DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Wednesday, February 18, 2015
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 886, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 886 and provides the following comments for your consideration.

H.B. 886 changes the amount of the income tax credit for low-income household renters to an unspecified amount, changes the amounts that may be claimed for the refundable food/excise tax credit to unspecified amounts, and extends the sunset provisions in Act 60, Session Laws of Hawaii 2011, for five years. The changes to the tax credit for low-income household renters and the refundable food/excise tax credit apply to taxable years beginning after December 31, 2014, and other changes made by this measure are effective upon approval.

The Department notes that it can adminster the changes proposed by this measure because the low income renters and food excise tax credits are existing credits and the extension of the income tax rates are the rates currently being imposed.

Thank you for the opportunity to provide comments.

Hawai'i Alliance for Community-Based Economic Develop[illegible]nt
677 Ala Moana Blvd., Suite 702 Honolulu, HI 9[illegible]
Ph. 808.550.2661 Fax 808.534.11[illegible]
Email info@hacbed.org www.hacbed.org

HACBED

Community Voice, Collective Action

Date: February 16, 2016
To: Representative Sylvia Luke, Chair, Representative Scott Y. Nishimoto, Vice-Chair, and members of the Committee on Finance
From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)
Re: Strong Support for HB 886

Aloha Chair Luke, Vice-Chair Nishimoto, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports HB 886, which extends the high-earner income tax brackets established pursuant to Act 60 by an additional two years, raises the income tax credits provided to low-income households by the refundable food/excise tax credit, and low-income household renters credit to unspecified amounts.

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.

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).

Click to buy NOW! PDF-XChange Viewer www.docu-track.com

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 HB 886 would go a long way to supplement the needs of these families by increasing the renters credit and food/excise tax credit and supporting these by extending the high-earner tax rates and require the Tax Review Commission to examine inequality in our tax structure and how to reduce it -- all of which will 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

HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

AFSCME
LOCAL 152, AFL-CIO

The Twenty-Eighth Legislature, State of Hawaii
Hawaii State House of Representatives
Committee on Finance

Testimony by
Hawaii Government Employees Association
February 18, 2015

H.B. 886 – RELATING TO TAXATION

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO, supports the purpose and intent of H.B. 886, which addresses the serious issue of income inequality. Creating a fairer state tax system is an economic imperative. Over the last four decades, the share of income and wealth going to those at the top of the income scale has increased significantly, while wages and income for working and middle-class families have remained stagnant. Today, the top 20 percent of Americans as a group earn more income than the bottom 80 percent combined. As a result, states that rely on regressive sales, excise and property taxes rather than income taxes have experienced faster revenue declines than states with more progressive tax structures.

Many states allow their wealthy residents to pay much lower effective tax rates than middle and low-income families. When middle and low incomes stagnate or decline, it has a negative effect on state revenue. A recent Standard & Poor's report found that the more income growth goes to the wealthy and incomes stagnate or decline for everyone else, the slower a state's revenue grows, especially if the state relies on taxes that disproportionately fall on low- and middle-income households.

Shrinking revenues and overreliance on regressive taxes prevent states from investing in the priorities that will improve the prospects of low- and middle-income residents: education, workforce development, infrastructure improvements, and adequate healthcare. H.B. 886, if enacted, will make our state tax system more progressive by reducing the tax burden on working families who are living at or near the poverty level through increasing the tax credits amounts for the refundable food and excise tax credit and the low income household renters' tax credit.

Another important part of this legislation is extending the elevated tax brackets applied to high-income earners for an additional five years. Hawaii has some progressive features in its tax code, including a graduated personal income tax structure, and it provides refundable income tax credits to reduce the impact of general excise tax. However, our tax code still relies on the general excise tax, which applies to basic necessities like food. The changes proposed in H.B. 886 will help to make Hawaii's tax code more progressive. Thank you for the opportunity to testify in support of H.B. 886.

Respectfully submitted,

Randy Perreira
Executive Director

888 MILILANI STREET, SUITE 601 HONOLULU, HAWAII 96813-2991

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase renter credit; food tax credit; extend income tax rates

BILL NUMBER: HB 886

INTRODUCED BY: C. Lee, Cachola, Creagan, Lowen, Luke, Mizuno, Rhoads, San Buenaventura, Takumi and 2 Democrats

EXECUTIVE SUMMARY: This bill seeks to increase the food/excise credit and the renters credit to unspecified amounts, and would pay for them by extending the top tax rates of 9%, 10%, and 11% by another five years. The existing credits are there to provide poverty relief, but are provided on a "use it or lose it" system. To reduce the "gotcha" situations where the relief does not reach those intended, we recommend adjusting the tax rates and the threshold amounts so that struggling families will not have to deal with the tax system at all. In addition, continuing the 9%, 10%, and 11% tax rates will not be conducive to economic growth.

BRIEF SUMMARY: Amends HRS section 235-55.7 to increase the amount of the renter credit from $50 to $______. This section shall be applicable to tax years beginning after December 31, 2014.

Amends HRS section 235-55.85 to increase the food/excise tax credit based on the taxpayer's adjusted gross income (AGI):

Adjusted gross income	Tax credit
Under $5,000	$ ___
$ 5,000 under $10,000	___
10,000 under 15,000	___
15,000 under 20,000	___
20,000 under 30,000	___
30,000 under 40,000	___
40,000 under 50,000	___
50,000 and over	0

This section shall be applicable to tax years beginning after December 31, 2014.

Amends section 6 of Act 60, SLH 2009, as amended by section 4 of Act 97 to extend the December 31, 2015 sunset date to December 31, 2020.

Requires the tax review commission in its systematic review of the state's tax structure to:
(1) explore best options to reduce income inequality in Hawaii without negatively affecting state

revenues; and (2) communicate any findings and recommendations to the legislature in the tax review commission's submitted evaluation of state revenue and tax policy.

EFFECTIVE DATE: Upon approval and as noted in the measure

STAFF COMMENTS: The 1970 legislature adopted a system of tax credits for household renters which was intended to partially offset the higher tax burden on renters resulting from the lack of tax relief 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 amount of the credit from $50 to $___. While the proposed measure increases the renter tax credit, it does not change the qualification amount – the taxpayer still will need to pay $1,000 in rent during a taxable year to qualify for the credit.

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 instead be a percentage of the rent paid, so that taxpayers' relief would be linked to the amount of rent they need to pay.

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.

It should be remembered that both the food/excise credit and the renters credit are "use it or lose it" credits. Taxpayers are required to file a tax return and claim the credits. If they don't file a tax return or file one without claiming the credits, the credits will be lost after a year. Because Hawaii has a tax bracket system that has not been meaningfully adjusted since the 1960's, taxpayers earning at or around the federal poverty level still have to pay tax. If such taxpayers don't owe tax because of the credits, but don't file a return, they may wind up with a "gotcha," owing tax, penalties, and interest. It may be preferable to leave these folks alone.

The proposed measure also extends the sunset date of the "high-earner" income tax brackets established by Act 60, SLH 2009. The increase in income tax rates for higher income taxpayers was approved by the 2009 legislature but was vetoed by the governor. In the veto message, the governor stated that the bill would:

> "...increase the tax burden on Hawaii's families and small businesses by increasing the marginal income tax rate by as much as 33.3%. Hawaii has the highest top personal income tax rate in the United States. By increasing the top marginal tax rate from 8.25 to 11 percent, this bill will make

PDF-XChange Viewer
Click to buy NOW!
www.docu-track.com

> Hawaii the state with the highest personal income tax rate in the nation. Although there is the misconception that only wealthy people will be affected, this bill will adversely impact almost 37,000 persons, of which about 27,000 are sole proprietors, partnerships, or subchapter S corporations whose owners report their business income through personal income tax returns. In this broad recession which affects both the wealthy and poor and where recovery depends on people investing, buying consumer goods, and donating to charities, a tax increase will put an unnecessary strain on everyone's pocket book. Small business owners who count their business income as personal income will find it more difficult to support and grow their enterprises. This could mean more business closures, layoffs, and fewer job opportunities."

The 2009 legislature overrode the governor's veto and the measure became Act 60, SLH 2009. Act 60 is scheduled to sunset on December 31, 2015, but this measure would change the repeal date to December 31, 2020. It should be remembered that Act 60, SLH 2009, was enacted with other revenue enhancement measures, such as a hard cap on itemized deductions, to generate additional revenues to address the state's fiscal woes.

This measure would extend these "high-earner" income tax rates and the other revenue enhancers. The sooner the rates are repealed the better the outlook would be for the state's economic attractiveness. The higher tax rates create an image that Hawaii is a poor place to live, work, and invest, underscoring the poor business climate.

In December 2012, the national Tax Foundation conducted a review of economic studies on how taxation affects economic growth. That study, accessible at http://taxfoundation.org/sites/taxfoundation.org/files/-docs/sr207.pdf, states:

> Nearly every empirical study of taxes and economic growth published in a peer reviewed academic journal finds that tax increases harm economic growth. In my review, I examine twenty-six such studies going back to 1983.... All but three of those studies, and every study in the last fifteen years, find a negative effect of taxes on growth.
>
> ....
>
> This review of empirical studies of taxes and economic growth indicates that there are not a lot of dissenting opinions coming from peer-reviewed academic journals. More and more, the consensus among experts is that taxes on corporate and personal income are particularly harmful to economic growth, with consumption and property taxes less so. This is because economic growth ultimately comes from production, innovation, and risk-taking.

For these reasons, we recommend that lawmakers think twice before continuing the high individual rates that have put Hawaii on the map for all the wrong reasons.

Digested 2/17/15

TAX FOUNDATION Since 1937

Special Report

December 18, 2012
No. 207

What Is the Evidence on Taxes and Growth?

By
William McBride, PhD

Introduction

The idea that taxes affect economic growth has become politically contentious and the subject of much debate in the press and among advocacy groups. That is in part because there are competing theories about what drives economic growth. Some subscribe to Keynesian, demand-side factors, others Neo-classical, supply-side factors, while yet others subscribe to some mixture of the two or something entirely unique. The facts, historical and geographical variation in key parameters for example, should shed light on the debate. However, the economy is sufficiently complex that virtually any theory can find some support in the data.

For instance, the Congressional Research Service (CRS) has found support for the theory that taxes have no effect on economic growth by looking at the U.S. experience since World War II and the dramatic variation in the statutory top marginal rate on individual income.[1] They find the fastest economic growth occurred in the 1950s when the top rate was more than ninety percent.[2] However, their study ignores the most basic problems with this sort of statistical analysis, including: the variation in the tax base to which the individual income tax applies; the variation in other taxes, particularly the corporate tax; the short-term versus long-term effects of tax policy; and reverse causality, whereby economic growth affects tax rates. These problems are all well known in the academic literature and have been dealt with in various ways, making the CRS study unpublishable in any peer-reviewed academic journal.[3]

So what does the academic literature say about the empirical relationship between taxes and economic growth? While there are a variety of methods and data sources, the results consistently point to significant

[1] The top marginal tax rate is the rate that is paid on each additional dollar of income.

[2] Thomas Hungerford, Congressional Research Service, *Taxes and the Economy: An Economic Analysis of the Top Tax Rates since 1945 (Updated)* (Dec. 12, 2012), http://democrats.waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/Updated%20CRS%20Report%2012%3A13%3A12.pdf.

[3] William McBride, *CRS, At Odds with Academic Studies, Continues to Claim No Harm in Raising Top Earners' Tax Rates*, TAX FOUNDATION TAX POLICY BLOG, Dec. 14, 2012, http://taxfoundation.org/blog/crs-odds-academic-studies-continues-claim-no-harm-raising-top-earners-tax-rates.

negative effects of taxes on economic growth even after controlling for various other factors such as government spending, business cycle conditions, and monetary policy. In this review of the literature, I find twenty-six such studies going back to 1983, and all but three of those studies, and every study in the last fifteen years, find a negative effect of taxes on growth. Of those studies that distinguish between types of taxes, corporate income taxes are found to be most harmful, followed by personal income taxes, consumption taxes and property taxes.

These results support the Neo-classical view that income and wealth must first be produced and then consumed, meaning that taxes on the factors of production, i.e., capital and labor, are particularly disruptive of wealth creation. Corporate and shareholder taxes reduce the incentive to invest and to build capital. Less investment means fewer productive workers and correspondingly lower wages. Taxes on income and wages reduce the incentive to work. Progressive income taxes, where higher income is taxed at higher rates, reduce the returns to education, since high incomes are associated with high levels of education, and so reduce the incentive to build human capital. Progressive taxation also reduces investment, risk taking, and entrepreneurial activity since a disproportionately large share of these activities is done by high income earners.[4]

Some of these items are long-term mechanisms, particularly human and physical capital formation. Most of these empirical studies focus on the long-term effects, over a period of five years or more, but many investigate short-term dynamics as well. The evidence for short-term, demand-side effects of tax policy is less robust and less compelling, perhaps owing to the difficulty of disentangling short-term factors and matching events. However, there is some evidence that longer-term, supply-side effects occur sooner than previously thought, such as within the first few years of a policy change.

In any case, the lesson from the studies conducted is that long-term economic growth is to a significant degree a function of tax policy. Our current economic doldrums are the result of many factors, but having the highest corporate rate in the industrialized world does not help. Nor does the prospect of higher taxes on shareholders and workers. If we intend to spur investment, we should lower taxes on the earnings of capital. If we intend to increase employment, we should lower taxes on workers and the businesses that hire them.

Literature Review

Nearly every empirical study of taxes and economic growth published in a peer reviewed academic journal finds that tax increases harm economic growth. In my review, I examine twenty-six such studies going back to 1983, as shown in Table 1. All but three of those studies, and every study in the last fifteen years, find a negative effect of taxes on growth. The table shows summaries of each study's findings, but the most recent and influential studies will be discussed here in more detail.

---

[4] William McBride, *The Great Recession and Volatility in the Sources of Personal Income*, TAX FOUNDATION FISCAL FACT NO. 316 (June 13, 2012), http://taxfoundation.org/article/great-recession-and-volatility-sources-personal-income.

Most of the recent studies distinguish by type of tax, rather than using some broad measure of taxes. The most prominent exception is by David and Christina Romer,[5] who look at the overall U.S. federal tax burden as a share of GDP since World War II. They analyze the narrative record of federal tax changes, including presidential speeches, congressional reports, etc., to identify legislated "tax shocks," such as efforts to reduce an inherited budget deficit or promote long-run growth. This technique allows them to minimize the statistical problem of reverse causality by removing from analysis legislated tax changes that are the result of economic changes, such as countercyclical actions and those tied to government spending. They find much larger negative effects of taxes as compared to earlier studies that lump all tax changes together. Particularly, they find that a tax increase of 1 percent of GDP lowers real GDP by about 3 percent after about two years. The largest effect is from tax changes meant to promote economic growth, and the main channel is investment. These results are robust to various specifications, including controlling for the state of the economy, monetary policy, and the behavior of government spending.

Another set of studies looks at episodes of fiscal consolidation (efforts to reduce deficits) and fiscal stimuli and in the process estimate how tax policy affects economic growth. Alesina and Ardagna cover a large number of such episodes occurring in OECD countries between 1970 and 2006.[6] They find that fiscal stimuli based upon tax cuts are more likely to increase growth than those based upon spending increases. Also, fiscal consolidations based upon spending cuts and no tax increases are more likely to succeed at reducing deficits and debt and less likely to create recessions as compared to fiscal consolidations based upon tax increases. Similarly, the IMF analyzes 170 cases of fiscal consolidation in fifteen advanced countries over the last thirty years and finds that spending cuts are much less damaging to short term growth than are tax increases.[7] They find a 1 percent spending cut has no significant effect on growth, whereas a 1 percent tax increase reduces GDP by 1.3 percent after two years. Fiscal consolidation studies by Goldman Sachs and others come to similar conclusions.[8]

A number of researchers have looked at taxes and growth in U.S. states, but one of the most thorough and robust is by Reed.[9] He uses panel data, taking advantage of variation in taxes and growth across U.S. states and over time, averaging over five year periods between 1970 and 1999. He finds a robust negative effect of the tax burden on economic growth, where the tax burden is defined as the ratio of state and local tax revenues to personal income. He finds this result is robust for both "contemporaneous" changes in the tax burden, i.e., within the five year period, and the initial level of the tax burden. When he runs the same specification using annual data, he finds the contemporaneous effect is actually positive, while the lagged effects from tax burden changes in the four prior years are all negative. He argues that annual data, at least at the state level, suffers from measurement error and misspecification of lagged effects and may prevent findings of a robust relationship between taxes and growth:

---

[5] Christina Romer & David Romer, *The macroeconomic effects of tax changes: estimates based on a new measure of fiscal shocks*, 100 AMERICAN ECONOMIC REVIEW 763-801 (2010).
[6] Alberto Alesina & Silvia Ardagna, *Large changes in fiscal policy: taxes versus spending*, *in* TAX POLICY AND THE ECONOMY, Vol. 24 (Univ. of Chicago Press, 2010).
[7] International Monetary Fund, *Will it hurt? Macroeconomic effects of fiscal consolidation*, *in* WORLD ECONOMIC OUTLOOK: RECOVERY, RISK, AND REBALANCING (2010), http://www.imf.org/external/pubs/ft/weo/2010/02/pdf/c3.pdf.
[8] For a summary, *see* David Logan, *The proper role of taxes in deficit and debt reductions*, TAX FOUNDATION FISCAL FACT NO. 278 (July 29, 2011), http://taxfoundation.org:81/article/proper-role-taxes-deficit-and-debt-reduction.
[9] Robert Reed, *The robust relationship between taxes and U.S. state income growth*, 61 NATIONAL TAX JOURNAL 57-80 (2008).

> My analysis suggests that tax policies take time to work its full effects on the economy. When the specification is sufficiently general to pick up these effects, a negative relationship between taxes and income growth emerges.[10]

Reed's is a thorough analysis with numerous robustness checks. However, the tax burden measure does not include federal taxes, the burden of which is twice as large as the burden of state and local taxes. Also, the federal burden is extremely progressive, such that taxpayers in high income states face a much larger federal tax burden than do taxpayers in low income states.[11]

As mentioned, most recent studies distinguish between different types of taxes on the basis that they have different effects on the economy. Corporate and shareholder taxes should mainly affect investment and capital formation, while income taxes affect labor and saving by individuals as well as investment by non-corporate business owners.[12] Consumption taxes, such as sales taxes, affect suppliers of labor and capital, but neutrally. Corporate and personal income taxes are not neutral, as they represent essentially additional, double taxes on future consumption. These empirical studies typically find that corporate and personal income taxes are the most damaging to economic growth, followed by consumption taxes and property taxes.

Mertens and Ravn do a Romer-style narrative analysis of post-war tax changes in the U.S. but also distinguish between personal and corporate income taxes.[13] They find that personal income tax cuts more immediately boost GDP but lose revenue, while corporate tax cuts generate growth in the long run and expand the tax base such that revenues are unchanged. Particularly, they find a 1 percentage point cut in the average personal income tax rate raises real GDP per capita by 1.4 percent in the first quarter and by up to 1.8 percent after three quarters. They find a 1 percentage point cut in the average corporate income tax rate raises real GDP per capita by 0.4 percent in the first quarter and by 0.6 percent after one year. The effect of the corporate tax is actually larger per dollar of revenue than that of the personal income tax, since the corporate tax raises about one-quarter of the revenue that the personal income tax does. In terms of "multipliers," i.e. how revenue or spending changes affect GDP, their estimates of tax multipliers exceed most estimates of spending multipliers.

In a series of OECD working papers,[14] summarized by Arnold et al.,[15] OECD affiliated economists have determined a ranking of the most harmful taxes for economic growth. They find that corporate taxes are the

---

[10] *Id.*

[11] *See*, *e.g.*, William McBride, *Tax Freedom Day 2012*, TAX FOUNDATION SPECIAL REPORT NO. 198 (Apr. 2, 2012), http://taxfoundation.org/article/special-report-no-198-tax-freedom-day-2012.

[12] Scott Hodge & Alex Raut, *Individual tax rates also impact business activity due to high number of pass-throughs*, TAX FOUNDATION FISCAL FACT NO. 314 (June 05, 2012), http://taxfoundation.org/article/individual-tax-rates-also-impact-business-activity-due-high-number-pass-throughs.

[13] Karel Mertens & Morten Ravn, *The dynamic effects of personal and corporate income tax changes in the United States*, AMERICAN ECONOMIC REVIEW (forthcoming) (2012).

[14] Åsa Johansson, Christopher Heady, Jens Arnold, Bert Brys, Cyrille Schwellnus, & Laura Vartia, *Tax and economic growth*, OECD Economics Department Working Papers No. 620 (2008).

[15] Jens Arnold, Bert Brys, Christopher Heady, Åsa Johansson, Cyrille Schwellnus, & Laura Vartia, *Tax Policy For Economic Recovery and Growth*, 121 ECONOMIC JOURNAL F59-F80 (2011).

most harmful, followed by personal income taxes, consumption taxes, and, finally, property taxes, particularly property taxes levied on households rather than corporations. They look at twenty-one OECD countries from 1971 to 2004 and control for various factors including measures of physical and human capital accumulation, population growth, and time and country specific effects. They also control for the overall tax burden in each country as a share of GDP. This allows them to isolate the effect of different types of taxes based on the share of tax revenue that comes from each tax on a revenue- and spending-neutral basis.[16] They find that a 1 percent shift of tax revenues from income taxes (both personal and corporate) to consumption and property taxes would increase GDP per capita by between 0.25 percent and 1 percent in the long run. They also find progressivity of personal income taxes reduces economic growth.[17] The authors find further support for their results by looking at industry[18] and firm level[19] measures of investment and productivity growth. They find corporate taxes, both in terms of the statutory tax rate and depreciation allowances, reduce investment and productivity growth. They also find that raising the top marginal rate on personal income reduces productivity growth, stating that "a reduction in the top marginal [individual] tax rate is found to raise productivity in industries with potentially high rates of enterprise creation. Thus reducing top marginal tax rates may help to enhance economy-wide productivity in OECD countries with a large share of such industries…."[20] The U.S. is one such country with a large share of entrepreneurship and non-corporate businesses.[21]

Barro and Redlick construct a time series of average marginal income tax rates (AMTR) from 1912 (one year prior to the advent of the federal income tax) to 2006, including federal and state income taxes as well as the social security payroll tax on employers and employees.[22] To do this, they bring many sources of data together, including IRS data and the National Bureau of Economic Research TAXSIM program, which calculates average marginal tax rates and accounts for numerous complexities, such as the alternative minimum tax, earned income tax credit, phase outs of exemptions and deductions, and the deductibility of state income taxes.[23] They estimate the effect of annual changes in the AMTR on the following year's per capita GDP growth, controlling for changes in defense spending as well as unemployment and credit conditions. They find that a cut in the average marginal tax rate of 1 percentage point raises next year's per

---

[16] They use a Pooled Mean Group estimator, which "allows a selective treatment of variables—and of the speed of adjustment into equilibrium—with respect to whether its coefficient should be constrained to equality across all countries or left country-specific." *See* Arnold et al., *supra* note 15.

[17] Jens Arnold, *Do tax structures affect aggregate economic growth? Empirical evidence from a panel of OECD countries*, OECD Economics Department Working Papers No. 643 (2008).

[18] Laura Vartia, *How do taxes affect investment and productivity? Industry level analysis of OECD countries*, OECD Economics Department Working Papers No. 656 (2008).

[19] Cyrille Schwellnus & Jens Arnold, *Do corporate taxes reduce productivity and investment at the firm-level? Cross-country evidence from the Amadeus dataset*, OECD Economics Department Working Papers No. 641 (2008).

[20] *See* Johannson et al., *supra* note 14, at 9.

[21] *See* Hodge & Raut, *supra* note 12.

[22] Robert Barro & C.J. Redlick, *Macroeconomic Effects of Government Purchases and Taxes*, 126 QUARTERLY JOURNAL OF ECONOMICS 51-102 (2011).

[23] This is a merged series of data, which is based on adjusted gross income (AGI) until 1983 but AGI minus capital income after 1983. These are clearly two very different concepts of income, but the authors argue that average marginal tax rates based on the two measures of income are highly correlated. State marginal rates prior to 1979 are based on BEA data on per capita state personal income and a program by Jon Bakija called IncTaxCalc, which the authors suspect is less accurate but justifiable based on the fact that state income taxes are a small share of total income taxes.

capita GDP by around 0.5 percent. In terms of multipliers, the tax multiplier is -1.1 while the defense spending multiplier ranges from 0.4 to 0.8. This implies that defense spending financed by additional tax revenue reduces GDP.

Lee and Gordon look at seventy countries over the period 1980 to 1997 and find corporate taxes are robustly associated with lower economic growth, while other taxes do not have a robust statistical association.[24] In their baseline cross-sectional growth regressions, they find that a cut in the statutory corporate rate of 10 points raises annual GDP growth per capita by about 0.7 to 1.1 points. The high end of these estimates comes from the use of instrumental variables to control for reverse causality (economic growth causing changes in tax rates). The authors also estimate the effects using panel data, which includes the variation over time as well as across countries, providing many more observations. Rather than using year by year variation, the authors average over five year periods, so as to smooth out business cycle effects and account for longer term effects of the variables. For the panel data they use ordinary least squares (OLS) regression as well as a fixed effects model that controls for country-specific factors. Their results suggest that a cut in the corporate rate of 10 points would raise annual GDP growth per capita by about 0.6 to 1.8 points. Again, the high end of these estimates comes from the use of instrumental variables. Specifically, they use neighboring tax rates as an instrumental variable to control for the effect of local economic growth on local tax rates. Lee and Gordon also provide some evidence that corporate taxes reduce growth by reducing entrepreneurial activity.

Ferede and Dahlby update and confirm the results of Lee and Gordon, using data on statutory tax rates in the Canadian provinces over the period 1977 to 2006, averaging over five year periods.[25] Similar to Lee and Gordon, they find cutting the corporate rate by 10 points raises the annual per capita growth rate by 1 to 2 points. The authors note that this is a temporary boost, as their specification is based on a Neo-classical growth model which eventually returns to a steady state rate of growth determined by technological change. However, long-run output is "substantially increased." They also find no significant relationship between personal income tax rates and growth when controlling for provincial fixed effects. Non-intuitively, they find raising the sales tax rate increases growth, apparently because it tends to replace taxes on investment. While most growth studies compare countries, Ferede and Dahlby argue that subnational state comparisons make it easier to identify the effects of taxes on growth since states are more similar than nations. Canadian provinces also use similar tax bases, unlike many countries.

Finally, Gemmell et al. use a data set covering seventeen OECD countries between the early 1970s and 2004.[26] They relate economic growth to major fiscal variables, including: "distortionary" taxes, which are taxes on income and profit; "non-distortionary" taxes, which are taxes on goods and services; productive expenditures (e.g., public investments); unproductive expenditures (e.g., transfer payments); and deficits.[27]

---

[24] Young Lee & Roger Gordon, *Tax Structure and Economic Growth*, 89 JOURNAL OF PUBLIC ECONOMICS 1027-1043 (2005), http://www.aiecon.org/advanced/suggestedreadings/PDF/sug334.pdf.

[25] Ergete Ferede & Bev Dahlby, *The Impact of Tax Cuts on Economic Growth: Evidence from the Canadian Provinces*, 65 NATIONAL TAX JOURNAL 563-594 (2012).

[26] Norman Gemmell, Richard Kneller, & Ismael Sanz, *The Timing and Persistence of Fiscal Policy Impacts on Growth: Evidence from OECD Countries*, 121 ECONOMIC JOURNAL F33-F58 (2011).

[27] Like Arnold et al., they use "heterogeneous panel" econometric methods, known as Mean Group and Pooled Mean Group techniques.

They find that distortionary taxes are most damaging to economic growth over the long run, followed by deficits, and non-distortionary taxes. As they state, "distortionary and other taxes have more damaging effects on growth than deficits so that simultaneously reducing the latter and raising these taxes is bad for growth in net terms."[28] They also find that the long run adjustment to fiscal policy occurs in a relatively short period of a few years.

Conclusion

This review of empirical studies of taxes and economic growth indicates that there are not a lot of dissenting opinions coming from peer-reviewed academic journals. More and more, the consensus among experts is that taxes on corporate and personal income are particularly harmful to economic growth, with consumption and property taxes less so. This is because economic growth ultimately comes from production, innovation, and risk-taking.

This review of empirical studies also establishes some standards by which a tax system may be judged. If we apply these standards to our national tax system, the U.S. has probably the most inefficient tax mix in the developed world. We have the highest corporate tax rate in the industrialized world. If it came down 10 points—still higher than most of our trading partners—it would add 1 to 2 points to GDP growth and likely not lose tax revenue, because the tax base would expand from in-flows of foreign capital as well increased domestic investment, hiring, and work effort. The preponderance of evidence is such that virtually everyone agrees that the corporate rate should come down, although many continue to claim, opposite the evidence,[29] that such a move would lose revenue.

We are also threatened with a fiscal cliff that would give us the highest dividend rate and nearly the highest capital gains rate in the industrialized world. Most studies do not look separately at shareholder taxes, due to the fact that they raise relatively little revenue and many countries have no such taxes.[30] However, shareholder taxes represent additional, double taxes on corporate income and therefore have the same type of detrimental effects on investment and economic growth that are now widely attributed to corporate taxes.

The fiscal cliff would also push the top marginal rate on personal income to over 50 percent in some states, such as California, Hawaii, and New York—higher than all but a few of our trading partners.[31] We already have the most progressive tax system in the industrialized world, according to the OECD, and this would make it more so. The OECD finds such steeply progressive taxation reduces productivity and economic growth.[32] Further, the U.S. is unique in that a majority of businesses and business income are taxed under these progressive individual rates, businesses such as sole-proprietorships, partnerships, and S corporations.[33]

---

[28] *Id.*
[29] *See* Mertens & Ravn, *supra* note 13.
[30] Robert Carroll and Gerald Prante, *Corporate Dividend and Capital Gains Taxation: A Comparison of the United States to other Developed Nations*, Ernst & Young, February 2012.
http://www.theasi.org/assets/EY_ASI_Dividend_and_Capital_Gains_International_Comparison_Report_2012-02-03.pdf
[31] Gerald Prante & Austin John, *Top marginal effective tax rates by state and by source of income, 2012 tax law vs. 2013 scheduled tax law*, Working Paper, Nov. 15, 2012, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2176526.
[32] *See* Arnold et al., *supra* note 15.
[33] *See* Hodge & Raut, *supra* note 12.

One study finds that increasing the average income tax rate by 1 percentage point reduces real GDP per capita by 1.4 percent in the first quarter and by up to 1.8 percent after three quarters.[34]

In sum, the U.S. tax system is a drag on the economy. Pro-growth tax reform that reduces the burden of corporate and personal income taxes would generate a more robust economic recovery and put the U.S. on a higher growth trajectory, with more investment, more employment, higher wages, and a higher standard of living.

Table 1: Empirical Studies on the Effects of Taxes on Economic Growth

	Reference	Method/Data	Effects	Summary of Findings
1	Ergete Ferede & Bev Dahlby, *The Impact of Tax Cuts on Economic Growth: Evidence from the Canadian Provinces*, 65 National Tax Journal 563-594 (2012).	Canadian provinces (1977-2006)	Negative	Reducing corporate income tax 1 percentage point raises annual growth by 0.1 to 0.2 points.
2	Karel Mertens & Morten Ravn, *The dynamic effects of personal and corporate income tax changes in the United States*, AMERICAN ECONOMIC REVIEW (forthcoming) (2012).	U.S. Post-WWII exogenous changes in personal and corporate income taxes	Negative	A 1 percentage point cut in the average personal income tax rate raises real GDP per capita by 1.4 percent in the first quarter and by up to 1.8 percent after three quarters. A 1 percentage point cut in the average corporate income tax rate raises real GDP per capita by 0.4 percent in the first quarter and by 0.6 percent after one year.
3	Norman Gemmell, Richard Kneller, & Ismael Sanz, *The Timing and Persistence of Fiscal Policy Impacts on Growth: Evidence from OECD Countries*, 121 ECONOMIC JOURNAL F33-F58 (2011).	17 OECD countries (Early 1970s to 2004)	Negative	Taxes on income and profit are most damaging to economic growth over the long run, followed by deficits, and then consumption taxes.
4	Jens Arnold, Bert Brys, Christopher Heady, Åsa Johansson, Cyrille Schwellnus, & Laura Vartia, *Tax Policy For Economic Recovery and Growth*, 121 Economic Journal F59-F80 (2011).	21 OECD countries (1971 to 2004)	Negative	Corporate taxes most harmful, followed by taxes on personal income, consumption, and property. Progressivity of PIT harms growth. A 1 percent shift of tax revenues from income taxes (both personal and corporate) to consumption and property taxes would increase GDP per capita by between 0.25 percent and 1 percent in the long run. Corporate taxes, both in terms of the statutory rate and depreciation allowances, reduce investment and productivity growth. Raising the top marginal rate on personal income reduces productivity growth.
5	Robert Barro & C.J. Redlick, *Macroeconomic Effects of Government Purchases and Taxes*, 126 Quarterly Journal of Economics 51-102 (2011).	U.S (1912 to 2006)	Negative	Cut in the average marginal tax rate of one percentage point raises next year's per capita GDP by around 0.5%.
6	Christina Romer & David Romer, *The macroeconomic effects of tax changes: estimates based on a new measure of fiscal shocks*, 100 American Economic Review 763-801 (2010).	U.S. Post-WWII (104 tax changes, 65 exogenous)	Negative	Tax (federal revenue) increase of 1% of GDP leads to a fall in output of 3% after about 2 years, mostly through negative effects on investment.

[34] *See* Mertens & Ravn, *supra* note 13.

PDF-XChange Viewer Click to buy NOW! www.docu-track.com

7	Alberto Alesina & Silvia Ardagna, *Large changes in fiscal policy: taxes versus spending, in* Tax Policy and the Economy, Vol. 24 (Univ. of Chicago Press, 2010).	OECD countries (fiscal stimuli and fiscal adjustments, 1970 to 2007)	Negative	Fiscal stimuli based upon tax cuts more likely to increase growth than those based upon spending increases. Fiscal consolidations based upon spending cuts and no tax increases are more likely to succeed at reducing deficits and debt and less likely to create recessions.
8	International Monetary Fund, *Will it hurt? Macroeconomic effects of fiscal consolidation, in* World Economic Outlook: Recovery, Risk, and Rebalancing (2010).	15 advanced countries (170 fiscal consolidations over the last 30 years)	Negative	1% tax increase reduces GDP by 1.3% after two years.
9	Robert Reed, *The robust relationship between taxes and U.S. state income growth*, 61 National Tax Journal 57-80 (2008).	U.S. states (1970-1999, 5 year panels)	Negative	Robust negative effect of state and local tax burden. Multi-year panels mitigate misspecified lag effects, serial correlation, and measurement error.
10	N. Bania, J. A. Gray, & J. A. Stone, *Growth, taxes, and government expenditures: growth hills for U.S. states*, 60 National Tax Journal 193-204 (2007).	U.S. states	Negative	Taxes directed towards public investments first add then subtract from GDP.
11	Young Lee & Roger Gordon, *Tax Structure and Economic Growth*, 89 Journal of Public Economics 1027-1043 (2005).	70 countries (1980 - 1997, cross-sectional and 5 year panels)	Negative	Reducing corporate income tax 1 percentage point raises annual growth by 0.1 to 0.2 points.
12	Randall Holcombe & Donald Lacombe, *The effect of state income taxation on per capita income growth*, 32 Public Finance Review 292-312 (2004).	Counties separated by state borders (1960 to 1990)	Negative	States that raised income taxes averaged a 3.4% reduction in per capita income.
13	Marc Tomljanovich, *The role of state fiscal policy in state economic growth*, 22 Contemporary Economic Policy 318-330 (2004).	U.S. states (1972 to 1998, multi-year panels)	Negative	Higher tax rates negatively affect short run growth, but not long run growth.
14	Olivier Blanchard & Robert Perotti, *An Empirical Characterization Of The Dynamic Effects Of Changes In Government Spending And Taxes On Output*, 107 Quarterly Journal of Economics 1329-1368 (2002).	U.S. Post-WWII (VAR/event study)	Negative	Positive tax shocks, or unexpected increases in total revenue, negatively affect private investment and GDP.
15	F. Padovano & E. Galli, E., *Tax rates and economic growth in the OECD countries (1950-1990)*, 39 Economic Inquiry 44-57 (2001).	23 OECD countries (1951 to 1990)	Negative	Effective marginal income tax rates negatively correlated with GDP growth.
16	Stefan Folster & Magnus Henrekson, *Growth effects of government expenditure and taxation in rich countries*, 45 European Economic Review 1501-1520 (2001).	Rich countries (1970 to 1995)	Negative	Tax revenue as a share of GDP negatively correlated with GDP growth.
17	M. Bleaney, N. Gemmell & R. Kneller, *Testing the endogenous growth model: public expenditure, taxation, and growth over the long run*, 34 Canadian Journal of Economics 36-57 (2001).	OECD countries (1970 to 1995)	Negative	Distortionary taxes reduce GDP growth. Consumption taxes are not distortionary.
18	R. Kneller, M. Bleaney & N. Gemmell, *Fiscal Policy and Growth: Evidence from OECD Countries*, 74 Journal of Public Economics 171-190 (1999).	OECD countries (1970 to 1995)	Negative	Distortionary taxes reduce GDP growth.

19	Howard Chernick, *Tax progressivity and state economic performance*, 11 ECONOMIC DEVELOPMENT QUARTERLY 249-267 (1997).	U.S. states (1977 to 1993)	Negative	Progressivity of income taxes negatively affects GDP growth.
20	Enrique Mendoza, G. Milesi-Ferretti, & P. Asea, *On the Effectiveness of Tax Policy in Altering Long-Run Growth: Harberger's Superneutrality Conjecture*, 66 JOURNAL OF PUBLIC ECONOMICS 99-126 (1997).	18 OECD countries (1965-1991, 5 year panels)	None	Estimated effective tax rates on labor and capital harm investment, but effect on growth is insignificant. Effective consumption taxes increase investment, but not growth. Overall tax burden levels have no effect on investment or growth.
21	Stephen Miller & Frank Russek, *Fiscal structures and economic growth: international evidence*, 35 ECONOMIC INQUIRY 603-613 (1997).	Developed and developing countries	Negative	Tax-financed spending reduces growth in developed countries, increases growth in developing countries.
22	John Mullen & Martin Williams, *Marginal tax rates and state economic growth*, 24 REGIONAL SCIENCE AND URBAN ECONOMICS 687-705 (1994).	U.S. states (1969 to 1986)	Negative	Higher marginal tax rates reduce GDP growth.
23	William Easterly & S. Rebelo, *Fiscal Policy and Economic Growth: An Empirical Investigation*, 32 JOURNAL OF MONETARY ECONOMICS 417-458 (1993).	Developed and developing countries	None	Effects of taxation difficult to isolate empirically.
24	Reinhard Koester & Roger Kormendi, *Taxation, Aggregate Activity and Economic Growth: Cross-Country Evidence on Some Supply-Side Hypotheses*, 27 Economic Inquiry 367-86 (1989).	63 countries	Negative	Controlling for average tax rates, increases in marginal tax rates reduce economic activity. Progressivity reduces growth.
25	Jay Helms, *The effect of state and local taxes on economic growth: a time series-cross section approach*, 67 REVIEW OF ECONOMICS AND STATISTICS 574-582 (1985).	U.S. states (1965 to 1979)	Negative	Revenue used to fund transfer payments retards growth.
26	Claudio J. Katz, Vincent A. Mahler & Michael G. Franz, *The impact of taxes on growth and distribution in developed capitalist countries: a cross-national study*, 77 AMERICAN POLITICAL SCIENCE REVIEW 871-886 (1983).	22 developed countries	None	Taxes reduce saving but not growth or investment.

National Press Building
529 14th Street N.W., Suite 420
Washington, DC 20045

202.464.6200
www.TaxFoundation.org

About the Tax Foundation
The Tax Foundation is a 501(c)(3) non-partisan, non-profit research institution founded in 1937 to educate the public on tax policy. Based in Washington, D.C., our economic and policy analysis is guided by the principles of sound tax policy: simplicity, neutrality, transparency, and stability.

DEMOCRATIC PARTY OF HAWAI'I

COMMITTEE ON FINANCE

Wednesday, February 18, 2015

HB 886, RELATING TO TAXATION.

Testifying in STRONG SUPPORT, WITH AMENDMENTS

Good afternoon, Chair Luke, Vice Chair Nishimoto and Members of the Committee,

The Democratic Party of Hawaii STRONGLY SUPPORTS HB 886, but offers some comments and an amendment.

We support raising both the Renter and the Food Excise Tax Credits at least enough to restore the value which has been lost to inflation while the legislature has neglected to protect those credits against inflation. HB 886 does not specify the amounts, but we would argue for at least $150 on the renter's credit and $100 for the food credit.

HB 886 proposes extending the increased marginal tax rates on wealthy earners for two years. We have attached to this testimony a chart from ITEP which shows at a glance how unfair our tax system currently is towards low and middle income Hawaii residents. We believe a tax cut which would only go to the wealthiest residents will only increase the unfairness of the system and propose those higher marginal rates be made permanent.

Already we have heard some legislators say there is no money available to pay for increasing the renter and food tax credits. By retaining the higher marginal rates, this bill would be able to pay for those credits and make the system somewhat more fair.

In addition, HB 866 proposes a study to recommend how to make our tax system more progressive, while maintaining the revenue flow necessary to meet our expenses. We strongly support such a study. In a resolution adopted at our last state convention, the Democratic Party of Hawaiʻi re-iterated our commitment to "re-balancing our tax structure to ensure lower income residents pay a lower tax rate than higher income residents.

In addition, the Hawaii Appleseed Center has made numerous recommendations on how to shift the tax burden from low and middle income residents, but has difficulty getting a full airing for their proposals, much less get them passed as legislation. We hope this study, if undertaken, will take seriously proposals such as theirs.

Thank you for this opportunity to testify.

The Legislation Committee of the Democratic Party of Hawaii

ATTACHMENTS (2)

PDF-XChange Viewer Click to buy NOW! www.docu-track.com

GOV 2014-02 **Support for a Progressive Tax Structure, Reducing Taxes for Low-Income Residents**

Whereas, The effective tax rate paid by low-income Hawaiʻi residents is about 13% of their income, while the effective tax rate paid by the wealthiest Hawaiʻi residents, after deductions and reduced rates for capital gains, averages about 8%; and

Whereas, The tax rates for low-income Hawaiʻi residents are among the highest in the country and our State income tax laws impose tax liabilities starting at a very low adjusted income; and

Whereas, This imbalance in tax rates, whereby low income residents pay a higher rate than wealthier residents, violates basic tax fairness, which should be reflect the ability to pay; and

Whereas, The tax credit for low-income renters has not been adjusted since 1981; and

Whereas, The tax credit to offset the impact of the General Excise Tax (GET) on Hawaiʻi residents has not been adjusted since 2007, despite inflation; and

Whereas, Other changes to the tax structure can help reduce poverty and shield low-income families and individuals from taxes when they are already struggling to survive; now, therefore, be it

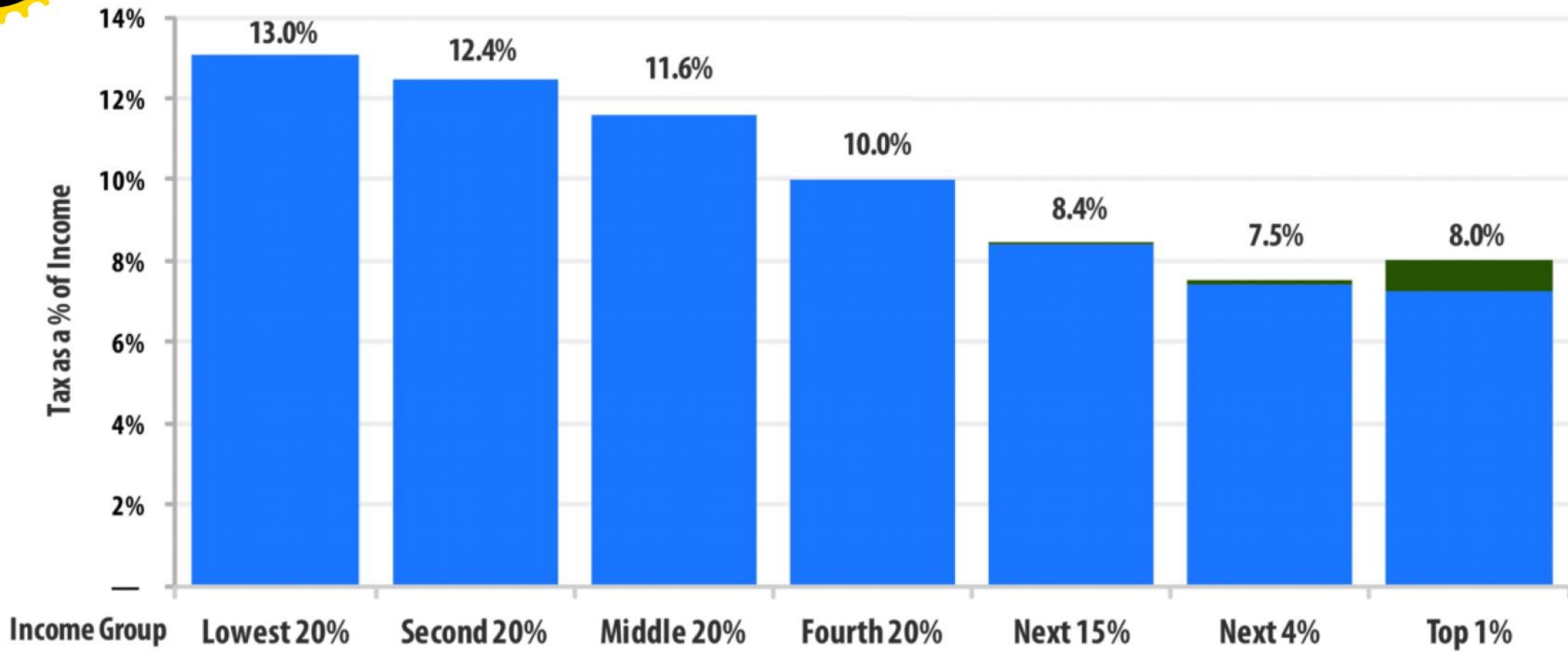
Resolved, The Democratic Party of Hawaiʻi declares its support for the principle of progressive taxation, and commits to re-balancing our tax structure to ensure lower income residents pay a lower tax rate than higher income residents; and be it

Resolved, The Democratic Party of Hawaiʻi urges our legislators to make adjustments to our tax system including an update to tax credits affecting low and middle income residents, specifically including the low-income renter tax credit and the Food/Excise Tax credit; and be it

Ordered, That copies of the resolution be transmitted to Governor of Hawaiʻi and the Democratic members of the Hawaiʻi State Legislature.

Hawaii State & Local Taxes

Shares of family income for non-elderly taxpayers



Source: Institute on Taxation and Economic Policy www.WhoPays.org

This chart shows, at a glance, how unfair Hawaii's current tax structure is. The poorest 20% of residents pay about 13% of their income in state and county taxes, middle income residents pay about 11.6%, but the wealthiest pay only 8%.

To make things worse, the green segment atop the right column shows a tax cut which will only go to the richest residents. It will take effect on December 31, 2015, unless the legislature votes to cancel it.

Your legislator gets to CHOOSE, this session, whether to spend $48 Million to give the rich a tax cut or whether the tax code should be made more fair, with low and middle income residents getting tax relief through increased credits on food and rent and other proposals.

49 South Hotel Street, Room 314 | Honolulu, HI 96813
www.lwv-hawaii.com | **808.531.7448** | **voters@lwvhawaii.com**

COMMITTEE ON FINANCE

Wednesday, February 18, 2015, Room 308
HB886 RELATING TO TAXATION

TESTIMONY
Beppie Shapiro, League of Women Voters of Hawaii

Chair Luke, Vice-Chair Nishimoto, and Committee Members:

The League of Women Voters of Hawaii supports HB886 with some suggested modifications. In order to reduce income inequality and reduce the tax burden on working families living at or below the poverty line, HB886 would extend higher earner income tax brackets by two years, and would revise the income tax renter and food/excise credits for low income individuals.

The introduction to this bill clearly states the rationale for its proposals. The League would like however to add to this rationale, some considerations of the impact of poverty on families.

Poverty at the level eligible for the current rental tax credits (i.e. just above the 2015 Federal Poverty Limit for a family of 4 ($27,890) and food/excise tax credits has destructive effects on the health of individuals, and of neighborhoods; it is particularly destructive for children. In 2012 20% or 2,000 of Hawai'i's children under age six lived in low-income working families.[1] Eight percent, or 25,000 children under age 18 across the country lived in extreme poverty – less than half the Federal Poverty Level (FPL). [2] Research on early childhood development shows that income insecurity negatively affects brain development – making it more difficult to form positive relationships, to learn, and to control debilitating stress. Providing a little financial relief to very poor families will help ameliorate these problems: a small increase in income has been found to raise childrens' school achievement[3] and to increase their later earnings[4].

Given the dramatic increase in rent rates over the past decade, and in order to address the impact of inflation on incomes (last set in 1989) and credit amounts (unchanged since 1991) we strongly urge the Committee to increase the former to at least $60,000 and the rental credit amount to at least $150 per exemption.

Similarly for the Food/Excise Tax Credit, income levels and credit amounts need to be raised just to keep up with inflation since these levels were set in 2007.

---

49 South Hotel Street, Room 314 | Honolulu, HI 96813
www.lwv-hawaii.com | 808.531.7448 | voters@lwvhawaii.com

A highly desirable addition to this measure would be to calculate annual increases in these income levels and credits, tied to any increases in the median income in Hawaii and the CPI for Hawaii, respectively.

The extra money families would have if SB556 is enacted would surely be spent immediately on basic necessities of life, thus adding economic activity to the State and its businesses.

We are also pleased to see the Legislature requiring an evaluation by the Tax Commission, on the best ways to reduce income inequality in Hawai`i.

We urge you to pass this bill with the addition of the suggested modifications. Thank you for the opportunity to submit testimony.

[1] Population Reference Bureau, analysis of data from the U.S. Census Bureau, 2008 - 2012 American Community Survey.
[2] Annie E Casey Foundation, National Kids Count. Retrieved from http://datacenter.kidscount.org/data/tables/45-children-in-extreme-poverty?loc=13&loct=2#detailed/2/any/false/868,867,133,38,35,13/any/325,326 on 3/15/2014.

[3] Greg J. Duncan, Pamela Morris, and Christopher Rodrigues, "Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement with Data from RandomAssignment Experiments,"Developmental†Psychology, Volume 47, Issue 5, September 2011, pp.12631279; also Kevin Milligan and Mark Stabile, "Do Child Tax Benefits Affect the Wellbeing of Children? Evidence from Canadian Child Benefit Expansions," National Bureau of Economic Research, December 2008; and Gordon Dahl and Lance Lochner, "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit," National Bureau of Economic Research¨ December 2008.

[4] See Greg J. Duncan, Ariel Kalil, and Kathleen M. ZiolGuest, "EarlyChildhood Poverty and Adult Attainment, Behavior and Health," Child Development¨January/February 2010, pp. 306-325.

February 13, 2015

Chair Luke and Finance Committee

Re: HB 886 Relating to Taxation
Hearing on Feb. 18, 2105

Dear Rep. Luke and Committee Members:

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

We support HB 886 to repeal a tax break for top income tax payers. The top tax payers in Hawai'i pay less already than those in the bottom half. This is not just. We need to raise the taxes on top brackets so we can afford to pay for tax cuts to those in poverty. The principle of taxation based on ability to pay has been a key component of tax logic for the last century. Such a principle would demand that we adjust our tax brackets. This bill is a start.

Thank you for your consideration.

Sincerely,

John Bickel
President

Hawai‘i Association of REALTORS®
www.hawaiirealtors.com
808-733-7060
808-737-4977
1259 A‘ala Street, Suite 30
Honolulu, HI 96817

February 18, 2015

The Honorable Sylvia Luke, Chair
House Committee on Finance
State Capitol, Room 308
Honolulu, Hawaii 96813

RE: H.B. 886, Relating to Taxation

HEARING: Wednesday, February 18, 2015, at 2:00 p.m.

Aloha Chair Luke, Vice Chair Nishimoto, and Members of the Committee.

I am Myoung Oh, Director of Government Affairs, here to testify on behalf of the Hawai‘i Association of REALTORS® ("HAR"), the voice of real estate in Hawai‘i, and its 8,400 members. HAR **opposes** H.B. 886, which extends the income tax brackets established pursuant to Act 60, Session Laws of Hawai‘i 2009, by an additional two years. The tax bracket is extended for singles earning $150,000 or more per year and couples earning $300,000 and above at 9 percent. The 10 percent rate is paid by singles making $175,000 or more, or couples earning $350,000 or above. The highest 11 percent tax rate is paid by singles earning $200,000 or more, or $400,000 for a couple filing jointly.

In 2009, Act 60 passed when the economy was in a recession with the measure set to sunset on December 31, 2015. This led Hawaii to have the second highest personal income tax system in the nation with a top rate of 11 percent. HAR believes that now with the economy rebounding, it is prudent to return the income tax rate to its pre-recession level.

HAR believes that any additional individual taxes will result in less money being circulated into the economy. Furthermore, these funds could instead be used to provide small businesses with funds to invest in and improve their companies, such as hiring of new workers, or charitable donations that enable many non-pr0fit agencies to operate.

For the foregoing reasons, HAR opposes this measure.

Mahalo for the opportunity to testify.

Homeless

PARTNERS IN CARE

Oahu Continuum of Care

Partners in Care is a coalition of Oahu's homeless service providers, government representatives and community stakeholders working together in partnership to end homelessness.

TESTIMONY IN SUPPORT OF HB 886 RELATING TO TAXATION

TO: Representative Sylvia Luke, Chair; Representative Scott Nishimoto, Vice Chair; and members of the House Committee on Finances
FROM: Betty Lou Larson, Advocacy Committee, Partners in Care
Hearing: Wednesday, February 18, 2015, 2:00 PM, Room 308

Dear Chair Luke, Vice Chair Nishimoto, and members of the committee:

Thank you for the opportunity to provide testimony **in strong support** of HB 886's provisions to increase the low-income household renters credit and food/excise tax credit. I am Betty Lou Larson from the Advocacy Committee of Partners in Care. We support this policy to increase the financial stability of low-income people and help them remain securely housed.

It is no coincidence that Hawaii has both the highest cost of living (including the highest cost of food and housing) and the highest rate of homelessness among the states. Four out of five extremely low-income households are paying more than *half* of their income toward housing. Low-income families struggle just to pay for basic necessities, with virtually none left over to save for a rainy day.

Increasing the refundable renters credit and food/excise tax credit is one tool to help prevent homelessness and keep families securely housed. Our providers have found that for many families who are living paycheck to paycheck, a small crisis such as a car breakdown can be the precipitating event for homelessness. Thirty percent of Hawaii's residents live in liquid asset poverty, meaning that if they were to lose their income, they would have insufficient liquid assets to survive at the poverty level for 3 months, putting them at severe risk of homelessness. Increasing these credits will help provide a buffer for these families.

The renters credit has not been adjusted for inflation since the 1980s, let alone for the staggering increases in rent. Updating the renters credit will help families afford housing and also provide some relief for the regressive burden of the General Excise Tax and property taxes levied on low-income households. We support an increase of the **renters credit to $150 per qualified exemption for households earning up to $60,000**, which would account for inflation since the credit was last set in the 1980s. We also support an **increase in the food/excise tax credit**, which has not been adjusted since its creation in 2007, and respectfully suggest the **amounts proposed in HB 57**. Increasing these credits will make a meaningful difference for low and moderate income households, helping them make ends meet, save for emergencies, and avoid homelessness. We also support indexing the credit to the rate of inflation to preserve the value of the credit in future years.

We should do all we can to make sure that families at risk of homelessness stay housed. Again, thank you for the opportunity for Partners in Care to testify in **strong support** of HB 886. Please contact me at (808) 373-0356 or bettylou.larson@catholiccharitieshawaii.org if you have any questions.

PDF-XChange Viewer Click to buy NOW! www.docu-track.com

CATHOLIC CHARITIES HAWAI‘I

TESTIMONY IN SUPPORT OF HB 886: RELATING TO TAXATION

TO: Representative Sylvia Luke, Chair, Representative Scott Nishimoto, Vice Chair and Members, Committee on Finance

FROM: Trisha Kajimura, Social Policy Director, Catholic Charities Hawai‘i

Hearing: Wednesday, 2/18/15, 2:00 pm; Conference Room 308

Thank you for the opportunity to testify **in support of HB 886**, which extends the high-earner income tax brackets established pursuant to Act 60, Session Laws of Hawaii 2009 by an additional two years. Raises the income tax credit for low-income household renters and the food/excise tax credit. This bill works towards remedying the regressiveness of Hawai‘i's
state tax system.

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[1] and food costs for a family of four at 68% more than the mainland[2], 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.

The original intent of the low-income household renters' credit was to reduce the disproportionate share of taxes paid by low and moderate-income households. However, the credit value has not been updated since 1981 and the eligibility cutoff has not been updated since 1989. So the current tax credit, when adjusted for inflation, is worth less than forty percent of its original value. On the other hand, average rents in Hawai‘i have increased by well beyond the rate of inflation. The need and justification for this tax credit has increased while the value of the existing credit has decreased.

<u>Catholic Charities Hawai‘i's position is that the amount of the credit should be adjusted to $150 per exemption and the income threshold should also be raised accordingly (to $60,000) since those amounts have not been updated since the 1980s.</u> Inflation and the cost of living as well as rents have significantly devalued the credit. We also recommend tying the amount of the credit to the Consumer Price Index for future increases. This is a fair method of keeping the credit current.

<u>Likewise, for the food/excise tax credit, when adjusted for inflation, its maximum income threshold should be increased from $50,000 to $57,000 and its maximum credit per exemption should be increased from $85 to $100, with incremental increases at each level</u>. Future adjustments for this tax credit should also be tied to the Consumer Price Index to keep it current.

Thank you for your support. 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.

HAWAI'I APPLESEED CENTER
LAW AND ECONOMIC JUSTICE

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice
Supporting HB 886 Relating to Taxation
House Committee on Finance
Scheduled for Hearing Wednesday February 18, 2015, 2:00 pm, Room 308

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. 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 886 Relating to Taxation, which would increase the low-income household renters credit value and food/excise tax credit value to unspecified amounts. It would also extend the high-earner income tax brackets by two years and call upon the Tax Review Commission to address income inequality in its evaluation of state revenue and tax policy.

Hawai‘i is the most expensive state 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 figures in the cost of living as well as available government assistance. Even our moderate-income families struggle to make ends meet. At the same time, the State of Hawai‘i imposes the second highest tax burden in the country on our low-income households, and even taxes working poor families deeper into poverty—even those with children.

Hawai‘i Appleseed offers the following testimony in support, along with proposed amendments:

Low-Income Household Renters Credit (Section 2)

Renters in Hawai‘i face a staggering housing cost burden. More than 40 percent of our households rent, and over half of them are cost-burdened, meaning they pay more than 30 percent of their income toward rent (the standard definition of housing affordability). This is no surprise, as the fair market rent for a two-bedroom unit in Hawai‘i is $1,640. A full-time worker would need to earn $31.54 per hour for this rent to be affordable. Yet the mean wage for a renter is just $13.86. The lowest-income households face a crushing cost burden: 78 percent are paying more than *half* of their income in rent. Many moderate-income households also struggle, with 63 percent of households earning 51−80% of the area median income facing a housing cost burden; these households are generally ineligible for public assistance. These housing cost burdens leave families with precious little left over to make ends meet, let alone build assets or save for a down payment to buy a home.

At the same time, Hawai‘i's regressive tax structure makes it even harder for families to afford housing. The refundable low income household renters credit was intended to provide meaningful, targeted tax relief to struggling renters. This credit promotes fairness: renters, who are disproportionately low-income, do not benefit from tax breaks such as the mortgage interest and property tax deductions, which are available only to homeowners. While property owners are legally responsible for paying the GET on their rental income, as well as taxes on their property, they pass along these costs in the rent. Assuming this practice, around $60

Click to buy NOW! PDF-XChange Viewer www.docu-track.com

out of a tenant's $1,500 rent payment would go to cover the GET owed on the landlord's rental income. This credit partially compensates renters for these taxes.

Hawai'i Appleseed suggests **increasing the renters credit value to $150** per qualified exemption, which would account for inflation since the credit value was last set in 1981. Today, the buying power of the credit is just $19.20. During this same period, rents have skyrocketed by almost 70 percent in real dollars. We also respectfully propose an **amendment to increase the income eligibility limit to $60,000** to account for inflation since 1989, when the limit was last increased. $30,000 in 1989 is equivalent to just $15,714 today—below the poverty level for a household of two.

We also encourage the committee to consider an **amendment to calibrate the income limits for the renters credit based on household composition** to target the families most in need while controlling costs to the state. The income eligibility limit could also be incrementally increased to take into account income relative to the number of children, similar to the structure of the federal earned income tax credit. For example:

Household Composition	Income Eligibility Limit
Single, no children	$30,000
Single, 1 child	$35,000
Single, 2 children	$40,000
[…]	[. . .]
Married, no children	$60,000
Married, 1 child	$65,000
Married, 2 children	$70,000
[. . .]	[. . .]

Food/Excise Tax Credit (Section 3)

We also support an **increase in the food/excise tax credit** as follows, along with an **amendment to increase the income eligibility limits**. We propose the following amounts, which would account for inflation since the credit was created in 2007:

Adjusted Gross Income	Credit per Exemption
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 both the food/excise and renters tax credits, we respectfully propose an **amendment to automatically increase the credit values and income limits in accordance with any increases in the Consumer Price Index**.

Extend High-Earner Income Tax Brackets (Section 4)

Hawai'i's low-income residents face the second highest state and local tax burden in the country, bearing the brunt of our regressive tax structure. If we allow the 2009 high-income tax brackets to expire, the state's most affluent residents will benefit from an overall effective tax rate that is lower than that of any other income group in the state, further exacerbating the regressivity of our tax structure. Our tax structure is already heavily regressive, with the lowest income households paying over 13 cents per dollar of income toward state and local taxes and the wealthiest paying just 7 cents. The General Excise Tax is the biggest contributor to this regressivity. It hits low-income households the hardest because they must spend nearly all of their income on necessities, including rent and food, which are subject to the GET. Revenues resulting from the extension of the high-earner income tax brackets can be used to fund the credit increases proposed in this bill, helping ensure that households are taxed based on what they can afford to pay.

Tax Review Commission and Income Inequality (Section 5)

There is a growing recognition that income inequality has a deeply damaging impact on our economy and community at large. Hawai'i is not immune to this problem, with multiple indicators demonstrating inequality in wealth, income, and income growth. According to the Economic Policy Institute's 2014 report, The Increasingly Unequal States of America, the income of the top one percent was 12 times higher than that of the bottom 99 percent in 2011. This disparity is unsurprising, as the top one percent captured 70 percent of all income growth from 1979 to 2007. This is the same income group that will be paying the *lowest effective tax rate* in Hawai'i.

The Tax Review Commission's mission is to "conduct a systematic review of Hawai'i's tax structure, using standards such as equity and efficiency." Income inequality and the role of the state tax structure should be a fundamental part of this review. The measures in this bill are straightforward, immediate steps that will chip away at the problems created by income inequality, but there are a number of other options, such as the creation of a state earned income tax credit, that warrant full consideration. Income inequality's inclusion in the Tax Review Commission's review would provide much-needed information to develop an economic system where all residents have the opportunity for financial self-sufficiency.

Again, thank you for the opportunity to testify in **strong support** of HB 886, which would take concrete steps that provide tax relief for low and moderate-income households, reduce the regressivity of Hawai'i's tax structure, and make income inequality a fundamental component of how our state looks at taxation and revenues.

Click to buy NOW! PDF-XChange Viewer www.docu-track.com

HPCA
HAWAI'I PRIMARY CARE ASSOCIATION

House Committee on Finance
The Hon. Sylvia Luke, Chair
The Hon. Scott Y. Nishimoto, Vice Chair

Testimony on House Bill 886

Relating to Income Taxation
Submitted by Nani Medeiros, Public Affairs and Policy Director
February 18, 2015, 2:00 pm, Room 308

The Hawaii Primary Care Association (HPCA), which represents the federally qualified community health centers in Hawaii, supports House Bill 886, amending income tax credits for low-income households.

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.

Seventy-three percent of the patients seen by community health centers live below one hundred percent of the federal poverty limit. This living situation has been shown to manifest in poorer health outcomes, often as a direct result the social determinants associated therein, such as lack of adequate housing or access to fresh produce. For these reasons, the HPCA supports mitigating the tax burden felt by low-income families.

Thank you for the opportunity to testify.

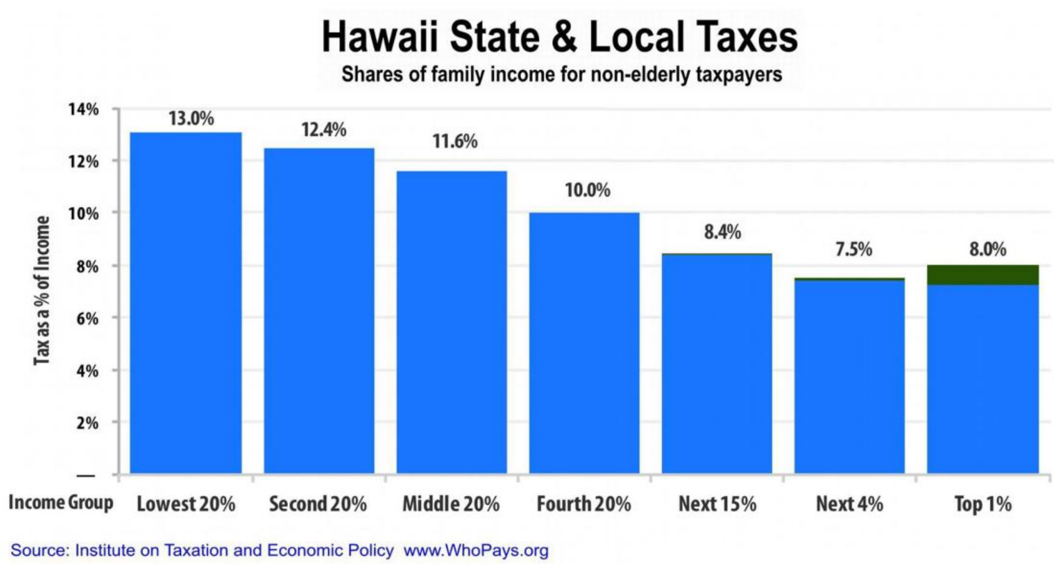
46-063 Emepela Pl. #U101 Kaneohe, HI 96744 · (808) 679-7454 · Kris Coffield · Co-founder/Executive Director

TESTIMONY FOR HOUSE BILL 886, RELATING TO TAXATION

House Committee on Finance
Hon. Sylvia Luke, Chair
Hon. Scott Y. Nishimoto, Vice Chair

Wednesday, February 18, 2015, 2:00 PM
State Capitol, Conference Room 308

Honorable Chair Luke and committee members:



This chart shows, at a glance, how unfair Hawaii's current tax structure is. The poorest 20% of residents pay about 13% of their income in state and county taxes, middle income residents pay about 11.6%, but the wealthiest pay only 8%.

To make things worse, the green segment atop the right column shows a tax cut which will only go to the richest residents. It will take effect on December 31, 2015, unless the legislature votes to cancel it.

Your legislator gets to CHOOSE, this session, whether to spend $48 Million to give the rich a tax cut or whether the tax code should be made more fair, with low and middle income residents getting tax relief through increased credits on food and rent and other proposals.

I am Kris Coffield, representing the IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 300 local members. On behalf of our members, we offer this testimony <u>in support of, with proposed amendments for</u> HB 886, relating to taxation.

Economic equality must be one of our state's highest priorities. Currently, our state's most vulnerable residents pay 13 percent of their income in taxes, while our state's wealthiest individuals pay only 8 percent. On December 31, 2015, that gap will become even greater unless lawmakers take action this year. We have a choice: should we spend $48 million–the approximate value of the high-income tax cut–on lining the pockets of the rich or spend that money helping the poor?

We are especially interested in this measure's increase of the low-income renter's credit. Hawaii's rising cost of living disproportionately impacts low- and moderate-income renters. Today, our state's cost of living is almost 160 percent of the national average, with 78 percent of low-income residents spending more than half of their income on rent. Median rent in Hawai'i increased by 45 percent from 2005 to 2012, approximately three times the rate of inflation during the same period. Moreover, as the Hawaii Appleseed Center for Law and Economic Justice notes, more than 40 percent of our households are renters, over half of whom pay more than 30 percent of their income toward rent. renter households do not benefit from federal or state tax benefits available to homeowners, including mortgage interest deductions or real estate tax home deductions, nor are they able to build home equity. Instead, landlords pass along costs from general excise and property taxes to renters at a rate of $60 per $1,500 in rental costs, exacerbating poor families' financial plight.

Hawai'i's working poor pay higher tax bills than those in all but three other states and the tax rate for low- and moderate-income households is among the highest in the nation. Our poorest taxpayers, or those who earn less than $17,000 per year, pay, on average, approximately 13 percent of their income in state and local taxes, while those earning more than $326,000 pay closer to 8 percent (notably, the average income for residents in the former group is $9,800, while the average income for residents in the latter category is $698,600). In turn, inadequate tax credits and exemptions lead to personal income taxes pushing low-income working families deeper into poverty and debt (see Institute on Taxation and Economic Policy chart above, "Who Pays? A Distribution Analysis of the Tax Systems in All 50 States, 4th Edition, 2013).

Again following HACLEJ, we note that the low income household renters credit was created in 1977 to offset the high cost of housing in Hawai'i. The credit currently provides a $50 per qualified exemption for households with an adjusted gross income of less than $30,000 who paid more than $1,000 a year in rent. The value of the credit has not been updated since 1981, however, and income thresholds have not been adjusted since 1989. Over that time, the rate of inflation has increased by 156 percent. The proposed changes to the LIHR envisioned by this bill will help renters catch up to two decades' worth of inflationary damage by increasing the maximum value of the credit per qualified household exemption (hopefully, to at least $150 dollars to fully catch up with post-1981 inflation).

Additionally, this measure raises the refundable food/excise credit. Groceries in Hawai'i cost 58 percent more than they do on the mainland, with ITEP ranking our state the second worst state in the country for taxing low-income residents. Our general excise tax regressively impacts impoverished residents by creating a "pyramiding" effect that increases the cost of goods and services, resulting from the GET's application to both retail and wholesale transactions.

That said, we encourage you to increase the income threshold for the renter's tax credit to $60,000 to broaden the applicability to as many struggling residents as possible. We also urge your committee to tie future increases in both the renter's credit and refundable food/excise credit to the consumer price index to ensure that they do not lose ground moving forward. Finally, we invite you to permanently repeal the high-income tax credit, creating a continuing stream of revenue for future efforts to help our state's poorest citizens.

Put simply, poor people pay a higher effective tax rate than their middle class and wealthy peers because of our reliance upon the GET. We must find ways to rebalance our tax code by increasing credits that alleviate the tax burden borne by our most vulnerable residents. Accordingly, this proposal will significantly lower the tax load for impoverished families, especially those with children. Mahalo for the opportunity to testify in support of this bill.

Sincerely,
Kris Coffield
Executive Director
IMUAlliance

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 17, 2015 12:39 PM
To: FINTestimony
Cc: sarah@neighborhoodplace.org
Subject: *Submitted testimony for HB886 on Feb 18, 2015 14:00PM*

HB886
Submitted on: 2/17/2015
Testimony for FIN on Feb 18, 2015 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Sarah Figueroa	Neighborhood Place of Puna	Support	No

Comments:

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

FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 16, 2015 10:02 AM
To: FINTestimony
Cc: wctanaka@gmail.com
Subject: Submitted testimony for HB886 on Feb 18, 2015 14:00PM

HB886
Submitted on: 2/16/2015
Testimony for FIN on Feb 18, 2015 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Wayne	Individual	Support	No

Comments: Please consider giving our local economy a shot in the arm, while providing much-needed relief to our hardest working blue-collar households. Mahalo nui for your 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

In Support of HB 886

Hawai'i's cost of living is the highest in the nation and continues to rise, resulting in a constant struggle for low and moderate-income households to make ends meet.

• Hawai'i's families face the highest cost of living in the nation, at over 160% of the national average. Groceries cost almost 60% more than they do on the mainland. When adjusting for the cost of living, our residents are considered to earn the lowest wages in the country.

• Hawai'i's tax structure exacerbates the high cost of living, with our lowest-income residents facing the second heaviest tax burden in the country. The poorest taxpayers pay, on average, over 13 cents of every dollar of income in taxes, while those earning more than $375,000 pay just 7 cents on every dollar of income.

• The GET is a major contributor to the regressive impact of Hawai'i's tax system. Low-income people have to spend nearly all of their income just to survive. The GET applies to virtually all goods and services, including necessities such as groceries and medical care. The 0.5% GET levied on wholesale transactions also creates a "pyramiding" effect which drives up retail prices. At the same time, even some working families in poverty owe personal income taxes—on top of the GET they have paid on all their purchases.
Proposed Adjustments to the Food/Excise Tax Credit

• The food/excise tax credit was created to mitigate the high cost of living in Hawai'i and the inherently regressive impact of the GET on low and moderate-income households. The credit is refundable, so if a household's income tax liability is less than the credit, the household will receive a tax refund from the state.

• The current credit has a maximum value of $85 per qualified exemption. Households with federal adjusted gross income of less than $50,000 are eligible for the credit, with the value of the credit decreasing as income increases.

• This credit has not been adjusted to keep up with the inflation that has occurred since it was created in 2007. The proposed changes to the food/excise tax credit would update it to restore some of this lost value. They would increase the maximum value of the credit amount to $100 per qualified exemption and adjust the income thresholds so that households with an adjusted gross income of less than $57,000 would be eligible for the credit.

• The proposed changes would also adjust credit values and income thresholds automatically for inflation to ensure that it does not lose ground going forward.

Mari Ono, MSW
2450A Naai St.
Honolulu, HI 96819

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 17, 2015 11:33 AM
To: FINTestimony
Cc: drodrigues2001@yahoo.com
Subject: Submitted testimony for HB886 on Feb 18, 2015 14:00PM

HB886
Submitted on: 2/17/2015
Testimony for FIN on Feb 18, 2015 14:00PM in Conference Room 308

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

Comments: I STRONGLY URGE you to pass this measure. Raising the food tax credit and raising the low-income renter's credit are much needed tax relief to offset the high cost of living in Hawai'i. We need to help people "make it" in Hawai'i. These tax credits for the working poor will help balance income inequality in Hawai'i, and help the working poor make ends meet. Let us show aloha and kind regard for all people regardless of income! I strongly urge you to pass this measure! Mahalo for the opportunity to send in testimony.

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

FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 17, 2015 11:14 AM
To: FINTestimony
Cc: ash.kierkiewicz@gmail.com
Subject: Submitted testimony for HB886 on Feb 18, 2015 14:00PM

HB886
Submitted on: 2/17/2015
Testimony for FIN on Feb 18, 2015 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Ashley Kierkiewicz	Individual	Support	No

Comments: I am in strong support of increasing the renters tax credit from $50 to $150 as it would make up for inflation and help Hawaii's struggling families. I also strongly support increasing the food/excise tax credit as it would make a meaningful difference for families working hard to make ends meet.

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

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 17, 2015 12:46 PM
To: FINTestimony
Cc: napua@neighborhoodplace.org
Subject: *Submitted testimony for HB886 on Feb 18, 2015 14:00PM*

HB886
Submitted on: 2/17/2015
Testimony for FIN on Feb 18, 2015 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Napuanani Hilario	Individual	Support	No

Comments:

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

FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 17, 2015 3:31 PM
To: FINTestimony
Cc: projectdate@ltwhawaii.org
Subject: Submitted testimony for HB886 on Feb 18, 2015 14:00PM

HB886
Submitted on: 2/17/2015
Testimony for FIN on Feb 18, 2015 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Skye	Individual	Support	No

Comments: I support an increase in the renter's credit to $150 per exemption.

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

Chamber of Commerce HAWAII
The Voice of Business

Testimony to the House Committee on Finance
Wednesday, February 18, 2015 at 2:00 P.M.
Conference Room 308, State Capitol

LATE

RE: HOUSE BILL 886 RELATING TO TAXATION

Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **opposes** HB 886, which extends the high-earner income tax brackets established pursuant to Act 60, Session Laws of Hawaii 2009 by an additional two years and raises the income tax credits provided to low-income households by the refundable food/excise tax credit and low-income household renters credit to unspecified amounts.

The Chamber is the largest business organization in Hawaii, representing about 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

We thought that Act 60 was temporary and should not be extended. This bill adversely affects small businesses and would severely limit their ability to reinvest in their business, create jobs, and keep their small business running. Business owners already face many restrictions and regulations and this bill is just another challenge for small business owners in Hawaii to survive.

We respectfully request that this bill be held in committee. Thank you for the opportunity to testify.

1132 Bishop Street, Suite 2105 • Honolulu, Hawaii 96813 • Phone: (808) 545-4300 • Facsimile: (808) 545-4369

The Twenty-Eighth Legislature
Regular Session of 2015

LATE

HOUSE OF REPRESENTATIVES
Committee on Finance
Rep. Sylvia Luke, Chair
Rep. Scott Y. Nishimoto, Vice Chair
State Capitol, Conference Room 308
Wednesday, February 18, 2015; 2:00 p.m.

STATEMENT OF THE ILWU LOCAL 142 ON H.B. 886
RELATING TO TAXATION

The ILWU Local 142 supports H.B. 886, which extends the high-earner income tax brackets established pursuant to Act 60 (2009) by an additional two years, raises the income tax credits provided to low-income households by the refundable food/excise tax credit and low-income household renters credit to unspecified amounts.

This measure is intended to provide for fairness and equity in Hawaii's tax structure and reduce income inequality in Hawaii without negatively impacting state revenues. Income inequality may not seem to be much of an issue in our "paradise" where most people are considered "middle class." However, the disparity among incomes clearly exists even in Hawaii as we witness the homeless living in our parks and on our sidewalks, the number of individuals and families who qualify for food stamps, and the workers needing two and three jobs to make ends meet. H.B. 886 alone will not erase the disparity or the inequality, but it represents a commitment by the Legislature and government that a society of "haves" and "have-nots" is not what Hawaii should be about.

The ILWU urges passage of H.B. 886. Thank you for considering our testimony on this measure.

PHOCUSED

LATE

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

TO: Representative Sylvia Luke, Chair
Representative Scott Nishimoto, Vice-Chair
Members, House Committee on Finance

FROM: Scott Morishige, MSW
Executive Director, PHOCUSED

HEARING: **Tuesday, February 18th, 2015 at 2:00 p.m. in Conf. Rm. 308**

Testimony in Support of HB886, Relating to Taxation

Thank you for the opportunity to provide testimony in **support** of HB886, which adjusts the low-income household renter's credit. 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 the homeless.

Hawaii has the highest cost of living in the nation – at almost 160% of the national average. Hawaii residents pay more for shelter than any other state in the nation, with 73% of those living in poverty paying more than half of their income on housing. Many of these severely cost burdened renter households are headed by people who are elderly or disabled – representing some of the most vulnerable members of our community.

While the median cost of rent in Hawaii has increased by 45% between 2005 to 2012, the low-income household renters credit has not been adjusted since the early 1980s. This bill will increase the value of the credit for the first time since 1981, and increase the income threshold for the first time since 1989. PHOCUSED sees this bill as a step in the right direction that will provide greater financial relief for low-income households throughout Hawaii.

PHOCUSED also **supports amendments** to increase the renters credit to $150 per qualified exemption for households up to $60,000, as well as to increase the food/excise tax credit using the amounts proposed in HB57.

Once again, PHOCUSED urges your support of this bill. If you have any questions, please do not hesitate to contact PHOCUSED at 521-7462 or by e-mail at admin@phocused-hawaii.org.

Hawaii Women's Coalition

COMMITTEE ON FINANCE
Rep. Sylvia Luke, Chair
Rep. Scott Y. Nishimoto, Vice Chair

LATE

DATE: Wednesday, February 18, 2015
TIME: 2:00 P.M.
PLACE: Conference Room 308

Strong Support for HB 886

Aloha Chair Luke, Vice Chair Nishimoto and member

The Hawai`i Women's Coalition is in strong support of this important bill aimed at easing the high cost of living in Hawaii for our most vulnerable low-income citizens.

Hawai'i's cost of living is the **highest** in the nation at over 160% of the national average. Yet, when adjusted for the cost of living, our residents are earn the **lowest wages** in the country. Groceries contribute substantially towards the cost at almost 60% more than on the mainland.

Hawai'i's tax structure is regressive, costing those on the low end of the economic scale a greater percentage that those with higher incomes. Our GET makes the high cost of living worse, with our lowest-income residents facing the second heaviest tax burden in the country. The poorest taxpayers pay, on average, over 13 cents of every dollar of income in taxes, while those earning more than $375,000 pay just 7 cents on every dollar of income.

The GET applies to virtually all goods and services, including necessities such as groceries and medical care. The 0.5% GET levied on wholesale transactions also creates a "pyramiding" effect which drives up retail prices. At the same time, even some working families in poverty owe personal income taxes—on top of the GET they have paid on all their purchases.

The food/excise tax credit was created to mitigate the high cost of living in Hawai'i and the inherently regressive impact of the GET on low and moderate-income households. The credit is refundable, so if a household's income tax liability is less than the credit, the household will receive a tax refund from the state. But we need to adjust this safety-net credit to today's situation.

Consider:

- The current credit has a maximum value of $85 per qualified exemption. Households with federal adjusted gross income of less than $50,000 are eligible for the credit, with the value of the credit decreasing as income increases.
- This credit has not been adjusted to keep up with the inflation that has occurred since it was created in 2007. The proposed changes to the food/excise tax credit would update it to restore some of this lost value. They would increase the maximum value of the credit amount to $100 per qualified exemption and adjust the income thresholds so that households with an adjusted gross income of less than $57,000 would be eligible for the credit.
- These changes would also adjust credit values and income thresholds automatically for inflation to ensure that it does not lose ground going forward.

In short, this bill would lessen the soul-crushing burdens on our working women and men. It is a manini amount of money for a powerful impact.

Please pass this bill.

Mahalo for the opportunity to testify,

Ann S. Freed Co-Chair, Hawai`i Women's Coalition
Contact: annsfreed@gmail.com Phone: 808-623-5676

Chamber of Commerce HAWAII
The Voice of Business

Testimony to the House Committee on Finance
Wednesday, February 18, 2015 at 2:00 P.M.
Conference Room 308, State Capitol

LATE

RE: HOUSE BILL 886 RELATING TO TAXATION

Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **opposes** HB 886, which extends the high-earner income tax brackets established pursuant to Act 60, Session Laws of Hawaii 2009 by an additional two years and raises the income tax credits provided to low-income households by the refundable food/excise tax credit and low-income household renters credit to unspecified amounts.

The Chamber is the largest business organization in Hawaii, representing about 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

We thought that Act 60 was temporary and should not be extended. This bill adversely affects small businesses and would severely limit their ability to reinvest in their business, create jobs, and keep their small business running. Business owners already face many restrictions and regulations and this bill is just another challenge for small business owners in Hawaii to survive.

We respectfully request that this bill be held in committee. Thank you for the opportunity to testify.

1132 Bishop Street, Suite 2105 • Honolulu, Hawaii 96813 • Phone: (808) 545-4300 • Facsimile: (808) 545-4369

The Twenty-Eighth Legislature
Regular Session of 2015

LATE

HOUSE OF REPRESENTATIVES
Committee on Finance
Rep. Sylvia Luke, Chair
Rep. Scott Y. Nishimoto, Vice Chair
State Capitol, Conference Room 308
Wednesday, February 18, 2015; 2:00 p.m.

STATEMENT OF THE ILWU LOCAL 142 ON H.B. 886
RELATING TO TAXATION

The ILWU Local 142 supports H.B. 886, which extends the high-earner income tax brackets established pursuant to Act 60 (2009) by an additional two years, raises the income tax credits provided to low-income households by the refundable food/excise tax credit and low-income household renters credit to unspecified amounts.

This measure is intended to provide for fairness and equity in Hawaii's tax structure and reduce income inequality in Hawaii without negatively impacting state revenues. Income inequality may not seem to be much of an issue in our "paradise" where most people are considered "middle class." However, the disparity among incomes clearly exists even in Hawaii as we witness the homeless living in our parks and on our sidewalks, the number of individuals and families who qualify for food stamps, and the workers needing two and three jobs to make ends meet. H.B. 886 alone will not erase the disparity or the inequality, but it represents a commitment by the Legislature and government that a society of "haves" and "have-nots" is not what Hawaii should be about.

The ILWU urges passage of H.B. 886. Thank you for considering our testimony on this measure.

PHOCUSED

LATE

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

TO: Representative Sylvia Luke, Chair
Representative Scott Nishimoto, Vice-Chair
Members, House Committee on Finance

FROM: Scott Morishige, MSW
Executive Director, PHOCUSED

HEARING: **Tuesday, February 18th, 2015 at 2:00 p.m. in Conf. Rm. 308**

Testimony in Support of <u>HB886, Relating to Taxation</u>

Thank you for the opportunity to provide testimony in **support** of HB886, which adjusts the low-income household renter's credit. 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 the homeless.

Hawaii has the highest cost of living in the nation – at almost 160% of the national average. Hawaii residents pay more for shelter than any other state in the nation, with 73% of those living in poverty paying more than half of their income on housing. Many of these severely cost burdened renter households are headed by people who are elderly or disabled – representing some of the most vulnerable members of our community.

While the median cost of rent in Hawaii has increased by 45% between 2005 to 2012, the low-income household renters credit has not been adjusted since the early 1980s. This bill will increase the value of the credit for the first time since 1981, and increase the income threshold for the first time since 1989. PHOCUSED sees this bill as a step in the right direction that will provide greater financial relief for low-income households throughout Hawaii.

PHOCUSED also **supports amendments** to increase the renters credit to $150 per qualified exemption for households up to $60,000, as well as to increase the food/excise tax credit using the amounts proposed in HB57.

Once again, PHOCUSED urges your support of this bill. If you have any questions, please do not hesitate to contact PHOCUSED at 521-7462 or by e-mail at admin@phocused-hawaii.org.

American Savings Bank Tower (1001 Bishop St., Ste. 780) Honolulu, HI 96813 P: 808.521.7462
www.phocused-hawaii.org admin@phocused-hawaii.org

Hawaii Women's Coalition

COMMITTEE ON FINANCE
Rep. Sylvia Luke, Chair
Rep. Scott Y. Nishimoto, Vice Chair

LATE

DATE: Wednesday, February 18, 2015
TIME: 2:00 P.M.
PLACE: Conference Room 308

Strong Support for HB 886

Aloha Chair Luke, Vice Chair Nishimoto and member

The Hawai`i Women's Coalition is in strong support of this important bill aimed at easing the high cost of living in Hawaii for our most vulnerable low-income citizens.

Hawai'i's cost of living is the **highest** in the nation at over 160% of the national average. Yet, when adjusted for the cost of living, our residents are earn the **lowest wages** in the country. Groceries contribute substantially towards the cost at almost 60% more than on the mainland.

Hawai'i's tax structure is regressive, costing those on the low end of the economic scale a greater percentage that those with higher incomes. Our GET makes the high cost of living worse, with our lowest-income residents facing the second heaviest tax burden in the country. The poorest taxpayers pay, on average, over 13 cents of every dollar of income in taxes, while those earning more than $375,000 pay just 7 cents on every dollar of income.

The GET applies to virtually all goods and services, including necessities such as groceries and medical care. The 0.5% GET levied on wholesale transactions also creates a "pyramiding" effect which drives up retail prices. At the same time, even some working families in poverty owe personal income taxes—on top of the GET they have paid on all their purchases.

The food/excise tax credit was created to mitigate the high cost of living in Hawai'i and the inherently regressive impact of the GET on low and moderate-income households. The credit is refundable, so if a household's income tax liability is less than the credit, the household will receive a tax refund from the state. But we need to adjust this safety-net credit to today's situation.

Consider:

- The current credit has a maximum value of $85 per qualified exemption. Households with federal adjusted gross income of less than $50,000 are eligible for the credit, with the value of the credit decreasing as income increases.

- This credit has not been adjusted to keep up with the inflation that has occurred since it was created in 2007. The proposed changes to the food/excise tax credit would update it to restore some of this lost value. They would increase the maximum value of the credit amount to $100 per qualified exemption and adjust the income thresholds so that households with an adjusted gross income of less than $57,000 would be eligible for the credit.

- These changes would also adjust credit values and income thresholds automatically for inflation to ensure that it does not lose ground going forward.

In short, this bill would lessen the soul-crushing burdens on our working women and men. It is a manini amount of money for a powerful impact.

Please pass this bill.

Mahalo for the opportunity to testify,

Ann S. Freed Co-Chair, Hawai`i Women's Coalition
Contact: annsfreed@gmail.com Phone: 808-623-5676

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 18, 2015 12:19 PM
To: FINTestimony
Cc: shannonkona@gmail.com
Subject: Submitted testimony for HB886 on Feb 18, 2015 14:00PM

LATE

HB886
Submitted on: 2/18/2015
Testimony for FIN on Feb 18, 2015 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Shannon Rudolph	Individual	Support	No

Comments: Support. I saw a graph of Hawai`i's tax structure and it's very sad the middle class and low income residents are not being protected by our legislature and shouldering most of the tax burden in our state. We need so much more than this bill.

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

FIN-Jo

LATE

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 17, 2015 3:42 PM
To: FINTestimony
Cc: projectdate@ltwhawaii.org
Subject: Submitted testimony for HB886 on Feb 18, 2015 14:00PM

HB886
Submitted on: 2/17/2015
Testimony for FIN on Feb 18, 2015 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Skye	Individual	Support	No

Comments: In knowing the fact that un-affordable housing in Hawaii is a struggle to many families without having the quality of housing to match the amount being paid for rent, I encourage the credit to be expanded to cover families earning up to $60,000.

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