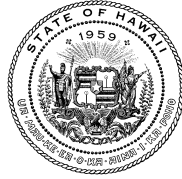


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DEPUTY DIRECTOR

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

Date: Friday, April 22, 2016
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.C.R. No. 58, Requesting the Tax Review Commission to Evaluate Income Tax Credits,
Exclusion, and Deductions.

The Department of Taxation (Department) supports the intent of S.C.R. No. 58, and offers the following comments for your consideration.

S.C.R. No. 58, requests the Tax Review Commission (TRC) to conduct or commission a study evaluating all or certain income tax credits, exclusions, and deductions. The resolution notes that various credits, exclusions, and deductions under the income tax law represent major components of the State's tax structure and tax policy, and that evaluation to determine their tax expenditures, benefits, merit, and necessity is needed.

The TRC is a commission which is administratively attached to the Department. As such the Department will provide support to the TRC to the extent that resources permit.

Thank you for the opportunity to provide comments.



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice

Providing Comment on SCR 58

Requesting the Tax Review Commission To Evaluate Income Tax Credits, Exclusions, And Deductions
House Committee on Finance

Scheduled for Hearing Friday, April 22, 2016, 2:00PM, Conference Room 308

Hawai'i Appleseed Center for Law and Economic Justice Hawai'i Appleseed is committed to a more socially just Hawai'i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems that perpetuate inequality and injustice through policy development, advocacy, and coalition building.

Dear Chair Luke, Vice Chair Nishimoto, and Members of the Committee on Finance,

Thank you for an opportunity to provide comments on SCR 58.

SCR 58 requests that the Tax Review Commission conduct or commission a study evaluating existing income tax credits, exclusions, and deductions. We appreciate the intent of SCR 58 given the importance of these credits, exclusions, and deductions in the overall tax structure. We would like to suggest an amendment to the resolution that would request the Commission consider not only existing credits, but also *potential* credits aimed at balancing existing inequities in our tax structure.

The Tax Review Commission is charged with conducting “a systematic review of the State’s tax structure, using such standards as equity and efficiency.”¹ A review of the equitability of the tax structure is sorely needed. Currently, Hawai'i's low-income households face the second highest tax burden in the nation. The lowest-income households pay over 13 percent of their income in taxes, while our most well-to-do residents pay eight percent or less. Tax credits, exclusions, and deductions can all play a part in improving, or exacerbating, these inequities. While reviewing existing credits will be an important part of the Commission’s analysis of the equitability of our tax structure, the Commission should also be permitted to consider new credits that may help correct existing imbalances in the system.

Correcting the existing imbalance in the tax structure is important for the many Hawai'i residents who are barely staying afloat, and even more so for those who are not. Hawai'i has the highest housing costs in the nation. We have the lowest wages in the country when accounting for cost of living. According to a recent survey, 48% of our residents are living paycheck to paycheck. Yet while people are struggling to make ends meet, we are making it more difficult through a system that places the highest effective tax rate on those that can afford it the least.

The current iteration of the resolution prioritizes evaluation of credits that “result in the most significant loss of state general fund revenue.” While this is certainly important, just as important is how the burdens of generating the revenue fall on taxpayers—the equitability of the system.

¹ Haw. Rev. Stat. §232E-3.

In light of these concerns, we suggest the following amendments, which will accomplish two purposes: (1) to permit the Commission to review potential credits that would reduce inequities in the tax structure; and (2) to prioritize the review based on, not only fiscal impact, but also equity.

WHEREAS, the Legislature finds that the current and potential income tax credits, exclusions, and deductions require evaluation to determine their tax expenditures, benefits, merit, and necessity; and

WHEREAS, the Legislature further finds that good tax policy requires equitable treatment of lower-income taxpayers and adoption or retention of certain tax credits may be necessary to ensure such equitable treatment; and

WHEREAS, thus, the Legislature finds that an independent, objective evaluation by experts of existing and potential income tax credits, exclusions, and deductions is necessary to assist the Legislature in identifying those credits, exclusions, and deductions that should be adopted, retained, modified, or repealed; and

BE IT RESOLVED by the Senate of the Twenty-eighth Legislature of the State of Hawaii, Regular Session of 2016, the House of Representatives concurring, that the Tax Review Commission is requested to conduct or commission a study evaluating all or certain existing and potential state income tax credits, exclusions, and deductions; and

BE IT FURTHER RESOLVED that, if all income tax credits, exclusions, and deductions cannot be evaluated because of resource or time constraints, the Tax Review Commission is requested to evaluate those that result in: (1) the most significant loss of state general fund revenues, and/or (2) increasing equity of the tax system by relieving tax burdens on low-income residents; and

Thank you very much for considering these comments and the above proposed amendments.