

DAVID Y. IGE
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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: March 2, 2021
Time: 9:30 A.M.
Place: Via Videoconference, Hawaii State Capitol

Re: S.B. 302, S.D. 1, Relating to Tax Credits

The Department of Taxation (Department) offers the following comments regarding S.B. 302, S.D. 1, for your consideration.

S.B. 302, S.D. 1, amends section 235-55.7, Hawaii Revised Statutes (HRS), which governs the income tax credit for low-income household renters (renters credit). The measure changes the renters credit from \$50 per qualified exemption to an dependent on the taxpayer's filing status and Hawaii adjusted gross income (AGI). The following table reflects the proposed changes to applicable credit amounts:

Filing Status	AGI	Credit per qualified exemption to which taxpayer is entitled
<u>Single or Married Filing Jointly</u>	Under \$20,000	\$200
	\$20,000 to \$30,000	\$150
	\$30,000 to \$40,000	\$100
	\$40,000 and over	\$0
<u>Head of Household</u>	Under \$30,000	\$200
	\$30,000 to \$45,000	\$150
	\$45,000 to \$60,000	\$100
	\$60,000 and over	\$0

Joint Return/Surviving Spouse	Under \$40,000	\$200
	\$40,000 to \$60,000	\$150
	\$60,000 to \$80,000	\$100
	\$80,000 and over	\$0

S.B. 302, S.D. 1, also increases the renters credit for inflation in the taxable year beginning after December 31, 2022 and every three years thereafter. It achieves this inflation increase by multiplying the existing dollar amount by the percentage, if any, by which the Consumer Price Index (CPI) for June 2020 exceeds the CPI for June 2021. This multiplied sum will be rounded to the nearest whole dollar and added to the existing dollar amount in the table. CPI is defined as “the urban Hawaii consumer price index for all urban consumers published by the United States Department of Labor or a successor index.” The measure is effective upon approval and applies to taxable years after December 31, 2020.

The Department appreciates the previous Committee’s incorporation of its suggested amendments to use federal AGI instead of Hawaii AGI, and to set the inflation increase to occur every three years instead of annually. The Department is able to administer this measure with its current effective date.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase low-income household renters credit and index it

BILL NUMBER: SB 302, SD1

INTRODUCED BY: Senate Committee on Housing

EXECUTIVE SUMMARY: Increases the amount of the tax credit for individuals and households and the adjusted gross income eligibility cap for the income tax credit for low-income household renters using tax brackets for individuals and different categories of households and providing for increases every three years based on the consumer price index.

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	\$200
\$20,000 under \$30,000	\$150
\$30,000 under \$40,000	\$100
\$40,000 and up	\$ 0
Adjusted gross income (HOH)	Credit per exemption
Under \$30,000	\$200
\$30,000 under \$45,000	\$150
\$45,000 under \$60,000	\$100
\$60,000 and over	\$ 0
Adjusted gross income (MFJ or surviving spouse)	Credit per exemption
Under \$40,000	\$200
\$40,000 under \$60,000	\$150

\$60,000 under \$80,000	\$100
\$80,000 and over	\$ 0

For the taxable year beginning after December 31, 2022, and in every third taxable year thereafter, each dollar amount contained in the table in subsection (c) 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 of 2021, rounded to the nearest whole dollar amount.

EFFECTIVE DATE: Taxable years beginning after December 31, 2020.

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 may increase the amount of the credit from \$50, depending upon income, 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.

As a technical matter, we note that the definition of "adjusted gross income" in the bill reads:

"Adjusted gross income" has the same meaning as defined and determined under the Internal Revenue Code in accordance with section 235-1.

While we agree that the language in current law is not appropriate because section 235-1 contains no definition of adjusted gross income, the proposed definition is confusing because it sounds like federal adjusted gross income but it probably is intended to refer to adjusted gross income for Hawaii purposes. We do not think the definition is necessary and recommend that it be deleted.

Digested 2/25/2021



AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS			MAILING ADDRESS
John Bickel, President	Melodie Aduja	John Miller	Bill South	P.O. Box 23404
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Doug Pyle, Secretary	Jan Lubin	Lyn Pyle		

February 28, 2021

TO: Chair Dela Cruz and members of WAM Committee

RE: SB302 SD1 Relating to Tax Credits

Support for hearing on March 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.

We support SB302 SD1 as it would increase low-income tax credits and index future credits to inflation. As the bill notes in its introduction, the level of credits has not been adjusted since 1981 despite a burgeoning of housing costs and concomitant houselessness. Tying the credit amount to the Consumer Price Index makes sense.

Thank you for your favorable consideration.

Sincerely,

John Bickel, President





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

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

To: Senate Committee on Ways and Means

Re: **SB302, SD1 - Relating to tax credits**
Hawai'i State Capitol, Room 211
March 2, 2021, 9:30 AM

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

On behalf of Hawai'i Children's Action Network Speaks!, I write in SUPPORT of SB302 SD1, which would increase the credit amount and income eligibility cap for the for low-income household renters' tax credit as well as provide for inflation increases in the future.

During this harsh economic recession, Hawai'i has faced some of the highest unemployment rates in the nation, leaving so many of our state's working families struggling to make ends meet. Even before the pandemic, a full-time worker in Hawai'i needed to earn \$38.76 per hour to rent a 2-bedroom apartment – that's the highest "housing wage" in the nation. Yet, the average hourly wage for a renter here is just \$17.17, leaving an unbelievably wide gap of \$21.59.¹

The low-income household renters' credit was created in 1977 to provide tax relief to low- and moderate-income renter households in our state. In 1981, the credit amount was set at \$50 per exemption. In 1989, the income eligibility cut off was set at \$30,000, which was just above the median household income at the time. Neither of those levels have budged in over three decades.²

This bill rightly updates the renters' credit to recover ground lost to decades of inflation by increasing both the maximum value of the credit and the income eligibility limit. It also provides higher credit values and eligibility limits for head of household (single parent) and married tax filers, which is especially helpful for families with children.

For example, **a single mom with two children who earns \$35,000 per year is not be eligible for the current renters' credit, due to her income being above the \$30,000 eligibility limit. If this bill were to become law, she would be able to claim for \$150 per exemption – or \$450 for her family.** For struggling parents, that could mean the difference between making rent and eviction.

Mahalo the opportunity to provide testimony in support of this bill. Please pass SB302 SD1.

Thank you,

Nicole Woo
Director, Research and Economic Policy

¹ <https://reports.nlihc.org/oor/hawaii>

² <https://files.hawaii.gov/tax/stats/stats/credits/2018credit.pdf>



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COMMITTEE ON WAYS AND MEANS
TUESDAY, 3/2/21, 9:30 AM, Room No. 211

SB302 SD1 RELATING TO TAX CREDITS
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 this bill, which increases the decades-old income threshold and credit amounts for low income renters to receive a tax credit, adds consideration of household composition to the income threshold, phases out the tax credit for increasing incomes and triennially increases the income threshold and credit amounts by the increase in the cost of living in Hawaii.

The National Low-Income Housing coalition calculated in 2019 that to afford a one-bedroom apartment in Hawaii, a household needed to earn \$28.04 an hour. Low income renters need all the help they can get to avoid falling into homelessness, as so many have even just in the past year.

Families with stable housing experience many advantages - their children are healthier and more likely to succeed in school, for example. There is far less burden on the state when people are stably housed than when they become homeless.

Please pass SB302 SD1 which will restore some of the value the low income renters tax credit had in the 80's which has been lost to inflation, as the bill's introduction makes clear.

Thank you for the opportunity to submit testimony.

SB-302-SD-1

Submitted on: 2/28/2021 11:33:47 AM

Testimony for WAM on 3/2/2021 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Dylan Ramos	Individual	Support	No

Comments:

Support