



STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Thursday, April 5, 2018
Time: 10:15 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 2672, H.D. 1, Relating to Taxation

The Department appreciates the intent of H.B. 2672, H.D. 1, and provides the following comments regarding for your consideration.

This measure increases the amount of the income tax credit for low income renters under Hawaii Revised Statutes (HRS) section 235-55.7, from \$50 to an unspecified amount which varies according to the filing status and federal adjusted gross income of the taxpayer. H.D. 1 has a defective effective date of July 1, 2050, but otherwise would apply to taxable years beginning after December 31, 2018.

The Department notes that it is able to implement the measure with its current effective date. Thank you for the opportunity to provide testimony.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Low-Income Household Renters Credit

BILL NUMBER: HB 2672, HD-1

INTRODUCED BY: House Committee on Housing

EXECUTIVE SUMMARY: Expands eligibility and credit amount of the low income-household renters’ income tax credit. Perhaps the discussion could consider the possibility of tax threshold adjustment so that such taxpayers would be spared the burden of filing returns.

SYNOPSIS: Amends section 235-55.7, HRS, to increase the amount of the credit from \$50 to the following:

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

Also amends section 235-55.7(a), HRS, to define “adjusted gross income” as federal AGI.

EFFECTIVE DATE: July 1, 2050; applies to taxable years beginning after December 31, 2018.

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 rent qualification amount – the taxpayer still will need to pay \$1,000 in rent during a taxable year to qualify for the credit.

There are some issues to consider with refundable credits targeted at low-income and homeless 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. Furthermore, as the U.S. Treasury has experienced with the Earned Income Tax Credit, the combination of complexity and a refundable credit result in a certain percentage of improper payouts, some due to mistake or misunderstanding, and some due to bad actors.

Second, the low-income household renters' credit does nothing for most of the homeless; the credit requires payment of more than \$1000 in rent. And even for those in the target population who do qualify for this credit, the relief that the credit provides comes in a tax refund which is paid, at the earliest, in the early part of the year after the tax return filer needs the relief. A person who qualifies for the credit in 2017, for example, won't get a check until early 2018.

Third, 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 to give some assurance that the payment will go toward legitimate living expenses such as groceries (EBT, for example).

The better solution is to 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, it can be delivered through the agencies that are better equipped to do so.

Digested 2/24/2018



TO: Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Senate Committee on Ways and Means

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

DATE/LOCATION: April 5, 2018; 10:15 a.m., Conference Room 211

RE: TESTIMONY IN SUPPORT OF HB 2672– RELATING TO TAXATION

We urge you to support HB 2672 – Relating to low-income renters tax credit. We support this bill which would amend the income tax credit for low-income household renters claimed by qualified taxpayers depending on the taxpayer's status and adjusted gross income. Wage increases have continued to lag behind the cost of housing increase over the last 10 years. Housing continues to be a Hawaii family's biggest expense. This bill would help many of our low-income individuals and families who are most heavily impacted by Hawaii's high cost of living.

A recent Aloha United Way ALICE (Asset Limited, Income Constrained, Employed) Study reported that there are 212,079 households living at or below the poverty level, a majority of whom are employed and still struggle to make ends meet. This includes almost 40% of our seniors and roughly 50% of our families with young children. These individuals and families spend more than 50% of their income on housing and are battling housing increases that continue to rise at a much faster rate than wage increases.

As a provider of services to a majority of low-income individual and families, we see the struggles that our clients face daily. Many of these individuals and families hold steady jobs and work hard but still struggle to make ends meet. After paying rent, utilities, bills and putting food on the table, there is little to no income left. Working families who are struggling to make ends meet are often forced to make difficult choices when their income doesn't cover basic costs. They work hard to keep a roof over their heads and may end up having to choose to cut back on healthcare, healthy food options for their children and even child care. While these choices seem to save money in the short term, they directly affect the health, safety and future of these individuals and families and may end up having long-term negative effects.

The low-income renter's tax credit would provide a boost to those individuals and families and help to alleviate some of the stress associated with balancing the budget and making difficult choices. This bill improves the renter's credit, which has not been adjusted for inflation in nearly thirty years and would benefit over 80,000 households. The amount of credit an individual or family would receive could provide just enough to help them cover an essential cost, pay for an unexpected expense or put a little bit away as a savings. By setting good public policy and supporting individuals and families to break the cycles of poverty, we encourage them to create promising futures and we build a stronger Hawaii community.

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, sex trafficking intervention, and community building programs.

Thank you for the opportunity to testify in **support of HB 2672**, please contact me at (808) 847-3285 or rkusumoto@pacthawaii.org if you have any questions.



CATHOLIC CHARITIES HAWAI'I

TESTIMONY IN SUPPORT OF HB 2672 HD1: RELATING TO TAXATION

TO: Senator Donovan M. Dela Cruz, Chair, Senator Gilbert S.C. Keith-Agaran , Vice Chair; and Members, Committee on Ways and Means
FROM: Terrence L. Walsh, Jr., President & Chief Executive Officer
Hearing: Thursday, 4/5/18; 10:15 AM; CR 211

Thank you for the opportunity to provide testimony **in strong support of HB 2672 HD1**, which expands the income tax credit for low-income household renters. I am Terry Walsh, with Catholic Charities Hawai'i.

Catholic Charities Hawai'i (CCH) sees the reduction of poverty in Hawai'i as one of its top priorities. CCH has programs serving elders, children, the developmentally disabled, the houseless and immigrants. These are among the most vulnerable people in Hawai'i. We support HB 2672 because it can, and will be, a very effective instrument to address poverty.

This bill improves the renter's credit, which has not been adjusted for inflation in nearly thirty years. Doing this alone would help more than 80,000 households. That would be a big step forward in helping people avoid falling into houselessness because they have fallen back on a month's rent or they have a car repair. We know that rents jumped by 45% between 2005 and 2015, while the average wage increased by only 21%. It is not reasonable to expect hardworking people to somehow magically make up the difference from their limited resources.

Against this backdrop of high rents and low wages it is no surprise that research shows that the cost of living in Hawaii is 60% higher than the national average.

Good state public policy can protect the most vulnerable: All the signals from our nation's capital tell us that we should brace ourselves for cuts to the programs designed to serve the poor and the elderly. But the signals from our state legislature tell a different story. Our elected representatives recognize that they have to take steps to counter that harm.

Every day, Catholic Charities Hawai'i receives calls from renters facing eviction. Every day we serve struggling families. And we will keep doing it. But good public policy can go a long way towards keeping struggling families from losing their balance financially, which in turn triggers the kind of stress that affects their mental and emotional well-being. We see it daily in the work we do. That work would be aided by the passage of this measure.

This moment in our politics calls for state leadership in a way that is particularly important. Passing this bill will be an act of leadership and pragmatism in addressing the challenges we face in Hawaii. As Mother Theresa once said, "If we have no peace, it is because we forget that we belong to each other." **It's time to demonstrate that we have not forgotten our families who struggle with rent to keep their families housed.**

We urge your support of this bill. Please contact our Legislative Liaison, Betty Lou Larson, 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





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AmeriCorps VISTA

Alex Narrajos
AmeriCorps VISTA

Date: April 3, 2018

To: Senator Donovan Dela Cruz, Chair, Senator Gilbert Keith-Agaran,
Vice-Chair, and members of the Committee on Ways and Means

From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic
Development (HACBED)

Re: Support for HB2672 HD1

Aloha Chair Dela Cruz, Vice-Chair Keith-Agaran, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports HB 2672 HD1, which would expand the low income household renters' income tax credit based on adjusted gross income and filing status. We would recommend that HB 2672 HD1 be amended so the credit catches up with inflation and that the credit automatically adjusts to account for inflation.

HACBED was established in 1992 as a nonprofit statewide intermediary to address social, economic, and environmental justice concerns through community-based economic development and asset building strategies. It advances its mission with core competencies in the areas of community and organizational capacity building, community and economic development planning, and asset policy development and advocacy. HACBED played a facilitating role in the State Asset Policy Task Force and was a key contributor to the State Asset Policy Road Map. HACBED also facilitates the Family & Individual Self-Sufficiency Program (FISSP), which administers the Internal Revenues Services' Volunteer Income Tax Assistance (VITA) program as a part of its larger asset building and financial education initiatives for needy families. As such, HACBED strongly supports the proposed bill that would provide needed assistance in the area of state taxes by allowing the credit to increase based on inflation, tying the amount of benefit based on income, and increasing the maximum value of the credit to \$150 so that working families can benefit from this credit.

The Family Economic Self-Sufficiency Standard (FESS) depicts the obstacles that Hawai'i families are facing. The FESS measures the amount of money that individuals and families require to meet their basic needs without government and/or other subsidies and the data shows the following percentage of families who fall below the self-sufficiency standard statewide:

- 25.9% of families with two adults and two children;
- 77.3% of single-adult families with one child; and
- 74.3% of single-adult families with two children.



HB 2672 HD1 - Testimony in Support
April 3, 2018 - Page 2

Through the FISSP surveys, families have indicated that they have used the money to manage daily expenses, eliminate debt, open and maintain savings accounts, purchase a new home, cover education costs, and start a business.

The passage of HB 2672 HD1 would go a long way to supplement the needs of these families by expanding the low-income household renters' income tax credit based on adjusted gross income and filing status. We would recommend that HB 2672 HD1 be amended so the credit catches up with inflation and that the credit automatically adjusts to account for inflation and thus provide greater assistance to these families in their efforts to truly build their assets.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Executive Director
Hawai'i Alliance for Community-Based Economic Development



Senate Committee on Ways and Means

Board of Directors:

Hawaii Alliance for Progressive Action Supports HB 2672 HD1

Gary L. Hooser
President

Aloha Chair Dela Cruz, Vice Chair Keith Agaran and Members of the Committee:

Andrea N. Brower
Ikaika M. Hussey
Co-Vice Presidents

On behalf the Hawai'i Alliance for Progressive Action (HAPA) I am submitting testimony in support of HB 2672 HD1, which would help many struggling families in Hawai'i by improving the Low-Income Household Renters' Credit.

Kim Coco Iwamoto
Treasurer

HAPA is a statewide environmental, social and economic justice organization. HAPA engages over 10,000 local residents annually through our work.

Bart E. Dame
Secretary

The Low-Income Household Renters' Credit was created in 1977 to help make up for the high rents and tax rates that burden our low- and moderate-income neighbors. In 1981, the Renters' Credit was set to \$50 per exemption. The income eligibility cut off was set to \$30,000 in 1989, which was just above the median household income at the time. Neither of those levels have budged since then, not even for inflation.

Paul Achitoff

Malia K. Chun

Laura Harrelson

Katie McMillan

Walter Ritte Jr.

Karen Shishido

Leslie Malu Shizue Miki

Kekaulike Prosper Tomich

Bringing the Renters' Credit up-to-date will benefit tens of thousands of households, as well as put much-needed dollars into the pockets of Hawaii's low- and moderate-income families. To catch up with inflation, the maximum value of the Renters' Credit should be raised to \$150 per exemption. Then the credit should automatically adjust for inflation, in order to prevent future erosion of its value.

75% percent of people in Hawai'i living near or below the poverty line spend more than half of their incomes on rent. More than half all of Hawai'i's renters are cost-burdened, spending more than 30% of their income on rent.

Cade Watanabe

Please support HB 2672 HD1, mahalo for your consideration.

Best Regards,

Anne Frederick, Executive Director

The Hawai'i Alliance for Progressive Action (HAPA) is a public non-profit organization under Section 501(c)(3) of the Internal Revenue Code. HAPA's mission is to catalyze community empowerment and systemic change towards valuing 'aina (environment) and people ahead of corporate profit.



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

TESTIMONY FOR HOUSE BILL 2672, HOUSE DRAFT 1, RELATING TO TAXATION

Senate Committee on Ways and Means
Hon. Donovan M. Dela Cruz, Chair
Hon. Gilbert S.C. Keith-Agaran, Vice Chair

Thursday, April 5, 2018, 10:15 AM
State Capitol, Conference Room 211

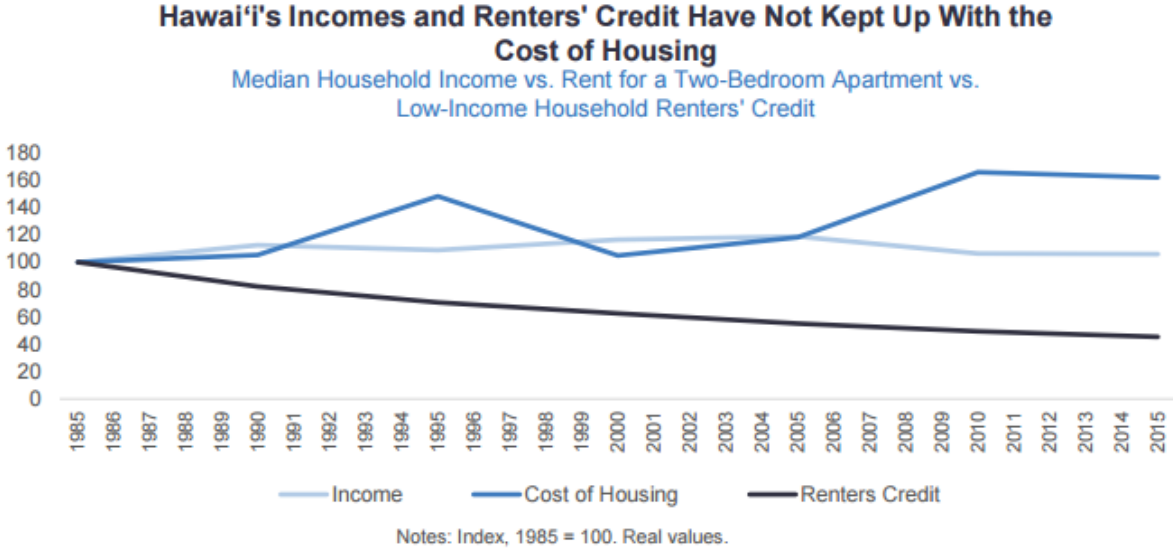
Honorable Chair Dela Cruz and committee members:

I am Kris Coffield, representing IMU Alliance, a nonpartisan political advocacy organization that currently boasts over 400 members. On behalf of our members, we offer this testimony in support of, with proposed amendments for House Bill 2672, HD 1, relating to taxation.

Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2017* report found that a full-time worker would need to earn \$35.20/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 \$2,000 in recent years, with minimum wage workers needed to log 116 hours per week at their jobs to afford a modest one-bedroom apartment at fair market value and 139 hours per week to afford a two-bedroom—a number that is equivalent to working 20 hours a day with no days off year-round. In the past three years alone, Honolulu rent has increased by more than 25 percent. While 43 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 \$15.64/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, a number that rises to 83 percent of extremely low-income households. It's time to make Hawai'i more affordable and quit catering to people who use the islands as their own private Monopoly board

To help ease Hawai'i's highest-in-the-nation cost of living, lawmakers should 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. We wholeheartedly support updating the renters' credit to recover ground lost to inflation by increasing the maximum value of the credit (preferably, to at least \$150) and elevating income eligibility, though we would **suggest that your committee consider increasing the income eligibility threshold contained in this bill for taxpayers filing a joint return under HRS Section 235-93 to \$75,000**, which would exceed the \$73,216 needed to afford a two-bedroom rental, according to NLIHC's analysis. We would also support amending this measure to **require that the credits implemented by this proposal be adjusted in future years to account for increases in the consumer price index**, which will prevent the future value of the credit from lagging behind our high cost of living, as it does now.



It's time to stop pricing people out of paradise. Mahalo for the opportunity to testify in support of this bill.

Sincerely,
 Kris Coffield
 Executive Director
 IMUAlliance



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting HB 2672 HD1 -- Relating to Taxation
Senate Committee on Ways and Means
Scheduled for hearing on Thursday, April 5, 2018, 10:15 AM, Conference Room 211

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee:

Thank you for the opportunity to testify in **STRONG SUPPORT** of **HB 2672 HD1**, which would expand the low income-household renters' income tax credit based on adjusted gross income and filing status.

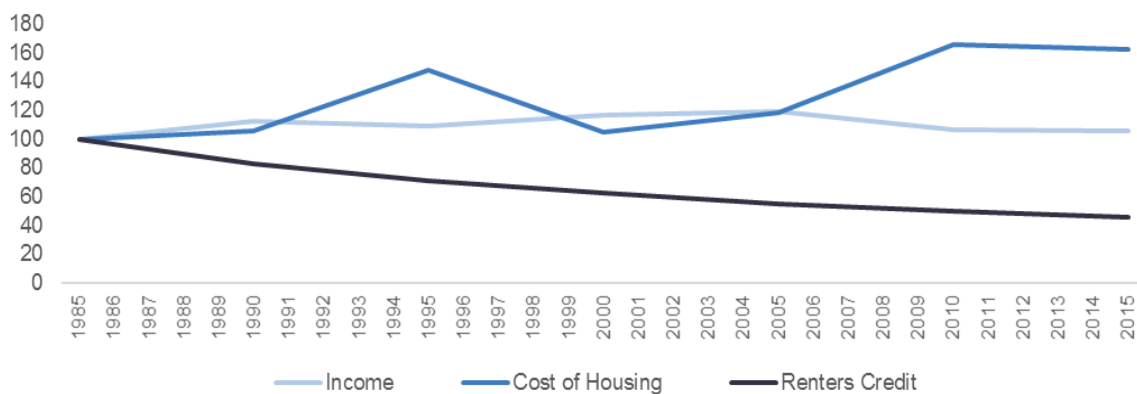
Hawai'i's High Rents

A full-time worker in Hawai'i needs to make \$35.20 per hour (or over \$73,000 per year) to afford a 2-bedroom apartment, the highest "housing wage" in the nation. We also have the largest gap between the average renter's wage and the housing wage, a shortfall of \$19.56 per hour.ⁱ

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. An astounding three-quarters of Hawai'i residents living at or near the poverty line spend more than 50% of their incomes on rent.ⁱⁱ

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.

The Renters' Credit

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

The amount of the Renters' Credit was last set over 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 request that the dollar amounts of the credit in HB 2672 HD1 be filled in to fully catch the Renters' Credit up with inflation. The maximum value of the Renters' Credit should be raised to **\$150** per exemption (with phase-out levels set at \$100 and \$50). We also request that this bill be amended to include language that would **automatically adjust** those amounts for inflation, in order to avoid future erosion of the credit's value and reach.

We appreciate your consideration of this testimony.

ⁱ *Out of Reach 2017*, National Low Income Housing Coalition, http://nlihc.org/sites/default/files/oor/OOR_2017.pdf

ⁱⁱ *2017 State Housing Profile: Hawaii*, National Low Income Housing Coalition, http://nlihc.org/sites/default/files/SHP_HI.pdf

HB-2672-HD-1

Submitted on: 4/3/2018 9:54:55 AM

Testimony for WAM on 4/5/2018 10:15:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Michael Golojuch Jr	Testifying for LGBT Caucus of the Democratic Party of Hawaii	Support	Yes

Comments:

HB-2672-HD-1

Submitted on: 4/3/2018 1:44:41 PM

Testimony for WAM on 4/5/2018 10:15:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Shannon Rudolph	Individual	Support	No

Comments:

Support. We need help out here!

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee,

Please pass HB 2672, HD1, which would help many struggling families in Hawai'i by improving the Low-Income Household Renters' Credit.

Hawai'i's Low-Income Household Renters' Credit was created to help make up for the high rents and tax rates that burden our low- and moderate-income neighbors. The amount of the credit and the income eligibility limits were set in the 1980s. Neither of those levels have budged since then, not even for inflation, so the credit's value and reach have been dropping for over 30 years.

Our state has an affordable housing crisis. One way to help renter families afford their housing is to alleviate their tax burden. Simply bringing the Renters' Credit up-to-date will benefit tens of thousands of households who need it the most.

Mahalo for the opportunity submit testimony in support of this important bill.

Thomas Gibson	Donald Erway Erway	Jonathan Boyne	Andrea Brower Brower
Michael Golojuch, Jr.	Ronald Fujiyoshi	Kathleen Kikuchi Samonte	Marion McHenry
Jun Shin			