

DAVID Y. IGE
GOVERNOR

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ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Sylvia Luke, Chair;
The Honorable Kyle T. Yamashita, Vice Chair;
and Members of the House Committee on Finance

From: Isaac W. Choy, Director
Department of Taxation

Date: Monday, February 28, 2022
Time: 11:00 A.M.
Place: Via Video Conference, State Capitol

Re: H.B. 1507, Relating to Tax Fairness

The Department of Taxation (Department) has serious concerns regarding H.B. 1507 and offers the following comments for your consideration.

H.B. 1507 disallows the special capital gains tax rate and subjects capital gains income to the highest marginal tax rate the taxpayer is otherwise subject to. The bill makes the Hawaii earned income tax credit (HEITC) refundable and permanent. The bill becomes effective upon approval and applies to taxable years beginning after December 31, 2022.

The Department appreciates the intent behind disallowing the special capital gains rate but has serious concerns about the method used to do so. The proposal states that all capital gains income must be taxed at the taxpayer's highest marginal tax rate. This creates a complication because capital gains income is already part of the taxpayer's total income, which is the measure used to determine the taxpayer's marginal tax rate. Under this proposal, it is unclear if the capital gains income is to be separately subject the taxpayer's highest marginal tax rate or if the capital gains income is to remain a portion of the taxpayer's total taxable income. If the intent is to impose the ordinary rate to capital gains income, the Department recommends a simple repeal of Hawaii Revised Statutes section 235-51(f).

The Department is able administer the amendment to the HEITC as currently written. Thank you for the opportunity to provide testimony on this measure.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1507

February 28, 2022
11:00 a.m.
Room 308 and Videoconference

RELATING TO TAX FAIRNESS

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill No. 1507 amends Section 235-51, HRS, to increase the tax rate on capital gains for taxable years beginning after December 31, 2021, by providing that all capital gains shall be taxed at the highest marginal rate applicable to the taxpayer's filing status and tax brackets in the section; and amends Section 235-55.75, HRS, to make the Earned Income Tax Credit refundable and permanent.

B&F notes that the federal American Rescue Plan (ARP) Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

- By enacting policies to raise other sources of revenue;
- By cutting spending; or

- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with this ARP restriction.

Thank you for your consideration of our comments.



Hawaii
Children's Action Network Speaks!
Building a unified voice for Hawaii's children

Hawai'i Children's Action Network Speaks! is a nonpartisan 501c4 nonprofit committed to advocating for children and their families. Our core issues are safety, health, and education.

To: House Committee on Finance

Re: **HB 1507 - Relating to Tax Fairness**

Hawai'i State Capitol, Via Videoconference, Conference Room 308
February 28, 2022, 11:00 AM

Dear Chair Luke, Vice Chair Yamashita, and committee members,

On behalf of Hawai'i Children's Action Network Speaks!, I am writing in SUPPORT with SUGGESTED AMENDMENTS to HB 1507, relating to tax fairness. This bill would increase the tax rate on capital gains as well as make the state earned income tax credit (EITC) refundable and permanent.

This bill would help make our tax system more fair by taxing income from wealth – which is concentrated at the top – at the same rate as income from work, in order to help lower-income and working-class families keep more of their hard-earned money through an improved EITC.

Hawai'i's tax system currently is upside down. Families who earn less than \$20,000 per year pay 15% of their income in state and local taxes, while those who make over \$450,000 pay only about 9%. In fact, our state saddles our low-income families with the second-heaviest state and local tax burden in the nation.¹

The state EITC has helped balance our tax system by providing a boost to low- to moderate-income families for the last four years. But it will end this year, if it is not renewed, and it hasn't been helping the families who need it most. That's why it's so important to make the EITC permanent AND refundable.

Researchers have found that the federal EITC leads to good health through better birth outcomes and greater food security, better academic achievement as evidenced by higher high school graduation rates and increased college enrollment, and stronger economic growth as every \$1 in EITC creates \$1.24 in local economic activity.²

Refundability allows those families that need tax credits the most to get the FULL amounts that they qualify for. In other words, if a family qualifies for a tax credit that's LARGER than what they owe in taxes, they get the extra amount back as a TAX REFUND. The federal EITC is refundable, and **of the 31 states that have EITCs, Hawai'i is one of only five** that are not refundable.³

Imagine a single parent, with one child, earning minimum wage, or \$21,000 per year. Their state income tax is \$424, and they're eligible for a state EITC of \$663. However, with the current NON-refundable EITC, that parent can only claim a credit of \$424 to zero out their tax liability. But with a REFUNDABLE EITC, that parent can claim the full \$663 credit and get a TAX REFUND of \$239.

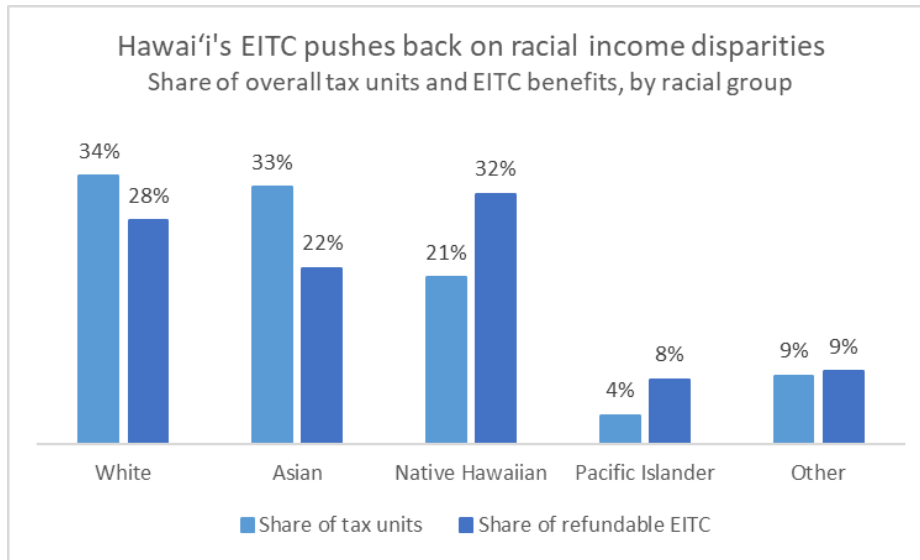
¹ Institute on Taxation and Economic Policy, <https://itep.org/whopays/hawaii/>

² Hawai'i Kids Count,

https://d3n8a8pro7vhmx.cloudfront.net/goodbeginnings/pages/2185/attachments/original/1643319710/EITC_Report_REV3_FINAL.pdf

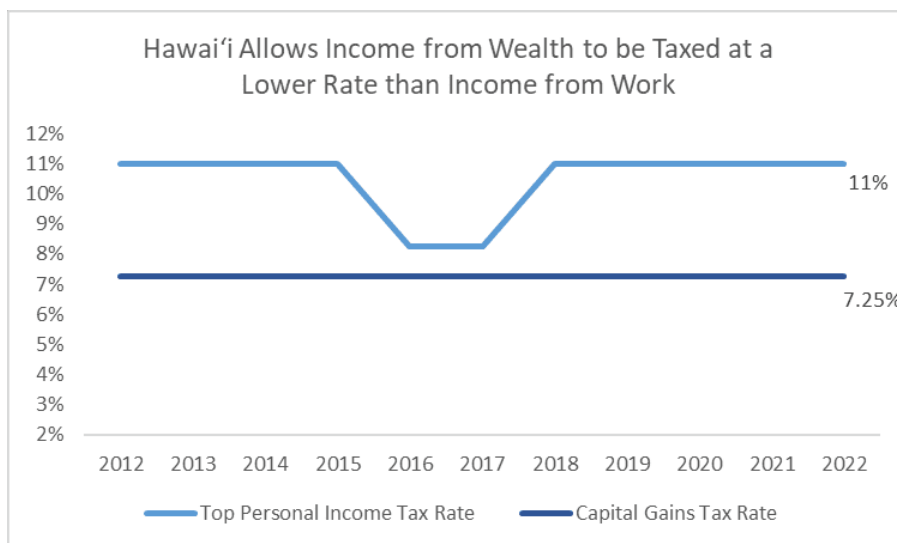
³ Center on Budget and Policy Priorities, <https://www.cbpp.org/research/state-budget-and-tax/state-earned-income-tax-credits>

Making the EITC refundable would also push back on racial income disparities. Native Hawaiians and Pacific Islanders' average EITC benefit currently is larger than the overall state average, and they would see the biggest extra boost from a refundable EITC.⁴



The EITC improvements in this bill are paid for by closing the capital gains tax loophole, which also would help make our tax system fairer by taxing income from wealth like income from work.

Hawaii is one of only nine states that allows capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—**to be taxed at a LOWER rate than ordinary working people's income.**⁵ This tax break benefits those at the top, including non-residents who profit from investing in real estate in Hawaii.



⁴ Institute on Taxation and Economic Policy, unpublished analysis, January 2022

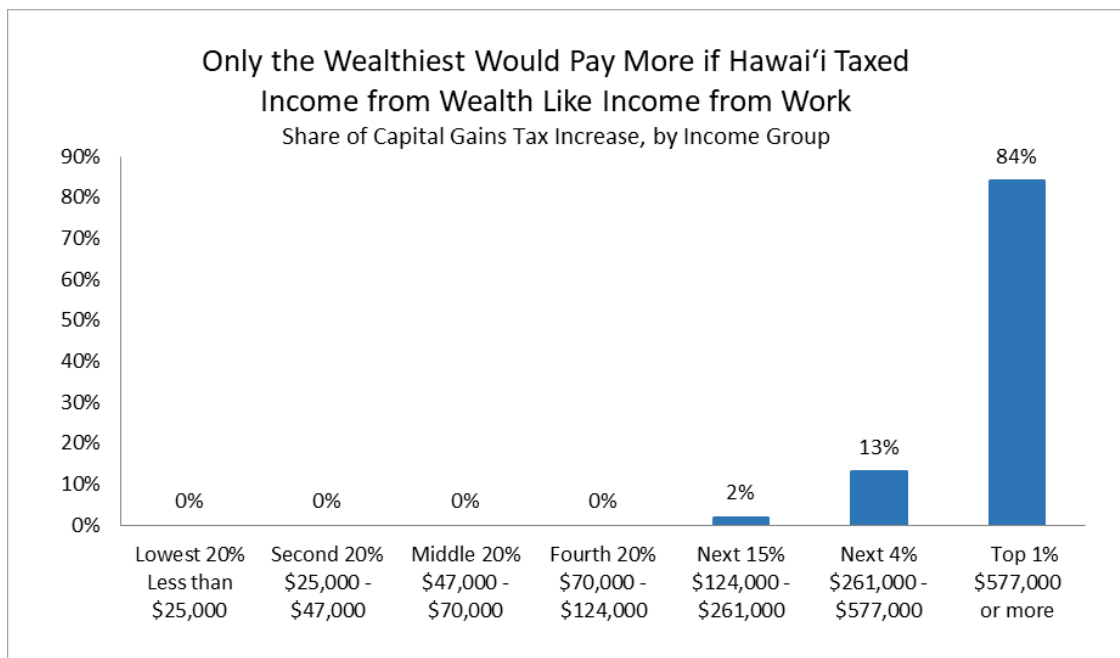
⁵ Center on Budget and Policy Priorities, <https://www.cbpp.org/research/state-budget-and-tax/state-taxes-on-capital-gains>



"The higher the income of taxpayers the greater the share of capital gains in their taxable income," states the Hawaii Department of Taxation. For those who made more than \$400,000 a year in 2019, long-term capital gains were 41.4% of the total taxable income of residents, and a whopping 49.4% of nonresidents. In fact, long-term capital gains constitute 11.5% of total taxable income in the state, or nearly \$4.3 billion in 2019.⁶

In 2019, of the taxpayers who had capital gains income, 7.7% earned \$400,000 or more but they received 79.4% of the capital gains income in the state.⁷ And while Native Hawaiians and Pacific Islanders are 24% of the tax units in Hawai'i, they receive only 17% of the capital gains tax breaks.⁸

If capital gains in Hawai'i were taxed like ordinary income, as they are in most other states, Hawai'i would bring in about \$72.3 million in new revenue per year. And **97% of it would be paid by the top 5% of earners in Hawai'i, or those making at least \$261,000 a year.** Meanwhile the vast majority of taxpayers, those in the bottom 80%, would pay nothing at all.⁹



Looking at the federal capital gains tax rates and real business investment over time, **there is no relationship between taxing capital gains and investment levels.**¹⁰ As Warren Buffett said, "I have worked with investors for 60 years and I have yet to see anyone -- not even when capital gains rates were 39.9 percent in 1976-77 -- shy away from a sensible investment because of the tax rate on the potential gain."¹¹

⁶ Hawaii Department of Taxation, <https://files.hawaii.gov/tax/stats/stats/indinc/2019indinc.pdf>

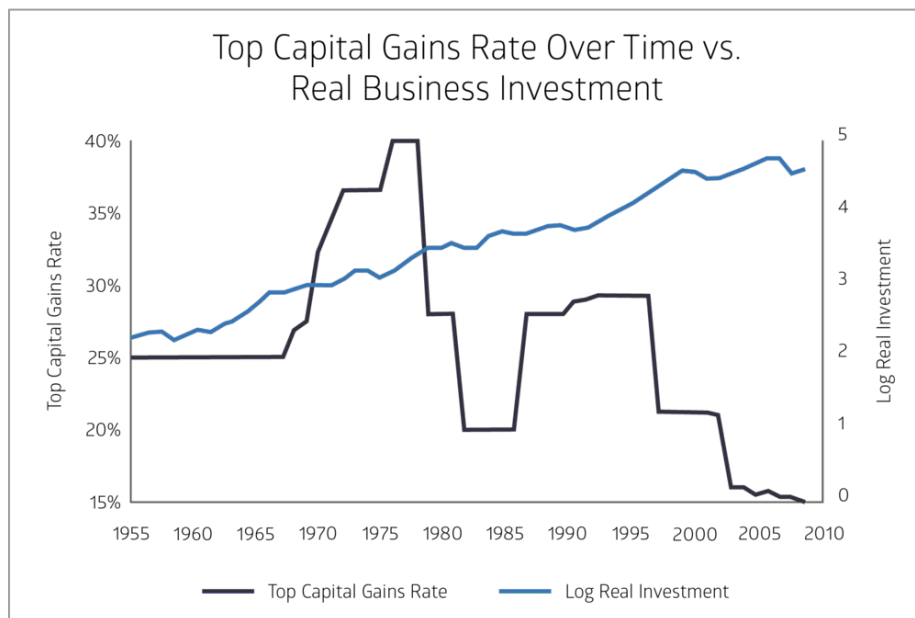
⁷ Hawaii Department of Taxation, <https://files.hawaii.gov/tax/stats/stats/indinc/2019indinc.pdf>

⁸ Institute on Taxation and Economic Policy, unpublished analysis, January 2022

⁹ Institute on Taxation and Economic Policy, unpublished analysis, January 2022

¹⁰ Washington State Budget and Policy Center <https://budgetandpolicy.org/wp-content/uploads/2018/11/Capital-Gains-Tax-Infographic-03-copy.pdf>

¹¹ CNN Money, https://money.cnn.com/2011/08/15/news/economy/buffett_taxes/index.htm



In order to treat capital gains like ordinary income, we **SUGGEST AMENDMENTS** to section 2 of this bill. First, we suggest changing section 2 to strike Hawai'i Revised Statutes (HRS) Section 235-51(f), which is the language that treats long-term capital gains differently than ordinary income.

Next, replicating how other states, such as California,¹² tax capital gains like ordinary income, we suggest adding to section 2 of this bill language that would create a new subsection of HRS Section 235-2.3(b), as follows: "Section 55(b)(3) of the Internal Revenue Code, relating to maximum rate of tax on net capital gain of noncorporate taxpayers."

Mahalo for the opportunity to provide this testimony. Please pass this bill with our suggested amendments.

Thank you,

Nicole Woo
Director of Research and Economic Policy

¹² California Revenue and Taxation Code, § 17062.5



Osa Tui, Jr.
President
Logan Okita.
Vice President
Lisa Morrison
Secretary-Treasurer
Wilbert Holck
Executive Director

TESTIMONY BEFORE THE HOUSE COMMITTEE ON FINANCE

RE: HB 1507 - RELATING TO TAX FAIRNESS

MONDAY, FEBRUARY 28, 2022

OSA TUI, JR., PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Luke, and Members of the Committee:

The Hawaii State Teachers Association **supports HB 1507**, relating to tax fairness. **This bill increases the tax rate on capital gains while also making the state earned income tax credit refundable and permanent.** Applies to taxable years beginning after December 31, 2022.

Hawai'i is one of only nine states that taxes all capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—at a lower rate than ordinary income. This tax break primarily benefits wealthy individuals, including nonresidents who invest in real estate in the islands. According to the department of taxation, taxing capital gains at the same rate as the ordinary income could generate over \$132,000,000 in the next fiscal year, an amount that would rise to an estimated \$187,000,000 within six years. **Instead, this money can be going to those who need it the most by making the Earned Income Tax Credit (EITC) refundable and permanent, as it should be.**

We need to fairly tax capital gains in Hawai'i, while also ensuring that local families can contribute to their children's financial security. The federal Tax Cuts and Jobs Act gave a tremendous tax break to literally the richest among us. The state can now recapture some of those federal tax savings by raising the percentage of our state tax on capital gains to pay for EITC.

The U.S. has one of the lowest levels of intergenerational economic mobility, meaning that a child's economic future is highly dependent on their parents' economic standing. If your parents were rich, you are likely to be rich simply by default—and that wealth compounds with each generation. But if your parents were poor, it is increasingly more difficult to move up the socioeconomic ladder.

To fairly tax wealth, while also ensuring that local families can contribute to their children's financial security, the Hawaii State Teachers Association asks your committee to **support** this bill.



Committee on Finance
Chair Luke, Vice Chair Yamashita

Monday, February 28, 2020, 11 am, Videoconference
HB1507 — RELATING TO TAX FAIRNESS

TESTIMONY

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

Chair Luke, Vice Chair Yamashita, and Committee Members:

The League of Women Voters of Hawaii strongly supports HB1507, which to make our tax system more equitable, would make the Earned Income Tax Credit (EITC) permanent and refundable and also increase the income tax on capital gains.

In 2018, Hawaii's Legislators created the Hawaii EITC, following the format of the federal EITC as have 29 other states. However, the federal EITC and most state EITC's, are refundable (if your income, and thus your income tax, is so low that the amount of the credit you are eligible for is greater than your income tax, you can't use all of the credit). Hawaii's EITC is non-refundable; the poorest working families lose some of the credit every year. These struggling households comprise about 25% of households receiving the Hawaii EITC*. Their incomes are frighteningly low – less than \$25,000/year. Imagine trying to live on that!

Our social safety net has a big puka, when households supported by one or more workers who earn far below a living wage, lose part of their EITC. A refundable EITC would make a real difference in spending power for these households.

Equally important, Hawaii's EITC will expire at the end of the year without legislative action. Making it permanent will prevent more rounds of legislation in the future.

At the other end of the income scale, HB1507 increases the capital gains tax, which is paid mostly by the top 5% of earners. If enacted Hawaii will join the majority of states which tax capital gains at the same (or greater) rate as ordinary income. HB1507 makes major contributions to a more equitable taxation system. Please pass it!

Thank you for the opportunity to submit testimony.

League of Women Voters of Hawaii
P.O. Box 235026 ♦ Honolulu, HI 96823
Voicemail 808.377.6727 ♦ my.lwv.org/hawaii ♦ voters@lwvhi.org

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TESTIMONY IN SUPPORT OF HB 1507

TO: Chair Luke, Vice-Chair Yamashita, & Finance Committee Members

FROM: Nikos Leverenz
Grants & Advancement Manager

DATE: February 28, 2022 (11:00 AM)

Hawai'i Health & Harm Reduction Center (HHRC) **strongly supports** HB 1507, which equalizes the capital gains tax rate with the highest marginal rate applicable to a taxpayer's filing status and tax bracket and makes the state earned income tax credit refundable and permanent.

Implementing a permanent refundable earned income tax credit [will benefit about 1 in 4 Hawai'i residents](#). This figure includes those from under-resourced communities, [including Filipinx, Vietnamese, Native Hawaiian, and Pasifika families who lived in poverty prior to the COVID-19 pandemic](#). The state Department of Education indicates that [over 47% of its students are from economically challenged households](#). [With income serving as the foremost determinant of health](#), the health and well-being of these families will foreseeably improve with additional funds.

[Hawai'i is in the small minority of nine states that taxes all capital gains at a lower rate than ordinary income](#). Lower taxation of profits realized by the sale of stocks, bonds, real estate, art, and antiques is a windfall for higher-income taxpayers, including non-residents who benefit from speculative real estate investments.

HHRC's mission is to reduce harm, promote health, create wellness, and fight stigma in Hawai'i and the Pacific. We work with many individuals who are impacted by poverty, housing instability, and other social determinants of health. Many have behavioral health problems, including those relating to substance use and underlying mental health conditions. Many of our clients and participants have been deeply impacted by trauma, including histories of physical, sexual, and psychological abuse.

Thank you for the opportunity to testify on this measure.



AMERICANS FOR DEMOCRATIC ACTION

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MAILING ADDRESS

Bill South
Zahava Zaidoff
P.O. Box 23404
Honolulu
Hawaii 96823

February 27, 2022

TO: Chair Luke and Members of Finance Committee

RE: HB 1507 Relating to Tax Fairness

Support for hearing on February 28

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 this bill as it would increase the tax rate on capital gains and make the state earned income tax credit refundable and permanent.

We would like to call your attention to the information in Section 1 of the bill:

According to the Institute on Taxation and Economic Policy, Hawaii places the second-highest tax burden on low-income households, with Hawaii's lowest-income households paying approximately fifteen per cent of their income in state and local taxes. In comparison, Hawaii's highest earning households pay roughly nine per cent of their income in state and local taxes. The legislature additionally finds that the earned income tax credit is essential to helping local families maintain financial security. Moody's Analytics has estimated that every dollar provided through the earned income tax credit creates a net benefit to Hawaii's economy of \$1.24. Yet, Hawaii's earned income tax credit is not refundable, unlike twenty-three of the twenty-eight states that had an effective state earned income tax credit as of 2021. Making the State's earned income tax credit refundable would strengthen its ability to offset the regressivity of Hawaii's tax system and increase equity in Hawaii's tax code.

The legislature also finds that Hawaii has a low capital gain tax rate in comparison to other states. This tax break primarily benefits wealthy individuals, including nonresidents who invest in real estate in the islands. According to the department of taxation, taxing capital gains at the same rate as the ordinary income could generate over \$132,000,000 in the next fiscal year, an amount that would rise to an estimated \$187,000,000 within six years.

Thank you for your favorable consideration.

Sincerely,

John Bickel, President

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Capital Gains Rate, Make EITC Refundable and Permanent

BILL NUMBER: SB 2485, HB 1507

INTRODUCED BY: SB by CHANG; HB by KAPELA, GANADEN, ILAGAN, LOPRESTI, PERRUSO, QUINLAN

EXECUTIVE SUMMARY: Increases the tax rate on capital gains. Makes the state earned income tax credit refundable and permanent. Applies to taxable years beginning after December 31, 2022. This bill includes a broad-based tax increase, perhaps larger than what the drafter intended. We are concerned that a tax increase at this time is inappropriate given our current fragile economic situation.

SYNOPSIS: Amends section 235-51(f), HRS, to provide that beginning after December 31, 2022, all capital gains shall be taxed at the highest marginal rate applicable to the taxpayer's filing status and tax bracket.

Amends section 235-55.75, HRS, to make the state Earned Income Tax Credit (EITC) refundable and permanent.

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2022.

STAFF COMMENTS: There seems to be a drafting problem with this bill. The apparent intent of the bill is to make capital gains taxable at ordinary income rates. The bill as drafted, however, makes ALL capital gains taxable at the highest marginal rate applicable to the taxpayer. To illustrate this point, suppose we have a couple filing jointly with \$100,000 of capital gains and \$50,000 in ordinary income.

- Under current law, they would pay the Tax Table tax on \$50,000 plus 7.25% on \$100,000 = \$10,109.
- If the capital gain limit did not apply, they would pay the Tax Table tax on \$150,000 = \$10,882.
- Under the bill as drafted, they would pay the Tax Table tax on \$50,000 plus 8.25% on \$100,000 = \$11,109.

If the intent is to subject capital gain to ordinary income rates, which is what some states do, we would suggest the following language instead:

(f) If a taxpayer has a net capital gain for any taxable year to which this subsection applies, then the tax imposed by this section shall not exceed the sum of:

- (1) The tax computed at the rates and in the same manner as if this subsection had not been enacted on the greater of:
 - (A) The taxable income reduced by the amount of net capital gain, or
 - (B) The amount of taxable income taxed at a rate below 7.25 per cent, plus
- (2) A tax of 7.25 per cent of the amount of taxable income in excess of the amount determined under paragraph (1).

This subsection shall apply to individuals, estates, and trusts for taxable years beginning after December 31, 1986~~[]~~ and before January 1, 2023.

Earned Income Tax Credit: In Act 107, SLH 2017, the earned income tax credit (EITC) was adopted. Its supporters maintained it's the best solution to lift families out of poverty since sliced bread. At the Department of Taxation's urging, however, the EITC was made nonrefundable. This bill would make the credit refundable.

Well, what's the difference? Let's start with a nonrefundable credit, which is current law. Suppose you either have lots of credits or not very much income, so you have more credits than tax liability. If you have made tax payments throughout the year, through wage withholding perhaps, you still can get all your payments back. But once the tax liability hits zero, there's no more. The state does not cut you a check, but you get a credit carryover which can be used against next year's tax liability.

In contrast, a refundable credit is just as good as cash. Not only can this type of credit reduce the amount of tax owed, but if the tax liability is less than the credit the State will cut the taxpayer a check for the difference.

Why is the Department concerned about issuing refundable credits? There are several reasons.

First, issuing a refund is administratively expensive. In most businesses, the internal process necessary to send money to someone goes through several checks and balances to make sure that no mistakes are made. In our state government, we need to do those processes twice. At the Department of Taxation, staff can ask for a refund to be issued but no one can issue a check. Instead, a document called a "refund voucher" is sent to a different department altogether, the Department of Accounting and General Services (DAGS). Once DAGS gets the refund voucher, it goes through its own processes, checking to see if the recipient doesn't owe another agency for example, and then issues the check.

Second, a refund can become a target for bad actors. We earlier pointed to reports from the U.S. Treasury Inspector General for Tax Administration estimating that more than 20% of all federal

EITC payouts were improper. Other studies estimated that about half of these so-called improper payments were paid out because someone made a mistake. Perhaps the taxpayer was confused by the tax form, which is admittedly complex. The other half were paid out because of bad actors. Maybe a taxpayer claimed credits for kids they don't have. Maybe an unethical tax preparation service filled in data claiming credits for people who exist but aren't part of the taxpayer's family. Once the cash goes out, however, it's tough to get back. In Hawaii, our credit is 20% of the federal credit so a smaller check would go out, and because the number is smaller the Department of Taxation might not be motivated to chase down the improper payments given the number and severity of other items on their plate.

Indeed, the Department recently estimated that changing the Hawaii EITC to a refundable one would cost the State \$32 million more than a nonrefundable credit. It's not clear how they came up with that number. But that amount of money could cool a few sweltering classrooms, or perhaps fix a few plumbing facilities at the airport. In this situation, what are our priorities? Where is the need greatest?

Capital Gains Tax Increase: Under current law, capital gains are taxed as income. A capital gain is a profit from the sale of a capital asset—such as a house, stock, bond, or jewelry—from the time that asset is acquired until the time it is sold. The price at which an asset is purchased is called the asset's "basis," and taxpayers pay tax on the difference between an asset's basis and its sales price when they sell, or realize, that capital gain.

In the federal system, for capital gains realized on assets held for less than one year (short-term capital gains), taxpayers pay taxes according to their ordinary individual income tax rate, ranging from 10 percent to 37 percent. For assets held longer than one year (long-term capital gains), taxpayers pay a reduced tax rate, ranging from 0 percent to 20 percent, depending upon a taxpayer's income. Individuals with Modified Adjusted Gross Income surpassing \$200,000 (\$250,000 for married couples) pay an additional 3.8 percent tax on net investment income.

Also, when a person dies and leaves property to an heir, the basis of that property is increased to its fair market value. This "step-up in basis" means that any capital gains that occurred during the decedent's life go untaxed. When the heir sells that property, any capital gains taxation will be assessed based on the heir's new basis. Step-up in basis reduces the tax burden on transferred property, as the total value of transferred property is already taxed by the estate tax.

Presently, capital gains income is taxable at the federal level and in all 41 states that also tax wage income. The federal government offers a lower rate for long-term capital gains but taxes short-term gains at the ordinary rate. States tend to tax capital gains at the ordinary rate.

This proposal is still a tax increase on individuals. This bill does not change the maximum capital gains tax rate on corporations.

In any event, a tax increase of any magnitude in Hawaii's fragile economy will, no doubt, have a negative impact as costs soar due to higher taxes. As costs and overhead increase, employers must find ways to stay in business by either increasing prices to their customers or cut back on costs. This may take the form of reducing inventory, shortening business hours, reducing

Re: SB 2485, HB 1507

Page 4

employee hours, or even laying off workers. A tax increase of any magnitude would send many companies, especially smaller ones, out of business taking with them the jobs the community so desperately needs at this time.

Digested: 2/26/2022



HOUSE BILL 1507, RELATING TO TAX FAIRNESS

FEBRUARY 28, 2022 · HOUSE FINANCE COMMITTEE
· CHAIR REP. SYLVIA LUKE

POSITION: Support.

RATIONALE: The Democratic Party of Hawai'i Education Caucus **supports HB 1507**, relating to tax fairness, which increases the tax rate on capital gains and makes the state earned income tax credit refundable and permanent. Applies to taxable years beginning after December 31, 2022.

It is time for Hawai'i to tax the rich. Hawai'i saddles our low-income neighbors with the second-heaviest state and local tax burden in the nation. While families who earn less than \$20,000 per year pay 15 percent of their income in state and local taxes, those who make over \$450,000 annually pay only about 9 percent. Hawai'i is also one of only nine states that taxes all capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—at a lower rate than ordinary income.

This capital gains tax loophole privileges almost entirely high-income taxpayers, including non-residents who profit from investing in real estate in the islands. If Hawai'i were to tax capital gains at the same rates as regular income, as most states do, **Hawai'i would bring in over \$160 million in new revenue**, according to Hawai'i Department of Taxation estimates, 97 percent of which would be paid by the top 5 percent of income earners in our state, while the bottom 80

percent would pay nothing at all. That amount is far more than enough to pay for the fiscal impact of making our state's earned income tax credit refundable and permanent.

The earned income tax credit is intended to let working families keep more of the money they earn through their paychecks. As an economic stimulus, the EITC contributes up to \$1.24 in economic activity for every \$1 it returns to workers. As the Hawai'i Budget and Policy Center noted in a recent report:

Many of the workers eligible for an EITC do not earn enough to cover all their basic needs, including food, housing and healthcare. The credit helps these workers provide their families with the basics and makes the tax system more equitable in the process. Research on the EITC shows that the credit contributes to long-term economic and health gains for families. People of color—who are more likely to earn low wages in Hawai'i due to structural and historic barriers to economic security caused by colonialism and systemic racism—therefore tend to experience the greatest benefit from the EITC program, making it an effective anti-racist policy as well (Refunding Hawai'i, 2022).

The benefits of strengthening the EITC are clear in the islands, especially given our skyrocketing cost of living and housing crisis, both of which have worsened during the COVID-19 pandemic. Asking our state's wealthiest residents to pay their fair share to uplift the financial security of our most vulnerable community members is a deal that working families can't afford to miss.

Kris Coffield · Chairperson, DPH Education Caucus · (808) 679-7454 · kriscoffield@gmail.com



HB 1507, RELATING TO TAX FAIRNESS

FEBRUARY 28, 2022 · HOUSE FINANCE COMMITTEE
· CHAIR REP. SYLVIA LUKE

POSITION: Support.

RATIONALE: Imua Alliance **supports HB 1507**, relating to tax fairness, which increases the tax rate on capital gains and makes the state earned income tax credit refundable and permanent. Applies to taxable years beginning after December 31, 2022.

It is time for Hawai'i to tax the rich. Hawai'i saddles our low-income neighbors with the second-heaviest state and local tax burden in the nation. While families who earn less than \$20,000 per year pay 15 percent of their income in state and local taxes, those who make over \$450,000 annually pay only about 9 percent. Hawai'i is also one of only nine states that taxes all capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—at a lower rate than ordinary income.

This capital gains tax loophole privileges almost entirely high-income taxpayers, including non-residents who profit from investing in real estate in the islands. If Hawai'i were to tax capital gains at the same rates as regular income, as most states do, **Hawai'i would bring in over \$160 million in new revenue**, according to Hawai'i Department of Taxation estimates, 97 percent of which would be paid by the top 5 percent of income earners in our state, while the bottom 80 percent would pay nothing at all. That amount is far more than enough to pay for the fiscal impact of making our state's earned income tax credit refundable and permanent.

The earned income tax credit is intended to let working families keep more of the money they earn through their paychecks. As an economic stimulus, the EITC contributes up to \$1.24 in economic activity for every \$1 it returns to workers. As the Hawai'i Budget and Policy Center noted in a recent report:

Many of the workers eligible for an EITC do not earn enough to cover all their basic needs, including food, housing and healthcare. The credit helps these workers provide their families with the basics and makes the tax system more equitable in the process. Research on the EITC shows that the credit contributes to long-term economic and health gains for families. People of color—who are more likely to earn low wages in Hawai'i due to structural and historic barriers to economic security caused by colonialism and systemic racism—therefore tend to experience the greatest benefit from the EITC program, making it an effective anti-racist policy as well (Refunding Hawai'i, 2022).

The benefits of strengthening the EITC are clear in the islands, especially given our skyrocketing cost of living and housing crisis, both of which have worsened during the COVID-19 pandemic. Asking our state's wealthiest residents to pay their fair share to uplift the financial security of our most vulnerable community members is a deal that working families can't afford to miss.

Kris Coffield · Executive Director, Imua Alliance · (808) 679-7454 · kris@imuaalliance.org



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State of Hawai'i, Deputy Public Defender

HIPHI Initiatives

Coalition for a
Tobacco-Free Hawai'i

Community Health
Worker Initiative

COVID-19 Response

Hawai'i Drug & Alcohol Free
Coalitions

Hawai'i Farm to School Hui

Hawai'i Oral Health Coalition

Hawai'i Public Health Training Hui

Healthy Eating + Active Living

Kūpuna Food Security Coalition

Date: February 27, 2022

To: Representative Sylvia Luke, Chair
Representative Kyle T. Yamashita, Vice Chair
Members of the Committee on Finance

Re: Support HB 1507, Relating to Tax Fairness

Hrg: February 28, 2022 at 11:00 AM via Videoconference

The Hawai'i Public Health Instituteⁱ is in **support of HB 1507**, which would make Hawai'i's earned income tax credit refundable and permanent through an increase in the capital gains tax rate.

Health improves with increasing income, and the impacts of a rise in income are greatest for those at the lowest end of the wage scale. Research shows that those who move out of the lowest income level to the next receive the greatest percentage increase in life expectancy and health status. According to the Center on Budget and Policy Priorities, the 2018 federal EITC lifted about 5.6 million people out of poverty, including about 3 million children, and reduced the severity of poverty for another 16.5 million people, including 6.1 million childrenⁱⁱ.

The EITC is designed to help working families more of keep more of their income by reducing their tax liability. In 2017, Hawai'i passed a nonrefundable state EITC of up to 20 percent of the federal EITC. One in four Hawai'i residents qualify for the tax credit and by 2023, it is estimated that Hawai'i's EITC will have provided more than \$135 million in tax relief. However, Hawaii's EITC is non-refundable and set to sunset on December 31, 2022. HB 1507 will ensure that working families continue to benefit from the EITC on a permanent, refundable basis. With refundable EITCs, taxpayers receive a refund if EITC is greater than the income tax owed. This puts more money into the pockets of working families, who can use it towards essentials like groceries, rent, or childcare.

Thank you for the opportunity to provide testimony.

Mahalo,

A handwritten signature in black ink, appearing to read "Amanda Fernandes". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Amanda Fernandes, JD
Policy and Advocacy Director

ⁱ Hawai'i Public Health Institute is a hub for building healthy communities, providing issue-based advocacy, education, and technical assistance through partnerships with government, academia, foundations, business, and community-based organizations.

ⁱⁱ Center on Budget and Policy Priorities. (2019, December 10). *Policy Basics: The Earned Income Tax Credit*. Accessed at <https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit>.



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony in support of HB1507–Relating to Tax Fairness
House Committee on Finance
Monday, February 28th 11AM

Aloha Chair Luke, Vice Chair Yamashita and Members of the Committee,

The Hawaii Appleseed Center for Law and Economic Justice is thankful for the opportunity to provide testimony in **SUPPORT** of HB1507, which makes the state’s Earned Income Tax Credit (EITC) refundable and permanent.

The federal EITC was created in 1975 as a way to help working families keep more of what they earn through their work. The EITC provides a boost to household tax refunds and is targeted to working families with low incomes, especially those households with children.

Largely seen as the most effective anti-poverty tool we have at our disposal, the federal EITC helped to lift 5.6 million people, including 3 million children, over the poverty threshold in 2018.ⁱ In Hawaii, nearly 90,000 households claimed the federal EITC in 2020, with the average size of the credit being \$2,138 per household.ⁱⁱ

In 2017, the state of Hawaii enacted its own EITC, which provides 20% of the value of the federal EITC to qualifying households. Unlike the federal EITC, Hawaii’s state credit is non-refundable, meaning that households can only use the state credit to reduce their tax liability. Households with the lowest incomes are not able to make full use of the state’s EITC, since they often have little to no tax liability.

According to the state Department of Taxation, households with incomes under \$15,000 are receiving only \$83 dollars in state EITC on average, while households with incomes over \$55,000 receive \$484.ⁱⁱⁱ Making the credit refundable would allow households in the lowest income quintile to boost their credit by \$237 on average, thereby making it a much stronger anti-poverty tool at the state’s disposal.^{iv}

Our research also shows that making the earned income tax credit refundable will be most beneficial to the Native Hawaiian, Pacific Islander, and Filipino communities. Currently, these populations have the lowest average incomes among major ethnic groups as well as the highest utilization of the credit. Making the credit fully refundable would boost the average size of the state EITC for Native Hawaiian, Pacific Islander, and Filipino households to \$497, \$536, and \$459 respectively.^v

Raising the tax on capital gains, as HB1507 proposes, is a common-sense way for the state to pay for an increased EITC. Hawaii is one of only nine states that taxes capital gains at a lower rate than regular income.^{vi} Since capital gains are largely accrued by households with higher

incomes, raising the state's relatively low rate of 7.25% is a way to generate significant revenue, while building equity into our tax code.

An extra few hundred dollars every year at tax time can make a significant difference in the lives of Hawaii's working families. That increased refund can help to relieve financial pressure that working families face every day, as our cost of living continues to rise and wages remain stagnant. The COVID-19 pandemic has only exacerbated these pressures and a refundable and permanent EITC will help Hawaii's hardest hit families recover, while providing a pathway to economic stability.

ⁱ Center on Budget and Policy Priorities "Policy Basics: The Earned Income Tax Credit," <https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit>

ⁱⁱ Hawaii Budget and Policy Center "Refunding Hawaii," https://static1.squarespace.com/static/5ef66d594879125d04f91774/t/61f207dc896d102d30606d6f/1643251680283/EITC+Report_REV3_FINAL.pdf

ⁱⁱⁱ Hawaii State Department of Taxation "'Earned Income Tax Credit Report: Tax Year 2020,'" https://files.hawaii.gov/tax/stats/stats/act107_2017/act107_earnedincome_txcredit_2020.pdf

^{iv} Hawaii Budget and Policy Center "Refunding Hawaii," https://static1.squarespace.com/static/5ef66d594879125d04f91774/t/61f207dc896d102d30606d6f/1643251680283/EITC+Report_REV3_FINAL.pdf

^v Ibid

^{vi} Center of Budget and Policy Priorities "State Taxes on Capital Gains," <https://www.cbpp.org/research/state-budget-and-tax/state-taxes-on-capital-gains>



TO: Chair Luke, Vice Chair Yamashita, and Members of the House Committee on Finance
FROM: Ryan Kusumoto, President & CEO of Parents And Children Together (PACT)
DATE/LOCATION: February 28, 2022; 11:00 a.m., Conference Room 308/Video Conference

RE: TESTIMONY IN SUPPORT OF HB 1507 – RELATING TO TAX FAIRNESS

We would like to provide testimony in support of HB 1507 which increases the tax rate on capital gains and makes the state earned income tax credit refundable and permanent.

Thank you for creating the Hawaii EITC in 2017. It would greatly benefit Hawaii's working families to make this credit refundable and permanent. Approximately 300,000 residents are eligible for this tax credit; roughly 1 in every 4 Hawaii residents. Making the Hawaii EITC refundable allows more people to keep what they earn and will also help tax filers get more back more through the credit than what they owe in state income taxes. Hawaii places the second-highest tax burden on low-income families and continues to have one of the highest costs of living in the United States. Wages are still far below to close any livable wage gap. While the minimum wage has increased over time, it is still not adequate enough to deal with the price disparity. As a result, many of our families continue to struggle to make ends meet or even to meet their basic needs.

History has shown that the landscape of our economy has changed, exacerbated by the stressors of the global pandemic, to negatively impact the most vulnerable and disadvantaged in our society. It has a direct tie to increased financial instability, housing instability, health instability, increased crime and substance abuse, and strained social, emotional and mental well-being. These impacts have long-lasting and multi-generational consequences and impacts our ability to create healthy and thriving communities. Supporting working families strengthens the fabric of our entire community.

EITC makes sense and pays for itself while putting money back into our local economy. Estimations for 2022 were that it would cost \$41 million and that it would also boost revenue

collections by \$57 million. Every \$1 in EITC creates \$1.24 in local economic activity. **We urge you to support making the Hawaii EITC refundable and permanent** to allow more families, especially those with young children, to benefit by keeping more of their paycheck.

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 under-resourced families. Assisting more than 17,000 people across the state annually, PACT helps families identify, address and successfully resolve challenges through its 20 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 strengthening programs.

Thank you for the opportunity to testify in support of **HB 1507**, please contact me at (808) 847-3285 or rkusumoto@pacthawaii.org if you have any questions.

TESTIMONY BEFORE THE HOUSE COMMITTEE ON
FINANCE

RE: HB 1507 - RELATING TO TAX FAIRNESS

MONDAY, FEBRUARY 28, 2022

JOSH FROST, CHAIR
DEMOCRATIC PARTY OF HAWAII LABOR CAUCUS

Chair Luke and Members of the Committee:

The Democratic Party of Hawaii Labor Caucus **supports HB1507** relating to tax fairness, which increases the tax rate on capital gains and makes the earned income tax credit (EITC) refundable and permanent.

The time has long since come to tax the rich in Hawaii. Our state's tax system saddles low-income people with the second-heaviest tax burden in the country. While families who earn less than \$20,000 a year pay 15% of their income in state and local taxes, those who make over \$450,000 a year pay just 9%. That's unconscionable. Hawaii is also one of only nine states that taxes all capital gains – profits from the sale of stocks, bonds, investment real estate, art, antiques, etc. – at a lower rate than ordinary income.

The vast majority of people who benefit from this lower tax rate are those already earning a healthy income and paying lower taxes. This includes non-residents who profit from investing in real estate in Hawaii. That needs to change. Today.

If we chose to tax capital gains at the same rate as regular income, as most states do, Hawaii would collect approximately \$160 million in new revenue. That, according to the Hawaii Department of Taxation, would be paid almost entirely by the top 5% of earners in the state, while the bottom 80% would pay nothing at all.

The \$160 million this capital gains increase would generate far exceeds the cost of making the EITC permanent and refundable.

The EITC is intended to allow working families to keep more of the money they earn and as a result it contributes \$1.24 in economic activity for every \$1 it returns to workers.

For us, the benefits of this bill are abundantly clear. It's good for the State. It's good for working families. As such, we urge you to pass this bill.

Mahalo for the opportunity to submit testimony today.



February 9, 2022

11 a.m.

Conference Room 308 and Videoconference

To: House Committee on Finance

Rep. Sylvia Luke, Chair

Rep. Kyle T. Yamashita, Vice Chair

From: Grassroot Institute of Hawaii

Joe Kent, Executive Vice President

RE: HB1507 — RELATING TO TAX FAIRNESS

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on HB1507, which would alter — and generally increase — the Hawaii state capital gains tax rate so that capital gains shall be taxed “at the highest marginal rate applicable to the taxpayer's filing status and tax bracket.”

While the bill is presented as a tax hike for the wealthy — and “tax fairness” — that does not give the full picture of its effect.

For those in the top income tax bracket, it would be a significant increase to go from the current capital gains rate of 7.25% to a rate based on the top income tax rate of 11%.

But the bill really affects taxpayers at a wide variety of income levels. In reality, tying the capital gains rate to the income tax rate makes this a tax increase at the level of joint taxpayers making more than \$48,000 annually. For those filing singly, the bill would enact a higher capital gains tax for those making as little as \$24,000 a year.

While the intent of this bill is to help low-income families, this proposed tax hike, if enacted, more likely will frustrate that aim than achieve it. It is not possible to raise the tax on capital

gains without having an effect on the state as a whole, including low-earners and working families.

An increase in the capital gains tax is likely to discourage entrepreneurship and investment, two things that could help grow the economy and create jobs. By creating a variable tax rate — and one that is tied to income tax rates, which are often themselves central to proposals to raise taxes — this bill is likely to hasten the exodus from Hawaii of high earners and business owners.

Hawaii residents are already among the most taxed in the country; the state has the second-highest overall tax burden in the U.S.¹ That high tax burden contributes to Hawaii's cost of living and is one of the reasons why so many Hawaii residents have been leaving in search of greater opportunities elsewhere.

Given the state's steep tax burden, any further tax hike is inadvisable. However, the timing of this proposal is especially bad. Hawaii's businesses are still struggling to recover from the pandemic and lockdowns. Many have closed their doors for good. The economy will take years to recover, and the last thing Hawaii needs is a tax hike that discourages investment and the growth of new businesses.

Policymakers should be wary of implementing any tax hike while our economy is still in a fragile state. Here are just a few reasons why lawmakers should give the state a much-needed respite from tax increases:

>> Hawaii cannot sustain a hike in taxes since its economy, already damaged prior to the pandemic, was hit harder by the lockdowns than any other state in the nation.²

>> State lawmakers increased taxes and fees substantially during the decade following the Great Recession of 2007-2008,³ despite a windfall in revenues from an economic boom during the same period. Taxes and fees ballooned on motor vehicles, transient accommodations, estates, fuel, food, wealthy incomes, property, parking and businesses.

¹ Adam McCann, "[Tax Burden by State.](#)" WalletHub, March 30, 2021. See also John S. Kiernan, "[States with the Best & Worst Tax ROI.](#)" WalletHub, March 23, 2021.

² Dave Segal, "[Hawaii's unemployment rate hit nation-high 15% in September.](#)" Honolulu Star-Advertiser, Oct. 20, 2020.

³ "[Tax Acts \(by Year\).](#)" Tax Foundation of Hawaii, accessed Feb. 8, 2021. See also, "[History of Hawaii tax increases. 2010-2020.](#)" Grassroot Institute of Hawaii, March 3, 2021.

>> Hawaii's population reduction of 32,237 people since fiscal 2016⁴ has left Hawaii's remaining taxpayers with a greater tax burden.

>> Hawaii has a regressive general excise tax that disproportionately hits the poor.⁵

>> Hawaii has a progressive income tax that taxes high-income earners at 11%, second only to California at 13.3%.⁶ Hawaii's top 1% already pays 23% of all income taxes in the state.⁷

In addition, this proposal seems especially ill-timed given the fact that the state is currently enjoying a multibillion-dollar budget surplus, thanks to higher-than-expected revenues and an influx of federal funds.

To raise the capital gains tax while enjoying a budget surplus and pondering a tax rebate suggests that this tax hike is being used as a punitive or redistributive measure, not as a needed one. That is certain to send a clear message that Hawaii is not "open for business" and can only lower the state's ranking as a desirable place to invest.

Hawaii's residents and businesses need a break from new taxes, fees, surcharges and tax hikes. This is not the time to make Hawaii a more expensive place to live and do business.

Thank you for the opportunity to submit our comments.

Sincerely,

Joe Kent
Executive Vice President
Grassroot Institute of Hawaii

⁴ ["Annual Estimates of the Resident Population for the United States, Regions, States, the District of Columbia and Puerto Rico: April 1, 2010 to July 1, 2020 \(NST-EST2020\)"](#) U.S. Census Bureau, Population Division, December 2020 and ["U.S. Census data," "Annual Estimates of the Resident Population for the United States, Regions, States, the District of Columbia and Puerto Rico: April 1, 2020 to July 1, 2021."](#) U.S. Census Bureau, Population Division, accessed Jan. 3, 2022.

⁵ "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index: ["Sales Tax Burden,"](#) American Legislative Exchange Council, 2021. Note that Hawaii does not have a sales tax, but a state general excise tax that is levied on almost all goods and services, and imposed multiple times throughout the production chain. See also, ["Who Pays? A distributional analysis of the tax systems in all 50 states."](#) Institute on Taxation and Economic Policy, October 2018, pp. 23 and 55.

⁶ Katherine Loughhead, ["State Individual Income Tax Rates and Brackets for 2020,"](#) Tax Foundation, Feb. 4, 2020.

⁷ ["Hawaii Individual Income Tax Statistics,"](#) Hawaii Department of Taxation, December 2020, Table 13A.

February 28, 2022

The Honorable Sylvia Luke, Chair

House Committee on Finance

Via Videoconference

RE: H.B. 1507, Relating to Tax Fairness

HEARING: Monday, February 28, 2022, at 11:00 a.m.

Aloha Chair Luke, Vice Chair Yamashita, and Members of the Committee,

I am Ken Hiraki, Director of Government Affairs, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its over 11,000 members. HAR **strongly opposes** House Bill 1507, which increases the tax rate on capital gains. Makes the state earned income tax credit refundable and permanent. Applies to taxable years beginning after December 31, 2022.

A capital gain happens when one sells an investment for a profit, such as stocks, real estate or businesses. HAR believes that Hawaii's capital gains rate should be taxed at a lower rate than ordinary income to both factor in inflation and because a lower rate would factor in the high amount of risk it takes to start a business or invest in the stock market, where one could also lose a lot of money. Furthermore, the capital gains tax has a disproportionate impact on our kupuna who rely on their investments to convert their assets to spendable income during their retirement.

HAR would further note that Hawai'i, after California, has the second highest income tax bracket in the nation at 11%. Additionally, Hawaii's highest tax bracket starts at a lower threshold of \$200,001, unlike California, which starts at \$359,408 for the 11.3% rate. Additionally, upon the sale of real estate, one must also pay the Conveyance Tax on the sale, unlike other assets.

Finally, based on Council of Revenues projections, there is a projected \$890 million surplus, so a tax increase of this magnitude seems unnecessary. Additionally, the pandemic is still ongoing and businesses in various sectors have been struggling with many closing its doors. We should instead focus on attracting new industries and diversifying our economy, and a capital gains tax increase would be counter to those efforts.

Mahalo for the opportunity to testify.



House Committee on Finance

Monday, February 28th, 2022, 11a.m.

Hawai'i Alliance for Progressive Action Strongly Supports: HB1507

Aloha Chair Luke, Vice Chair Yamashita and Members of the Committee,

On behalf of the Hawai'i Alliance for Progressive Action (HAPA) I am submitting testimony in **support of HB1507**. HAPA is a state-wide organization that engages approximately 10,000 local residents annually.

HB1507 will increase the tax rate on capital gains and make the state earned income tax credit refundable and permanent.

Why Increase Capital Gains Tax?

Hawai'i is one of only nine states that allows capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—to be taxed at [a lower rate](#) than ordinary working people's income.

The capital gains tax loophole is a tax break for the richest and most privileged people in Hawai'i.

This capital gains tax loophole benefits the highest-income taxpayers, including non-residents who profit from investing in real estate in Hawai'i. In 2019, the 7.7 percent of taxpayers who earned \$400,000 or more [received 79.4 percent of the capital gains income](#) in the state.

While Native Hawaiians and Pacific Islanders are 24 percent of the tax units in Hawai'i, they receive only 17 percent of the capital gains tax breaks.

Those making at least \$1 million a year have a lower average effective tax rate than those in the income group just below them. The Hawai'i State Department of Taxation (DOTAX) explains, "The reason for this drop is that Hawai'i taxes net long-term capital gains at 7.25 percent and the highest income groups are more likely to utilize it."

"Capital gains are heavily concentrated in the high end of the income distribution especially for nonresidents. The higher the income of taxpayers the greater the share of capital gains in their taxable income," according to DOTAX.

For those who made more than \$400,000 a year in 2019, long-term capital gains were 41.4 percent of the total taxable income of residents, and 49.4 percent of nonresidents. "This partially explains why the average effective tax rates for this income group stay two to three percentage

points below the marginal tax rate of 11 percent ... while the rate on net long-term capital gains is set at 7.25 percent,” according to DOTAX.

Taxing capital gains like regular income would generate a lot of revenue, paid for by those at the top.

Long-term capital gains [constitute 11.5 percent of total taxable income in the state](#), or nearly \$4.3 billion in 2019.

If Hawai'i were to tax capital gains at the same rates as regular income, as most states do, Hawai'i would bring in about \$72.3 million in new revenue per year. And 97 percent of it would be paid by the top 5 percent of earners in Hawai'i, or those making at least \$124,000 a year. Meanwhile the vast majority of taxpayers, those in the bottom 80 percent, would pay nothing at all.

EITC Helps Working Families:

The Earned Income Tax Credit (EITC) is a special tax credit for families that work.

This credit helps working families keep more of what they earn and has been helping Hawai'i residents make ends meet for the past four years. However, the lowest-income families that need it the most still can't access its full benefits. And all families that benefit from it today are at risk of losing it if the legislature takes no action to make the credit permanent.

It's tough to make ends meet in Hawai'i. We want working families to have a bigger tax refund come next year because research shows these families, when given financial breathing room, are the drivers of the consumer economy.

This credit would also have the greatest impact for families with children, and there's no better investment we can make than investing in the future of our keiki. Now is the time to invest in working families.

Thank you for your leadership on this issue and for the opportunity to support Hawaii's workers and families. HAPA is a member of the Hawai'i Tax Fairness Coalition.

Please pass HB1507.

Mahalo for your consideration,



Anne Frederick
Executive Director

HB-1507

Submitted on: 2/27/2022 9:55:21 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Michael Ching, MD, MPH	American Academy of Pediatrics, Hawaii Chapter	Support	No

Comments:

The American Academy of Pediatrics, Hawaii Chapter is in support of HB1507 to improve the state Earned Income Tax Credit Program. Our keiki's health and life outcomes are tied heavily to the social and environmental strengths and adversities that they face. The EITC helps to improve these financial, education, and health outcomes in many ways. The EITC is associated with better birth weight for newborns and improvements in maternal health. EITC recipients' children have better school performance, higher test scores, and higher graduation rates. These children earn 17% more income in young adulthood. Making the EITC permanent and making it refundable would help 1 in 7 Hawaii residents. Thank you for this opportunity to testify.



Monday, February 28, 2022

Relating to Tax Fairness
Testifying in Support

Aloha Chair and members of the committee,

The Pono Hawai'i Initiative (PHI) **supports HB1507 Relating to Tax Fairness**, which will increase the tax rate on capital gains and make the earned Income Tax Credit (EITC) refundable and permanent. This measure will help low-income and working families.

Unfortunately, Hawaii's regressive General Excise Tax (GET) hits low-wage working parents the hardest resulting in them paying far more in GET than in state income tax. By making the EITC refundable and permanent we will enable families to keep more of their earnings that would have otherwise been lost to the GET. This is especially helpful and necessary for those single parent or income homes where every penny counts.

EITC has also been shown to be one of the most effective means to fiscal stimulus, providing \$1.24 in community benefits for ever \$1.00 spent. If the EITC is non-refundable it is stifled in its ability to help the economy and job creation.

Helping Hawaii's families who are most at risk for poverty should be a top priority. Reduced financial stress on these families will help to lower overall stress, and lead to better physical and mental health and will help them to create a better future for themselves and their families.

For all these reasons, we urge you to **vote in favor of HB1507**.

Mahalo for the opportunity to testify,

Gary Hooser
Executive Director
Pono Hawai'i Initiative



Date: February 28th, 2022

To: House Committee on Finance
Representative Sylvia Luke, Chair
Representative Kyle Yamashita, Vice Chair

From: Early Childhood Action Strategy

Re: Testimony in Support of **HB1507**– Relating to tax fairness

Mahalo for hearing **HB 1507**! Early Childhood Action Strategy (ECAS) is a statewide cross-sector collaborative designed to improve the system of care for Hawai'i's youngest children and their families. ECAS partners work to align priorities for children prenatal to age eight, streamline services, maximize resources, and improve programs to support our youngest keiki.

ECAS strong supports HB 1507, which would improve the state Earned Income Tax Credit (EITC) by making it permanent and allowing the lowest-income earners to receive the full benefit. It would also close a tax break for the wealthiest people in Hawai'i. In addition, the EITC would do the following

- Improve the health, education, and economic stability of children and families. Every \$1 in EITC creates \$1.24 in local economic activity;
- Create opportunities for low-income families to better afford the basics- food, housing and child care;
- Fix Hawai'i's upside-down state and local tax system. Hawai'i is one of only nine states that allows capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—to be taxed at a lower rate than ordinary working people's income;
- Create an equitable tax system AND generate revenue for the State that could be used for infrastructure and social service expenditures.
- More than 1 in 7 Hawai'i residents (roughly 2016,557 people) were eligible for the federal EITC in 2015, including 105,575 children in EITC qualifying households. By making EITC permanent and expanding it, more of our keiki will be cared for and supported.

Mahalo for your continued support to improve the health, safety and learning of our youngest keiki's
We appreciate you supporting **HB1507**.



Chamber of Commerce HAWAII

The Voice of Business

Testimony to the House Committee on Finance Monday, February 28, 2022, at 11:00 A.M. Via Videoconference

RE: HB 1507 Relating to Tax Fairness

Chair Luke, Vice Chair Yamashita, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports certain portions** of HB 1507, which makes the state earned income tax credit refundable and permanent. Applies to taxable years beginning after December 31, 2022. The Chamber **opposes** the portion of the bill that increases the tax rate on capital gains.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

While the Chamber supports making the state earned income tax credit refundable and permanent, we have concerns regarding the increase in the tax rate on capital gains. We recognize and appreciate the intent of this measure to help the economic security of low-income working families with children. Hawaii is placed among the top states with the heaviest tax burden on low-income households in the nation. The capital gains tax is the most important tax a small business must contend with at the start of the business and at the end of the entrepreneur's association with the business.

To put the capital gains tax into perspective, consider the following scenario for a small business. Suppose you had an idea for a new product or service, and as an entrepreneur, you decided to start your own business to take advantage of this opportunity.

One of the first tasks is to raise the capital needed to open your doors. As is well known, the traditional capital markets are generally available only to established businesses, so you talk to your local banker only to learn that banks usually make loans to on-going businesses. A loan will be made, however, if you can collateralize the entire amount, which means digging deep into your savings or relying on family and friends to help raise seed money.

If you are like most small businesses, your hopes for turning a profit lie somewhere in the future, but healthcare, social security tax, unemployment tax and payroll seem to drain the life blood of the fledgling business—your cash flow.



Chamber of Commerce HAWAII

The Voice of Business

After a few years, you turn a profit, but capital gains tax continues to stunt business growth by limiting the ability to attract investors. Anyone lending capital, particularly for such a risky venture as a new business, does so with the expectation of a large return on his or her investment. The capital gains tax diminishes the after-tax value of that return, thereby discouraging the investment.

Capital gains taxes impose costs on the economy because they reduce returns on investment and thereby distort decision making by individuals and businesses. This can have a substantial impact on the reallocation of capital and the level of entrepreneurship.

We ask the committee to hold this bill due to the effects it would have on our small businesses in the state.

Thank you for the opportunity to testify.



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HACBED Staff

Brent N. Kakesako
Executive Director

Merri Keli'ikuli
*Office Manager & Program
Support*

Corin Thornburg
*Community-Based Economic
Development Project Associate*

Date: February 28, 2022

To: Representative Sylvia Luke, Chair, Representative Kyle T. Yamashita,
Vice-Chair, and members of the Committee on Finance

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

Re: Support for HB 1507

Aloha e Chair Luke, Vice-Chair Yamashita, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports HB 1507, which would help many economically struggling families in Hawai'i by increasing the tax rate on capital gains and making the state earned income tax credit (EITC) refundable and permanent.

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.

The EITC supports working families to put more of their dollars back into their pockets. There are around 300,000 Hawai'i residents, or 1 in 4 residents, who would qualify for the EITC. Low-income families pay more of their income (15%) in taxes as compared to those at the top (8.9%). Similarly, due to impacts from the pandemic and inflation, working families have seen their purchasing power shrink. Making the credit refundable would allow families to claim the full size of the credit. And this proposal would benefit the state as it would cost \$41 million but the increase in the capital gains tax rate would boost revenue collections by \$57 million.

The passage of HB 1507 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.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Executive Director

HB-1507

Submitted on: 2/25/2022 4:59:54 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Lynn Murakami Akatsuka	Individual	Oppose	No

Comments:

To Members of the House Committee on Finance,

I strongly oppose HB 1507 to raise the capital gains tax while it was earlier reported by the Governor's Office that we have a budget surplus. Why is the legislature proposing to increase more taxes on its residents at this time? I agree with the Grassroot Institute of Hawaii's previous testimony that "All Hawaii's residents and businesses need support now from the legislature to propose bills that will lower the cost of living, such as reducing income taxes, creating an exemption to the general excise tax for groceries and medical services, lowering fees and reducing regulations that limit opportunities and stifle economic growth."

Over 32,237 residents have left Hawaii since 2016. Please support our remaining residents who are the taxpayers that you count on for our economy and to attract newcomers who want to reside here and provide job opportunities for our families to have a "decent living wage."

Thank you for the opportunity to testify in strong opposition to HB 1507. Please defer this bill this session.

HB-1507

Submitted on: 2/25/2022 5:10:33 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Ken k Shoda	Individual	Oppose	No

Comments:

To Members of the House Committee on Finance,

I strongly oppose HB 1507 to raise the capital gains tax while proposing a tax rebate through the state earned income tax credit to become refundable and permanent. It was reported by the Governor's Office that we have a budget surplus. So why is the legislature proposing to increase more taxes at this time? Hawaii's residents and businesses need a break from new taxes, fees, surcharges and tax hikes. We cannot sustain a hike in taxes while many of us are struggling to recover economically from the COVID pandemic over these past two years. More taxes mean more Hawaii residents leaving Hawaii - look at the data please!

Please defer this bill this session.

HB-1507

Submitted on: 2/25/2022 5:20:31 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
June Murakami	Individual	Oppose	No

Comments:

To Members of the House Committee on Finance,

I strongly oppose HB 1507 to raise the capital gains tax for all residents in Hawaii. We are already taxed a lot and the increasing cost of living to purchase food, supplies, gas, property tax, and pay my water and electricity bills are going up.

Please do not pass this bill. Thank you.

HB-1507

Submitted on: 2/25/2022 5:25:49 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Clayton Akatsuka	Individual	Oppose	No

Comments:

I strongly oppose HB 1507. Another tax to all the other taxes I have to pay as a senior citizen on a fixed income?

Please defer this bill this session. Thank you.

HB-1507

Submitted on: 2/25/2022 5:35:24 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
GALE M SHODA	Individual	Oppose	No

Comments:

I strongly oppose HB 1507. Please support the remaining Hawaii residents with reducing income taxes, removing general exercise tax for food and medical services, and lowering fees instead. We want to attract newcomers to Hawaii to live here and provide job opportunities for our families and our children to have a "decent living wage." An increased capital gains tax will discourage individuals and businesses to come here.

Please defer this bill. Thank you.

HB-1507

Submitted on: 2/25/2022 10:42:53 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Christy MacPherson	Individual	Support	No

Comments:

Aloha Chair Luke, Vice Chair Yamashita and members of the House Committee on Finance,

I am in **STRONG** support of HB 1507. This is a very good piece of legislation that would make the EITC refundable and permanent as well as increase the capital gains tax which promotes equity and fairness. It makes complete sense to use the monies from this tax increase to fund the EITC.

Mahalo for your consideration.

Will Caron
Pālolo Valley
willcaronforhawaii@gmail.com

February 26, 2022

TO: House Committee on Finance
RE: Testimony in Support of HB1507

Aloha Committee Members,

This bill is the poster child for tax fairness, smart tax policy that increases income equity, provides opportunity and boosts the economy all at the same time.

- By extending the Hawai'i State Earned Income Tax Credit (EITC) to make it permanent and refundable, the legislature would give thousands of hardworking, yet struggling, Hawai'i families a much needed tax break while contributing [\\$1.24 to the economy](#) for every dollar those families receive as part of their EITC.
- And by increasing the tax rate on long-term capital gains, profits on assets held almost exclusively by the top 5 percent of earners in Hawai'i, the state will collect the revenue it needs to make the best possible investments in our collective future from only the wealthiest and most fortunate among us.

I urge this committee to pass this bill with no changes on to the full house with your support.

Extending the State EITC

The State EITC, worth 20 percent of the federal credit, helps working families keep more of what they earn and has been helping Hawai'i residents make ends meet for the past four years. However, the lowest-income families that need it the most still can't access its full benefits. And all families that benefit from it today are at risk of losing it if the legislature takes no action to make the credit permanent.

It's tough to make ends meet in Hawai'i. We want working families to have a bigger tax refund come next year because research shows these families, when given financial breathing room, are the drivers of the consumer economy.

This credit would also have the greatest impact for families with children, and there's no better investment we can make than investing in the future of our keiki. Now is the time to invest in working families.

And with a price tag of \$41 million in 2022, but a projected revenue collection increase of \$57 million, the state program literally pays for itself and then some.

Closing the Capital Gains Loophole

Hawai'i is one of only nine states that allows capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—to be taxed at a lower rate than ordinary working people's income.

The capital gains tax loophole is a tax break for the richest and most privileged people in Hawai'i.

This capital gains tax loophole benefits the highest-income taxpayers, including non-residents who profit from investing in real estate in Hawai'i. In 2019, the 7.7 percent of taxpayers who earned \$400,000 or more received 79.4 percent of the capital gains income in the state.

This loophole is a contributing factor to Hawai'i's upside down tax system which, currently, incurs a much heavier burden on the lowest income earners than it does on the wealthiest. In fact, working families pay 15% of their incomes in state and local taxes; incomes that are already deeply strained by the high cost of living. By contrast, the wealthiest earners pay only 8.9% of their abundant incomes. Source: <https://itep.org/whopays/hawaii/>

As a result of this imbalance, those making at least \$1 million a year have a **lower** average effective tax rate than those in the income group just below them. The Hawai'i State Department of Taxation (DOTAX) explains, "The reason for this drop is that Hawai'i taxes net long-term capital gains at 7.25 percent and the highest income groups are more likely to utilize it."

"Capital gains are heavily concentrated in the high end of the income distribution especially for nonresidents. The higher the income of taxpayers the greater the share of capital gains in their taxable income," according to DOTAX.

For those who made more than \$400,000 a year in 2019, long-term capital gains were 41.4 percent of the total taxable income of residents, and 49.4 percent of nonresidents. "This partially explains why the average effective tax rates for this income group stay two to three percentage points below the marginal tax rate of 11 percent ... while the rate on net long-term capital gains is set at 7.25 percent," according to DOTAX.

Long-term capital gains constitute 11.5 percent of total taxable income in the state, or nearly \$4.3 billion in 2019.

If Hawai'i were to tax capital gains at the same rates as regular income, as most states do, Hawai'i would bring in about \$72.3 million in new revenue per year. And 97 percent of it would be paid by the top 5 percent of earners in Hawai'i, or those making at least \$124,000 a year. Meanwhile the vast majority of taxpayers, those in the bottom 80 percent, would pay nothing at all.

Mahalo for the opportunity to support this important measure.

HB-1507

Submitted on: 2/26/2022 5:05:27 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Shannon Rudolph	Individual	Support	No

Comments:

Support

HB-1507

Submitted on: 2/26/2022 9:04:26 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Emily Sarasa	Individual	Support	No

Comments:

If Hawai‘i were to tax capital gains at the same rates as regular income, as most states do, Hawai‘i would bring in about \$72.3 million in new revenue per year. And 97 percent of it would be paid by the top 5 percent of earners in Hawai‘i, or those making at least \$124,000 a year. Meanwhile, the vast majority of taxpayers, those in the bottom 80 percent, would pay nothing at all.

The capital gains tax loophole is a tax break for the richest and most privileged people in Hawai‘i. This capital gains tax loophole benefits the highest-income taxpayers, including non-residents who profit from investing in real estate in Hawai‘i. Of the taxpayers who had capital gains income in 2019, the [7.7 percent who earned \\$400,000 or more that year also received 79.4 percent of the capital gains income](#) in the state.

Please pass this bill to create a more just and equitable Hawai‘i.

HB-1507

Submitted on: 2/27/2022 5:16:28 AM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Shay Chan Hodges	Individual	Support	No

Comments:

We need to do everything possible now to support Hawaii's working families. This bill would increase the tax rate on capital gains—profits from the sale of wealth, such as stocks, bonds, investment real estate, art, and antiques, currently taxed at a lower rate than ordinary working income. The bill also and makes the state earned income tax credit (EITC) refundable and permanent, greatly expanding its power to alleviate the high cost of living.

HB-1507

Submitted on: 2/27/2022 1:14:10 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Noreen Dougherty	Individual	Support	No

Comments:

Dear Representatives:

I strongly support HB1507

As an Early Child Educator in Hawaii for over forty years and having been a single mother with three children, I know how helpful HB1507 is to working parents. This bill is a win for the family and the State of Hawaii because the money that the families save in taxes gets immediately spent in the community.

Working families need this Earned Income Tax Credit. We need to make it permanent and refundable. Our families and our Keiki need this support.

Mahalo for the opportunity to testify,

Noreen Dougherty

Kapaa, Hawaii

HB-1507

Submitted on: 2/27/2022 1:14:13 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Deb Marois	Individual	Support	No

Comments:

Please follow the evidence - this strategy is working, it pays for itself and it help families with children make ends meet, which is getting tougher all the time, especially in Hawai'i. Mahalo.

HB-1507

Submitted on: 2/27/2022 3:55:56 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Thomas Brandt	Individual	Support	No

Comments:

Support!

HB-1507

Submitted on: 2/27/2022 4:03:32 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Michele Mitsumori	Individual	Support	No

Comments:

I support HB 1507, relating to tax fairness. We already have extensive data documenting what a difference the EITC has made across the nation for our low-income families. Low-income families work hard, but because they work low-wage jobs, their incomes are too small to take advantage of the full size of the EITC. HB1507 enables families to keep more of what they earn by making the EITC permanent and refundable. These improvements to the Earned income Tax Credit are greatly needed.

HB-1507

Submitted on: 2/27/2022 4:09:51 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Colleen Rost-Banik	Individual	Support	No

Comments:

Hello. My name is Colleen Rost-Banik. I am a resident of Honolulu and a Lecturer within the University of Hawaii system. I support HB 1507 and urge you to do so as well. This legislation would provide more assistance to low and moderate income families by providing a refundable earned income tax credit. This is one way to begin to address some of the economic disparities that have been baked into our tax codes. Please support HB 1507.

Respectfully,
Colleen Rost-Banik

HB-1507

Submitted on: 2/27/2022 4:43:15 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Barbara Barry	Individual	Support	No

Comments:

Aloha,

I strongly support HB1507,

Mahalo,

HB-1507

Submitted on: 2/27/2022 4:56:24 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Raymond Catania	Individual	Support	No

Comments:

Aloha,

I support HB1507- increasing the tax on capital gains. I believe the State earned income tax credit should be refundable and permanent for Hawaii's working families.

Mahalo, Raymond Catania

4215 Kole Place, Lihue 96766 april8nineteen18@gmail.com

HB-1507

Submitted on: 2/27/2022 6:23:39 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Regina Blanchard-Walker	Individual	Support	No

Comments:

This bill would help by providing additional funding to families, especially those who trying to make ends meet.

HB-1507

Submitted on: 2/27/2022 10:46:26 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Scott Smart	Individual	Oppose	No

Comments:

I OPPOSE HB1507 with respect to increasing the individual income tax capital gains tax rate. Apparently this is based on the idea that income tax rates in Hawaii are too low. We taxpayers know that is not true. Like most proposed tax increases, it is advertised as reaping revenue from "non-residents". At some point we are going to have to realize we can't afford this state's budget and "non-residents" are not going to bail us out.

HB-1507

Submitted on: 2/27/2022 10:50:59 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Daniela Minerbi	Individual	Support	No

Comments:

I support HB 1507,

respectfully, Daniela Minerbi

HB-1507

Submitted on: 2/27/2022 11:42:22 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Lea Minton	Individual	Support	No

Comments:

I support HB1507. Thank you

HB-1507

Submitted on: 2/28/2022 7:08:43 AM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Chris Barzman	Individual	Support	No

Comments:

Please support this bill. It will help our community at the grassroots level.

HB-1507

Submitted on: 2/28/2022 8:03:04 AM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Nanea Lo	Individual	Support	No

Comments:

Hello,

My name is Nanea Lo. I'm a lifelong resident of the Hawaiian Kingdom and a Kanaka Maoli currently residing in Mō'ili'ili, O'ahu.

I'm writing in support of HB1507.

This measure increases the capital gains tax to pay for making the EITC refundable and permanent. Notably, this bill is currently unamended. It is a Working Families Caucus proposal and a longstanding tax fairness priority for economic justice advocates.

Support HB1507.

me ke aloha 'āina,

Nanea Lo



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Monday, February 28, 2022

House Bill 1507

Testifying in Support

Aloha Chair Luke, Vice Chair Yamashita, and Members of the Committee on Finance,

I am testifying today in support of HB1507 relating to tax fairness, which increases the tax rate on capital gains and makes the earned income tax credit (EITC) refundable and permanent.

Hawaii's tax system is hugely lopsided and regressive. Our state's tax system burdens low income people with the second heaviest tax burden in the country. While families who earn less than \$20,000 a year pay 15% of their income in state and local taxes, those who make over \$450,000 pay just 9%. That's unconscionable and we should be embarrassed to have done nothing to correct that imbalance. Hawaii is also only one of nine states that taxes capital gains — profits from the sale of stocks, bonds, investment real estate, art, antiques, etc. — at a lower rate than ordinary income.

The vast majority of people who benefit from this lower tax rate are those already earning a healthy income and paying lower taxes. This includes non-residents who profit from investing in real estate in Hawaii. This all needs to change. Immediately.

If we choose to tax capital gains at the same rate as regular income, as most states do, Hawaii would collect approximately \$160 million in new revenue. That, according to the Hawaii Department of Taxation, would be paid almost entirely by the top 5% of earners in the state, while the bottom 80% would pay nothing at all.

The \$160 million this capital gains tax increase would generate far exceeds the cost of making the EITC permanent and refundable.

The EITC is intended to allow working families to keep more of the money they earn and, as a result, it contributes \$1.24 in economic activity for every \$1 it returns to workers.

While this bill won't completely correct the regressive imbalance in our tax system, it is an important step toward doing so. It's good for the state and good for working families. As such, I strongly urge you to pass this bill.

Mahalo for the opportunity to submit testimony today.