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STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Stanley Chang, Chair;
The Honorable Dru Mamo Kanuha, Vice Chair;
and Members of the Senate Committee on Housing

From: Rona M. Suzuki, Director
Department of Taxation

Re: **S.B. 2627, Relating to Tax Credits**
Date: Thursday, January 30, 2020
Time: 1:25 P.M.
Place: Conference Room 225, State Capitol

The Department of Taxation (Department) appreciates the intent of S.B. 2627 and provides the following comments.

S.B. 2627 amends the low-income household renters credit by increasing the adjusted gross income (AGI) threshold from $30,000 to $50,000 and by increasing the amount of the credit from $50 to $200. 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 returns, totaling $2.5 million in credits. If each of these filers claimed this credit at $200 instead of $50, the total tax credit cost would be about $10 million. Increasing the adjusted gross income threshold will further increase the expected credit claims.

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

Thank you for the opportunity to provide comments.

HGEA
AFSCME
LOCAL 152, AFL-CIO

HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

The Thirtieth Legislature, State of Hawaii
The Senate
Committee on Housing

Testimony by
Hawaii Government Employees Association

January 30, 2020

S.B. 2627 – RELATING TO TAX CREDITS

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of S.B. 2627 which increases the adjusted gross income eligibility cap for the income tax credit for low-income household renters from $30,000 to $50,000 and increases the credit from $50 to $200.

Providing tax credits to assist low-income renters has been state policy since 1977, however the eligibility requirements and credit amounts were last adjusted in 1989 and 1981, respectively. Since the early 80's, the cost of housing has skyrocketed, necessitating an adjustment to the cap and credit. Wages have failed to keep up with our high cost of living and many local families are struggling to get by. Of the 29,000 members that we represent, the average salary is $56,000 and our largest unit, composed of 13,000 white collar employees, has an average salary of $39,500. These averages do not factor in the high cost of medical premiums that state and county employees must pay, which further reduces an employee's net income. The increases to the adjusted gross income eligibility cap and credit amount will positively impact our membership.

We must take steps to ease the financial burden for working families in Hawai`i. Passage of this measure, in conjunction with other measures to make the state earned income tax credit refundable and permanent and increasing the refundable food/excise tax credit, will help.

Thank you for the opportunity to testify in support of S.B. 2627.

Respectfully submitted,

Randy Perreira
Executive Director

888 MILILANI STREET, SUITE 401 HONOLULU, HAWAII 96813-2991

LEGISLATIVE TAX BILL SERVICE

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 2627; HB 1957 (Identical)

INTRODUCED BY: SB by: K. RHOADS, S. CHANG, K. KAHELE, KEITH-AGARAN, MORIWAKI, J. Keohokalole, Shimabukuro; HB by JOHANSON, BELATTI, BROWER, ELI, HASHIMOTO, ICHIYAMA, KITAGAWA, C. LEE, LOWEN, LUKE, MATAYOSHI, OHNO, PERRUSO, SAIKI, WILDBERGER, WOODSON

EXECUTIVE SUMMARY: Increases the adjusted gross income eligibility cap for the income tax credit for low-income household renters from $30,000 to $50,000. Increases the amount used for calculating the credit from $50 to $200.

SYNOPSIS:

EFFECTIVE DATE: Upon approval, shall apply to 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 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 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 1/27/2020

SB 2627, RELATING TO TAX CREDITS

JANAURY 30, 2020 · SENATE HOSUING COMMITTEE
· CHAIR SEN. STANLEY CHANG

POSITION: Support, with amendments.

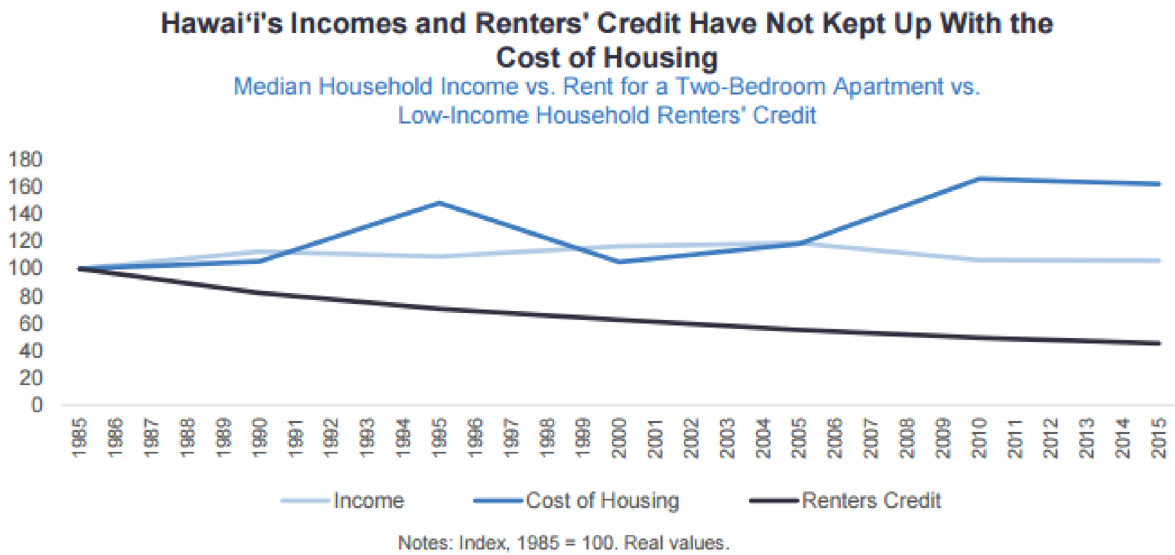
RATIONALE: IMUAlliance supports and suggests an amendment for SB 2627, relating to the low-income household renters credit, which increases the adjusted gross income eligibility cap for the income tax credit for low-income household renters from $30,000 to $50,000 and increases the amount used for calculating the credit from $50 to $200.

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.

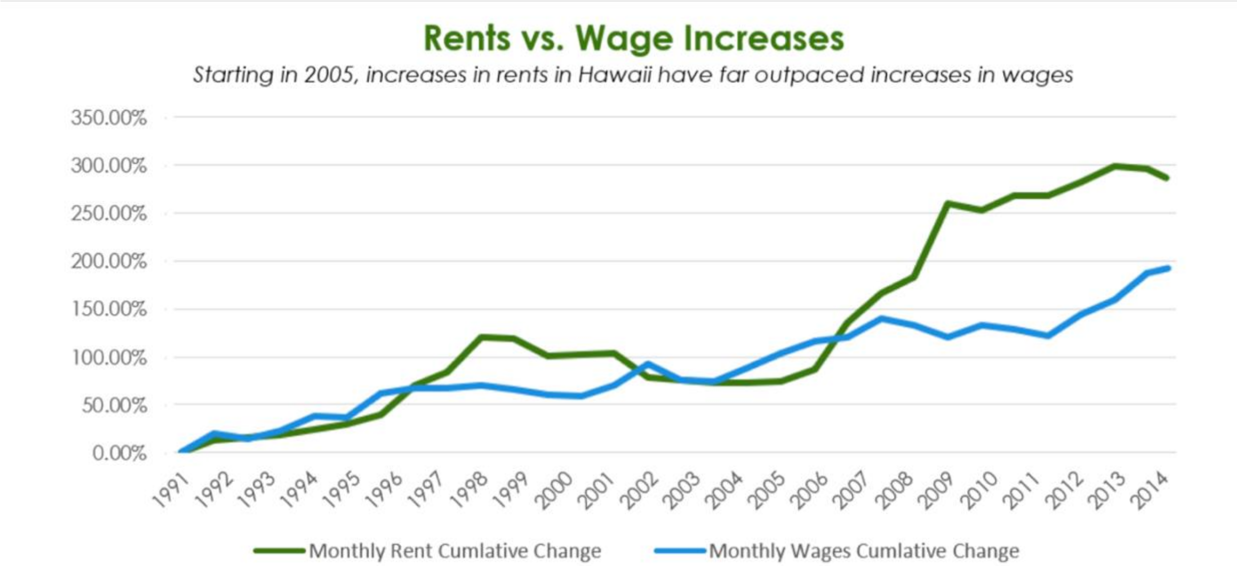
Unsurprisingly, our state is now experiencing population decline. Hawai'i saw domestic out-migration increase for a third consecutive year in 2019, as the state's high cost of living continued to push people to the mainland. Census estimates show that our state's population dropped by more than 4,700 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. 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.

FAILURE TO KEEP UP WITH COST OF LIVING



RENT VS. WAGE INCREASES



SB-2627
Submitted on: 1/29/2020 1:07:02 PM
Testimony for HOU on 1/30/2020 1:25:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Beppie Shapiro	Testifying for League of Women Voters Hawaii	Comments	No

Comments:

The League of Women Voters of Hawaii supports this bill, but we believe SB2624 is far superior and will achieve the goal of the low income rental housing credit more successfully and into the future.

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
In Support with Amendment of SB 2627 -- Relating to Tax Credits
Senate Committee on Housing
Thursday, January 30, 2020, 1:25 PM, in conference room 225

Dear Chair Chang, Vice Chair Kanuha, and members of the Committee:

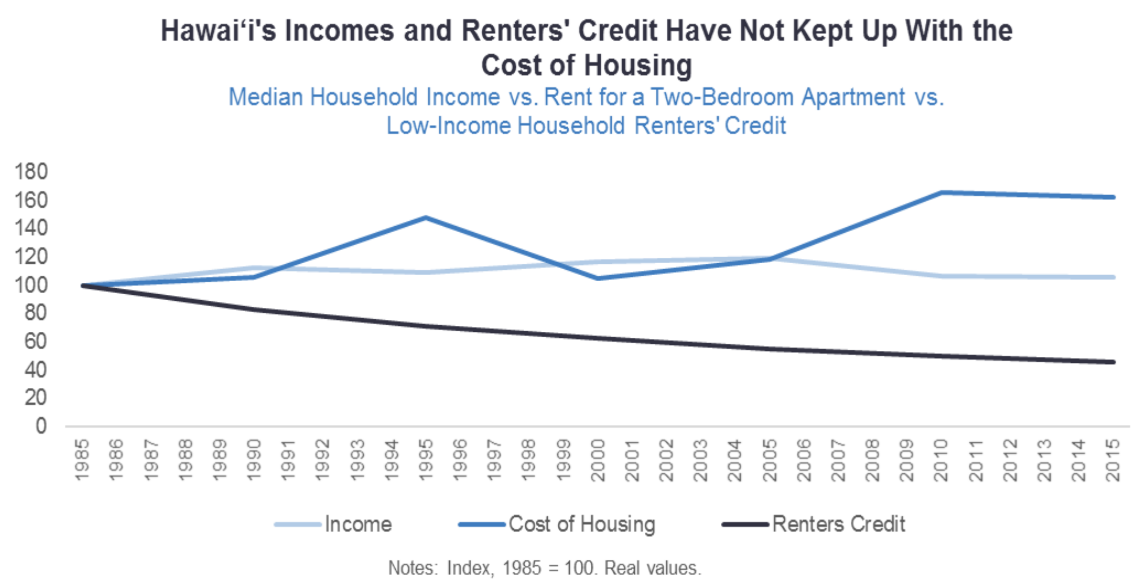
Thank you for the opportunity to provide testimony in **SUPPORT, with amendments, of SB 2627**, which would adjust the low-income household renters' credit to provide more help to more of the families who need the financial support that it provides.

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 Hawaiʻi 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 Hawaii'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 Hawaiʻi residents living at or near the poverty line spend more than half of their incomes on rent.



Hawaiʻi Appleseed is committed to a more socially just Hawaiʻi, 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 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.

This bill increases the maximum value of the credit per household member as well as the income eligibility limit, from $50 to $200 per exemption and from $30,000 to $50,000 per year, respectively. This would provide more significant assistance to more families who are struggling to afford their rent.

We respectfully suggest amendments to phase out the credit as incomes rise, in order to avoid a tax "cliff,” which is when a household of four, for example, would lose $800 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, we respectfully suggest amending this bill to create different income brackets for different types of households: married, head of household, and single. This would 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. The income eligibility limits should be highest for joint married filers, in the middle for heads of households (single parents), and lower for single filers.

We appreciate your consideration of this testimony. We urge you to pass SB 2627 with our suggested amendments.

SB-2627
Submitted on: 1/28/2020 9:23:56 PM
Testimony for HOU on 1/30/2020 1:25:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Jun Shin	Individual	Support	No

Comments:

SB-2627
Submitted on: 1/28/2020 6:53:31 PM
Testimony for HOU on 1/30/2020 1:25:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Jonathan Boyne	Individual	Support	No

Comments:

I support SB2627.

SB-2627
Submitted on: 1/29/2020 11:55:20 AM
Testimony for HOU on 1/30/2020 1:25:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Troy Abraham	Individual	Support	No

Comments: