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STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
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Date: 02/29/2016

Time: 01:30 PM

Location: 211

Committee: Senate Ways and Means

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: SB 2624, SD1 RELATING TO TAXATION.

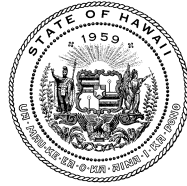
Purpose of Bill: Authorizes a state income tax credit for certain expenses paid or incurred by school teachers, special education teachers, school librarians, and counselors for supplementary materials used in the classroom as well as for student educational travel. (SD1)

Department's Position:

The Department of Education supports the intent of SB 2624, SD1. Teachers have historically incurred expenses when creating a learning environment that enriches student achievement. However, we respectfully defer to the Department of Taxation and the Attorney General's office as to its appropriate implementation.

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SHAN TSUTSUI
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To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: February 29, 2016
Time: 1:30 P.M.
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 2624, S.D. 1, Relating to Taxation.

The Department of Taxation (Department) appreciates the intent of S.B. 2624, S.D. 1, and provides the following comments for your consideration.

S.B. 2624, S.D. 1 creates a state income tax credit for certain expenses paid or incurred by a school teacher during a taxable year. The credit is capped at an unspecified amount per qualified taxpayer per taxable year. S.B. 2624, S.D. 1, applies to taxable years beginning after December 31, 2015.

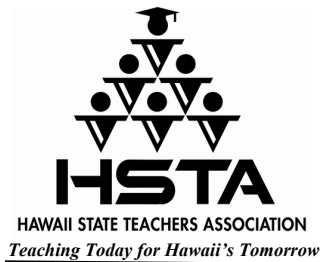
The Department notes that, currently, elementary and secondary school teachers may deduct these types of expenses from their federal income tax return. Hawaii income tax law conforms to this provision of the Internal Revenue Code; therefore, the teachers benefit from the federal deduction.

Although S.B. 2624, S.D. 1, provides that no other tax credit can be claimed using expenses used to generate this credit, the bill does not prevent a taxpayer from claiming both the deduction and this tax credit for the same expenses. Therefore, S.B. 2624, S.D. 1 would allow multiple tax benefits for the same expenses. The Department suggests amending subsection (d) so that qualifying taxpayers can only get a deduction or a credit for the same expenses.

The Department also notes that the definition of "certain expenses" is very broad. The Department suggests narrowing or being more specific as to the expenses that qualify for the credit to avoid taxpayer confusion and compliance issues.

Finally, the Department requests it be amended to apply to taxable years beginning after December 31, 2017, to provide the Department sufficient time to make the changes to forms and instructions necessary to implement this new tax credit. The estimated revenue impact of this measure is unknown as the cap amount per taxpayer is unspecified.

Thank you for the opportunity to provide comments.



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TESTIMONY BEFORE THE SENATE COMMITTEE ON
WAYS AND MEANS

RE: SB 2624, SD1 - RELATING TO TAXATION

MONDAY, FEBRUARY 29, 2016

COREY ROSENLEE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Tokuda and Members of the Committee:

The Hawaii State Teachers Association **strongly supports SB 2624, SD1**, relating to taxation. If passed, this bill will allow teachers to deduct a state income tax credit for classroom expenses and educational travel costs paid by a teacher during a taxable year. In short, this will offset the cost of supplies purchased by teachers using personal funds, expenses that are beyond what is allocated in academic and financial plans.

With the nation's lowest cost of living adjusted salaries, increased healthcare costs, and the elimination of \$1,690 in special education supply funds, teachers have to dig deep into their pockets to prepare their lessons. In the case of classroom supplies, it's true that teachers "do it for the kids," purchasing materials out of their own paychecks. Waiting for departmental or purchase order approval would often disrupt planned curricula and, in turn, student learning. Teachers won't abide that.

In the past, HSTA conducted a survey asking teachers how much they were spending on additional supplies. A jarring 47 percent of teachers said that they were spending between \$250 and \$500 per year on materials, with many spending \$1,000 or more. That's \$250 to \$1,000 that would be spent on family needs, food, bills, recreation, and other personal expenses in a fully-funded school system.

Teachers should be repaid for personally purchasing school supplies. Accordingly, the Hawaii State Teachers Association asks your committee to **support** this bill.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: INCOME, Tax Credit for Certain Expenses Paid by Teachers

BILL NUMBER: SB 2624, SD-1

INTRODUCED BY: Senate Committee on Education

EXECUTIVE SUMMARY: Allow teachers to claim a tax credit of up to \$500 for “certain expenses” which shall be deductible from the taxpayer’s income tax liability. Instead of using the tax system to “compensate” these teachers, first consideration should be given to “fixing the system” by giving teachers debit cards for the classroom supplies budget under EDN 100, similar to the system like the food stamp program. Should lawmakers adopt the proposed credit, then the federal deduction for the same expenses should be made inoperative to prevent a double benefit.

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow qualifying taxpayers to claim a tax credit of up to \$500 for “certain expenses” which shall be deductible from the taxpayer’s income tax liability for the taxable year the credit is properly claimed. Defines “qualifying taxpayer” as a school teacher, special education teacher, school librarian, or counselor employed by the department of education, a charter school, or a private school in Hawaii that instructs students between pre-kindergarten and twelfth grade. Defines “certain expenses” as expenses paid or incurred by a qualified taxpayer who incurs the expenses in connection with books, supplies (other than athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and supplementary materials used by the qualifying taxpayer in the classroom, and travel expenses incurred by the qualifying taxpayer while the taxpayer is supervising, chaperoning, or providing educational guidance to students on an educational trip.

Credits in excess of a taxpayer’s income tax liability shall be credited against a taxpayer’s subsequent income tax liability. Claims for the credit, including any amended claims, must be filed on or before the end of the 12th month following the close of the taxable year. Allows the director of taxation to adopt necessary rules and forms pursuant to HRS chapter 91 to carry out this section, and to require the taxpayer to furnish reasonable information to ascertain the validity of the credit claim.

EFFECTIVE DATE: Tax years beginning after December 31, 2015.

STAFF COMMENTS: This measure proposes a tax credit of \$500 for 100% of certain out-of-pocket expenses incurred by a teacher. The credit proposed in this measure would be granted without regard to a taxpayer’s need for tax relief. It should be remembered that using the tax system to achieve social goals, as this measure proposes, is an inefficient means of accomplishing such goals.

It should be noted that state income tax law already conforms to the federal “above the line” deduction for educator expenses in Internal Revenue Code section 62(a)(2)(D). This deduction is

taken before determining adjusted gross income and allows up to \$250 of unreimbursed qualified classroom expenses made by an educator (\$500 if the spouse is also an educator). This deduction was scheduled to expire at the end of 2012, but the Tax Increase Prevention Act of 2014 extended the deduction to the end of 2014, and the Protecting Americans from Tax Hikes Act of 2016 made it permanent.

Most of us have heard stories about teachers in the public school system who have been forced to use their own funds for classroom materials, and we know that isn't right. But the problem is with the bureaucratic system of requesting the funds and having the system take as much as six months to approve the money. The money has been appropriated, and it is the system that is frustrating. Thus, instead of using the tax system to "compensate" these teachers, first consideration should be given to "fixing the system."

The suggestion has been made time and time again to give teachers debit cards of some type for the classroom supplies budget under EDN 100. The cards could be credited with a predetermined amount and could be encoded so that only defined classroom supplies could be purchased with that debit card. Such a system already has been employed to administer the state's food stamp program, so why can't a similar system be established for classroom supplies rather than mucking up the tax system?

Instead of just throwing money at a problem, in this case a tax credit, lawmakers should demand that the department fix the problem with the money that is there. It is the bureaucracy that needs to be addressed. Since the tax credit is an indirect additional burden on all remaining taxpayers as it shifts the burden to those not so favored, this proposal amounts to a tax increase and steals money from other programs.

Other technical considerations that lawmakers should consider if the bill is to go forward are these:

- The federal deduction should be made inoperable to prevent a double benefit for the same expenses.
- The definition of qualifying taxpayer in the bill has no threshold, so someone working as a teacher for one hour would qualify. Consider a definition similar to Internal Revenue Code section 62(d)(1)(A), which states:

the term "eligible educator" means, with respect to any taxable year, an individual who is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

- There appears to be no requirement that the expense be unreimbursed. To prevent unintended benefit there should be recapture consequences if credited amounts are reimbursed.