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

Date: Wednesday, March 1, 2017
Time: 1:00 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 207, H.D. 1, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 207, H.D. 1, and provides the following comments for your consideration.

H.B. 207, H.D. 1, amends the income tax credit for low-income household renters for taxable years beginning after December 31, 2017. This bill amends section 235-55.7, Hawaii Revised Statutes (HRS), by increasing the thresholds to qualify for the low-income household renter's credit from $30,000 in gross income, and a credit amount of $50 per exemption to the following:

Credit Amount Per Exemption	Adjusted Gross Income		
	Single or Married Filing Separately	Head of Household	Joint
$150	$15,000 and under	$25,000 and under	$30,000 and under
$100	$15,001 to $25,000	$25,001 to $$37,500	$30,001 to $45,000
$50	$25,001 to $35,000	$37,501 to $50,000	$45,001 to $60,000

The Department notes that current law limits married taxpayers filing separately to the credit amount calculated as if they had filed a joint return. If the intent of the measure is to allow a married filing separate taxpayer claim this credit without regard to their spouse's income, section 235-55.7(e), HRS, should be amended accordingly.

The Department is able to implement the amendments to the income tax credit for low-income household renters for taxable years beginning after December 31, 2017 as currently written. This will allow the Department sufficient time to make the necessary form, instruction, and computer system changes.

Thank you for the opportunity to provide comments.

OFFICE OF HAWAIIAN AFFAIRS
Legislative Testimony

HB207 HD1
RELATING TO TAXATION
House Committee on Finance

March 1, 2017 1:00 p.m. Room 308

The Office of Hawaiian Affairs (OHA) **SUPPORTS** HB207 HD1. This measure would relieve the tax burden on low income individuals and families, by increasing the low income household renters tax credit (LIHR), and adjusting the income threshold for those who may claim the credit.

Native Hawaiian families are in particular need of relief targeted to low-income renters. Native Hawaiians, whose homeownership rate is significantly lower than the state average, must rely substantially on the rental housing market.[1] More than half of Native Hawaiian renters, many of whom already live in overcrowded situations, also live in homes they are struggling to afford. Despite the fact that Native Hawaiians participate in the labor force at higher rates than the state average[2] and have larger than average family sizes,[3] Native Hawaiian median family income is also $9,627 (or 12.2%) lower than the state median family income.[4] Recent research has further shown that Native Hawaiian rental housing demand is almost entirely for units that are affordable, rather than for market-rate or other 'gap'-rate units.[5]

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[1] Out of 71,006 Native Hawaiian households, 37,562 households are owner-occupied. This figure is commonly used by most governmental agencies to represent the homeownership rate. Therefore, the homeownership rate for Native Hawaiians is 52.9% compared to the statewide average of 56.7% of households. *See* OFFICE OF HAWAIIAN AFFAIRS, OHA DATA BOOK HOUSING TENURE BY RACE-ETHNICITY IN HAWAIʻI 2014, *available at* http://www.ohadatabook.com/T02-131-15u.pdf . This figure includes 8,329 DHHL residential lease "owner-occupied" property units. DHHL ANNUAL REPORT 2014, P. 48, *available at* http://dhhl.hawaii.gov/wp-content/uploads/2011/11/DHHL-Annual-Report-2014-Web.pdf. For non-DHHL properties, the Native Hawaiian homeownership rate is therefore 41.2%, 15.5 percentage points below the statewide rate.

[2] *See* American Community Survey, 2013, Civilian Labor Force Datapoint, U.S. Census Bureau.

[3] In 2014, the average size of a Native Hawaiian family was 4.06, .45 larger than the state average. *See* OFFICE OF HAWAIIAN AFFAIRS, NATIVE HAWAIIAN HOMEOWNERSHIP HOʻOKAHUA WAIWAI FACT SHEET VOL.2016, NO. 1, page 3, *available at* http://www.oha.org/wp-content/uploads/NH-Homeownership-Fact-Sheet-2016.pdf.

[4] In 2015, the median family income for Native Hawaiians was $69,560 compared to the state median family income of $79,187. *See* OFFICE OF HAWAIIAN AFFAIRS, 2010-2018 STRATEGIC RESULTS: MEDIAN FAMILY INCOME INDICATOR SHEET 2015 *available at* http://www.oha.org/wp-content/uploads/Hookahua-Waiwai.-Indicator-Sheet.-MFI.-2015.pdf.

[5] 97% of the total needed multi-family rental units, and 87% of the total needed single family rental units for Native Hawaiians in the state must be affordable for those at 140% AMI or below. *See* HAWAIʻI HOUSING PLANNING STUDY 74 (2016), *available at* https://dbedt.hawaii.gov/hhfdc/files/2016/12/State_HHPS2016_Report_111416-FINAL-122216.pdf.

HB207 HD1's proposed LIHR increase reflects a pragmatic approach to alleviating the tax burden on low-income and housing-insecure individuals and families, including the many Native Hawaiians who are struggling to afford their rent. Created in 1977 to mitigate the high cost of housing in Hawaiʻi, the LIHR currently provides a $50 tax credit per "qualified exemption" for households with an adjusted gross income of less than $30,000, that also pay more than $1,000 a year in rent; kūpuna over the age of 65 are able to receive double the credit. This measure would increase the credit amount per qualified exemption for the first time in decades, and further increase the cap on the adjusted gross income for all categories of taxpayers to qualify for the credit. With Hawaiʻi's housing and rent costs higher now than ever before, this bill's update to the targeted, asset-building LIHR would provide timely and much-needed relief to our low-income renters, helping them to remain financially self-sufficient and housing secure.

Accordingly, OHA urges the Committee to **PASS HB207 HD1**. Mahalo nui for the opportunity to testify on this measure.

SUBJECT: INCOME, Renters' Credit Increase

BILL NUMBER: HB 207, HD-1

INTRODUCED BY: House Committee on Housing

EXECUTIVE SUMMARY: This bill expands the renters' credit. While it appears that this measure proposes tax relief to lower income taxpayers, consideration should be given to adjusting the income tax rates or the filing threshold amounts so those targeted taxpayers needing help will not need to claim these credits to get relief.

SYNOPSIS: Amends HRS section 235-55.7 to Amends HRS section 235-55.7 to increase the amount of the renter credit from $50 to an amount based on adjusted gross income:

For single taxpayers or married filing separately:	
Adjusted gross income	Tax credit per exemption
Not over $15,000	$150
Over $15,000, not over $25,000	100
Over $25,000, not over $35,000	50
For head of household:	
Adjusted gross income	Tax credit per exemption
Not over $25,000	$150
Over $25,000, not over $37,500	100
Over $37,500, not over $50,000	50
For married taxpayers filing jointly, surviving spouse:	
Adjusted gross income	Tax credit per exemption
Not over $30,000	$150
Over $30,000, not over $45,000	100
Over $45,000, not over $60,000	50

EFFECTIVE DATE: Date to be determined, applies to taxable years beginning after December 31, 2017.

STAFF COMMENTS:

The 1970 legislature adopted a system of tax credits for household renters which was intended to partially offset the higher tax burden on renters resulting from the lack of tax relief like the home exemption for homeowners and the 4% general excise tax levied on rental income. The current renter credit was established by the 1977 legislature at $20 per exemption for those taxpayers with adjusted gross incomes of less than $20,000 who paid more than $1,000 in rent during the tax year. Act 230, SLH 1981, increased the credit amount to $50. Act 239, SLH 1989, increased the adjusted gross income (AGI) limit to $30,000 to claim the credit. The proposed measure would increase the amount of the credit from $50 to $150. It does not increase the qualification amount – the taxpayer still will need to pay $1,000 in rent during a taxable year to qualify for the credit.

There are two more issues with refundable credits targeted at low-income people generally.

First, a tax return is one of the most complicated documents for government agencies to process. The administrative costs associated with each one can quickly make heads spin. But when refundable credits are made available to folks who don't have much (or any) tax liability, those folks are motivated to file a return purely to get the refund check. When this happens, the department is visited by several folks who require special handling, homeless people for example. They might be able to provide a Social Security number, but they have no address and they don't have a bank account. Nevertheless, they are entitled to their refundable credit. Processing such people is even more expensive because higher level workers within the department need to get involved once the established procedures prove inadequate.

Second, as a policy matter, lawmakers might prefer that the recipient of the refund not use the money obtained on such things as cigarettes, alcohol, or illegal drugs. But the tax system contains no way of restricting the uses of a refund check; other departments do have systems in place (EBT, for example). The solution? Get such people out of the tax system entirely. They receive peace of mind because they don't have to worry about tax returns, and the department doesn't have to worry about processing those returns. If additional relief to such people is considered desirable, funnel it through the agencies that are better equipped to do so.

Digested 2/27/2017

LEAGUE OF WOMEN VOTERS®

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HD1
COMMITTEE ON FINANCE

Wednesday, March 1, 1 PM, ROOM 308
HB207, HD1 RELATING TO TAXATION
Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair Luke, Vice-Chair Cullen, and Committee Members:

The League of Women Voters of Hawaii strongly supports HB207, which would update the eligibility requirements and tax credit amounts of the low-income housing rental tax credit.

The cost of rental housing in Hawaii continues to rise very rapidly - almost 25% in the last three years alone. The numbers of people seriously affected by the cost of housing is horrendous: Of our resident population, 47% rent their housing, and over half of them pay more than the federal standard of 30% of their income, on housing. While the National Low Income Housing Coalition's Out of Reach 2016 report tells us that a full-time worker would need to earn $34.22/hour to afford a two-bedroom apartment in Hawaii, the average renter only earned $14.49.

The low-income household renters credit was enacted to provide some relief for these many burdened individuals and families. But the income eligibility standards and credit amounts have not been adjusted in almost 30 years! Meanwhile inflation has eaten away at the value of incomes and the credit amounts.

We urgently need to attack our housing crisis. HB207, HD1 provides one way you can contribute to this effort. Please pass HB207, HD1.

Thank you for the opportunity to submit testimony.

CATHOLIC CHARITIES HAWAIʻI

TESTIMONY IN SUPPORT OF HB 207 HD1: RELATING TO TAXATION

TO: Rep. Sylvia Luke, Chair; Rep. Ty J.K. Cullen, Vice Chair; and Members
Committee on Finance

FROM: Terrence L. Walsh, Jr., President and Chief Executive Officer

Hearing: Wednesday, 3/1/17; 1:00 pm; CR 308

Thank you for the opportunity to provide testimony **in strong support of HB 207**, which expands the income tax credit for low-income household renters. I am Terry Walsh, with Catholic Charities Hawaiʻi. This bill speaks directly to our advocacy priority of reducing poverty in Hawaiʻi.

Catholic Charities Hawai`i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai`i for over 60 years. CCH has programs serving elders, children, developmentally disabled, homeless and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawai`i.

Every day, Catholic Charities Hawaiʻi receives calls from renters facing homelessness. 25% of the homeless become homeless simply due to lack of funds to pay the full rent. Rents shot up 45% between 2005-2012, but the average wage increased by only 21%. From 2012 to 2015, rents increased 23.5%, per Hawaii News Now (4/14/16). With soaring rents and high food costs, the cost of living in Hawaii is 60% higher than the national average! **Hawaii's renters are in crisis**. Not only are lower income renters spending a high percentage of their income on rent and basic living expenses, but also on the regressive General Excise Tax.

The original intent of the low-income household renters' credit was to make up for the high tax rates that burden low and moderate income renters. However, the credit has not been updated since the 1980's. Nearly three decades of inflation have severely lowered the value of this credit. The current tax credit, when adjusted for inflation, is worth less than forty percent of its original value. Immediate action is needed to help renters who are struggling to make a decent life for their families and avoid homelessness.

Catholic Charities Hawaiʻi' supports this bill since it would benefit about 83,000 households. It would make up for ground lost to inflation. Updating the low-income household renters' credit will help us in the fight to reduce and prevent homelessness. Our families need this expanded tax credit to help them as they struggle to cover their basic living expenses.

We strongly urge your support of this bill for tax fairness. Please contact our Legislative Liaison, Betty Lou Larson, bettylou.larson@catholiccharitieshawaii.org, or at 373-0356, if you have any questions.

46-063 Emepela Pl. #U101 Kaneohe, HI 96744 · (808) 679-7454 · Kris Coffield · Co-founder/Executive Director

TESTIMONY FOR HOUSE BILL 207, HOUSE DRAFT 1, RELATING TO TAXATION

House Committee on Finance
Hon. Sylvia Luke, Chair
Hon. Ty J.K. Cullen, Vice Chair

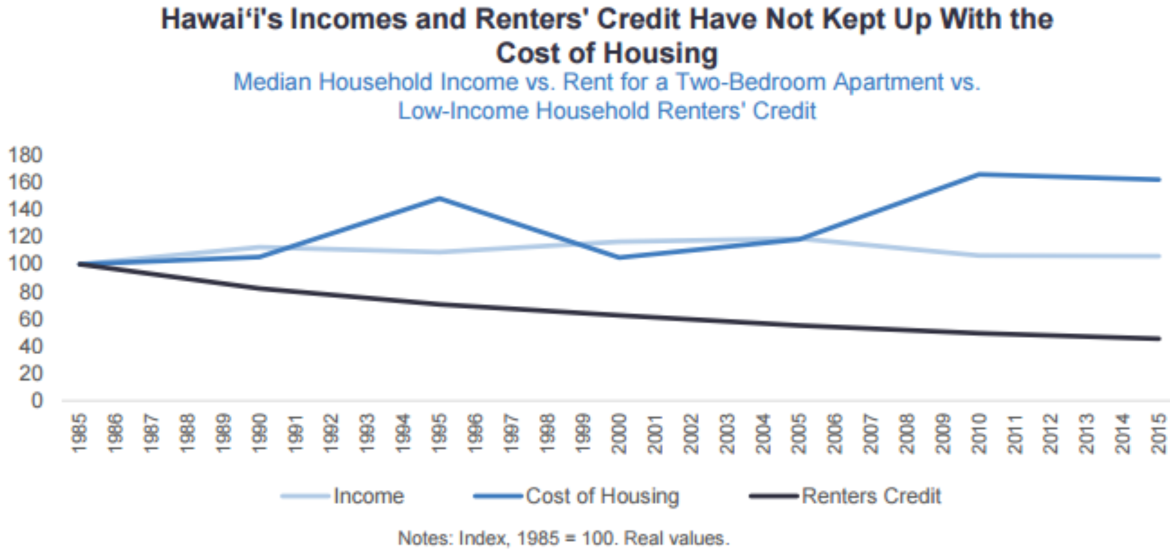
Wednesday, March 1, 2017, 1:00 PM
State Capitol, Conference Room 308

Honorable Chair Luke and committee members:

I am Kris Coffield, representing IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 350 members. On behalf of our members, we offer this testimony in strong support of House Bill 207, HD 1, relating to taxation.

Hawai'i is exorbitantly expensive. Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2016* report found that a full-time worker would need to earn $34.22/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 2005 and 2015. Average rent for a two-bedroom unit surpassed $2,100 in 2015, with average rent for a 900-square-foot exceeding $2,200 in 2016. In the past three years alone, Honolulu rent has increased 23.5 percent. While 47 percent of Hawai'i residents are renters (a number that does not include individuals and families renting outside of the regulated rental market), they earn an average wage of $14.49/hour, scarcely enough to meet their basic needs. One out of every four households in Hawai'i report that they are "doubling up" or are three paychecks or less away from being homeless, per the Hawai'i Appleseed Center for Law and Economic Justice. Additionally, 54 percent of households are cost-burdened, meaning that they pay more than 30 percent of their income for housing costs.

To help ease Hawai'i's highest-in-the-nation cost of living, lawmakers must pass measures enhancing tax fairness and economic justice. Our state's low-income renters' credit is in dire need of adjustment. In 1981, the LIHRC was set at $50. Later, in 1989, the income eligibility cutoff was established at $30,000, just above the median household income of the time. Yet, neither of these amounts have changed since the 1980s, leaving the amount of the credit lagging far behind inflation and increases in the cost of housing for the 43 percent of Hawai'i households who are renters, as the following chart shows.



We must update the renters' credit to recover ground lost to inflation by increasing the maximum value of the credit to $150 and income eligibility limits to $60,000 in annual income for joint filers, once again a cut above our state's median income level.

Mahalo for the opportunity to testify in support of this bill.

Sincerely,
Kris Coffield
Executive Director
IMUAlliance

HSTA
HAWAII STATE TEACHERS ASSOCIATION
Teaching Today for Hawaii's Tomorrow

LATE

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TESTIMONY BEFORE THE HOUSE COMMITTEE ON FINANCE

RE: HB 207, HD 1 – RELATING TO TAXATION.

WEDNESDAY, MARCH 1, 2017

COREY ROSENLEE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Luke and Members of the Committee:

The Hawaii State Teachers Association **strongly supports HB 207, HD 1**, relating to taxation.

Hawai'i is expensive. Our cost of housing and renting is the highest in the nation, our food prices are exorbitant, and our income taxes disproportionately favor the rich. Because people in poverty spend most of their income on items that are subject to our state's general excise tax, the GET hits low-income families ten times harder than the top 1 percent of earners.

Teachers, too, are hurt by Hawai'i's high cost of living. Teachers earn the lowest salaries in the nation adjusted for COL. Overall state wages are also the lowest in the U.S. adjusted for COL, leaving thousands of people living paycheck to paycheck.

Lawmakers must provide impoverished families with financial relief. We urge your committee to update the low-income household renters' credit, which is currently set at $50 and has not been changed since 1981. Today, 72 percent of Hawai'i residents live at or near the poverty line and spend more than half of their income on rent, while more than half of local renters are cost-burdened, spending more than 30 percent of their income on rent.

To prevent local families from being priced out of paradise, the Hawaii State Teachers Association asks your committee to **support** this bill.

Hawaii Habitat for Humanity® Association

Building Housing, Building Hope

LATE

February 28, 2017

From: George S. Massengale
To: House Committee on Finance
Date: Hearing March 1, 2017 at 1:00 P.M.
Subj: HB207, HD1, Relating to Taxation

TESTIMONEY IN SUPPORT

Chair Luke, Vice Chair Cullen and members to the Committee on Finance. I have prepared this testimony on behalf of Hawaii Habitat for Humanity Association, and our seven Habitat affiliates located throughout the state, in support of HB207, HD1.

Although Habitat for Humanity's mission is to build affordable ownership housing utilizing volunteer labor. We do fully understand the struggles low income families face in trying to make ends meet each month. Many of our Habitat families have been in this exact position. We strongly support expanding the low income-household renters' income tax credit based on adjusted gross income and filing status.

When this body originally pass the low-income tax credit over 40 years ago it was to provide tax relief for our struggling low-income individuals and families. At that time our families faced the highest cost of living the nation. Like now, our residents then payed more for shelter than any state in the nation. It's now time for the legislature to do the same again. Our low-income families need your help in lowering their rent burden.

We do however, like **to propose an amendment to this measure**. To effectuate a meaningful impact on our low-income renters, we would strongly suggest that the **"Credit per exemption be doubled."**

Respectfully,

George S. Massengale
Director, Community Engagement

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