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To: The Honorable Stanley Chang, Chair;
The Honorable Dru Mamo Kanuha, Vice Chair;
and Members of the Senate Committee on Housing

From: Isaac W. Choy, Director
Department of Taxation

Date: February 9, 2021
Time: 1:00 P.M.
Place: Via Videoconference, Hawaii State Capitol

Re: S.B. 302, Relating to Tax Credits

The Department of Taxation (Department) offers the following comments regarding S.B. 302 for your consideration.

S.B. 302 amends section 235-55.7, Hawaii Revised Statutes (HRS), which governs the income tax credit for low-income household renters (renters credit). The measure changes the renters credit from $50 per qualified exemption to an dependent on the taxpayer's filing status and Hawaii adjusted gross income (AGI). The following table reflects the changes to the credit proposed in S.B. 302.

Filing Status	AGI	Credit per qualified exemption to which taxpayer is entitled
Single or Married Filing Jointly	Under $20,000	$200
	$20,000 to $30,000	$150
	$30,000 to $40,000	$100
	$40,000 and over	$0
Head of Household	Under $30,000	$200
	$30,000 to $45,000	$150
	$45,000 to $60,000	$100
	$60,000 and over	$0

Joint Return/Surviving Spouse	Under $40,000	$200
	$40,000 to $60,000	$150
	$60,000 to $80,000	$100
	$80,000 and over	$0

S.B. 302 also increases the renters credit for inflation each taxable year beginning after December 31, 2022. It achieves this inflation increase by multiplying the existing dollar amount by the percentage, if any, by which the Consumer Price Index (CPI) for June 2020 exceeds the CPI for June 2021. This multiplied sum will be rounded to the nearest whole dollar and added to the existing dollar amount in the table. CPI is defined as "the urban Hawaii consumer price index for all urban consumers published by the United States Department of Labor or a successor index." S.B. 302 is effective upon approval and applies to taxable years after December 31, 2020.

First, the Department recommends amending the measure to use *federal* AGI as the threshold determinant for credit eligibility, as federal AGI can give a much more accurate representation of a taxpayer's financial situation.

Second, the Department recommends setting the inflation increase to occur every three years instead of annually. Because the CPI does not usually fluctuate significantly from year-to-year, the time and resources needed to annually recalculate and update the credit will likely outweigh any benefit to Hawaii taxpayers.

Finally, the Department is able to administer this measure with its current effective date.

Thank you for the opportunity to provide comments.

SUBJECT: INCOME, Increase low-income household renters credit and index it

BILL NUMBER: HB 131; SB 302

INTRODUCED BY: HB by SAYAMA, ICHIYAMA, LOWEN, MATAYOSHI, MCKELVEY, OKIMOTO, WILDBERGER, WOODSON, Belatti, Tam; SB by RHOADS

EXECUTIVE SUMMARY: Increases the amount of the tax credit for individuals and households and the adjusted gross income eligibility cap for the income tax credit for low-income household renters using tax brackets for individuals and different categories of households and providing for annual increases based on the consumer price index.

SYNOPSIS: Amends section 235-55.7, HRS, to amend the credit brackets as follows (MFS = married filing separately, HOH = head of household, MFJ = married filing jointly):

Adjusted gross income (single or MFS)	Credit per exemption
Under $20,000	$200
$20,000 under $30,000	$150
$30,000 under $40,000	$100
$40,000 and up	$ 0
Adjusted gross income (HOH)	Credit per exemption
Under $30,000	$200
$30,000 under $45,000	$150
$45,000 under $60,000	$100
$60,000 and over	$ 0
Adjusted gross income (MFJ or surviving spouse)	Credit per exemption
Under $40,000	$200

$40,000 under $60,000	$150
$60,000 under $80,000	$100
$80,000 and over	$ 0

For each taxable year beginning after December 31, 2022, each dollar amount contained in the table in subsection (c) shall be increased by an amount equal to that dollar amount, multiplied by the percentage, if any, by which the consumer price index for June of the preceding calendar year exceeds the consumer price index for June of 2021, rounded to the nearest whole dollar amount.

EFFECTIVE DATE: Taxable years beginning after December 31, 2020.

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 like 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. Act 230, SLH 1981, increased the credit amount to $50. Act 239, SLH 1989, increased the adjusted gross income (AGI) limit to $30,000 to claim the credit. The proposed measure may increase the amount of the credit from $50, depending upon income, and it would increase the AGI limit to $60,000. It does not increase the rent qualification amount – the taxpayer still will need to pay $1,000 in rent during a taxable year to qualify for the credit.

There are some issues to consider with refundable credits targeted at low-income and homeless people generally.

First, a tax return is one of the most complicated documents for government agencies to process. The administrative costs associated with each one can quickly make heads spin. Furthermore, as the U.S. Treasury has experienced with the Earned Income Tax Credit, the combination of complexity and a refundable credit result in a certain percentage of improper payouts, some due to mistake or misunderstanding, and some due to bad actors.

Second, the low-income household renters' credit does nothing for most of the homeless; the credit requires payment of more than $1000 in rent. And even for those in the target population who do qualify for this credit, the relief that the credit provides comes in a tax refund which is paid, at the earliest, in the early part of the year after the tax return filer needs the relief. A person who qualifies for the credit in 2020, for example, won't get a check until early 2021.

Third, as a policy matter, lawmakers might prefer that the recipient of the refund not use the money obtained on certain things, illegal drugs for example. But the tax system contains no way of restricting the uses of a refund check; other departments do have systems in place to give some assurance that the payment will go toward legitimate living expenses such as groceries (EBT, for example).

The better solution is to get such people out of the tax system entirely. They receive peace of mind because they don't have to worry about tax returns, and the department doesn't have to worry about processing those returns. If additional relief to such people is considered desirable, it can be delivered through the agencies that are better equipped to do so.

Digested 2/5/2021

HAWAI'I
AMERICANS FOR DEMOCRATIC ACTION

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February 4, 2021

TO: Chair Chang and members of HOU Committee

RE: SB302 Relating to Tax Credits

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 SB302 as it would increase low-income tax credits and index future credits to inflation. As the bill notes in its introduction, the level of credits has not been adjusted since 1981 despite a burgeoning of housing costs and concomitant houselessness. Tying the credit amount to the Consumer Price Index makes sense.

Thank you for your favorable consideration.

Sincerely,
John Bickel, President

ADA

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COMMITTEE ON HOUSING
TUESDAY, 2/9/21, 1 PM, Room No. 225

SB302 RELATING TO TAX CREDITS
TESTIMONY
Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair Chang, Vice-Chair Kanuha, and Committee Members:

The League of Women Voters of Hawaii supports this bill, which increases the decades-old income threshold and credit amounts for low income renters to receive a tax credit, adds consideration of household composition to the income threshold, phases out the tax credit for increasing incomes and annually increases the income threshold and credit amounts by the annual increase in cost of living in Hawaii.

The National Low-Income Housing coalition calculated in 2019 that to afford a one-bedroom apartment in Hawaii, a household needed to earn $28.04 an hour. Low income renters need all the help they can get to avoid falling into homelessness, as so many have even just in the past year.

Families with stable housing experience many advantages - their children are healthier and more likely to succeed in school, for example. There is far less burden on the state when people are stably housed than when they become homeless.

Please pass SB302 which will restore some of the value the low income renters tax credit had in the 80’s which has been lost to inflation, as the bill’s introduction makes clear.

Thank you for the opportunity to submit testimony.

SB 302, RELATING TO TAX CREDITS

FEBRUARY 9, 2021 · SENATE HOUSING COMMITTEE · CHAIR SEN. STANLEY CHANG

POSITION: Support.

RATIONALE: Imua Alliance supports SB 302, relating to tax credits, which increases the amount of the tax credit for individuals and households and the adjusted gross income eligibility cap for the income tax credit for low-income household renters using tax brackets for individuals and different categories of households and providing for annual increases based on the consumer price index.

Hawai'i is facing a looming eviction crisis. During COVID-19, unemployment skyrocketed to levels not seen since the Great Depression. A recent study found that our state is experiencing the slowest unemployment rate recovery in the nation, moreover, with our rate hovering at approximately 9 percent in December. Thousands of people who haven't lost their jobs have instead seen their employment hours and earnings slashed, as the economic downturn lingered throughout 2020 and into the new year.

Financial precarity has become the norm for many families, who are unable to pay their full mortgages or rent and have accumulated housing debts. Currently, the state's eviction moratorium protects these families from being removed from their homes. Yet, the eviction moratorium will eventually expire as the public health emergency passes, leaving thousands of people at risk of losing their housing. It is entirely plausible, though heartbreaking, that landlords may try to increase rental and other housing costs to recover economic losses that they incurred

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during the pandemic, which would take a huge toll on tenants who are still struggling to get back on their feet.

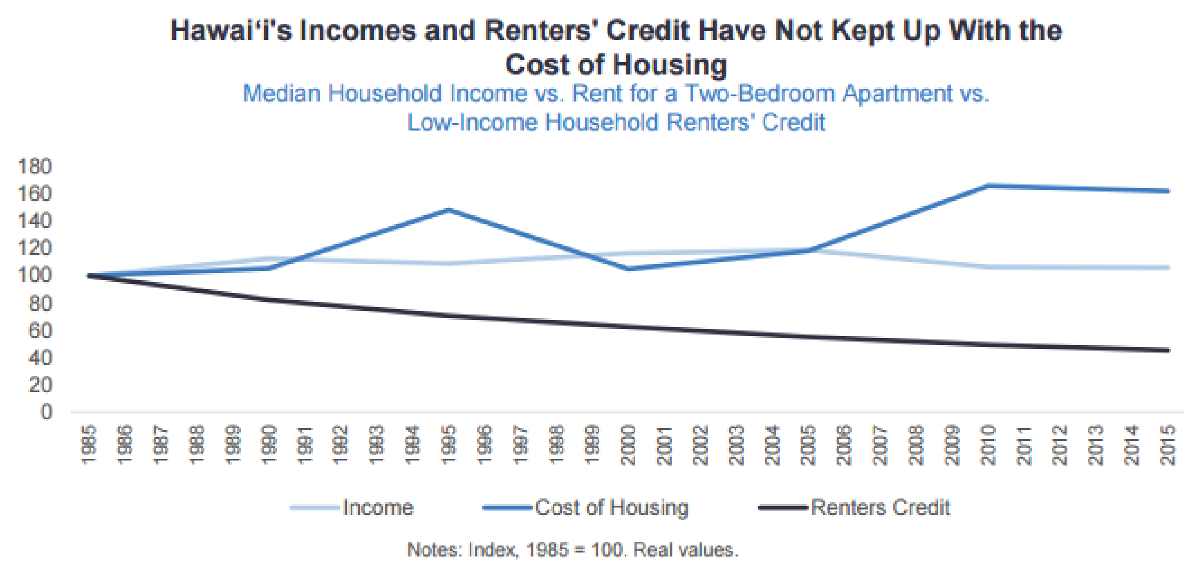
Today, **our state's ongoing lack of affordable housing exacerbates the economic insecurity suffered by local families, which sex traffickers use to prey upon potential victims with false promises of financial stability and prosperity.** Hawai'i residents face the highest housing costs in the nation, at more than twice the national average. Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2020* report found that a full-time worker would need to earn $38.76/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 $2,000 in recent years, with minimum wage workers needing to log 117 hours per week to afford a modest one-bedroom apartment at fair market value and 153 hours per week to afford a two-bedroom–a number that is equivalent to working over 20 hours a day with no days off year-round. In the past five years alone, Honolulu rent has increased by more than 25 percent. While 42 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 $17.17/hour, according to NLIHC, 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, over 60 percent of households are severely cost-burdened, following NLIHC data, meaning that they pay more than 30 percent of their income for housing costs, a number that rises to over 80 percent of extremely low-income households, with only 74 homes available for every 100 households earning 80 percent of their respective area's median income.

Notably, housing costs increased during the pandemic. In Honolulu, median single-family home prices reached a record of $880,000 last October, **driven largely by sales to residential property investors.** Unsurprisingly, our state is now experiencing population decline. Hawai'i saw domestic out-migration increase for a third consecutive year in 2019, as the state's high cost of living continued to push people to the mainland. Census estimates show that our state's population dropped by 8,866 people from July 2019 to July 2020, when births, deaths, and migration were accounted for. That population drop is nearly double the loss seen in 201, when Hawai'i one of just ten states in the country to lose population, according to the U.S. Census Bureau. People are simply being priced out of paradise.

To help ease Hawai'i's highest-in-the-nation cost of living, lawmakers must pass measures enhancing tax fairness and economic justice. Our state's low-income renters' credit is in dire need of adjustment. **In 1981, the LIHRC was set at $50. Later, in 1989, the income eligibility cutoff was established at $30,000, just above the median household income of the time. Yet, neither of these amounts have changed since the 1980s, leaving the amount of the credit lagging far behind inflation.** We must update the renters' credit to recover ground lost to inflation by increasing the maximum value of the credit to at least $200 and ensuring that the credit is automatically adjusted in future years according to increases in the consumer price index, which will prevent the value of the credit from trailing our skyrocketing cost of living.

FAILURE TO KEEP UP WITH COST OF LIVING



Kris Coffield · Executive Director, Imua Alliance · (808) 679-7454 · kris@imuaalliance.org

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
In Support of SB 302 – Relating to Tax Credits
Senate Committee on Housing
Tuesday, February 9, 2021, 1:00 PM, conference room 225

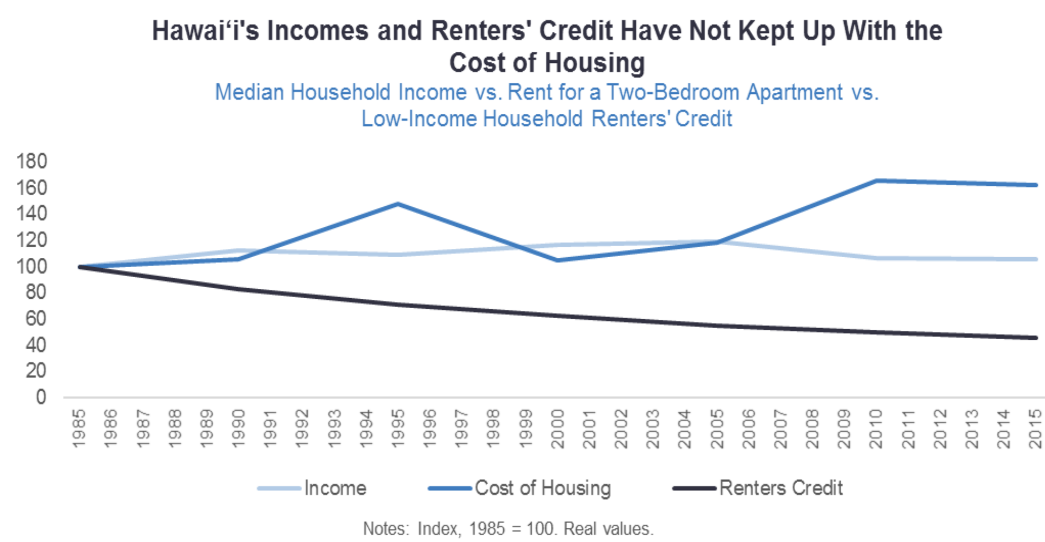
Dear Chair Chang, Vice Chair Kanuha, and members of the Committee:

Thank you for the opportunity to provide testimony in **SUPPORT** of **SB 302**, which would adjust the low-income household renters' credit to provide more help to more of the families who need the financial support that it provides.

With the pandemic-caused economic contraction in our state, targeted tax credits can not only help low-income and working-class families with financial support that they need, but also help support our overall economy by keeping money flowing to our local businesses. We know that lower-wage earners tend to spend every extra dollar that they have, which has a multiplier effect that boosts the local economy.

Even before the pandemic, Hawaiʻi residents were struggling to keep up with our state's sky-high cost of housing. A full-time worker in Hawaiʻi needs to make $38.76 per hour (or over $80,000 per year) to afford a 2-bedroom apartment, the highest "housing wage" in the nation.[i]

So it's no surprise that just over half (51 percent) of Hawaii's renters are housing-cost burdened -- paying at least 30 percent of their income on rent -- the 4th-highest proportion in the nation.[ii] And nearly two-thirds of Hawaiʻi residents living at or near the poverty line spend more than *half* of their incomes on rent.[iii]



Hawaiʻi's low-income household renters' credit was created 40 years ago to help make up for the high

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rents and tax rates that burden our low- and moderate-income neighbors. However, it has not been updated in over three decades, not even to simply keep up with inflation.

The amount of the credit was set nearly 40 years ago, in 1981, at $50 per exemption. The income eligibility limit was set over 30 years ago, in 1989, at $30,000, which was just above the median household income at that time. Neither of those levels have budged since then.[iv]

This bill increases the maximum value of the credit and its income eligibility limits to catch up with inflation. It also phases the credit out as incomes rise, in order to avoid a tax "cliff." This phase out is good tax policy. It avoids a situation in which a household of four, for example, would lose the full $800 in this tax credit when their annual income rises just over the limit.

In addition, this bill sets different income brackets for different types of households (married, single parent, and single) in order to account for the fact that it is much more difficult for a family of four, for example, to survive on $40,000 per year, than it is for a single person. This is another important positive aspect of the bill.

Thank you for your consideration of SB 302.

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[i] https://reports.nlihc.org/sites/default/files/oor/files/reports/state/HI-2020-OOR.pdf
[ii] https://www.jchs.harvard.edu/americas-rental-housing-2020
[iii] https://nlihc.org/sites/default/files/SHP_HI.pdf
[iv] http://tax.hawaii.gov/stats/a5_1annual/a5_4credits/