SB 2206

Measure Title:	RELATING TO TAXATION.
Report Title:	Taxation; Low-Income Tax Credit; Earned-Income Tax Credit; Refundable Food/Excise Tax Credit; Low-income Household Tax Credit
Description:	Establishes an earned-income tax credit and reduces or eliminates the state income tax liability for taxpayers with a federal adjusted gross income of less than 125 percent of the federal poverty guidelines set forth each year by the United States Department of Health and Human Services. Amends existing tax incentives for low-income household renters and taxpayers utilizing the refundable food/excise tax credit. Applies to taxable years beginning after December 31, 2014.
Companion:	HB1936
Package:	Keiki Caucus
Current Referral:	HMS, WAM
Introducer(s):	CHUN OAKLAND, BAKER, KEITH-AGARAN, TOKUDA, Galuteria, Kidani, Shimabukuro, L. Thielen

NEIL ABERCROMBIE
GOVERNOR

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To: The Honorable Suzanne Chun Oakland, Chair
and Members of the Senate Committee on Human Services

Date: Thursday, February 6, 2014
Time: 1:45 P.M.
Place: Conference Room 016, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 2206, Relating to Taxation

The Department appreciates the intent of S.B. 2206 and provides the following information and comments for your consideration.

S.B. 2206 creates a refundable earned income tax credit (EITC) at the state level. The credit is equal to ten percent of the federal EITC allowed under section 32 of the Internal Revenue Code, as amended. The tax credit applies to taxable years beginning after December 31, 2014.

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. The Department notes that several states have already adopted nonrefundable EITC provisions.

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 out improperly.

Second, refunds are generally paid before a complete review of each return is done. Although on its face it seems simple to make a percentage of the federal EITC a Hawaii 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 a period significantly after any refunds are 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. The IRS, in fact, notes that EITC claims are twice as likely to be audited as other tax returns.

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 Internal Revenue Service, which does have extensive data matching capabilities with federal databases such as the Social Security Administration database, and yet the rate of improper claims is reported at 21-25%. 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%.

Fourth, regarding Part II of this bill, the Department notes that using the "federal poverty guidelines" as a limitation for a tax credit is difficult for the Department to administer. It is the Department's understanding that the applicable "federal poverty guidelines" depend 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. If the Committee wishes to advance this measure, the Department suggests that the income limitation for this credit be fixed amounts which limit both the taxpayer's federal adjusted gross income (FAGI) and Hawaii adjusted gross income (HAGI), and are adjusted appropriately to account for the filing status of the taxpayer.

The Department notes that the FAGI excludes 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 FAGI. Thus, as stated above, the Department suggests limiting the qualification for the credit by FAGI and HAGI.

Finally, regarding Parts III and IV of S.B. 2206, the Department opposes these automatic changes in the credit amount based on the consumer price index. This makes the credit unnecessarily difficult for the Department to administer and confusing for taxpayers. The Department suggests that set amounts be adopted. The Department takes no position on the increase in income threshold amount and credit amount as proposed in Parts III and IV of this measure.

Thank you for the opportunity to provide comments.

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

ON THE FOLLOWING MEASURE:
S.B. NO. 2206, RELATING TO TAXATION

BEFORE THE:
SENATE COMMITTEE ON HUMAN SERVICES

DATE: Thursday, February 6, 2014 **TIME:** 1:45 p.m.

LOCATION: State Capitol, Room 016

TESTIFIER(S): David M. Louie, Attorney General, or
Damien A. Elefante, Deputy Attorney General

Chair Oakland and Members of the Committee:

The Department of the Attorney General has the following comments on this bill, which proposes to establish an earned-income tax credit and reduces the income tax liability of low income earners and amending the tax incentives for low-income household and the refundable food/excise tax credit beginning after December 31, 2014.

This bill may be subject to constitutional challenge because the bill is facially discriminatory in that it restricts the tax credit it creates to Hawaii residents.

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 Supreme Court 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, 776 P.2d 395 (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.[1] However, a

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[1] 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 residency requirement in the bill arguably violates the Equal Protection and Privileges and Immunities Clauses because it expressly favors residents over nonresidents.[2]

The wording in the bill that creates this potential constitutional problem is the term "resident" on page 1, lines 5, 16, 17, and on page 2, lines 1, 2, 3, of the bill.

To insulate the bill from possible constitutional challenge, we recommend that the bill be amended to remove the term "resident".

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

HAWAII
STATE
COMMISSION
ON THE
STATUS
OF
WOMEN

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February 5, 2014

To: Senator Suzanne Chun Oakland, Chair
Senator Josh Green, MD, Vice Chair
Members of the Senate Committee on Human Services

From: Cathy Betts
Executive Director, Hawaii State Commission on the Status of Women

Re: Testimony in Support, SB 2206, Relating to Taxation

Thank you for this opportunity to testify in strong support of SB 2206, which would help Hawaii's low and moderate income families through revision of our tax policies. This bill would create a state earned income tax credit and eliminate income tax liability on households living below the federal poverty guidelines. Additionally, it would adjust the food/excise tax credit and low income household renters credit for inflation, thereby providing some tax relief to our families.

Currently, Hawaii is the 8th poorest state under the United States Census Supplemental Poverty Measure. Hawaii is considered the 4th worst state for taxing people in poverty. Many of our families are reliant on state benefits just to "get by" and the majority of those families are headed by women as single heads of household. This measure seeks to alleviate some of our more regressive tax policies in order to allow families to become self sufficient through several avenues.

First, this measure adjusts the food/excise tax credit since low income families spend most of their income on necessities which are subject to the GET (General Excise Tax). Low and moderate income families pay a disproportionate share of their income on the GET. Adjusting this credit would help our poorest taxpayers. Second, this measure adjusts the low income household renters credit (which has not been adjusted since the 1980s). This measure would also create a state earned income tax credit (EITC), mirroring our federal EITC, which is considered one of the most effective tax measures to battle poverty. A state EITC would create a state income tax credit set at a percentage of the federal EITC. Twenty five states and the District of Columbia already have such a measure in place.

Over taxing working families living in poverty is not good public policy. Similar to eliminating the asset tests for TANF recipients (which our state legislature did last year), progressive tax policies help our families build assets to move forward, rather than spend down their assets to barely survive economically. Revising our tax policies will further assist our working families. The Commission strongly supports SB 2206.

Thank you for this opportunity to testify.

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

SUBJECT: INCOME, Earned income credit; low-income tax credit

BILL NUMBER: SB 2206; HB 1936 (Identical)

INTRODUCED BY: SB by Chun Oakland, Baker, Keith-Agaran, Tokuda and 4 Democrats; HB by Mizuno & Carroll

BRIEF SUMMARY: **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 10% 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.

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.

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

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

Income Tax Credit For Low-Income Household Renters - Amends HRS section 235-55.7 to increase the income threshold to claim the renter tax credit from $30,000 to $59,700, and the amount of credit from $50 to $146. Beginning after December 31, 2014, each dollar amount 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.

Food/Excise Tax Credit - Increases 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, 2014, 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: **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.

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, with increasing errors and inaccuracies.

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 has not been 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.

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

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

If the concern here is that those taxpayers whose available income falls below the federal poverty guidelines pay no state income taxes, then the more appropriate approach is to establish a threshold before which state income taxes are due based on the combination of the standard deduction and personal exemption equaling or exceeding the federal poverty guidelines.

Income Tax Credit for Low-Income Household Renters - The measure also proposes to increase the low-income 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 it to $50. Act 239, SLH 1989, increased the adjusted gross income limit to $30,000 to claim the credit.

Regardless of the amount of the credit, a disparity continues between the taxes paid by homeowners and renters. While homeowners enjoy a generous home exemption, renters who occupy approximately half of the state's housing units, are being significantly overtaxed in relation to owner-occupants. While the most equitable solution to this situation is a system that grants equal relief to both owners and renters but limits that relief to those paying excessive property taxes, such a system cannot be realized without the full cooperation of the state and county policymakers.

Providing relief to real property taxpayers by way of a state income tax credit allows the counties to justify and raise property taxes as needed while being assured that those who cannot afford the increased tax burden will be relieved of any excessive taxes. State lawmakers can be credited with the tax relief while county policymakers will remain accountable for their raising and spending of taxes. To more accurately determine the impost of the general excise tax in a market where rents vary from property to property depending on the size of the unit, lawmakers may wish to actually have the renter calculate what the 4% tax would have been due on that rent and claim that amount as the credit up to the ceiling set by law. So the credit would be 4% of the rent paid up to maximum of say $500. This would require doing away the multiple exemptions for dependents and because of age as one is actually calculating the amount of general excise taxes paid because of the rate of the rent.

Finally, the measure proposes to increase the refundable food/excise tax credit and provides that the amounts shall be adjusted according to the consumer price index. 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 2/5/14

Aloha United Way

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Cover Sheet

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

Senate Committee on Human Services
Senator Suzanne Chun Oakland, Chair
Senator Josh Green, Vice Chair

Thursday, February 6, 2014 at 1:45 P.M.

Conference Room 016

SB 2206: Relating to Taxation: Testimony in Support

Aloha United Way

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February 3, 2014

Committee on Human Services
Senator Suzanne Chun Oakland, Chair
Senator Josh Green, Vice Chair
Thursday, February 6, 2014 at 1:45 P.M.
Conference Room 016

SB 2206: Relating to Taxation - SUPPORT

Dear Chair Suzanne Chun Oakland, Vice Chair Josh Green and Committee Members:

Aloha United Way strongly encourages your favorable consideration of SB 2206 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 2206 target those who are emerging from reliance on state support programs.

SB 2206 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

Kim Gennaula
President & Chief Executive Officer

GIVE. ADVOCATE. VOLUNTEER. LIVE UNITED.

HAWAI'I
AMERICANS FOR DEMOCRATIC ACTION

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January 31, 2014

TO: Chair Suzanne Chun-Oakland; Vice Chair Josh Green
Members of the Senate Committee on Human Resources

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

RE: Support and Comments on SB 2206 On Taxation

The Americans for Democratic Action, Hawai'i is strongly in support of SB 2206. With the popularization of movies such as Reich's "Inequality for All" and books like The Spirit Level by Pickett and Wilkinson, scholars and policy makers should be aware of the problems with income inequality.

Despite its reputation as a progressive state, Hawai'i has its share of the problem. Hawai'i has the highest cost of living in the United States, at almost 160% of the national average. 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 poorest taxpayers pay, on average, approximately thirteen cents of every dollar of income in taxes, while those earning more than $400,000 pay closer to eight cents on every dollar of income. Hawaii's residents in poverty pay more in state taxes than all but thee other states. SB 2206 would take an important step toward justice by establishing an Earned Income Tax Credit and adjust the refundable low-income household renters and food/excise tax credits for inflation.

CATHOLIC CHARITIES HAWAI‘I

TESTIMONY IN SUPPORT OF SB 2206: Relating to Taxation

TO: Senator Suzanne Chun Oakland, Chair, Senator Josh Green, Vice Chair, and Members, Committee on Human Services

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

Hearing: Thursday, February 6, 2014, 1:45 pm, Conference Room 016

Chair Chun Oakand, Vice Chair Green, and Members, Committee on Human Services:

Thank you for the opportunity to testify on SB 2206, which establishes a state earned income tax credit and a low-income tax credit and updates the low-income household renters credit and refundable food/excise tax credit. I am Trisha Kajimura, Social Policy Director for Catholic Charities Hawaii. **I am testifying in support of SB 2206.**

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.

Catholic Charities Hawai’i has a strong commitment to decreasing poverty. Poverty is clearly linked to poor social and health outcomes. People living below the poverty line are especially hard hit in Hawaii, with the highest cost of living in the U.S. A family of four in Hawaii pays 61% more for food than families on the mainland. Our cost for housing is also the highest in the nation. 75% of people at or below the poverty line spend more than 50% of their income on housing. This population is frequently teetering at the brink of homelessness. Any change to their financial situation like a decrease in wages or increase in rent will tip them over into homelessness. Increasing their resources through this measure is much more cost-effective than trying to help them out of homelessness once they have lost everything

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 if you have any questions.

Hawai'i Alliance for Community-Based Economic Development
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HACBED

Community Voice, Collective Action

Date: February 1, 2014
To: Senator Suzanne Chun Oakland, Chair, Senator Josh Green, Vice-Chair, and members of the Committee on Human Services
From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)
Re: Strong Support for SB 2206

Aloha Chair Chun Oakland, Vice-Chair Green, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB 2206, which establishes a refundable state earned income tax credit (EITC), creates a low-income workers credit, and adjusts the refundable low-income household renters and food and excise tax credits for inflation.

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 SB 2206 would go a long way to supplement the needs of these families with a variety of key tax measures 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

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
Supporting SB 2206
Senate Committee on Human Services
Scheduled for Hearing Thursday, February 6, 2014, 1:45 PM, Room 016

Hawaiʻi 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 Hawaiʻi on civil legal issues of statewide importance. Our core mission is to help our clients gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.

Thank you for the opportunity to testify in **strong support** of Senate Bill 2206. The proposals in SB 2206 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 Hawaiʻi'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 Hawaiʻi is paradise of natural beauty and close community, the financial reality is tough for working families. Hawaiʻi 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 Hawaiʻi pay an average of some 13 percent of their income in taxes, while the top earners pay a mere 8 percent. Hawaiʻi'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 be worsening the hardships of poverty through taxation.**

SB 2206 makes four much-need adjustments to the Hawaiʻi 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 Hawaiʻi 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. SB 2206 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.

Creates a Low-Income Tax Credit: SB 2206 also creates a non-refundable credit that would eliminate the tax burden on households living below the poverty line. When Hawaiʻi 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 Hawaiʻi 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, Hawaiʻi'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 Hawaiʻi. 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 Hawaiʻi 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.

Again, thank you for the opportunity to testify in **strong support** of SB 2206. Growing wealth inequality in Hawaiʻi 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. SB 2206 represents a straightforward, common sense, and comprehensive approach to ameliorating the deleterious effects our state tax system has on our low and moderate-income households. It provides desperately needed relief and support to help ensure that the American dream can be attained by those who strive for it, and kept by those who have it. Our state should not inhibit these goals, but further them. We respectfully urge you to **pass SB 2206, unamended**.

For more information, please see hiappleseed.org/tax-advocacy or contact Jenny Lee at 587-7605.

HAWAII CATHOLIC CONFERENCE
6301 Pali Highway
Kaneohe, HI 96744-5224

ONLINE SUBMITTAL
Hearing on Thursday, February 6, 2014 @ 1:45 p.m.
Conference Room 016

DATE: February 4, 2014
TO: Senate Committee on Human Services
Senator Suzanne Chun Oakland, Chair
Senator Josh Green, Vice Chair
From: Walter Yoshimitsu, Executive Director
Re: Support for SB 2206 Relating to Taxation

Honorable Chair and members of the Senate Committee on Human Services, I am Walter Yoshimitsu, **representing the Hawaii Catholic Conference**. The Hawaii Catholic Conference is the public policy voice for the Roman Catholic Church in the State of Hawaii, which under the leadership of Bishop Larry Silva, represents Roman Catholics in the State of Hawaii.

The Catholic Church in Hawaii has long encouraged members of our faith community to engage every level of the Church in study, discussion and decisions about how the Church can and must respond to the cry of the poor. Our church teaching is clear that our desire is that the poor should rise above poverty and wretchedness, and should better their condition in life; and for this it strives. As Christians, we are called by the Gospel to do everything we can to help those who are least among us.

The Hawaii Catholic Conference strongly supports a State Earned Income Tax Credit (EITC) to help local families in poverty and prevent homelessness. The EITC is a direct incentive for low income workers since it specifically addresses workers with families. Our understanding, however, is that there may be a low level of literacy and English speaking skills among these groups of people so it is imperative that an effort to provide education on the application process for the EITC be added to the discussion.

Raising the State Earned Income Tax Credit (EITC) in Hawaii for the lowest wage-earners in the state, promotes the human dignity of each person and provides much needed tax relief, thereby empowering them to rise against the cycle of poverty. The EITC will encourage a better work ethic, reduce poverty, and allow those struggling financially in our state to meet their basic needs. The goal of empowering these people, especially families, to raise themselves out of the cycle of poverty, is one that has long been supported by the Catholic Church and many other faith communities.

Thank you for supporting this bill. Mahalo for the opportunity to provide testimony.

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HPCA

HAWAI'I PRIMARY CARE ASSOCIATION

Senate Committee on Human Services
The Hon. Suzanne Chun Oakland, Chair
The Hon. Josh Green, Vice Chair

Testimony in Support of Senate Bill 2206

<u>Relating to Taxation</u>

Submitted by Robert Hirokawa, Chief Executive Officer

February 6, 2014, 1:45 pm, Room 016

The Hawaii Primary Care Association (HPCA), which represents the federally qualified community health centers in Hawaii, supports Senate Bill 2206, establishing an earned income tax credit and eliminating state income tax liability for taxpayers making less than 125 percent of the federal poverty limit.

The HPCA is a staunch believer in the social determinants of health, those economic and social conditions that influence an individual and a community's health status. These conditions serve as risk factors endemic to a person's living and working environment, rather than their behavioral or genetic histories. Factors such as income, education, access to recreation and healthy foods, housing, and employment, can and do have measurable impacts on a person and a community, both in health and financial outcomes.

Seventy-three percent of the patients seen by community health centers live below one hundred percent of the federal poverty limit. This living situation has been shown to manifest in poorer health outcomes, often as a direct result the social determinants associated therein, such as lack of adequate housing or access to fresh produce. For these reasons, the HPCA supports mitigating the tax burden felt by low-income families.

Thank you for the opportunity to testify.

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WOMEN'S CAUCUS

DEMOCRATIC PARTY OF HAWAIʻI

February 6, 2014

TO: Senator Suzanne Chun Oakland, Chair
Senator Josh Green, Vice Chair and
Members of the Committee on Human Services

FROM: Jeanne Y. Ohta, Co-Chair

RE: SB 2206 Relating to Taxation
Hearing: Thursday, February 6, 2014, 1:45 p.m., Room 016

POSITION: STRONG SUPPORT

The Hawaiʻi State Democratic Women's Caucus writes in strong support of SB 2206 Relating to Taxation, which would establish a State Earned Income Tax Credit and reduce or eliminate tax liability for low-income taxpayers; and would change the tax incentives for low-income household renters and the refundable food excise tax credit.

The federal Earned Income Tax Credit (EITC) is a refundable tax credit targeted at working families with children. Widely considered the most efficient anti-poverty program, it helps workers keep more of what they earn. Twenty-five other states have EITC's as a percentage of the federal EITC. These tax credits help boost families and the communities in which they live. Working families would use the money to pay rent, pay for groceries or medicines, putting money into the local economy.

The two refundable credits help alleviate the regressive impact of the GET and the high cost of housing on low and moderate-income families. The proposed changes to these credits would update it to recover ground lost to inflation since they were last set.

Imposing state income tax liability on those in poverty means that some working families are actually pushed deeper into poverty by taxes, which ultimately results in the need for expensive social service expenditures by the state. Hawaiʻi should eliminate all tax liability for households living in poverty and reduce it by half for those at 100-125% of the federal poverty guidelines.

The lowest-income taxpayers in Hawaiʻi pay an average of approximately 13% of their income in state and local taxes—among the highest in the nation—while those earning more than $400,000 pay closer to 8%. The GET is a major contributor to the regressive impact of Hawaiʻi's tax system.

Hawaiʻi's families in poverty pay a larger share of their income in taxes than those in all but 3 other states. The lack of adequate credits and exemptions means that some working poor families are actually pushed deeper into poverty by our tax system. The proposed changes are just small adjustments to the tax burden placed on working families. We urge the committee to pass this measure.

Hawaiʻi State Democratic Women's Caucus, 404 Ward Avenue Suite 200, Honolulu, HI 96814
hidemwomen@gmail.com

TESTIMONY IN SUPPORT OF SB 2206: RELATING TO TAXATION
WRITTEN TESTIMONY ONLY

TO: Senator Suzanne Chun Oakland, Chair, Human Services;
Senator Josh Green, Vice-Chair; and
Members of the Committee on Human Services

FROM: Jan Harada, CEO, Helping Hands Hawaii

Hearing: Thursday , February 6, 2014, 1:45p.m.; CR 016.

Chair Chun-Oakland, Vice-Chair Green, and Committee Members:

Thank you for the opportunity to provide testimony **in support** of **SB 2206, Relating to Taxation**, which would establish a low income workers credit, establish a state earned income tax credit (EITC), and adjust the refundable low income household renters and food/excise tax credits for inflation.

Helping Hands Hawaii (HHH) is a community-based non-profit organization who primarily serves those who are struggling with poverty, homelessness, mental illness, or language access issues. Services are both emergency/immediate in nature as well as those designed to encourage development of sustainable self-sufficiency and housing stabilization. As it relates to our work around poverty and homelessness, we have seen the effects of a Hawaii that has among the highest cost of living in the nation, with many paying more than the advisable 30% of income just for shelter, food, and utilities. According to the 2012 U.S. Census Bureau statistics, Hawaii's poverty rate is 17.3%, ranking us as the 9th poorest State in the nation. Additionally, the Family Economic Self-Sufficiency Standard (FESS) depicts the obstacles that Hawaiʻi 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.

The tax measures described in SB2206 will strengthen the financial security of Hawaii's low-income families and would positively impact these households in the following ways:

- **<u>Part I: Creation of a State EITC</u>** – 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.

- **<u>Part II: Creation of a Low Income Tax Credit</u>** – 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 for Hawaii. 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.
- **<u>Parts III and IV</u>**: **<u>Adjusting the Refundable Low Income Household Renters and Food/Excise Tax Credits for Inflation</u>** – It has been several years since either of these credits have been adjusted to account for inflation/increased cost of living.

We urge your support for these important pathways out of poverty.

LEAGUE OF WOMEN VOTERS®

49 South Hotel Street, Room 314 | Honolulu, HI 96813
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COMMITTEE on HUMAN SERVICES

THURSDAY FEB. 6, 2014, 1:45 PM
Conference Room 016
SB2206 RELATING TO TAXATION
TESTIMONY Beppie Shapiro for the League of Women Voters of Hawaii

Chair CHUN-OAKLAND, Vice-Chair GREEN, MEMBERS OF THE COMMITTEE:

The League of Women Voters of Hawaii supports SB 2206 which would address poverty in Hawai`I by 1) establishing an earned income tax credit fixed at 10% of the taxpayer's federal earned income tax credit; 2) eliminating state income tax liability for families whose adjusted gross income is at or below the poverty level, and reducing the liability for those between 100% and 125% of the Federal Poverty Level (FPL); 3) increasing the low-income household renters credit and indexing it to inflation; 4) establishing a food/excise tax credit for low-income households and indexing the credit to inflation.

The League believes that public policy should promote self-sufficiency, and that the most effective social programs are those designed to prevent or reduce poverty. The League also believes that fiscal policy should provide for taxes that are progressive overall, applying higher tax rates as income increases. While it is true that our income tax rates are already highly graduated for low-income filers, can't we go further to ease the tax burdens on our low-income working families? We point out that Hawaii is only one of 15 states to tax families of four with incomes at the poverty level.[1] Let's help these low income working families move into the middle class. SB2206 is an admirable and badly needed vehicle for achieving this purpose in Hawai`i.

[1] http://www.cbpp.org/cms/index.cfm?fa=view&id=3741

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The population addressed by this bill is in dire need of relief. Currently the Federal Poverty Guidelines (100%FPL) are as follows[2]:

2014 POVERTY GUIDELINES FOR HAWAII	
Persons in family/household	**Poverty guideline**
1	$13,420
2	18,090
3	22,760
4	27,430

I'm sure none of us here can imagine living in Hawaii on this income, or even 125% of these income (i.e. $34,280 for a family of four).

A single parent of one child working at minimum wage 40 hours per week, 52 weeks per year, earns **16% below** the federal poverty guidelines for a family of two. Unfortunately many of our hard-working citizens are in this situation. Hawai'i's poverty rate of **17.3%** (approximately 240,000 individuals) makes Hawai'i the **9th poorest in the nation.** [3]

In 2012 20% or 2,000 of Hawai'i's children under six lived in low-income working families.[4] Research on early childhood development has found that income insecurity negatively affects three key aspects of brain development – positive relationships, learning resources, and high stress. Surely we should reward these working families by not reducing their inadequate incomes through overly high income taxation. The extra money they would have if SB2206 is enacted would surely be spent immediately on basic necessities of life, thus adding economic activity to the State and its businesses.

The League of Women Voters concurrently supports raising the minimum wage, as outlined in our testimony on SB 2609. We think the combination of a more adequate minimum wage and

[2] Aspe.hhs.gov/poverty/14poverty.cfm
[3] U.S. Census Bureau, Current Population Reports, Supplemental Poverty Measure: 2012
[4] Population Reference Bureau, analysis of data from the U.S. Census Bureau, 2008 - 2012 American Community Survey.

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the tax credits outlined in this bill constitute a powerful, efficient anti-poverty program. We point out that even with the proposed income tax changes, our low-income families will still be contributing to other state tax revenue, including excise taxes and gasoline taxes.

Finally, we hope our State Tax Department and the Department of Business and Economic Development will provide some analysis on this bill for the benefit of this Committee and all Hawaii citizens. We want to move forward with confidence that the income tax changes proposed will still provide adequate resources for our State programs and services.

We urge you to pass this bill. Thank you for the opportunity to submit testimony.

Protect working families: Establish a Hawaii EITC

Testimony for the Hawaiian Legislature's consideration of SB 2206: Relating to Taxation
Senate Committee on Human Services

By Jackie Lynn Coleman, President & CEO, The National Community Tax Coalition

February 4, 2014

The National Community Tax Coalition (NCTC) greatly appreciates this opportunity to testify in strong support of SB 2206, which would create a state Earned Income Tax Credit (EITC) for Hawaii – a much-needed support for the low- and moderate-income working families of this state.

NCTC is the nation's largest, most comprehensive membership organization for community-based organizations offering free Volunteer Income Tax Assistance (VITA) and financial services to low-income working families. Our more than 2,400 members empower low-income workers to build a more secure financial future for themselves and their families through innovative financial services. During the 2013 tax season, Community VITA programs helped taxpayers file approximately 1.7 million federal tax returns – including more than 7,400 in Hawaii alone.

While low-income families across the nation are struggling to get by, the challenges of living in or near poverty are exacerbated by Hawaii's cost of living, which is the highest in the country. The EITC is a proven and effective means for keeping working families and their children out of poverty and enabling them to pay for their basic needs. Research has also shown the EITC to be associated with better education outcomes (math and reading scores) for children and better health for families.

The families who claim the EITC work hard – they must have earned income to qualify – and already pay a significant portion of their income in taxes. In Hawaii, taxpayers in the lowest quintile of earners paid a steep 13 percent of their limited incomes in state and local taxes. Creating a state EITC to complement the federal tax credit would help alleviate the negative effects of these tax rates on the families who need help the most, allowing them to keep more of what they have earned.

Currently, more than 11.5 percent of Hawaiians are living in poverty – but the rate for children living in poverty is a staggering 17.1 percent. Implementing a state EITC would help the state of Hawaii to leverage the anti-poverty impact of the federal EITC and target those households, especially those with children, who are the neediest. Each year, the EITC lifts approximately 6.6 million people out of poverty, about half of whom are children. In Hawaii, almost 15,000 children were kept out of poverty due to the federal EITC in 2011. A state-level EITC, working in conjunction with the federal, would have a significant impact on Hawaii's low-income families and children, setting them on the path to financial security.

Half of all of the states in the U.S. have created their own EITCs, recognizing the tax credit's successful track record at mitigating poverty, especially among children, and encouraging work. Hawaii has here the opportunity to join these states in the fight against poverty. As such, NCTC respectfully urges Hawaii's legislators to support the state's low- and moderate-income families by supporting SB 2206.

National Community Tax Coalition
123 W. Madison Street, Suite 500
Chicago, IL 60602
www.tax-coalition.org

PARTNERS IN CARE
Oahu's Coalition of Homeless Providers

TESTIMONY IN SUPPORT OF SB 2206: RELATING TO TAXATION

TO: Senator Suzanne Chun Oakland, Chair; Senator Josh Green, Vice Chair; and members of the Senate Committee on Human Services

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

Hearing: Thursday, February 6, 2014, 1:45 PM, Room 016

Dear Chair Chun Oakland, Vice Chair Green, and committee members:

Thank you for the opportunity to provide testimony **in strong support** of SB 2206, to adjust the food/excise tax credit and the low income household renters credit for inflation; eliminate taxes on people in 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 SB 2206.

PHOCUSED

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

TO: Senator Suzanne Chun-Oakland, Chair
Senator Josh Green, Vice-Chair
Members, Committee on Human Services

FROM: Scott Morishige, Executive Director, PHOCUSED

HEARING: Senate Committee on Human Services
Thursday, February 6, 2014 at 1:45 p.m. in Conf. Rm. 016

Testimony in Support of SB2206, Relating to Taxation

Thank you for the opportunity to provide testimony in **strong support** of SB2206, 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 9th poorest State in the nation according to 2012 U.S. Census Bureau data.

The tax measures described in SB2206 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 SB2206. 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.

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LOCAL 5 HAWAII

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

Wednesday, February 05, 2014

The Honorable Suzanne Chun-Oakland - Chair and Committee Members
Hawaii State Legislature
Senate Committee on Human Services
State Capitol
415 S. Beretania Street

RE: SB 2206 relating to taxation

Chair Chun-Oakland, Vice-Chair Green, and members of the Senate Committee on Human Services:

UNITE HERE Local 5, a local labor organization representing 10,000 hotel, health care and food service workers employed throughout our State, hereby registers our support for Senate Bill 2206, relating to taxation.

SB 2206 would implement progressive tax policies to help our low and moderate-income families.

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

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

We thank you for introducing and hearing SB 2206 and would urge the Committee to pass the measure.

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

SB2206

Submitted on: 1/29/2014

Testimony for HMS on Feb 6, 2014 13:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Barbara Polk	Individual	Support	No

Comments: It is a crime that Hawaii taxes its poor residents more than almost any state, while we have one of the highest costs of living. SB 2206 would help rectify this situation through an array of tax credits, all of which would greatly help support low income people. I urge you to pass this bill.

SB 2206 Relating to Taxation
Senate Committee on Human Services
February 6, 2014, 1:45 PM, Room 016

Honorable Senator Chun Oakland and Members of the Committee

Thank you for the opportunity to testify in **strong support** of Senate Bill 2206, 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.

This bill 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 Hawai'i's families in greatest need and put money directly in the pockets of working low income families.

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

JoAnn Farnsworth
1555 Kalani Iki Street
Honolulu, HI

Greetings to Hawaii's Legislators! And thank you for this opportunity to provide input for decisions that will affect our youngest keiki.

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 Low-Income Household Renters and Food/Excise tax credits adjusted for inflation; 2) stop taxing working families that are below poverty level; 3) creating a State Earned Income Tax Credit; and, 4) raising the minimum wage.

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 2206 and SB 2207.

Thank you and Mahalo!

Lynn B. Wilson, PhD
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