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

Date: Thursday, February 8, 2018
Time: 9:30 A.M.
Place: Conference Room 423, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 2704, Relating to Taxation

The Department appreciates the intent of this measure and provides the following comments regarding H.B. 2704 for your consideration.

H.B. 2704 increases the amount of the income tax credit for low income renters under section 235-55.7, Hawaii Revised Statutes (HRS) from $50 per exemption to $100. The measure is effective upon approval and applies to taxable years beginning after December 31, 2017.

The Department notes that it is Hawaii adjusted gross income (AGI) is used in determining eligibility for the credit. The Department suggests that using federal AGI is more accurate in measuring a taxpayer's income. Hawaii law makes adjustments to federal AGI and excludes items such as distributions from certain pensions and social security benefits. In order to specify that federal AGI should be used to determine the credit amount, the definition of "adjusted gross income" in HRS section 235-55.7(a) should be amended, as follows:

> "Adjusted gross income" [~~is defined by section 235-1.~~] <u>means adjusted gross income as defined by the Internal Revenue Code.</u>

Finally, the Department is able to implement the measure with its current effective date. Thank you for the opportunity to provide testimony.

HB-2704
Submitted on: 2/7/2018 8:56:20 AM
Testimony for HSG on 2/8/2018 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	OCC Legislative Priorities	Support	No

Comments:

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 2704

INTRODUCED BY: FUKUMOTO, BELATTI, BROWER, JOHANSON, KEOHOKALOLE, C. LEE, LUKE, NISHIMOTO, OHNO, SAIKI, WOODSON

EXECUTIVE SUMMARY: Doubles the income tax credit for low-income household renters.

SYNOPSIS: Amends section 235-55.7, HRS, to change the amount of the low-income household renters' credit from $50 to $100.

EFFECTIVE DATE: 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 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 2/6/2018

HB-2704
Submitted on: 2/5/2018 5:13:38 PM
Testimony for HSG on 2/8/2018 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez		Support	No

Comments:

LATE

OFFICE OF HAWAIIAN AFFAIRS
Legislative Testimony

HB2704
RELATING TO TAXATION
House Committee on Housing

February 8, 2018 9:30 a.m. Room 423

The Office of Hawaiian Affairs (OHA) **SUPPORTS** HB2704, which seeks to relieve the tax burden on low income individuals and families, by increasing the low income household renters tax credit (LIHR).

As the legislature recognizes, Hawai'i is in the midst of an affordable housing crisis: recent research indicates a need for 65,000 more housing units by 2025, with half of this demand for units at or below 60% of the Area Median Income (AMI);[i] only 11% of State's housing demand is for housing units at or above 140% AMI, or for units that do not meet the State's current definition of "affordable housing."[ii] With 48% of households in the State already unable to afford basic household necessities including housing, food, transportation, health care and child care,[iii] the lack of affordable housing and rising housing costs require bold and aggressive policies that provide meaningful relief for local residents, including in particular low-income families facing housing insecurity.

Native Hawaiian families are in particular need of relief targeted to low-income renters. Notably, Native Hawaiians are less likely to own a home and, therefore, disproportionately rely on the rental housing market.[iv] Native Hawaiian households are also much more likely to be "doubled up," with multi-generational or unrelated individuals living together in single households,[v] and Native Hawaiian households are more than three times more likely have a 'hidden homeless' family member than all state households.[vi] Recent research has further shown that state and Native Hawaiian housing rental housing demand is almost entirely for units that are affordable, rather than for market-rate or other 'gap'-rate units.[vii] As such, support for housing relief is more critical to OHA's beneficiaries and many other Hawai'i residents now than ever before.

HB2703'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 particular beneficial impact on Native Hawaiians. Originally created in 1977 to mitigate the high cost of housing in Hawai'i, the LIHR 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. Kūpuna over the age of 65 are able to receive double the credit. Notably, while the LIHR is intended to provide meaningful relief for those who may need it the most, the value of the LIHR credit has not been updated since 1981. This measure proposes an adjustment to the LIHR credit for

Hawaiʻi's lowest-income households, to better reflect the cost of housing today, and thereby provide more meaningful relief to for those struggling to remain self-sufficient and housing secure.

Accordingly, OHA urges the Committee to **PASS** HB2704. Mahalo nui for the opportunity to testify on this measure.

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[i] *See* SMS, HAWAIʻI HOUSING PLANNING STUDY, at 34 (2016), *available at* https://dbedt.hawaii.gov/hhfdc/files/2017/03/State_HHPS2016_Report_031317_final.pdf.

[ii] *See id.* at 34.

[iii] ALOHA UNITED WAY, ALICE: A STUDY OF FINANCIAL HARDSHIP IN HAWAIʻI (2017)

[iv] *See* OFFICE OF HAWAIIAN AFFAIRS, NATIVE HAWAIIAN HOMEOWNERSHIP HOʻOKAHUA WAIWAI FACT SHEET VOL.2016, NO. 1, at 3, *available at* https://19of32x2yl33s8o4xza0gf14-wpengine.netdna-ssl.com/wp-content/uploads/NH-Homeownership-Fact-Sheet-2016.pdfSheet-2016.pdf. This figure includes 8,329 DHHL residential lease "owner-occupied" property units. DHHL ANNUAL REPORT 2014, at 47, *available at* http://dhhl.hawaii.gov/wpcontent/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.

[v] 24.8% of Native Hawaiian households, compared to 9.6% of state households include more than two generations or unrelated individuals. SMS, *supra* note 1, at 70.

[vi] 14.1% of Native Hawaiian households, compared to 4.2% of state households have a hidden homeless family member. *Id.*

[vii] *See* SMS, HAWAIʻI HOUSING PLANNING STUDY, at 34 (2016), *available at* https://dbedt.hawaii.gov/hhfdc/files/2017/03/State_HHPS2016_Report_031317_final.pdf.