

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
Ka 'Oihana 'Auhau
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**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 493, H.D.1, Relating to Taxation

BEFORE THE:

House Committee on Finance

DATE: Wednesday, March 1, 2023

TIME: 2:30 p.m.

LOCATION: State Capitol, Room 308

Chair Yamashita, Vice-Chair Kitagawa, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 493, H.D.1, for your consideration.

H.B. 493, H.D. 1, amends section 235-55.85, Hawaii Revised Statutes (HRS), to increase the refundable food/excise income tax credit. Specifically, this measure increases the credit per exemption by an additional \$50 and makes increases to some of the adjusted gross income (AGI) limits. The following table reflects the proposed changes to AGI and credit per exemption:

Single Filing Status		Head of Household/ Married Filing Separate/Joint Filing Status	
AGI	Credit per qualified exemption to which taxpayer is entitled	AGI	Credit per qualified exemption to which taxpayer is entitled
Under \$5,000	\$160	Under \$5,000	\$160
\$5,000 under \$10,000	\$150	\$5,000 under \$10,000	\$150
\$10,000 under \$15,000	\$135	\$10,000 under \$15,000	\$135
\$15,000 under \$20,000	\$120	\$15,000 under \$20,000	\$120
\$20,000 under \$40,000	\$105	\$20,000 under \$30,000	\$105
\$40,000 and over	\$0	\$30,000 under \$40,000	\$95
		\$40,000 under \$70,000	\$85
		\$70,000 and over	\$0

The measure has a defective effective date of June 30, 3000.

First, the Department recommends that the bill be amended to require that married couples file joint returns to claim the credit. This will help to avoid inequalities due to the AGI limits.

Second, the Department notes that the credit contains tax cliffs due to the income steps created to determine eligibility for the tax credit. These tax cliffs may be addressed through a gradual phaseout mechanism, similar to that utilized in H.B. 1049, H.D. 1.

Third, the Department suggests adding a new subsection disallowing the credit if there was a final administrative or judicial decision that the taxpayer's claim for credit was due to fraud or a final administrative or judicial decision disallowing the taxpayer's claim for credit, as follows:

No credit shall be allowed under this section for any taxable year in the disallowance period. For purposes of this subsection, the disallowance period is:

- (1) The period of ten taxable years after the most recent taxable year for which there was a final administrative or judicial decision that the taxpayer's claim for credit under this section was due to fraud; and
- (2) The period of two taxable years after the most recent taxable year for which there was a final administrative or judicial decision disallowing the taxpayer's claim for credit.

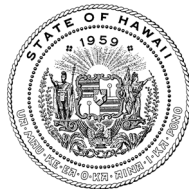
Fourth, the Department notes that it can implement this bill for taxable years beginning after December 31, 2022.

Finally, the Department estimates an expected revenue loss to the general fund as follows (\$ millions):

FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
-29.9	-29.0	-28.3	-27.5	-26.8	-26.0

Thank you for the opportunity to provide comments on this measure.

JOSH GREEN, M.D.
GOVERNOR



LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

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

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
Ka 'Oihana Mālama Mo'ohelu a Kālā
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

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

WRITTEN ONLY
TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 493, H.D. 1

March 1, 2023
2:30 p.m.
Room 308 and Videoconference

RELATING TO TAXATION

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

House Bill No. 493, H.D. 1, amends the income brackets and credit amounts of the Refundable Food/Excise Tax Credit.

Rather than taking a piecemeal approach, B&F strongly believes that the holistic approach in the Green Affordability Plan, House Bill No. 1049, is a more suitable option in providing needed financial relief to Hawai'i's residents.

Thank you for your consideration of our comments.

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

To: House Committee on Finance

Re: **HB 493, HD1 - Relating to Taxation**
Hawai'i State Capitol & Via Videoconference
March 1, 2023, 2:30 PM

Dear Chair Yamashita, Vice Chair Kitagawa, and Committee Members,

On behalf of Hawai'i Children's Action Network Speaks!, I am testifying in **in SUPPORT of HB 493**, relating to taxation. This bill amends the income brackets and credit amounts of the refundable food/excise tax credit.

It is well known that Hawai'i has the highest cost of living in the nation,¹ and one of the main contributing factors is our high cost of food. Meanwhile, Hawai'i is one of only 13 states that taxes groceries.²

Our state's General Excise Tax (GET) is applied to nearly all goods and services in Hawai'i. As a result, it hits our low-income and working-class families harder because they spend almost all of their earnings on items and services that are taxed by the GET. That means that Hawai'i families who earn less than \$20,000 per year pay almost nine times as much of their income in the GET than those who make over \$450,000.³

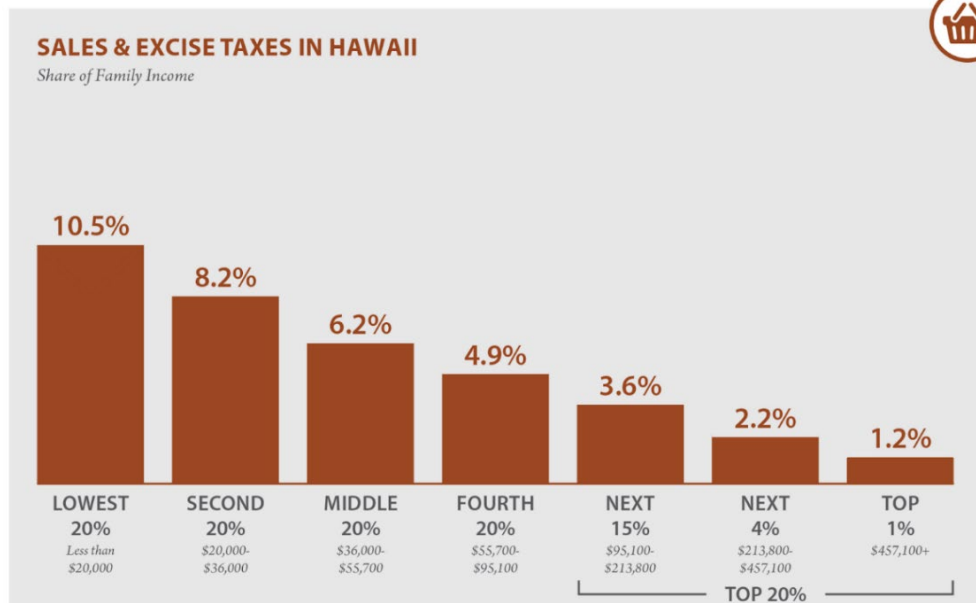
HCAN Speaks! Board of Directors

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¹ Bureau of Economic Analysis, <https://www.bea.gov/data/prices-inflation/regional-price-parities-state-and-metro-area>

² Tax Foundation, <https://taxfoundation.org/sales-tax-grocery-tax-exemptions/>

³ Institute on Taxation and Economic Policy, <https://itep.org/whopays/hawaii/>

Hawai'i's Refundable Food Excise Tax Credit is meant to refund the some of the GET that lower to middle income people pay on their groceries. The less a worker earns, the more they can get back. And the larger a family is, the more credits they can claim.

This tax credit was created in 2007, and the amounts that families could get back were updated to catch up with inflation in 2015. But the income eligibility cut-offs have not been updated since 2007, which means that fewer and fewer of our low-income and working-class families can claim the credit. As the Department of Taxation states, "Increasing incomes mean fewer people claim the Food/Excise Tax Credit over time."⁴

This bill would increase the amount the taxpayers can get from this tax credit, as well as raise the income thresholds. Families who are struggling to make ends meet in Hawai'i need and deserve this help.

Mahalo for the opportunity to provide this testimony. Please pass this bill.

Thank you,

Nicole Woo
Director of Research and Economic Policy

⁴ Department of Taxation, https://tax.hawaii.gov/blog/blog04_increasing-incomes-mean-fewer-claim-food-excise-tax-credit/



TESTIMONY IN SUPPORT OF HB 493 HD1

TO: Chair Yamashita, Vice-Chair Kitagawa & Committee Members

FROM: 'Ilima DeCosta
Community Engagement Coordinator

DATE: March 1, 2023 (2:30pm)

Hawai'i Health & Harm Reduction Center (HHRC) **SUPPORTS** HB 493 HD1. HB 493 HD1 would adjust the state tax food/excise tax credit schedule and allow more Hawai'i residents to become eligible for a tax credit.

Hawai'i is 1 of only 8 states that currently taxes food, with [five](#) states recently passing legislation to eliminate the tax on food items. Absent a total elimination of the general excise tax on food items, Hawai'i residents living marginally are often forced to choose between food and other household essentials, including rent and utilities.

Passage of HB 493 would increase the number of Hawai'i residents who would qualify for the credit and provide needed relief from the exorbitant cost of food.

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

HHRC urges passage of HB 493.

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



HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice
In support of [HB 493] – Relating to Tax Credits
House Committee on Finance
Wednesday, March 1, 2023, 2:30 PM, conference room 308

Dear Chair Yamashita, Vice Chair Kitagawa, and members of the Committee:

Thank you for the opportunity to testify in **support** of HB 493, which would adjust the amounts and income brackets of the Refundable Food/Excise Tax Credit.

The Refundable Food/Excise Tax Credit helps to offset the burden that the regressive General Excise Tax (GET) imposes on Hawai‘i’s residents with low incomes, and it was the state’s most commonly claimed tax credit in 2020—appearing on 254,262 individual income tax returns.¹ This is a testament to the efficacy and wide reach of the credit.

Hawai‘i is one of seven states that taxes groceries at the same rate as other goods, and this tax disproportionately affects taxpayers on the lower end of the income scale. The cost of groceries in Hawai‘i has continued to rise in recent years; between November of 2021 and November of 2022, food prices in Honolulu increased by 8.2%.²

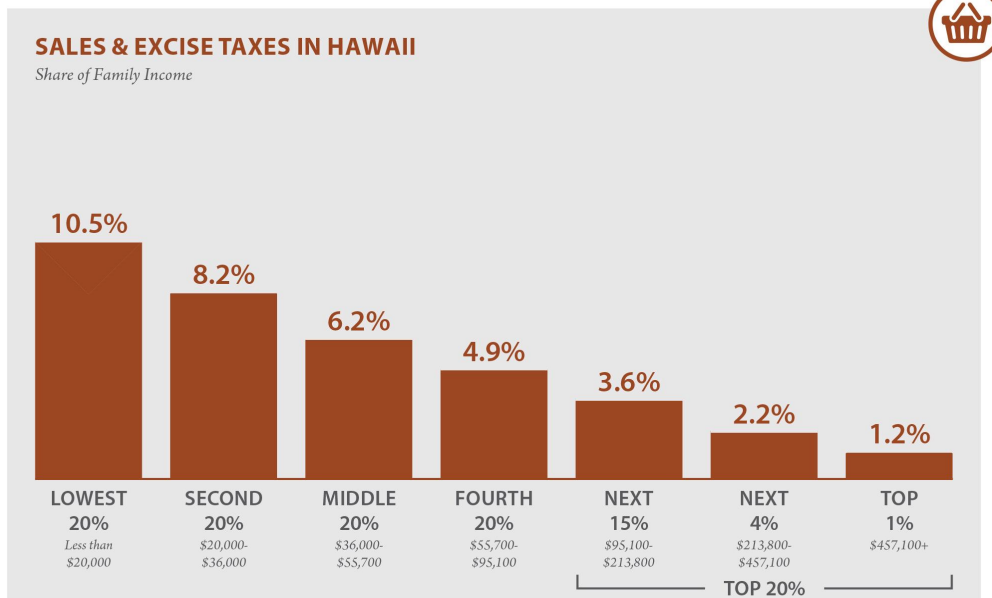
¹ “Tax Credits Claimed by Hawaii Taxpayers,” Department of Taxation, 2022.

<https://files.hawaii.gov/tax/stats/stats/credits/2020credit.pdf>

² “Consumer Price Index, Honolulu Area — November 2022,” U.S. Bureau of Labor Statistics, 2022.

https://www.bls.gov/regions/west/news-release/consumerpriceindex_honolulu.htm

Share of family income spent on the general excise tax, Hawai‘i (2018)³



As illustrated by the data, Hawai‘i’s lowest-income families spend 10.5% of their income on the GET, compared to 1.2% of the income for the top 1%. This nearly 10-to-1 disparity makes it substantially more difficult for low-income families to afford food and other necessities. Tax credits such as the Refundable/Food Excise Tax Credit are key tools for decreasing the tax burden on low-income families, allowing them to better afford the cost of their daily expenses. Since the Refundable Food/Excise Tax Credit is refundable, it also benefits taxpayers who have little to no tax liability—typically those earning the lowest incomes.

The Refundable Food/Excise Tax Credit targets its tax relief at the lowest-income households, with an income cap of under \$30,000 for single filers and \$50,000 for heads of households, married individuals, or joint filers. We strongly support HB 493’s language to increase these income limits to under \$40,000 and \$70,000, respectively.

Doing so would allow more working families to claim the credit, which is particularly important given the impending expiration of the emergency Supplemental Nutrition Assistance Program (SNAP) benefits that were rolled out during the COVID-19 pandemic. This additional SNAP assistance is set to expire on March 1, 2023, leaving many SNAP recipients with a significant gap in their food budget.

We also support HB 493’s provision to boost the credit amounts for each income bracket. The larger credit amounts, especially at the lower end of the income scale, would help the families who need it most.

Thank you for your consideration of HB 493.

³ “Hawaii: Who Pays? 6th Edition,” Institute on Taxation and Economic Policy, 2018. <https://itep.org/whopays/hawaii/>

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Refundable Food/Excise Tax Credit

BILL NUMBER: HB 493 HD 1

INTRODUCED BY: House Committee on Economic Development

EXECUTIVE SUMMARY: Amends the income brackets and credit amounts of the refundable food/excise tax credit.

SYNOPSIS: Amends HRS section 235-55.85 to increase the food/excise tax credit based on the taxpayer's AGI:

For single taxpayers:

Adjusted gross income	Tax credit
Under \$5,000	\$160
\$ 5,000 under \$10,000	150
10,000 under 15,000	135
15,000 under 20,000	120
20,000 under 40,000	105
40,000 and over	0

For heads of household, married individuals filing separate returns, and married couples filing joint returns:

Adjusted gross income	Tax credit
Under \$5,000	\$160
\$ 5,000 under \$10,000	150
10,000 under 15,000	135
15,000 under 20,000	120
20,000 under 30,000	105

30,000 under 40,000	95
40,000 under 70,000	85
70,000 and over	0

EFFECTIVE DATE: June 30, 3000.

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

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

Second, the credit 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 2023, for example, won't get a check until early 2024.

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: 2/28/2023

HB-493-HD-1

Submitted on: 2/27/2023 9:13:47 PM

Testimony for FIN on 3/1/2023 2:30:00 PM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Support	Written Testimony Only

Comments:

While the cost of food has continued to place a growing burden on Hawai'i's working families, the Food/Excise Tax Credit has not been updated since 2015. Another update is more than warranted given the rising cost of living. Please support HB493 HD1.

HB-493-HD-1

Submitted on: 2/28/2023 7:47:54 AM

Testimony for FIN on 3/1/2023 2:30:00 PM

Submitted By	Organization	Testifier Position	Testify
Jessie L Gonsalves	Individual	Support	Written Testimony Only

Comments:

I support this bill!

HB-493-HD-1

Submitted on: 2/28/2023 10:42:46 AM

Testimony for FIN on 3/1/2023 2:30:00 PM

Submitted By	Organization	Testifier Position	Testify
Shay Chan Hodges	Individual	Support	Written Testimony Only

Comments:

While the cost of food has continued to place a growing burden on Hawai'i's working families, the Food/Excise Tax Credit has not been updated since 2015. Another update is more than warranted given the rising cost of living. Please support HB493 HD1.

--Shay Chan Hodges

Maui, Hawaii

HB-493-HD-1

Submitted on: 2/28/2023 11:33:35 AM

Testimony for FIN on 3/1/2023 2:30:00 PM

Submitted By	Organization	Testifier Position	Testify
Shannon Rudolph	Individual	Support	Written Testimony Only

Comments:

Support

To: Hawaii State House Committee on Finance
Hearing Date/Time: Wednesday, March 1, 2023, 2:30pm
Place: Hawaii State Capitol, CR 308 & Videoconference
Re: Judith Ann Armstrong is in strong support of HB 493 HD1

Dear Members of the Finance Committee,

I, Judith Ann Armstrong, am in strong support of HB493 HD1 relating to Taxation.

While the cost of food has continued to place a growing burden on Hawai'i's working families, the Food/Excise Tax Credit has not been updated since 2015. Another update is more than warranted given the rising cost of living.

Thank you for this opportunity to testify in support of HB493.

Sincerely,

Judith Ann Armstrong