of living. We also face the eighth highest rate of poverty among the states based on the U.S. Census's Supplemental Poverty Measure, which figures in the cost of living as well as available government assistance. Even our moderate income families struggle to make ends meet.

However, Hawai'i's regressive tax system further exacerbates these struggles. The Institute on Taxation and Economic Policy has ranked Hawai'i as the fourth worst state in the country for taxing residents living in poverty. The regressivity of our tax system is due in large part to the GET, which disproportionately burdens low-income families who must spend nearly all of their income to get by. Virtually all goods and services are subject to the GET, including necessities such as food, medical services, and rent. In total, the bottom 40 percent of households pay around 13 cents per dollar of income toward taxes, while the wealthiest pay closer to 8 cents of every dollar. For these low-income households, the GET is the greatest contributor to their tax burden: 11 cents per dollar of their income goes toward the GET alone. To make matters worse, the GET's application to wholesale transactions results in a "pyramiding" effect that increases the price of goods and services.

This bill would increase the maximum credit value to \$96 per exemption to match the credit's buying power in 2007, when it was created. It would also adjust the income thresholds for inflation, and it ties future increases in the credit to the Consumer Price Index so that it does not lose ground going forward.

All of Hawai'i's residents pay taxes in some form, and for low-income people, the GET imposes the greatest burden. This refundable tax credit targeted for low and moderate-income families is a key means to promote financial stability and promote a more equitable tax system. We strongly urge you to adjust the food/excise tax credit for inflation so that Hawai'i's families can better make ends meet. Again, thank you for the opportunity to testify in **strong support** of SB 2202.



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*Family & Individual Self-  
Sufficiency Program Director*

Athena T. Esene  
*Bookkeeper & Office Manager*

Mika Okuno  
*Planning & Research Associate*

Ben Costigan  
*AmeriCorps Vista*

Date: February 10, 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 SB 2202

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

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB 2202, which amends the refundable food and excise tax credit and ties it to the Consumer Price Index.

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).

SB 2202 - Testimony in Support  
*February 10, 2014 - Page 2*

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 SB 2202 would go a long way to supplement the needs of these families by amending the food and excise tax credit by tying it to the Consumer Price Index and thus 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)  
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**Cc:** [sfuji@higoodwill.org](mailto:sfuji@higoodwill.org)  
**Subject:** \*Submitted testimony for SB2202 on Feb 12, 2014 10:30AM\*  
**Date:** Monday, February 10, 2014 4:54:24 PM

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**SB2202**

Submitted on: 2/10/2014

Testimony for WAM on Feb 12, 2014 10:30AM in Conference Room 211

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Scott Fuji	Goodwill Industries of Hawaii	Support	Yes

Comments:

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## Aloha United Way

200 N. Vineyard Blvd., Suite 700  
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Telephone (808) 536-1951  
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**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

**Wednesday, February 12, 2014 at 10:30 A.M.**

**Conference Room 211**

**SB 2202, SB 2205, SB 2208: Relating to Tax Credits, Taxation, & Income Tax Credits:  
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)



February 7, 2014

Committee on Ways and Means  
Senator David Y. Ige, Chair  
Senator Michelle N. Kidani, Vice Chair  
Wednesday, February 12, 2014 at 10:30 A.M.  
Conference Room 211

SB 2202, SB 2205, SB 2208: Relating to Tax Credits, Taxation, & Income Tax Credits - SUPPORT

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

Aloha United Way strongly encourages your favorable consideration of SB 2202, SB 2205, SB 2208 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 SB 2202, SB 2205, SB 2208 target those who are emerging from reliance on state support programs.

SB 2202, SB 2205, SB 2208 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



## CATHOLIC CHARITIES HAWAII

### TESTIMONY IN SUPPORT OF SB 2202: Relating to Tax Credits

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

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

Hearing: **Wednesday, February 12, 2014, 10:30 am; Conference Room 211**

Thank you for the opportunity to testify on SB 2202, which amends the food/excise tax credit. **Catholic Charities Hawaii supports SB 2202.**

Catholic Charities Hawaii (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawaii 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 Hawaii. This bill speaks directly to our advocacy priority of reducing poverty in Hawaii.

Hawaii's high cost of living, including the highest cost of shelter in the country<sup>1</sup> and food costs for a family of four at 68% more than the mainland<sup>2</sup>, 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 Hawaii's broad-based GET is such that the lower one's income is, the higher a percentage of it goes to paying GET.

The food/excise tax credit, established in 2007, helps to restore some equity to lower-income consumers by providing a per-exemption refund based on an income scale. This bill will update the amounts of the food/excise credit according to inflation since 2007. When established, the income cut-off was \$50,000, with a tax credit ranging from \$25 to \$85. This bill will update the amount of the cut-off to \$56,500 and the tax credit range will change to \$28 to \$96. Tying the amount of the credit to the Consumer Price Index for future increases is a fair method of keeping the credit current.

Updating the food/excise tax credit will help us in the fight to reduce poverty in Hawaii. Our families need this tax credit to help with the struggle of covering their basic living expenses.

Thank you for your support. 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 benefits. 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 SB 2202 RELATING TO TAX CREDITS

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

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

**Hearing: Wednesday, February 12, 2014, 10:30 AM, Room 211**

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

Thank you for the opportunity to provide testimony in **strong support** of Senate Bill 2202, which would adjust the food/excise tax credit for inflation. My name is 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 promote the financial security of low-income families at risk of homelessness and to help those transitioning out of homelessness to get back on their feet.

Hawai'i has the highest cost of living in the United States, at nearly 60% of the national average. Groceries here cost almost 60% more than they do on the mainland, and other necessities cost far more in Hawai'i, including housing, which costs more than twice as much. We have the 8<sup>th</sup> highest rate of poverty among the states, with 17% of our households living below the U.S. Census Supplemental Poverty Measure. Given the high cost of living and high poverty rate, it is no surprise that we have the highest rate of homelessness among the states.

Everyone who purchases anything in Hawai'i pays the GET, and even our poorest residents spend a substantial amount of their income on taxes. This regressive taxation system has only made the challenge of financial self-sufficiency harder. Low-income people pay around 13% of their income toward state and local taxes, while those earning over \$400,000 pay closer to 8%. The regressivity is due in large part to the GET, which is levied on nearly all goods and services.

The food/excise tax credit is an important step in alleviating this regressivity. Even our residents currently experiencing homelessness can receive this refundable tax credit to reduce the amount of their income that has gone toward the GET. However, this credit has not been adjusted for inflation since its inception in 2007, and we urge the committee to do so. We also strongly encourage the committee to key future increases in the credit to the rate of inflation to ensure that it does not lose ground going forward.

We respectfully urge the Committee to pass SB 2202 to provide critical relief to our families struggling to make ends meet and prevent homelessness. The food/excise tax credit is an effective way help our most vulnerable individuals, but it must be updated to achieve its purpose.

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

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

**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
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**Subject:** Submitted testimony for SB2202 on Feb 12, 2014 10:30AM  
**Date:** Monday, February 10, 2014 10:41:45 PM

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**SB2202**

Submitted on: 2/10/2014

Testimony for WAM on Feb 12, 2014 10:30AM in Conference Room 211

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Barbara Polk	Individual	Support	No

Comments: The food/excise tax credit has not been raised for years. This credit plays an important role for people living at or near poverty by reversing the regressivity of a tax on food. Please pass this bill.

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**Subject:** \*Submitted testimony for SB2202 on Feb 12, 2014 10:30AM\*  
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**SB2202**

Submitted on: 2/7/2014

Testimony for WAM on Feb 12, 2014 10:30AM in Conference Room 211

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Javier Mendez-Alvarez	Individual	Support	No

Comments:

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**Subject:** \*Submitted testimony for SB2202 on Feb 12, 2014 10:30AM\*  
**Date:** Sunday, February 09, 2014 9:18:19 PM

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**SB2202**

Submitted on: 2/9/2014

Testimony for WAM on Feb 12, 2014 10:30AM in Conference Room 211

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Joyce Midori Charles	Individual	Support	No

Comments:

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(food/excise tax credit adjustment)  
SB 2202 Relating to Tax Credits  
Senate Committee on Ways and Means  
February 12, 2014, 10:30 AM, Room 211

Thank you for the opportunity to testify in **strong support** of Senate Bill 2202, which would increase the value of the food/excise tax credit and adjust the income thresholds for inflation that has occurred since they were last set. This measure will provide much-needed financial relief to Hawai'i's low and moderate-income families.

Hawai'i has the highest cost of living in the United States, at more than 160 percent of the national average. Groceries here cost almost 60 percent more than they do on the mainland, and other necessities cost much more in Hawai'i. When considering the high cost of living as well as the availability of government assistance, we have the 8<sup>th</sup> highest rate of poverty among the states, with 17 percent of our households living below the U.S. Census Supplemental Poverty Measure.

The state should take an active role in supporting low-income people in the face of these barriers to economic stability. But our regressive taxation system has only made the challenge of financial self-sufficiency worse. Low income people pay around 13 percent of their income toward state and local taxes, while those earning over \$400,000 pay closer to 8 percent. The regressivity is due in large part to the General Excise Tax, which is levied on nearly all goods and services.

The legislature did take an important step toward alleviating this regressivity with the creation of the refundable/food excise tax credit in 2007. However, the credit has not been adjusted for inflation since its creation. The proposed adjustments in SB 2202 will update the credit to provide meaningful tax relief to more of Hawai'i's struggling families. Proposed changes would also key future increases in the credit to the rate of inflation to ensure that it does not lose ground going forward.

We respectfully urge the Committee to pass SB 2202 to provide critical relief to our families struggling to make ends meet. It promotes a fairer tax system by ensuring that we do not disproportionately burden those who are least able to pay. The food/excise tax credit is an effective way to achieve these goals, but it must be updated to provide meaningful assistance.

Kaui Pratt  
45-411 Akimala St.  
Kaneohe, HI  
Phone: (808) 393-1948



**Lynn B. Wilson, PhD**

SB 2202, 2205, 2208

Senate Committee on Ways and Means

February 12, 2014, 10:30 AM, Room 211

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.

I strongly support: 1) adjusting the refundable food/excise tax credit for inflation, especially since its last adjustment for inflation occurred in 2007; 2) creating a State Earned Income Tax Credit set at 10% of the federal EITC; and, adjusting the refundable low-income household renters credit for inflation since its last adjustment for inflation occurred in the 1980s.

Hawaii has the highest cost of living in the United States. 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.

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 measures. If we want to support families with young children, then we need to have economic policies in place that will support low-income families through tax credits, adjusting tax credits for inflation, and raising the minimum wage.

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 SB 2202, 2205, 2208.

Thank you and Mahalo!

Lynn B. Wilson, PhD

1188 Bishop Street, Suite 1502

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**Date:** Sunday, February 09, 2014 3:52:32 PM

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**SB2202**

Submitted on: 2/9/2014

Testimony for WAM on Feb 12, 2014 10:30AM in Conference Room 211

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Mary Morgan Evans	Individual	Support	No

Comments: I strongly support reforming Hawai'i's tax laws so that they are more progressive and keep up with the changing needs of our community.

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February 9, 2014

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

### **Testimony in strong support of SB2202**

Thank you for the opportunity to testify Chair Ige and Vice Chair Kidani. I am N. Tod Robertson a resident of 620 McCully Street. I strongly support SB2202. I would like to encourage the Senate Committee on Ways and Means to amend the refundable food/excise tax credit.

The cost of living in Hawai'i is the highest in the nation and continues to rise. The extremely high cost of living in Hawai'i results in a constant struggle for low and moderate-income households to make ends meet and put food on the table: attain:

- Hawai'i's families face the highest cost of living in the highest in the nation, at almost 160% of the national average. Groceries cost almost 60% more than they do on the mainland.
- Our residents earn the lowest wages in the country when adjusted for the cost of living, while the tax rate for low-income households is among the highest in the nation.
  - The General Excise Tax applies to virtually all goods and services, including necessities such as groceries and medical care. Because a 0.5% GET is levied on wholesale transactions, the GET has a "pyramiding" effect which drives up retail prices.
  - The GET is a major contributor to the regressive impact of Hawaii's tax system. The poorest taxpayers pay, on average, approximately 13 cents of every dollar of income in taxes, while those earning more than \$400,000 pay closer to 8 cents on every dollar of income. Hawaii's residents in poverty pay more in state taxes than all but 3 other states.

### **Hawai'i's Taxes Exacerbate this Struggle**

- Hawaii's working poor families pay higher tax bills than those in all but 3 other states, and the tax rate for low-income households is among the highest in the nation.
- Because Hawai'i's tax structure lacks adequate credits and exemptions, the personal income tax actually pushes some low-income working families deeper into poverty.

### **Proposed Adjustments to the Food/Excise Tax Credit**

- The food/excise tax credit was created to mitigate the high cost of living in Hawai'i and the inherently regressive impact of the GET on low and moderate-income households. This credit has not been adjusted to keep up with the inflation that has occurred since it was created in 2007.
- The credit currently provides a maximum refundable credit of \$85 per qualified exemption. Households with federal Adjusted Gross Income of less than \$50,000

are eligible for the credit with the value of the credit decreasing as income increases.

- The proposed changes to the food/excise tax credit would update it to restore some of the value of the credit lost to inflation since its creation. They would increase the maximum value of the credit amount to \$96 per qualified exemption for households and adjust the income thresholds to make households with an adjusted gross income of less than \$56,500 eligible for the credit. Inflation has been 12% since the credit was last set in 2007.
- The proposed changes would also adjust credit values and income thresholds automatically for inflation to ensure that it does not lose ground going forward.

Thank you for the opportunity to testify in support of SB2202.