NEIL ABERCROMBIE
GOVERNOR

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DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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To: The Honorable Mele Carroll, Chair
and Members of the House Committee on Human Services

Date: Thursday, February 13, 2014
Time: 9:30 a.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 2371, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 2371, and provides the following information and comments for your consideration. Each Part of H.B. 2371 will be digested and commented on separately. This measure, if approved, would apply to taxable years beginning after December 31, 2013.

Part I

Part I of H.B. 2371 increases the credit amounts and adjusted gross income threshold amounts of the refundable food/excise tax credit provided under Hawaii revised Statutes (HRS) section 235-55.85.

Part II

Part II of H.B. 2371 increases the credit amounts and adjusted gross income threshold amounts of the low-income household renters tax credit provided under Hawaii revised Statutes (HRS) section 235-55.7. Specifically, the adjusted gross income threshold is increased from \$30,000 to \$59,700 and the credit amount per exemption is increased from \$50 to \$146.

Part III

Part III of H.B. 2371 creates an income tax credit to eliminate the income tax liability of taxpayers with a federal adjusted gross income (FAGI) of less than 100% of the federal poverty guidelines and to reduce by half the income tax liability of taxpayers with a FAGI of 100 to 125% of federal poverty guidelines.

First, the Department notes that using the "federal poverty guidelines" as a limitation for a tax credit is very difficult for the Department to administer. It is the Department's understanding that the applicable "federal poverty guidelines" depends on the household size. It is also the Department's understanding that what is considered a household for purposes of the federal poverty guidelines may differ from who may file jointly and who may be claimed as a dependent for tax purposes.

The Department suggests that the income limitation be stated as a fixed amount for each filing status, by which an eligible taxpayer's FAGI and Hawaii adjusted gross income (HAGI) may not exceed. Such an amendment will relieve the inconsistency inherent in using federal poverty guidelines along with FAGI. The suggested amendment will also relieve the Department of implementing annual adjustments to the federal poverty guidelines.

Second, while the Department appreciates the desire to provide tax relief for taxpayers falling below federal poverty guidelines, the Department notes that the tax structure is not the most efficient means of providing or determining who is in need of financial support.

For example, the FAGI also takes into account any reduction of income due to business loss, capital loss, depreciation, and other allowable deductions. Taxpayers with low federal AGI may not necessarily be financially disadvantaged. As a result, a taxpayer's FAGI might fall below federal poverty guidelines due to a large capital loss or due to depreciation of various types of held property, not necessarily because the taxpayer is financially disadvantaged.

The Department also notes that the FAGI excludes amounts such as cost-of-living allowances for federal employees, contributions to the State employees' retirement system, and interest on out-of-state bonds; whereas HAGI captures those income sources. On the other hand, FAGI excludes certain pensions, social security benefits, first $5,881 of military reserve or Hawaii National Guard duty pay, payments to an individual housing account and other subtractions from Federal adjusted gross income. Thus, as stated above, the Department suggests requiring a taxpayer's FAGI and HAGI to each meet the income threshold to qualify for the credit.

Finally, if the Committee wishes to advance this Part of H.B. 2371, the Department requests the effective date of the bill be amended to apply to tax years beginning after December 31, 2014 or later to provide the Department with sufficient to make the required form, instruction, and computer system modifications.

Part IV

Part IV of H.B. 2371 creates a refundable earned income tax credit (EITC) at the state level. The credit is equal to an unspecified percentage of the federal EITC allowed under section 32 of the Internal Revenue Code, as amended.

The Department appreciates the intent of this bill, to provide additional resources to economically disadvantaged taxpayers, but notes that the tax system is not necessarily the most efficient structure for providing financial support to such taxpayers.

First, the Department has difficulty with compliance enforcement of refundable tax credits because they create an incentive and opportunity for fraud. Conversely, nonrefundable tax credits limit the incentive for fraud because they only benefit taxpayers to the extent of their tax liability. The Department notes that several states have already adopted nonrefundable EITC provisions.

For Fiscal Year 2012, the U.S. Department of the Treasury has reported that approximately 21-25% of the amounts paid for the federal EITC has gone to taxpayers improperly claiming the tax credit; this translates into approximately $11.6 to $13.6 billion dollars improperly paid out improperly.

Second, refunds are generally paid before a complete review of each return is done. Although on its face it seems simple to create a Hawaii EITC based on a percentage of the federal EITC, fthe Department has no independent way to obtain the information necessary to independently determine whether an EITC claim is proper. If this measure were enacted, the only way that the Department would know that a claim was improper would be through notification from the Internal Revenue Service (IRS).

The IRS, like the Department, generally does not conduct an EITC examination until months after a refund is paid out. Thus, by the time the Department is informed that a credit was improperly claimed under this section, the Department would already have paid out a refund that it would have no way of effectively retrieving.

Third, the Department also has serious concerns regarding its ability to recover any amounts which are improperly refunded. Specifically, once a refund is issued on a fraudulent or improper claim, there is a very chance of the Department being able to recover those amounts. The Department currently does not have sufficient data matching capabilities that could identify some of the improper claims from being refunded.

It is important to note that the IRS, which has extensive data matching capabilities with federal databases such as the Social Security Administration database, still has a 21-25% rate of improper claims being filed and paid. Therefore, the Department believes that the Hawaii error rate will at least be equal to, if not greater than, the federal error rate of 21-25%, particularly if the State intends to use the federal EITC claim as the base upon which taxpayers may claim a state EITC credit. In addition to the substantial loss of revenue due to the high error rate, the Department is concerned that the high rate of errors will divert the Department's limited staff resources to enforcement of a tax credit, instead of revenue collection.

Thank you for the opportunity to provide comments.

Aloha United Way

200 N. Vineyard Blvd., Suite 700
Honolulu, Hawaii 96817-3938
Telephone (808) 536-1951
Fax (808) 543-2222
Website: www.auw.org

Cover Sheet

Testifying Agency: Aloha United Way
Kim Gennaula, President & CEO

House Committee on Human Services
Rep. Mele Carroll, Chair
Rep. Bertrand Kobayashi, Vice Chair

Thursday, February 13, 2014 at 9:30 A.M.

Conference Room 329

HB 2371: Relating to Taxation: Testimony in Support

Aloha United Way

200 N. Vineyard Blvd., Suite 700
Honolulu, Hawaii 96817-3938
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Aloha United Way

February 11, 2014

Committee on Human Services
Representative Mele Carroll, Chair
Representative Bertrand Kobayashi, Vice Chair
Thursday, February 13, 2014 at 9:30 A.M.
Conference Room 329

HB 2371: Relating to Taxation - SUPPORT

Dear Chair Mele Carroll, Vice Chair Bertrand Kobayashi and Committee Members:

Aloha United Way strongly encourages your favorable consideration of HB 2371 which makes several changes to our tax policy to reduce the tax burden on our lowest income residents.

In January 2011, The Department of Business, Economic Development & Tourism published a report titled "Self-Sufficiency Income Standard – Estimates for Hawaii 2007". This report looks at the critical issue of family and individual self-sufficiency. DBEDT defines self-sufficiency as the ability to meet basic needs without government or other subsidies. The report clearly shows the impact of the ever-increasing cost of living in Hawaii on a workforce as fully 27% of Hawaii's families have inadequate income to be self-sufficient.

The federal earned income tax credit has proven to be the most efficient and effective way of providing tax relief to low income working families. This credit has lifted over 4.4 million Americans out of poverty every year. While our current "income-support" based welfare system is important to ensure our most needy are cared for, moving families from support to self-sufficiency requires a comprehensive set of asset building strategies – and a state earned income tax credit and the other tax relief provisions of HB 2371 target those who are emerging from reliance on state support programs.

HB 2371 provides an excellent start on a comprehensive set of programs that will eventually enable more of our citizens to enjoy a self-sufficient life and Aloha United Way strongly encourages favorable consideration of this important legislation.

Sincerely,

Kim Gennaula

Kim Gennaula
President & Chief Executive Officer

PHOCUSED

PROTECTING HAWAII'S OHANA, CHILDREN, UNDER SERVED, ELDERLY AND DISABLED

TO: Representative Mele Carroll, Chair
Representative Bertrand Kobayashi, Vice Chair
Members, Committee on Human Services

FROM: Scott Morishige, Executive Director, PHOCUSED

HEARING: House Committee on Human Services
Thursday, February 13, 2014 at 9:30 a.m. in Conf. Rm. 329

Testimony in Support of HB2371, Relating to Taxation

Thank you for the opportunity to provide testimony in **strong support** of HB2371, which would establish a low income tax credit, establish a state earned income tax credit (EITC), and adjust the refundable low income household renters and food/excise tax credits for inflation. PHOCUSED is a coalition of health, housing, human services agencies and individual advocates committed to strengthening policies and programs to support the marginalized and underserved in Hawaii.

Households in Hawaii experience the highest cost of living in the nation – paying more for food, utilities and shelter than comparable families on the mainland. And, they pay these elevated costs while earning the lowest adjusted income among all of the mainland states. In addition, Hawaii's poverty rate of 17.3% makes Hawaii the 9th poorest State in the nation according to 2012 U.S. Census Bureau data.

The tax measures described in HB2371 will strengthen the financial security of Hawaii's low-income families and would positively impact these households in the following ways:

- Part I: Creation of a State EITC – The federal EITC is widely considered to be one of the most effective government anti-poverty programs, and provides a refundable tax credit targeted at working families with children. A Hawaii state EITC would create a refundable credit that is set at a percentage of the federal EITC, which would make the state EITC straightforward to administer while also providing a helpful "hand up" to Hawaii's low-income working families.

- Part II: Creation of a Low Income Tax Credit – Hawaii's families in poverty pay a larger share of their income in taxes than those in all but 3 other states. A low income tax credit would eliminate tax liability for households living in poverty, and would reduce it by half for those at 100-125% of federal poverty guidelines. Without such a credit, Hawaii's working families are essentially pushed deeper into poverty by taxes, which may increase their reliance on publicly funded social services.

- Parts III & IV: Adjusting the Refundable Low Income Household Renters and Food/Excise Tax Credits for Inflation – It has been several years since either the Low Income Household Renters (LIHR) credit and the Food/Excise tax credits have not been adjusted in several years – in fact, the LIHR was last updated in 1981. It is time to make adjustments to these credits to compensate for inflation.

Once again, PHOCUSED strongly urges your **strong support** of HB2371. We appreciate the opportunity to testify. If you have any questions, please do not hesitate to contact PHOCUSED at 521-7462 or by e-mail at admin@phocused-hawaii.org.

200 N. Vineyard Blvd, Bldg B Honolulu, HI 96817 P: 808.521.7462
www.phocused-hawaii.org admin@phocused-hawaii.org

TESTIMONY IN SUPPORT OF HB 2371: Relating to Taxation

TO: Representative Mele Carroll, Chair, Representative Bertrand Kobayashi, Vice Chair, and Members, Committee on Human Services

FROM: Trisha Kajimura, Social Policy Director, Catholic Charities Hawaii

Hearing: Thursday, February 13, 2014, 9:30 am, Conference Room 329

Thank you for the opportunity to testify in support of HB 2371, which updates the refundable food/excise tax credit and low-income household renters credit and establishes a low-income workers' tax credit and state earned income tax credit. I am Trisha Kajimura, Social Policy Director for Catholic Charities Hawaii.

Catholic Charities Hawai`i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai`i for over 60 years. CCH has programs serving elders, children, developmentally disabled, homeless and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawai`i. This bill speaks directly to our advocacy priority of reducing poverty in Hawaiʻi.

Poverty is clearly linked to poor social and health outcomes. People living below the poverty line are especially hard hit in Hawaii, with the highest cost of shelter [1] in the country. A family of four in Hawaii pays 68% more for food than families on the mainland[2]. This population is frequently teetering at the brink of homelessness. Any change to their financial situation like a decrease in wages or increase in rent will tip them over into homelessness. Increasing their resources through these measures is much more cost-effective than trying to help them out of homelessness once they have lost everything

Hawaii's General Excise Tax is highly regressive in that the lower one's income is, the higher a percentage of it goes to paying GET. Alleviating the tax burden of those at the low end of the income spectrum will decrease their income instability. These four changes to Hawaiʻi tax policy will help the people that we serve pay for basic living expenses such as food, transportation, and rent. These policies very specifically target people living in poverty and will result in more money being put into the local economy.

Thank you for the opportunity to testify. Please contact me at (808)527-4810 or trisha.kajimura@catholiccharitieshawaii.org if you have any questions.

[1] Hawaii 2013 State Housing Profile, National Low Income Housing Coalition. http://nlihc.org/sites/default/files/SHP-HI.pdf.

[2] Based on the U.S. Department of Agriculture's Thrifty Food Plan, which is used as the basis for Supplemental Nutrition Assistance Program benefits. See http://www.cnpp.usda.gov/usdafoodplanscostoffood.htm.

HB 2371 Relating to Taxation
House Committee on Human Services (Rep. Mele Carroll, Chair; Rep. Bert Kobayashi, Vice Chair)
Thursday, February 13, 2014, 9:30 AM, Room 329

Thank you for the opportunity to testify in **strong support** of House Bill 2371, which would implement progressive tax policies to help our low and moderate-income families. This bill would create a state earned income tax credit and eliminate income tax liability on households living below the federal poverty guidelines. It would also adjust the food/excise tax credit and low-income household renters credit for the inflation that has occurred since they were last adjusted. All of these measures will provide much-needed economic relief to Hawai'i's families in greatest need.

Hawai'i's cost of living is the highest in the nation, and our regressive taxation system only makes the challenge of financial self-sufficiency even greater. We are **the 8th poorest state** under the U.S. Census' Supplemental Poverty Measure, with **17 percent** of our households barely getting by, even factoring in government assistance. Making matters worse, we are considered the **4th worst state for taxing people in poverty**, who are faced with highly regressive taxes. To alleviate these burdens, we support:

Adjusting the food/excise tax credit: Households in the bottom fifth of Hawai'i's income distribution pay **11 percent** of their income toward the General Excise Tax. The GET is the most regressive tax because low-income households must spend most of their income on necessities which are subject to the tax. **Adjusting this tax credit will provide greater relief for low and moderate-income families who pay a disproportionate share of their income toward the GET.**

Adjusting the low-income household renters credit: Hawai'i has the highest cost of shelter in the nation, and **43 percent of our households are renters**. The low-income household renters credit helps alleviate the impact of property taxes and the GET on these households. Property owners generally pass these costs along to their tenants in the form of increased rent. This credit has not been adjusted since the 1980s, despite inflation and skyrocketing rents.

Eliminating taxes on people in poverty: According to the Institute for Taxation and Economic Policy, Hawai'i is considered **4th worst state for taxing those in poverty**. We should not tax those families who are barely getting by. It is counterproductive to reduce poor households' income and then rely on other public expenditures to help address the negative consequences of poverty. This low-income workers credit would also help those living close to the poverty guidelines but still struggle to survive.

Creating a state earned income tax credit:
The federal Earned Income Tax Credit (EITC) is considered the most effective anti-poverty measure ever created. It is a finely calibrated tax credit targeted at families with children and lets workers keep more of what they earn: **eligible households must have earned income**. It keeps millions of children out of poverty, including 15,000 in Hawai'i alone. Our child poverty rate is 17 percent, and a state EITC would help mitigate the impact of poverty. Half of the states have recognized the benefits of the EITC in alleviating poverty and implemented a state EITC. Hawai'i should follow their lead.

We respectfully urge the Committee to pass HB 2371 to provide critical relief to our families struggling to simply make ends meet.

Thank you for the opportunity to submit my testimony.

T. J. DAVIES JR.
Volunteer, AARP & Kokua Council for Senior Citizens
Kakaako (District 23 / Senate District 12)

UNITE HERE!
LOCAL 5 HAWAII

Eric Gill, Financial Secretary-Treasurer   Hernando Ramos Tan, President   Godfrey Maeshiro, Senior Vice-President

Tuesday, February 11, 2014

The Honorable Mele Carroll - Chair and Committee Members
Hawaii State Legislature
House Committee on Human Services
State Capitol
415 S. Beretania Street

RE: HB 2371 relating to taxation

Chair Carroll, Vice-Chair Kobayashi, and members of the House Committee on Human Services:

UNITE HERE Local 5, a local labor organization representing 10,000 hotel, health care and food service workers employed throughout our State, hereby registers our support for House Bill 2371, relating to taxation.

HB 2371 would implement tax policies to help our low and moderate-income families by addressing our State's refundable food/excise tax credit, low-income renters' credit, and would establish a state earned income tax credit. As an organization representing 10,000 service workers, many of whom earn just enough to survive in Hawai'i, we are part of the growing demographic that would directly benefit from the proposed changes articulated in HB 2371.

As the standard quality of life for ordinary working people in our islands continue to deteriorate, Hawaii's economic future and our ability as a community to secure good jobs for our local people remains one of our greatest concerns. Our State has the highest cost of living in the nation and the lowest average adjusted income rate, and our current tax system only makes it harder for our working families. Today, forty-three percent of Hawaii households are renters and of that, fifty-six percent pay thirty percent or more of their income towards rent, fourth highest in the nation. And between 2006 & 2011 more than 3,200 jobs have been lost in the accommodations sector alone. Hundreds of good jobs have been lost in our hotels, and we are threatened with losing even more as we lose more of our hotel rooms to condominiums and timeshares.

Our people are being pushed off our islands while so many of us can't afford homes, and more and more of our local jobs go to mainland companies while locals struggle to earn a living wage. Our State government can play a bigger, more productive role in improving the lives of so many of our local people. Hawai'i can.

We thank you for hearing HB 2371 and would urge your Committee to pass this measure.

1516 South King Street • Honolulu, Hawaii • 96826-1912 • Phone (808) 941-2141 • Fax (808) 941-2166 • www.unitehere5.org

kobayashi1-Joni

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 11, 2014 10:26 AM
To: HUStestimony
Cc: sandymccul@aol.com
Subject: Submitted testimony for HB2371 on Feb 13, 2014 09:30AM

HB2371
Submitted on: 2/11/2014
Testimony for HUS on Feb 13, 2014 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
BRUCE McCullough	HARA -PABEA	Support	No

Comments: The Hawaii Alliance for Retired Americans is in strong support of this measure.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov

PARTNERS IN CARE
Oahu's Coalition of Homeless Providers

TESTIMONY IN SUPPORT OF HB 2371: RELATING TO TAXATION

TO: Representative Mele Carroll, Chair; Representative Bert Kobayashi, Vice Chair; and members of the House Committee on Human Services

FROM: Peter K. Mattoon, Advocacy Committee Co-Chair, Partners In Care

Hearing: Thursday, February 13, 2014, 9:30 AM, Room 329

Dear Chair Carroll, Vice Chair Kobayashi, and members of the committee,

Thank you for the opportunity to provide testimony **in strong support** of HB 2371, to adjust the food/excise tax credit and the low income household renters credit values for inflation; eliminate taxes on people in poverty; and create a state earned income tax credit. My name is Peter K. Mattoon, and I am an Advocacy Committee Co-Chair for Partners In Care, a coalition of care providers focusing on the needs of homeless persons and strategies to end homelessness.

Homelessness is a pressing social crisis, and Hawaiʻi has the highest rate of homelessness in the nation. Many factors contributing to chronic, individual, and family homelessness. But for many households, especially families, their low income relative to the high cost of living—which is twice the national average—means they can barely make ends meet and are at risk of or actually end up homeless. Unsurprisingly, many of our low-income families are severely cost-burdened—three out of four extremely low-income households are paying more than *half* of their income toward rent. We also see households who have worked hard to get their lives back on track and find employment but still struggle to find affordable housing. As a result, these households who are ready to work and live in permanent housing are stuck in transitional housing because they cannot afford market rents.

Partners In Care supports these tax credits as a way to prevent homelessness and help households transition out of homelessness. Low-income families, especially those in poverty, struggle just to pay for necessities, including shelter, with virtually none left over to save for a rainy day. By raising the income of these vulnerable families, we can help them pay for basic necessities, avoid eviction due to non-payment of rent, and build assets.

These four tax policies would make a real difference in the lives of these families. Adjusting the low-income household renters credit would provide a significant boost to families struggling to make their rental payments. People at risk of homelessness would also benefit from an adjustment to the food/excise tax credit. Even our current clients with no income tax liability still pay taxes in the form of the General Excise Tax, and this credit helps those who can least afford to pay. The earned income tax credit is particularly helpful for our working families with children. We also should not be taxing people deeper into poverty, especially when these are the very households who are at risk of homelessness.

Becoming homeless is a traumatic experience with lasting effects and requires costly social services. This bill will help families at risk of homelessness to stay housed, and help those who are currently homeless to become financially secure and move into stable housing. Again, thank you for the opportunity to testify in **strong support** of HB 2371.

AMERICANS FOR DEMOCRATIC ACTION

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February 12, 2014

TO: Chair Mele Carroll, Vice Chair Bert Kobayashi
Members of the House Committee on Human Services

FROM: John Bickel, President
Americans for Democratic Action/Hawai'i

RE: Support for HB 2371 Relating to Taxation

The Americans for Democratic Action, Hawai'i is strongly in support of HB 2371. With the popularization of movies such as Reich's "Inequality for All" and books like The Spirit Level by Pickett and Wilkinson, scholars and policy makers should be aware of the problems with income inequality.

Despite its reputation as a progressive state, Hawai'i has its share of the problem. Hawai'i has the highest cost of living in the United States, at almost 160% of the national average. Our residents earn the lowest wages in the country when adjusted for the cost of living, while the tax rate for low-income households is among the highest in the nation. The poorest taxpayers pay, on average, approximately thirteen cents of every dollar of income in taxes, while those earning more than $400,000 pay closer to eight cents on every dollar of income. Hawaii's residents in poverty pay more in state taxes than all but thee other states. SB 2206 would take an important step toward justice by establishing an Earned Income Tax Credit and adjust the refundable low-income household renters and food/excise tax credits for inflation.

SUBJECT: INCOME, Increase food/excise, renter credit; adopt low-income credit and earned income tax credit

BILL NUMBER: HB 2371

INTRODUCED BY: Fukumoto, Awana, Belatti, Brower, Creagan, Fale, Johanson, Kawakami, McKelvey, Mizuno and 5 Democrats

BRIEF SUMMARY: **Food/Excise Tax Credit** - Amends HRS section 235-55.85 to increase the food/excise tax credit based on the taxpayer's (AGI):

Adjusted gross income	Tax credit
Under $_______	$ 96
$______ under $_____	___
_______under ______	___
_______under ______	___
_______under ______	___
_______under ______	___
_______under 56,500	___
56,500 and over	0

Renter Tax Credit - Amends HRS section 235-55.7 to increase the income threshold to claim the renter credit from $30,000 to $59,700 and the amount of the renter credit from $50 to $146.

Low-Income Tax Credit - Adds a new section to HRS chapter 235 to provide that low-income taxpayers shall be eligible for a tax credit to reduce their state income tax liability by 50% if a taxpayer has a federal adjusted gross income (FAGI) between one hundred and one hundred twenty-five percent of the federal poverty guidelines. Taxpayers with a FAGI at or below the federal poverty guidelines shall receive a credit that eliminates their income tax liability. Taxpayers with income above one hundred twenty-five percent of the federal poverty guidelines shall be ineligible for the credit.

Defines "federal poverty guidelines" as the guidelines set forth by the U.S. Department of Health and Human Services each year for Hawaii.

Requires claims for a tax credit, including amended claims, to be filed on or before the end of the twelfth month following the close of the taxable year for which the tax credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

The director of taxation is to prepare any forms that may be necessary to claim a credit and also requires the taxpayer to furnish information to ascertain the validity of the claim for the tax credit.

Earned Income Tax Credit - Adds a new section to HRS chapter 235 to allow taxpayers to claim a state earned income tax credit equal to ___% of the federal earned income tax credit amount.

Credits in excess of tax liability shall be refunded to the taxpayer provided such amounts are over $1. Requires claims, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit may be claimed.

Delineates that no credit shall be allowed in the disallowance period which is: (1) the period of 10 taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of 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 determination that the taxpayer's claim of credit under this section was due to reckless or intentional disregard of rules and regulations, but not due to fraud. Any person who is a tax return preparer who fails to comply with due diligence requirements imposed by the Secretary of the U.S. Department of the Treasury with respect to determining eligibility, or the amount of the credit allowable by IRC section 32, shall be subject to a penalty of $100 for each such failure.

Directs the director of taxation to: (1) prepare the necessary forms to claim the credit; (2) require proof of the claim for the tax credit; (3) alert eligible taxpayers of the tax credit; (4) prepare an annual report containing the number of credits granted for the prior calendar year, the total number of credits granted, and the average value of the credits granted to taxpayers whose earned income falls within various income ranges; and (5) adopt rules pursuant to HRS chapter 91 to effectuate this section.

EFFECTIVE DATE: Tax years beginning after December 31, 2013

STAFF COMMENTS: **Food/Excise Tax Credit -** This measure proposes to increase the refundable food/excise tax credit. While it appears that this measure proposes tax relief to lower income taxpayers consideration should be given to adjusting the income tax rates or the threshold amounts so those taxpayers that these credits are aimed to help will not need to claim these credits to get tax relief (or forfeit the credits if they fail to do so).

There are two more issues with refundable credits targeted at low-income 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. But when refundable credits are made available to folks who don't have much (or any) tax liability, those folks are motivated to file a return purely to get the refund check. When this happens, the department is visited by a number of folks who require special handling, homeless people for example. They might be able to provide a Social Security number, but they have no address and they don't have a bank account. Nevertheless, they are entitled to their refundable credit. Processing such people is even more expensive because higher level workers within the department need to get involved once the established procedures prove inadequate. Second, as a policy matter lawmakers might prefer that the recipient of the refund not use the money obtained on such things as cigarettes, alcohol, or illegal drugs. But the tax system contains no way of restricting the uses of a refund check; other departments do have systems in place (EBT, for example). The solution? 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, funnel it through the agencies that are better equipped to do so.

Renter Tax Credit - 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 similar to 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. The 1981 legislature subsequently increased the credit amount to $50. Act 239, SLH 1989, increased the adjusted gross income limit to $30,000 to claim the credit. The proposed measure would increase the adjusted gross income limit to claim the credit from $30,000 to $59,700 and the amount of the credit from $50 to $146.

Currently, the amount of credit is calculated at a flat amount (now $50), multiplied by the number of qualified exemptions to which a taxpayer is entitled, provided that a taxpayer 65 years of age or older may claim double the credit. We raise the question of whether the credit should be based on 4% of the rent paid in order to return to the original intent of the credit. That way taxpayers' relief would be linked to the amount of rent they need to pay.

Low-Income Tax Credit - This measure also proposes a low-income tax credit which would effectively eliminate any state income tax that might be due if the taxpayer's federal adjusted gross income falls below the federal poverty guidelines or if the taxpayer's income falls between 100% and 125% of the federal poverty guidelines, the amount of the tax credit will be equal to 50% of the taxpayer's calculated state income tax liability. It should be noted that those poverty guidelines will differ depending on the size of the family unit.

Although this might sound like a great strategy to address the fact that Hawaii's threshold for the state income tax is one of the lowest in the nation of those states that impose an income tax, the solution in this bill would seem to be unduly complex. The taxpayer would have to calculate federal adjusted gross income, then compare that with the federal poverty guidelines and then if the federal adjusted gross is more than the federal poverty guideline but less than 125% of the federal poverty guidelines the taxpayer would then have to calculate state taxable income and state tax liability in order to determine what 50% of that liability would be or the amount of the credit that could be claimed. If the taxpayer fails to do so, or if the taxpayer doesn't file a return thinking that there will be no tax due for the year, the taxpayer will find that the credit disappears, resulting in tax due plus penalties and interest.

The other point to consider is that the adoption of this measure ignores some of the unique features of Hawaii's income tax law. For example, the state income tax extends a credit for general excise taxes paid based on state adjusted gross income. Some of the major differences between the definition of adjusted gross income for federal and state purposes are the taxation of Social Security and employer-funded pension payments. These sources of income may lift some state taxpayers above the federal poverty line whereas exclusion of these sources of income may currently place the same taxpayer in a position where no state income taxes are currently owed. This may create disparities where lawmakers did not expect them.

If the policy concern here is that we don't want those taxpayers whose available income falls below the federal poverty guidelines to pay state income taxes, then the more appropriate approach is to establish a higher filing threshold (namely, the amount of income you need to make before an income tax return is required to be filed) based on the combination of the standard deduction and personal exemption equaling or exceeding the federal poverty guidelines.

Earned Income Tax Credit - The federal earned income tax credit (EITC) provides an incentive to low-income households to remain in the workforce. The credit is targeted at households with children but the credit is also available at a lower amount to low-income households without children. The credit is based on a number of tests for earned income, investment income, number of qualifying children, dependency, etc. Given the complexity of the credit, the IRS will optionally calculate the amount of the credit for taxpayers. The IRS reports an error rate of greater than 25% for this credit.

The proposed measure would adopt an earned income credit by merely taking a percentage of the amount that the taxpayer would be eligible for under the federal table or determination. It should be remembered that the federal EITC was established for low and moderate-income workers to offset the burden of Social Security payroll taxes that might have otherwise been paid to them but were instead paid to the federal government by the employer. Enacted in 1975 at the federal level primarily as a means of tax relief, the credit was expanded three times during the 1980's and 1990's by the federal government to boost income from work and lessen poverty among families with children. In other words, it became a tool by which the federal government undertook social policy beginning with the first expansion of the credit in 1986. It is interesting to note the date of the first expansion because that was also the year that the federal Code was dramatically restructured, eliminating a number of tax benefits such as the deduction of consumer credit interest, deduction of state sales taxes, and institution of a minimum tax for those taxpayers receiving generally exempt income. It was also the year that rates were dramatically reduced, and together with the standard deduction and personal exemption, rates were indexed. According to the IRS, 19.2% of the 146 million income taxpayers in 2011 claimed the EITC.

Thus, what started out as a mechanism to "refund" payroll taxes that might otherwise have been paid to low and moderate-income workers by the federal government has turned into a subsidy for these families. While federal policymakers have the luxury of expending millions of dollars to accomplish a social goal through the tax system, state lawmakers do not have the same level of resources.

If the intent of state lawmakers is to alleviate the burden on the low and moderate-income workers in Hawaii who claim the federal EITC, their efforts should focus on the state income tax burden as it affects these families. Hawaii has one of the lowest thresholds of the 43 states that levy a state income tax. An income tax threshold is the income level at which families begin to pay the state income tax. Despite the reduction in personal income tax rates in 1998 and adoption of a low-income tax credit, as well as a modest increase in the standard deduction, much more work needs to be done to adjust the standard deduction and the personal exemption.

While advocates point to a variety of national articles that hail the EITC as a means of helping the poor out of poverty and encouraging the poor to go to work, they miss the point that taking a percentage of the federal amount bears no relationship to the tax burden imposed by the state. Thus, the EITC amounts to nothing more than a back door welfare program, handing out money merely because a person falls into a low-income category and has joined the workforce with a dependent or two. So while welfare advocates may point to tomes of literature that praise the EITC as a way to lift the poor out of the abyss of poverty, there is just as much material that decries the EITC as poor tax policy and one that is fraught with errors and compliance difficulties. In other words, if the poor are to be helped, don't do it through the tax system as there is very little transparency and accountability. And despite claims that many of these problems have been resolved, there is general agreement from administrators and practitioners that this is one of the most difficult and complicated federal tax credits with which to administer and comply, especially viewed in relation to the population it is intended to benefit.

We need to remember that tax agencies are set up assuming that the vast majority of taxpayers will correctly self-assess their taxes. According to the 2001-2003 Tax Review Commission report, fewer than 2% of all taxpayers are audited. An unduly complex credit is something the department of taxation is not equipped to deal with.

Like many of the targeted tax credits aimed at encouraging business activities, the EITC comes with all of the problems outlined with those targeted business tax credits. There is no oversight as to how these refunds are aiding families, whether or not outcomes are being achieved or for that matter whether a family is getting sufficient assistance to actually leave the welfare rolls and become self-sufficient. As a recent study reported, nearly one-third of Hawaii's families are not self-sufficient. What will the EITC do for those families who are working two or three jobs to make ends meet but, as a result, make too much money to qualify for the EITC? Where is the tax relief for those families? Lawmakers can make much more of a difference by making the needed structural changes to the state income tax rates and brackets and by boosting the standard deduction. Again, one must ask what is the relationship between taking a percentage of the federal credit amount and the amount of state tax burden relieved?

Lawmakers should also consider the interaction of a state tax credit that produces negative income and how that will affect the amount of income that would then be exposed to the federal rate structure. There are comprehensive studies on the interaction of the credit with the overall federal income tax system. Adopting the credit for state tax purposes may disrupt the incentive to remain employed or to increase the number of hours worked. It should be noted that an EITC was not recommended by the 2005-2007 Tax Review Commission nor did the latest Commission even consider it. The 2005-2007 TRC examined the effects of what would have happened if an EITC was enacted equal to 20% of the federal EITC in 2006. Based on 2003 tax returns, the staff of the tax research and planning office of the department of taxation found that fewer than half of the Hawaii resident income tax returns would have benefitted from a Hawaii EITC. Of the 308,652 returns with AGI of under $30,000, only 68,845, or 22.3%, claimed the federal EITC. They also estimated that there would be a $23.2 million decline in tax collections if an EITC were adopted.

Finally, where would the revenue loss generated by this credit be taken? Which programs would be cut or not funded at all? What is known in the social services community is that unless the poor are given the tools and skills to become self-sufficient they will remain on welfare. The funds lost in this tax credit program would be far better spent on services that assist those, especially in public housing, in gaining the skills they need to hold gainful employment, provide child care so that those who need to go to work will have childcare, and learn how to manage what money they earn. Without these skills, merely subsidizing their earned income with a tax credit will not hold a promise of self-sufficiency. Rather than duplicating the federal earned income tax credit, the state should use its resources to instead complement the effort with more skill building and family support so these families can hold gainful employment. Thus, advocates must weigh the consequences of taking revenues from these capacity building programs against doling out the earned income tax credit based on some federal number that bears no relationship to the tax burden imposed by state taxes.

While it appears that this measure proposes tax relief to lower income taxpayers through a variety of income adjustments through tax credits, consideration should be given to adjusting the income tax rates so those taxpayers that these credits are aimed to help will not be subject to income taxation.

Digested 2/12/14

HFIA
HAWAII FOOD INDUSTRY ASSOCIATION

Executive Officers:
Stanley Brown, ConAgra Foods - Chairperson
John Schilf, RSM Hawaii - Vice Chair
Derek Kurisu, KTA Superstores - Treasurer
Lisa DeCoito, Aloha Petroleum - Secretary
Lauren Zirbel, Executive Director

1050 Bishop St. PMB 235
Honolulu, HI 96813
Fax : 808-791-0702
Telephone : 808-533-1292

TO:
COMMITTEE ON HUMAN SERVICES
Rep. Mele Carroll, Chair
Rep. Bertrand Kobayashi, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: Thursday, February 13, 2014
TIME: 9:30AM
PLACE: Conference Room 329

RE: HB 2371

Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers and distributors of food and beverage related products in the State of Hawaii.

This bill would increase the amount and threshold of the refundable food/excise tax credit and increases the amount and threshold of the income tax credit for low-income household renters. This measure reduces the tax liability for low-income taxpayers by creating a tax credit that will eliminate a taxpayer's income tax liability if their federal adjusted gross income falls below federal poverty guidelines. It reduces a taxpayer's income tax liability by 50% if the taxpayer's federal adjusted gross income falls between 100-125% of federal poverty guidelines. This measure establishes a state earned income tax credit.

The HFIA is in support of this measure as an alternative to increasing the minimum wage. This bill is a way to help individuals who are struggling without putting small businesses into a difficult financial situation where they can’t budget for labor cost increases and are forced to increase the price of food.

The food industry prides itself on allowing individuals who start at the lowest level of employment to move up to, in some cases, the top leadership positions in the company. There are many examples of this happening in the grocery industry.

Please pass this measure as an alternative to labor cost mandates.

Mahalo for the opportunity to testify.

PARTNERS IN CARE
Oahu's Coalition of Homeless Providers

TESTIMONY IN SUPPORT OF HB 2371 RELATING TO TAXATION

TO: Representative Mele Carroll, Chair; Representative Bert Kobayashi, Vice Chair; and members of the House Committee on Human Services

FROM: Peter K. Mattoon, Advocacy Committee Co-Chair, Partners In Care

Hearing: Thursday, February 13, 2014, 9:30 AM, Room 329

Dear Chair Carroll, Vice Chair Kobayashi, and members of the committee:

Thank you for the opportunity to provide testimony **in strong support** of HB 2371, to adjust the food/excise tax credit and the low income household renters credit for inflation; eliminate taxes on people in poverty; and create a state earned income tax credit. I am Peter K. Mattoon, and I am an Advocacy Committee Co-Chair for Partners In Care, a coalition of care providers focusing on the needs of homeless persons and strategies to end homelessness.

Homelessness is a pressing social crisis, and Hawai‘i has the highest rate of homelessness in the nation. Many factors contributing to chronic, individual, and family homelessness. But for many households, especially families, their low income relative to the high cost of living—which is twice the national average—means they can barely make ends meet and are at risk of or actually end up homeless. We also see households who have worked hard to get their lives back on track and find employment struggle to find affordable housing. As a result, these households who are ready to work and live in permanent housing are stuck in transitional housing because they cannot afford market rents. Unsurprisingly, many of our low-income families are severely cost-burdened—three out of four extremely low-income households are paying more than *half* of their income toward rent.

Partners In Care supports these tax credits as a way to prevent homelessness and help households transition out of homelessness. Low-income families, especially those in poverty, struggle just to pay for necessities, including shelter, with virtually none left over to save for a rainy day. By raising the income of these vulnerable families, we can help them pay for basic necessities, avoid eviction due to nonpayment of rent, and build assets.

These four tax policies would make a real difference. Adjusting the low-income household renters credit would provide a significant boost to families struggling to make their rental payments. People at risk of homelessness would also benefit from an adjustment to the food/excise tax credit. Even our current clients with no personal income tax liability still pay taxes in the form of the General Excise Tax, and this credit helps those who can least afford to pay. The earned income tax credit is particularly helpful for our working families with children. We also should not be taxing people deeper into poverty, especially when these are the very households who are at risk of homelessness.

Becoming homeless is a traumatic experience with lasting effects and requires costly social services. This bill will help families at risk of homelessness to stay housed, and help those who are currently homeless to become financially secure and move into stable housing. Again, thank you for the opportunity to testify in **strong support** of HB 2371.

Partners In Care, c/o Aloha United Way, 200 N. Vineyard Blvd. Suite 700
Honolulu, Hawai‘i 96817

HAWAIʻI APPLESEED CENTER
LAW
AND
ECONOMIC
JUSTICE

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
Supporting House Bill 2371
House Committee on Human Services
Scheduled for Hearing Thursday, February 13, 2014, 9:30 AM, Room 329

Hawaiʻi Appleseed Center for Law and Economic Justice is a nonprofit, 501(c)(3) law firm created to advocate on behalf of low-income individuals and families in Hawaiʻi on civil legal issues of statewide importance. Our core mission is to help our clients gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.

Thank you for the opportunity to testify in **strong support** of House Bill 2371. The proposals in HB 2371 would promote a fairer, more progressive tax system by ending income taxes on people in poverty, alleviating the impact of regressive excise taxes, and helping workers keep more of what they earn through a state earned income tax credit. It would do much to restore economic vitality to Hawaiʻi's embattled and shrinking middle class by mitigating the obstacles our tax system places in the way working families and also help our most vulnerable households.

While Hawaiʻi is paradise of natural beauty and close community, the financial reality is tough for working families. Hawaiʻi has the highest cost of living in the U.S.—almost 160 percent of the national average. When adjusted for cost of living, our households have the lowest adjusted incomes in the country. Under the U.S. Census's Supplemental Poverty Measure, which figures in cost of living, we are the eighth poorest state in the country.

Despite the high costs facing working families, we are exacerbating their financial struggles through a regressive tax system. For the poorest among us, the state tax system is an additional burden to achieving financial stability, often pushing poor households deeper into poverty. The lowest-income taxpayers in Hawaiʻi pay an average of some 13 percent of their income in taxes, while the top earners pay a mere 8 percent. Hawaiʻi's families in poverty pay a larger portion of their income in taxes than those in all but three other states. **Our state should not be worsening the hardships of poverty through taxation.**

HB 2371 makes four much-need adjustments to the Hawaiʻi state income tax system: (1) creates a state earned income tax credit; (2) creates a low-income tax credit which eliminates income taxes on those in poverty; (3) adjusts the low-income household renters credit for inflation; and (4) adjusts the food/excise tax credit for inflation. These measures will not only provide much needed support for lower-income families to build assets and work their way up, but also shore up our shrinking middle class.

Creates a State Earned Income Tax Credit

The federal Earned Income Tax Credit (EITC) has been hailed by leaders across the political spectrum as *the* most effective anti-poverty measure in the U.S. It is a finely calibrated tax credit that puts money directly into the pockets of working families. It is particularly targeted at families with children, and only available to families who earn income and thus functions as a work incentive. In 2011, the EITC kept over 3 million children out of poverty, 15,000 in Hawaiʻi alone. It has been shown to increase positive outcomes for families ranging from dependence on social services, to educational achievement, even to dental health. Twenty-five other states and D.C. have recognized the benefits of this credit and sought to supplement it by creating a state EITC. HB 2371 creates a very simple refundable credit set at 10 percent of a filer's federal EITC. This saves the significant administrative costs of traditional government assistance, and ensures that families have more money in their pockets to efficiently meet their needs.

Concerns have been raised that a state EITC pegged at a percent of the federal EITC would cede control of the credit to the federal government. However, this would not be an issue because the state legislature will always have the opportunity to adjust the percentage of the EITC. Some states have lowered or raised the percentage of their state EITC in response to budgetary needs. Since any federal changes to the EITC will be slow to implement, the Hawai'i Legislature will have time to respond to the proposed changes and adjust the state percentage accordingly.

Creates a Low-Income Tax Credit: HB 2371 also creates a non-refundable credit that would eliminate the tax burden on households living below the poverty line. When Hawai'i makes working families living in poverty pay income taxes, they push them deeper into poverty, ultimately increasing the costs to the state in terms of expensive social services and other social costs associated with high poverty.

The Center on Budget and Policy Priorities reported in 2011 that Hawai'i is one of only 15 states that levies an income tax on full-time workers in families of three earning minimum wage ($15,080). In 2013, the federal poverty guideline for a family of three was $22,470. That same year, a family of three would have owed $497 in state income taxes—a significant sum for a family in poverty. Simply put, taxing people in poverty is expensive and inefficient, and does not comport with who we are as a community that cares deeply for all of its members.

Updates the Low-Income Household Renters Credit for Inflation: We face the highest cost of shelter in the nation, at more than twice the national average, combined with an affordable housing shortfall and the highest rate of homelessness. Currently, the low-income household renters credit provides a $50 per exemption refundable tax credit to households making less than $30,000 who pay more than $1,000 in rent annually. The $50 credit value has not been increased since it was created in 1981, and the $30,000 income limit has not been increased since 1989.

Needless to say, the value of the credit has lost significant ground. What is more, between 2005 and 2012 alone, Hawai'i's median rent increased at almost three times as inflation. To ensure that the credit can make a significant difference in the lives of the 73 percent of extremely low-income households spending more than half of their income on shelter and other struggling families, it must be updated to more closely reflect current economic realities.

Updates the Food/Excise Tax Credit for Inflation: Like the low-income household renters credit, the food/excise tax credit was created to alleviate the tax burden on low and moderate-income families in Hawai'i. It currently provides a graduated credit (maximum $85 per exemption) to families earning below $50,000 annually. The credit has not been updated since its creation in 2007, and has lost 12 percent of its initial buying power due to inflation.

This credit is critical because Hawai'i has a sharply regressive system of taxation, with our lowest income households paying 11 percent of their income toward the GET. At the very least, the state needs to ensure that the measures we have adopted to mitigate the impact of this high excise tax burden keep pace with the rate of inflation to ensure that our low and moderate-income families do not lose even more ground.

Again, thank you for the opportunity to testify in **strong support** of HB 2371. Growing wealth inequality in Hawai'i threatens not only our economic vitality, but the very fabric of our participatory democracy as our middle class is pushed toward poverty, and our low-income households are struggling just to survive. HB 2371 represents a straightforward, common sense, and comprehensive approach to ameliorating the deleterious effects our state tax system has on our low and moderate-income households. It provides desperately needed relief and support to help ensure that the American dream can be attained by those who strive for it, and kept by those who have it. Our state should not inhibit these goals, but further them. We respectfully urge you to **pass HB 2371.**

kobayashi1-Joni

From:	mailinglist@capitol.hawaii.gov
Sent:	Wednesday, February 12, 2014 9:32 AM
To:	HUStestimony
Cc:	drodrigues2001@yahoo.com
Subject:	Submitted testimony for HB2371 on Feb 13, 2014 09:30AM

HB2371
Submitted on: 2/12/2014
Testimony for HUS on Feb 13, 2014 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Darlene Rodrigues	Individual	Support	No

Comments: I write in strong support of HB2371. We must do all we can for low-income and moderate-income families. The uneven tax structure in our state keeps those most in need from having a decent standard of living and from accumulating wealth. We must provide more tools to help working class families. Mahalo for the opportunity to testify.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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HB2371 Relating to taxation

House Committee on Human Services, Chair Representative Mele Carroll, Vice Chair Bert Kobayashi and committee members

Thank you for the opportunity to provide strong support for HB2371, relating to taxation. The disparity between income and cost of living in Hawaii clearly discriminates against our lowest income residents.

Passage of this measure will provide relief through increasing the renter's and food /excise tax credits , create a state earned income tax credit and eliminating taxes on people in poverty.

Please pass HB2371 to help our families who are struggling to provide for their families.

TESTIMONY
HB 2371 Relating to Taxation
House Committee on Human Services
Thursday, February 13, 2014, 9:30a, Room 329

Aloha Honorable Representatives Carroll, Kobayashi, and Members of the Committee:

As a community member participating in the Action Strategy Teams of the Governor's Executive Office of Early Learning, I have carefully studied proposed laws supporting economic equity in Hawaii.

Thank you for the opportunity to testify in **strong support** of House Bill 2371, which would strongly support: 1) adjusting Food/Excise tax credits for inflation; 2) stop taxing working families living below poverty level; 3) eliminating taxes on people in poverty; and, 4) creating a State Earned Income Tax Credit.

Hawaii's cost of living is the highest in the nation at more than 160 percent of the national average. Hawaii's tax system is one of the most regressive in the country, meaning that Hawaii taxes more families in poverty or who are close to poverty than other states. Hawaii has the 9th highest rate of poverty in the country. Each of this bill's four parts provides fair and positive supports to low-income and poor families.

This is even more important when you consider that families with young children are more likely to live in or close to the poverty line. Think about it: families with young children in Hawaii would benefit greatly from restoring economic equity by passing HB 2371. If we want to support families with young children, then we need to have this measures in place.

Hawaii can choose to improve early childhood outcomes— social and emotional development, educational and later economic success— by working to restore economic equality and passing HB 2371. I respectfully urge the Committee to pass HB 2371 unamended to provide critical relief to our working families, especially those with young children, struggling to simply make ends meet.

Thank you and Mahalo!

Lynn B. Wilson, PhD
1188 Bishop Street, Suite 1502
Honolulu, HI 96813

kobayashi1-Joni

From:	mailinglist@capitol.hawaii.gov
Sent:	Tuesday, February 11, 2014 5:52 PM
To:	HUStestimony
Cc:	joycemcharles@gmail.com
Subject:	*Submitted testimony for HB2371 on Feb 13, 2014 09:30AM*

HB2371
Submitted on: 2/11/2014
Testimony for HUS on Feb 13, 2014 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Joyce Midori Charles	Individual	Support	No

Comments:

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kobayashi1-Joni

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 12, 2014 1:38 PM
To: HUStestimony
Cc: spratt@hawaii.edu
Subject: Submitted testimony for HB2371 on Feb 13, 2014 09:30AM

HB2371
Submitted on: 2/12/2014
Testimony for HUS on Feb 13, 2014 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Kaui Pratt	Individual	Support	No

Comments: I am in strong support of this bill. I believe it will give relief to those who need it the most! Families are struggling in Hawaii to make ends meet. Tax relief incorporated in this bill will help to alleviate some of that burden on our most neediest families. I urge you to support this bill! Mahalo nui loa!!

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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Goodwill
Industries of Hawaii, Inc.

LATE

To: The Honorable Representative Mele Carroll, Chair
The Honorable Representative Bert Kobayashi, Vice Chair
House Committee on Human Services

From: Laura Smith, President/CEO
Scott Fuji, Assistant Director of Community Services
Goodwill Industries of Hawaii, Inc.

Date: February 12th, 2014

Re: **Testimony in Support of HB 2371, – Relating to Taxation**

Goodwill Industries of Hawaii, Inc. (Goodwill) is among the largest human service non-profit organizations in Hawaii. Our mission is to help people find and succeed in employment. With a Statewide footprint, and offices on Oahu, Maui, Hilo, Kona and Kauai, last year Goodwill served over 15,000 people, placing approximately 1,500 into jobs in our community.

Thank you for the opportunity to testify in strong support of HB 2371, which would implement progressive tax policies to help our low and moderate-income families. This bill would create a state earned income tax credit, eliminate income tax liability on households living below the federal poverty guidelines, and adjust the food/excise tax credit and low-income household renter's credit for the inflation. All of these measures will help to address the fact that Hawai‘i's cost of living is the highest in the nation, and our regressive taxation system only makes the challenge of financial self-sufficiency even greater. Despite being the 8th poorest state under the U.S. Census' Supplemental Poverty Measure, we are also considered the 4th worst state for taxing people in poverty. To alleviate these burdens, we support:

Adjusting the food/excise tax credit: Households in the bottom fifth of Hawai‘i's income distribution pay 11 percent of their income toward the General Excise Tax. The GET is the most regressive tax because low-income households must spend most of their income on necessities which are subject to the tax. Adjusting this tax credit will provide greater relief for low and moderate-income families who pay a disproportionate share of their income toward the GET.

Adjusting the low-income household renters credit: Hawai‘i has the highest cost of shelter in the nation, and 43 percent of our households are renters. The low-income household renters credit helps alleviate the impact of property taxes and the GET on these households. This credit has not been adjusted since the 1980s, despite inflation and skyrocketing rents.

Eliminating taxes on people in poverty: According to the Institute for Taxation and Economic Policy, Hawai‘i is considered fourth worst state for taxing those in poverty. It is counterproductive to reduce poor households' income and then rely on other public expenditures to help address the negative consequences of poverty. This low-income workers credit would also help those living close to the poverty guidelines but still struggle to survive.

Creating a state earned income tax credit:
The federal Earned Income Tax Credit (EITC) is considered the most effective anti-poverty measure ever created. It is a finely calibrated tax credit targeted at working families with children and lets workers keep more of what they earn. It keeps millions of children out of poverty, including 15,000 in Hawai‘i alone. Half of the states have recognized the benefits of the EITC in alleviating poverty and implemented a state EITC to great effect.

We respectfully urge the Committee to pass this bill unamended to provide critical relief to our families struggling to simply make ends meet. Thank you for this opportunity to provide testimony on this matter.

NATIONAL COMMUNITY TAX COALITION

one cause. one voice. one community.

LATE

Protect working families: Establish a Hawaii EITC

Testimony for the Hawaiian Legislature's consideration of HB 2371: Relating to Taxation
House Committee on Human Services

By Jackie Lynn Coleman, President & CEO, The National Community Tax Coalition

February 12, 2014

The National Community Tax Coalition (NCTC) greatly appreciates this opportunity to testify in strong support of HB 2371, which would create a state Earned Income Tax Credit (EITC) for Hawaii – a much-needed support for the low- and moderate-income working families of this state.

NCTC is the nation's largest, most comprehensive membership organization for community-based organizations offering free Volunteer Income Tax Assistance (VITA) and financial services to low-income working families. Our more than 2,400 members empower low-income workers to build a more secure financial future for themselves and their families through innovative financial services. During the 2013 tax season, Community VITA programs helped taxpayers file approximately 1.7 million federal tax returns – including more than 7,400 in Hawaii alone.

While low-income families across the nation are struggling to get by, the challenges of living in or near poverty are exacerbated by Hawaii's cost of living, which is the highest in the country. The EITC is a proven and effective means for keeping working families and their children out of poverty and enabling them to pay for their basic needs. Research has also shown the EITC to be associated with better education outcomes (math and reading scores) for children and better health for families.

The families who claim the EITC work hard – they must have earned income to qualify – and already pay a significant portion of their income in taxes. In Hawaii, taxpayers in the lowest quintile of earners paid a steep 13 percent of their limited incomes in state and local taxes. Creating a state EITC to complement the federal tax credit would help alleviate the negative effects of these tax rates on the families who need help the most, allowing them to keep more of what they have earned.

Currently, more than 11.5 percent of Hawaiians are living in poverty – but the rate for children living in poverty is a staggering 17.1 percent. Implementing a state EITC would help the state of Hawaii to leverage the anti-poverty impact of the federal EITC and target those households, especially those with children, who are the neediest. Each year, the EITC lifts approximately 6.6 million people out of poverty, about half of whom are children. In Hawaii, almost 15,000 children were kept out of poverty due to the federal EITC in 2011. A state-level EITC, working in conjunction with the federal, would have a significant impact on Hawaii's low-income families and children, setting them on the path to financial security.

Half of all of the states in the U.S. have created their own EITCs, recognizing the tax credit's successful track record at mitigating poverty, especially among children, and encouraging work. Hawaii has here the opportunity to join these states in the fight against poverty. As such, NCTC respectfully urges Hawaii's legislators to support the state's low- and moderate-income families by supporting HB 2371.

LATE

WOMEN'S CAUCUS
DEMOCRATIC PARTY OF HAWAI'I

February 13, 2014

TO: Representative Mele Carroll, Chair
Representative Bertrand Kobayashi, Vice Chair and
Members of the Committee on Human Services

FROM: Jeanne Y. Ohta, Co-Chair

RE: HB 2371 Relating to Taxation
Hearing: Thursday, February 13, 2014, 9:30 a.m., Room 329

POSITION: STRONG SUPPORT

The Hawai'i State Democratic Women's Caucus writes in strong support of HB 2371 Relating to Taxation, which would establish a State Earned Income Tax Credit and reduce or eliminate tax liability for low-income taxpayers; and would change the tax incentives for low-income household renters and the refundable food excise tax credit.

The federal Earned Income Tax Credit (EITC) is a refundable tax credit targeted at working families with children. Widely considered the most efficient anti-poverty program, it helps workers keep more of what they earn. Twenty-five other states have EITC's as a percentage of the federal EITC. These tax credits help boost families and the communities in which they live. Working families would use the money to pay rent, pay for groceries or medicines, putting money into the local economy.

The two refundable credits help alleviate the highly regressive impact of the GET and the high cost of housing on low and moderate-income families. The proposed changes to these credits would update it to recover ground lost to inflation since they were last set.

Imposing state income tax liability on those in poverty means that some working families are actually pushed deeper into poverty by taxes, which ultimately results in the need for expensive social service expenditures by the state. Hawai'i should eliminate all tax liability for households living in poverty and reduce it by half for those at 100-125% of the federal poverty guidelines.

The lowest-income taxpayers in Hawai'i pay an average of approximately 13% of their income in state and local taxes—among the highest in the nation—while those earning more than $400,000 pay closer to 8%. The GET is a major contributor to the regressive impact of Hawaii's tax system.

Hawai'i's families in poverty pay a larger share of their income in taxes than those in all but 3 other states. The lack of adequate credits and exemptions means that some working poor families are actually pushed deeper into poverty by our tax system. The proposed changes are just small adjustments to the tax burden placed on working families. We urge the committee to pass this measure.

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From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 13, 2014 8:37 AM
To: HUStestimony
Cc: drewastolfi@facehawaii.org
Subject: Submitted testimony for HB2371 on Feb 13, 2014 09:30AM

LATE

HB2371
Submitted on: 2/13/2014
Testimony for HUS on Feb 13, 2014 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Drew Astolfi (FACE)	FACE	Support	No

Comments: HB 2371 Relating to Taxation House Committee on Human Services (Rep. Mele Carroll, Chair; Rep. Bert Kobayashi, Vice Chair) Thursday, February 13, 2014, 9:30 AM, Room 329 Thank you for the opportunity to testify in strong support of House Bill 2371, which would implement progressive tax policies to help our low and moderate-income families. This bill would create a state earned income tax credit and eliminate income tax liability on households living below the federal poverty guidelines. It would also adjust the food/excise tax credit and low-income household renters credit for the inflation that has occurred since they were last adjusted. All of these measures will provide much-needed economic relief to Hawai‘i’s families in greatest need. Hawai‘i’s cost of living is the highest in the nation, and our regressive taxation system only makes the challenge of financial self-sufficiency even greater. We are the 8th poorest state under the U.S. Census’ Supplemental Poverty Measure, with 17 percent of our households barely getting by, even when factoring in government assistance. Making matters worse, we are considered the 4th worst state for taxing people in poverty, who are faced with highly regressive taxes. To alleviate these burdens, we support: Adjusting the food/excise tax credit: Households in the bottom fifth of Hawai‘i’s income distribution pay 11 percent of their income toward the General Excise Tax. The GET is the most regressive tax because low-income households must spend most of their income on necessities which are subject to the tax. Adjusting this tax credit will provide greater relief for low and moderate-income families who pay a disproportionate share of their income toward the GET. Adjusting the low-income household renters credit: Hawai‘i has the highest cost of shelter in the nation, and 43 percent of our households are renters. The low-income household renters credit helps alleviate the impact of property taxes and the GET on these households. Property owners generally pass these costs along to their tenants in the form of increased rent. This credit has not been adjusted since the 1980s, despite inflation and skyrocketing rents. Eliminating taxes on people in poverty: According to the Institute for Taxation and Economic Policy, Hawai‘i is considered fourth worst state for taxing those in poverty. We should not tax those families who are barely getting by. It is counterproductive to reduce poor households’ income and then rely on other public expenditures to help address the negative consequences of poverty. This low-income workers credit would also help those living close to the poverty guidelines but still struggle to survive. Creating a state earned income tax credit: The federal Earned Income Tax Credit (EITC) is considered the most effective anti-poverty measure ever created. It is a finely calibrated tax credit targeted at families with children and lets workers keep more of what they earn: eligible households must have earned income. It keeps millions of children out of poverty, including 15,000 in Hawai‘i alone. Our child poverty rate is 17 percent, and a state EITC would help mitigate the impact of poverty. Half of the states have recognized the benefits of the EITC in alleviating poverty and implemented a state EITC. Hawai‘i should follow their lead. We respectfully urge the Committee to pass HB 2371 to provide critical relief to our families struggling to simply make ends meet.

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House Committee on Human Services (Rep. Mele Carroll, Chair; Rep. Bert Kobayashi, Vice Chair)
Thursday, February 13, 2014, 9:30 AM, Room 329

Aloha Chair Carroll, Vice Chair Kobayashi and members,

The Hawai`i Women‘s Coalition is in **strong support** of House Bill 2371, which would implement progressive tax policies to help our low and moderate-income families. The Coalition has advocated the creation of a state earned income tax credit for many years.

That this omnibus bill would also adjust the food/excise tax credit and low-income household renters credit for the inflation that has occurred since they were last adjusted is a welcome bonus.

These measures will provide much-needed economic relief to Hawai‘i's families in greatest need.

Hawai‘i's cost of living is the highest in the nation, and our regressive taxation system only makes the challenge of financial self-sufficiency even greater. We are the 8th poorest state under the U.S. Census' Supplemental Poverty Measure, with 17 percent of our households barely getting by, even when factoring in government assistance. Making matters worse, we are considered the 4th worst state for taxing people in poverty, who are faced with highly regressive taxes.

Since women still earn only 70 cents on the dollar compared to men, since too many wome are single parents and/or primary caregivers for elderly parents the impact of regressive tax policies has a disproportionate impact on women

We urge the Committee to pass HB 2371 to provide critical relief to our families struggling to simply make ends meet.

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