

DAVID Y. IGE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

MARIA E. ZIELINSKI  
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE  
DEPUTY DIRECTOR

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

Date: Thursday, February 9, 2017  
Time: 2:00 P.M.  
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: H.B. 932, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 932, and provides the following comments for your consideration.

H.B. 932 amends the refundable food/excise tax credit (food credit), and repeals the sunset date of Act 223, Session Laws of Hawaii 2015 (Act 223). The measure applies to taxable years beginning after December 31, 2017.

First, the Department notes that the current food credit has a marriage penalty. Married taxpayers filing a joint return have the same adjusted gross income thresholds as single and head of household filers. The Department suggests addressing this issue by providing the credit more evenly to all qualifying taxpayers.

Second, if the intent is to provide for the credit as written in H.B. 932, it is unnecessary to amend Act 223. This measure applies to taxable years beginning after December 31, 2017, so it will be in effect for the tax year following the sunset of Act 223.

Lastly, the Department is able to implement the amendments in this measure for taxable years beginning after December 31, 2017, as currently written. This will allow sufficient time for the necessary form, instruction and computer system modifications necessary for proper implementation.

Thank you for the opportunity to provide comments.



**HB932**  
**RELATING TO TAXATION**  
House Committee on Finance

February 9, 2017

2:00 p.m.

Room 308

The Office of Hawaiian Affairs (OHA) Committee on Beneficiary Advocacy and Empowerment will recommend that the Board of Trustees **SUPPORT** HB932, which will provide much-needed financial relief to low-income residents, including many Native Hawaiian families.

In furtherance of its constitutional mission, OHA has adopted Ho‘okahua Waiwai as one of its strategic priorities, which focuses on improving Native Hawaiians’ economic self-sufficiency through increased family income. Unfortunately, despite the fact that Native Hawaiians participate in the labor force at higher rates than the state average<sup>1</sup> and have larger than average family sizes,<sup>2</sup> Native Hawaiian median family income is also \$9,627 (or 12.2%) lower than the state median family income.<sup>3</sup> **Therefore, OHA understands that Native Hawaiians may be in particular need of relief targeted to lower-income families.**

**HB932 reflects a pragmatic way to further alleviate the tax burden on those low-income individuals and families who purchase and pay the general excise tax (GET) tax with food purchases, while still allowing the state to collect GET tax on food purchases made by visitors and other non-residents.** The refundable food/excise tax credit described in this measure was originally created to offset the inherently regressive impact of the GET on low- and moderate-income households. OHA supported the revision of the credit in the 2014 session, and now supports this measure’s proposal to remove the sunset date and further revise the credit to gradually allow more lower-income families to qualify. Under this measure, Native Hawaiian families that struggle to purchase basic necessities would receive meaningful financial relief, enhancing their ability to contribute to our local economy, and achieve economic self-sufficiency.

Accordingly, OHA urges the Committee to **PASS** HB932. Mahalo nui for the opportunity to testify on this measure.

---

<sup>1</sup> See American Community Survey, 2013, Civilian Labor Force Datapoint, U.S. Census Bureau.

<sup>2</sup> 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 HO‘OKAHUA WAIWAI FACT SHEET VOL.2016, NO. 1, page 3, available at <http://www.oha.org/wp-content/uploads/NH-Homeownership-Fact-Sheet-2016.pdf>.

<sup>3</sup> 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>.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Food/Excise Credit

BILL NUMBER: HB 932

INTRODUCED BY: OSHIRO, CACHOLA, CHOY, CREAGAN, EVANS, FUKUMOTO, ITO, MIZUNO, MORIKAWA, NAKASHIMA, SAIKI, SAY, SOUKI, TAKUMI, THIELEN, TODD, YAMASHITA, Onishi

EXECUTIVE SUMMARY: Increases the food/excise tax credit. This credit is to provide tax relief to low-income taxpayers. Lawmakers should consider adjusting the income tax rates so those taxpayers will not need to pay tax or file returns. This would also lead to less taxpayer confusion and fewer implementation costs.

BRIEF SUMMARY: Amends HRS section 235-55.85 to increase the food/excise tax credit based on the taxpayer's AGI: Increases the credit over time as well. The maximum credit per exemption in calendar years 2018 to 2019 will be \$115; 2020 to 2021, \$120; and after 2021, \$125. Repeals the sunset date of the credit, which is now December 31, 2017.

EFFECTIVE DATE: Upon approval, 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 similar to 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 further.

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 threshold amounts so those taxpayers that these credits are aimed to help will not need to claim these credits to get tax relief (or forfeit the credits if they fail to do so).

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 people 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 certain things, such 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 so that benefits can't be spent at will (EBT, for example).

One solution is to get lower-income 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, it can be funneled through the agencies such as the Department of Human Services that are better equipped to reach the target population and make a difference to them.

Digested 2/7/2017



# HAWAII APPLESEED

## CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice  
Supporting HB 932 Relating to Taxation  
House Committee on Finance  
Scheduled for Hearing Thursday, February 9, 2017, 2:00 PM, Conference Room 308

---

Dear Chair Luke, Vice Chair Cullen, and members of the Committee on Finance:

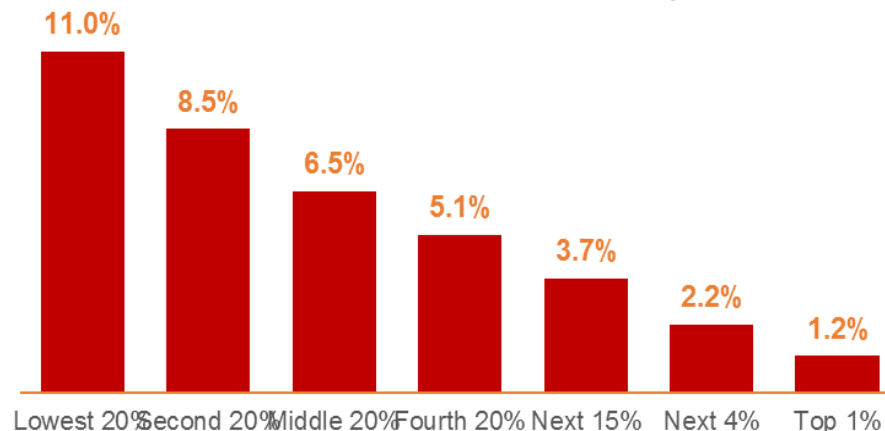
Thank you for the opportunity to testify in **STRONG SUPPORT** of **SB 932**, which would help many economically struggling families in Hawai‘i by improving the Refundable Food/Excise Tax Credit, which is targeted at low-income and working-class households.

### Hawai‘i Ranks High for Tax Unfairness

Hawai‘i places the second highest tax burden in the country on our low-income households. Our lowest-income households pay over 13% of their income in state and local taxes, while those at the top pay less than 8%. A main reason for this is the General Excise Tax (GET), applied to almost all goods and services, which hits low-income and working-class families almost ten times harder than those at the top.

### The GET Hits Low-Income Workers Almost 10 Times As Hard As the Top 1%

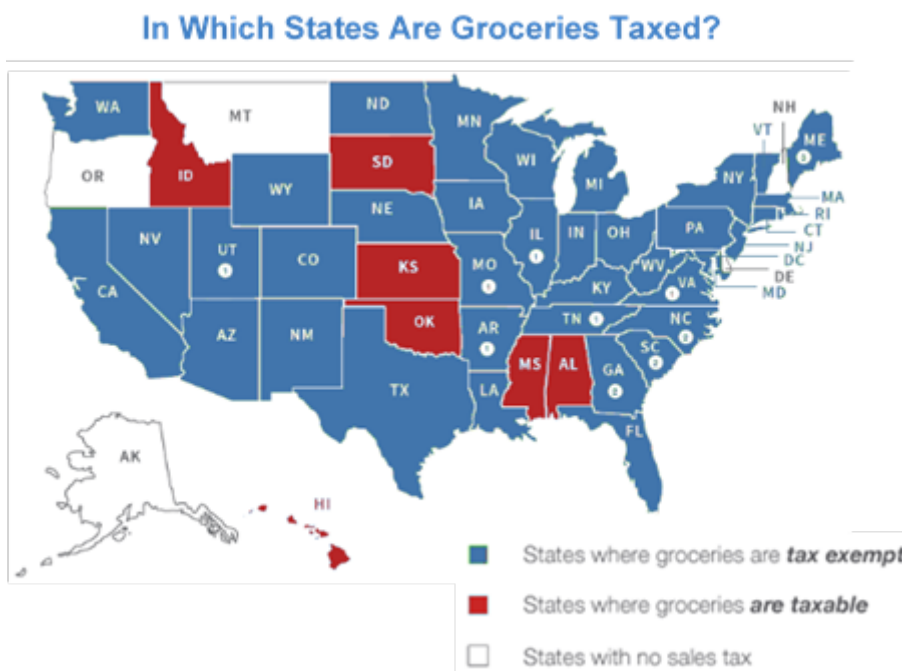
Hawaii's General Excise Tax as a Share of Family Income



As Hawai‘i families struggle to put food on the table, GET is effectively another hungry mouth to feed. The GET taxes food and other life necessities, placing a significant additional financial burden on people who are working hard to make ends meet.

## The Food Credit

Hawai‘i has the highest cost of living in the nation, with prices more than two-thirds (68.6%) higher than the national average. One of the main contributing factors is our high cost of food. Hawai‘i is one of only seven states that fully taxes groceries.



Since 2007, Hawaii has had a Refundable Food/Excise Tax Credit designed to help ease the tax burden on basic necessities. To keep up with the continuously rising cost of living, the credit should be increased, but the opposite will happen if we don't act this session to prevent the credit from being automatically reduced.

The amounts that families could get back from the Food Credit were updated to catch up with inflation in 2015. However, that cost-of-living adjustment is scheduled to expire at the end of 2017, at which point the amount of the credit will fall back to its original level, or a maximum of only \$85. That would mean a drop of almost a quarter (23%) of its value.

Instead, we should update the amount of the Food Credit to make up for the inflation of the past two years, as well as schedule cost-of-living adjustments for the next four years increases so that the tax burden does not increase as living costs go up. That would mean increasing the maximum credit value to \$115 in 2018, \$120 in 2020, and \$125 in 2022.

In addition, the income eligibility cut-offs for the Food Credit have not been adjusted for cost-of-living increases since 2007, which means that fewer and fewer of our low-income and working-class families can claim the credit. We should raise the income thresholds to catch up to inflation and schedule increases for the next four years. That translates to raising the maximum annual eligible income level to \$58,000 (\$35,000 for single filers) in 2018, \$60,000 / \$36,500 in 2020, and \$63,000 / \$38,000 in 2022.



**TO:** Chair Luke, Vice Chair Cullen and the Members of the House Committee on Finance

**FROM:** Ryan Kusumoto, President & CEO of Parents And Children Together (PACT)

**DATE/LOCATION:** Thursday, February 9, 2017; 2:00 p.m., Conference Room 308

**RE: TESTIMONY IN SUPPORT OF HB 932 – RELATING TO TAXATION**

**We support the intent of HB 932 – Relating to Taxation.** Hawaii has one of the highest cost of living in the United States. Wages are still far below to close any livable wage gap. While the minimum wage has increased, it is still not adequate enough to deal with the price disparity. As a result many of our families are living in poverty. This is a very real issue. Many families struggle to meet their basic needs. The paychecks of too many workers in Hawaii have fallen behind the ability to keep up with the costs of essential needs. This erodes the foundation of a strong economy and healthy working class. No longer can we say, “if we work hard, we will be ok.” That mantra simply no longer applies to our current economics.

We support this bill as it provides a solution to reduce income inequality and provide more tax fairness, thus allowing more people to keep what they earn. Currently, we tax the lowest earner at a rate of 13% while those earning the most pay 8% or less. We must provide a better approach to taxation as our current system is pushing people deeper into poverty – we are simply redistributing income away from those in poverty.

We support the tax initiatives like the Food Tax Credit and the Earned Income Tax Credit (EITC) that will ease the burden on our low income and working class families. These credits will make the tax system more equitable and adjust for the disparities of taxes such as the General Excise Tax – which has the greatest impact on our low income population. Keeping these credits relevant and up-to-date with the cost of living is also critical.

Research has also shown that there are other benefits for these tax credits. Access to EITC and Food Tax Credits have improved the health of children, increased education opportunities and performance which have long term positive impacts and combats our war on intergenerational poverty. EITC also promotes the power of work, which is an important step to reduce the income inequality. Our communities and economy will prosper more when work is rewarded and taxes are more equitable.

History has shown that as the economy has changed to negatively impact the most vulnerable and disadvantaged in our society, it has a direct tie to increased homelessness, crime, substance abuse, decreased health, and decreased social and economic well-being. These impacts have long lasting and multi-generational consequences and impact the war on poverty and homelessness.

Founded in 1968, Parents And Children Together (PACT) is one of Hawaii’s not-for-profit organizations providing a wide array of innovative and educational social services to families in need. Assisting more than 18,000 people across the state annually, PACT helps families identify, address and successfully resolve challenges through its 16 programs. Among its services are: early education programs, domestic



violence prevention and intervention programs, child abuse prevention and intervention programs, child and adolescent behavioral health programs, and community building programs.

Thank you for the opportunity to testify in **support of HB 932**, please contact me at (808) 847-3285 or [rkusumoto@pacthawaii.org](mailto:rkusumoto@pacthawaii.org) if you have any questions.

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Wednesday, February 8, 2017 12:42 AM  
**To:** FINTestimony  
**Cc:** annsfreed@gmail.com  
**Subject:** Submitted testimony for HB932 on Feb 9, 2017 14:00PM

**HB932**

Submitted on: 2/8/2017

Testimony for FIN on Feb 9, 2017 14:00PM in Conference Room 308

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Ann S Freed	Hawaii Women's Coalition	Support	No

Comments: Aloha Chair Luke and members, We are in strong support of this bill. Of all our tax policies the tax on food seems the most regressive and unfair. Hawaii's General Excise Tax (GET) hits low-income workers almost 10 times as hard as the top 1%. While I was active-duty Army I lived in a number of states. I never heard of a tax on food or medicine until I came to Hawaii and while we do have a Food/GET credit, it hasn't kept up with the rising cost of groceries. Please help our working poor in Hawaii. As women we feel responsible to feed our families. The rising cost of food in our state sometimes makes that seem like and impossible job. Mahalo, Ann S. Freed, Co-Chair, Hawaii Women's Coalition

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email [webmaster@capitol.hawaii.gov](mailto:webmaster@capitol.hawaii.gov)

From: Rev. Stanley Bain <stanbain@facehawaii.org>  
Sent: Wednesday, February 8, 2017 8:58 AM  
To: FINTestimony  
Subject: HB 932

TO: House Committee on Finance  
HEARING: Thursday, February 9, 2017 at 2:00 pm  
PLACE: Conference Room 308  
FROM: Rev. Stanley Bain  
RE: Testimony Supporting HB 932  
ATTENDING HEARING: No

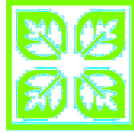
Dear Chair Luke, Vice Chair Cullen, and members of the Committee on Finance:

I would like to voice my strong support for HB 932, regarding the Food Credit.

When the Food Credit was updated two years ago, it was long overdue. Hawaii's General Excise Tax hits the hardest on families who are struggling the most. It levies a high tax on all of life's basic necessities, including food, medication, and housing. Even with the update two years ago, our low-income families still face the second highest effective tax rate in the nation. We cannot afford to go backwards from here.

You did a good thing when you updated Food Credit two years ago. Please don't shift into reverse!

Please pass HB 932 to reduce the amount of money taken out of people's pockets by the GET so they can use it to makes ends meet. Thank you for your consideration of this important issue.



**LATE**

## TESTIMONY IN SUPPORT OF HB 932: 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 & Chief Executive Officer

Hearing: **Thursday, 2/9/17; 2:00 PM; CR 308**

Thank you for the opportunity to provide written testimony **in strong support of HB 932**, which gradually increases the credit amounts and amends the income brackets of the refundable food/excise tax credit. It also removes the sunset date of Act 223, SLH 2015, which amended the food/excise tax credit. I am Terry Walsh, with Catholic Charities Hawai'i. This bill speaks directly to our advocacy priority of reducing poverty in Hawai'i.

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.

Catholic Charities Hawaii works closely with Aloha United Way. Out of nearly 62,000 requests for information and help in 2016, their 211-help line found that 41% of all requests were for Rental Assistance, Food Pantries, Utilities payments and Homeless Services. This indicates the wide-spread need and financial stress faced by Hawaii's lower income families. They are in crisis and need relief to avoid homelessness and become financially stable to raise kids, educate them and live a decent, safe life. The GET also impacts on seniors and disabled living on tight, fixed budgets. Hawaii's General Excise Tax (GET) places a great burden on lower income folks and workers that is almost 10 times as hard as that on the top 1%.

Every day, Catholic Charities Hawai'i receives calls from renters facing homelessness. 25% of people become homeless simply due to lack of funds to pay the full rent. Rents shot up 45% between 2005 and 2012, but the average wage increased by only 21%. In the next 3 years (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 almost 60% higher than the national average! **Hawaii's low-income workers and renters are in crisis.**

Catholic Charities Hawaii supports this bill to help families who are struggling to live in Hawaii. Few states, besides Hawaii, tax food. We strongly urge your support of this important bill for tax fairness.

Please contact me at [terry.walsh@catholiccharitieshawaii.org](mailto:terry.walsh@catholiccharitieshawaii.org); or Legislative Liaison, Betty Lou Larson, [bettylou.larson@catholiccharitieshawaii.org](mailto:bettylou.larson@catholiccharitieshawaii.org), or at 373-0356, if you have any questions.



CLARENCE T. C. CHING CAMPUS • 1822 Ke'eaumoku Street, Honolulu, HI 96822  
• [terry.walsh@CatholicCharitiesHawaii.org](mailto:terry.walsh@CatholicCharitiesHawaii.org)





**LATE**

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

---

## **TESTIMONY FOR HOUSE BILL 932, RELATING TO TAXATION**

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

**Thursday, February 9, 2017, 2:00 PM  
State Capitol, Conference Room 308**

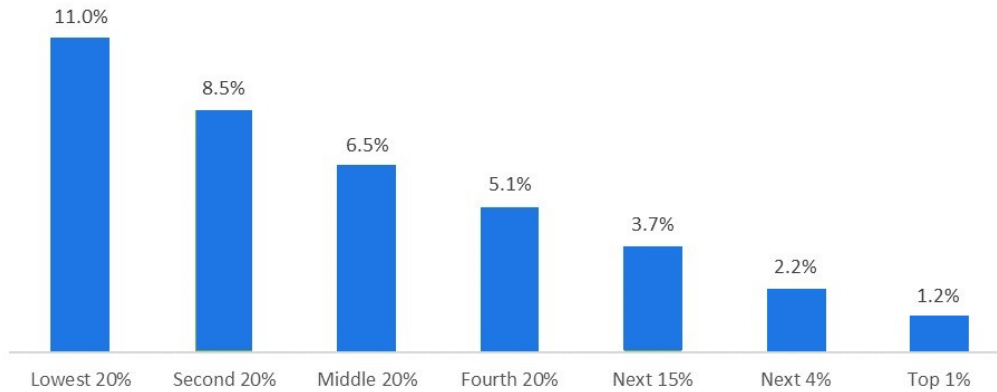
Honorable Chair Luke and committee members:

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 932, 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 islands are subject to a general excise tax that regressively impacts the poor. Today, our state's lowest-income households pay over 13 percent of their income in taxes, while our highest earners pay 8 percent or less. The GET, specifically, hits low-income families nearly 1000 percent harder than high earners.

**The GET Hits Low-Income Workers Almost 10 Times As Hard As the Top 1%**  
Hawaii's General Excise Tax as a Share of Family Income



Hawai'i is in the minority of states that push low-income people deeper into poverty with an unequal tax structure. In 2007 and to lessen the burden on economically disadvantaged families, however, our state created the Refundable Food/Excise Tax Credit. Currently, tax filers who earn less than \$50,000 (or \$30,000 for single filers) may receive up to \$110 per qualified exemption, with lower earning workers receiving more money in return.

While the amounts that families could receive from the Refundable Food/Excise Tax Credit were adjusted for inflation in 2015, that cost-of-living adjustment is scheduled to expire at the end of 2017, at which point the amount of the credit will fall back to its original level, or a maximum of only \$85, 23 percent less than its current value. Instead, we should update the amount of the credit to account for inflation since 2015 and schedule cost-of-living adjustments for the next four years, increasing the maximum credit value to \$115 in 2018, \$120 in 2020, and \$125 in 2022.

In addition, the income eligibility cut-offs for the Refundable Food/Excise Tax Credit have not been adjusted for cost-of-living increases since 2007, which means that fewer low-income and working-class families can claim the credit. We must raise the income thresholds to catch up to inflation and schedule increases for the next four years. That translates to raising the maximum annual eligible income level to \$58,000 (\$35,000 for single filers) in 2018, \$60,000/\$36,500 in 2020, and \$63,000/\$38,000 in 2022.

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

Sincerely,  
Kris Coffield  
*Executive Director*  
IMUAlliance