DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

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 Dee Morikawa, Chair
and Members of the House Committee on Human Services

The Honorable Tom Brower, Chair
and Members of the Senate Committee on Housing

Date: Friday, February 10, 2017
Time: 9:30 A.M.
Place: Conference Room 329, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1575, Relating to Income Tax

The Department of Taxation (Department) appreciates the intent of H.B. 1575 and provides the following comments for your consideration.

H.B. 1575 authorizes each county to establish a surcharge on state tax at a maximum rate of 1% of qualifying taxable income under chapter 235, Hawaii Revised Statutes (HRS) as defined in this measure to address homelessness. Qualifying taxable income is defined as taxable income in excess of $1 million for all taxpayers. H.B. 1575 provides that the county must notify the Department of the adoption of a surcharge tax and the imposition can begin no earlier than January 1, 2018. The measure applies to taxable years beginning after December 31, 2017.

The measure: (1) authorizes the Department to determine the county or counties in which a person resides; (2) requires taxpayer to designate the taxation district to which the county surcharge on state income tax is assigned in accordance with rules adopted by the Department; (3) imposes penalties provided in section 231-39, HRS, for failure to file a return, imposed on the amount of the surcharge due, for failure to file the schedule required to accompany the return; and (4) imposes an additional 10% of the amount of the surcharge and tax due on the return for failure to file the schedule to correctly report the assignment of income tax by taxation district on the schedule.

First, the definition of qualifying taxable income under this measure has the effect of favoring married taxpayers who file separately versus jointly. Married taxpayers who filed separately can have taxable income up to $1 million each and not be subject to the county surcharge tax, whereas the same taxpayers filing a joint return could only have $1 million taxable income together. If this is not the intent of the measure, the Department suggests correcting this issue.

Second, in order for the Department to administer a county surcharge on income tax for all counties, the Department strongly recommends that all counties be required to adopt the same tax rate. The different tax rates increase administrative and enforcement issues, and may cause taxpayers to improperly source their income to counties with lower tax rates. If each county adopts its surcharge at the same tax rate, there will be no incentive for a taxpayer to improperly source its income and ensure that each county receives the proper amount of revenue.

Finally, due to the substantial number of changes that must be done to the forms, instructions and computer system, the Department requests that the effective date for implementation of the surcharge apply to taxable years beginning after December 31, 2017.

Thank you for the opportunity to provide comments.

Chamber of Commerce HAWAII
The Voice of Business

Testimony to the House Committee on Human Services
and the House Committee on Housing
Friday, February 10, 2017 at 9:30 A.M.
Conference Room 329, State Capitol

RE: HOUSE BILL 1575 RELATING TO INCOME TAX

Chairs Morikawa and Brower, Vice Chairs Todd and Nakamura, and Members of the Committees:

The Chamber of Commerce Hawaii ("The Chamber") **opposes** HB 1575, which authorizes the counties to enact a 1% income tax surcharge on taxable personal incomes above $1,000,000 to address homelessness.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 1,600+ 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 support the intent to address homelessness and provide resources. However, we do not believe allowing the counties to tax income is the best way to fund these programs. We oppose the bill as there are already a number of bills circulating to increase the state income tax and this would be added on top of those bills. We also do not believe the threshold is consistent with existing tax law as the bill taxes income of $1 million regardless of whether you are married, single or head of household.

In addition, this may affect people who normally earn less than $1 million, but may have a situation where they sell real estate and/or a family business. Each of these one-time events could push taxpayers over the $1 million threshold and subject them to tax.

Furthermore, we oppose the bill as it could negatively affect many small businesses in their financial ability to grow their company. Lastly, according to one DOTAX report on Hawaii income, approximately the top 5% of tax filers have over 43% of the tax liability. We believe that high income earners already pay their fair share.

We respectfully ask the committee to not pass the bill. Thank you for the opportunity to testify.

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

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Establish County Surcharge on Income Tax for Homelessness

BILL NUMBER: HB 1575

INTRODUCED BY: C. LEE, BROWER, CREAGAN, KEOHOKALOLE, QUINLAN

EXECUTIVE SUMMARY: Allows the counties to establish a surcharge of up to 1% of indefinite duration on individual income tax. The monies collected are to be used to address homelessness.

BRIEF SUMMARY: Enacts a new section in HRS chapter 46 allowing the counties to enact a county surcharge on income tax by ordinance.

Adds a new section to HRS chapter 235 setting forth the parameters of the surcharge. The surcharge is to be applied only to qualifying taxable income. States that a taxpayer shall designate the taxation district to which the surcharge is assigned, in accordance with rules adopted by the department. Directs the taxpayer to file a schedule with the income tax return assigning the surcharge amount to each taxation district.

Provides a penalty of 10% of the amount of the surcharge and tax for failure to file the return or the accompanying schedule (described in the preceding paragraph).

EFFECTIVE DATE: Upon approval, shall apply to taxable years beginning after December 31, 2017.

STAFF COMMENTS: The originator of this idea has no shortage of creativity. However, the devil is in the details of implementation. When the county rail surcharge was passed in 2005, the department of taxation burned through countless person-hours and in excess of $5 million in implementation costs, including computer system reprogramming, redesign of forms and schedules, and coming up with rules suitable to allocate GET among the several counties in which a taxpayer may be doing business. These costs may eat up all or a very large part of the incremental revenue to be gained because of surcharging taxpayers who have net income more than $1 million.

And, while we surcharging individual residents, why are we letting the corporations, estates, trusts, and other entities off scot-free?

Digested 2/8/2017

todd2 - Chloe

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 6, 2017 3:48 PM
To: HUStestimony
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for HB1575 on Feb 10, 2017 09:30AM*

HB1575
Submitted on: 2/6/2017
Testimony for HUS/HSG on Feb 10, 2017 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Support	No

Comments:

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todd2 - Chloe

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 6, 2017 6:38 PM
To: HUStestimony
Cc: cchaudron08@gmail.com
Subject: Submitted testimony for HB1575 on Feb 10, 2017 09:30AM

HB1575
Submitted on: 2/6/2017
Testimony for HUS/HSG on Feb 10, 2017 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Camila Chaudron	Individual	Support	No

Comments: Aloha, my name is Camila Chaudron and I am a constituent from the Manoa/Makiki area. I support this bill because I believe that the homelessness problem in Hawaii has gotten out of hand and needs to be addressed in a systematic and comprehensive manner as soon as possible. Mahalo.

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todd2 - Chloe

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 8, 2017 10:37 PM
To: HUStestimony
Cc: geryll@hawaii.edu
Subject: *Submitted testimony for HB1575 on Feb 10, 2017 09:30AM*

HB1575
Submitted on: 2/8/2017
Testimony for HUS/HSG on Feb 10, 2017 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Geryll Anthony Agno	Individual	Support	No

Comments:

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DAVID Y. IGE
GOVERNOR

LATE

WESLEY K. MACHIDA
DIRECTOR

LAUREL A. JOHNSTON
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

<u>WRITTEN ONLY</u>
TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEES ON HUMAN SERVICES AND HOUSING
ON
HOUSE BILL NO. 1575

February 10, 2017
9:30 a.m.
Room 329

RELATING TO INCOME TAX

House Bill No. 1575 authorizes the counties to enact a 1% income tax surcharge on taxable personal income above $1,000,000 in order to address the homelessness issue.

The Department of Budget and Finance opposes this measure as it proposes a state revenue enhancement to support the counties in addressing homelessness. Further, this measure would not generate sufficient revenues to replace the current level of State funding for homeless services that is distributed throughout the State, including some disbursements to the counties.

The counties currently have the ability to raise revenues through county--based taxes to pay for county homeless programs and services.

Thank you for your consideration of our comments.

LATE

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

TESTIMONY FOR HOUSE BILL 1575, RELATING TO INCOME TAX

House Committee on Human Services
Hon. Dee Morikawa, Chair
Hon. Chris Todd, Vice Chair

House Committee on Housing
Hon. Tom Brower, Chair
Hon. Nadine K. Nakamura, Vice Chair

Friday, February 10, 2017, 9:30 AM
State Capitol, Conference Room 329

Honorable Chair Morikawa, Chair Brower, and committee members:

I am Kris Coffield, representing IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 350 members. On behalf of our members, we offer this testimony in support of House Bill 1575, relating to income tax.

According to the 2016 statewide *Point In Time Count* (PITC) report, 7,921 houseless persons were counted on a single night in January last year, up 4 percent from 2015. More than half of these persons were unsheltered. O'ahu accounted for 62 percent of the total (4,940 people), up 1 percent from the previous year. Kaua'i saw a 30 percent increase in the homeless population living on its shores (442 people), while the Big Island saw an increase of 12 percent (1,394 people). Overall, our state saw a 12 percent increase in the number of unsheltered homeless individuals and families and, concurrently, a 4.5 percent decrease in the number of sheltered individuals and families. Notably, the size of the houseless population on O'ahu is up 25 percent from 2009, when 3,638 homeless people were counted. Additionally, Department of Education officials said, last January, that 3,576 public school students are homeless. Last year's PITC captured just over half of them. We know, then, that our state's homeless population is not only larger than the statistics show, but growing.

Over 30 percent of juvenile arrests in Hawai'i are for running away from home, the highest proportion in the nation. Nationally, one in seven young people between the ages of 10 and 18 will run away. Approximately 75 percent of runaways are female, while 46 percent of runaway and homeless youth report being physically abused, 38 percent report being emotionally abused, and 17 percent report being forced into unwanted sexual activity by a family or household member, according to the National Conference of State Legislatures. Roughly 30 percent runaway children will be approached for commercial sexual exploitation within 48 hours of being on the run, with over 80 percent being approached for the sex trade during the course of their time on streets. A federal study found that an estimated 38,600 runaway youth have been sexually assaulted, in the company of someone known to be sexually abusive, or engaged in sexual activity in exchange for money, food, or shelter. Runaways are perceived as easy targets for sex traffickers because they lack stable shelter, a supportive environment, and financial resources, placing them at greater risk of forced prostitution and sexual servitude.

Traffickers exploit our limited number of available shelter beds to lure young people into exploitation. As the homeless childcare provider Covenant House observes, traffickers tell homeless youth that shelters are full and ask, "Where are you going to go? Why don't you come with me? I'll take care of you." Coupled with threats of and enacted physical and sexual violence against the victims or their families, these coercive techniques compel runaway youth to remain enslaved. LGBTQ youth, who comprise an estimated 40 percent of the runaway and homeless youth population in the United States, are exponentially more likely to fall prey to human traffickers because of discrimination, family and community trauma, and a longing for comfort and acceptance (an estimated 26 percent of LGBTQ adolescents are rejected by their families and put out of their homes simply for being open and honest about who they are). In providing care for victims of human trafficking, IMUAlliance has heard their stories hundreds of times.

We must find innovative ways to fund homeless services, especially human services, health care, outreach, and rapid rehousing to our state's unsheltered and at-risk population, many of whom are gainfully employed and contributing our economy. Moreover, we must find a balance between rampant real estate speculation and meeting the needs of our state's most economically vulnerable residents. Just as our homeless population has soared over the past few years, so, too, has our state's cost of housing. The median price of condominiums on O'ahu increased 8.3 percent in 2016 to $390,000, while the median price for single-family homes increased by 6.5 percent to $735,000, according to the Honolulu Board of Realtors. Average rent for a 900-square foot apartment in Honolulu now exceeds $2,200, with the cost of a four-bedroom home in urban Honolulu now exceeding $1.1 million. At least 44 percent of residences in Hawai'i are owner unoccupied, according to the University of Hawa'i Economic Research Organization, meaning that nearly 50 percent–and by some estimates over half–of Hawai'i's homes are investment properties.

Many of those properties, in turn, are owned by mainland and foreign buyers, whose real estate market speculation is a prime driver of Hawai'i''s highest-in-the-nation cost of housing. According to a study released in May of 2016 by the Hawai'i Department of Business, Economic Development, and Tourism, there are "clear distinctions" between the average price of homes bought by local residents, mainlanders, and foreigners. Analyzing purchases made between 2008 and 2015, DBEDT found: "The average sale price was highest among foreign buyers. The average sale price of the total of 5,775 homes sold to foreign buyers from 2008 to 2015 was $786,186, 28.3 percent higher than the average sale price to the mainlanders ($612,770) and 64.7 percent higher than the average sale price to local buyers ($477,460)."

Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2016* report found that a full-time worker would need to earn $34.22/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 2005 and 2015. Average rent for a two-bedroom unit surpassed $2,100 in 2015, with average rent for a 900-square-foot exceeding $2,200 in 2016. In the past three years alone, Honolulu rent has increased 23.5 percent. While 47 percent of Hawai'i residents are renters (a number that does not include individuals and families renting outside of the regulated rental market), they earn an average wage of $14.49/hour, scarcely enough to meet their basic needs. One out of every four households in Hawai'i report that they are "doubling up" or are three paychecks or less away from being homeless, per the Hawai'i Appleseed Center for Law and Economic Justice. Additionally, 54 percent of households are cost-burdened, meaning that they pay more than 30 percent of their income for housing costs. Put simply, homelessness is directly tied to our state's exorbitant cost of living and penchant for catering to people who use the islands as their own private Monopoly board. We beseech you to seek innovative ways of making Hawai'i more affordable, while funding the services necessary to show aloha for our economically disadvantaged neighbors.

Finally, we note that our state's wealthiest 1 percent class has fared well in recent years. When high-earner income tax rates expired in 2015, wealthy families enjoyed a $43 million windfall. People falling within the lowest 80 percent of income earners saw no cuts to their taxes, while the top 1 percent experienced a $7,749 tax cut. In effect, 100 percent of the tax cuts went to the richest 20 percent by income group, with the poorest 20 percent of workers now paying almost twice the effective tax rate of the wealthiest 1 percent in our state.

When you fund housing, outreach, and human services for the homeless, you are helping to end slavery in Hawai'i. Mahalo for the opportunity to testify <u>in support</u> of this bill.

Sincerely,
Kris Coffield
Executive Director
IMUAlliance

todd2 - Chloe

From: mailinglist@capitol.hawaii.gov
Sent: Friday, February 10, 2017 9:02 AM
To: HUStestimony
Cc: victor.ramos@mpd.net
Subject: *Submitted testimony for HB1575 on Feb 10, 2017 09:30AM*

HB1575
Submitted on: 2/10/2017
Testimony for HUS/HSG on Feb 10, 2017 09:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Victor K. Ramos	Individual	Oppose	No

Comments:

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