DAVID Y. IGE
GOVERNOR

CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

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

EMPLOYEES' RETIREMENT SYSTEM
HAWAIʻI 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 SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2485

February 2, 2022
10:00 a.m.
Room 211 & Videoconference

RELATING TO TAX FAIRNESS

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

Senate Bill No. 2485 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 for taxable years beginning after December 31, 2021.

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 Hawaiʻi complies with this ARP restriction.

Thank you for your consideration of our comments.

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR

ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

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

From: Isaac W. Choy, Director
Department of Taxation

Date: Wednesday, February 2, 2022
Time: 10:00 A.M.
Place: Via Video Conference, State Capitol

Re: S.B. 2485, Relating to Tax Fairness

The Department of Taxation (Department) offers the following comments regarding S.B. 2485 for your consideration.

S.B. 2485 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 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.

SB-2485
Submitted on: 1/27/2022 2:42:08 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Laurie Field	Testifying for Planned Parenthood Alliance Advocates	Support	No

Comments:

Planned Parenthood Alliance Advocates supports SB 2485, as it seeks to provide tax fairness in our system.Thank you for your consideration.

HACBED

Hawaiʻi Alliance for Community-Based Economic Development
1575 South Beretania Street, Suite 211 Honolulu, HI 96826
Ph. 808.550.2661
Email info@hacbed.org www.hacbed.org

Board Members

Jason Okuhama
Managing Partner,
Commercial & Business Lending

Secretary
Marcus Kawatachi
Deputy Director,
Hawaiʻi Civil Rights Commission

Trina Orimoto
Clinical & Research
Psychologist

Miwa Tamanaha
Oʻahu Resident

Derrick Kiyabu
Hawaiʻi Island Resident

HACBED Staff

Brent N. Kakesako
Executive Director

Merri Keliʻikuli
Office Manager & Program Support

Corin Thornburg
Community-Based Economic Development Project Associate

Date: January 27, 2022
To: Senator Donovan M. Dela Cruz, Chair, Senator Gilbert S.C. Keith-Agaran, Vice-Chair, and members of the Committee on Ways and Means
From: Brent Kakesako, Hawaiʻi Alliance for Community-Based Economic Development (HACBED)
Re: Support for SB2485

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

The Hawaiʻi Alliance for Community-Based Economic Development (HACBED) strongly supports SB2485, which would help many economically struggling families in Hawaiʻi 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 Hawaiʻi 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 SB2485 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 Hawaiʻi 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

Committee on Ways and Means
Chair Dela Cruz, Vice Chair Keith-Agaran

February 2,2022, 10 AM   Room 211 and Videoconference
SB2485 — RELATING TO TAX FAIRNESS

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

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

The League of Women Voters of Hawaii supports SB2485, which in order 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, SB 2485 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.

SB2845 makes major contributions to a more equitable taxation system. Please pass it!

Thank you for the opportunity to offer this 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

Pono Hawaiʻi Initiative

Friday, January 28, 2022

Relating to Tax Fairness
Testifying in Support

Aloha Chair and members of the committee,

The Pono Hawaiʻi Initiative (PHI) **supports SB2485 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. Reduce 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 SB2485.**

Mahalo for the opportunity to testify,

Gary Hooser
Executive Director
Pono Hawaiʻi Initiative

HAWAI'I
AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS			MAILING ADDRESS
John Bickel, President	Melodie Aduja	Jan Lubin	Bill South	P.O. Box 23404
Alan Burdick, Vice President	Keola Akana	John Miller	Zahava Zaidoff	Honolulu
Dave Nagajji, Treasurer	Juliet Begley	Jenny Nomura		Hawaii 96823
Doug Pyle, Secretary	Stephanie Fitzpatrick	Stephen O'Harrow		

January 28, 2022

TO: Chair Dela Cruz and Members of the WAM Committee

RE: SB 2485 Relating to Tax Fairness

Support for a Hearing on February 2

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.

Americans for Democratic Action Hawaii supports this bill as it would increase the tax rate on capital gains and would make the state earned income tax credit refundable and permanent.

The Appleseed Center for Law & Economic Justice says it well: "Hawai'i has the lowest wages in the nation after adjusting for our cost of living, which is the highest in the nation. Families who are faltering beneath the weight of high costs for housing, utilities, and food are even further burdened by Hawai'i's General Excise Tax (GET). Our lowest-income residents pay almost 10 times as much of their income on the GET as those at the top."

We have a regressive tax system. Raising capital gains and supporting a refundable and permanent EITC would help.

Thank you for your consideration.

Sincerely,

John Bickel, President

LEGISLATIVE TAX BILL SERVICE

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

INTRODUCED BY: CHANG

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 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: 1/27/2022

SB-2485
Submitted on: 1/30/2022 9:49:11 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

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

Comments:

Dear Senator Donovan M. Dela Cruz, Chair, Senator Gilbert S.C. Keith-Agaran, Vice Chair, and members of the Senate Commitee on Ways and Means:

The American Academy of Pediatrics, Hawaii Chapter is in support of SB 2485 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 expanding eligibility would help 1 in 4 Hawaii residents. Thank you for this opportunity to testify.

SB-2485
Submitted on: 1/31/2022 8:35:02 AM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Alec Marentic	Testifying for Hawaii Association of School Psychologists (HASP)	Support	No

Comments:

HASP supports the intent of this bill.

HAWAIʻI HEALTH
& HARM REDUCTION CENTER
The New Chapter for Life Foundation and The CHOW Project

TESTIMONY IN SUPPORT OF SB 2485

TO:	Chair Dela Cruz, Vice Chair Keith-Agaran, & Members – Senate Committee on Ways and Means
FROM:	Trisha Kajimura Deputy Director - Community
DATE:	February, 2022 at 10:00 AM

Hawaiʽi Health & Harm Reduction Center (HHHRC) **supports** SB 2485, which would improve the state Earned Income Tax Credit by making it permanent and allowing the lowest-income earners to receive the full benefit. It would also close a tax break for the richest and most privileged people in Hawaiʻi.

HHHRC's mission is to reduce harm, promote health, create wellness, and fight stigma in Hawaiʽi and the Pacific. We work with many individuals who are impacted by poverty, housing instability, and other social determinants of health even as they work a full-time job or multiple jobs. Many have experienced the direct consequences of the lack of health equity and healthcare access experienced by people struggling with the unforgivingly high cost of living in Hawaiʻi.

Hawaiʽi's working families have been hit especially hard during the protracted economic downturn precipitated by the COVID-19 pandemic. Increasing levels of housing instability and food insecurity have accompanied job losses and reductions in working hours. Prior to the pandemic DOE determined that almost half of its students were economically disadvantaged.

Passing SB 2485 will help bring greater fairness to our working families and those struggling with the high cost of living.

- Improving the EITC would give a boost to the lowest-income workers. Because the state EITC is not currently "refundable," low-wage workers cannot take full advantage of the credit.
- The EITC improves the health, education, and economic stability of children and families. In fact, every $1 in EITC creates $1.24 in local economic activity.
- This bill helps to fix Hawaiʻi's upside-down state and local tax system. Hawaiʻi 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.

Thank you for the opportunity to testify in support of this bill.

Testimony in support of SB2485–Relating to Tax Fairness
Senate Committee on Ways and Means
Wednesday, February 2nd 10AM

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran 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 SB2485, 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 SB2485 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

Hawaiʻi Association of REALTORS®
808-733-7060
808-737-4977
1259 Aʻala Street, Suite 300
Honolulu, HI 96817

February 2, 2022

The Honorable Donovan Dela Cruz, Chair
Senate Committee on Ways and Means
Via Videoconference

RE: S.B. 2485, Relating to Tax Fairness

HEARING: Wednesday, February 2, 2022, at 10:00 a.m.

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

I am Ken Hiraki, Director of Government Affairs, testifying on behalf of the Hawaiʻi Association of REALTORS® ("HAR"), the voice of real estate in Hawaiʻi, and its over 10,800 members. HAR **strongly opposes** Senate Bill 2485, 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 Hawaiʻi, 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.

REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and subscribe to its strict Code of Ethics.

EQUAL HOUSING OPPORTUNITY

Date: January 31, 2022

To: Senate Committee on Ways and Means
Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair

From: Early Childhood Action Strategy

Re: Testimony in Support of SB2485– Relating to Earned Income Tax Credit

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 supports SB 2485, 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.

Mahalo for your continued support to improve the health, safety and learning of our youngest keiki's
We appreciate you supporting **SB2485.**

SB 2485, RELATING TO TAX FAIRNESS

FEBRUARY 2, 2022 · SENATE WAYS AND MEANS COMMITTEE · CHAIR SEN. DONOVAN DELA CRUZ

POSITION: Support.

RATIONALE: Imua Alliance **supports SB 2485**, 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.

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

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

SENATE BILL 2485, RELATING TO TAX FAIRNESS

FEBRUARY 2, 2022 · SENATE WAYS AND MEANS COMMITTEE · CHAIR SEN. DONOVAN DELA CRUZ

POSITION: Support.

RATIONALE: The Democratic Party of Hawai'i Education Caucus supports SB 2485, 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

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

Hawaiʻi 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: Senate Committee on Ways and Means

Re: **SB 2485 - Relating to tax fairness**
Hawaiʻi State Capitol, Conference Room 211 & Videoconference
February 2, 2022, 10:00 AM

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and committee members,

On behalf of Hawaiʻi Children's Action Network Speaks!, I am writing in SUPPORT with SUGGESTED AMENDMENTS to SB 2485, 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 closing the capital gains tax loophole, which benefits those at the top, in order to help working-class families make ends meet, by improving our state's EITC.

Hawaiʻi'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's 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 growthas 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, **Hawaiʻi is one of only five** that are not refundable.[3]

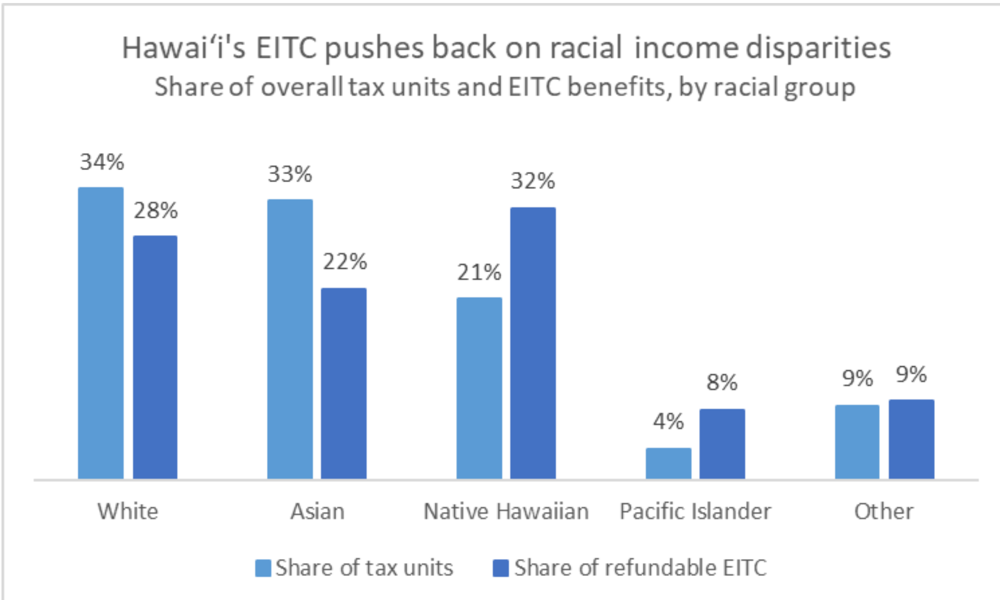
Imagine a single parent, with one child, earning minimum wage, or $21,000 per year. Their state income tax is $424, and they're eligible for a state EITC of $663. However, with the current **non-refundable** EITC, that parent can only claim a credit of $424 to zero out their tax liability. But with a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

---

[1] Institute on Taxation and Economic Policy, https://itep.org/whopays/hawaii/
[2] Hawaiʻi 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

850 Richards Street, Suite 201 • Honolulu, HI 96813 • 808-531-5502
speaks.hawaii-can.org • speaks@hawaii-can.org

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 is by closing the capital gains tax loophole, which also would help make our tax system fairer.

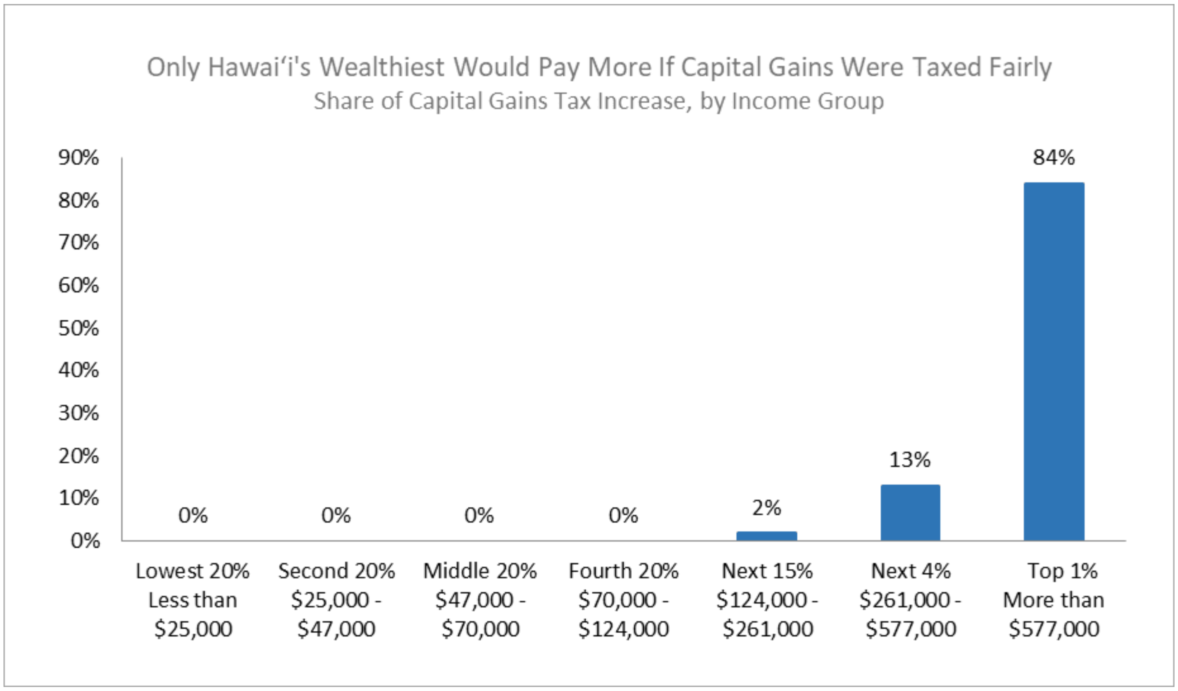
Hawaiʻi is one of only nine states that allows capital gains—profits from the sale of stocks, bonds, investment real estate, art, and antiques—to be taxed at a LOWER rate than ordinary working people's income.[5] This tax break benefits the highest-income taxpayers, including non-residents who profit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

"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, the 7.7% of taxpayers who earned $400,000 or more 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 Hawaiʻi, they receive only 17% of the capital gains tax breaks.[8]

[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
[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

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]



In order to tax 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,[10] 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

[9] Institute on Taxation and Economic Policy, unpublished analysis, January 2022
[10] California Revenue and Taxation Code, § 17062.5

Hawaii Bankers Association

TEL:
808-524-5161
FAX:
808-521-4120
ADDRESS:
1000 Bishop Street, Suite 301B
Honolulu, HI 96813-4203

Presentation to The
Committee on Ways and Means
Wednesday, February 2, 2022, 10:00 AM
State Capitol Conference Room 211 & Videoconference

Testimony on SB 2485 In Opposition

TO: The Honorable Donovan M. Dela Cruz, Chair
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair
Members of the Committee

My name is Neal K. Okabayashi, Executive Director of the Hawaii Bankers Association (HBA). HBA represents seven Hawai`i banks and three banks from the continent with branches in Hawai`i.

This bill mirrors SB 2242 in that it seeks to increase the capital gains tax rate but, if enacted, the capital gains tax rate would be the taxpayer's ordinary income tax rate. The bill seems to rely on an article by the Institute on Taxation and Economic Policy ("ITEP") claiming that the low-income group pays at a higher percentage of income that those in the highest income group. However, reliance on that article should not be done as the conclusion is very misleading because it is based more on the general excise tax rather than other taxes.

The source of our conclusion is from the ITEP article itself. The 15% figure is based primarily on general excise tax and GET tax is regressive because it is a flat rate based on consumption which accordingly tends to be equalize the GET tax amount for all but not equalize the GET taxes paid as a percentage share of income. It should be noted that there are other taxes which tends to be regressive including cigarette and tobacco tax, alcohol tax, motor vehicle tax, and fuel tax. However, regressivity is offset by EITC, child care tax credit, affordable housing exemption, food stamps, low-income rental credit, low-income food credit; especially if the offset is refundable, so GET tax regressivity is offset by credits and exemptions.

When measuring income tax payments as a percentage of income, ITEP says income tax payments for the lowest 20% income group as a share on income is measured at 0.6% and the top 1% at 6.3%. The Tax Review Commission shows the effective tax rate (a more accurate metric of tax payment) is negative for low-income persons and 8.8% for the highest income persons.

ITEP says there are caveats which affects their conclusion as it is based on law through September 10, 2018 and based on 2015 income levels. More importantly, ITEP says its study does not measure the impact of the 1987 federal SALT tax provision (State and Local Tax Deduction) which increased income taxes on states with high tax rates such as New York, California, and Hawai`i. Many in such states had a tax increase and not a tax decrease.

While the proponents of the bill believe that it will increase tax revenue, they ignore that raising the capital gains tax rate may lower economic gain as higher taxes inevitably leads to lower tax revenue as the tax base shrinks.

The bill may lead to the unintended consequence of decreasing capital gain revenue in some cases. Take for example, if Elon Musk lived in Hawai`i. Elon Musk receives no compensation from Tesla and if he were planning to sell Tesla stock, he would have a Hawai`i tax rate of 1.4%. Thus, when he sold, say, a billion dollars of stock, his capital gains payment would be 14 million dollars instead of 72.5 million dollars. In the alternative, if he did have an income tax rate higher than 7.25% or the capital gains tax rate of 11% at present, he could move to Texas before selling the stock, and rather than pay the Hawai'i capital gain tax rate of 11% or 110 million dollars, federal income tax of 200 million dollars plus the federal net investment tax of 38 million dollars or a total of 348 million dollars. As a Texas resident, he would pay 200 million dollars for federal capital gains taxes plus the 38 million dollars federal net investment tax. He would save 110 million dollars and Hawai`i would lose 72.5 million dollars.

Presently, there are three bills in the Senate seeking to help startups with loan programs. They are SB 2805, SB 2806, and SB 2808. But this bill and also SB 2485 would be counter-productive to that effort.

Hawaii already has one of the worst reputations in the nation for business climate. We do not need to enhance that reputation with unfair tax increases.

Thank you for the opportunity to submit this testimony in opposition to SB 2485. Please let us know if we can provide further information.

Neal K. Okabayashi
(808) 524-5161

GRASSROOT
INSTITUTE OF HAWAII

February 2, 2022
10 a.m.
Conference Room 211 and Videoconference

To: Senate Committee on Ways and Means
Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair

From: Grassroot Institute of Hawaii
Joe Kent, Executive Vice President

RE: SB2485 — RELATING TO TAX FAIRNESS

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on SB2485, 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 forward it.

In addition, 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 the subject of 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 already-high tax burden, any 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 from the pandemic and lockdowns. The last thing Hawaii needs is a tax hike that discourages investment and the growth of new business.

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 already-damaged economy was hit harder by the lockdowns than any other state in the nation.[2]

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

---

[1] Adam McCann, "2020's Tax Burden by State," WalletHub, June 24, 2020. See also John S. Kiernan, "2021's 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.

>> Hawaii's population reduction of 32,237 people since fiscal 2016[4] 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. See also, "U.S. Census data," 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.
[6] Katherine Loughead, "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.

Parents And Children Together
BUILDING THE RELATIONSHIPS THAT MATTER MOST

TO: Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Senate Committee on Ways & Means

FROM: Ryan Kusumoto, President & CEO of Parents And Children Together (PACT)

DATE/LOCATION: February 2, 2022; 10:00 a.m., Conference Room 211/Video Conference

RE: <u>TESTIMONY IN SUPPORT OF SB 2485 – RELATING TO TAX FAIRNESS</u>

We would like to provide testimony in support of SB 2485 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 consider 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 **SB 2485,** please contact me at (808) 847-3285 or rkusumoto@pacthawaii.org if you have any questions.

HAPA
HAWAI'I ALLIANCE for PROGRESSIVE ACTION

LATE

Senate Committee on Ways and Means

Wednesday, February 2, 2022, 10:00 a.m. Conference Room 211

Hawai'i Alliance for Progressive Action Strongly Supports: SB2485

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

On behalf of the Hawaiʻi Alliance for Progressive Action (HAPA) I am submitting testimony in **strong support of SB2485**. HAPA is a state-wide organization that engages approximately 10,000 local residents annually.

SB2485 will Increase the tax rate on capital gains and make the state earned income tax credit refundable and permanent.

Why Increase Capital Gains Tax?

Hawaiʻi 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 Hawaiʻi.

This capital gains tax loophole benefits the highest-income taxpayers, including non-residents who profit from investing in real estate in Hawaiʻi. 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 Hawaiʻi, 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 Hawaiʻi State Department of Taxation (DOTAX) explains, "The reason for this drop is that Hawaiʻi 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.

Mahalo for your consideration,

Anne Frederick
Executive Director

The Hawai‘i Alliance for Progressive Action (HAPA) is a public non-profit organization under Section 501(c)(3) of the Internal Revenue Code. HAPA's mission is to catalyze community empowerment and systemic change towards valuing ‘aina (environment) and people ahead of corporate profit.

SB-2485
Submitted on: 1/27/2022 1:30:28 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
lynne matusow	Individual	Oppose	No

Comments:

This is not tax fairness, it is an assault on many who rely on capital gains to pay their bills, their rent, their property tax, etc. to supplement their retirement income allowing them to live in hawaii and buy necessities. You are lumping these people, some of whom are needy, in with wealthy (not defined) individuals. To be fair, you need to be reducing taxes, not increasing any. This is shameful. Please permanently defer this bill.

I also suggest that the printed name of all introducers be placed under the illegible signatures on all bills and resolutions. Public has a right to know who introduced the bill/resolution instead of trying to decipher scribbles.

SB-2485
Submitted on: 1/27/2022 4:16:16 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Mara Davis	Individual	Support	No

Comments:

We need child tax to decrease child poverty. Children don't deserve to be houseless and starving. Child tax helps decrease child poverty.

SB-2485
Submitted on: 1/27/2022 10:05:08 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Bret Mossman	Individual	Support	No

Comments:

As a young person, trying to find housing in Hawai'i even on Hawai'i island has been extremely difficult. The influx of wealthy individuals from the continent will contiue to exacerbate this ongoing issue and force more local and Kanaka residents to permanently leave the islands. Urgent action is needed to help protect residents. Increasing the capitol gains tax as proposed in SB2485 will provide relief to low income local families, and take steps toward leveling the playing field for local young people in the competitive housing markets by placing a greater tax burden on wealthy individuals. Reducing their capitol advantage is key to stopping the imbalance and preventing Hawai'i from becoming Hawaii. Please protect our future and support this common sense bill.

SB-2485
Submitted on: 1/28/2022 2:31:35 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Laura Ramirez	Individual	Support	No

Comments:

Aloha,

Please support this very important bill to help lift Hawaiian families out of poverty.

Evidence shows that this investment helps families ensure they have enough money to cover basic expenses like food and healthcare costs. This improves the physical and mental health of children, as well as their educational success which ultimately benefits their communities and the economy as a whole.
This bill could help some 300,000 people including many Native Hawaiians residents. Low-income families work just as hard as everyone else, but because they work low-wage jobs, their incomes are too small to take advantage of the full size of the EITC. These families deserve to be able to claim the full size of the credit, just like everyone else.
Everyone who qualifies for the credit should be able to fully take advantage of it so it needs to be permanent and expanded.

Mahalo,

Laura Ramirez and the Bettencourt family

SB-2485
Submitted on: 1/29/2022 3:13:17 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Younghi Overly	Individual	Support	No

Comments:

Thank you for hearing this important measure.

SB-2485
Submitted on: 1/30/2022 1:04:51 AM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Erica Yamauchi	Individual	Support	No

Comments:

I am writing today in strong support of this bill to make the earned income tax credit permanent, and provide some financial relief to our working families in the islands.

Improving the EITC would give a boost to the lowest-income workers. Because the state EITC is not currently “refundable,” low-wage workers cannot take full advantage of the credit.

The EITC improves the health, education, and economic stability of children and families. In fact, every $1 in EITC creates $1.24 in local economic activity.

Erica Yamauchi, Kaimuki/Wilhelmina Rise

SB-2485
Submitted on: 1/30/2022 8:52:12 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

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

Comments:

Aloha members of the Committee on Ways and Means,

I am in strong support of SB 2485. It's time that we make the EITC permanent and refundable to support our low-income earners so that they can pay for the basic needs that they would otherwise be unable to pay for. We also need to increase the tax on capital gains to ensure fairness and equity while bringing much needed income into the State of Hawai`i.

Mahalo for your consideration.

SB-2485
Submitted on: 1/31/2022 11:53:24 AM
Testimony for WAM on 2/2/2022 10:00:00 AM

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

Comments:

Hello,

My name is Nanea Lo. I come from Papakōlea, Oʻahu born and raised. I'm writing in support of SB2485.

The EITC is one of the most successful policies to help low- to moderate-income families with children keep more of what they earn by getting a tax credit. At the federal level and in most states, the EITC is refundable—which means that if the credit is worth more than a taxpayer owes in taxes, they get the rest of the credit as a tax refund. Hawaiʻi is one of the few states where they can't get such an EITC tax refund. This bill would make the Hawaiʻi EITC refundable and also make it permanent (currently it has a sunset date)

me ke aloha ʻāina,
Nanea Lo

Mōʻiliʻili District 1

Will Caron
Pālolo Valley
willcaronforhawaii@gmail.com

January 31, 2022

TO: Senate Committee on Ways & Means
RE: Testimony in Support of SB2485

Aloha Committee Members,

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

- By extending the Hawaiʻi State Earned Income Tax Credit (EITC) to make it permanent and refundable, the legislature would give thousands of hardworking, yet struggling, Hawaiʻi families a much needed tax break while contributing $1.24 to the economy for every dollar those families receive as part of their EITC. Source: https://www.economy.com/mark-zandi/documents/2012-02-07-JEC-Payroll-Tax.pdf

- 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 Hawaiʻi, 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.

This is exactly what tax fairness means, and I urge this committee to pass this bill with no changes on to the full senate with your support.

Extending the State EITC

The EITC helps working families keep more of what they earn and has been helping Hawaiʻi 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 Hawaiʻi. 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 program literally pays for itself and then some.

Closing the Capital Gains Loophole

Hawaiʻi 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 Hawaiʻi.

This capital gains tax loophole benefits the highest-income taxpayers, including non-residents who profit from investing in real estate in Hawaiʻi. 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 Hawaiʻi'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 Hawaiʻi State Department of Taxation (DOTAX) explains, "The reason for this drop is that Hawaiʻi 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 Hawaiʻi were to tax capital gains at the same rates as regular income, as most states do, Hawaiʻi 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 Hawaiʻi, 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.

SB-2485
Submitted on: 1/31/2022 4:46:08 PM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Marya Grambs	Individual	Support	No

Comments:

I am writing in strong support of this bill. This credit helps working families keep more of what they earn and has been helping Hawaiʻi 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.

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.

It willcost $41 million in 2022, but it would also boost revenue collections by $57 million, so it more than pays for itself.

There's significant evidence that ensuring families have enough to cover their basics is good for their kids, their communities and the economy as a whole. It improves kids' physical and mental health by freeing up money for families to spend on healthcare and healthy food. It improves education results, which has economic benefits down the road.

There are at least 300,000 Hawaii residents who qualify for this tax credit, or 1 in 4 residents. We want to make sure that every one who does qualify for the credit is able to fully take advantage of it. That's why we want to make it permanent and expand it.

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.) When you are barely making ends meet, that 15% doesn't leave a whole lot leftover. This is a great way to help working families keep more of what they've earned through their hard work and boost the economy at the same time.

SB-2485
Submitted on: 2/1/2022 8:27:08 AM
Testimony for WAM on 2/2/2022 10:00:00 AM

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

Comments:

Support

SB-2485
Submitted on: 2/1/2022 9:40:01 AM
Testimony for WAM on 2/2/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Wendy Gibson-Viviani	Individual	Support	No

Comments:

Aloha Chair, Vice-Chair and Members of the Committee,

I support SB2485 and hope that you will too.

According to Hawaii Tax Fairness Coalition (HI Tax Fairness): the Earned Income Tax Credit (EITC) is a special tax credit for families that work and that all families that benefit from it today are **at risk of losing it if the legislature takes no action** to make the credit permanent.

They explain that:

- The cost will be $41 million in 2022, but it would also boost revenue collections by $57 million, so it pays for itself and then some.
- 300,000 Hawaii residents qualify for this tax credit
- SB2485 will have the greatest impact on families with children and **Native Hawaiians and other Pacific Islanders** (because they tend to be paid less for their work and have smaller incomes).

I believe that this is a positive step toward addressing some of the harms related to systemic racism and the ongoing effects of colonialism.

My Source https://www.hitaxfairness.org/earned-income-tax-credit?fbclid=IwAR1DCG6tuAIU8Y32ChhGs9k0Pu-j93UH2CFe670rBkRudE3MgxLEd_lImjQ

Thank you,

Wendy Gibson-Viviani RN/BSN

Kailua