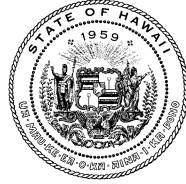


DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Wednesday, February 18, 2015
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1181, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 1181 and provides the following comments for your consideration.

H.B. 1181 increases the standard deduction for all filing statuses and doubles the ordinary personal exemption amount. The bill applies to taxable years beginning after December 31, 2014.

The Department notes that the bill only makes simple changes to the standard deduction and personal exemption amounts. The Department will be able to administer these changes with the current effective date of the measure. The Department points out that the bill doubles the general personal exemption amount, but does not amend the special personal exemption for blind, deaf, or totally disabled individuals.

Thank you for the opportunity to provide comments.



TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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SUBJECT: INCOME, Increase standard deduction and personal exemption

BILL NUMBER: HB 1181

INTRODUCED BY: Jordan, Hashem, Keohokalole, Yamashita

BRIEF SUMMARY: Amends HRS section 235-2.4(a) to increase the standard deduction: (1) from \$4,400 to \$5,500 for taxpayers filing a joint return or a surviving spouse; (2) from \$3,212 to \$4,015 for taxpayers filing as a head of household; (3) from \$2,200 to \$2,750 for those filing as an unmarried individual; or (4) from \$2,200 to \$2,750 for taxpayers filing as a married individual filing a separate return.

Amends HRS section 235-54 to increase the personal exemption from \$1,144 to \$2,288.

EFFECTIVE DATE: Tax years beginning after December 31, 2014

STAFF COMMENTS: The legislature by Act 60, SLH 2009, provided for an increase in the standard deduction from \$4,000 to \$4,400 for joint returns or surviving spouses, from \$2,920 to \$3,212 for head of households; and from \$2,000 to \$2,200 for individuals or married taxpayers filing separately. Act 60 also provided for an increase in the personal exemption from \$1,040 to \$1,144. This measure would increase the standard deduction from \$4,400 to \$5,500 for joint returns or surviving spouses, from \$3,212 to \$4,015 for head of households; and from \$2,200 to \$2,750 for individuals or married taxpayers filing separately, and increase the personal exemption from \$1,144 to \$2,288.

In all, the increase in standard deduction and personal exemption amounts will result in an increase in the filing threshold (namely the income level below which the taxpayer won't need to file a return). Hawaii has one of the lowest filing thresholds in the United States, and having a higher filing threshold will result in considerable administrative cost savings. Why? Tax returns are complex documents. They are expensive to process. The more people are kicked off the tax system, the more savings will result.

Another consideration should be indexing of the standard deduction which was also recommended by the Tax Review Commission. It should also be noted that the federal system is indexed for inflation to prevent nominal price increases from eroding the benefit of the personal exemption and the standard deduction. Thus, in addition to adjusting the standard deduction, lawmakers should also consider indexing the state income tax system for inflation as a way to gradually maintain equity in the state tax system.

Digested 2/17/15



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Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting House Bill 1181 Relating to Taxation
House Committee on Finance
Scheduled for Hearing Wednesday, February 18, 2015 2:00 PM, Room 308

Hawai'i Appleseed Center for Law and Economic Justice is a nonprofit law firm created to advocate on behalf of low income individuals and families in Hawai'i on policy and legal issues. 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 **support** of House Bill 1181, which would amend the state income tax by increasing the standard deduction and personal exemption amounts. Hawai'i Appleseed supports this measure to address our regressive tax structure and reduce the heavy state tax burden on low and moderate-income households, helping make Hawai'i more affordable for our working families.

Every day, low and even moderate-income households struggle to make ends meet in Hawai'i. We have the highest cost of living in the country, with housing costs at nearly twice the national average and groceries exceeding the national average by almost 60 percent. These hardships are made even worse by Hawai'i's regressive tax structure. The lowest income households pay more than 13 cents per dollar of their income toward taxes, while the wealthiest spend just 7 cents of every dollar. In fact, Hawai'i's low-income residents face the **second highest tax burden in the country**. Even working poor families with children are being taxed deeper into poverty by our state. For example, a family of four living at the federal poverty guideline of \$27,430 would owe \$464 in income taxes *after* claiming the food/excise tax and low-household renters credits. This burden is increased by the significant portion of their income that goes toward the General Excise Tax, which is the greatest contributor to the regressivity of our tax system. Increasing the standard deduction and personal exemption would help reduce or eliminate income tax liability on low and moderate-income families.

We also offer the following comments. Hawai'i Appleseed, as a matter of policy and in light of limited resources, would prioritize an increase in the standard deduction as a better targeted tax relief measure for low-income and poor households, since higher-income filers who itemize their deductions will not benefit from the increase. We are also cognizant of the Legislature's concern for state revenues and while we strongly affirm the proposed increases as good policy, we would ask the Legislature to ensure that they do not result in any cuts to services or forgoing other tax relief measures targeted at low-income households that are under consideration this session, including increases to the food/excise tax and low-income household renters credits, a state earned income tax credit, and a nonrefundable credit to eliminate income tax liability on households in poverty. To avoid making these tradeoffs and address state revenue collections, we strongly encourage the Legislature to make the high-earner tax bracket rate increases permanent this session, and to also look at other revenue-raising measures such as removing the preferential rate for capital gains income, which almost exclusively benefits the wealthy. A more progressive tax system will help the state afford the tax relief proposed in this and other bills.

Our standard deduction and personal exemptions are indeed too low and should be raised to help reduce the tax burden on working families. We support this measure as well as targeted tax credits to help mitigate the high cost of living in Hawai'i. Again, thank you for the opportunity to testify in **support** of HB 1181.

The Twenty-Eighth Legislature
Regular Session of 2015

HOUSE OF REPRESENTATIVES
Committee on Finance
Rep. Sylvia Luke, Chair
Rep. Scott Y. Nishimoto, Vice Chair
State Capitol, Conference Room 308
Wednesday, February 18, 2015; 2:00 p.m.

LATE

**STATEMENT OF THE ILWU LOCAL 142 ON H.B. 1179, H.B. 1181, H.B. 1182
RELATING TO INFLATION ADJUSTMENTS TO HRS CHAPTER 235
AND TAXATION**

The ILWU Local 142 supports the following measures: H.B. 1179, which provides for annual adjustments to the Hawaii standard deduction, income tax rate brackets, and personal exemption in response to increases in inflation; H.B. 1181, which amends the state income tax by changing the amounts of the basic standard deduction and personal exemption; and H.B. 1182, which amends the income tax credit for expenses for household and dependent care services necessary for gainful employment by changing the manner in which the taxpayer's applicable percentage is determined.

All three bills attempt to bring fairness and equity to Hawaii's tax structure, which is said to be among the highest in the nation. These measures will help low-wage workers pay taxes in proportion to their income and in recognition of the high cost of living in Hawaii. To do otherwise would unfairly penalize those who diligently work yet are unable to bring themselves out of the ranks of the working poor.

Obviously, the best solution would be to increase the wages and salaries of all who work for a living, but the Legislature is not in a position to dictate to employers how much they should pay to their employees—other than setting a minimum wage. However, the Legislature is in a position to help working people in Hawaii with a fair tax structure and possibly an Earned Income Tax Credit such as provided by the federal government. With a more equitable tax structure, low-wage workers may be able to accumulate some savings with which to pay rent deposits, provide for a rainy day, and develop some financial security.

The ILWU urges passage of all three bills for the sake of low-income taxpayers and their families. Thank you for considering our testimony.

LATE

**TESTIMONY OF GINO SOQUENA
GOVERNMENT RELATIONS DIRECTOR
LABORERS' INTERNATIONAL UNION OF NORTH AMERICA LOCAL 368**

HOUSE OF REPRESENTATIVES
THE TWENTY-EIGHTH LEGISLATURE
REGULAR SESSION OF 2015

COMMITTEE ON FINANCE
Rep. Sylvia Luke, Chair
Rep. Scott Nishimoto, Vice Chair

NOTICE OF HEARING

DATE: Wednesday, February 18, 2015
TIME: 2:00 PM
PLACE: Conference Room 308
State Capitol
415 South Beretania Street

TESTIMONY ON HOUSE BILL NO. 1181, RELATING TO TAXATION.

TO THE HONORABLE SYLVIA LUKE, CHAIR, SCOTT NISHIMOTO, VICE CHAIR, AND MEMBERS OF THE FINANCE COMMITTEE:

My name is Gino Soquena, and I am the Government and Community Relations Director of the Laborers' International Union of North America Local 368, which represents almost 5,000 members throughout the State of Hawaii.

Thank you for the opportunity to submit testimony in support of House Bill No. 1181.

The Hawaii Laborers' Union has long supported measures that would lower the cost of living for low income individuals. This bill increases the percentages for lower and middle income people who claim the child & dependent care tax credit, giving more help to the people who need it the most.

For these reasons, we support House Bill 1181, and ask that it be passed.

Gino Soquena
Hawaii Laborers Union Local 368
(808) 673-0441