

# SB 2833

|                          |   |
|--------------------------|---|
| <b>Measure Title:</b>    | RELATING TO INCOME TAXATION OF SENIORS.   |
| <b>Report Title:</b>     | Taxation; Income Tax Exemption for Seniors  |
| <b>Description:</b>      | Provides an income tax exemption to taxpayers over 65 years of age who have federal adjusted gross income below certain thresholds. |
| <b>Companion:</b>        | <u><a href="#">HB2283</a></u>   |
| <b>Package:</b>          | Governor  |
| <b>Current Referral:</b> | HMS, WAM  |
| <b>Introducer(s):</b>    | KIM (Introduced by request of another party)  |



NEIL ABERCROMBIE  
GOVERNOR

EXECUTIVE CHAMBERS  
HONOLULU

Written testimony in **support** of SB2833  
Relating to Income Taxation of Seniors

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

February 6, 2014  
1:45 pm Room 016

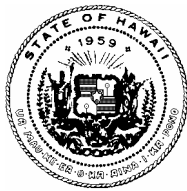
Chair Chun Oakland, Vice-Chair Green, and members of the Human Services Committee:

The Office of the Governor submits written testimony in **support** of Senate Bill 2833, Relating to Income Taxation of Seniors. This measure provides an income tax exemption to taxpayers over 65 years of age who have federal adjust gross income (AGI) below certain thresholds - \$25,000 for singles, \$35,000 for heads of households, and \$45,000 for joint filers.

Employer-sponsored pensions are already tax-exempt. This bill seeks tax equity for those pensions which are not employer-sponsored for those seniors with low- and middle-income retirement benefits.

The Department of Taxation is available to provide additional information.

Thank you for the opportunity to submit testimony.



STATE OF HAWAII  
DEPARTMENT OF HUMAN SERVICES  
P. O. Box 339  
Honolulu, Hawaii 96809-0339

February 6, 2014

**MEMORANDUM**

TO: The Honorable Suzanne Chun Oakland, Chair  
Senate Committee on Human Services

FROM: Patricia McManaman, Director

SUBJECT: **S.B. 2833 - RELATING TO INCOME TAXATION OF SENIORS**

Hearing: Thursday, February 6, 2014; 1:45 p.m.  
Conference Room 016, State Capitol

**PURPOSE:** The purpose of this bill is to provide an income tax exemption to taxpayers over 65 years of age who have federal adjusted gross income below certain thresholds.

**DEPARTMENT'S POSITION:** The Department of Human Services (DHS) strongly supports this Administration bill that will bring tax relief to our senior citizens who struggle to make ends meet. Many of our growing population of seniors live on fixed incomes that may cause them to choose between food, housing, and medical care. Any relief we can provide to enable them to live healthy and independently is the right thing to do.

Thank you for the opportunity to provide testimony on this bill.

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 Suzanne Chun Oakland, Chair  
and Members of the Senate Committee on Human Services

Date: Tuesday, February 06, 2014  
Time: 1:45 p.m.  
Place: Conference Room 016, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: S.B. No. 2833, Relating to Income Taxation of Seniors

The Department of Taxation (Department) strongly supports S.B. 2833, an Administration measure, to support Hawaii's seniors.

S.B. 2833 creates an income tax exemption for taxpayers 65 years of age and older whose adjusted gross incomes are below certain thresholds.

The exemption applies to all income tax liability of a taxpayer over the age of 65 with adjusted gross income of not more than \$45,000 if the taxpayer is married and filing jointly; \$35,000 if the taxpayer is a head of household; and \$25,000 if the taxpayer is filing singly or is married filing separately.

The bill also contains guidance for families in which only one joint filing taxpayer is over the age of 65, to ensure consistent and fair availability of the credit, as well as safeguards to prevent avoidance of other responsibilities like employer withholding and filing of tax returns.

Thank you for the opportunity to provide comments in support of SB 2833.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax exemption for seniors

BILL NUMBER: SB 2833; HB 2283 (Identical)

INTRODUCED BY: SB by Kim by request; HB by Souki by request

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to provide that taxpayers age 65 years of age or older whose federal and Hawaii adjusted gross income does not exceed the applicable level shall be exempt from state income taxation. The applicable levels are:

- (1) \$45,000 for a taxpayer filing a joint return as provided by HRS section 235-93;
- (2) \$35,000 for a taxpayer filing as a head of household (as defined in Section 2(b) of the Internal Revenue Code); and
- (3) \$25,000 for a taxpayer who is not married and not a head of household, or in the case of a taxpayer who is married filing separately.

In the case of a jointly filing taxpayer in which only one of the joint filers is 65 years of age, to qualify for an exemption the federal and Hawaii adjusted gross income of the joint filing shall not exceed the applicable level for taxpayers filing jointly and the joint filer who is 65 years of age or older must demonstrate he or she would qualify for the exemption if he or she filed as married filing separately. The maximum amount of income that may be exempted shall be \$25,000.

EFFECTIVE DATE: Tax years beginning after December 31, 2014

STAFF COMMENTS: This is an administration measure submitted by the office of the governor GOV-09 (14). This measure proposes that taxpayers age 65 or older with federal or Hawaii adjusted gross income below a certain threshold shall be exempt from state income taxation. 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 stand point, the proposed credit will require additional calculations and steps in order for it to be claimed.

While the measure provides that taxpayers may qualify according to their federal and Hawaii adjusted gross income, it should be noted that the federal adjusted gross income and the state adjusted gross income are not identical. 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.

If the concern here is for those taxpayers whose available income falls below a certain level, 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.

Digested 2/5/14



**HPCA**

HAWAII 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 2833**  
**Relating to Income Taxation of Seniors**  
**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 2833, providing an income tax exemption for seniors.

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. Eighty-Nine percent reside under two 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. When coupled with health complications that arise with advancing age, the measures in this bill speak to a clear and certifiable need here in Hawaii.

For these reasons, the HPCA support this measure and thanks you for the opportunity to testify.



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

COMMITTEE on HUMAN SERVICES

THURSDAY FEB. 6, 2014, 1:45 PM

Conference Room 016

SB2833 RELATING TO INCOME TAXATION OF SENIORS

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 the intent of SB 2833** which provides an income tax exemption for taxpayers over 65 years of age who have Federal adjusted gross income below certain thresholds.

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. SB2833 is badly needed to address this purpose in Hawai'i.

However, our position also is that the income tax base should be as broad as possible with minimal tax preferences and a progressive rate structure. We are troubled that Hawaii already has significant income tax exemptions for the population over 65, and these exemptions aren't addressed in this measure. Hawaii currently exempts all federal, military, and in-state pensions as well as all Social Security benefits from State income tax. In the interest of generational equity, what is special about this type of income compared with wage income? The exemptions effectively reduce the taxable income of many of our retirees, so it's entirely possible for a senior to have high personal net worth and sizeable untaxed retirement income yet still benefit from this measure.



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

If lawmakers decide to move forward to help low income seniors who are in dire need of relief a schedule of gradually reduced exemptions on pension income seems worth considering. This might avoid incentivizing people to retire prematurely to take advantage of a cutoff date for pension exemptions while allowing the State to keep its retirement promise to those actively planning for retirement.

This measure should be looked at in the context of related reforms to the State tax code. If this is the approach taken, for this particular bill we would like to suggest that instead of having specific dollar figures for eligible income, eligibility be specified by reference to a percentage of the Federal Poverty Level (FPL), thus eliminating the need to continually revisit this legislation to account for inflation. For example, \$25,000 for an individual is currently 186% of FPL.<sup>1</sup>

The extra money poor seniors would have if SB2833 is enacted would surely be spent immediately on basic necessities of life, thus adding economic activity to the State and its businesses.

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 consider our comments on this bill including the suggested changes to income eligibility definitions.

Thank you for the opportunity to submit testimony.

---

<sup>1</sup> <http://aspe.hhs.gov/poverty/14poverty.cfm>