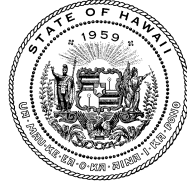


# SB2300

Measure Title:	RELATING TO THE LOW INCOME-HOUSEHOLD RENTERS CREDIT.
Report Title:	Income Tax Credit; Low-Income Household Renters Credit
Description:	Adjusts the low-income household renter's credit by increasing the maximum value of the credit amount to \$150 per qualified exemption for households, and adjusts the income threshold to allow households with an adjusted gross income of less than \$60,000 to claim the credit.
Companion:	
Package:	None
Current Referral:	HOU, WAM
Introducer(s):	ESPERO, CHUN OAKLAND, Baker, Dela Cruz

DAVID Y. IGE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**

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

MARIA E. ZIELINSKI  
DIRECTOR OF TAXATION

JOSEPH K. KIM  
DEPUTY DIRECTOR

To: The Honorable Breene Harimoto, Chair  
and Members of the Senate Committee on Housing

Date: Tuesday, February 9, 2016

Time: 2:55 P.M.

Place: Conference Room 225, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 2300, Relating to the Low Income-Household Renters Credit.

The Department of Taxation (Department) appreciates the intent of S.B. 2300, and offers comments regarding the measure.

S.B. 2300 amends the Income Tax Credit for Low-Income Household Renters by changing the income thresholds necessary to claim the credit from \$30,000 to \$60,000, as well as the amount of the credit from \$50 to \$150. S.B. 2300 also increases the amount of the credit for calendar year 2017 and after by the consumer price index.

The Department notes that an annual automatic adjustment based on the CPI will make this credit difficult for the Department to administer. If the Legislature wishes to increase the credit, the Department suggests that the increase be a fixed amount.

Thank you for the opportunity to provide comments.



**SB2300**  
**RELATING TO THE LOW INCOME-HOUSEHOLD RENTERS CREDIT**  
Senate Committee on Housing

February 9, 2016

2:55 p.m.

Room 225

The Office of Hawaiian Affairs (OHA) Committee on Beneficiary Advocacy and Empowerment will recommend that the Board of Trustees **SUPPORT** SB2300, which would relieve the tax burden on low income individuals and families, by increasing the low income household renters tax credit (LIHR), and adjusting the income threshold for those who may claim the credit. OHA supports the current measure, as it fits within our strategic priority of improving the economic self-sufficiency of Native Hawaiians.

As reported by the Institute on Taxation and Economic Policy (ITEP), Hawai‘i is one of the ten states with the highest taxes on the poor. Accordingly, SB2300 proposes a pragmatic way to alleviate the tax burden on those low-income individuals and families facing housing insecurity. The LIHR was created in 1977, to mitigate the high cost of housing in Hawai‘i. The credit currently provides a \$50 tax credit per “qualified exemption,” for households with an adjusted gross income of less than \$30,000, that pay more than \$1,000 a year in rent. Our kūpuna over the age of 65 are able to receive double the credit. While the LIHR is intended to provide meaningful relief for those who may need it the most, the value of the LIHR credit has not been updated since 1981. This measure would adjust the credit for the first time in over three decades, setting it at \$150 per qualified exemption for households with an adjusted gross income of less than \$60,000.

Adjusting the LIHR will have a significant impact on our beneficiaries, many of whom do not own their homes, and must struggle to afford rent. Notably, Native Hawaiian homeownership rates are significantly lower than the state average.<sup>1</sup> Research also shows that Native Hawaiians, while participating in the labor force at higher rates than the state average, also have the lowest median income of all major ethnic groups in Hawai‘i, with Native Hawaiians earning \$9,105 less per capita income than the state average.<sup>2</sup> Further, Native Hawaiians live in poverty at disproportionately

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<sup>1</sup> The Native Hawaiian homeownership rate is 52.9%, compared to the statewide average of 56.7%. See OFFICE OF HAWAIIAN AFFAIRS, OHA DATA BOOK HOUSING TENURE BY RACE-ETHNICITY IN HAWAI‘I 2014, available at <http://www.ohadatabook.com/T02-131-15u.pdf>. This figure includes 8,329 DHHL residential lease “owner-occupied” property units. DHHL ANNUAL REPORT 2014, p. 48, available at <http://dhhl.hawaii.gov/wp-content/uploads/2011/11/DHHL-Annual-Report-2014-Web.pdf>.

<sup>2</sup> OFFICE OF HAWAIIAN AFFAIRS, INCOME INEQUALITY AND NATIVE HAWAIIAN COMMUNITIES IN THE WAKE OF THE GREAT RECESSION: 2005 TO 2015, page 2, available at <http://www.oha.org/wp->

high rates. These factors combined indicate that Native Hawaiians may have a particular need for the targeted relief provided by this measure, which would better enable our low-income beneficiaries and similarly situated members of the larger community to remain self-sufficient and housing secure.

Accordingly, OHA urges the Committee to **PASS** SB2300. Mahalo nui for the opportunity to testify on this measure.



**ADA**

**HAWAII**

AMERICANS FOR DEMOCRATIC ACTION

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**MAILING ADDRESS**

PO. Box 23404  
Honolulu  
Hawaii'i 96823

Feb. 5, 2016

TO: Honorable Chair Harimoto and Members of the Housing Committee

RE: SB 2300 Relating to Low-Income Household Renters Credit

Americans for Democratic Action is a national organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We support SB 2300 as it would adjust the low-income household renter's credit by increasing the maximum value of the credit amount to \$150 per qualified exemption for households and adjust the income threshold to allow households with an adjusted gross income of less than \$60,000 to claim the credit. This credit has not been updated in decades. With our serious homeless problem, this is one way to get more money into the hands of low-income people to either get them shelter or let them keep shelter in hard times. Support for this bill is the moral thing to do in the face of our problems. Making the credit rise with inflation solves the problem of having to fight session after session to keep our poor from getting harmed by inflation.

Thank you for your consideration.

Sincerely,

John Bickel  
President



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

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TO: Senator Breene Harimoto, Chair  
Senator Brickwood Galuteria, Vice Chair  
Members, Senate Committee on Housing

FROM: Scott Fuji, Executive Director, PHOCUSED

HEARING: **Tuesday, February 9<sup>th</sup>, 2016 at 2:55 p.m. in Conf. Rm. 225**

**Testimony in Support of SB2300 RELATING TO THE LOW INCOME-HOUSEHOLD RENTERS CREDIT**

Thank you for the opportunity to provide testimony in **strong support** of SB2300, which would adjust the maximum benefit for the existing State low income renters credit to \$150 per qualified exemption and raise the maximum adjusted gross income to \$60,000. PHOCUSED is a nonprofit membership and advocacy organization that works together with community stakeholders to impact program and policy change for the most vulnerable in our community, including homeless individuals and families.

The low income-household renters credit was designed in recognition of the high-cost burden that many of Hawaii's households face with regards to rent. Given that rents alone have risen 10% in 2014 alone it is clear that this credit is in desperate need of an adjustment. The proposed adjustment in the amount of the deduction per qualified exemption to \$150 would reflect the inflationary changes since 1989.

According to a National Low-Income Housing Coalition study in 2015 the wage needed to afford a 2-bedroom apartment in Hawaii \$31.61/hour. This would bring the annual take home pay for that household to just over \$65,000. It is clear that leaving the cap at \$30,000 annually restricts a large population of renters who are housing insecure. Adjusting this cap to \$60,000 would be a way for the state to recognize that there are many more households living with housing instability than the current cap suggests.

This is not only a question of tax-equity but also a question of homelessness prevention. With Hawaii ranking first in the nation in homeless per capita more must be done at both ends, prevention and housing, to end homelessness in Hawaii.

The difference that this adjustment can make in a household cannot be under-stated. An additional \$200-600 for a household of four can be the difference between maintaining employment, secure housing, and school supplies.

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



# HAWAII APPLESEED

## CENTER FOR LAW & ECONOMIC JUSTICE

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Testimony of Hawai'i Appleseed Center for Law & Economic Justice  
Support **SB 2300, Relating to the Low-Income Household Renters Credit**  
Senate Committee on Housing  
Scheduled for Hearing Tuesday, Feb. 9, 2016, 2:55 PM, Conf. Rm. 225

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*Hawai'i Appleseed Center for Law & Economic Justice is a nonprofit law firm created to advocate on behalf of low income individuals and families in Hawaii. Our core mission is to help our clients gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.*

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Thank you very much for the opportunity to testify before the committee on **SB 2300, Relating to the Low-Income Household Renters Credit**. We **strongly support** this measure **with amendments**. The Low-Income Household Renter's credit was created 40 years ago to provide tax relief to low- and moderate-income households. This simple credit provides a refundable \$50-per-qualified-exemption tax credit to filers who made less than \$30,000 and paid more than \$1000 in rent. However the credit has not been updated for inflation since 1981 and today the \$50 credit is only worth about \$19.11 in inflation-adjusted dollars.

SB 2300 increases the credit amount to \$150-per-qualified-exemption, and increases the qualifying income threshold to allow households making less than \$60,000 per year to qualify for the credit. These changes would bring the credit values make up for ground lost to inflation during the past 35 years of neglect. SB 2300 also takes the additional step of making sure that this credit does not again lose ground to inflation by making future increases automatic and keyed to changes in the Consumer Price Index. We desperately need to alleviate the tax burden on renter families struggling to afford housing, and increasing the renters credit is an efficient and immediate way to do so.

Renters in Hawai'i face a staggering housing cost burden. Approximately 42 percent of our households rent, and a majority of them are cost-burdened, meaning they pay more than 30 percent of their income toward rent (the standard definition of housing affordability). Our rate of cost-burdened households is the highest in the nation. This is no surprise, as the fair market rent for a two-bedroom unit in Hawai'i is \$1,644 per month. A full-time worker would need to earn \$31.61 per hour—the highest in the nation—for this rent to be affordable. Yet the mean wage for a renter is just \$14.49—at this wage a family needs 2.2 full-time jobs to afford rent. The lowest-income households face a crushing cost burden: 72 percent are paying more than half of their income in rent. Even moderate income households struggle, with 65 percent of households earning 51–80 percent of the area median income facing a housing cost burden; these households are generally ineligible for public assistance. These housing cost burdens leave families with precious little left over to make ends meet, let alone build assets or save for a down payment on a home.

At the same time, Hawai'i's regressive tax structure makes it even harder for families to afford housing. Hawai'i's low-income residents face the second highest state and local tax burden in the country. Our tax structure is heavily regressive, with the lowest income households paying over 13 cents per dollar of income toward state and local taxes and the wealthiest paying just 7 cents. The General Excise Tax is the biggest contributor to this regressivity. It hits low-income households the hardest because they must spend nearly all of their income on



necessities, including their rent, that are subject to the GET. While property owners are legally responsible for paying the GET on their rental income, as well as their property taxes, they pass these costs along by increasing rents. Assuming this practice, around \$60 out of a \$1,500 rent payment goes to cover the GET owed on the landlord’s rental income.

This credit also makes our tax structure fairer by providing targeted tax relief to renters. Renters, who are disproportionately low-income, do not benefit from tax breaks such as the mortgage interest, maintenance costs as well as property and GET tax deductions, which are available only to homeowners even though these costs are paid by tenants in their rent. Nor do they build equity in a home or profit from its appreciation. This credit is a modest measure to provide similar help to renters.

Under the current credit structure, a family of four trying to survive on less than \$30,000 per year would receive a mere \$200 in tax relief after having spent over \$19,000 in rent.<sup>1</sup> To ensure that this credit provides the meaningful tax relief it was created to we desperately need to bring it into the 21st century.

While SB 2300, as written, would do much to ensure that the Low-Income Household Renters credit remained an effective tool for addressing these problems, we feel that the credit’s structure could be refined to make it even more effective. To that end we respectfully request **the following amendments**.

**1) Introduce a Credit “Phase Out” to Reduce the Impact of Tax Cliffs**

As the credit is currently structured, small increases in income can push a family out of eligibility for the credit. This is what is known as a “tax cliff” and is generally recognized as undesirable tax policy. As the credit becomes more valuable, the steeper the cliff.

*To avoid this problem, the credit should be restructured to gradually decrease in value as household income increases. Our proposed phase-out scheme proceeds as follows:*

Household income under \$30,000 .....	\$150/qualified exemption
\$30,000–\$45,000 .....	\$100/q.e.
\$45,000–\$60,000 .....	\$50/q.e.

**2) Introducing Filing-Status Dependent Income Thresholds**

The LIHR credit does not currently make any distinctions between individual tax filers and those who have families. While it is important that we support *all* of Hawai‘i’s residents, we also want to make sure that our support is well-targeted to those most in need.

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<sup>1</sup> Based on a fair market value of a 2-bedroom apartment in Hawai‘i, \$1,640/mo.





# HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

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As a result, we support making the qualifying income threshold for the credit change depending on whether the household is filing as “single,” or as “married,” “head of household,” etc. Specifically, we recommend reducing the above household income qualifying thresholds by 1/3 for single filers:

Household income under \$20,000 .....	\$150/qualified exemption
\$20,000–\$30,000 .....	\$100/q.e.
\$30,000–\$40,000 .....	\$50/q.e.

Making these changes will ensure that the credit does the best job that it can helping our state’s low-income renters, and help to reduce the overall cost of the credit.

Once again, we thank you very much for the opportunity to express our **strong support** for efforts to modernize this important tax credit. After over three decades of neglect, SB 2300 presents an opportunity to take a meaningful step forward in reducing the costs of housing for Hawai‘i’s struggling families and to begin to address the counterproductive and unfair regressivity of our state tax system.



49 South Hotel Street, Room 314 | Honolulu, HI 96813

[www.lwv-hawaii.com](http://www.lwv-hawaii.com) | 808.531.7448 | [voters@lwv-hawaii.com](mailto:voters@lwv-hawaii.com)

## COMMITTEE ON HOUSING

Tuesday, February 9, 2016, 2:55 p.m., Conference Room 225

## SB2300 RELATING TO HOUSING

### TESTIMONY

Ann Sack Shaver, Ph.D., President, League of Women Voters of Hawaii

Chair Harimoto, Vice Chair Galuteria and Committee Members:

**The League of Women Voters of Hawaii supports SB2300.**

The high cost of housing in Hawaii places an especial burden on low-income families. This bill supports and updates the Low-Income Household Renters (LIHR) credit, alleviating the tax burden on renter households. Among other benefits, it provides renters a measure of equity offered to landlords who are able to deduct mortgage and property-tax deductions and pass these costs on to tenants.

The LIHR credit enacted years ago has not been updated to address today's costs. The proposed changes to the LIHR credit would increase the credit's value. We further recommend that it be indexed to the Consumer Price Index to maintain parity of benefit for low-income householders over time.

It has been estimated that the changes contained in this bill will benefit approximately 83,000 households and will result in an additional \$20.3 million spending power for Hawaii's low-and moderate-income families.

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

**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
**To:** [HOU Testimony](#)  
**Cc:** [susan.wurtzburg@gmail.com](mailto:susan.wurtzburg@gmail.com)  
**Subject:** \*Submitted testimony for SB2300 on Feb 9, 2016 14:55PM\*  
**Date:** Sunday, February 07, 2016 4:20:07 PM

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**SB2300**

Submitted on: 2/7/2016

Testimony for HOU on Feb 9, 2016 14:55PM in Conference Room 225

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Susan J. Wurtzburg	American Association of University Women, Hawaii	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase renter credit

BILL NUMBER: SB 2300

INTRODUCED BY: ESPERO, CHUN OAKLAND, Baker, Dela Cruz

EXECUTIVE SUMMARY: Raises the AGI threshold for the refundable low-income household renter credit from \$30,000 to \$60,000 and raises the credit amount from \$50 to \$150 per qualified exemption. We suggest linking the credit to the amount of rent paid.

BRIEF SUMMARY: Amends HRS section 235-55.7 to modify income thresholds and the credit amount as follows: Each taxpayer with adjusted gross income (AGI) of less than \$60,000 who pays more than \$1,000 in rent is eligible for a renter credit of \$150 times the number of qualified exemptions (a taxpayer age 65 or over is worth two exemptions for this purpose).

Further amends the section to provide that for tax years beginning after December 31, 2016, the threshold amount and the amount of the renter credit shall be increased by an amount equal to such dollar amount, multiplied by the percentage, if any, by which the Consumer Price Index (CPI) for the current calendar year exceeds the CPI for the preceding calendar year.

Defines CPI as the consumer price index for all urban consumers published by the United States Department of Labor.

EFFECTIVE DATE: Tax years beginning after December 31, 2015

STAFF COMMENTS: The 1970 legislature adopted a system of tax credits for household renters which was intended to partially offset the higher tax burden on renters resulting from the lack of tax relief similar to the home exemption for homeowners and the 4% general excise tax levied on rental income. The current renter credit was established by the 1977 legislature at \$20 per exemption for those taxpayers with adjusted gross incomes of less than \$20,000 who paid more than \$1,000 in rent during the tax year. The 1981 legislature subsequently increased the credit amount to \$50. Act 239, SLH 1989, increased the adjusted gross income limit to \$30,000 to claim the credit. The proposed measure would increase the adjusted gross income limit to claim the credit from \$30,000 to \$60,000 and the amount of the credit from \$50 to \$150. It would also provide that these amounts will increase according to the change in the CPI. While the proposed measure increases some of the AGI limits and the renter tax credit, it does not change the qualification amount – the taxpayer still will need to pay \$1,000 in rent during a taxable year to qualify for the credit.

Currently and under the bill, the amount of credit is calculated at a flat amount multiplied by the number of qualified exemptions to which a taxpayer is entitled, provided that a taxpayer 65 years of age or older may claim double the credit. We raise the question of whether the credit should

instead be a percentage of the rent paid, so that taxpayers' relief would be linked to the amount of rent they need to pay.

Digested 2/5/16

**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
**To:** [HOU Testimony](#)  
**Cc:** [joyamarshall0416@gmail.com](mailto:joyamarshall0416@gmail.com)  
**Subject:** \*Submitted testimony for SB2300 on Feb 9, 2016 14:55PM\*  
**Date:** Friday, February 05, 2016 5:14:42 PM

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**SB2300**

Submitted on: 2/5/2016

Testimony for HOU on Feb 9, 2016 14:55PM in Conference Room 225

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Joy Marshall	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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