

SB821

Measure Title: RELATING TO TAXATION.

Report Title: School Teacher Tax Credit

Description: Authorizes a state income tax credit up to \$500 for certain expenses paid or incurred by school teachers, special education teachers, school librarians, and counselors for supplementary materials used in the classroom. Applies to tax years beginning after 12/31/14.

Companion: [HB13](#)

Package: None

Current Referral: EDU, WAM

Introducer(s): KIDANI, DELA CRUZ, GALUTERIA, HARIMOTO, KOUCHI, NISHIHARA, Baker, Chun Oakland, Slom, Taniguchi, Wakai

| Sort by Date | | Status Text |
|------------------------------|---|---|
| 1/23/2015 | S | Introduced. |
| 1/26/2015 | S | Passed First Reading. |
| 1/28/2015 | S | Referred to EDU, WAM. |
| 2/5/2015 | S | The committee(s) on EDU has scheduled a public hearing on 02-09-15 1:15PM in conference room 229. |

DAVID Y. IGE
GOVERNOR



KATHRYN S. MATAYOSHI
SUPERINTENDENT

STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

Date: 02/09/2015
Time: 01:15 PM
Location: 229
Committee: Senate Education

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: SB 0821 RELATING TO TAXATION.

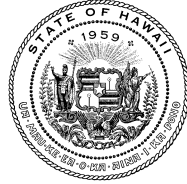
Purpose of Bill: Authorizes a state income tax credit up to \$500 for certain expenses paid or incurred by school teachers, special education teachers, school librarians, and counselors for supplementary materials used in the classroom. Applies to tax years beginning after 12/31/14.

Department's Position:

The Department of Education (Department) supports S.B. 821. Often teachers have expended their own monetary resources to provide additional supplies for course instruction, or students who do not come to school with basic supplies. The proposed amendments assist teachers by mitigating these out-of-pocket expenses. However, we defer to the Department of Taxation for the taxation implications related to this measure.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Michelle N. Kidani, Chair
and Members of the Senate Committee on Education

Date: Monday, February 9, 2015
Time: 1:15 P.M.
Place: Conference Room 229, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 821, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of S.B. 821 and provides the following comments for your consideration.

S.B. 821 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 \$500 per qualified taxpayer per taxable year. S.B. 821 applies to taxable years beginning after December 31, 2014.

The Department notes that the federal deduction for expenses of elementary and secondary school teachers, which had expired, was extended for tax year 2014. Through conformity, the State adopts this deduction for State income tax purposes. Though the federal deduction has expired again for the 2015 tax year, it has been extended many times and will likely be extended again.

S.B. 821 provides that no other tax credit can be claimed using expenses used to generate this credit, but it does not prevent a taxpayer from claiming both the deduction and this tax credit for the same expenses. As drafted, S.B. 821 would allow multiple tax benefits for the same expenses. If this measure is adopted a single expense will generate a federal deduction, a corresponding reduction in state income tax liability, and a state tax credit.

Furthermore, because the federal deduction is an above-the-line deduction which is taken on the federal return, the Department would not be able to identify which taxpayers had taken the federal deduction. When completing Hawaii income tax returns, taxpayers start with their federal adjusted gross income (AGI). Above-the-line deductions, like this deduction, are built

into federal AGI. Therefore, the deduction is accounted for on the federal return and the Department has no report of the deduction on any state return. For this reason the Department could not confirm which taxpayers claimed the deduction or for how much.

The Department also notes that the definition of "certain expenses" is very broad. This term should be more precisely defined to avoid compliance problems.

If S.B. 821 moves forward, the Department requests it be amended to apply to taxable years beginning after December 31, 2015 to provide the Department time to develop new tax forms and instructions and to modify its computer system.

Thank you for the opportunity to provide comments.

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SUBJECT: INCOME, Tax credit for expenses of school teachers

BILL NUMBER: SB 821; HB 13 (Identical)

INTRODUCED BY: SB by Kidani, Dela Cruz, Galuteria, Harimoto, Kouchi, Nishihara, 4 Democrats and 1 Republican; HB by Takumi and Ohno

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 qualified 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 “qualified 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 junior 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 qualified taxpayer in the classroom.

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.

EFFECTIVE DATE: Tax years beginning after December 31, 2014

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.

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).
- 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.

Digested 2/6/15



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TESTIMONY FOR SENATE BILL 821, RELATING TO TAXATION

Senate Committee on Education
Hon. Michelle N. Kidani, Chair
Hon. Breene Harimoto, Vice Chair

Monday, February 9, 2015, 1:15 PM
State Capitol, Conference Room 229

Honorable Chair Kidani and committee members:

I am Kris Coffield, representing IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 300 local members. On behalf of our members, we offer this testimony in support of Senate Bill 821, relating to taxation.

In 2011, the National School Supply and Equipment Association released a report stating that public school teachers spent \$1.33 billion of their discretionary income on supplementary school supplies and instructional materials during the 2009-2010 school year, an average of \$356 dollars per teacher. Though less than previous years in which a report was issued, that number, when broken down, nonetheless amounts to \$170 for supplies and \$186 on instructional materials not provided for by the Departments of Education. Moreover, NSSEA attributes the drop not to increased classroom funding, but the 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, Hawaii has the highest ACCRA value 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, with the average teacher making a COL-adjusted income of \$31,854 per year, roughly \$4,000 below the next-to-last state on the list (Maine), according to statistics compiled and released by the U.S. Census Bureau. Pay cuts (including teacher furloughs and DLWOP days), 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 up to 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 longterm benefits are extremely likely to outweigh its immediate costs.

Again, we urge your committee to increase state educators' purchasing power by instituting tax credits for supplies, computer equipment, and supplementary materials, 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 support of this bill.

Sincerely,
Kris Coffield
Executive Director
IMUAlliance