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STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
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To: The Honorable Jill N. Tokuda, Chair  
and Members of the Senate Committee on Ways and Means

Date: Friday, February 6, 2015  
Time: 9:00 A.M.  
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 555, Relating to Tax Credits

The Department of Taxation (Department) appreciates the intent of S.B. 555, and provides the following information and comments for your consideration.

S.B. 555 amends the Refundable Food/Excise Tax Credit by changing the income thresholds necessary to claim the credit, as well as the amount of the credit. The measure also increases the amount of the credit by adding an unspecified dollar amount, derived by calculating the percentage increase in the Consumer Price Index (CPI) over the CPI for calendar year 2015.

The Department notes that an annual automatic adjustment based on the CPI will make this credit extremely difficult for the Department to administer and will result in confusion for taxpayers. If the Legislature wishes to increase the credit, the Department suggests that the increase be a fixed amount.

Finally, the Department notes that the Department of the Attorney General stated during the 2014 Regular Legislative Session that potential Constitutional issues existed with the residency requirement in this credit.

The estimated annual revenue loss would be \$17 million starting in FY 2017, growing by an additional \$2 million each year thereafter.

Thank you for the opportunity to provide comments.



**SB555**  
**RELATING TO TAX CREDITS**  
Senate Committee on Ways and Means

February 6, 2015

9:00 a.m

Conference Room 211

The Office of Hawaiian Affairs (OHA) Committee on Beneficiary Advocacy and Empowerment will recommend to the Board of Trustees a position of **SUPPORT** for SB555. This measure would relieve the tax burden on low-income individuals by increasing the refundable food/excise tax credit; increasing the income limits for the credit; and tying future tax credit amounts to the consumer price index. OHA supports this bill as it fits within our strategic priority of improving the economic self-sufficiency of Native Hawaiians.

According to a report by the Institute on Taxation and Economic Policy (ITEP), Hawai‘i has the second heaviest tax burden in the country for the bottom 20% of income levels. For example, the General Excise Tax (GET) applies to virtually all goods and services purchased in the state, including necessities like food. Accordingly, both low- and high- income individuals are taxed at the same rate for essential purchases.

Notably, this tax burden on low-income taxpayers falls on a disproportionate number of Native Hawaiian families with children. Native Hawaiian families have substantially less income, making \$9,105 lower per-capita income than the state average, despite having a labor force participation rate 4.5% higher than the statewide rate. Additionally, this limited wealth must be distributed to a greater extent, as Native Hawaiians have larger families and households than the state average. 17.8% of the Native Hawaiian population (who live in households) live with other relatives; 4.3 percentage points more than the total state population (13.5%). SB555 thus proposes a pragmatic way to reduce the tax burden on our neediest populations, including Native Hawaiians in particular.

The refundable food/excise tax credit was created to offset the inherently regressive impact of the GET on low- and moderate-income households, and provide targeted relief to low- and moderate- income individuals. This credit has not been adjusted to keep up with the inflation that has occurred since it was first established eight years ago, in 2007. This measure would adjust the credit accordingly for individuals making under \$57,500, with a maximum credit of \$170 to individuals with an adjusted gross income under \$5,800. This measure also allows multiple exemptions for those with dependent children, providing additional support for families in need.

Under this measure, Native Hawaiian families that struggle to pay rent and purchase necessities would receive meaningful relief, enhancing their ability to remain housing secure, contribute to our local economy, and achieve economic self-sufficiency.

Accordingly, OHA urges the Committee to **PASS** SB555. Mahalo nui for the opportunity to testify.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Food/excise tax credit

BILL NUMBER: SB 555; HB 57 (Identical)

INTRODUCED BY: SB by Espero, Chun Oakland and 2 Democrats; HB by Mizuno, Morikawa and 1 Democrat

BRIEF SUMMARY: 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 \$5,800	\$ 100
\$ 5,800 under \$11,500	85
11,500 under 17,300	75
17,300 under 23,000	65
23,000 under 34,500	50
34,500 under 46,000	40
46,000 under 57,500	30
57,500 and over	0

For any taxable year beginning after 2016, each dollar amount in the table shall be increased by an amount equal to such dollar amount multiplied by the percentage by which the consumer price index for the preceding calendar year exceeds the consumer price index for calendar year 2015.

EFFECTIVE DATE: Tax years beginning after December 31, 2015

STAFF COMMENTS: This measure proposes to increase the refundable food/excise tax credit and provides that the amounts shall be adjusted according to the consumer price index beginning in 2016. 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.

Digested 2/4/15



HAWAII

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February 3, 2015

Chair Senator Tokuda and WAM Committee Members

Re: SB 555 Relating to the Tax Credits  
Hearing on February 6, 2015

Dear Senator Tokuda and Members of the Committee:

Americans for Democratic Action is an organization devoted to the promotion of progressive public policies.

We support SB 555 as a significant step in the direction of correcting our tax structure. We support raising the tax credits for low-income people to compensate for the GET tax on food. We especially like this bill as it incorporates an indexing function to keep the deduction in line with inflation. Our tax structure is currently regressive. Passing this bill along with others would help correct this injustice.

Thank you for your consideration.

Sincerely,

John Bickel  
President



## CATHOLIC CHARITIES HAWAII

### Testimony in Support of SB 555: Relating to Tax Credits

TO: Senator Jill Tokuda, Chair, Senator Ronald Kouchi, Vice Chair, Members of the Committee on Ways and Means

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

Hearing: **Friday, February 6, 2015 9:00 a.m., Conference Room 211**

Thank you for the opportunity to testify on SB 555, which amends the food/excise tax credit. **Catholic Charities Hawai'i supports SB 555.**

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 Hawai'i.

Hawai'i's high cost of living, including the highest cost of shelter in the country<sup>1</sup> and food costs for a family of four at 68% more than the mainland<sup>2</sup>, makes living with a low-income very difficult. Not only are these people spending a high percentage of their income on basic living expenses but also on the regressive General Excise Tax (GET). The nature of Hawai'i's broad-based GET is such that the lower one's income is, the higher a percentage of it goes to paying GET.

The food/excise tax credit, established in 2007, helps to restore some equity to lower-income consumers by providing a per-exemption refund based on an income scale. This bill will update the amounts of the food/excise credit according to inflation since 2007. When established, the income cut-off was \$50,000, with a tax credit ranging from \$25 to \$85. This bill will update the amount of the cut-off to \$57,500 and the tax credit range will change to \$30 to \$100. Tying the amount of the credit to the Consumer Price Index for future increases is a fair method of keeping the credit current.

Updating the food/excise tax credit will help us in the fight to reduce poverty in Hawai'i. Our families need this tax credit to help with the struggle of covering their basic living expenses.

Thank you for your support. Please contact me at (808)527-4810 or [trisha.kajimura@catholiccharitieshawaii.org](mailto:trisha.kajimura@catholiccharitieshawaii.org) if you have any questions.

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

<sup>2</sup> 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>.



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Date: February 4, 2015

To: Senator Jill N. Tokuda, Chair, Senator Ronald D. Toguchi, Vice-Chair, and members of the Committee on Ways and Means

From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)

Re: Strong Support for SB 555,

Aloha Chair Tokuda, Vice-Chair Toguchi, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB 555, which amends the refundable food and excise tax credit and ties it to the Consumer Price Index.

HACBED was established in 1992 as a nonprofit statewide intermediary to address social, economic, and environmental justice concerns through community-based economic development and asset building strategies. It advances its mission with core competencies in the areas of community and organizational capacity building, community and economic development planning, and asset policy development and advocacy. HACBED played a facilitating role in the State Asset Policy Task Force and was a key contributor to the State Asset Policy Road Map. HACBED also facilitates the Family & Individual Self-Sufficiency Program (FISSP), which administers the Internal Revenues Services' Volunteer Income Tax Assistance (VITA) program as a part of its larger asset building and financial education initiatives for needy families. As such, HACBED strongly supports the proposed bill that would provide needed assistance in the area of state taxes through the establishment of a state EITC, a low-income workers credit, and adjusting essential tax credits for inflation.

The Family Economic Self-Sufficiency Standard (FESS) depicts the obstacles that Hawai'i families are facing. The FESS measures the amount of money that individuals and families require to meet their basic needs without government and/or other subsidies and the data shows the following percentage of families who fall below the self-sufficiency standard statewide:

- 25.9% of families with two adults and two children;
- 77.3% of single-adult families with one child; and
- 74.3% of single-adult families with two children.

These tax measures would provide an immediate lift for these families to pull themselves out of a financial crisis, smooth out fluctuations in family finances, and build on-going assets. Through the FISSP efforts, HACBED has served 16,871 low to moderate income families, saved them \$2.7 million in filing fees, helped to claim \$23.7 million in refunds, and brought \$12.8 million in new federal funds to the State of Hawai'i through claiming the federal EITC and Child Tax Credit (CTC).

SB 555 - Testimony in Support  
*February 4, 2015 - Page 2*

Through the FISSP surveys, families have indicated that they have used the money to manage daily expenses, eliminate debt, open and maintain savings accounts, purchase a new home, cover education costs, and start a business. The passage of SB 555 would go a long way to supplement the needs of these families by amending the food and excise tax credit by tying it to the Consumer Price Index and thus assist these families in their efforts to truly build their assets.

Mahalo for this opportunity to testify,

Brent N. Kakesako  
Executive Director  
Hawai'i Alliance for Community-Based Economic Development

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Testimony of Hawai'i Appleseed Center for Law and Economic Justice  
Senate Bill 555 Relating to Tax Credits  
Senate Committee on Ways and Means  
Scheduled for Hearing Friday, February 6, 2015 9:00 AM, Room 211

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*Hawai'i Appleseed Center for Law and Economic Justice is a nonprofit law firm created to advocate on behalf of low income individuals and families in Hawai'i on policy and legal issues. 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.*

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Thank you for the opportunity to testify in **strong support** of SB 555, which would increase the food/excise tax credit value and income eligibility thresholds. These adjustments would be a much-needed update to the credit, giving more families greater tax relief from the regressive impact of the General Excise Tax (GET).

Hawai'i is the most expensive place to live in the country, with a **cost of living at more than 160 percent of the national average**. Groceries cost 58 percent more than they do on the mainland, and the cost of shelter is more than twice as much. Meanwhile, our wages are considered the lowest in the country when adjusted for the cost of living. We also face the **fifth highest rate of poverty** among the states based on the U.S. Census's 2013 Supplemental Poverty Measure, which is considered a more accurate measure of poverty because it figures in the cost of living as well as available government assistance. Even our moderate-income families struggle to make ends meet.

However, Hawai'i's regressive tax system exacerbates these struggles. The Institute on Taxation and Economic Policy has ranked Hawai'i as the **second worst state in the country for taxing low-income residents**. The regressivity of our tax system is due in large part to the GET, which disproportionately burdens low-income families who must spend nearly all of their income just to get by. Virtually all goods and services are subject to the GET, including necessities such as food, medical services, and rent. The bottom 20 percent of households pay over 13 cents per dollar of income toward taxes, while the wealthiest pay just 7 cents of every dollar. For these low-income households, the GET is the greatest contributor to their tax burden: 11 cents per dollar of their income goes toward the GET alone. To make matters worse, the GET's application to wholesale transactions results in a "pyramiding" effect that increases the price of goods and services.

This bill would increase the maximum credit value to \$100 per exemption to match the credit's buying power in 2007, when it was created. It would also increase the income eligibility thresholds to account for inflation, and ties future increases in the credit to the Consumer Price Index so that it does not lose ground again going forward.

All of Hawai'i's residents pay taxes in some form, and for low-income people, the GET imposes the greatest burden. This refundable tax credit targeted for low and moderate-income families is a key means to promote financial stability and create a more equitable tax system. We strongly urge you to increase the food/excise tax credit to account for inflation so that Hawai'i's families can better make ends meet. Again, thank you for the opportunity to testify in **strong support** of SB 555.



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

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TO: Senator Jill Tokuda, Chair  
Senator Ron Kouchi, Vice-Chair  
Members, Committee on Ways and Means

FROM: Scott Morishige, Executive Director, PHOCUSED

HEARING: Senate Committee on Ways and Means  
**Friday, February 6th, 2015 at 9:00 am in Conference Room 211**

**In support re SB555, Relating to Tax Credits**

Thank you for the opportunity to provide testimony in regards to SB555, Relating to Tax Credits. PHOCUSED is a nonprofit membership and advocacy organization that works together with community stakeholders to impact program and policy change for the most vulnerable in our community, such as those in poverty. We strongly support SB555 to adjust the low-income food/excise tax credit.

The low-income food/excise tax credit was created to help Hawaii's families offset the cost of the GET. Since the GET affects prices on everything from the groceries you buy to the rent you pay, it is often seen as a regressive tax; i.e. impacting low-income residents more harshly than higher earners. For example an individual receiving SNAP benefits will average about \$150 in benefits to spend on groceries. At the current GET of 4.5% this individual will have paid out \$81 on food alone in the course of a year. This does not take into account the other expenses this individual pays that would incur the GET such as rent, transportation expenses, medical services, and day to day necessities. Without any adjustment to the food/excise tax credit these individuals will continue to pay more of their limited incomes in GET and receive less of it back through the credit.

In addition to low-income working households another group that greatly benefits from this credit are our kūpuna. Many kūpuna don't have the means of increasing their income and rely upon the food/excise tax credit as a means to recover back a little of what they live on. By updating the credit for inflation we can ensure that our kūpuna do not have more of their income taken to taxes that they cannot otherwise get relief from.

Once again, PHOCUSED is in **strong support** of SB555, adjusting the Food/Excise tax credit. If you have any questions, please do not hesitate to contact PHOCUSED at 521-7462 or by e-mail at [admin@phocused-hawaii.org](mailto:admin@phocused-hawaii.org).



**HPCA**

HAWAII PRIMARY CARE ASSOCIATION

**Senate Committee on Ways and Means**

The Hon. Jill N. Tokuda, Chair

The Hon. Ronald D. Kouchi, Vice Chair

**Testimony in Support of Senate Bill 555**

**Relating to Tax Credits**

**Submitted by Robert Hirokawa, Chief Executive Officer**

**February 6, 2015, 9:00 am, Room 211**

The Hawaii Primary Care Association (HPCA), which represents the federally qualified community health centers in Hawaii, supports Senate Bill 555, amending the refundable food/excise tax credit.

The HPCA is a staunch believer in the social determinants of health, those economic and social conditions that influence an individual and a community's health status. These conditions serve as risk factors endemic to a person's living and working environment, rather than their behavioral or genetic histories. Factors such as income, education, access to recreation and healthy foods, housing, and employment, can and do have measurable impacts on a person and a community, both in health and financial outcomes.

A key component of the social determinant is the expansion of healthy eating habits and the easing of financial constraints on consumers. For these reasons, we strongly support this measure and thank you for the opportunity to testify.

**SB555**

Submitted on: 2/5/2015

Testimony for WAM on Feb 6, 2015 09:00AM in Conference Room 211

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Cade Watanabe	UNITE HERE Local 5	Support	No

Comments:

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**SB555**

Submitted on: 2/4/2015

Testimony for WAM on Feb 6, 2015 09:00AM in Conference Room 211

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Vernadette Gonzalez	Individual	Oppose	No

Comments:

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I stand in staunch opposition to this bill. It is uninformed and takes an egregious step in political meddling with the business of a university. While I understand the legislature's concern with the University of Hawai'i's budget woes, it is not the place of the government to dictate which academic programs should and should not be cut based on the number of undergraduate majors. This is a blunt instrument, and blindly wielded one that would not only damage the reputation of the university, but endanger its accreditation. An uncredited state university would be an embarrassment to the state, and it would fail to serve the vast majority of in-state students who choose to come to UH. In addition, many of the named programs take on a substantial teaching load—undergraduate students fulfill graduate requirements (regardless of majors) through courses across the university. The number of majors per year does not account for the total number of students taught in the department, nor does it count the numbers of graduate students who earn master's and doctoral degrees in these programs. This is such a dangerous step on the part of the legislature, and incredibly damaging not only to the reputation of the state's public university, but also the state of higher education in Hawai'i.