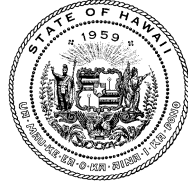


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

RONA M. SUZUKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair;
and Members of the House Committee on Finance

From: Rona M. Suzuki, Director
Department of Taxation

Re: **H.B. 1957, H.D. 1, Relating to Tax Credits**

Date: Thursday, February 20, 2020

Time: 1:00 P.M.

Place: Conference Room 308, State Capitol

The Department of Taxation (Department) appreciates the intent of H.B. 1957, H.D. 1, and provides the following comments.

H.B. 1957, H.D. 1, amends the low-income household renters credit by resetting the adjusted gross income (AGI) thresholds by filing status, increasing the amount of the credit, and indexing the credit amounts for inflation. H.B. 1957, H.D. 1, has a defective effective date of July 1, 2025 and otherwise applies to taxable years beginning after December 31, 2020.

The Department's "*Report on Tax Credits Claimed by Hawaii Residents for Tax Year 2017*" explains that this credit was claimed on 24,525 individual income returns, totaling \$2.5 million in credits. Creating income ranges, increasing the maximum income, and increasing rates for the lower income ranges will result in an additional investment in this credit.

The Department supports the intent of indexing the credit amounts by inflation. This would be the first time that a tax credit rate would be adjusted for inflation. The process for administering this requires time and resources. The Department notes that as drafted inflation adjustment will not lead to a cumulative increase, but to a simple 5-yearly increase over the statutory dollar amounts. The Department suggests the following language to index the credit to inflation based on:

(d) For taxable year 2026 and for every fifth taxable year thereafter, each credit amount contained in the table in subsection (c) shall be increased by an amount equal to that dollar amount, multiplied by the percentage, if any, by which the consumer price index for June of the preceding calendar year exceeds the consumer price index for the Honolulu area for

June of 2020, rounded to the nearest whole dollar
amount.

This method is similar to the inflation adjustment provided for in the Internal Revenue Code. Additionally, this will allow the Department to set the rate in July each year to allow sufficient time to change forms and instructions and adjust and test software configurations.

The Department will be able to administer the bill for taxable years beginning after December 31, 2020, as currently written, provided that a functional effective date is inserted.

Thank you for the opportunity to provide comments.



Board Members

Jason Okuhama
Managing Partner,
Commercial & Business Lending

Secretary
Marcus Kawatachi
Deputy Director,
Hawai'i Civil Rights Commission

Trina Orimoto
Clinical & Research
Psychologist

Miwa Tamanaha
Co-Director,
Kua'āina Ulu 'Auamo

HACBED Staff

Brent N. Kakesako
Executive Director

Keoki Noji
Chief Operating Officer

Merri Keli'ikuli
Bookkeeper & Office Manager

Sean Tangco
Program Specialist

Eden Jablon
AmeriCorps VISTA

Date: February 18, 2020

To: Representative Sylvia Luke, Chair, Representative Ty J.K. Cullen, Vice-Chair, and members of the Committee on Finance

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

Re: Support for HB1957 HD1

Aloha Chair Luke, Vice-Chair Cullen, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports HB1957 HD1, which would help many economically struggling families in Hawai'i by creating income brackets for the low-income household renter tax credit and provides for adjustment of the tax credit amount based on the consumer price index.

HACBED was established in 1992 as a nonprofit statewide intermediary to address social, economic, and environmental justice concerns through community-based economic development. 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 facilitated the Family & Individual Self-Sufficiency Program (FISSP) from 2008-2016, which administered 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.

The Department of Business, Economic Development and Tourism's latest Self-Sufficiency Income Standard Family Economic Self-Sufficiency Income Standard (2016) depicts the obstacles that Hawai'i families are facing. The Standard 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:

- 31.7% of families with two adults and two children;
- 50.8% of single-adult families with children.

The passage of HB1957 HD1 would go a long way to supplement the needs of vulnerable families by matching the low-income household renters' credit and its income eligibility limits to inflation so that Hawai'i residents can stay in their homes due to the exponential rise in housing costs. It also phases out the credit as incomes rise, which would avoid the cliff effect, as well as has different income levels for different types of households to account for the diversity of families in Hawai'i.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Executive Director

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 1957, HD-1

INTRODUCED BY: House Committee on Housing

EXECUTIVE SUMMARY: Amends the income tax credit for expenses for household and dependent care services necessary for gainful employment by changing the taxpayer's applicable percentage of employment-related expenses that constitutes the tax credit and cap amount. Takes effect on 12/31/2059

SYNOPSIS: Amends section 235-55.7, HRS, to amend the credit brackets as follows (MFS = married filing separately, HOH = head of household, MFJ = married filing jointly):

Adjusted gross income (single or MFS)	Credit per exemption
Under \$20,000	\$150
\$20,000 under \$30,000	\$100
\$30,000 under \$40,000	\$50
\$40,000 and up	\$ 0
Adjusted gross income (HOH)	Credit per exemption
Under \$30,000	\$150
\$30,000 under \$45,000	\$100
\$45,000 under \$60,000	\$50
\$60,000 and over	\$ 0
Adjusted gross income (MFJ or surviving spouse)	Credit per exemption
Under \$40,000	\$150
\$40,000 under \$60,000	\$100

\$60,000 under \$80,000	\$50
\$80,000 and over	\$ 0

Effective January 1, 2021, and every five years thereafter, the department shall adjust the amount of the credit per exemption by the average percentage change for the five-year period from the immediately preceding five-year period in the consumer price index for all urban consumers published by the United State Department of Labor.

EFFECTIVE DATE: July 1, 2025.

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 2020, for example, won't get a check until early 2021.

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

Re: HB 1957, HD-1
Page 3

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 2/18/2020



HAWAII APPLESEED
 CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice
 In Support of HB 1957 HD1 – Relating to Taxation
 House Committee on Finance
 Thursday, February 20, 2020, 1:00 PM, conference room 308

Dear Chair Luke, Vice Chair Cullen, and members of the Committee:

Thank you for the opportunity to provide testimony in **SUPPORT of HB 1957, HD1**, which would adjust the low-income household renters’ credit to provide more help to more of the families who need the financial support that it provides.

Unfortunately, recent headlines aren’t anything new:

- [Hawaii 3rd Most Expensive State for Kupuna Renters](#)
- [Two-thirds of Hawaii Residents Struggle Financially](#)
- [Nearly 7,000 Became Homeless in 2019 on Oahu](#)

A major reason for this dire situation is our state’s sky-high cost of housing. A full-time worker in Hawai‘i needs to make \$36.82 per hour (or over \$75,000 per year) to afford a 2-bedroom apartment, which is the highest “housing wage” in the nation.ⁱ

So it’s no surprise that just over half (51 percent) of Hawai‘i’s renters are housing-cost burdened -- paying at least 30 percent of their income on rent -- the 4th-highest proportion in the nation.ⁱⁱ And nearly two-thirds of Hawai‘i residents living at or near the poverty line spend more than *half* of their incomes on rent.ⁱⁱⁱ

This bill would provide some needed tax relief to our state’s low-income and working-class households. Please see the tables below for an idea of how different types of families at different income levels would be affected by it:

MARRIED JOINT FILER (family of 4)				
Income	Current		HB 1957 HD1	
	Income Tax	Renters Credit	Renters Credit	Effect
4,800	67	(200)	(600)	(400)
6,600	125	(200)	(600)	(400)
9,600	221	(200)	(600)	(400)
19,200	749	(200)	(600)	(400)
28,800	1,363	(200)	(600)	(400)
38,400	2,016	-	(600)	(600)
48,000	2,707	-	(400)	(400)
72,000	4,531	-	(200)	(200)
96,000	6,427	-	-	-

Hawai‘i Appleseed is committed to a more socially just Hawai‘i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems that perpetuate inequality and injustice through policy development, advocacy, and coalition building.

HEAD OF HOUSEHOLD (family of 2)				
Income	Current		HB 1957 HD1	
	Income Tax	Renters Credit	Renters Credit	Effect
3,600	50	(100)	(300)	(200)
4,800	88	(100)	(300)	(200)
7,200	165	(100)	(300)	(200)
14,400	562	(100)	(300)	(200)
21,600	1,023	(100)	(300)	(200)
28,800	1,512	(100)	(300)	(200)
36,000	2,030	-	(200)	(200)
54,000	3,398	-	(100)	(100)
72,000	4,820	-	-	-

SINGLE FILER				
Income	Current		HB 1957 HD1	
	Income Tax	Renters Credit	Renters Credit	Effect
2,400	34	(50)	(150)	(100)
3,300	63	(50)	(150)	(100)
4,800	111	(50)	(150)	(100)
9,600	374	(50)	(150)	(100)
14,400	681	(50)	(150)	(100)
19,200	1,008	(50)	(150)	(100)
24,000	1,354	(50)	(100)	(50)
36,000	2,266	-	(50)	(50)
48,000	3,214	-	-	-

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 over three decades, not even to simply keep up with inflation.

The amount of the credit was set nearly 40 years ago, in 1981, at \$50 per exemption. The income eligibility limit was set over 30 years ago, in 1989, at \$30,000, which was just above the median household income at that time. Neither of those levels have budged since then.^{iv}

This bill increases both the value of the credit and its income eligibility limits to catch up with inflation. It also phases out the value of the credit as incomes rise, in order to avoid sharp tax “cliffs,” and it creates different income eligibility levels for different types of households, to account for the fact they need different levels of income to make ends meet.

We appreciate your consideration of this testimony. Please pass this bill.

ⁱ <https://reports.nlihc.org/oor/hawaii>

ⁱⁱ <https://www.jchs.harvard.edu/americas-rental-housing-2020>

ⁱⁱⁱ https://nlihc.org/sites/default/files/SHP_HI.pdf

^{iv} http://tax.hawaii.gov/stats/a5_1annual/a5_4credits/



HB 1957, HD1, RELATING TO TAX CREDITS

FEBRUARY 20, 2020 · HOUSE FINANCE
COMMITTEE · CHAIR REP. SYLVIA LUKE

POSITION: Support.

RATIONALE: IMUAlliance supports HB 1957, HD1, relating to tax credits, which adjusts the amount of the income tax credit for low-income household renters based on adjusted gross income and taxpayer filing status and provides for automatic adjustments to the tax credit based on the consumer price index.

Today, **the lack of affordable housing exacerbates the economic insecurity suffered by local families, which sex traffickers use to prey upon potential victims with false promises of financial stability and prosperity.** Hawai'i residents face the highest housing costs in the nation, at more than twice the national average. Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2019* report found that a full-time worker would need to earn \$36.82/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 111 hours per week to afford a modest one-bedroom apartment at fair market value and 146 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 five 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 \$16.68/hour, according to NLIHC, 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, 63 percent of households are severely cost-burdened, following NLIHC data, 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, with only 74 homes available for every 100 households earning 80 percent of their respective area's median income.

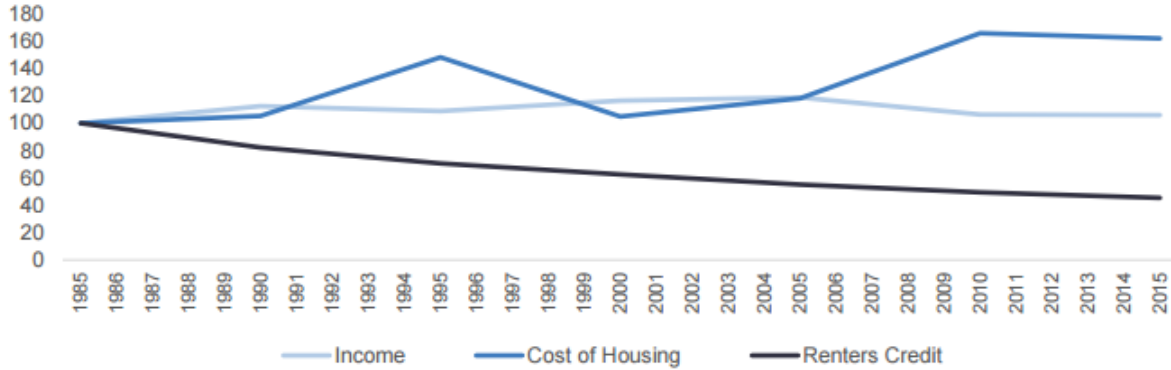
Unsurprisingly, our state is now experiencing population decline. Hawai'i saw domestic out-migration increase for a third consecutive year in 2019, as the state's high cost of living continued to push people to the mainland. Census estimates show that our state's population dropped by more than 4,700 people, to 1,415,872, from July 2018 to July 2019, when births, deaths, and migration were accounted for. That's the biggest numerical population drop since 2015 and it made Hawai'i one of just ten states in the country to lose population in 2019, according to the U.S. Census Bureau.

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 \$200 and 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 skyrocketing cost of living.

FAILURE TO KEEP UP WITH COST OF LIVING

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.

RENT VS. WAGE INCREASES

Rents vs. Wage Increases

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





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COMMITTEE ON FINANCE
Thursday, 2/20/20, 1 pm, Room No. 308
HB1957 HD1 RELATING TO TAX CREDITS
TESTIMONY

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

Chair Luke, Vice-Chair Cullen, and Committee Members:

The League of Women Voters of Hawaii strongly supports this bill, which would bring the qualifying incomes and amount of the low income household renters credit up to date, and very importantly index the income eligibility and credit amounts annually to the CPL so these amounts keep pace with inflation.

The National Low-Income Housing coalition calculated in 2019 that to afford a one-bedroom apartment in Hawaii, a household needed to earn \$28.04 an hour. Low income renters need all the help they can get to avoid falling into homelessness, as so many have even just in the past year. Families with stable housing experience many advantages - their children are healthier and more likely to succeed in school, for example. There is far less burden on the state when people are stably housed than when they become homeless.

Please pass HB1957 HD1 which will restore some of the value the low income renters tax credit had in the 80's which has been lost to inflation, as the bill's introduction makes clear; prevent the need for regular adjustment by the Legislature which needlessly crowds the legislative calendar, by increasing dollar amounts in the bill by the annual increase in the CPL.

Thank you for the opportunity to submit testimony.



TO: Chair Luke, Vice Chair Cullen, and Members of the House Committee on Finance

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

DATE/LOCATION: February 20, 2020; 1:00 p.m., Conference Room 308

RE: TESTIMONY IN SUPPORT OF HB 1957 HD 1– RELATING TO TAX CREDITS

We support HB 1957 HD 1 which would adjust the amount of the income tax credit for low-income household renters based on adjusted gross income and taxpayer filing status and provide for automatic adjustments to the tax credit based on the consumer price index. Wage increases in Hawaii have continued to lag behind the cost of housing increase over the last 10 years. Housing continues to be a 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. Two thirds of 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 and ALICE 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 childcare. 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 15,000 people across the state annually, PACT helps families identify, address and successfully resolve challenges through its 18 programs. Among its services are: early education programs, domestic violence prevention and intervention programs, child abuse prevention and intervention programs, childhood sexual abuse supportive group services, child and adolescent behavioral health programs, sex trafficking intervention, poverty prevention and community building programs.

Thank you for the opportunity to testify in **support of HB 1957 HD 1**, please contact me at (808) 847-3285 or rkusumoto@pacthawaii.org if you have any questions.



AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS			MAILING ADDRESS
John Bickel, President	Melodie Aduja	Chuck Huxel	Stephen O'Harrow	P.O. Box 23404
Alan Burdick, Vice President	Juliet Begley	Jan Lubin	Lyn Pyle	Honolulu
Marsha Schweitzer, Treasurer	Ken Farm	Jenny Nomura		Hawai'i 96823
Doug Pyle, Secretary	Stephanie Fitzpatrick	Dave Nagaji		

February 19, 2020

TO: Chair Luke and Members of Finance Committee

RE: HB 1957 HD1 Relating to Tax Credits

Support for hearing on February 20

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 1957 HD1 as it would increase the adjusted gross income eligibility cap for the income tax credit for low-income household renters from \$30,000 to \$50,000. This would increase the number of families available for the tax credit.

We recognize that housing expenses are a major burden to a very large number of working families in the state of Hawaii. This tax credit is one way to ease the burden.

We like an increase the maximum income eligibility limit to above the median household income as well as doing a phase-out to avoid the tax "cliff."

Thank you for your favorable consideration.

Sincerely,
John Bickel, President



HB-1957-HD-1

Submitted on: 2/18/2020 9:20:31 PM

Testimony for FIN on 2/20/2020 1:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Angelina Mercado	Hawaii State Coalition Against Domestic Violence	Support	No

Comments:

HB-1957-HD-1

Submitted on: 2/18/2020 7:59:59 PM

Testimony for FIN on 2/20/2020 1:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
David Mulinix	Our Revolution Hawaii	Support	No

Comments:

HB-1957-HD-1

Submitted on: 2/18/2020 1:47:43 PM

Testimony for FIN on 2/20/2020 1:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Michael deYcaza	Individual	Support	No

Comments:

HB-1957-HD-1

Submitted on: 2/19/2020 6:28:27 AM

Testimony for FIN on 2/20/2020 1:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Andrea Brower	Individual	Support	No

Comments:

HB-1957-HD-1

Submitted on: 2/18/2020 6:27:16 PM

Testimony for FIN on 2/20/2020 1:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Andrea Quinn	Individual	Support	No

Comments: