

Written Only

Date: 04/01/2016

Time: 11:00 AM

Location: 308

Committee: House Finance

Department: Education

Title of Bill: SB 2624, SD2 RELATING TO TAXATION.

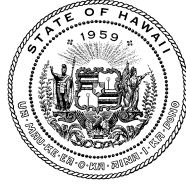
Purpose of Bill: Authorizes a state income tax credit for certain expenses paid or incurred by school teachers, special education teachers, school librarians, and counselors for supplementary materials used in the classroom as well as for student educational travel. Effective for taxable years beginning after 12/31/2017. (SD2)

Department's Position:

The Department of Education supports the intent of SB 2624 SD 2. 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.

DAVID Y. IGE
GOVERNOR

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LT. GOVERNOR



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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

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

Date: Friday, April 1, 2016
Time: 11:00 A.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 2624, S.D. 2, Relating to Taxation.

The Department of Taxation (Department) appreciates the intent of S.B. 2624, S.D. 2, and provides the following comments for your consideration.

S.B. 2624, S.D. 2, 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 \$250 per qualified taxpayer per taxable year. S.B. 2624, S.D. 2, applies to taxable years beginning after December 31, 2017.

The Department appreciates the inclusion of subsection (d), which prevents qualifying taxpayers from receiving multiple Hawaii tax benefits 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. The Department also appreciates that the credit is effective for taxable years beginning after December 31, 2017, as this gives the Department sufficient time to make changes to forms and instructions necessary to implement the new credit.

Thank you for the opportunity to provide comments.

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-2

INTRODUCED BY: Senate Committee on Ways and Means

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 \$250 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.

Specifies that no other tax credit or deduction may be claimed for Hawaii income tax purposes for the certain expenses used to properly claim this tax credit for the taxable year.

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, 2017.

STAFF COMMENTS: This measure proposes a tax credit of \$250 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.

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 and ignoring the budgeting and appropriation processes?

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 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.



LATE

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TESTIMONY FOR SENATE BILL 2624, SD2, RELATING TO TAXATION

**House Committee on Finance
Hon. Sylvia Luke, Chair
Hon. Scott Y. Nishimoto, Vice Chair**

**Friday, April 1, 2016, 11:00 AM
State Capitol, Conference Room 308**

Honorable Chair Luke and committee members:

I am Kris Coffield, representing IMU Alliance, a nonpartisan political advocacy organization that boasts over 350 members. On behalf of our members, we offer this testimony **in strong support** of Senate Bill 2624, SD2, relating to taxation.

In 2013, the National School Supply and Equipment Association released a report stating that public school teachers annually spend \$1.6 billion of their discretionary income on supplementary school supplies and instructional materials. On average, teachers surveyed spent a total of \$268 on school supplies in the 2012-2013 school year, \$491 on instructional materials, and \$186 on miscellaneous items, for an average total of \$945 on classroom materials not subsidized by federal or state education departments. Moreover, NSSEA attributes the drop not to increased classroom funding, but the lingering impact of the recent recession upon educators' discretionary income levels.

The trend is, if anything, worse in Hawaii, which has consistently ranked at the bottom in national cost-of-living studies and was recently ranked second-worst in a Center for Budget and Policy Priorities ranking of per-pupil spending cuts, with Hawaii cutting \$1,175 in per-pupil spending between FY 2008 and FY 2012, adjusted for inflation. Similarly, local cities have the highest ACCRA values in the country, typically hovering between 160 and 165, leading to our state being ranked last, year after year, in teacher salaries adjusted for cost-of-living. Today, the average Hawai'i teacher makes a COL-adjusted median income of \$32,312 per year, according to the National Center for Policy Analysis. Pay cuts, rising health care costs, adjusted insurance co-pays, and the loss of the state's \$1,690-per-special-education-teacher classroom supply fund have all aggravated the financial burden borne by teachers' pocketbooks. In a recent survey conducted by HSTA, 47 percent of respondents cited personal expenditures between \$250 and \$500 each year on classroom supplies, with many claiming expenditures in excess of \$1,000. Not

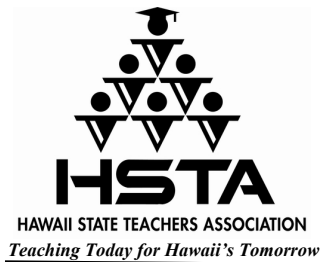
surprisingly, these same teachers have called upon HSTA—and lawmakers—to take action to lighten their financial load.

In the past, opponents of this bill have argued that a tax credit for teachers amounts to a *de facto* pay increase for a selected class of citizens, one that would not rectify the structural barriers hindering the DOE's appropriation of funds for supplies. We agree with our opponents that it should not take months for funding requests to be approved and facilitated. At the same time, though, we understand that structural inefficiencies result, in part, from a lack of adequate funding. Mandatory budget cuts have crippled the DOE, in recent years, leading to reconsideration of whether or not to continue successful learning programs. Unfortunately, when budget cuts pose an existential threat to successful learning centers and categorical programming, the DOE's priorities shift from classroom support to programmatic savings. Put simply, in times of economic austerity, the DOE must spend more time accounting for basic, overarching programmatic needs, crowding out concerns about the efficient allocation of funds for individual teachers.

Additionally, it must be said that the “pay increase” contention cuts both ways. Granted, tax credits do lessen the individual tax burden of educators. Ensuring that educators have more money in their pocketbooks, however, effectively increases their purchasing power. Therefore, providing a tax credit for teachers incentivizes the teaching profession at a time when our state's high cost-of-living and low adjusted-average income compel many would-be teachers to choose more highly compensated professions or, even worse, leave the state altogether—today, approximately 50 percent of teachers leave our state's classrooms every five years, giving Hawaii the distinction of having the highest turnover rate in the nation. If policymakers are truly interested in enhancing the DOE's ability to recruit highly effective teachers into our schools, providing fiscal incentives that offset cost-of-living problems is a worthy path to take, whose long-term benefits outweigh its immediate costs.

Again, we urge your committee to increase state educators' purchasing power by instituting tax credits for supplies, computer equipment, and teacher travel expenses, which will assist in the recruitment and retention of highly effective teachers who might otherwise leave the profession—or even the state—because of financial hurdles. Mahalo for the opportunity to testify **in strong support** of this bill.

Sincerely,
Kris Coffield
Executive Director
IMUAlliance



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TESTIMONY BEFORE THE HOUSE COMMITTEE ON
FINANCE

RE: SB 2624, SD2 - RELATING TO TAXATION

FRIDAY, APRIL 1, 2016

COREY ROSENLEE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Luke and Members of the Committee:

The Hawaii State Teachers Association **strongly supports SB 2624, SD2**, 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 and that far exceed the \$250 federal credit.

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. Notably, most teachers do not earn enough to afford the full benefits of tax itemization—they cannot, for example, take mortgage deductions for homes that they cannot buy.

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