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

Date: Thursday, February 9, 2017
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 375, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 375, and provides the following comments for your consideration.

H.B. 375 amends the individual income tax brackets and rates to eliminate any income tax liability for those at or below poverty thresholds. The measure is effective applies to taxable years beginning after December 31, 2016.

First, it seems that the measure defines poverty thresholds at *$14,000* of taxable income for joint filers, and *$14,400* for single filers, married filing separately, and head of households. The proposed amendments to the income tax brackets and rates have the effect of favoring married taxpayers who file separately versus jointly. Married taxpayers who file separately can have taxable income up to $14,400 each and still qualify for the favorable tax rate of 0% whereas the same taxpayers filing a joint return could only have $14,000 taxable income together in order to qualify for the same 0% tax rate. If this is not the intent of this measure, the Department suggests correcting this issue.

Second, the Department notes that the proposed amendments have "*tax cliffs*" that heavily penalize for any additional income above the thresholds mentioned above. For example:

- Single filers with taxable income of $14,401 will be subject to income tax of $682.07, whereas the same taxpayers making $1 less, at $14,400, will not be subject to any income tax ($0).
- Head of households with taxable income of $14,401 will be subject to income tax of $562.06, whereas the same taxpayers making $1 less, at $14,400, will not be subject to any income tax ($0).
- Joint filers with taxable income of $14,001 will be subject to income tax of $221.06, whereas the same taxpayers making $1 less, at $14,000, will not be subject to any income tax ($0).

If this is not the intent of this measure, the Department suggests correcting this issue.

Third, defining “income” to determine poverty level is not an easy task. The issue with using taxable income is that it includes business loss, capital loss, depreciation, deductions for taxes, interest expense, contributions, etc. Taxpayers with low taxable income may not necessarily be poor; they may simply have a big capital loss for the year, reducing their taxable income.

Lastly, if the Committee wishes to advance this measure, the Department requests that it be made applicable to taxable years beginning after December 31, 2018 to allow sufficient time for the necessary form, instruction and computer system modifications necessary for proper implementation.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

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

SUBJECT: INCOME, Rate Adjustment to Eliminate Tax on the Poor

BILL NUMBER: HB 375

INTRODUCED BY: JOHANSON, ING, C. LEE, LOPRESTI, LOWEN

EXECUTIVE SUMMARY: This bill adjusts income tax rates to zero out any income tax liability for those at or below the poverty threshold. Technical changes are needed for the proposed tax tables.

BRIEF SUMMARY: Amends section 235-51, HRS, to adopt new rate schedules (see tables in Staff Comments below) for taxable years beginning after December 31, 2017.

EFFECTIVE DATE: Upon approval, applies to taxable years beginning after December 31, 2016.

STAFF COMMENTS: In recent years, our income tax system has been criticized for taxing the poor deeper into poverty. Our current law has 10 different tax brackets. A married couple at the federal poverty line already blows through the first three brackets and is in the fourth bracket at 6.4% with a tax bill of $1,363. This bill would substantially alleviate this problem.

The tax rate schedules proposed contain technical and/or typographical errors. Tax rate schedule lines specify a beginning taxable income amount, an ending taxable income amount, a tax rate, and an offset amount representing the cumulative amount of tax imposed by the brackets prior to the current line. For example, one of the lines under current HRS section 235-51(a) for Married Filing Jointly or Surviving Spouse filing status is: “If the taxable income is: Over $9,600 but not over $19,200, the tax shall be: $221 plus 5.50% of excess over $9,600.” The $221 represents the tax imposed by all of the lower brackets, namely the sum of the first $4,800 being taxed at 1.40% plus the amount from $4,800 to $9,600 being taxed at 3.20%.

This table represents existing HRS section 235-51(a) rates and bracket amounts:

From	To	Rate	Tax for This Bracket	Next Bracket Should Start at	Next Bracket Actually Starts	Diff.
-	4,800	1.40%	67.20	67	67	-0-
4,800	9,600	3.20%	153.60	221	221	-0-
9,600	19,200	5.50%	528.00	749	749	-0-
19,200	28,800	6.40%	614.40	1,363	1,363	-0-
28,800	38,400	6.80%	652.80	2,016	2,016	-0-
38,400	48,000	7.20%	691.20	2,707	2,707	-0-
48,000	72,000	7.60%	1,824.00	4,531	4,531	-0-

72,000	96,000	7.90%	1,896.00	6,427	6,427	-0-
96,000		8.25%				

The following table shows the proposed rates and bracket amounts. The cumulative tax shown in the rate schedules does not equal the actual cumulative tax.

Married Filing Jointly:

From	To	Rate	Tax for This Bracket	Next Bracket Should Start at	Next Bracket Actually Starts	Diff.
-	14,000	0.00%	-	-	221	(221)
14,000	19,200	5.50%	286.00	286	749	(463)
19,200	28,800	6.40%	614.40	900	1,363	(463)
28,800	38,400	6.80%	652.80	1,553	2,016	(463)
38,400	48,000	7.20%	691.20	2,244	2,707	(463)
48,000	72,000	7.60%	1,824.00	4,068	4,531	(463)
72,000	96,000	7.90%	1,896.00	5,964	6,427	(463)
96,000		8.25%				

In other words, the married filing jointly tax rate schedule should say:

In the case of any taxable year beginning after December 31, 2017:

If the taxable income is:	The tax shall be:
Not over $14,000	0% of taxable income
Over $14,000 but not over $19,200	5.50% of excess over $14,000
Over $19,200 but not over $28,800	$286.00 plus 6.40% of excess over $19,200
Over $28,800 but not over $38,400	$900.00 plus 6.80% of excess over $28,800
Over $38,400 but not over $48,000	$1,553.00 plus 7.20% of excess over $38,400
Over $48,000 but not over $72,000	$2,244.00 plus 7.60% of excess over $48,000

Over $72,000 but $4,068.00 plus 7.90% of

not over $96,000 excess over $72,000

Over $96,000 $5,964.00 plus 8.25% of

excess over $96,000.

The following tables show the proposed rates and bracket amounts for other filing statuses.

Head of Household:

From	To	Rate	Tax for This Bracket	Next Bracket Should Start at	Next Bracket Actually Starts	Diff.
-	14,400	0.00%	-	-	562	(562)
14,400	21,600	6.40%	460.80	461	1,022	(561)
21,600	28,800	6.80%	489.60	950	1,512	(562)
28,800	36,000	7.20%	518.40	1,469	2,030	(561)
36,000	54,000	7.60%	1,368.00	2,837	3,398	(561)
54,000	72,000	7.90%	1,422.00	4,259	4,820	(561)
72,000		8.25%				

Single / Married Filing Separately:

From	To	Rate	Tax for This Bracket	Next Bracket Should Start at	Next Bracket Actually Starts	Diff.
	14,400	0.00%	-	-	682	(682)
14,400	19,200	6.80%	326.40	326	1,008	(682)
19,200	24,000	7.20%	345.60	672	1,354	(682)
24,000	36,000	7.60%	912.00	1,584	2,266	(682)
36,000	48,000	7.90%	948.00	2,532	3,214	(682)
48,000		8.25%				

These errors should be corrected so that revenue projections associated with this bill will not be suspect.

Digested 2/6/2017

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 7, 2017 11:56 PM
To: FINTestimony
Cc: annsfreed@gmail.com
Subject: Submitted testimony for HB375 on Feb 9, 2017 14:00PM

HB375
Submitted on: 2/7/2017
Testimony for FIN on Feb 9, 2017 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Ann S Freed	Hawaii Women's Coalition	Support	No

Comments: Aloha Chair Luke and members, The Coalition is in support of this bill to alleviate the high tax burden on those in poverty in this state but prefer the omnibus bill HB209 Mahalo, Ann S. Freed, Co-Chair Hawaii Women's Coalition

AMERICANS FOR DEMOCRATIC ACTION

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John Bickel, President	Guy Archer	Jan Lubin	George Simson	P.O. Box 23404
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Marsha Schweitzer, Treasurer	Gloria Borland	Stephen O'Harrow		
Karin Gill, Secretary	Chuck Huxel	Cameron Sato		www.adaaction.org

February 7 , 2017

TO: Honorable Chair Luke and Members of the Finance Committee

RE: HB 375 Relating to Taxation
Support for hearing on Feb. 9

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We support HB 375 as it would eliminate income tax for people in poverty. They already pay a large amount of money in GET. We would not support this bill if it wipes out the ability of low-income people to get a tax refund based on GET and Low-income Housing credits in the current tax code.

The top fifth of income earners in the state in total pay about 7 percent of their income in taxes while the bottom fifth pay almost 14 percent. This is shamefully regressive.

Thank you for your consideration.

Sincerely,

John Bickel
President