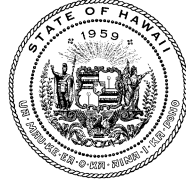


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STATE OF HAWAII
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DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Donovan M. Dela Cruz, Chair;
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

From: Rona M. Suzuki, Director
Department of Taxation

Re: S.B. 2624, Relating to the Low-Income Household Renters Credit

Date: Tuesday, February 11, 2020

Time: 10:30 A.M.

Place: Conference Room 211, State Capitol

The Department of Taxation (Department) appreciates the intent of S.B. 2624 and provides the following comments.

S.B. 2624 amends the low-income household renters credit by resetting the adjusted gross income (AGI) thresholds for filing status, increasing the amount of the credit, and indexing the credit amounts for inflation. The bill is effective upon approval and applies to taxable years beginning after December 31, 2020.

Our "*Report on Tax Credits Claimed by Hawaii Residents for Tax Year 2017*" explains that this credit was claimed on 24,525 individual income tax 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 estimates the changes proposed by this measure could increase claims for this credit to about \$9.8 million for tax year 2021, an additional cost of about \$6.4 million beginning Fiscal Year 2022. This estimate is based on the claims for this credit in tax year 2017, with adjustments for income increases.

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 additional thought. For example, we would prefer to set the rate by July each year so that we can change forms and instructions and adjust and test software configurations. As currently written, it appears that the calculation for the inflation increase not result in a cumulative or compound year-on-year increase, but instead would result in a simple year-by-year increase over the statutory dollar amounts. If the intent of this bill is to apply a cumulative or compound increase to the statutory dollar amounts, the Department recommends using 2020 as a base year and calculating a percentage over that base year to determine the increase to be applied for each year.¹ In order to

¹ This is the method used in the Internal Revenue Code (IRC). See IRC section 1(f)(3).

accomplish this, the Department recommends amending subsection (d) to read:

(d) For each taxable year beginning after December 31, 2021, each dollar 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 June of 2020, rounded to the nearest whole dollar amount.

The Department is able to administer the bill with its current effective date.

Thank you for the opportunity to provide 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: SB 2624

INTRODUCED BY: KANUHA, BAKER, S. CHANG, IHARA, INOUE, KEITH-AGARAN, J.KEOHOKALO, KIDANI, TANIGUCHI, K. Kahele, Nishihara, Shimabukuro

EXECUTIVE SUMMARY: Creates income brackets for the low-income renter tax credit. Provides for adjustment of the tax credit amount based on the consumer price index.

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 DATE: Taxable years beginning after December 31, 2020.

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 amend the credit brackets as detailed above. 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 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.



SB 2624, RELATING TO THE LOW-INCOME HOUSEHOLD RENTERS CREDIT

FEBRUARY 11, 2020 · SENATE WAYS AND MEANS
COMMITTEE · CHAIR SEN. DONOVAN M. DELA
CRUZ

POSITION: Support, with amendments.

RATIONALE: IMUAlliance supports and suggests an amendment for SB 2624, relating to the low-income household renters credit, which creates income brackets for the low-income renter tax credit and provides for adjustment of the tax credit amount based on the consumer price index.

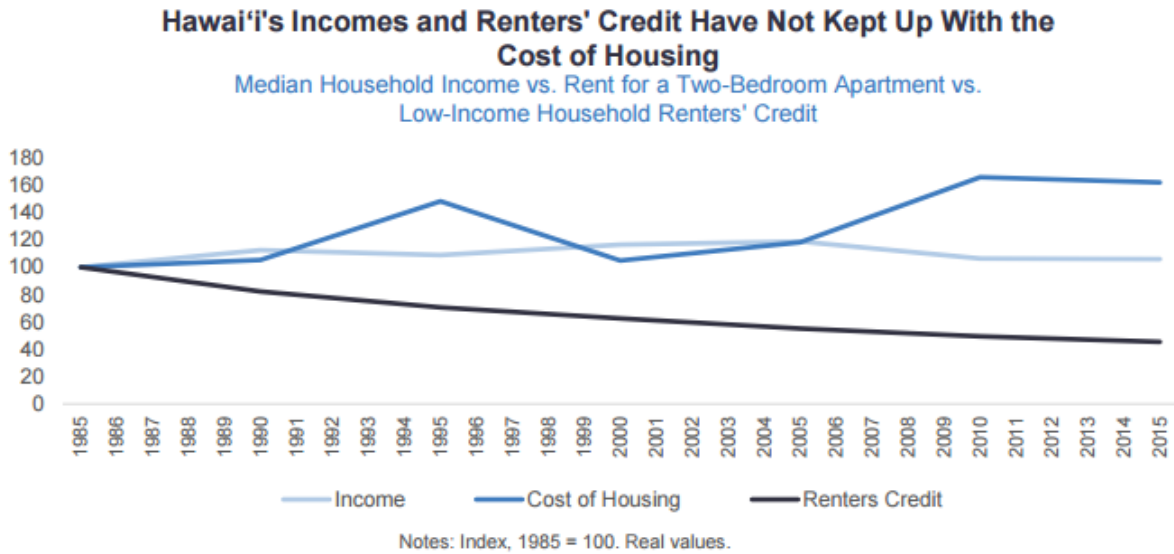
Today, **the lack of affordable housing exacerbates the economic insecurity suffered by local families, which sex traffickers use to prey upon potential victims with false promises of financial stability and prosperity.** Hawai'i residents face the highest housing costs in the nation, at more than twice 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.

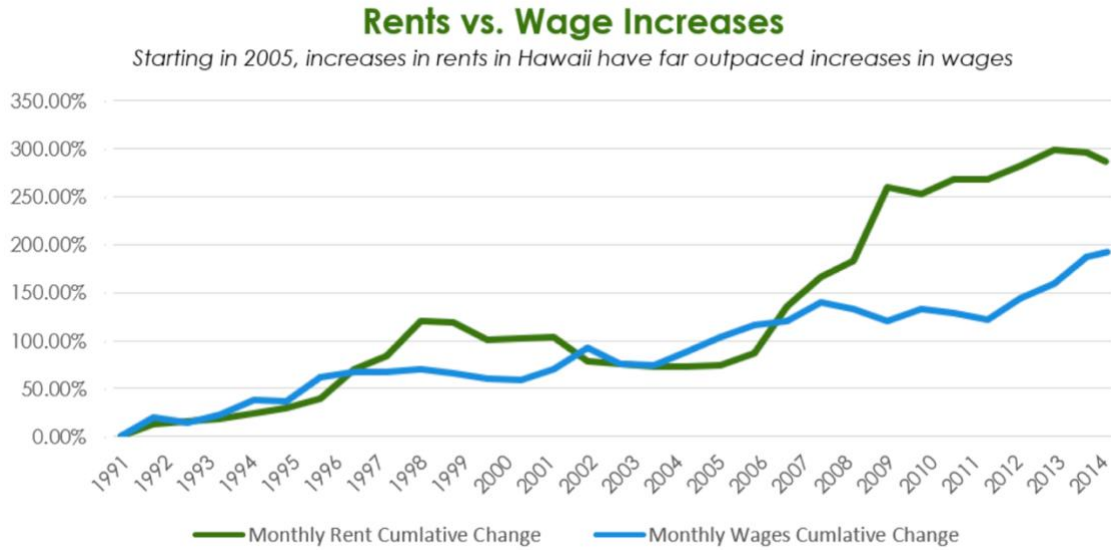
Unsurprisingly, our state is now experiencing population decline. Hawai'i saw domestic out-migration increase for a third consecutive year in 2019, as the state's high cost of living continued to push people to the mainland. Census estimates show that our state's population dropped by more than 4,700 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. That said, we **urge the committee to increase the maximum value of the credit to at least \$200** to fully account for decades of neglect in updating the amount of relief provided by the credit.

FAILURE TO KEEP UP WITH COST OF LIVING



RENT VS. WAGE INCREASES





HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of the Hawai'i Appleseed Center for Law and Economic Justice
In Support of SB 2624 -- Relating to the Low-Income Household Renters Credit
Senate Committee on Ways and Means
Tuesday, February 11, 2020, 10:30 AM, in conference room 211

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

Thank you for the opportunity to provide testimony in **SUPPORT** of **SB 2624**, 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, two recent headlines aren't anything new:

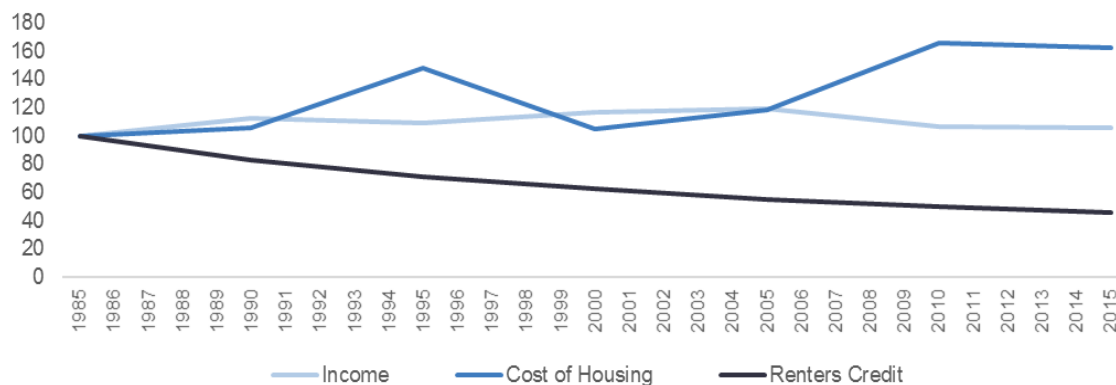
- [Two-thirds of Hawaii Residents Struggle Financially](#)
- [Nearly 7,000 Became Homeless in 2019 on Oahu](#)

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, the highest "housing wage" in the nation.

So it's no wonder that nearly half of Hawai'i's renters are housing-cost burdened -- paying at least 35 percent 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 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.

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.

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 more than 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.

This bill increases the maximum value of the credit and its income eligibility limits to catch up with inflation. It also phases the credit out as incomes rise, in order to avoid a tax "cliff," which is when a household of four, for example, would lose \$600 in this tax credit when their annual income rises just over the limit. It is generally considered good tax policy to phase out credits in this manner.

In addition, this bill sets different income brackets for different types of households (married, single parent, and single) in order to account for the fact that it is much more difficult for a family of four, for example, to survive on \$40,000 per year, than it is for a single person.

We appreciate your consideration of this testimony. We urge you to pass SB 2624.



HAWAII

AMERICANS FOR DEMOCRATIC ACTION

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Doug Pyle, Secretary	Stephanie Fitzpatrick	Dave Nagaji		

February 10 , 2020

TO: Chair Dela Cruz and Members of the WAM Committee

RE: SB2624 Relating to Taxation

Support for hearing on February 11

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 2624 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 the provision indexing the figure for inflation.

Thank you for your favorable consideration.

Sincerely,
John Bickel, President