

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA
DIRECTOR

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
830 PUNCHBOWL STREET, ROOM 221
HONOLULU, HAWAII 96813
<http://tax.hawaii.gov/>
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

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

Date: Wednesday, February 6, 2019
Time: 10:00 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

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

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

S.B. 885 amends the income tax credit for low-income household renters 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. The measure is effective upon approval and applies to taxable year beginning after December 31, 2018.

The increase in income threshold to \$60,000 for all filing statuses seems to contradict the purpose of the credit itself. This 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.

The Department respectfully requests that this measure be made applicable to taxable years beginning after December 31, 2019 to allow 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

INTRODUCED BY: KANUHA, S. CHANG

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 less than \$60,000.

EFFECTIVE DATE: 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, 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 2/3/2019

SB-885

Submitted on: 2/5/2019 9:36:36 AM

Testimony for WAM on 2/6/2019 10:00:00 AM

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

Comments:



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

COMMITTEE ON WAYS AND MEANS
Wednesday, February 6, 2019, 10:00 a.m., Room 211
SB 885 RELATING TO THE LOW INCOME-HOUSEHOLD RENTERS CREDIT

TESTIMONY

Ann Shaver, Legislative Committee, League of Women Voters of Hawaii

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

The League of Women Voters of Hawaii supports adjusting 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 to allow households with an adjusted gross income of less than \$60,000 to claim the credit.

This bill is a modest step toward reducing homelessness among all Hawaii's residents, especially the elderly. It is well known that in Hawaii 'i, residents who can least afford it pay the highest share of their income toward state and local taxes. Already faced with some of the highest housing costs in the nation, and the lowest wages after accounting for cost of living, families living in poverty in Hawaii 'i pay the nation's second highest state and local tax rate.

SB885 offers a slight amelioration of this situation. The bill addresses a social injustice and contributes to lessening the likelihood of homelessness among low income taxpayers by tripling the present income tax credit. It makes no other change in the status quo and preserves the additional benefit for taxpayers sixty-five years of age or over.

Thank you for the opportunity to submit testimony.



CATHOLIC CHARITIES HAWAI'I

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

TO: Senator Donovan Dela Cruz, Chair, Senator Gilbert Keith-Agaran, Vice Chair; and Members, Committee on Ways and Means
FROM: Betty Lou Larson, Legislative Liaison, Catholic Charities Hawai'i
Hearing: **Wednesday, 2/6/19; 10:00 am; CR 211**

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members, Committee on Ways and Means:

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





ADA

HAWAII

AMERICANS FOR DEMOCRATIC ACTION

OFFICERS

John Bickel, President
Alan Burdick, Vice President
Marsha Schweitzer, Treasurer
96823
Dylan Armstrong, Secretary

DIRECTORS

Melodie Aduja
Guy Archer
Juliet Begley
Gloria Borland
Ken Farm
Chuck Huxel
Jan Lubin
Jenny Nomura

MAILING ADDRESS

P.O. Box 23404
Honolulu
Hawaii

Feb. 4 , 2018

TO: Honorable Chair Sela Cruz & WAM Committee Members

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

Support for hearing on Feb. 6

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 as it would expand the low-income household renters' income tax credit. We noted that 75% of the people in Hawaii are living near or below the poverty level. Many spend more than half of their incomes on rent. We encourage a generous figure for this credit and also support indexing the figure for inflation.

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 -- Relating to the Low-Income Household Renters Credit
Senate Committee on Ways and Means
Wednesday, February 6, 2019, 10:00 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 **SUPPORT** with amendments of **SB 885**, which would increase the amount and income eligibility threshold of the low income-household renters' income tax credit.

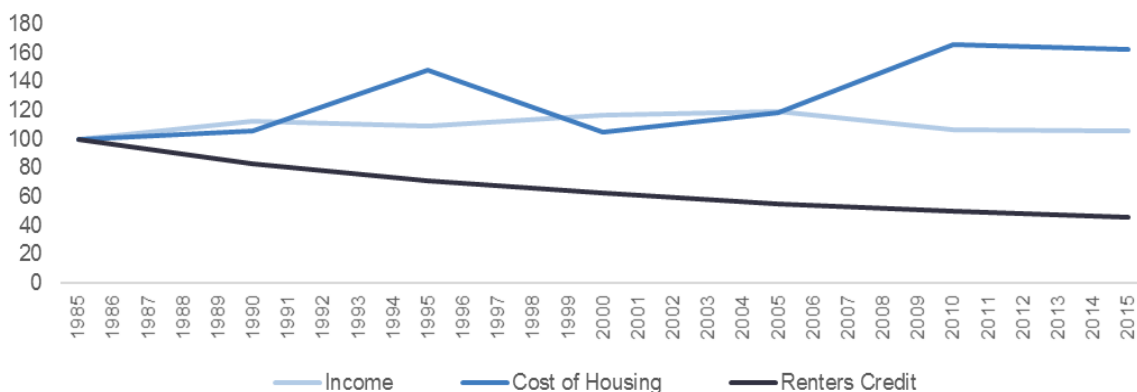
Hawai‘i’s High Rents

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 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.

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 would do, catches its value up with inflation. However, in order to get the income eligibility threshold to just above the current median income **for married couples filing jointly, the cutoff would need to be raised to \$75,000 per year.**

To avoid sharp a drop-off when a household hits the income eligibility limit, we also 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.**

The credit could be further improved to **recognize different tax filing statuses, with the income eligibility limits being highest for joint filers, in the middle for heads of households, and lower for single filers.**

Finally, we also recommend adding a provision to **add automatic cost-of-living adjustments to this credit**, in order to avoid future erosion of the credit's value and reach.

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



Board of Directors:

Gary L. Hooser
President

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

Kim Coco Iwamoto
Treasurer

Bart E. Dame
Secretary

Paul Achitoff

Nancy Aleck

Laura Harrelson

Kaleikoa Ka'eo

Michael Miranda

Walter Ritte Jr.

Pua Rossi-Fukino

Karen Shishido

Leslie Malulani Shizue Miki

Senate Committee on Ways and Means

Hawai'i Alliance for Progressive Action Supports SB 885

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

On behalf of Hawai'i Alliance for Progressive Action (HAPA) we submit this testimony in strong support of SB 885 which would help many struggling families in Hawai'i by improving the Low-Income Household Renters' Credit.

HAPA is a statewide environmental, social and economic justice organization and engages over 10,000 local residents annually through our work. Many local residents are deeply concerned about the rising cost of living and them and their families being priced out of their home.

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 has 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.

The following points additionally support the passing of SB 885: 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.

Nearly half of Hawaii's renters are housing-cost burdened — paying at least 35% of their income on rent — the 2nd-highest rate in the nation.

75% percent of people in Hawai'i living near or below the poverty line spend more than half of their incomes on rent.

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.

To catch up with inflation, the maximum value of the Renters' Credit should be raised to \$150 per exemption.

Thank you for your consideration! We strongly urge you to support SB 885.

Respectfully,

A handwritten signature in black ink, appearing to read 'Anne Frederick', with a stylized flourish at the end.

Anne Frederick,
Executive Director

TO: Senate Committee on Ways and Means
HEARING: Wednesday, February 6, 2019, 10 AM
PLACE: Conference Room 211
FROM: Randy Gonce
EMAIL: Rgonce@my.hpu.edu

RE: SB 885 -- Relating to the Low-Income Renters' Tax Credit
ATTENDING HEARING: No

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

This measure, if passed, and eventually codified into law could single handedly prevent some of our financially vulnerable residents from becoming homeless.

I myself have been on the brink of loosing my rental housing many times. For the past 6 years I have been in college getting my undergraduate and graduate degree while working mostly full and part time. On numerous occasions I've had to go to the extremely risky and predatory pay-day loan centers to be loaned amounts of money just to make sure I can pay rent on time or at all. This has been a huge burden and if I was able to qualify for a larger low-income tax credit this could have very well prevented this from happening.

Please pass this measure. Hawaii's thousands of renters are depending on some assistance because of our allowance and perpetuation of the high end housing market.

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

Multiple Testifiers
Committee on Ways and Means
HEARING: Wednesday, February 6, 2019, 10 AM
PLACE: Conference Room 211

In support of SB 885 -- Relating to the Low-Income Renters' Tax Credit

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

Please pass SB 885, 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.