

STAND. COM. REP. NO. **723**

Honolulu, Hawaii

MAR 03 2017

RE: S.B. No. 648
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Twenty-Ninth State Legislature
Regular Session of 2017
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred S.B. No. 648 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose and intent of this measure is to amend the State's income tax law.

More specifically, this measure:

- (1) Expands the income tax credit for low-income household renters, based on adjusted gross income and filing status;
- (2) Establishes a state earned income tax credit;
- (3) Restores the income tax rates for high income brackets that were repealed on December 31, 2015; and
- (4) Removes the sunset date for amendments made to the refundable food/excise tax credit by Act 223, Session Laws of Hawaii 2015.

Your Committee received testimony in support of this measure from the Hawaii State Commission on the Status of Women, Americans for Democratic Action Hawaii, Community Alliance on Prisons,



Democratic Party of Hawaii, Early Childhood Action Strategy, Hawaii Alliance for Community-Based Economic Development, Hawaii Alliance for Progressive Action, Hawaii Appleseed Center for Law and Economic Justice, Hawaii Children's Action Network, Hawaii State Democratic Women's Caucus, Hawaii State Teachers Association, Hawaii Teachers for Change Caucus, Hawaii Women's Coalition, Hawaiian Community Assets, IMUAlliance, Kupuna Caucus of the Democratic Party of Hawaii, League of Women Voters of Hawaii, Mental Health America of Hawaii, Pele Lani Farm LLC, PHOCUSED, Progressive Democrats of Hawaii, UNITE HERE Local 5, Young Progressives Demanding Action, YWCA Oahu, and one hundred eighteen individuals.

Your Committee received testimony in opposition to this measure from The Chamber of Commerce Hawaii and one individual.

Your Committee received comments on this measure from the Department of Taxation and the Tax Foundation of Hawaii.

Your Committee finds that Act 223, Session Laws of Hawaii 2015, temporarily increased the amount of the refundable food/excise tax credit. According to the Department of Taxation, making this increase permanent is expected to result in an annual revenue loss of \$6,500,000.

Your Committee also finds that establishing a refundable state earned income tax credit, set at ten or twenty per cent of the amount of the federal earned income tax credit, is expected to result in the following revenue loss:

<u>Fiscal Year</u>	<u>10%</u>	<u>20%</u>
2018	\$24,500,000	\$49,000,000
2019	\$25,100,000	\$50,200,000
2020	\$25,700,000	\$51,500,000
2021	\$26,400,000	\$52,800,000
2022	\$27,000,000	\$54,100,000

On the other hand, establishing a nonrefundable state earned income tax credit is expected to result in the following revenue loss:

<u>Fiscal Year</u>	<u>10%</u>	<u>20%</u>
2018	\$6,400,000	\$12,700,000



2019	\$8,300,000	\$16,700,000
2020	\$10,200,000	\$20,400,000
2021	\$11,900,000	\$23,800,000
2022	\$13,500,000	\$27,100,000

Your Committee further finds that the state income tax law may be made more progressive by not only reinstating higher income tax rates on high-income taxpayers, but also lowering the rates on the lowest income taxpayers. According to data from the Department of Taxation, reducing income tax rates for lower-income taxpayers will result in lower taxes for the following:

- (1) 15.9 per cent of total resident single filers (40,494 returns);
- (2) 8.8 per cent of total resident joint filers (16,040 returns); and
- (3) 13.0 per cent of total resident head of household filers (8,109 returns).

Reinstating higher tax rates on high income earners will result in higher taxes for the following:

- (1) 1.0 per cent of total resident single filers (2,439 returns);
- (2) 2.0 per cent of total resident joint filers (3,690 returns); and
- (3) 0.4 per cent of total resident head of household filers (220 returns).

Your Committee has amended this measure by:

- (1) Deleting the provisions regarding the income tax credit for low-income household renters;
- (2) Changing the amount of the state earned income tax credit to an unspecified amount;
- (3) Reducing income tax rates for lower income brackets;



- (4) Clarifying the taxable years to which the new income tax rates established by this measure shall apply;
- (5) Appropriating \$250,000 for each year of the 2017-2019 fiscal biennium to the Department of Taxation for certain tax preparation assistance outreach programs, as a means of expanding community participation in the program and reducing preparation error;
- (6) Changing the effective date to August 30, 2050, to facilitate further discussion on the measure; and
- (7) Making technical nonsubstantive amendments for the purposes of consistency, clarity, and style.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 648, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 648, S.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,



JILL M. YOKUDA, Chair



