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 Stanley Chang, Chair;
The Honorable Dru Mamo Kanuha, Vice Chair;
and Members of the Senate Committee on Housing

From: Isaac W. Choy, Director
Department of Taxation

Date: February 4, 2021
Time: 1:00 P.M.
Place: Via Video Conference, State Capitol

Re: S.B. 868, Relating to the Low-Income Household Renters Credit

The Department of Taxation (Department) following <u>comments</u> regarding S.B. 868 for your consideration.

S.B. 868 adjusts the low-income renters tax credit by basing the amount of the credit on the taxpayer's adjusted gross income and filing status. In addition, for years beginning after December 31, 2022, the credit is adjusted based on the change, if any, by which the consumer price index for June of the preceding calendar year exceeds the consumer price index for June 2021, rounded to the nearest whole dollar amount. The measure 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 comments.

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Low-Income Household Renters Credit

BILL NUMBER: SB 868

INTRODUCED BY: KANUHA

EXECUTIVE SUMMARY: Creates income brackets for the low-income renter tax credit. Provides for adjustment of the tax credit amount based on the consumer price index for taxable years beginning after December 31, 2021, and beyond.

SYNOPSIS: Amends section 235-55.7, HRS, to amend the credit brackets as follows (MFS = married filing separately, HOH = head of household, MFJ = married filing jointly):

Adjusted gross income (single or MFS)	**Credit per exemption**
Under $20,000	$150
$20,000 under $30,000	$100
$30,000 under $40,000	$50
$40,000 and up	$ 0
Adjusted gross income (HOH)	Credit per exemption
Under $30,000	$150
$30,000 under $45,000	$100
$45,000 under $60,000	$50
$60,000 and over	$ 0
Adjusted gross income (MFJ or surviving spouse)	Credit per exemption
Under $40,000	$150
$40,000 under $60,000	$100
$60,000 under $80,000	$50
$80,000 and over	$ 0

For each taxable year beginning after December 31, 2022, each dollar amount contained in the table shall be increased by an amount equal to that dollar amount, multiplied by the percentage, if any, by which the consumer price index for June of the preceding calendar year exceeds the consumer price index for June 2021, rounded to the nearest whole dollar amount.

EFFECTIVE DATE: Taxable years beginning after December 31, 2021.

STAFF COMMENTS: The 1970 legislature adopted a system of tax credits for household renters which was intended to partially offset the higher tax burden on renters resulting from the lack of tax relief like the home exemption for homeowners and the 4% general excise tax levied on rental income. The current renter credit was established by the 1977 legislature at $20 per exemption for those taxpayers with adjusted gross incomes of less than $20,000 who paid more than $1,000 in rent during the tax year. Act 230, SLH 1981, increased the credit amount to $50. Act 239, SLH 1989, increased the adjusted gross income (AGI) limit to $30,000 to claim the credit. The proposed measure would increase the amount of the credit from $50 to $150, and it would increase the AGI limit to $60,000. It does not increase the rent qualification amount – the taxpayer still will need to pay $1,000 in rent during a taxable year to qualify for the credit.

There are some issues to consider with refundable credits targeted at low-income and homeless people generally.

First, a tax return is one of the most complicated documents for government agencies to process. The administrative costs associated with each one can quickly make heads spin. Furthermore, as the U.S. Treasury has experienced with the Earned Income Tax Credit, the combination of complexity and a refundable credit result in a certain percentage of improper payouts, some due to mistake or misunderstanding, and some due to bad actors.

Second, the low-income household renters' credit does nothing for most of the homeless; the credit requires payment of more than $1000 in rent. And even for those in the target population who do qualify for this credit, the relief that the credit provides comes in a tax refund which is paid, at the earliest, in the early part of the year after the tax return filer needs the relief. A person who qualifies for the credit in 2020, for example, won't get a check until early 2021.

Third, as a policy matter, lawmakers might prefer that the recipient of the refund not use the money obtained on certain things, illegal drugs for example. But the tax system contains no way of restricting the uses of a refund check; other departments do have systems in place to give some assurance that the payment will go toward legitimate living expenses such as groceries (EBT, for example).

The better solution is to get such people out of the tax system entirely. They receive peace of mind because they don't have to worry about tax returns, and the department doesn't have to worry about processing those returns. If additional relief to such people is considered desirable, it can be delivered through the agencies that are better equipped to do so.

Digested 2/1/2021

SB 868, RELATING TO THE LOW-INCOME HOUSEHOLD RENTERS CREDIT.

FEBRUARY 4, 2021 · SENATE HOUSING COMMITTEE · CHAIR SEN. STANLEY CHANG

POSITION: Support.

RATIONALE: Imua Alliance supports SB 868, relating to the low-income household renters' credit, which creates income brackets for the low-income renter tax credit and provides for adjustment of the tax credit amount based on the consumer price index for taxable years beginning after December 31, 2021, and beyond.

Hawai'i is facing a looming eviction crisis. During COVID-19, unemployment skyrocketed to levels not seen since the Great Depression. A recent study found that our state is experiencing the slowest unemployment rate recovery in the nation, moreover, with our rate hovering at approximately 9 percent in December. Thousands of people who haven't lost their jobs have instead seen their employment hours and earnings slashed, as the economic downturn lingered throughout 2020 and into the new year.

Financial precarity has become the norm for many families, who are unable to pay their full mortgages or rent and have accumulated housing debts. Currently, the state's eviction moratorium protects these families from being removed from their homes. Yet, the eviction moratorium will eventually expire as the public health emergency passes, leaving thousands of people at risk of losing their housing. It is entirely plausible, though heartbreaking, that landlords may try to increase rental and other housing costs to recover economic losses that they incurred during the pandemic, which would take a huge toll on tenants who are still struggling to get back on their feet.

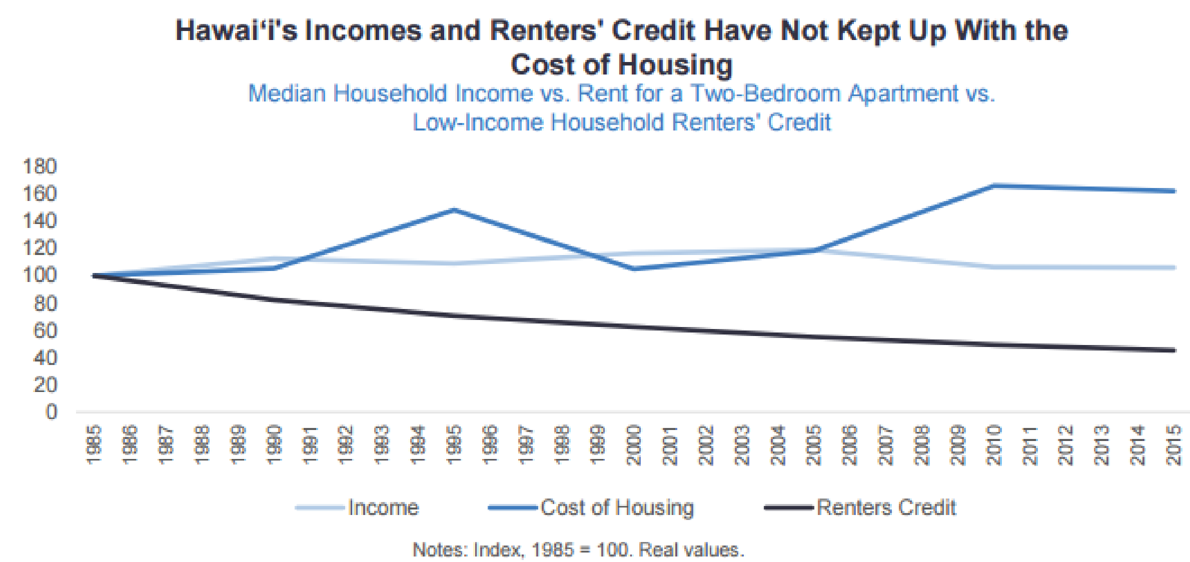
Today, **our state's ongoing lack of affordable housing exacerbates the economic insecurity suffered by local families, which sex traffickers use to prey upon potential victims with false promises of financial stability and prosperity.** Hawai'i residents face the highest housing costs in the nation, at more than twice the national average. Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2020* report found that a full-time worker would need to earn $38.76/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 2005 and 2015. Average rent for a two-bedroom unit surpassed $2,000 in recent years, with minimum wage workers needing to log 117 hours per week to afford a modest one-bedroom apartment at fair market value and 153 hours per week to afford a two-bedroom–a number that is equivalent to working over 20 hours a day with no days off year-round. In the past five years alone, Honolulu rent has increased by more than 25 percent. While 42 percent of Hawai'i residents are renters (a number that does not include individuals and families renting outside of the regulated rental market), they earn an average wage of $17.17/hour, according to NLIHC, scarcely enough to meet their basic needs.

One out of every four households in Hawai'i report that they are "doubling up" or are three paychecks or less away from being homeless, per the Hawai'i Appleseed Center for Law and Economic Justice. Additionally, over 60 percent of households are severely cost-burdened, following NLIHC data, meaning that they pay more than 30 percent of their income for housing costs, a number that rises to over 80 percent of extremely low-income households, with only 74 homes available for every 100 households earning 80 percent of their respective area's median income.

Notably, housing costs increased during the pandemic. In Honolulu, median single-family home prices reached a record of $880,000 last October, **driven largely by sales to residential property investors.** Unsurprisingly, our state is now experiencing population decline. Hawai'i saw domestic out-migration increase for a third consecutive year in 2019, as the state's high cost of living continued to push people to the mainland. Census estimates show that our state's population dropped by 8,866 people from July 2019 to July 2020, when births, deaths, and migration were accounted for. That population drop is nearly double the loss seen in 201, when Hawai'i one of just ten states in the country to lose population, according to the U.S. Census Bureau. People are simply being priced out of paradise.

To help ease Hawai'i's highest-in-the-nation cost of living, lawmakers must pass measures enhancing tax fairness and economic justice. Our state's low-income renters' credit is in dire need of adjustment. **In 1981, the LIHRC was set at $50. Later, in 1989, the income eligibility cutoff was established at $30,000, just above the median household income of the time. Yet, neither of these amounts have changed since the 1980s, leaving the amount of the credit lagging far behind inflation.** We must update the renters' credit to recover ground lost to inflation by increasing the maximum value of the credit to at least $150 and ensuring that the credit is automatically adjusted in future years according to increases in the consumer price index, which will prevent the value of the credit from trailing our skyrocketing cost of living.

FAILURE TO KEEP UP WITH COST OF LIVING



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

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
In Support with Amendments of SB 868 – Relating to the Low-Income Household Renters Credit
Senate Committee on Housing
Thursday, February 4, 2021, 1:00 PM, conference room 225

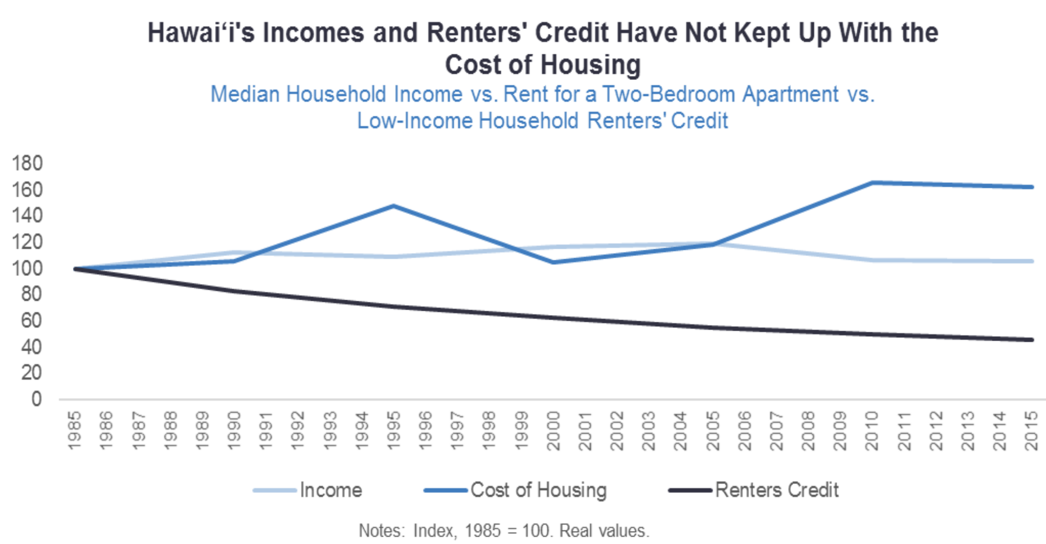
Dear Chair Chang, Vice Chair Kanuha, and members of the Committee:

Thank you for the opportunity to provide testimony in **SUPPORT** of **SB 868**, which would adjust the low-income household renters' credit to provide more help to more of the families who need the financial support that it provides.

With the pandemic-caused economic contraction in our state, targeted tax credits can not only help low-income and working-class families with financial support that they need, but also help support our overall economy by keeping money flowing to our local businesses. We know that lower-wage earners tend to spend every extra dollar that they have, which has a multiplier effect that boosts the local economy.

Even before the pandemic, Hawaiʻi residents were struggling to keep up with our state's sky-high cost of housing. A full-time worker in Hawaiʻi needs to make $38.76 per hour (or over $80,000 per year) to afford a 2-bedroom apartment, the highest "housing wage" in the nation.[i]

So it's no surprise that just over half (51 percent) of Hawaii's renters are housing-cost burdened -- paying at least 30 percent of their income on rent -- the 4th-highest proportion in the nation.[ii] And nearly two-thirds of Hawaiʻi residents living at or near the poverty line spend more than *half* of their incomes on rent.[iii]



Hawaiʻi Appleseed is committed to a more socially just Hawaiʻi, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems that perpetuate inequality and injustice through policy development, advocacy, and coalition building.

Hawaiʻi's low-income household renters' credit was created 40 years ago to help make up for the high rents and tax rates that burden our low- and moderate-income neighbors. However, it has not been updated in over three decades, not even to simply keep up with inflation.

The amount of the credit was set nearly 40 years ago, in 1981, at $50 per exemption. The income eligibility limit was set over 30 years ago, in 1989, at $30,000, which was just above the median household income at that time. Neither of those levels have budged since then.[iv]

This bill increases the maximum value of the credit and its income eligibility limits to catch up with inflation. It also phases the credit out as incomes rise, in order to avoid a tax "cliff," which is when a household of four, for example, would lose $600 in this tax credit when their annual income rises just over the limit. It is generally considered good tax policy to phase out credits in this manner.

In addition, this bill sets different income brackets for different types of households (married, single parent, and single) in order to account for the fact that it is much more difficult for a family of four, for example, to survive on $40,000 per year, than it is for a single person. This is another important positive aspect of the bill.

Thank you for your consideration of SB 868.

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[i] https://reports.nlihc.org/sites/default/files/oor/files/reports/state/HI-2020-OOR.pdf
[ii] https://www.jchs.harvard.edu/americas-rental-housing-2020
[iii] https://nlihc.org/sites/default/files/SHP_HI.pdf
[iv] http://tax.hawaii.gov/stats/a5_1annual/a5_4credits/