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

Date: Tuesday, March 12, 2019
Time: 9:30 A.M.
Place: Conference Room 423, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 885, S.D. 1, Relating to the Low-Income Household Renters Credit

The Department of Taxation (Department) appreciates the intent of S.B. 885, S.D. 1, and offers the following comments for the Committee's consideration.

S.B. 885, S.D. 1, amends the income tax credit for low-income household renters (renters' credit) by changing the income threshold to claim the credit from \$30,000 for all filing statuses to \$30,000 for single and married filing separate filers, \$45,000 for head of household filers, and \$75,000 for joint filers, as well as the amount of the credit per qualified exemption from \$50 to \$150. S.D. 1 has a defective effective date of July 1, 2050 and otherwise applies to taxable year beginning after December 31, 2019.

First, the Department notes the Senate Committee on Ways and Means' adopted its recommendation to remedy the disparity in the existing income threshold of \$30,000 to single and married filing separate filers, \$45,000 for head of household filers, and \$75,000 for joint filers. Limiting the income thresholds by filing status is a more equitable way to direct this credit.

Finally, notes that it is able to administer the changes proposed by this measure as it allows sufficient time for the Department to make the necessary changes to forms, instructions, and computer system.

Thank you for the opportunity to provide comments on this measure.

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: SB 885, SD-1

INTRODUCED BY: Senate Committee on Ways & Means

EXECUTIVE SUMMARY: Expands eligibility and credit amount of the low income-household renters' income tax credit.

SYNOPSIS: Amends section 235-55.7, HRS, to increase the amount of the credit from \$50 to \$150. Amends the eligibility threshold to include taxpayers with an adjusted gross income of up to \$30,000 for single filers or married filers filing separately, \$45,000 for head of household filers, and \$75,000 for joint filers.

EFFECTIVE DATE: July 1, 2050.

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, and it would increase the AGI limit to \$60,000. 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 certain things, illegal drugs for example. 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 3/11/2019



SB 885, SD 1, RELATING TO THE LOW-INCOME HOUSEHOLD RENTERS CREDIT

MARCH 12, 2019 · HOUSE HOUSING COMMITTEE ·
CHAIR REP. TOM BROWER

POSITION: Support, with amendments.

RATIONALE: IMUAlliance supports and suggests an amendment for SB 885, SD 1, relating to the low-income household renters credit, which adjusts the low-income household renters credit by increasing the maximum value of the credit amount to \$150 per qualified exemption for households and adjusting the income threshold amounts based on filing status.

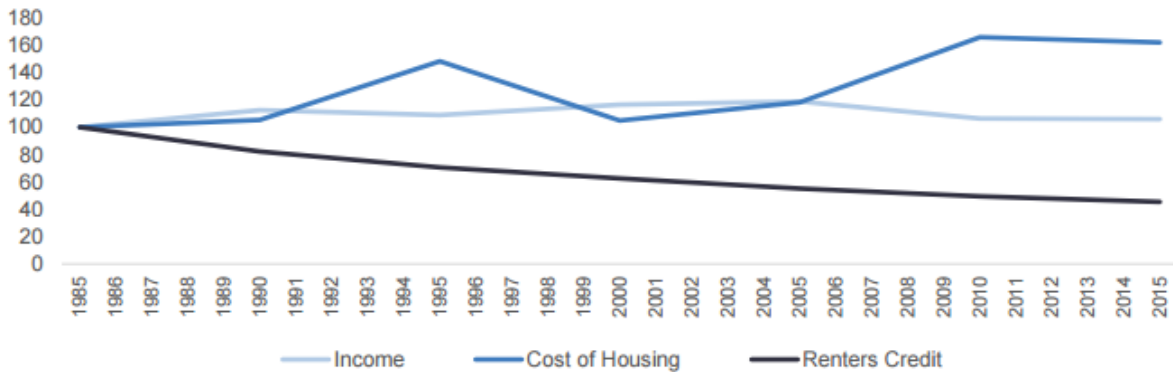
Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2017* report found that a full-time worker would need to earn \$36.13/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 2005 and 2015. Average rent for a two-bedroom unit surpassed \$2,000 in recent years, with minimum wage workers needing to log 109 hours per week at their jobs to afford a modest one-bedroom apartment at fair market value and 143 hours per week to afford a two-bedroom—a number that is equivalent to working over 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 \$16.16/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. Put simply, homelessness is directly tied to our state's exorbitant cost of living and penchant for catering to people who use the islands as their own private Monopoly board. We beseech you to seek innovative ways of making Hawai'i more affordable, while funding services that show aloha for our economically disadvantaged neighbors.

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

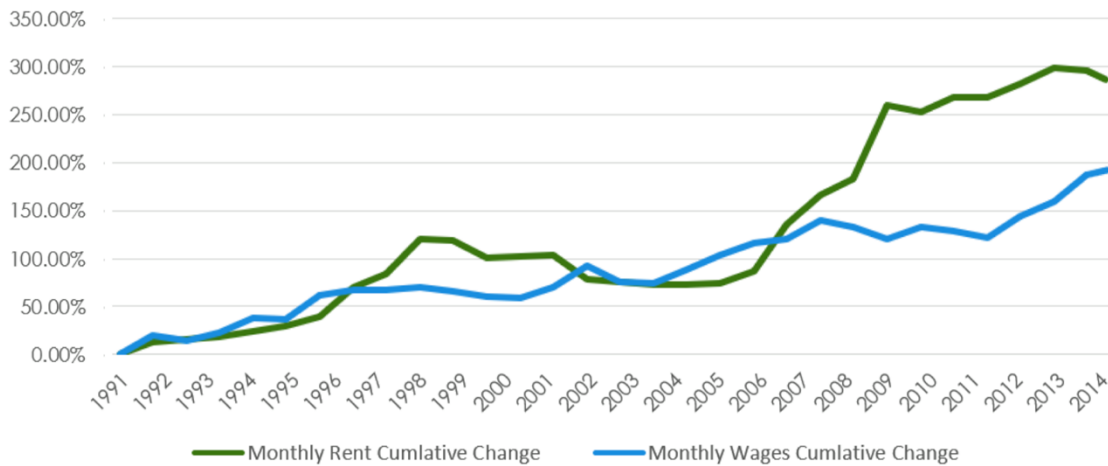
Median Household Income vs. Rent for a Two-Bedroom Apartment vs. Low-Income Renters' Credit



Notes: Index, 1985 = 100. Real values.

Rents vs. Wage Increases

Starting in 2005, increases in rents in Hawaii have far outpaced increases in wages



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. We must update the renters' credit to recover ground lost to inflation by increasing the maximum value of the credit to at least \$150. We also **urge the committee to ensure that the credit is automatically adjusted in future years according to increases in the consumer price index**, which will prevent the value of the credit from lagging behind our ever-inflating high cost of living.



AMERICANS FOR DEMOCRATIC ACTION

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Dylan Armstrong, Secretary	Gloria Borland	Jenny Nomura		

March 8 , 2019

TO: Honorable Chair Brower & HSG Committee Members

RE: SB 885 SD 1 RELATING TO THE LOW-INCOME HOUSEHOLD RENTERS CREDIT.

Support for hearing on March 12

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 SB 885 SD1 as it would adjust the low-income household renters credit by increasing the maximum value of the credit amount to \$150 per qualified exemption for households. We have a housing crisis. Raising the renters' credit is likely to keep some people from houselessness. Also the more you can do to use the tax code to reduce income inequality, the more progress we will make on a host of other issues and will probably save money in the long run.

Thank you for your favorable consideration.

Sincerely,

John Bickel President





HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice
Supporting SB 885 SD1 -- Relating to the Low-Income Household Renters Credit
House Committee on Housing
Tuesday, March 12, 2019, 9:30 AM, conference room 423

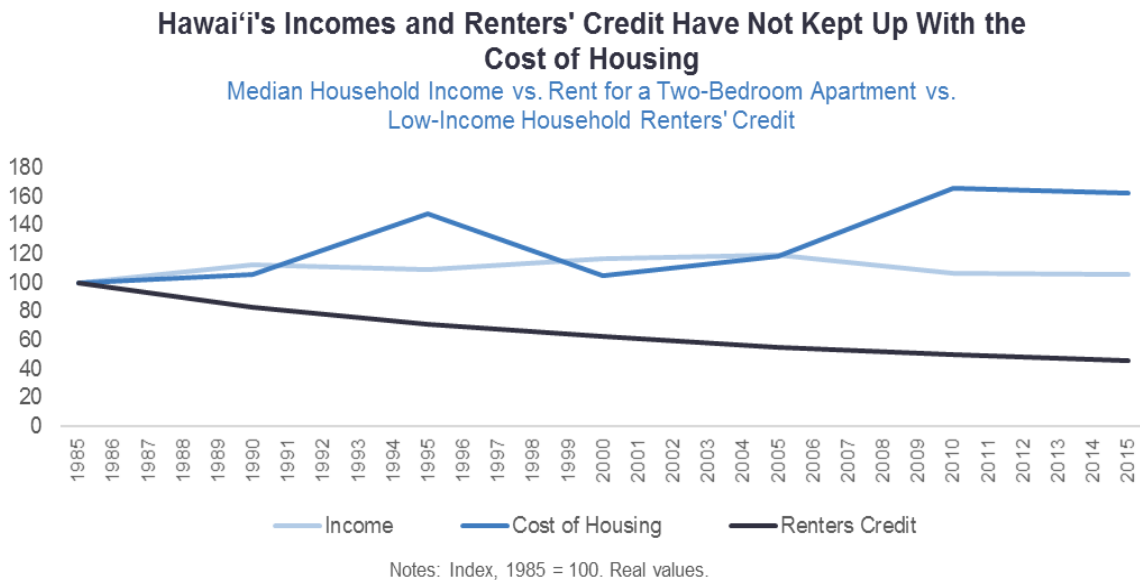
Dear Chair Brower, Vice Chair Mayatoshi, and members of the Committee:

Thank you for the opportunity to testify in **SUPPORT** with amendments of **SB 885 SD1**, which would increase the amount and income eligibility threshold of the low income-household renters' income tax credit.

Hawai‘i’s High Rents

A full-time worker in Hawai‘i needs to make \$36.13 per hour (or over \$75,000 per year) to afford a 2-bedroom apartment, the highest “housing wage” in the nation.

It’s no wonder that nearly half of Hawai‘i’s renters are housing-cost burdened — paying at least 35% of their income on rent — the 2nd-highest rate in the nation. An astounding three-quarters of Hawai‘i residents living at or near the poverty line spend more than half their incomes on rent.



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.

Increasing the amount of the credit to \$150, as SB 885 SD1 would do, catches its value up with inflation. And while the bill increases the income eligibility threshold to \$75,000 for joint filers, it does not increase it for single filers at all.

To avoid sharp drop-off when a household hits the income eligibility limit, we recommend **adding income tiers, with the credit's value phasing down to \$100 and \$50 at income levels between the current \$30,000 and the new limit.** See suggested language below:

(1) Taxpayer filing a single return or a married person filing separately:

<u>Adjusted gross income</u>	<u>Credit per exemption</u>
<u>Not over \$18,750</u>	<u>\$150</u>
<u>Over \$18,750 but not over \$28,125</u>	<u>\$100</u>
<u>Over \$28,125 but not over \$37,500</u>	<u>\$50</u>

(2) Taxpayer filing as a head of household:

<u>Adjusted gross income</u>	<u>Credit per exemption</u>
<u>Not over \$28,125</u>	<u>\$150</u>
<u>Over \$28,125 but not over \$42,188</u>	<u>\$100</u>
<u>Over \$42,188 but not over \$56,250</u>	<u>\$50</u>

(3) Taxpayer filing a joint return under section 235-93 or a surviving spouse:

<u>Adjusted gross income</u>	<u>Credit per exemption</u>
<u>Not over \$37,500</u>	<u>\$150</u>
<u>Over \$37,500 but not over \$56,250</u>	<u>\$100</u>
<u>Over \$56,250 but not over \$75,000</u>	<u>\$50.</u>

Finally, we also recommend adding a provision to **add automatic cost-of-living adjustments to this credit** (by pegging its value to the Hawai'i Area Consumer Price Index), in order to avoid future erosion of the credit's value and reach.

We appreciate your consideration of this testimony. Please pass SB 885 SD1, with the amendments outlined above.

SB-885-SD-1

Submitted on: 3/11/2019 6:54:00 AM

Testimony for HSG on 3/12/2019 9:30:00 AM

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

Comments:

Aloha Representatives,

The LGBT Caucus of the Democratic Party of Hawaii is full support of SB 885 SD1.

Mahalo for the opportunity to testify.

Michael Golojuch, Jr.

Chair

LGBT Caucus of the Democratic Party of Hawaii



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COMMITTEE ON HOUSING

TUESDAY, 3/12/19, 9:30 AM, Room 423
SB885 SD1, RELATING TO THE LOW INCOME HOUSEHOLD RENTERS CREDIT

TESTIMONY

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

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

The League of Women Voters of Hawaii **strongly supports SB885 SD1** that updates the amount of the low income household renters' credit, and the eligible income for receiving the credit. We also **suggest an amendment.**

We believe the members of the public, and especially the member of this committee, are well aware of the very serious shortage of affordable housing in Hawaii. This problem is of course far more critical to our low and moderate income residents who often must spend a disproportionate amount of their income on housing, at the expense of spending on food, health care, child care, etc.

The Low Income Household Renters Credit was established to provide some relief for eligible households. But the amounts receivable by recipients, and the standard for low income which makes them eligible, have not been updated since the 1980's. Since then inflation has eaten away much of the value of those amounts.

SB885 SD1 would restore the value of the credit, and update the eligibility standard. It would make this credit again a meaningful contribution to our housing situation.

The League would like to suggest an amendment: If SB885 SD1 were amended to include automatic indexing of the value of the credit, and the eligible income, using the Hawaii annual increase in the Consumer Spending Index, the credit would retain its value without further inevitable erosion or legislative fixes.

Thank you for the opportunity to submit testimony.



CATHOLIC CHARITIES HAWAI'I

TESTIMONY IN SUPPORT OF SB 885, SD1: RELATING TO THE LOW-INCOME HOUSEHOLD RENTERS CREDIT

TO: Representative Tom Brower, Chair, Representative Scot Matayoshi, Vice Chair; and Members, Committee on Housing
FROM: Betty Lou Larson, Legislative Liaison, Catholic Charities Hawai'i
Hearing: Tuesday, March 12, 2019; 9:30 am; CR 423

Chair Brower, Vice Chair Matayoshi, and Members, Committee on Housing:

Thank you for the opportunity to provide testimony **in strong support of SB 885**, which expands the income tax credit for low-income household renters. I am Betty Lou Larson, 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, families, the houseless and immigrants. These are among the most vulnerable people in Hawai'i. We support this bill because it can, and will be, a very effective instrument to address poverty.

This bill increases 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 not allowing people to fall into houselessness because they have fallen back on a month's rent. 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 65% higher than the national average.

Good state public policy can protect the most vulnerable. 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
Phone (808)373-0356 • bettylou.larson@CatholicCharitiesHawaii.org



SB-885-SD-1

Submitted on: 3/12/2019 6:47:51 AM

Testimony for HSG on 3/12/2019 9:30:00 AM

LATE

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments: