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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Tom Brower, Chair
and Members of the House Committee on Housing

Date: Tuesday, February 14, 2017
Time: 9:00 A.M.
Place: Conference Room 423, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 123, Relating to Income Tax Credits

The Department of Taxation (Department) appreciates the intent of H.B. 123 and provides the following comments for your consideration.

H.B. 123 amends the Income Tax Credit for Low-Income Household Renters (renter's credit) by changing the income threshold to claim the credit from \$30,000 to \$60,000, as well as the amount of the credit per qualified exemption from \$50 to \$150. H.B. 123 requires annual adjustments to the income threshold and credit amount based on the Consumer Price Index (CPI). The adjustments are calculated by increasing the income threshold and credit amount by the percentage, if any, that the CPI for the preceding calendar year exceeds the CPI for the calendar year 2018. The measure applies to taxable year beginning after December 31, 2017.

The renter's credit has not been increased since 1981 when it was increased from \$20 to \$50 per qualified exemption. In 1989, the income threshold to claim the renter's credit was increased from \$20,000 to \$30,000 and in 1990, the credit was amended from non-refundable to refundable, allowing taxpayers with no tax liability to receive a cash refund.

First, the Department appreciates the intent of H.B. 123 by amending the income threshold and the renter's credit amount to adjust for inflation. However, the Department notes that it prefers fixed increases in the credit amount, rather than automatic adjustments based on the CPI.

Second, the threshold increase in subsection (c) seems to contradict the purpose of the credit itself. The increase to \$60,000 for all filing statuses means that a single person with no dependents could have an adjusted gross income of \$59,999 and still receive the credit for low-income renters. The Department suggests remedying this disparity by applying the existing threshold of \$30,000 to single and married filing separate filers; \$45,000 for head of household

filers; and \$60,000 for joint filers. Limiting the income thresholds by filing status is a more efficient way to direct this credit fairly.

Finally, the Department notes that it is able to implement this measure with current effective date.

Thank you for the opportunity to provide comments.



HB123
RELATING TO INCOME TAX CREDITS
House Committee on Housing

February 14, 2017

9:00 a.m.

Room 423

The Office of Hawaiian Affairs (OHA) Committee on Beneficiary Advocacy and Empowerment **SUPPORTS** HB123. This measure would relieve the tax burden on low income individuals and families, by increasing the low income household renters tax credit (LIHR), as well as the income threshold for those who may claim the credit, and allow the credit to adjust for inflation.

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.ⁱ 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 averageⁱⁱ and have larger than average family sizes,ⁱⁱⁱ Native Hawaiian median family income is \$9,627 (or 12.2%) lower than the state median family income.^{iv} Recent research has further shown that Native Hawaiian housing rental housing demand is almost entirely for units that are affordable, rather than for market-rate or other ‘gap’-rate units.^v

HB123’s proposed LIHR increase reflects a pragmatic approach to alleviating the tax burden on those low-income individuals and families facing housing insecurity and will have a significant impact on Native Hawaiians, many of whom are struggling to afford their rent. The LIHR was created in 1977, to mitigate the high cost of housing in Hawai‘i. The credit currently provides a \$50 tax credit per “qualified exemption,” for households with an adjusted gross income of less than \$30,000, that pay more than \$1,000 a year in rent. Our kūpuna over the age of 65 are able to receive double the credit. This measure would adjust the credit, setting it at \$150 per qualified exemption for those making up to \$60,000 adjusted gross income. Providing a targeted asset-building credit to low-income renters would better enable our low-income beneficiaries and similarly situated members of the larger community to remain self-sufficient and housing secure.

Accordingly, OHA urges the Committee to **PASS** HB123. Mahalo nui for the opportunity to testify on this measure.

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- ⁱ 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 HAWAII 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.
- ⁱⁱ See American Community Survey, 2013, Civilian Labor Force Datapoint, U.S. Census Bureau.
- ⁱⁱⁱ 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>.
- ^{iv} 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>.
- ^v 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 HAWAII HOUSING PLANNING STUDY 74 (2016), available at https://dbedt.hawaii.gov/hhfdc/files/2016/12/State_HHPS2016_Report_111416-FINAL-122216.pdf.



AMERICANS FOR DEMOCRATIC ACTION

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www.adaaction.org

February 9 , 2017

TO: Honorable Chair Brower and Members of the Housing Committee

RE: HB 123 Relating to Income Tax Credits
Support for hearing on Feb. 14

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We support HB 123 to adjust the low-income household renters credit for inflation. Housing and rent prices have risen. Our low-income households therefore need this adjustment and need to have a mechanism to make the adjustments automatic.

Thank you for your consideration.

Sincerely,

John Bickel
President



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice
Supporting HB 123 Relating to Income Tax Credits
House Committee on Housing
Scheduled for hearing Tuesday, February 14, 2017, 9:00 AM, Conference Room 423

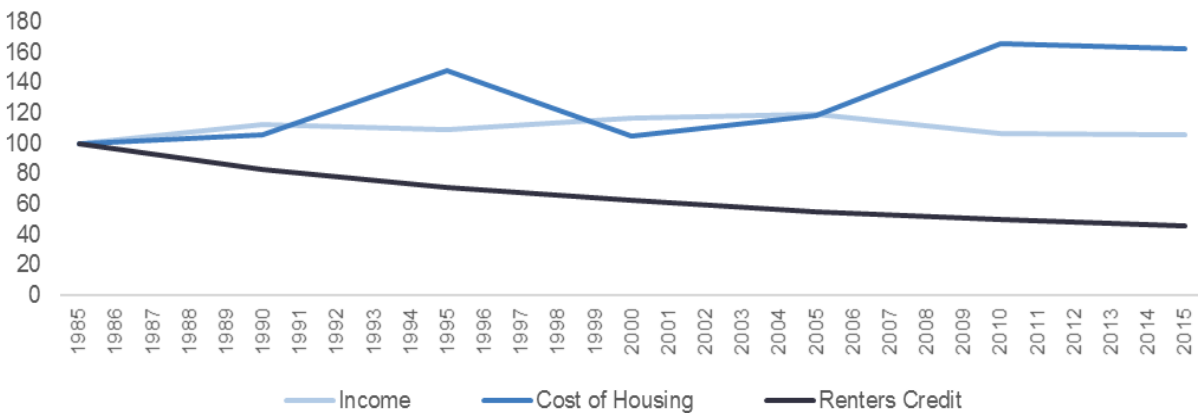
Dear Chair Brower, Vice Chair Nakamura, and members of the Committee on Housing:

Thank you for the opportunity to testify in **STRONG SUPPORT** of **HB 123**, which would help many economically struggling families in Hawai‘i by improving Low-Income Household Renters’ Credit, which has been updated to account for inflation since the 1980s.

A full-time worker in Hawai‘i needs to make \$34.22 per hour (or over \$68,000 per year) to afford a 2-bedroom apartment. It’s no wonder that more than half of our state’s renters are housing cost-burdened, spending more than 30% of their income on rent. Almost three-quarters of Hawai‘i residents living at or near the poverty line spend more than 50% of their incomes on rent.

Hawai‘i’s Incomes and Renters’ Credit Have Not Kept Up With the Cost of Housing

Median Household Income vs. Rent for a Two-Bedroom Apartment vs. Low-Income Household Renters’ Credit



Notes: Index, 1985 = 100. Real values.

Hawai‘i’s Low-Income Household Renters’ Credit was created almost 40 years ago to help make up for the high tax rates that burden our low- and moderate-income renters. However, it has not been updated in nearly three decades to even account for inflation.

The amount of the Renters' Credit was last set 35 years ago, in 1981, at \$50 per exemption. The income eligibility cut-off was set in 1989 at \$30,000, which was just above the median household income at that time. Neither of those levels have budged since then.

We should update the Renters' Credit to recover ground lost to inflation by increasing both the maximum value of the credit and the income eligibility limits. The maximum value of the Renters' Credit should be raised to \$150 per exemption, and the eligibility threshold should be lifted back to just above the median, up to \$60,000 in annual income for joint filers.

We desperately need to alleviate the tax burden on renter families struggling to afford housing. Simply bringing this credit up-to-date will benefit approximately 83,000 households, as well as put a much-needed additional \$11.2 million into the pockets of Hawaii's low- and moderate-income families.



February 13, 2017

To: Rep. Tom Brower, Chair
Rep. Nadine K. Nakamura, Vice Chair
Committee on Housing

From: Karen Worthington, Project Coordinator
Early Childhood Action Strategy

Re: HB123– Relating to Income Tax Credits
Hawaii State Capitol, Room 423, February 14, 2017, 9:00 AM

Position: Action Strategy supports HB123– Relating to Income Tax Credits

Dear Representative Brower, Representative Nakamura, and Committee Members:

Thank you for the opportunity to provide testimony on behalf of Hawaii's Early Childhood Action Strategy, a public-private collaborative that recognizes the strength of communities and works across sectors to increase the number of young children in Hawaii who are born healthy, developing on track, ready for school when they enter kindergarten, and proficient learners by third grade.

Action Strategy supports HB123, which helps thousands of Hawaii families living near or below the poverty line by updating how the low-income household renters' income tax credit is calculated.

Helping families move out of poverty is important to Action Strategy because financial stability in a home is one of the key ingredients for children to develop on track and succeed in school and in life. Household income has been linked to children's physical and emotional health, language acquisition, physical and mental development, school success, and much more.

In 2016, Hawaii had the sixth-highest poverty rate in the country, using the Supplemental Poverty Measure. More than half of Hawaii's public school children qualify for free and reduced lunches because of low family income levels. With 43% of Hawaii households renting their homes, the

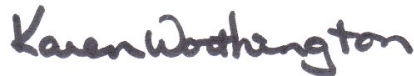
Action Strategy Testimony on HB123
February 13, 2017
Page 2

renters tax credit will benefit a large number of children and families. The updates to Hawaii's tax structure that are contained in HB123 will help families rise above the poverty line and have adequate income, housing and food to support the healthy development of their children.

Action Strategy is committed to ensuring Hawaii's young children are healthy, safe and ready to learn and HB123 supports that vision. We ask you to pass this bill to allocate funds for a modernized data system for Early Intervention.

Please feel free to contact me for additional information. I can be reached at 808-214-9336 or karen@clnhawaii.org.

Sincerely,

A handwritten signature in black ink that reads "Karen Worthington". The signature is written in a cursive, slightly slanted style.

Karen Worthington, JD



49 South Hotel Street, Room 314 | Honolulu, HI 96813
www.lwv-hawaii.com | 808.531.7448 | voters@lwv-hawaii.com

COMMITTEE ON HOUSING

TUESDAY, Feb. 14, 2017, 9 am, Room Number 423
HB123, RELATING TO INCOME TAX CREDITS

TESTIMONY

Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair Brower, Vice-Chair Nakamura, and Committee Members:

The League of Women Voters of Hawaii supports HB123 which amends the low-income household renters' tax credit to respond to inflation.

In Hawai'i, we have many renters (43% of households per US Census). Unfortunately, far too many of these renters are paying more than they can afford for housing - almost 3/4 of the poorest renters pay more than half of their income for rent. For example, if you are a family of four at poverty level (\$2,358 dollars income per month), this means spending more than \$1,180 per month for rent, leaving less than \$1,180 each month to cover food, utilities, transportation, medical care, and clothing. Think of your own budget and you can only wonder how such a family can survive.

The low-income renters' tax credit provides a small amount of relief for such households. When last updated in 1981, the credit was \$50; income eligibility was set in 1989 to include households up to and a bit above the median state income (\$30,000). To get these figures up to the intended values, after decades of inflation, HB123 raises the credit amount to \$150 for the filer and each dependent, and raises the eligible income level to \$60,000.

HB123 will give low income households a welcome boost each year. It will begin to address the regressive tax laws in Hawaii which burden our less fortunate citizens much more heavily than taxes weigh on higher income people.

It is virtually certain that these tax credits are and will be spent immediately in Hawaii, thus adding to excise tax collections, and helping Hawaii businesses.

Please pass HB 123. Thank you for the opportunity to submit testimony.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Renters' Credit Increase

BILL NUMBER: HB 123

INTRODUCED BY: MIZUNO

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 increase the amount of the renter credit from \$50 to \$150, and thereafter adjust the credit amount for inflation an amount based on the consumer price index for all urban consumers published by the U.S. Department of Labor.

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 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 2/12/2017

HSGtestimony

From: Megan Fox <Megan.pittsley@gmail.com>
Sent: Sunday, February 12, 2017 7:10 AM
To: HSGtestimony
Subject: HB 123 is important

Follow Up Flag: Follow up
Flag Status: Flagged

TO: House Committee on Housing
HEARING: Tuesday, February 14, 2017 at 9:00 am
PLACE: Conference Room 423
FROM: Megan Fox
RE: Testimony Supporting HB 123
ATTENDING HEARING: No

Dear Chair Brower, Vice Chair Nakamura, and members of the Committee on Finance:

I would like to voice my strong support for HB 123, regarding the Renters' Credit.

Our tax system places a heavy and unfair burden on families who are struggling to make ends meet. Our low-income residents are taxed at effective rates much higher than the more well-to-do because of how the GET taxes all of life's basic necessities. The Renters' Credit provides a way to offset at least some of this burden, but it has not been updated for 35+ years! While the cost of everything else has gone up, and the cost of housing in particular has skyrocketed, no adjustments have been made to this credit. An update is long overdue.

Please pass HB 123. Thank you for your consideration of this important bill.

HSGtestimony

From: Benjamin Trevino <bentut@gmail.com>
Sent: Saturday, February 11, 2017 9:44 PM
To: HSGtestimony
Subject: HB 123

Follow Up Flag: Follow up
Flag Status: Flagged

TO: House Committee on Housing
HEARING: Tuesday, February 14, 2017 at 9:00 am
PLACE: Conference Room 423
FROM: Benjamin Trevino
RE: Testimony Supporting HB 123
ATTENDING HEARING: No

Dear Chair Brower, Vice Chair Nakamura, and members of the Committee on Finance:

I would like to voice my strong support for HB 123, regarding the Renters' Credit.

I think we can all recognize and agree that asking those of us that are least able to afford the necessities of life to shoulder pay a larger share of their income in taxes to the state is an ineffective situation. I know many legislators and women and men in government and know how serious they all are about creating a Hawaii where residents are able to pursue their dreams, and make the contributions to society that make Hawaii the incredible place it has always been.

But the low income among us, cannot do that under the burden of taxes that make day to day life difficult. Any break, especially tax efficient and those specific to necessities like housing are not only critical to the recipient, but set the tone for smart, compassionate, and socially productive policy that will make Hawaii soar.

Our tax system places a heavy and unfair burden on families how are struggling to make ends meet. Our low-income residents are taxed at effective rates much higher than the more well-to-do because of how the GET taxes all of life's basic necessities. The Renters' Credit provides a way to offset at least some of this burden, but it has not been updated for 35+ years! While the cost of everything else has gone up, and the cost of housing in particular has skyrocketed, no adjustments have been made to this credit. An update is long overdue.

Please pass HB 123. Thank you for your consideration of this important bill.

HSGtestimony

From: Marilyn Mick <marilynmick@pobox.com>
Sent: Friday, February 10, 2017 8:50 PM
To: HSGtestimony
Subject: HB 123

Follow Up Flag: Follow up
Flag Status: Flagged

TO: House Committee on Housing
HEARING: Tuesday, February 14, 2017 at 9:00 am
PLACE: Conference Room 423
FROM: Marilyn Mick
RE: Testimony Supporting HB 123
ATTENDING HEARING: No

Dear Chair Brower, Vice Chair Nakamura, and members of the Committee on Finance:

I would like to voice my strong support for HB 123, regarding the Renters' Credit.

Our tax system places a heavy and unfair burden on families who are struggling to make ends meet. Our low-income residents are taxed at effective rates much higher than the more well-to-do because of how the GET taxes all of life's basic necessities. The Renters' Credit provides a way to offset at least some of this burden, but it has not been updated for 35+ years! While the cost of everything else has gone up, and the cost of housing in particular has skyrocketed, no adjustments have been made to this credit. An update is long overdue.

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