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

Date: Monday, February 11, 2019  
Time: 10:00 A.M.  
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: S.B. 579, Relating to Tax Credits

The Department of Taxation (Department) offers the following comments regarding S.B. 579 for the Committee's consideration.

S.B. 579 contains various income tax provisions as discussed below. The measure is effective upon its approval, and applies to taxable years beginning after December 31, 2018, except that Part II applies to taxable years beginning after December 31, 2019.

**Part I: Income Tax Credit for Low-Income Household Renters**

Section 1 of this bill amends section 235-55.7, Hawaii Revised Statutes (HRS), by amending the amount of the low-income household renters credit (renter's credit) from \$50 per exemption to an unspecified amount.

The renter's credit is available to low-income taxpayers who have paid more than \$1,000 in rent during the taxable year. The renter's credit has not been increased since 1981 when it was increased from \$20 to \$50 per qualified exemption. In 1989, the income threshold to claim the renter's credit was increased from \$20,000 to \$30,000, and in 1990, the credit was amended to become refundable, allowing taxpayers with no tax liability to receive a cash refund.

**Part II: Earned Income Tax Credit (EITC)**

Section 2 of this bill creates a refundable earned income tax credit (EITC) at the State level. The credit is equal to 20% of the federal EITC allowed under section 32 of the Internal Revenue Code. The State EITC must be claimed within 12 months following the close of the taxable year for which the credit may be claimed. The refundable EITC applies to taxable years beginning after December 31, 2019, but shall not apply to taxable years beginning after December 31, 2029.

First, the Department notes that Act 107, Session Laws of Hawaii 2017 (Act 107), establishes a State nonrefundable EITC equal to 20% of federal EITC allowed and properly claimed under section 32 of the Internal Revenue Code, and reported on the taxpayer's federal income tax return. The State nonrefundable EITC applies to taxable year beginning after December 31, 2017, but not to taxable years beginning after December 31, 2022. The Department suggests monitoring the effectiveness of the State nonrefundable EITC as established by Act 107 before adopting a State refundable EITC.

Second, the Department has several concerns with the administration of State refundable EITC, as outlined below.

- It is important to note that the Treasury Inspector General for Tax Administration (TIGTA) in its April 9, 2018 audit report highlighted that the Office of Management and Budget announced the EITC as a high risk program (currently, the EITC is the only high-risk program for the Internal Revenue Service (IRS)), subject to reporting in the Department of Treasury Agency Financial Report. The IRS estimated EITC improper payments for fiscal year 2017 at \$16.2 billion or 24%. The EITC improper payment rates has not improved much since 2009 (ranges from 23% to 27%).
- The Department has serious concerns regarding these error rates because as proposed, the State EITC will share the same error rate since the proposal is to allow 20% of the federal EITC as a State credit. These error rates exist despite the fact that the IRS has extensive data matching capabilities with federal databases such as the Social Security Administration database.
- Most individual income tax refunds are paid before a complete review of each return is done; therefore, it is very difficult for the Department to stop improperly claimed or fraudulent refunds. Although it seems simple to base a Hawaii EITC on a portion of the federal EITC, the Department has no independent way to determine whether an EITC claim is proper.
- The Department has serious concerns regarding its ability to recover any amounts which are improperly refunded. Once a refund is issued on a fraudulent or improper claim, there is a very little chance the Department will be able to recover the amount.
- The Department prefers nonrefundable tax credits because refundable tax credits often lead to improper claims and create a potential for fraud. Nonrefundable tax credits limit the incentive for fraud because they only benefit taxpayers to the extent of their tax liability. A nonrefundable credit would not generate this level of improper claims due to each claimant being limited to the amount of their tax liability.

### **Part III: Refundable Food/Excise Tax Credit**

Section 4 of this bill amends the amounts of the refundable food/excise tax credit that ranges from \$35 to \$110 per exemption based on adjusted gross income to unspecified amounts.

If the Committee wishes to amend any of these credits by advancing this measure, the Department respectfully requests 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.

**SB-579**

Submitted on: 2/10/2019 9:47:17 AM

Testimony for WAM on 2/11/2019 10:00:00 AM

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

Comments:

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, Increase Low-Income Renters and Food/Excise Credits, Make EITC Refundable

**BILL NUMBER:** SB 579; HB 1480 (Identical)

**INTRODUCED BY:** SB by KEITH-AGARAN, BAKER, ENGLISH; HB by SAIKI

**EXECUTIVE SUMMARY:** Increases the allowable income tax credit for low-income household renters to an unspecified amount. Makes the earned income tax credit refundable for ten taxable years beginning after 12/31/2019. Increases the allowable amount of the refundable food/excise tax credit to an unspecified amount.

**SYNOPSIS:** Amends section 235-55.7, HRS, to raise the low-income household renters credit to an unspecified amount.

Amends section 235-55.75, HRS, to sunset the (nonrefundable) EITC on December 31, 2019, and adds a new section to chapter 235, HRS, to establish the refundable EITC. The refundable EITC will be 20% of the federal EITC.

Amends section 235-55.85, HRS, to change the refundable food/excise tax credit to an unspecified amount.

**EFFECTIVE DATE:** Changes to the low-income household renters credit and the food/excise credit are effective for taxable years beginning after December 31, 2018. Changes to the Hawaii EITC apply to taxable years beginning after December 31, 2019.

**STAFF COMMENTS:** 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

Re: SB 579

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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 2/5/2019



AMERICANS FOR DEMOCRATIC ACTION

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Dylan Armstrong, Secretary	Gloria Borland	Jenny Nomura		

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Feb. 7 , 2018

TO: Honorable Chair Dela Cruz & WAM Committee Members

RE: SB 579 RELATING TO TAX CREDITS

Support for hearing on Feb. 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 579 as it would make the EITC refundable. This will help the very low-income earners. The more we 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





**Board Members**

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*AmeriCorps VISTA*

Date: February 9, 2019

To: Senator Donovan Dela Cruz, Chair, Senator Gilbert Keith-Agaran, Vice-Chair, and members of the Committee on Ways and Means

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

Re: Support for SB579

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

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB579, which would help many economically struggling families in Hawai'i by increasing the amounts for the Low-Income Household Renters' Credit and the food/excise tax credit and making the state Earned Income Tax Credit (EITC) refundable.

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.

Through FISSP surveys, families have indicated that they used the EITC money to manage daily expenses, eliminate debt, open and maintain savings accounts, purchase a home, cover education costs, or start a business.

The passage of SB579 would go a long way to supplement the needs of vulnerable families by:

- *Updating the Almost 40-Year Old Renters' Credit* – match 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.



- *Adjusting the Food/Excise Tax Credit* – update the food/excise tax credit amount and income eligibility limits to catch up to inflation so that families can stretch their money to meet basic food and grocery needs.
- *Making the EITC Refundable* – shifting the state EITC to be refundable would ensure families are able to make the best use of the new tax credit. The EITC supports families who are actively contributing to our workforce, is proven to alleviate child poverty and related child health, education, and earning issues, and has a multiplier effect on our economy as these workers are most likely to spend resources from the refundable credit within their local community.

SB579 would thus provide ongoing assistance to these families in their efforts to build their assets.

Mahalo for this opportunity to testify,

Brent N. Kakesako  
Executive Director



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

MONDAY, 2/11/19, 10 am, Room 211  
SB579, RELATING TO TAXATION

**TESTIMONY**

Beppie Shapiro, 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 SB579** that a) provides an income tax credit for low income (< \$30,000) taxpayers who pay rent over \$1000/month; b) sets the Hawaii Earned Income Tax Credit (EITC) at 20% of the federal EITC; and makes the credit refundable so low income taxpayers can receive cash payments if their state income tax liability is less than the calculated amount of the state EITC; and c) increases the state food excise tax credit.

Hawaii's high rents, and the near-houselessness, and actual houselessness these rents entail, are well known and widely deplored by housing advocates, residents, and business owners. SB579 would provide some relief to very low income households who rent their housing.

Due to Hawaii's regressive General Excise Tax (GET), the lowest income working families here pay more in total taxes than in all but one other state. Hawaii's EITC, provides much-needed relief to working families with very low incomes.

SB579 would provide that relief to the very poorest working households, those who owe in taxes less than the amount which the EITC would waive for them. SB579 would give to these struggling families the difference between their state income tax bill and their state EITC. The amounts of money are small, but at the income levels we are talking about the "refunded" EITC would relieve some of the intense economic pressure these families are under. The fact that these families are supported by a working family member makes an even stronger case for supporting them.

In September, 2018 Hawaii News Now reported that more than 35,000 families in Hawaii are "food insecure", meaning they have had trouble providing adequate food for their family and in some cases, have gone hungry. Hawaii is one of only 7 states which fully tax food bought at grocery stores. SB579 would increase the food excise tax credit to redress some of this inequity.

Please pass SB579 and give the full EITC benefit to our poorest working families.

Thank you for the opportunity to submit testimony.



## SB 579, RELATING TO TAX CREDITS

FEBRUARY 11, 2019 · SENATE WAYS AND MEANS  
COMMITTEE · CHAIR SEN. DONOVAN M. DELA  
CRUZ

**POSITION:** Support.

**RATIONALE:** IMUAlliance supports SB 579, relating to tax credits, which increases the allowable income tax credit for low-income household renters to an unspecified amount; makes the earned income tax credit refundable for ten taxable years beginning after 12/31/2019; and increases the allowable amount of the refundable food/excise tax credit to an unspecified amount.

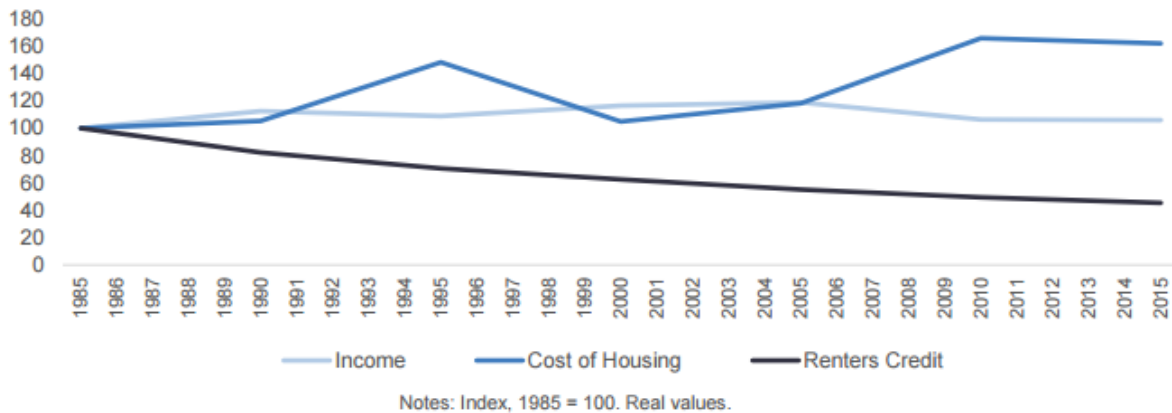
Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2018* report found that a full-time worker would need to earn \$36.13/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 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. Homelessness, unsurprisingly, 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 Household Renters' Credit



### Rents vs. Wage Increases

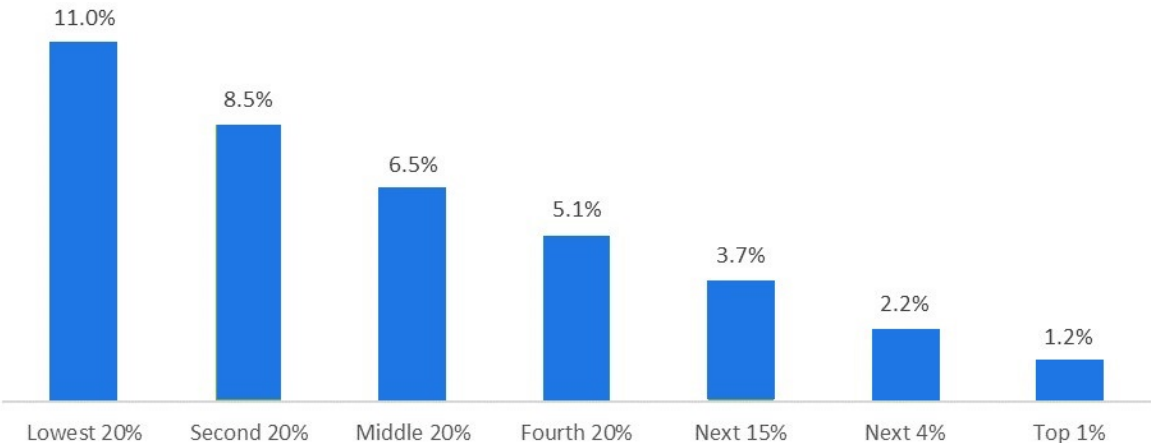
Starting in 2005, increases in rents in Hawaii have far outpaced increases in wages



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.

Similarly, Hawai'i families struggle to put food on the table, a burden that is exacerbated by the general excise tax on food and basic life necessities. Hawai'i's low-income families face the second-highest tax rate in the nation, with our lowest-income households paying almost twice as much of their income in taxes, 15 percent, as those in the top 5 percent of income earners, who pay about 9 percent. A cardinal driver of this disparity is the GET, which disproportionately impacts low-income and working-class families because they spend almost all of their earnings on items and services that are taxed by the GET.

**The GET Hits Low-Income Workers Almost 10 Times As Hard As the Top 1%**  
Hawaii's General Excise Tax as a Share of Family Income



To lessen the burden on families who are especially hard hit by the GET, state leaders created the refundable food/excise tax credit. Currently, tax filers who earn less than \$50,000 (or \$30,000 for single filers) can get up to \$110 per qualified exemption. The less a worker earns, the more he or she can get back. Even those who have no taxable income can receive this credit in many cases. We believe that this tax credit should be adjusted to make up for the inflation of the past few years, revised to include scheduled increases for the next four years, and, optimally, tied to the consumer price index for future years to ensure that the credit doesn't lose ground to our state's ever-increasing cost of living. That would mean increasing the maximum credit value to \$118 in 2020, \$125 in 2022, and \$130 in 2024 and increasing maximum annual eligible income levels to \$62,000 (\$37,000 for single filers) in 2020, \$65,000/\$39,000 in 2022, and \$68,000/\$41,000 in 2024.

Finally, households in the bottom fifth of our state's income spectrum make an average of \$10,100 per year and pay 11 percent of their income in excise taxes, for an average of \$1,111 per year. In contrast, they pay about 0.5 percent in state income tax, for an average of \$50. Accordingly, we support making the earned income tax credit refundable. If tax credits are refundable, filers can get tax refunds when their credits total more than the amount of income tax that they owe. Of the 30 states that have EITCs, 24 of them are refundable.

A single parent with two children working a full-time minimum wage job, for example, would make \$21,000 per year and owe approximately \$432 in state income tax. Her state EITC would total approximately \$883, but because it is not refundable, she would only be able claim \$432, the amount that she owes in income taxes. If the EITC were refundable, though, as it is at the federal level, she'd be able to claim the full \$883, generating a tax refund of \$451.



# HAWAII APPLESEED

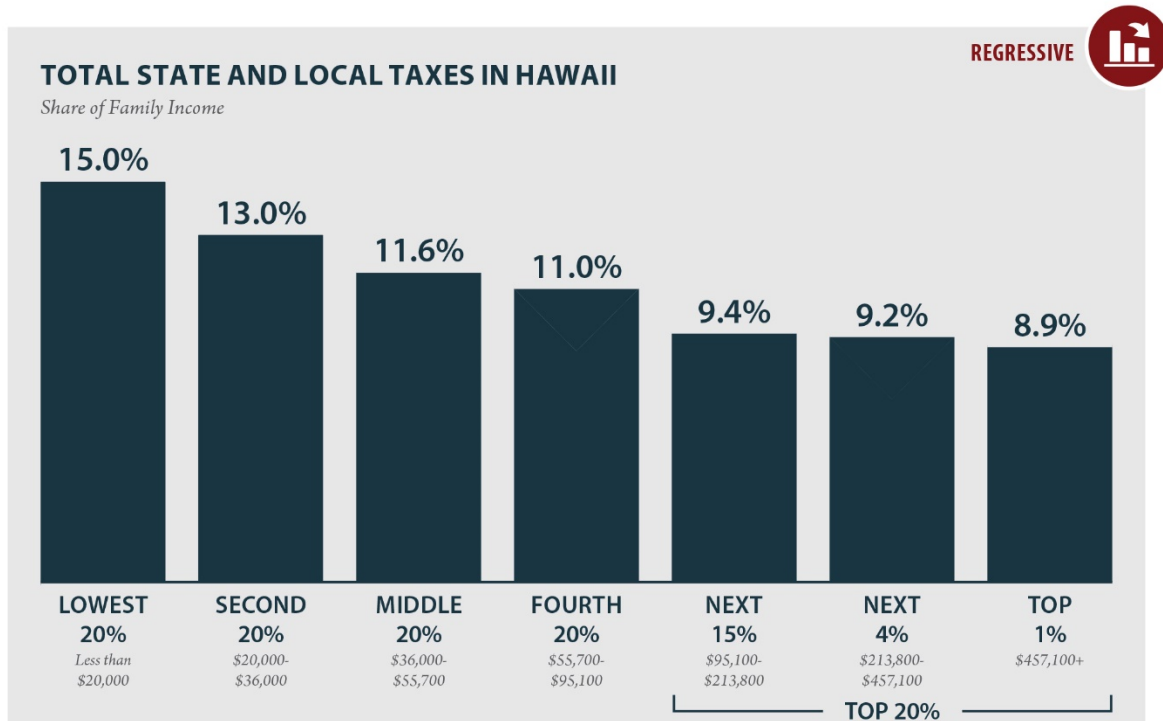
## CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice  
Supporting SB 579 – Tax Credits  
Senate Committee on Ways and Means  
Monday, February 11, 2019, at 10:00 AM in conference room 211

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

Thank you for the opportunity to testify in **SUPPORT**, with amendments, of **SB 579**, which would increase the low-income household renters' credit and the refundable food/excise tax credit as well as make the earned income tax credit refundable.

Hawai'i's ranks second nationally in how heavily we tax our low-income households. Our lowest-income households pay 15 percent of their income in state and local taxes, while those at the top pay only about 9 percent.



The main reason for the regressivity of our local tax system is the General Excise Tax (GET), applied to almost all goods and services, which hits low-income and working-class families almost nine times harder than those at the top.

### The Earned Income Tax Credit (EITC)

Mahalo for creating the Hawai‘i EITC in 2017. It is helping thousands of our hard-working neighbors make ends meet. However, it’s not as effective as it could be, because it is not refundable. That means tax filers can't get back more through the credit than what they owe in state income tax.

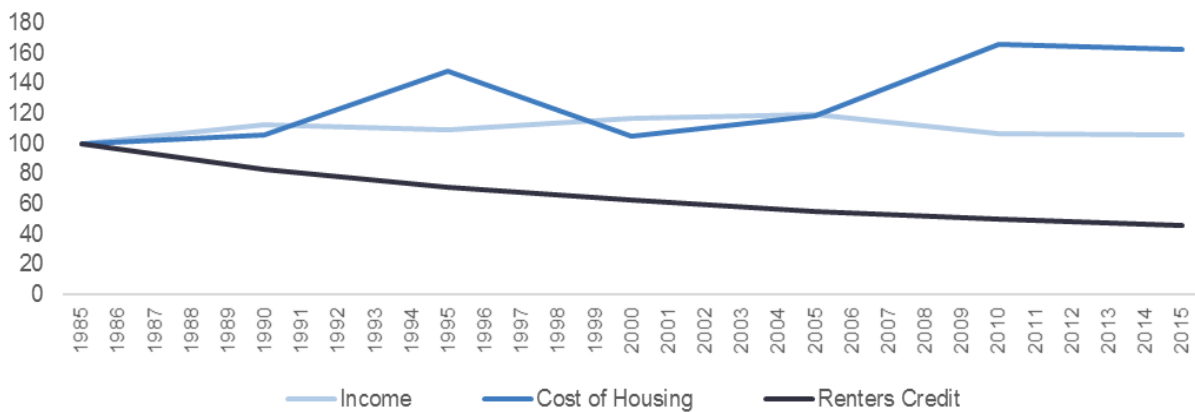
In fact, most low-income households pay far more in the GET every year than they do in state income taxes. That is why making the EITC refundable is so important to these households. A refundable EITC would help reduce the heavy burden of the GET by helping to provide tax refunds to those who need them the most.

### The Low-Income Household Renters’ Credit

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.

#### 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’s renters’ credit has not been updated in nearly three decades to even account for inflation. We recommend **increasing the amount of the credit to \$150**, in order to catch it 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 income cutoff should be raised to \$75,000 per year.**

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

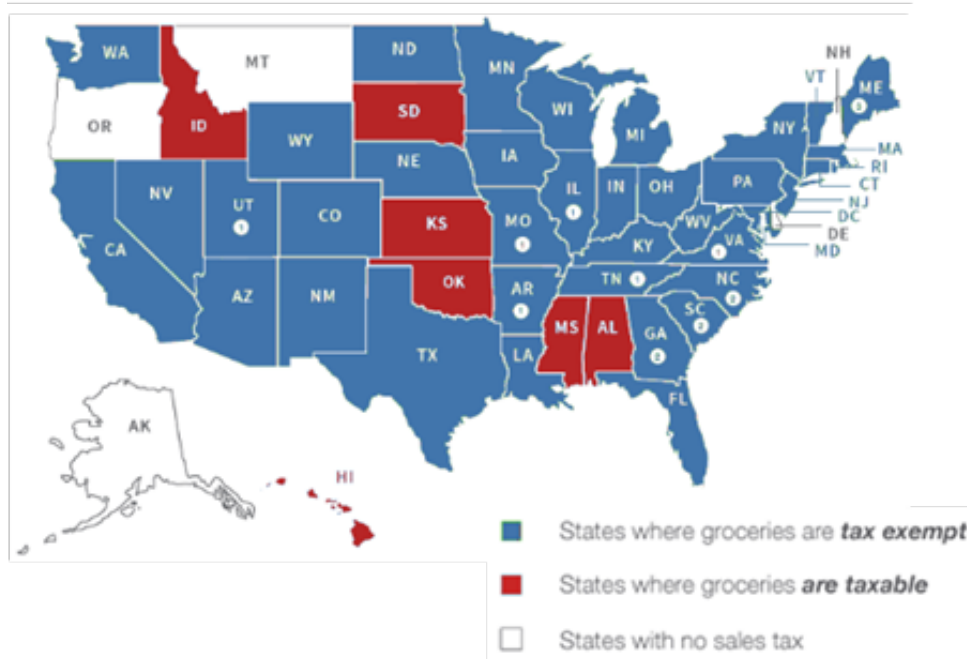


We also recommend adding a provision to **add automatic cost-of-living adjustments to this credit**, in order to avoid future erosion of the credit's value and reach.

### The Refundable Food/Excise Tax Credit

Hawai'i has the highest cost of living in the nation. One of the main contributing factors is our high cost of food. We are also one of only seven states that fully taxes groceries.

#### In Which States Are Groceries Taxed?



Since 2007, Hawai'i created the food/excise credit to help ease the burden of taxes on basic necessities purchased by low-income and working-class households. The amounts that families could get back from this credit were last updated to catch up with inflation in 2015. To make up for the inflation of the past few years and keep up with the cost of living over the next four years, we suggest **increasing the maximum credit value to \$118 in 2020, \$125 in 2022, and \$130 in 2024.**

Since the income eligibility cut-offs for this credit have not been adjusted for cost-of-living increases since 2007, fewer and fewer households can claim the credit. We request that the committee catch the income thresholds up to inflation and schedule increases for the next four years. That translates to **raising the maximum annual eligible income level to \$62,000 (\$37,000 for single filers) in 2020, \$65,000 / \$39,000 in 2022, and \$68,000 / \$41,000 in 2024.**

We appreciate your consideration of this testimony.

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*The Hawai'i Appleseed Center for Law and Economic Justice 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.*

Sebastian Mosur  
Donald Erway  
Greg and Pat Farstrup  
Andrea N Brower  
Will Caron  
Cindy Aban  
JAE LEE

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

Please pass SB 579, which would help our low-income and working-class neighbors keep more of their hard-earned money, through the following targeted tax credits:

Mahalo for passing our state Earned Income Tax Credit in 2017, but it's not as helpful as it could be because it is not refundable. If it were refundable, low-income taxpayers could get tax refunds when their credits total more than the amount of income tax that they owe. I support making our state EITC refundable, as SB 579 would do.

The income eligibility limit for and dollar amount of the Low-Income Renters' Credit were last set in the 1980s. To catch both values up to inflation since then, the amount of the credit should be increased to \$150 and the eligibility limit to \$75,000 for joint filers.

The Food/Excise Tax Credit is intended to return some of the General Excise Tax that low-income families are charged on their groceries. The amount of this credit was last updated in 2015, and the income eligibility limits in 2007. Both of these levels should be lifted to catch up with inflation, with the amount going to \$118 and the eligibility level to \$62,000 for joint filers.

And in order to prevent further erosion of the value of the Renters' Credit and the Food Credit, automatic cost of living adjustments should be added to both.

Thank you for the chance to provide testimony on this important bill.

**LATE**

**SB-579**

Submitted on: 2/10/2019 12:38:53 PM

Testimony for WAM on 2/11/2019 10:00:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Laura Gray	Individual	Support	No

Comments: