

JOSH GREEN M.D.  
GOVERNOR

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LT. GOVERNOR



STATE OF HAWAII  
DEPARTMENT OF TAXATION

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GARY S. SUGANUMA  
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DEPUTY DIRECTOR

**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

H.B. No. 1327, H.D.1, Relating to Tax Credits

**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. 1327, H.D.1, for your consideration.

H.B. 1327, H.D.1, adds a new section to chapter 235, Hawaii Revised Statutes (HRS), that provides a nonrefundable income tax credit of up to \$500 for "qualified expenses" per taxable year for "qualified taxpayers." The term "qualified taxpayer" is defined as an individual employed by the Department of Education or the Hawaii State Public Library System as a prekindergarten through twelfth-grade teacher, instructor, school librarian, counselor, principal, registrar, or aide. A "qualified taxpayer" also includes a teacher or teacher assistant as part of a head start program. "Qualified taxpayers" will only be eligible for the credit if they are employed by the qualifying entities for a minimum of 900 hours during a school year. The term "qualified expenses" is defined as expenses paid or incurred in connection with books, supplies, computer equipment, and supplementary classroom materials.

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

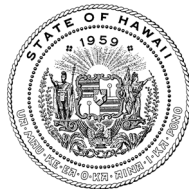
The Department appreciates that the Committee on Education accepted the Department's suggestion to amend subsection (d) to avoid duplicative tax benefits for the same expenses.

Department of Taxation Testimony  
H.B. 1327, H.D.1  
March 1, 2023  
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The Department notes that it can implement this bill for tax years beginning after December 31, 2022.

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**  
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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. 1327, H.D. 1

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

RELATING TO TAX CREDITS

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

House Bill No. 1327, H.D. 1, establishes an income tax credit for qualified expenses incurred by certain individuals employed by the Department of Education, Hawai'i State Public Library System, or part of a Head Start Program in a school.

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.

JOSH GREEN, M.D.  
GOVERNOR



KEITH T. HAYASHI  
SUPERINTENDENT

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
KA 'OIHANA HO'ONA'AUAO  
P.O. BOX 2360  
HONOLULU, HAWAII 96804

**Date:** 03/01/2023

**Time:** 02:30 PM

**Location:** 308 VIA VIDEOCONFERENCE

**Committee:** House Finance

**Department:** Education

**Person Testifying:** Keith T. Hayashi, Superintendent of Education

**Title of Bill:** HB 1327, HD1 RELATING TO TAX CREDITS.

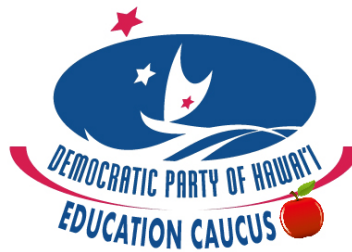
**Purpose of Bill:** Establishes a state income tax credit for qualified expenses incurred by certain individuals employed by DOE, the Hawaii state public library system, or as part of a head start program in a school. Effective 6/30/3000. (HD1)

**Department's Position:**

The Hawaii State Department of Education (Department) provides comments regarding HB 1327, HD1. The Department appreciates efforts to address the cost of living for education-related personnel as defined in the bill as a "qualified taxpayer." However, determining whether each employee meets the work hours criteria of at least nine hundred hours during a school year could be difficult.

If the bill passes, the Department defers to the Department of Taxation for its proper implementation.

Thank you for the opportunity to provide testimony on HB 1327, HD 1, relating to tax credits.



## HOUSE BILL 1327, HD1, RELATING TO TAX CREDITS

MARCH 1, 2023 · HOUSE FINANCE COMMITTEE ·  
CHAIR REP. KYLE YAMASHITA

**POSITION:** Support.

**RATIONALE:** The Democratic Party of Hawai'i Education Caucus supports HB 1327, HD1, relating to tax credits, which establishes a state income tax credit for qualified expenses incurred by certain individuals employed by DOE, the Hawai'i state public library system, or as part of a head start program in a school.

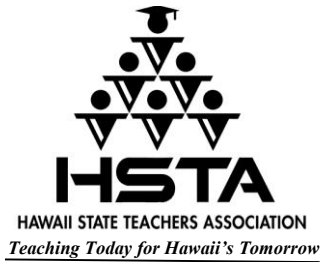
According to the National School Supply and Equipment Association, public school teachers annually spend \$1.6 billion of their discretionary income on supplementary school supplies and instructional materials. On average, teachers surveyed spent a total of \$485 on school supplies and instructional materials, with more than 10 percent spending over \$1,000 of personal income each school year to educate their keiki. Those figures likely rose during the COVID-19 pandemic, as teachers were forced to purchase cleaning supplies and personal protective equipment for themselves, their students, and their classrooms, since PPE supplies were not always obtainable from the Hawai'i Department of Education.

That trend is, if anything, worse in Hawai'i, which consistently ranks at the bottom in national teacher compensation studies. Pay cuts, rising health care costs, adjusted insurance co-pays, and the loss of the state's \$1,690-per-special-education-teacher classroom supply fund have all

aggravated the financial burden borne by teachers' pocketbooks. In a recent survey conducted by HSTA, 47 percent of respondents cited personal expenditures between \$250 and \$500 each year on classroom supplies, with many claiming expenditures in excess of \$1,000. Lawmakers must take action to lighten their financial load.

Ensuring that educators have more money in their pocketbooks effectively increases their purchasing power, puts money back into the local economy, and incentivizes the teaching profession at a time when our state's high cost- of-living and low adjusted-average income compel many would-be teachers to choose more highly compensated professions (or, even worse, leave the state altogether). Today, approximately half of Hawai'i's teachers leave our state's classrooms every five years. Therefore, to recruit and retain quality teachers for our schools, we should provide fiscal incentives that offset our state's exorbitant and every-increasing cost-of-living for supplies that support the learning growth of our keiki.

**Kris Coffield · Chairperson, DPH Education Caucus · (808) 679-7454 · [kriscoffield@gmail.com](mailto:kriscoffield@gmail.com)**



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## TESTIMONY BEFORE THE HOUSE COMMITTEE ON FINANCE

RE: HB 1327 HD1 - RELATING TO TAX CREDITS

WEDNESDAY, MARCH 1, 2023

OSA TUI, JR., PRESIDENT  
HAWAII STATE TEACHERS ASSOCIATION

Chair Yamashita and Members of the Committee:

The Hawaii State Teachers Association **supports HB 1327, HD1**, relating to tax credits. If passed, this bill establishes a state income tax credit for qualified expenses incurred by prekindergarten through twelfth-grade teachers, instructors, school librarians, counselors, principals, registrars, or aides in a school. In short, this will offset the cost of supplies purchased by teachers using personal funds, expenses that are beyond what is allocated in academic and financial plans and that far exceed the \$300 federal educator expense deduction.

In a recent survey last month to its members across the islands, Hawai'i State Teachers Association found the survey respondents reported spending an average of \$953 of their own money a year on various classroom supplies.

Educators who answered the survey said they spent anywhere from \$75 to \$4,000 annually out of their own funds on various classroom supplies, conferences and many other expenses.

An O'ahu high school teacher reported spending hundreds in personal money every year on basics, because "sometimes parents are unable to provide classroom supplies, so pencils, paper, composition books, etc."

An educator at a Hilo-area intermediate school listed annual personal spending of \$1,000 on "typical classroom supplies: tablets, folders, binders, binder paper, construction paper, pencils, pens, tissue paper, paper towel, manila folders, sheet protectors. I also purchase snacks on a monthly basis and use it as a reward for my students. Chips, cookies, granola."

Another O'ahu teacher reported spending between \$1,000 to \$1,500 a year on "subscriptions to educational apps and sites, art supplies, books for class library, school supplies for kids who cannot afford or parents don't buy, cleaning supplies,

science experiment supplies, field trip fees for children who cannot afford it, lei for speakers/visitors, parking fees for workshops, professional development, recess equipment, and snacks for hungry children who miss 'free' breakfast on campus because they are tardy, etc.”

A teacher on Maui reported spending \$2,000 to \$3,000 out of her own pocket each year on “books for classroom library, prizes for classroom store, decorations for classroom, student Christmas gifts, student end-of-the-year gifts, art supplies, classroom treats, teacher supplies, classroom supplies.”

A Kaua‘i teacher reported spending \$3,000 a year on lab supplies, project supplies for class and science fairs, snacks for students, professional development and conferences, classroom/school supplies, and furniture.

With the nation’s lowest cost of living adjusted salaries, increased healthcare costs, and high housing costs, teachers are struggling here. Their students’ families are struggling, and teachers are spending more and more out of their own pockets for their students. In the case of classroom supplies, it’s true that teachers “do it for the kids,” purchasing materials out of their own paychecks as sometimes just the waiting for departmental or purchase order approval would often disrupt planned curricula and, in turn, student learning. Teachers won’t abide that. Most times, the funds they need are not even available, even if their administrator would love to give it to them.

Notably, most teachers do not earn enough to claim the benefits of tax itemization—they cannot, for example, take mortgage deductions for homes that they cannot afford to buy.

Teachers should be repaid for personally purchasing school supplies. Yes, this shouldn’t be happening, our public schools, including our public charter schools, should be funded better, but they are not at this time. Accordingly, the Hawaii State Teachers Association asks your committee to **support** this bill.



# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME TAX, Credit for Educational Supplies

BILL NUMBER: HB 1327 HD 1

INTRODUCED BY: House Committee on Education

EXECUTIVE SUMMARY: Establishes a state income tax credit for qualified expenses incurred by prekindergarten through twelfth-grade teachers, instructors, school librarians, counselors, principals, registrars, or aides in a school.

SYNOPSIS: Adds a new section to HRS chapter 235 to allow qualifying taxpayers to claim a nonrefundable tax credit of up to \$500 for “qualified expenses.”

Defines “qualified taxpayer” as, with respect to any taxable year, an individual who is employed (1) By the department of education or the Hawaii state public library system as a prekindergarten through twelfth-grade teacher, instructor, school librarian, counselor, principal, registrar, or aide; or (2) As a teacher or teacher assistant as part of a head start program; in a school for at least nine hundred hours during a school year. “Qualified taxpayer” includes a classroom teacher and special education teacher.

Defines “qualified expenses” as expenses paid or incurred by a qualified taxpayer who incurs the expenses in connection with books, supplies (other than athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services), and supplementary materials used by the qualifying taxpayer in the classroom.

Specifies that no other tax credit or deduction may be claimed for Hawaii income tax purposes for the certain expenses used to claim this tax credit for the taxable year.

The credit is not refundable but may be carried forward until exhausted.

Claims for the credit, including any amended claims, must be filed on or before the end of the 12th month following the close of the taxable year. Failure to do so will result in waiver of the credit.

Requires the director of taxation to prepare any necessary forms. Allows the department to require the taxpayer to furnish reasonable substantiation and adopt necessary rules pursuant to HRS chapter 91 to carry out this section.

EFFECTIVE DATE: June 30, 3000.

STAFF COMMENTS: This measure proposes a tax credit of \$500 for 100% of certain out-of-pocket expenses incurred by a teacher. The credit proposed in this measure would be granted without regard to a taxpayer’s need for tax relief. It should be remembered that using the tax

system to achieve social goals, as this measure proposes, is an inefficient means of accomplishing such goals.

Most of us have heard stories about teachers in the public school system who have been forced to use their own funds for classroom materials, and we know that isn't right. But the problem is with the bureaucratic system of requesting the funds and having the system take as much as six months to approve the money. The money has been appropriated, and it is the system that is frustrating. Thus, instead of using the tax system to "compensate" these teachers, first consideration should be given to "fixing the system."

The suggestion has been made time and time again to give teachers debit cards of some type for the classroom supplies budget under EDN 100. The cards could be credited with a predetermined amount and could be encoded so that only defined classroom supplies could be purchased with that debit card. Such a system already has been employed to administer the state's food stamp program, so why can't a similar system be established for classroom supplies rather than mucking up the tax system and ignoring the budgeting and appropriation processes?

Instead of just throwing money at a problem, in this case a tax credit, lawmakers should demand that the department fix the problem with the money that is there. It is the bureaucracy that needs to be addressed. Since the tax credit is an indirect additional burden on all remaining taxpayers as it shifts the burden to those not so favored, this proposal amounts to a tax increase and steals money from other programs.

Other technical considerations that lawmakers should consider if the bill is to go forward are:

- There appears to be no requirement that the expense be unreimbursed. To prevent unintended double benefit, the word "unreimbursed" should be added to the qualified expense definition, and/or there should be recapture consequences if credited amounts are reimbursed.

Digested: 2/28/2023

**HB-1327-HD-1**

Submitted on: 2/27/2023 9:23:16 PM

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

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Will Caron	Individual	Support	Written Testimony Only

Comments:

Please support HB1327 HD1.