

DAVID Y. IGE
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ISAAC W. CHOY
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STATE OF HAWAII
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To: The Honorable Sean Quinlan, Chair;
The Honorable Daniel Holt, Vice Chair;
and Members of the House Committee on Economic Development

From: Isaac W. Choy, Director
Department of Taxation

Date: Wednesday, February 9, 2022
Time: 10:00 A.M.
Place: Via Video Conference, State Capitol

Re: H.B. 1569, Relating to the Refundable Food/Excise Tax Credit

The Department of Taxation (Department) appreciates the intent of H.B. 1569 and offers the following comments.

H.B. 1569 amends income limits in chapter 235-55.85, Hawaii Revised Statutes (HRS), expanding eligibility to taxpayers making up to \$50,000 adjusted gross income (AGI) as opposed to the current cap of \$30,000 AGI for single filers, and \$80,000 rather than the existing cap of \$50,000 for head of household, married individuals filing separate returns, and married couples filing jointly. The measure is effective upon approval and applies to taxable years beginning after December 31, 2021.

The Department is able to administer this measure 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 ECONOMIC DEVELOPMENT
ON
HOUSE BILL NO. 1569

LATE

February 9, 2022
10:00 a.m.
Room 312 and Videoconference

RELATING TO THE REFUNDABLE FOOD/EXCISE TAX CREDIT

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

House Bill No. 1569 amends Section 235-55.85, HRS, to expand eligibility for the Refundable Food/Excise Tax Credit by increasing the income limit from \$30,000 to \$50,000 for single filers and from \$50,000 to \$80,000 for heads of household, married individuals filing separate returns, and married couples filing jointly.

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 Economic Development

Re: **HB 1569 Relating to the Refundable Food/Excise Tax Credit**
 Hawai'i State Capitol, Via Videoconference, Conference Room 312
 February 9, 2022, 10:00 AM

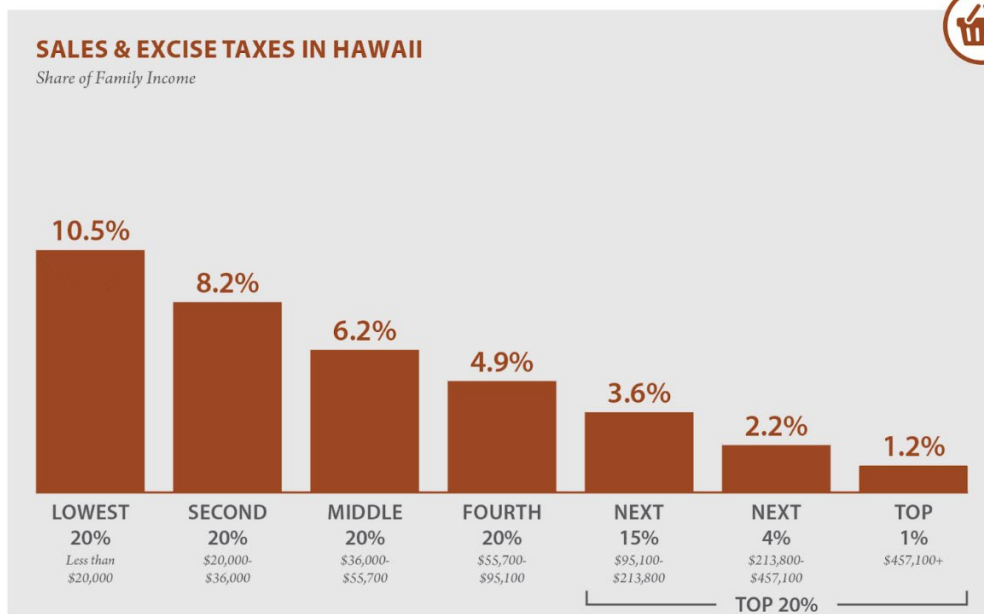
Dear Chair Quinlan, Vice Chair Holt, and committee members,

On behalf of Hawai'i Children's Action Network Speaks!, I am writing in SUPPORT with SUGGESTED AMENDMENTS to HB 1569, relating to the refundable food/excise tax credit. This bill would increase the income threshold eligible to claim the refundable food/excise tax credit.

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 main reason that low-income families pay more than those at the top is the General Excise Tax (GET), which is applied to nearly all goods and services in Hawai'i. It hits our low-income and working-class families harder because they spend almost all of their earnings on items and services that are taxed by the GET.

That means that Hawai'i families who earn less than \$20,000 per year pay almost nine times as much of their income (10.5 percent) in the GET than those who make over \$450,000 (1.2 percent).²



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

² Institute on Taxation and Economic Policy, <https://itep.org/whopays/hawaii/>



Hawaii

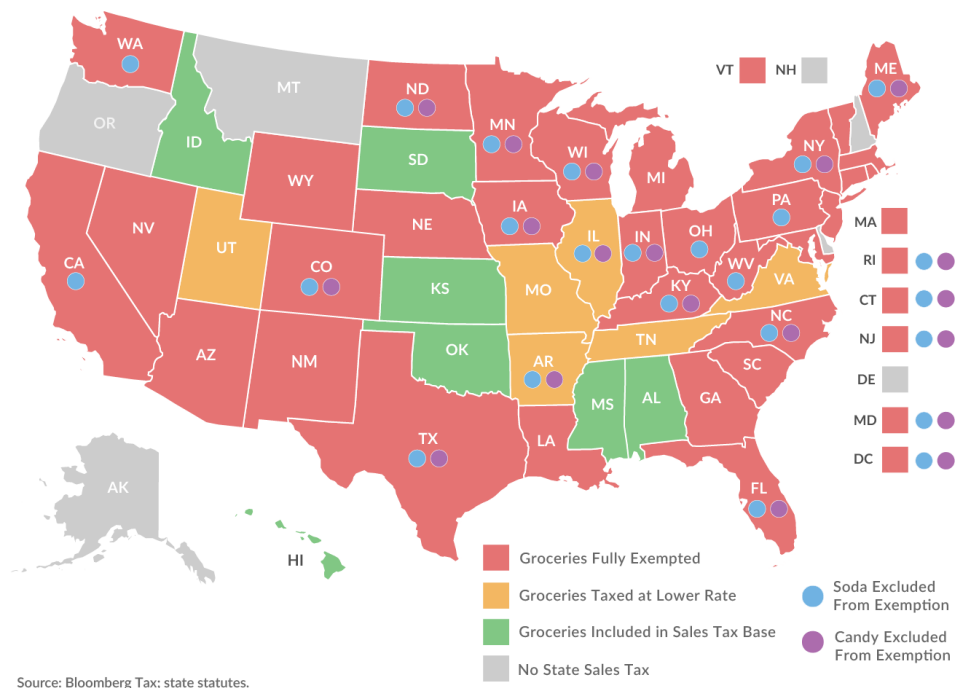
Children's Action Network Speaks!

Building a unified voice for Hawaii's children

And Hawai'i is one of only seven states that fully taxes groceries.³

How Are Groceries, Candy, and Soda Taxed in Your State?

Sales Tax Treatment of Groceries, Candy, and Soda as of January 1, 2019



TAX FOUNDATION

@TaxFoundation

Fortunately, to lessen the burden on those families who are especially hard hit by the GET, our state leaders created the Refundable Food/Excise Tax Credit. The income eligibility limit to receive this credit was set in 2015 at \$50,000 (or \$30,000 for single filers), so fewer taxpayers qualify for this credit each year as wages rise with inflation. This bill restores eligibility to many by increasing the limits to \$80,000 (or \$50,000 for single filers).

The amounts that families can receive from this credit were also last set in 2015, so it has been losing ground to inflation for 6 years. In order to restore the value of this credit, **we suggest AMENDING this bill to increase the maximum level of this credit to \$130 per qualified exemption, with the lower tiers similarly increased by 18%. In addition, we suggest adding automatic annual inflation adjustments to both the income eligibility limits and the amounts of the credits, in order to avoid falling behind inflation again.**

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

³ Tax Foundation, <https://taxfoundation.org/grocery-tax-candy-tax-soda-tax-2019/>



House Committee on Economic Development

Wednesday, February 9, 2022, 10a.m.

Hawai'i Alliance for Progressive Action Supports: HB1569

Aloha Quinlan, Vice Chair Holt and Members of the Committee,

Thank you for your leadership on this issue and for the opportunity to support Hawaii's workers and families.

On behalf of the Hawai'i Alliance for Progressive Action (HAPA) I am submitting testimony in **support of HB1569**. HAPA is a state-wide organization that engages approximately 10,000 local residents annually. HAPA is a member of the Hawai'i Tax Fairness Coalition.

HAPA strongly supports HB1569, which increases the income threshold eligible to claim the refundable food/excise tax credit.

We believe that it is urgent we invest in working families. As we all know, many families struggle to make ends meet in Hawai'i. We want working families to have a bigger tax refund. Research shows these families, when given financial breathing room, are the drivers of the consumer economy.

This food/excise tax credit would help families with children the most, and there's no better investment we can make than investing in the future, and our keiki.

Please pass HB1569.

Mahalo for your consideration,

A handwritten signature in black ink, appearing to read 'Anne Frederick', written in a cursive style.

Anne Frederick
Executive Director

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Income Threshold for Food/Excise Tax Credit

BILL NUMBER: HB 1569

INTRODUCED BY: MATAYOSHI, BRANCO, HASHEM, HASHIMOTO, ICHIYAMA, ILAGAN, JOHANSON, KITAGAWA, MORIKAWA, NAKASHIMA, NISHIMOTO, OHNO, QUINLAN, TARNAS, WOODSON, Yamashita

EXECUTIVE SUMMARY: Increases the income threshold eligible to claim the refundable food/excise tax credit.

SYNOPSIS: Amends section 235-55.85, HRS, to provide that single taxpayers may claim the food/excise tax credit up to an adjusted gross income (AGI) of \$50,000 (was \$30,000) and that taxpayers who are heads of household, married filing separately, and married filing jointly may claim the credit up to an AGI of \$80,000 (was \$50,000).

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2021.

STAFF COMMENTS: While it appears that this measure proposes tax relief to lower income taxpayers, consideration should be given to adjusting the income tax rates or the threshold amounts so those taxpayers that these credits are aimed to help will not need to claim these credits to get tax relief (or forfeit the credits if they fail to do so).

We in Hawaii have several disparate programs and tax credits aimed at poverty relief. In addition to the food/excise credits, income tax credits are allowed to low-income household renters (HRS section 235-55.7), those with earned income (HRS section 235-55.75), and for those with dependent care expenses necessary for gainful employment (HRS section 235-55.6). Many of the credits have non-duplication provisions and all have strict time limits on when they may be claimed upon pain of credit forfeiture. Apparently, lawmakers of the past had many different ideas on how to address the problem of poverty in Paradise but couldn't figure out which program to go with, so they adopted them all. The principal disadvantage of this is that people can and do get confused over which credits they can and can't claim, and as a result could expose themselves to credit disallowance, penalties, and other undesirable consequences.

Now, we simply can't afford tax credits and business as usual. Yes, we need to help those who need it, but the shotgun style used in the past has not produced results. Perhaps a better approach would be lopping off the income tax brackets that now apply to lower-income taxpayers and designing ONE credit to encourage social behavior necessary to lift the taxpayer out of poverty.

Digested: 2/7/2022



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Derek Kurisu, KTA Superstores, *Advisor*
Toby Taniguchi, KTA Superstores, *Advisor*
Joe Carter, Coca-Cola Bottling of Hawaii, *Immediate Past Chair*

TO: Committee on Economic Development
Rep. Sean Quinlan, Chair
Rep. Daniel Holt, Vice Chair

LATE

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

LATE

DATE: February 9, 2022
TIME: 10am
PLACE: Via Videoconference

RE: HB1569 Relating to the Refundable Food Excise Tax Credit

Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, and distributors of food and beverage related products in the State of Hawaii.

HFIA is in support of this measure to increase the income threshold eligible to claim the Refundable Food Excise Tax Credit. Hawaii is one of only a handful of states where groceries are taxed. Most states recognize that this is a regressive tax which disproportionately impacts lower income households. As long as the State continues to tax Hawaii families' food, the Refundable Food Excise Tax Credit provides some relief to those who are hit hardest by this tax. However, currently the credit is not available to many of those who need it. Lowering the income threshold will enable more people to recuperate a portion of the funds that they spend on this tax.

It's also important to note that many Hawaii families, even those in the lowest income brackets are likely spending more on grocery taxes than they are getting back from the tax credit. According to 2019 USDA data a Thrifty Food Plan for a family of four in Hawaii is \$1176.00 a month, the national average for the same plan during the same period was \$654.10¹. This means that even thrifty families are probably spending more on taxes when they buy groceries than they are getting back from the food excise tax credit.

We hope that in the near future the State makes the decision to end the regressive tax on groceries. Until then we believe that this measure is a step in the right direction to make the Refundable Food Excise Tax Credit available to more Hawaii consumers that need it.

¹ USDA Food Plans: Cost of Food Reports (monthly reports)
<https://www.fns.usda.gov/cnpp/usda-food-plans-cost-food-reports-monthly-reports>

Will Caron
Pālolo Valley
willcaronforhawaii@gmail.com

February 7, 2022

TO: House Committee on Economic Development
RE: Testimony in Support of HB1569 with Proposed Amendments

Aloha Committee Members,

I strongly support updating the state's refundable food/excise tax credit, a smart policy designed to help low-income folks offset the regressive and outsized impact of the state's General Excise Tax (GET), particularly when applied to food purchases.

The bill correctly moves the income threshold for eligibility up to a level more reflective of current realities on the ground for many of Hawai'i's hard-working, but still struggling, families. However, I would request two amendments to the bill to make it even more effective in its goal of helping low-income families afford the cost of living on Hawai'i:

1. In addition to updating the income threshold, the credit amount itself should also be updated to better reflect this same highest-in-the-nation cost-of-living reality. The credit amounts—last updated in 2015—should be raised to \$125 in 2022 and \$130 in 2024.
2. To ensure that this credit never again falls behind in its ability to successfully carry out its intended purpose of providing meaningful tax relief to low-income families to offset the GET, an automatic adjustment mechanism should be included to annually increase both the income threshold level and the credit amount to account for inflation.

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 (15%) in state and local taxes as those in the top 5% (who pay about 9%). Source: <https://itep.org/whopays/hawaii/>

A main reason for this disparity is the General Excise Tax (GET), which is applied to nearly all goods and services in Hawai'i. This tax hits our low-income and working-class families harder because they spend almost all of their earnings on items and services that are taxed by the GET.

On top of that, Hawai'i has the highest cost of living in the nation. Besides housing, one of the main contributing factors to this cost of living is our high cost of food. Hawai'i is one of only seven states that fully taxes groceries, and researchers have found that grocery taxes increase food insecurity among poorer residents who do not get SNAP benefits (formerly known as food stamps).

That's why policymakers created the refundable food/excise tax credit to begin with, as an important tool in the state's toolbox for shaping a tax code that encourages financial stability and opportunity for working class folks.

Let's update this important credit to make it effective once again. Mahalo for the opportunity to support this measure

HB-1569

Submitted on: 2/7/2022 3:56:43 PM

Testimony for ECD on 2/9/2022 10:00:00 AM

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

Comments:

Please pass this bill with the following amendments:

1.
 1. Also increase the credit amount itself (the last time amounts were increased was 2015) to \$125 in 2022, and \$130 in 2024.
 2. Add an automatic inflation adjustment for both the income threshold level and the credit amount after 2024 so families don't fall behind ever again.

Inflation causes the price of food and other necessities to increase year after year. \$100 worth of food may cost \$110 five years from now. As food costs increase, the amount you pay in taxes also increases—with a 4% GET, \$100 worth of food would be taxed at \$4.00; \$110 would be taxed at \$4.40.

Yet, while food costs and GET tax bills increase automatically along with inflation, current law keeps the dollar amount of the Food/Excise Tax Credit constant. As a result, the tax rates for Hawai'i residents increase over time absent an act of the legislature.

Tax credits similar to the Food/Excise credit have gone decades without an increase, leaving Hawai'i residents with heavier and heavier tax burdens each year.

--Shay Chan Hodges, Maui, Hawaii