

# SB 902

Measure Title:	RELATING TO TAXATION.
Report Title:	Income Tax; Standard Deduction; Low-income Household Renters; Refundable Food/Excise Tax Credit; Wholesale; Department of Taxation Investigator Positions; Appropriation (\$)
Description:	<p>Increases the income tax standard deduction for an individual who is not married and not a surviving spouse or a head of household or an individual who is married and filing a separate return; amends income tax credit for low-income household renters; amends the refundable food/excise tax credit by amending income-based credit amounts; increases the excise tax levied on wholesale sales from 0.5 per cent to 1.0 per cent; requires the department of taxation to establish an additional five full-time permanent investigators; and appropriates funds to the department of taxation to fund the additional investigator positions.</p>
Companion:	
Package:	None
Current Referral:	HSH, WAM
Introducer(s):	CHUN OAKLAND

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To: The Honorable Suzanne Chun Oakland, Chair  
and Members of the Senate Committee on Human Services and Housing

Date: Saturday, January 31, 2015  
Time: 1:15 P.M.  
Place: Conference Room 229, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 902, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of S.B. 902 and offers the following comments regarding the measure.

Section 1 of this measure adjusts standard deduction amounts for unmarried individuals and for married individuals filing separately. The Department notes that there is no corresponding adjustment to the standard deduction amount for married individuals filing jointly. This measure would therefore allow a married couple filing separately a total standard deduction amount of \$6,000, but would retain the amount of \$4,400 for a married couple filing jointly. The Department recommends adjusting the amount for married persons filing a joint return to match the \$6,000 that would be available to two married persons filing individual returns.

Section 2 amends the Income Tax Credit for Low-Income Household Renters, changing the income threshold for claiming the credit to an unspecified amount.

Section 3 amends the Refundable Food/Excise Tax Credit by changing both the income threshold ranges for claiming the credit and the credit amounts to unspecified amounts. Section 3 also moves the description of a qualified exemption to subsection (f) of section 235-55.85, Hawaii Revised Statutes (HRS).

Section 4 amends section 237-13.3, HRS, to increase the rate of General Excise Tax (GET) on gross receipts of wholesale sales of tangible personal property, services and amusements to one percent in calendar year 2016 and thereafter. If the wholesale rate is to be increased, the Department suggests considering adjusting the rate for all activities currently subject to tax at one half of one percent for ease of administration. For example, the one half of

one percent rate imposed on the gross receipts from "manufacturing" would not be increased by this measure. The Department additionally notes that, in order to avoid confusion for taxpayers and administrators, any amendments to GET rates should be accomplished by amending section 237-13, HRS.

The Department also suggests that if any increase to the GET is adopted, the increase should be mirrored in the corresponding Use Tax sections of chapter 238, HRS. The Use Tax is complimentary to the GET and is imposed on the landed value of goods and services imported into the state. The Use Tax rates are set such that goods from within and outside the state are taxed equally. An increase in only the GET rate would theoretically provide competitive advantage to goods and services imported from outside the state, some of which would still be taxed at the rate of one half of one percent.

Section 5 of this measure directs the Department to establish five additional full-time permanent investigators. The Department notes that S.B. 902 does not specify what types of investigator positions must be created. The Department is authorized to appoint investigators by multiple statutes, but the powers provided to the investigators are not the same. For example, the Department may appoint criminal investigators pursuant to section 231-4.3, HRS, which provides for investigators which have police powers, or pursuant to section 231-83, HRS, which provides for civil investigators that have only limited police powers. While we appreciate the support for the Department, we are focused on filling our vacant investigator positions first.

Thank you for the opportunity to provide comments.

# TAXBILLSERVICE

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**SUBJECT:** INCOME, GENERAL EXCISE, ADMINISTRATION, Increase standard deduction, renter tax credit, refundable food/excise tax credit; increase GET on wholesale sales, additional investigator positions

**.BILL NUMBER:** SB 902

**INTRODUCED BY:** Chun Oakland

**EXECUTIVE SUMMARY:** This measure proposes various income tax adjustments for certain lower income taxpayers and tries to pay for them by increasing the wholesale general excise tax rate from 0.5% to 1.0%. An adjustment to the income tax rates would be more equitable and preferred rather than the piecemeal approach proposed in this measure.

**BRIEF SUMMARY:** Amends HRS section 235-2.4 to increase the standard deduction from \$2,200 to \$3,000 for: (1) single individuals not a surviving spouse or head of household; and (2) married individuals filing a separate return.

Amends HRS section 235-55.7 to increase the income threshold to claim the renter credit from \$30,000 to \_\_\_\_\_ and the amount of the renter credit from \$50 to \_\_\_\_.

Amends HRS section 235-55.85 to increase the food/excise tax credit based on the taxpayer's Hawaii adjusted gross income (AGI):

Adjusted gross income	Tax credit
Under \$ _____	\$ _____
\$ _____ under \$ _____	_____
_____ under _____	_____
_____ under _____	_____
_____ under _____	_____
_____ under _____	_____
_____ and over	_____

Amends HRS section 237-13.3 to increase the 0.5% wholesale tax rate to 1.0% beginning with the 2016 calendar year.

Allows the department of taxation to establish five additional full-time permanent investigators to conduct investigations. Appropriates \$\_\_\_\_\_ in general funds in fiscal 2016 and 2017 to fund these positions. These provisions take effect on July 1, 2015.

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

STAFF COMMENTS: It appears that this measure proposes tax relief to lower income taxpayers by adjusting the amount of the personal exemption for certain taxpayers, increasing the renter tax credit and the food/excise tax credit. While these adjustments may result in tax relief, the measure also proposes to increase the wholesale tax rate of 0.5% to 1%. It should be remembered that Hawaii's general excise tax (GET) is applied at each transaction and any increase in the rate, even at the wholesale rate, will not only increase the cost of living in the state, but also increase the cost of doing business. Businesses must build the added cost of the additional tax into their overhead and it must be recovered in the cost of the goods and services they sell resulting in higher prices to the consumer. Gross receipts taxes, including the GET, are known to be regressive. So any tax relief proposed by this measure may be negated due to the increase in the GET.

While it appears that this measure proposes tax relief to certain taxpayers through a variety of income adjustments, consideration should be given to adjusting the income tax rates so that all taxpayers will benefit equitably.

The measure also proposes to allow the department of taxation to add five new full-time investigator positions. The legislature by Act 134, SLH 2009, established a special enforcement section of the department of taxation to investigate "cash-based" businesses that are not paying their fair share of taxes. It appears that since its establishment, the special enforcement section has been instrumental in educating local businesses about their tax obligations and has been successful in generating an additional \$1 million in tax revenues.

While it would appear that the proposed measure would bolster the enforcement section of the department of taxation, it should be remembered that critical to taxpayer compliance is education and awareness of the changes in tax laws. The initial efforts of this team were solely enforcement without education which failed miserably, resulting in angry taxpayers. However, with education, taxpayers understood what was required of them in order to comply with the law. Understanding what is required of them through educational efforts encourages greater taxpayer compliance, generating additional tax revenues.

As a technical matter, section 237-13.3 was intended to be a temporary section to phase in the changes of the depyramiding legislation enacted in 1999 and 2000. We recommend that it be removed because the phase-in period has long since passed. Any rate changes should be in section 237-13, which traditionally has been the section specifying the tax rates for the different business activities subject to the GET.

In addition, any change in the wholesale GET rates should be accompanied by a corresponding change in the wholesale use tax rates, in order that retailers are not motivated by the tax system to buy their goods and services from suppliers outside of Hawaii.

Digested 1/30/15