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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. 690, Relating to Income Tax Rates

The Department of Taxation (Department) appreciates the intent of H.B. 690, and provides the following comments for your consideration.

H.B. 690 amends the individual income tax brackets and rates by: (1) reducing the tax rates by approximately 25%; and (2) reinstating the income tax brackets and rates for high income earners imposed by Act 60, Session Laws of Hawaii 2009. The measure applies to taxable years beginning after December 31, 2016.

The new 9% rate applies to taxable income over $150,000 for single, $225,000 for head of household, and $300,000 for joint filers. The new 10% rate applies to taxable income over $175,000 for single, $262,500 for head of household, and $350,000 for joint filers. The new 11% rate applies to taxable income over $200,000 for single, $300,000 for head of household, and $400,000 for joint filers.

The Department notes that this measure adopts the fixed tax amounts from existing law, but changes the rates. The fixed dollar amounts stated in the brackets represent and aggregate the tax imposition from the lower brackets. The fixed dollar amount for each of the higher brackets represents the aggregated tax from all of the applicable lower brackets.

To illustrate, under this measure, the first $2,400 of taxable income is subject to a 1.05% tax for single filers. This means that the maximum tax for this bracket is $25.20 ($2,400 X 1.05%). As written, the second bracket imposes a tax of $34 plus 2.40 % of the excess over $2,400. The correct fixed dollar amount for this bracket should be $26 ($25.20 rounded up) to reflect the tax at the lower bracket. Thus, the second bracket for single filers should be amended to read: "`$26.00 plus 2.40% of the excess over $2,400`". Each of the brackets for each filing status should be amended to correct this error.

If the Committee wishes to advance this measure, the Department requests that it be made applicable to taxable years beginning after December 31, 2017 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.

SUBJECT: INCOME, Reduces Rates on Poor, Reinstates 9%, 10%, 11% Brackets

BILL NUMBER: HB 690

INTRODUCED BY: FUKUMOTO

EXECUTIVE SUMMARY: This bill adjusts income tax rates to reduce rates by 25% for all but the top income earners, and to reinstate the pre-2016 higher tax brackets. 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.
-	4,800	1.05%	50.40	50	67	(17)
4,800	9,600	2.40%	115.20	166	221	(55)
9,600	19,200	4.10%	393.60	560	749	(189)
19,200	28,800	4.80%	460.80	1,021	1,363	(342)
28,800	38,400	5.10%	489.60	1,511	2,016	(505)
38,400	48,000	5.40%	518.40	2,029	2,707	(678)
48,000	72,000	5.70%	1,368.00	3,397	4,531	(1,134)
72,000	96,000	5.90%	1,416.00	4,813	6,427	(1,614)
96,000	300,000	6.20%	12,648.00	17,461	23,257	(5,796)
300,000	350,000	9.00%	4,500.00	21,961	27,757	(5,796)
350,000	400,000	10.00%	5,000.00	26,961	32,757	(5,796)
400,000		11.00%				

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

In the case of any taxable year beginning after December 31, 2016:

If the taxable income is:	The tax shall be:
Not over $4,800	1.05% of taxable income
Over $4,800 but not over $9,600	$50.00 plus 2.40% of excess over $4,800
Over $9,600 but not over $19,200	$166.00 plus 4.10% of excess over $9,600
Over $19,200 but not over $28,800	$560.00 plus 4.80% of excess over $19,200
Over $28,800 but	$1,021.00 plus 5.10% of

not over $38,400	excess over $28,800
Over $38,400 but	$1,511.00 plus 5.40% of
not over $48,000	excess over $38,400
Over $48,000 but	$2,029.00 plus 5.70% of
not over $72,000	excess over $48,000
Over $72,000 but	$3,397.00 plus 5.90% of
not over $96,000	excess over $72,000
Over $96,000 but	$4,813.00 plus 6.20% of
not over $300,000	excess over $96,000
Over $300,000 but	$17,461.00 plus 9.00%
not over $350,000	excess over $300,000
Over $350,000 but	$21,961.00 plus 10.00% of
not over $400,000	excess over $300,000
Over $400,000	$26,961.00 plus 11.00% of
	excess over $400,000.

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.
-	3,600	1.05%	37.80	38	50	(12)
3,600	7,200	2.40%	86.40	124	166	(42)
7,200	14,400	4.10%	295.20	419	562	(143)
14,400	21,600	4.80%	345.60	765	1,022	(257)
21,600	28,800	5.10%	367.20	1,132	1,512	(380)
28,800	36,000	5.40%	388.80	1,521	2,030	(509)
36,000	54,000	5.70%	1,026.00	2,547	3,398	(851)
54,000	72,000	5.90%	1,062.00	3,609	4,820	(1,211)
72,000	225,000	6.20%	9,486.00	13,095	17,443	(4,348)
225,000	262,500	9.00%	3,375.00	16,470	20,818	(4,348)
262,500	300,000	10.00%	3,750.00	20,220	24,568	(4,348)
300,000		11.00%				

Single / Married Filing Separately:

From	To	Rate	Tax for This Bracket	Next Bracket Should Start at	Next Bracket Actually Starts	Diff.
-	2,400	1.05%	25.20	25	34	(9)
2,400	4,800	2.40%	57.60	83	110	(27)
4,800	9,600	4.10%	196.80	280	374	(94)
9,600	14,400	4.80%	230.40	510	682	(172)
14,400	19,200	5.10%	244.80	755	1,008	(253)
19,200	24,000	5.40%	259.20	1,014	1,354	(340)
24,000	36,000	5.70%	684.00	1,698	2,266	(568)
36,000	48,000	5.90%	708.00	2,406	3,214	(808)
48,000	150,000	6.20%	6,324.00	8,730	11,629	(2,899)
150,000	175,000	9.00%	2,250.00	10,980	13,879	(2,899)
175,000	200,000	10.00%	2,500.00	13,480	16,379	(2,899)
200,000		11.00%				

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

Digested 2/7/2017

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 8, 2017 12:35 AM
To: FINTestimony
Cc: annsfreed@gmail.com
Subject: Submitted testimony for HB690 on Feb 9, 2017 14:00PM

HB690
Submitted on: 2/8/2017
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, We understand that if we are going to have programs that benefit our island society the money to pay for them has to come from somewhere. It seems fair then that the highest earners can afford a reinstatement of the top tax rates that were allowed to sunset in 2015. Our state needs revenue to provide a safety net for the vulnerable among us and to safeguard quality of life for all of us. Reinstating the former tax rate for our highest earners would raise over 75 million dollars per year – more than enough to pay for needed tax relief for our state's low-income and working-class families which will accrue benefits to everyone. In addition, since Hawaii taxpayers can deduct their state income taxes from their federal tax bills, a large portion of a state tax increase would be "paid" by the federal government. Mahalo, Ann S. Freed, Co-Chair, Hawaii Women's Coalition

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.

Chamber of Commerce HAWAII
The Voice of Business

Testimony to the House Committee on Finance
Thursday, February 9, 2017 at 2:00 P.M.
Conference Room 308, State Capitol

RE: HOUSE BILL 690 RELATING TO INCOME TAX RATES

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

The Chamber of Commerce Hawaii ("The Chamber") **opposes** HB 690 which reinstates higher income tax rate brackets from 2011. We take no position on the other substantive policies in the bill.

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 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 part of the bill be removed. 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 690, RELATING TO INCOME TAX RATES

House Committee on Finance
Hon. Sylvia Luke, Chair
Hon. Ty J.K. Cullen, Vice Chair

Thursday, February 9, 2017, 2:00 PM
State Capitol, Conference Room 308

Honorable Chair Luke 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 strong support of House Bill 690, relating to income tax rates.

Hawai'i is exorbitantly expensive. 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.

Finally, Hawai'i is in the minority of states that push low-income people deeper into poverty with an unequal tax structure. To rectify this problem, we urge you to reinstate the income tax our highest-income residents paid between 2009 and 2015, which would generate more than enough revenue to subsidize tax relief for indigent residents. Per the Institute for Taxation and Economic Policy, reinstating these tax rates would raise over $75 million per year, about 90 percent of which would be paid by the top 1 percent of Hawaiʻi earners. Higher tax rates would apply only to taxable income earned above the highest tax bracket levels in effect from 2009 to 2015, and only after a taxpayer has subtracted exemptions and deductions, which can amount to tens or hundreds of thousands of dollars.

When the 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. Instead of generating revenue to reward our state's hardworking teachers, for example, who earn the lowest teacher salaries in the nation adjusted for cost-of-living, lawmakers benefited millionaires and billionaires, many of whom engage in real estate speculation that exacerbates our already unsustainable cost of housing. Unless we want to worsen wealth inequality on our shores for generations to come, this trend in regressive taxation must be immediately reversed.

Mahalo for the opportunity to testify <u>in support</u> of this bill.

Sincerely,
Kris Coffield
Executive Director
IMUAlliance

LATE

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
Commenting on HB 690 Relating to Income Tax Rates
House Committee on Finance
Scheduled for Hearing Thursday, February 9, 2017, 2:00 PM, Conference Room 308

Hawaiʻi Appleseed Center for Law and Economic Justice Hawaii Appleseed is committed to a more socially just Hawaiʻi, 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 Cullen, and Members of the Committee on Finance:

Thank you for the opportunity to comment on HB 690. According to this bill's description, it is intended to decrease income taxes by twenty-five percent for all but Hawaiʻi's top income earners, and reinstate higher income tax rate brackets that were in place in recent years.

Hawaiʻi Appleseed supports the concept of rebalancing the tax structure to lessen the heavy tax burdens placed on low- and moderate-income households. However, the current draft of the bill has some technical problems that will need to be corrected to effectuate its intent—as drafted it does not prescribe a 25% tax cut for any bracket but the very bottom bracket, and it includes a significant tax cliff/penalty at the start/end of each bracket. Additionally, depending on how high up the income scale the 25% tax cut goes, the bill may have a significant adverse impact on revenue and may not focus sufficient tax relief at the lower end of the income scale where residents need it most.

Hawaiʻi has the lowest wages in the nation after adjusting for our cost of living, which is the highest in the nation. We also place the second highest tax burden in the country on our low-income households. In fact, we are in the minority of states that actually pushes low-income people deeper into poverty with taxes. As a result, nearly half of our state's residents live paycheck-to-paycheck.

Our lowest-income households pay over 13% of their income in state and local taxes, while those at the top pay less than 8%. A main reason for this is the General Excise Tax (GET), applied to almost all goods and services, which hits low-income and working-class families almost ten times harder than those at the top. Because of this, tax relief needs to be focused near the bottom of the income scale for households who experience the heaviest tax burdens.

To cover the costs of targeted tax relief for lower income households, Appleseed supports the concept of reverting to the tax rate brackets for high earners that were in place from 2009 to 2015. The Institute for Taxation and Economic Policy estimates that reinstating these tax rates would raise over $75 million per year. About 90% of the revenues raised would come from the top 1% of Hawaiʻi earners.

One of the benefits of reinstating the high-earner tax rates is that the state income tax increase will be offset to a significant degree by a deduction in federal income tax. Since Hawaiʻi taxpayers can deduct the state taxes that they pay from their federal tax bill, any state tax increases are partially paid by the federal government. For example, if a high-income earner were to pay an extra $1000 in state income tax, they could deduct that from their federal income tax. At the 40% top federal rate, that means their deduction is worth 40% of $1000, or $400. So only $600 is paid by the taxpayer, and $400 is "paid" by the federal government.

Thank you for the opportunity to submit comments on HB 690. We appreciate your consideration.