JOSH GREEN, M.D.
GOVERNOR

KEITH T. HAYASHI
SUPERINTENDENT

STATE OF HAWAI`I
DEPARTMENT OF EDUCATION
KA ʻOIHANA HOʻONAʻAUAO
P.O. BOX 2360
HONOLULU, HAWAI`I 96804

Date: 02/14/2023
Time: 02:00 PM
Location: 309 VIA VIDEOCONFERENCE
Committee: House Education
House Economic Development

Department: Education

Person Testifying: Keith T. Hayashi, Superintendent of Education

Title of Bill: HB 1049 RELATING TO INCOME TAX.

Purpose of Bill: Adds new tax credit for teacher's expenses. Adds an inflation index for the income tax brackets, personal exemption amount and standard deduction amounts. Increases the amounts for the income tax brackets, personal exemption amount and standard deduction amounts for tax year 2023. Increases the adjusted gross income amounts for the qualification of low-income credits. Increases the amount of the credits that assist working families.

Department's Position:
The Hawaii State Department of Education (Department) supports HB 1049. The Department appreciates efforts to address costs incurred by “qualified taxpayers” employed by the Department for certain “qualifying expenses” through a new tax credit. However, determining whether each employee meets the work hours criteria of at least nine hundred hours during a school year could be difficult to verify.

If the bill passes, the Department defers to the Department of Taxation for its proper implementation.

Thank you for the opportunity to provide testimony on this measure.

E X E C U T I V E   C H A M B E R S
K E   K E ʻ E N A   O   K E   K I A ʻ Ā I N A

JOSH GREEN, M.D.
GOVERNOR
KE KIAʻĀINA

House Committees on Education and Economic Development
Tuesday, February 14, 2023
2:00 p.m.
State Capitol, Conference Room 309 and Videoconference

In Strong Support
H.B. No. 1049, Relating to Income Tax

Chairs Woodson and Holt, Vice Chairs Marten and Lamosao, and members of the House Committees on Education and Economic Development:

The Office of the Governor strongly supports H.B. No. 1049, Relating to Income Tax. Also known as the Green Affordability Plan, or GAP, this measure seeks to improve the lives of people throughout our State, especially families and individuals who we know and see in our daily lives who are coping with difficult cost of living and quality of life challenges. The GAP is a multi-pronged approach that addresses financial hardship and inequality in our State.

The GAP recognizes that Hawaii has the highest cost of living in the country at nearly twice the national average and that our high cost of living is hurting families and individuals and our community well-being. H.B. No. 1049 offers several tax benefits that are aimed at improving the lives of individuals and our overall economy. This measure does so through several tax relief proposals. They include:

- **Establishing a tax credit for teacher expenses** by providing teachers with a $500 annual tax credit. This tax credit will help cover teachers' out-of-pocket school supply expenses and be an important step forward in addressing teacher retention and teacher recruitment.

- **Increasing income assistance to the lowest income families in our State and providing tax relief to low-and middle-income households and households with departments** by doubling the food excise tax credit, increasing the credit for low-income renters, and increasing the Earned Income Tax Credit, which is aimed at reducing taxes for low-income families and individuals.

- **Offering tax credits and relief to ALICE *(Asset Limited, Income Constrained, Employed)* households**, which represents the growing number of families who are unable to afford the basics of housing, childcare, food, transportation, health care, and technology. These tax credits will provide targeted benefits for working families that do not currently qualify for state tax credits but nonetheless are struggling to make ends meet in Hawaii.

- **Expanding the Child and Dependent Care Tax Credit** by proposing up to $10,000 of support for working families paying for daycare, babysitting, summer camps, afterschool care, and adult daycare. Expanding this tax credit will also provide relief for working families and help reduce the choice families may face in deciding whether to start a family or invest in a career.

Under the GAP, every income bracket in our State will pay less state income tax. The intent of GAP is to get money into the pockets of working families so that they can purchase essential goods and services such as food, medicine, and housing that in turn will stimulate Hawaii's economy. All residents, especially many working and low-income households, will benefit from this legislation.

H.B. No. 1049 is bold, and it is audacious. This measure recognizes that the needs of our communities are urgent, and the needs are extensive. Tax relief and other financial incentive legislation, including H.B. No. 1050, Relating to General Excise Tax Exemptions, that we as policymakers work on together this session will provide crucial relief and support to working households, needy individuals and families, and other residents throughout our State.

Thank you very much for the opportunity to provide testimony on this measure.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAIʻI
DEPARTMENT OF TAXATION
Ka ʻOihana ʻAuhau
P.O. BOX 259
HONOLULU, HAWAIʻI 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
H.B. No. 1049, Relating to Income Tax

BEFORE THE:
House Committee on Education and House Committee on Economic Development

DATE:	Tuesday, February 14, 2023
TIME:	2:00 p.m.
LOCATION:	State Capitol, Room 309

Chairs Woodson and Holt, Vice-Chairs Marten and Lamosao, and Members of the Committees:

The Department of Taxation (Department) supports H.B. 1049, an Administration measure, and offers the following comments for your consideration.

Section 1: Tax Credit for Teacher Expenses

Section 1 of the bill, beginning on page 1, creates a nonrefundable income tax credit for individuals employed by the Department of Education, a charter school, or a private school in the State as a kindergarten through twelfth-grade teacher who work at least 900 hours during the taxable year. The amount of the tax credit shall be equal to 80 percent of the amount expended for "qualifying expenses" in a taxable year. The credit is capped at $500 per taxable year per qualifying taxpayer.

Section 2: Standard Deduction

Section 2 of the bill, beginning on page 3, amends section 235-2.4(a), Hawaii Revised Statutes (HRS), by increasing the standard deduction amounts for tax year 2023, as follows:

Standard Deduction Amount		
	Current	HB 1049 (Tax Year 2023)
Joint/Surviving Spouse	$4,400	$10,000
Head of Household	$3,212	$7,500
Single/Married Filing Separate	$2,200	$5,000

Additionally, for each tax year beginning on or after January 1, 2024, the standard deduction amounts will be indexed to inflation using a cost-of-living adjustment factor.

<u>Section 3: Income Tax Brackets</u>

Section 3 of the bill, beginning on page 6, amends section 235-51, HRS, by indexing the income tax brackets to inflation. For tax year 2023, the changes to the tax brackets will be as follows:

Income Tax Brackets			
Joint Return/Surviving Spouse			
Current		HB 1049 (Tax Year 2023)	
If the taxable income is:	The tax shall be	If the taxable income is:	The tax shall be
Not Over $4,800	1.4% of taxable income	Not Over $5,126	1.4% of taxable income
Over $4,800 but not over $9,600	$67.00 plus 3.20% of excess over $4,800	Over $5,126 but not over $10,253	$72.00 plus 3.20% of excess over $5,126
Over $9,600 but not over $19,200	$221.00 plus 5.50% of excess over $9,600	Over $10,253 but not over $20,506	$236.00 plus 5.50% of excess over $10,253
Over $19,200 but not over $28,800	$749.00 plus 6.40 % of excess over $19,200	Over $20,506 but not over $30,758	$800.00 plus 6.40 % of excess over $20,506
Over $28,800 but not over $38,400	$1,363.00 plus 6.80% of excess over $28,800	Over $30,758 but not over $41,011	$1,456.00 plus 6.80% of excess over $30,758
Over $38,400 but not over $48,000	$2,016.00 plus 7.20% of excess over $38,400	Over $41,011 but not over $51,264	$2,153.00 plus 7.20% of excess over $41,011
Over $48,000 but not over $72,000	$2,707.00 plus 7.60% of excess over $48,000	Over $51,264 but not over $76,896	$2,891.00 plus 7.60% of excess over $51,264
Over $72,000 but not over $96,000	$4,531.00 plus 7.90% of excess over $72,000	Over $76,896 but not over $102,528	$4,839.00 plus 7.90% of excess over $76,896
Over $96,000 but not over $300,000	$6,427.00 plus 8.25% of excess over $96,000	Over $102,528 but not over $320,400	$6,864.00 plus 8.25% of excess over $102,528
Over $300,000 but not over $350,000	$23,257.00 plus 9.00% of excess over $300,000	Over $320,400 but not over $373,800	$24,839.00 plus 9.00% of excess over $320,400
Over $350,000 but not over $400,000	$27,757.00 plus 10.00% of excess over $350,000	Over $373,800 but not over $427,200	$29,645.00 plus 10.00% of excess over $373,800
Over $400,000	$32,757.00 plus 11.00% of excess over $400,000	Over $427,200	$34,985.00 plus 11.00% of excess over $427,200

Head of Household				
Current			HB 1049 (Tax Year 2023)	
If the taxable income is:	The tax shall be		If the taxable income is:	The tax shall be
Not Over $3,600	1.4% of taxable income		Not Over $3,845	1.4% of taxable income
Over $3,600 but not over $7,200	$50.00 plus 3.20% of excess over $3,600		Over $3,845 but not over $7,690	$54.00 plus 3.20% of excess over $3,845
Over $7,200 but not over $14,400	$166.00 plus 5.50% of excess over $7,200		Over $7,690 but not over $15,379	$177.00 plus 5.50% of excess over $7,690
Over $14,400 but not over $21,600	$562.00 plus 6.40 % of excess over $14,400		Over $15,379 but not over $23,069	$600.00 plus 6.40 % of excess over $15,379
Over $21,600 but not over $28,800	$1,022.00 plus 6.80% of excess over $21,600		Over $23,069 but not over $30,758	$1,092.00 plus 6.80% of excess over $23,069
Over $28,800 but not over $36,000	$1,512.00 plus 7.20% of excess over $28,800		Over $30,758 but not over $38,448	$1,615.00 plus 7.20% of excess over $30,758
Over $36,000 but not over $54,000	$2,030.00 plus 7.60% of excess over $36,000		Over $38,448 but not over $57,672	$2,168.00 plus 7.60% of excess over $38,448
Over $54,000 but not over $72,000	$3,398.00 plus 7.90% of excess over $54,000		Over $57,672 but not over $76,896	$3,629.00 plus 7.90% of excess over $57,672
Over $72,000 but not over $225,000	$4,820.00 plus 8.25% of excess over $72,000		Over $76,896 but not over $240,300	$5,148.00 plus 8.25% of excess over $76,896
Over $225,000 but not over $262,500	$17,443.00 plus 9.00% of excess over $225,000		Over $240,300 but not over $280,350	$18,629.00 plus 9.00% of excess over $240,300
Over $262,500 but not over $300,000	$20,818.00 plus 10.00% of excess over $262,500		Over $280,350 but not over $320,400	$22,234.00 plus 10.00% of excess over $280,350
Over $300,000	$24,568.00 plus 11.00% of excess over $300,000		Over $320,400	$26,239.00 plus 11.00% of excess over $320,400

Single				
Current			HB 1049 (Tax Year 2023)	
If the taxable income is:	The tax shall be		If the taxable income is:	The tax shall be
Not Over $2,400	1.4% of taxable income		Not Over $2,563	1.4% of taxable income
Over $2,400 but not over $4,800	$34.00 plus 3.20% of excess over $2,400		Over $2,563 but not over $5,126	$36.00 plus 3.20% of excess over $2,563
Over $4,800 but not over $9,600	$110.00 plus 5.50% of excess over $4,800		Over $5,126 but not over $10,253	$118.00 plus 5.50% of excess over $5,126
Over $9,600 but not over $14,400	$374.00 plus 6.40 % of excess over $9,600		Over $10,253 but not over $15,379	$400.00 plus 6.40 % of excess over $10,253
Over $14,400 but not over $19,200	$682.00 plus 6.80% of excess over $14,400		Over $15,379 but not over $20,506	$728.00 plus 6.80% of excess over $15,379
Over $19,200 but not over $24,000	$1,008.00 plus 7.20% of excess over $19,200		Over $20,506 but not over $25,632	$1,077.00 plus 7.20% of excess over $20,506
Over $24,000 but not over $36,000	$1,354.00 plus 7.60% of excess over $24,000		Over $25,632 but not over $38,448	$1,446.00 plus 7.60% of excess over $25,632
Over $36,000 but not over $48,000	$2,266.00 plus 7.90% of excess over $36,000		Over $38,448 but not over $51,264	$2,420.00 plus 7.90% of excess over $38,448
Over $48,000 but not over $150,000	$3,214.00 plus 8.25% of excess over $48,000		Over $51,264 but not over $160,200	$3,432.00 plus 8.25% of excess over $51,264
Over $150,000 but not over $175,500	$11,629.00 plus 9.00% of excess over $150,000		Over $160,200 but not over $186,900	$12,419.00 plus 9.00% of excess over $160,200
Over $175,000 but not over $200,000	$13,879.00 plus 10.00% of excess over $175,000		Over $186,900 but not over $213,600	$14,822.00 plus 10.00% of excess over $186,900
Over $200,000	$16,379.00 plus 11.00% of excess over $200,000		Over $213,600	$17,492.00 plus 11.00% of excess over $213,600

Additionally, for each tax year beginning on or after January 1, 2024, the threshold amounts will be indexed to inflation using a cost-of-living adjustment factor.

Section 4: Personal Exemption

Section 4 of the bill, beginning on page 17, amends section 235-54, HRS, by increasing the personal exemption amount, which has not been updated since 1984, as follows:

Personal Exemption	
Current	HB 1049 (Tax Year 2023)
$1,144	$2,288

Additionally, for each tax year beginning on or after January 1, 2024, the personal exemption amount will be indexed to inflation using a cost-of-living adjustment factor.

Section 5: Refundable Credit for Child and Dependent Care Expenses

Section 5 of the bill, beginning on page 18, amends section 235-55.6, HRS, which provides a refundable tax credit to individuals equal to the applicable percentage of employment-related expenses. The applicable percentage is based on the taxpayer’s adjusted gross income, and the total amount of employment-related expenses that may be claimed is capped at $2,400 for one qualifying dependent or $4,800 for two or more qualifying dependents.

The bill increases the applicable percentage of employment-related expenses that may be claimed for the credit, as follows:

Applicable Percentage of Employment-Related Expenses			
Current		HB 1049	
AGI	Applicable Percentage	AGI	Applicable Percentage
Not over $25,000	25%	Not over $150,000	50%
Over $25,000 but not over $30,000	24%	Over $150,000 but not over $165,000	45%
Over $30,000 but not over $35,000	23%	Over $165,000 but not over $180,000	40%
Over $35,000 but not over $40,000	22%	Over $180,000 but not over $195,000	35%
Over $40,000 but not over $45,000	21%	Over $195,000 but not over $210,000	30%
Over $45,000 but not over $50,000	20%	Over $210,000 but not over $225,000	25%
Over $50,000	15%	Over $225,000	20%

The bill also increases the cap on employment-related expenses that may be claimed, as follows:

Maximum Employment-Related Expenses		
	Current	HB 1049
One qualifying individual	$2,400	$10,000
2 or more qualifying individuals	$4,800	$20,000

Section 6: Refundable Tax Credit for Low-Income Household Renters

Section 6 of the bill, beginning on page 21, amends section 235-55.7, HRS, which provides a refundable tax credit of $50 per exemption to taxpayers with Hawaii adjusted gross income of less than $30,000 who occupy and pay rent for real property in the State for their residence or residence of their immediate family.

The bill (1) makes eligibility for the credit dependent on federal adjusted gross income instead of Hawaii adjusted gross income; (2) increases the minimum annual rental payment requirement from $1,000 to $2,500; and (3) increases the tax credit from $50 per exemption to up to $350 per qualified exemption, as follows:

Credit per Exemption			
Single	**Joint/Surviving Spouse**	**Head of Household**	**Credit per Exemption**
Under $20,000	Under $40,000	Under $30,000	$350
$20,000 under $30,000	$40,000 under $60,000	$30,000 under $45,000	$250
$30,000 under $40,000	$60,000 under $80,000	$45,000 under $60,000	$150
$40,000 and over	$80,000 and over	$60,000 and over	$0

Section 7: Refundable Earned Income Tax Credit

Section 7 of the bill, on page 24, amends section 235-55.75, HRS, by increasing the refundable Hawaii earned income tax credit (EITC) from 20% to 30% of the federal EITC allowed.

Section 8: Refundable Food/Excise Tax Credit

Section 8 of the bill, beginning on page 24, amends section 235-55.85, HRS, by doubling the refundable food/excise tax credit per exemption and increasing the AGI limits by $10,000 in all income brackets. The following table reflects the proposed changes to AGI and credit per exemption:

Credit Per Exemption					
Single					
Current			**HB 1049**		
AGI	Credit per exemption		AGI	Credit per exemption	
Under $5,000	$110		Under $15,000	$220	
$5,000 under $10,000	$100		$15,000 under $20,000	$200	
$10,000 under $15,000	$85		$20,000 under $25,000	$170	
$15,000 under $20,000	$70		$25,000 under $30,000	$140	
$20,000 under $30,000	$55		$30,000 under $40,000	$110	
$30,000 and over	$0		$40,000 and over	$0	
Head of Household/Married Filing Separate/Joint					
AGI	Credit per exemption		AGI	Credit per exemption	
Under $5,000	$110		Under $15,000	$220	
$5,000 under $10,000	$100		$15,000 under $20,000	$200	
$10,000 under $15,000	$85		$20,000 under $25,000	$170	
$15,000 under $20,000	$70		$25,000 under $30,000	$140	
$20,000 under $30,000	$55		$30,000 under $40,000	$110	
$30,000 under $40,000	$45		$40,000 under $50,000	$90	
$40,000 under $50,000	$35		$50,000 under $60,000	$70	
$50,000 and over	$0		$60,000 and over	$0	

The measure is effective upon approval and applies to taxable years beginning after December 31, 2022.

<u>Department's Comments</u>

The Department supports the Administration's initiative to lower the cost of living for working families in Hawaii and supports this bill's targeted approach at providing tax relief.

The Department understands that portions of the bill contain tax cliffs due to the income steps created to determine eligibility for the tax credits. These tax cliffs may be addressed through a gradual phaseout mechanism, which the Department can work with the Committee in creating.

The Department further notes that additional amendments to the bill may be considered, including indexing the disability deductions taken in lieu of the personal exemption to inflation, indexing the income limitations for the child and dependent care credit to inflation, and adding provisions that disallow the credits if a final administrative or judicial decision was made that the taxpayer committed fraud with respect to the credit. The Department can work with the Committee to provide amendments to address these items.

Finally, the Department acknowledges that this bill is a priority for the Administration and notes that the Department would be able to implement this measure by the current effective date. The Department further notes, however, that due to the number of bills with tax law changes that have been introduced this year, the Department may not have the resources to implement all measures passed this session in time for tax year 2023. The Department will continue to monitor the status of proposed legislation and will advise whether some changes will require a later effective date.

Thank you for the opportunity to provide comments on this measure.

JOSH GREEN, M.D.
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

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

STATE OF HAWAIʻI
DEPARTMENT OF BUDGET AND FINANCE
Ka ʻOihana Mālama Moʻohelu a Kālā
P.O. BOX 150
HONOLULU, HAWAIʻI 96810-0150

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

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEES ON EDUCATION AND ECONOMIC DEVELOPMENT
ON
HOUSE BILL NO. 1049

February 14, 2023
2:00 p.m.
Room 309 and Videoconference

RELATING TO INCOME TAX

The Department of Budget and Finance (B&F) strongly supports this Administration bill.

House Bill (H.B.) No. 1049, the Green Affordability Plan (GAP), addresses Hawaiʻi's high cost of living by lowering individual income taxes for Hawaiʻi residents as follows:

- Indexing individual income tax brackets, personal exemption amount and standard deduction amounts to inflation – all taxpayers benefit from this.
- Doubling the personal exemption amount to $2,288 – all taxpayers benefit from this.
- Increasing the standard deduction amount to $5,000 for single filers and $10,000 for joint filers – all taxpayers who do not itemize deduction benefit from this.
- Increasing the amount of qualified expenses for the child and dependent care tax credit to 50% for income up to $150,000 (credit decreases by 5% for every additional $15,000 of income up to $225,000) with a maximum allowable expense of $10,000 for one child and $20,000 for two or more children – working families with children benefit from this.

- Increasing the earned income tax credit from 20% to 30% of the federal earned income tax credit – low-income working families benefit from this.
- Doubling the refundable food/excise tax credit amounts and increasing the income threshold for eligible households to $40,000 for single filers and $60,000 for joint filers – lower income taxpayers benefit from this.
- Increasing the maximum low-income renters tax credit amount to $350 per exemption and creating additional income-tiered amounts, and increasing the income threshold to $40,000 for single filers and $80,000 for joint filers – lower income renters benefit from this.
- Establishing a new, nonrefundable educator tax credit of up to $500 per year for school supplies purchased by K-12 teachers – all teachers benefit from this.

B&F strongly believes that the GAP is a targeted, cost-effective approach to provide needed financial relief to Hawai‘i's residents. The GAP's primary focus is supporting Asset Limited, Income Constrained, Working (ALICE) and working class families but all Hawai‘i taxpayers will receive some benefits from this bill.

In terms of H.B. No. 1049's impact on the general fund financial plan, the Department of Taxation estimates that general fund tax revenues will be reduced by $312.7 million in FY 24; $335.8 million in FY 25; $357.2 million in FY 26; $375.7 million in FY 27; $395.5 million in FY 28; and $416.5 million in FY 29. On its face, these estimated revenue losses are large; however, the Council on Revenues' (COR) general fund revenue projections are more than sufficient to accommodate the GAP bill and other Administration bills submitted to the Legislature this session, as well as the Administration's budget message that was transmitted to the Legislature yesterday.

Attached is an updated general fund financial plan that incorporates the COR's January 2023 revenue projection changes and costings for the Administration's legislative package and budget message. The top part of the plan above the first dotted line is the financial plan for the December 19, 2022 FB 2023-25 Executive Biennium Budget, which is based on the COR's September 2022 revenue projections. The middle part of the plan between the two dotted lines reflects:

- Net impact of COR revenue projection changes based on its January 5, 2023 meeting;
- Estimated revenue losses from the Administration's legislative package (mainly from the GAP bill);
- Total general fund adjustments to the operating and CIP budgets from the Administration's budget message;
- Total general fund appropriations contained in the Administration's legislative package (Note: The $674.5 million reduction in FY 23 is offset by a $674.5 million increase in FY 24 to address the federal Elementary and Secondary School Emergency Relief (ESSER) proportional spending maintenance of effort (MOE) requirement in FY 23);
- Revenues over(under) expenditures for the respective fiscal years with all of the adjustments mentioned above; and
- Beginning and ending balances for the respective fiscal years.

As can be seen, the ending balances (above the bottom most dotted line) are healthy throughout FB 2023-25 and the planning period ending in FY 29.

Thank you for your consideration of our comments.

Attachment

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 22 - 29
(in millions of dollars)

	Adj.Act.* FY 22	Estimated FY 23	Estimated FY 24	Estimated FY 25	Estimated FY 26	Estimated FY 27	Estimated FY 28	Estimated FY 29
REVENUES:								
Executive Branch:	29.1%	6.5%	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%
Tax revenues	9,358.8	9,967.2	10,365.9	10,728.7	11,104.2	11,492.8	11,895.1	12,311.4
Nontax revenues	823.4	727.9	742.4	760.5	776.3	790.8	792.8	792.7
Judicial Branch revenues	29.4	32.1	29.3	29.3	29.3	29.3	29.3	29.3
Other revenues	(0.1)	(314.1)	71.0	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUES	10,211.5	10,413.1	11,208.6	11,518.4	11,909.7	12,312.9	12,717.1	13,133.4
EXPENDITURES								
Executive Branch:								
Operating	7,665.8	9,184.3	9,850.3	9,656.9	9,795.9	9,857.0	10,031.3	10,145.0
CIP	0.0	0.5	324.9	295.4	295.4	295.4	295.4	295.4
Specific appropriation/CB	1,079.2	1,767.6	-	-	-	-	-	-
Other expenditures/adjustments	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Sub-total - Exec Branch	8,745.0	10,957.4	10,180.1	9,957.3	10,096.3	10,157.4	10,331.7	10,445.4
Legislative Branch	42.4	44.6	44.9	44.9	44.9	44.9	44.9	44.9
Judicial Branch	166.0	174.1	184.7	188.9	188.9	188.9	188.9	188.9
OHA	66.3	2.3	3.0	3.0	3.0	3.0	3.0	3.0
Counties	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Lapses	(177.2)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	8,842.4	11,098.5	10,332.8	10,114.2	10,253.2	10,314.3	10,488.6	10,602.2
REV. OVER (UNDER) EXPEND.	1,369.1	(685.5)	875.8	1,404.3	1,656.5	1,998.6	2,228.5	2,531.2
CARRY-OVER BALANCE (DEFICIT)								
Beginning	1,249.9	2,619.0	1,933.5	2,809.3	4,213.6	5,870.1	7,868.7	10,097.3
Ending	2,619.0	1,933.5	2,809.3	4,213.6	5,870.1	7,868.7	10,097.3	12,628.4
Net impact of COR changes, 1.5.23 meeting		222.0	6.1	7.0	6.4	7.1	6.2	6.2
Green Administration Adjustments:								
Revenue bills			(291.1)	(314.2)	(335.6)	(354.1)	(373.9)	(394.9)
Budget Adj - Operating			743.1	678.0	228.0	228.0	228.0	228.0
Budget Adj - CIP			51.1	(1.4)	0.0	0.0	0.0	0.0
Appropriation Bills		(674.5)	839.7	11.3	8.2	8.2	8.2	8.2
REV. OVER (UNDER) EXPEND.	1,369.1	211.0	(1,043.2)	409.2	1,091.2	1,415.4	1,624.7	1,906.3
CARRY-OVER BALANCE (DEFICIT)								
Beginning	1,249.9	2,619.0	2,830.0	1,786.8	2,196.0	3,287.2	4,702.6	6,327.3
Ending	2,619.0	2,830.0	1,786.8	2,196.0	3,287.2	4,702.6	6,327.3	8,233.6
EBRF (adds $500M in FY23, Act 115/22; adds $500M in FY24 as included in the FB 23-25 Executive Budget Request)	325.8	972.8	1,502.2	1,552.2	1,602.4	1,654.2	1,707.4	1,762.2
EBRF fund balance as % of prior yr revenues	3.62%	9.53%	14.13%	14.21%	14.29%	14.28%	14.27%	14.27%

* unaudited

Notes:

Due to rounding, details may not add to totals.

The budgetary General Fund resources, expenditures and balances above are presented on a modified cash-basis. The State's normal practice is to utilize this modified cash-basis methodology for budgetary and financial planning purposes. Due to a combination of timing issues with enactment of various laws and accounting system limitations, certain transactions authorized for a fiscal year were recorded in the following fiscal year by the Department of Accounting and General Services. However, the financial plan records appropriations in the fiscal year for which the appropriation was authorized. In contrast, the State's audited financial statements are prepared on a modified accrual basis. Consequently, the modified cash basis information presented in this table is not directly comparable to the modified accrual basis information presented in the State's audited financial statements, and the differences in reporting may vary substantially.

HSTA
HAWAII STATE TEACHERS ASSOCIATION
Teaching Today for Hawaii's Tomorrow

1200 Ala Kapuna Street ♦ Honolulu, Hawaii 96819
Tel: (808) 833-2711 ♦ Fax: (808) 839-7106 ♦ Web: www.hsta.org

Osa Tui, Jr.
President

Logan Okita
Vice President

Lisa Morrison
Secretary-Treasurer

Ann Mahi
Executive Director

TESTIMONY BEFORE THE HOUSE COMMITTEE ON EDUCATION AND THE COMMITTEE ON ECONOMIC DEVELOPMENT

RE: HB 1049 - RELATING TO INCOME TAX

TUESDAY, FEBRUARY 14, 2023

OSA TUI, JR., PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Woodson, Chair Holt, and Members of the Committees:

The Hawaii State Teachers Association **supports HB 1049,** relating to income tax.

In a recent survey this month to its members across the islands, Hawaii State Teachers Association found the survey respondents reported spending an average of $953 of their own money a year on various classroom supplies.

Educators who answered the survey said they spent anywhere from $75 to $4,000 annually out of their own funds on various classroom supplies, conferences and many other expenses.

An Oʻahu high school teacher reported spending hundreds in personal money every year on basics, because "sometimes parents are unable to provide classroom supplies, so pencils, paper, composition books, etc."

An educator at a Hilo-area intermediate school listed annual personal spending of $1,000 on "typical classroom supplies: tablets, folders, binders, binder paper, construction paper, pencils, pens, tissue paper, paper towel, manila folders, sheet protectors. I also purchase snacks on a monthly basis and use it as a reward for my students. Chips, cookies, granola."

Another Oʻahu teacher reported spending between $1,000 to $1,500 a year on "subscriptions to educational apps and sites, art supplies, books for class library, school supplies for kids who cannot afford or parents don't buy, cleaning supplies, science experiment supplies, field trip fees for children who cannot afford it, lei for speakers/visitors, parking fees for workshops, professional development, recess equipment, and snacks for hungry children who miss 'free' breakfast on campus because they are tardy, etc."

A teacher on Maui reported spending $2,000 to $3,000 out of her own pocket each year on "books for classroom library, prizes for classroom store, decorations for classroom, student Christmas gifts, student end-of-the-year gifts, art supplies, classroom treats, teacher supplies, classroom supplies."

HSTA
HAWAII STATE TEACHERS ASSOCIATION
Teaching Today for Hawaii's Tomorrow

1200 Ala Kapuna Street ♦ Honolulu, Hawaii 96819
Tel: (808) 833-2711 ♦ Fax: (808) 839-7106 ♦ Web: www.hsta.org

Osa Tui, Jr.
President

Logan Okita
Vice President

Lisa Morrison
Secretary-Treasurer

Ann Mahi
Executive Director

A Kaua‘i teacher reported spending $3,000 a year on lab supplies, project supplies for class and science fairs, snacks for students, professional development and conferences, classroom/school supplies, and furniture.

With the nation's lowest cost of living adjusted salaries, increased healthcare costs, and high housing costs, teachers are struggling here. Their students' families are struggling, and teachers are spending more and more out of their own pockets for their students. In the case of classroom supplies, it's true that teachers "do it for the kids," purchasing materials out of their own paychecks as sometimes just the waiting for departmental or purchase order approval would often disrupt planned curricula and, in turn, student learning. Teachers won't abide that. Most times, the funds they need are not even available, even if their administrator would love to give it to them.

Notably, most teachers do not earn enough to claim the benefits of tax itemization– they cannot, for example, take mortgage deductions for homes that they cannot afford to buy.

The other problems this bill addresses also need to be heard and this bill passing can help solve them, as nearly half of children in Hawai‘i live in households experiencing financial hardship. While almost 1 in 8 are in poverty, and an additional one-third of families in Hawai‘i aren't officially poor, but still don't earn enough to afford the basic life essentials. Many working-age families are choosing to move to the mainland because of the high cost of living here. There are a number of social services to support struggling families in poverty, but working class families above poverty who still can't afford the basics often don't qualify for public benefits. That's where tax credits come in. They help people keep more of their hard-earned money, and when targeted for lower- to middle-income families, help reduce financial hardship.

Working families pay 15% of their incomes in state and local taxes; incomes that are already deeply strained by the high cost of living here. (By contrast, the wealthiest earners pay only 9% of their abundant incomes.) When you are barely making ends meet, that 15% doesn't leave a whole lot leftover. The EITC is a great way to help working families keep more of what they've earned through their hard work and boost the economy at the same time.

It's tough to make ends meet in Hawai‘i. Teachers understand. Teachers should also be credited for personally purchasing much needed school supplies for our students. Yes, this shouldn't be happening, our public schools, including our public charter schools, should be funded better, but they are not at this time. Our families in Hawai‘i are struggling. Accordingly, the Hawaii State Teachers Association asks your committee to **support** this bill.

holomua COLLABORATIVE

Josh Wisch
President & Executive Director

827 Fort Street Mall, 2nd Floor
Honolulu, Hawaii 96813

+1 (808) 909-3843
info@holomuacollaborative.org

HolomuaCollaborative.org

Committee:	**House Committee on Education**
	House Committee on Economic Development
Bill Number:	**HB 1049, Relating to Income Tax**
Hearing Date and Time:	**February 14, 2023 at 2:00pm (Room 309)**
Re:	**Testimony of Holomua Collaborative in support**

Aloha Chair Woodson, Vice Chair Marten, Chair Holt, Vice Chair Lamosao, and Committee Members:

We write in support of HB 1049. Relating to Income Tax. The purpose of HB 1049 is to make Hawaiʻi more affordable using a variety of approaches, including: adding a new tax credit for teacher's expenses; adding an inflation index for the income tax brackets, personal exemption amount and standard deduction amounts; increasing the amounts for the income tax brackets, personal exemption amount and standard deduction amounts for tax year 2023; increasing the adjusted gross income amounts for the qualification of low-income credits; and increasing the amount of the credits that assist working families.

Holomua supports innovative initiatives that help make Hawaiʻi affordable for all working families. We are especially interested in fostering cross-sector collaboration and supporting policies that are evidence-based. The multi-pronged approach embraced by HB 1049 achieves this.

> Innovation: The innovation present in HB 1049 is the targeted, yet comprehensive approach it takes to adjusting multiple aspects of the state tax system. And it does this in a way that primarily assists people in the lowest income brackets, while simultaneously providing some common-sense relief to everyone. As a result of this inclusive strategy, HB 1049 has the potential to be transformative for all working families in Hawaiʻi.
>
> Cross-sector collaboration: As noted in a recent Civil Beat article[1], the approach taken by HB 1049 has the support of business leaders and nonprofit leaders, ranging from Aloha United Way to the Chamber of Commerce. The multiple solutions that are part of HB 1049 were informed by discussions with advocates and experts. And some key components of HB 1049–such as indexing tax brackets for inflation–have been supported by groups ranging from the Institution on Taxation and Economic Policy (ITEP) to the Hoover Institution.
>
> Indexing tax brackets for inflation (a central piece of HB 1049) is also a good example of where the bill specifically aims to assist those in lower-to-

[1] "Nonprofit and Business Leaders Find Hope in Governor's Affordability Plan," Civil Beat, January 26, 2023 (https://www.civilbeat.org/2023/01/nonprofit-and-business-leaders-find-hope-in-governors-affordability-plan/)

middle income brackets. As ITEP has noted, inflationary tax hikes hit middle- and low-income families more heavily relative to their incomes, and the way tax structures can avoid this is through indexing.[2]

Evidence-based: As noted above, the innovation of HB 1049 is the holistic approach it takes, but few of the individual component pieces of the bill are new. Most have been implemented in other jurisdictions. For example, with respect to indexing tax brackets for inflation, Hawaiʻi is one of only 13 states with graduated-rate income taxes that does *not* currently index for inflation. Similarly, we know the renters' tax credit works, but we also know that since it hasn't been adjusted in almost three decades it does not help as many people as it should. And while they have been adjusted more recently, the same is true of the additional enhancements in HB 1049 to the food excise tax credit and the earned income tax credit. We don't have to wonder if any of these elements will have a positive impact on working families in Hawaiʻi: past data shows us that they will, but are due for adjustment.

With respect to the portion of HB 1049 that expands the state child and dependent care tax credit, we note that two independent vehicles to accomplish this (HB 241 and SB 1126) have not yet been set for hearing. As such, we provide some additional information specifically in support of this provision.

The cost of full-time child care has risen. This cost increase should be reflected in the tax credits allowed for expenses for household and dependent care services. This would help support the early learning programs that facilitate the academic and social development of young children. Full-time care programs also help parents obtain and retain stable employment, which increases the economic well-being of the whole family.

The child and dependent care tax credit helps offset the cost of child and dependent care for many working families, the majority of whom pay more for child care than for any other single household expense.[3] The credit is especially beneficial to the lowest-income working families who pay upwards of 33 percent of their income out of pocket on child care, a figure 4.5 times greater than the 7 percent benchmark for low-income working families suggested by the U.S. Department of Health and Human Services.[4]

For a time, families nationwide enjoyed an enhanced *federal* child and dependent care tax credit as part of the American Rescue Plan. Unfortunately,

---

[2] "Indexing Income Taxes for Inflation: Why It Matters," ITEP, August 22, 2016 (https://itep.org/indexing-income-taxes-for-inflation-why-it-matters-1/)
[3] "The Expanded Child and Dependent Care Tax Credit Can Reduce Families' Child Care Burden," Child Trends, February 10, 2022 (https://www.childtrends.org/blog/the-expanded-child-and-dependent-care-tax-credit-can-reduce-families-child-care-burden)
[4] Id.

that expansion of the tax credit was allowed to expire at the end of 2021. The federal expansion helped people pay for child and dependent care, which meant it helped them find work or continue working. The expiration of that expanded benefit means countless families–including in Hawai‘i–will now have a harder time finding care.

By filling the gap left when the federal expansion expired, this expanded state child and dependent care tax credit will increase workers' access to care services. This allows them to maintain the jobs that provide financial security for their families. It also means employers will have more comfort, knowing the people who work for them will likely be able to stay in their jobs rather than having to leave work to care for their children or other dependents.

Additionally, the child and dependent tax credit is widely utilized. According to the State Department of Taxation (DOTAX)[5], the child and dependent care tax credit is normally the third most claimed tax credit. It fell to fourth place in 2020 as more parents stayed home during the pandemic. In 2020, there were 15,547 claims worth $5.3 million for this credit, a 40.2% reduction from the 2019 amount of $8.7 million. According to DOTAX, the drop in the tax credit claims in 2020 was likely the result of the shutdown of child care centers and telework policies implemented during the Covid-19 pandemic, which led to less childcare spending by taxpayers.

But as more people go back to the office, we can expect that the need for the credit will rise. As a result, this is a good time to increase the value of the child and dependent care tax credit.

For the above reasons we support HB 1049 and its targeted, comprehensive approach, and appreciate the opportunity to testify.

Sincerely,

Josh Wisch
President & Executive Director

[5] “COVID-19 reduced the usage of the Child Care Tax Credit,” DOTAX, November 2022 (https://tax.hawaii.gov/blog/blog11-child-care-tax-credit/)

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
In Support of HB 1049 – Relating to Income Tax
House Committee on Education, House Committee on Economic Development
Tuesday, February 14, 2023, 2:00 PM, conference room 309

Dear Chair Kapela, Chair Holt, and members of the Committees:

We would like to express our **support** of HB 1049, which would implement a host of tax reforms that would be of particular help to struggling working families in Hawaiʻi.

We commend the work and thinking behind the bill and would support passing it *as is* because it would be a significant improvement for Hawaiʻi workers whose wages aren't enough to cover the cost of living. It would also bring greater balance to our tax system, in which struggling workers pay a larger proportion of their income in taxes than the wealthiest taxpayers. But we would also like to recommend additional improvements to ensure that the benefits are better targeted to strengthen our economy, our community, and the people who have the greatest need for relief.

Hawaiʻi's working families are struggling more than ever to make ends meet, causing tens of thousands of cost-strapped residents to leave the state each year. A record 44% of Hawaiʻi's population cannot afford housing, child care, transportation, food, and other basic necessities.[1] Drastic action is required to reverse this trend and make Hawaiʻi a place where all residents can thrive and support their families for generations to come. Immediate solutions are necessary to achieve this vision, and Hawai`i's income tax system is an effective way to deliver targeted assistance to local families.

We appreciate the opportunity to share the below highlights of how HB 1049 will help to meet those needs, and recommendations for improvements.

The Highlights of HB 1049

On the whole, Hawaiʻi' Appleseed supports the tax relief and income adjustment measures within HB 1049. We would like to highlight the proposed expansions to the state Earned Income Tax Credit (EITC), Refundable Food/Excise Tax Credit, and Low-Income Renter's Credit in particular.

Earned Income Tax Credit and Refundable Food/Excise Tax Credit
The EITC and Refundable Food/Excise Tax Credit provide tax refunds to low- and middle-income taxpayers, depending on their income and the number of dependents in their household. In tax year 2020, the state EITC delivered $20.98 million in tax relief to local taxpayers, while the Refundable

[1] "ALICE in Hawaiʻi: 2022 Facts and Figures," Aloha United Way, 2022.
https://www.auw.org/sites/default/files/pictures/ALICE%20in%20Hawaii%20-%202022%20Facts%20and%20Figures%20Full%20Report.pdf

Food/Excise Tax Credit distributed a total of $29.58 million. Since the state EITC and the Refundable Food/Excise Tax Credit phase out with higher incomes, they are targeted at the lower-income taxpayers who need them the most. Furthermore, these tax credits are refundable, which means they still benefit individuals who owe little to nothing in income taxes.

We support HB 1049's initiative to raise the value of Hawaiʻi's EITC from 20% to 30% of the federal EITC. Such an increase would put rank Hawai`i among the highest states in the nation, a position that makes sense given Hawai`i's high cost of living and the dire need for supporting working families here (only five other states and the District of Columbia would have higher EITCs, ranging between 36% and 100%). This would build on the state legislature's historic accomplishment of making Hawaiʻi's EITC permanent and refundable in 2022, while still leaving open the possibility of future increases to continue to help close the affordability gap for Hawai`i residents.[2]

In a similar vein, we support HB 1049's provision to double the credit per exemption for the Refundable Food/Excise Tax Credit and increase the income cap for qualification. With these improvements, the credit—which is already the most commonly claimed credit in the state—would reach more local residents who cannot afford Hawaiʻi's rising food prices.

Low-Income Renter's Credit
Finally, we support HB 1049's proposal to increase the income limits and credit size of the Low-Income Renter's Credit. The lack of affordable rentals is one of the principal drivers behind the high cost of living in Hawaiʻi. Demonstrating this point, 20% of Hawaiʻi's renter households are extremely low income, and 66% of these households face a severe cost burden with their rent.[3] By expanding the Low-Income Renter's Credit, lawmakers could help to keep more local renters in stable, long-term housing.

Recommendations

HB 1049 would put into place powerful improvements to our tax structure that would both help struggling working families and increase balance and equity. While we support passage of the bill as is, we recommend adjustments that will make the reform proposed even more effective.

These recommendations are based on two key concepts.

1. *Both cuts and revenue are needed to promote affordability.*

   While income tax cuts and credits can help to eliminate financial pressures on the many Hawaiʻi workers who cannot afford even basic necessities, they need to be made in a balanced way to ensure that reductions in revenue do not impede progress on the very same issues the tax cuts and credits are intended to assist with. For example, expanding the Child and Dependent Care Tax Credit as proposed by HB 1049 is a helpful means of lowering child care costs.

---

[2] https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/states-and-local-governments-with-earned-income-tax-credit;
https://www.dcfpi.org/all/dcs-earned-income-tax-credit-most-generous-in-the-nation-but-not-the-most-inclusive/
[3] https://nlihc.org/housing-needs-by-state/hawaii

But it is critical that such a credit be accompanied by significant public investments in child care so that providers can pay adequate wages that will ensure sufficient staffing for child care services that meet community needs. Otherwise, the current shortage of childcare "seats" will continue, only higher income households will be able to afford child care and benefit from the credit, and people who want to work won't be able to because of unmet child care needs. Precise targeting of tax cuts and credits helps ensure that Hawai'i does not lose revenue that is critically needed for a robust social infrastructure that includes widely-available child care, affordable housing, a strong education system (with adequate teacher pay), and other community needs.

2. *We need to reduce inequities in our tax structure.*

Additionally, tax reform efforts are needed to create a healthier balance with respect to where revenues come from. Currently, lower-income families pay a significantly higher percentage of their income toward state and local taxes than do higher-income families.

Figure 7. Percentage of Income Paid in State and Local Taxes by Income Bracket

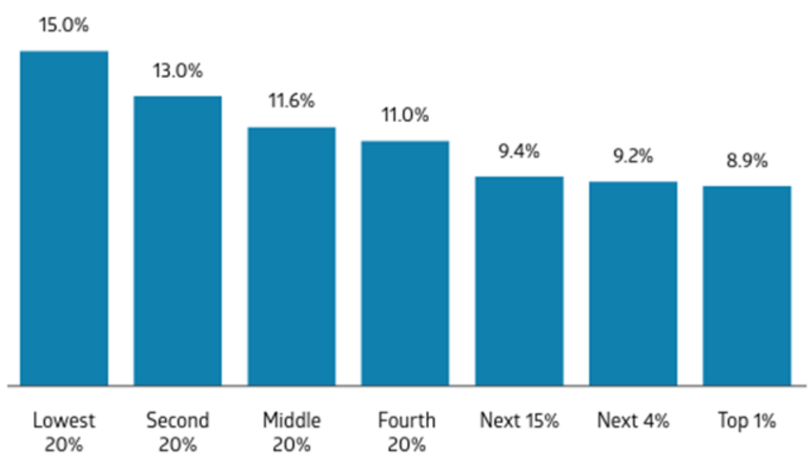


Figure 7. Lower-income households pay a greater proportion of their income in taxes than more affluent households. This is due largely to Hawai'i's broadly-applied General Excise Tax. The data here comes from the Institute on Taxation and Economic Policy (ITEP)'s "Who Pays" report (6th edition).

The regressivity and inequity illustrated above is attributable to the way our tax system is structured, including our heavy reliance on General Excise Tax (GET) and tax policies such as a tax break on capital gains. While the GET is good overall because it is broad-based, recession-resistant, and paid for in significant part with tourist dollars; it is also regressive because lower-income families pay a higher share of the income toward GET when they pay for basic necessities. Hawai`i's current tax break on capital gains means that the wealthiest taxpayers are paying a lower marginal tax rate on their income from capital gains than they are from their regular income—unlike most regular workers. This policy is at odds with the ideas of encouraging work and supporting the working families that are the backbone of our economy.

With these concepts in mind, we make the following recommendations for HB 1049 and related tax reforms:

- **Implement an income cap for the CDCTC target benefits to low- and moderate-income**

households. Under HB1049's current language, households with incomes up to $225,000 can still receive a 20% refundable credit for costs up to $10,000. To drive benefits to low- and moderate-income households, the legislature should consider adjusting eligibility to taper off to a cap of 300 to 400 percent of the poverty level. In 2020, for a family of four, annual income at 300 percent of poverty was $90,400 and 400 percent was $120,500 while the average median income was $101,600.

- **Consider creating a state level Child Tax Credit or "Keiki Credit" to offset the high cost of raising children in Hawaii.** Building on the success of the federal expansion of the child tax credit through the American Rescue Plan, Hawaiʻi should consider passing a state level child tax credit that complements the federal CTC and EITC. During the pandemic, the expanded federal CTC lifted almost 3 million children out of poverty during the 2021 expansion. While the federal government has failed to renew this highly effective expansion, Hawaiʻi has an opportunity to help fill the gap left by federal inaction and invest in the financial security of our keiki and working families by creating a Hawaiʻi state child tax credit. Language for creating a Hawaii CTC can be found in HB233.

- **Generate additional revenue that can be used to make complimentary investments in child care and other key programs by closing the capital gains tax loophole.** Hawaii's capital gains tax Capital gains–the profits that come from selling a capital asset, such as stocks, bonds, art, antiques or real estate–are currently taxed at a lower rate (7.25%) than ordinary income, giving Hawaiʻi's wealthier taxpayers a distinct advantage over taxpayers with lower incomes. Data shows that 77 percent of the long-term capital gains in Hawaiʻi are earned by the wealthiest taxpayers (with incomes of $400,000 or more).[4] Consequently, compared to lower-income individuals who earn their income through regular work, the wealthy are taxed at a favorable rate for a large portion of their income. To ensure tax equity—and garner revenue for the expansion of programs such as the EITC and CDCTC—capital gains should be taxed at the same rate as ordinary income. Language for closing the capital gains tax loophole can be found in HB232.

HB 1049 will help working households meet critical needs for child care and other necessities, and it will help reduce inequity in our tax system. But it can be improved to better target tax relief, further boosting equity and the state's ability to preserve revenue that can be invested in housing, child care and other social infrastructure that increases affordability for residents.

Thank you for your consideration of HB 1049.

[4] Ibid.

HCAN Speaks!
Hawai'i Children's Action Network

Hawai'i Children's Action Network Speaks! is a nonpartisan 501c4 nonprofit committed to advocating for children and their families. Our core issues are safety, health, and education.

To: House Committees on Education and Economic Development

Re: **HB 1049 - Relating to Income Tax**
Hawai'i State Capitol and via videoconference
February 14, 2023, 2:00 PM

Dear Chairs Woodson and Holt, Vice Chairs Marten and Lamasao, and Committee Members,

On behalf of Hawai'i Children's Action Network Speaks!, I am writing **in SUPPORT of HB 1049.** This bill adds a new tax credit for teacher's expenses; adds an inflation index for the income tax brackets, personal exemption and standard deduction amounts; increases the amounts for the income tax brackets, personal exemptions and standard deductions; increases the adjusted gross income amounts for the qualification of low-income credits; and increases the amount of the credits that assist working families.

This bill makes many changes to the state's personal income tax code that would reduce the tax bill for nearly every household in the state as well as boost tax credits that help working families make ends meet.

Nearly half of children in Hawai'i live in households experiencing financial hardship. While almost 1 in 8 are in poverty, an additional one-third of families in Hawaii aren't officially poor but still don't earn enough to afford the basic life essentials.[1]

While there are a number of social services to support struggling families in poverty, working class families above poverty who can't afford the basics often don't qualify for public benefits. As a result, many working-age families are moving out of state.

That's where tax credits come in. They help people keep more of their hard-earned money, and when targeted for lower- to middle-income families, help reduce financial hardship. We find two tax credits to be especially helpful to families with children: the Child and Dependent Care Tax Credit (CDCTC) and the Earned Income Tax Credit (EITC).

The cost of full-time child care in Hawai'i has skyrocketed. Accordingly, we need to increase the income tax credits allowed for expenses for child and dependent care services to ensure that these credits reflect the economic reality of working families.

The CDCTC is currently capped at 25% of care expenses and $2,400 for one child or dependent or $4,800 for two children or dependents. And it phases out as incomes rise.

With the average cost of child care in Hawai'i exceeding $13,000 per year, families need more support.[2] This bill would expand the reach of the CDCTC to more families, increase the portion of care expenses that they can claim, and more than double how much they can get – up to $5,000 per child.

[1] https://www.auw.org/sites/default/files/pictures/ALICE-in-Focus-Children-Hawaii%20%283%29.pdf
[2] https://www.childcareaware.org/our-issues/research/the-us-and-the-high-price-of-child-care-2019/

PO Box 23198 • Honolulu, HI 96823 • 808-531-5502
speaks.hawaii-can.org • info@hcanspeaks.org

Helping families afford to enroll their keiki in child care programs also reaps benefits for their parents and our community in other ways:

- Full-time child care programs allow parents to obtain stable employment, which increases the economic well-being of the family as a whole.
- Additionally, early learning programs facilitate the academic and social development of young children and should be supported. Research on the benefits of quality early learning programs indicates that for every $1 invested in such opportunities, society saves $4 to $8 on remedial classes, special education, welfare programs, and criminal justice costs.

EITC is a special tax credit for families that work. This credit helps them keep more of what they earn. It is designed to provide the greatest help to working families with children who earn low- to moderate-incomes. The amount of the credit goes up when a family has more children and phases out as income rises.

There's a lot of evidence that ensuring families have enough to cover their basics is good for their kids, their communities and the economy as a whole. The evidence shows that this investment helps kids from before they're even born through their adult lives. It improves their physical and mental health by freeing up money for families to spend on healthcare and healthy food. It improves education results, which has economic benefits down the road.

Hawaii's EITC is based on the federal EITC, which has been considered one of the most effective anti-poverty tools in our nation for over 40 years. Research on the federal EITC has found that it leads to:[3]

- Better health through improved birth outcomes and greater food security
- Greater educational achievement, as evidenced by higher high school graduation rates and increased college enrollment
- Higher earnings as adults among kids who grew up in families that received the EITC
- Boosted economic growth, as $1 in EITC benefits creates about $1.24 in local economic activity

Working families pay 15% of their incomes in state and local taxes, and those incomes that are already deeply strained by the high cost of living here. By contrast, the wealthiest earners pay only 9% of their abundant incomes.[4]

This bill would increase the state EITC from 20% to 30% of a family's federal EITC. For example, a single mom in Hawaii with 2 kids who works full time at minimum wage makes almost $25,000 per year. She qualifies for a federal EITC of $5,148. Her current state EITC, set at 20% of the federal, is $1,030. This bill would increase her EITC to 30%, or $1,544 – that's an additional $514 to help her make ends meet.

Mahalo the opportunity to provide this testimony. Please pass this bill.

Thank you,
Nicole Woo, Director of Research and Economic Policy

---

[3] https://d3n8a8pro7vhmx.cloudfront.net/goodbeginnings/pages/2185/attachments/original/1643319710/EITC_Report_REV3_FINAL.pdf?1643319710
[4] https://itep.org/whopays/hawaii/

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Lower-Income and Teacher Tax Credits; Broad Tax Relief

BILL NUMBER: HB 1049, SB 1347 [GOV-01]

INTRODUCED BY: HB by SAIKI; SB by KOUCHI (Governor's Package)

EXECUTIVE SUMMARY: Adds new tax credit for teacher's expenses. Adds an inflation index for the income tax brackets, personal exemption amount and standard deduction amounts. Increases the amounts for the income tax brackets, personal exemption amount and standard deduction amounts for tax year 2023. Increases the adjusted gross income amounts for the qualification of low-income credits. Increases the amount of the credits that assist working families.

SYNOPSIS:

Tax Credit for Teacher Expenses

Adds a new section to HRS chapter 235 to allow qualifying taxpayers to claim a tax credit of 80% of qualifying expenses, up to $500. The credit shall be deductible from the taxpayer's income tax liability for the taxable year the credit is properly claimed.

Defines "qualifying taxpayer" as an individual employed by the department of education, a charter school, or a private school in the State as a kindergarten through twelfth-grade teacher for at least nine hundred hours during the tax year.

Defines "qualifying expenses" as expenses paid or incurred by a qualifying taxpayer in connection with books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment, and supplementary materials used by the qualifying taxpayer in the classroom.

Specifies that no other tax credit or deduction may be claimed for Hawaii income tax purposes for the certain expenses used to claim this tax credit for the taxable year.

The credit is not refundable but may be carried forward until exhausted.

Claims for the credit, including any amended claims, must be filed on or before the end of the 12th month following the close of the taxable year. Failure to do so will result in waiver of the credit.

Requires the director of taxation to prepare any necessary forms. Allows the department to require the taxpayer to furnish reasonable substantiation and adopt necessary rules pursuant to HRS chapter 91 to carry out this section.

Increase in Standard Deduction and Bracket Relief

Amends section 235-2.4(a)(2), HRS, to raise the standard deduction.

Filing Status	Existing Law	New Standard Deduction
Married filing jointly, or surviving spouse	$4,400	$10,000
Head of household	$3,212	$7,500
Single, or married filing separately	$2,200	$5,000

Adds a provision requiring the above standard deduction amounts to be annually indexed for inflation following the Urban Hawaii Consumer Price Index, or, if discontinued, the Chained Consumer Price Index.

Amends section 235-51, HRS, to increase each tax bracket amount for individuals, by 6.8%.

Adds a provision requiring the above bracket amounts to be annually indexed for inflation following the Urban Hawaii Consumer Price Index, or, if discontinued, the Chained Consumer Price Index.

Amends section 235-54, HRS, to double the personal exemption amount, from $1,144 to $2,288.

Adds a provision requiring the above personal exemption amounts to be annually indexed for inflation following the Urban Hawaii Consumer Price Index, or, if discontinued, the Chained Consumer Price Index.

Credits for Tax Relief to Lower-Income Households

Amends section 235-55.6, HRS (credit for expenses for household and dependent care services necessary for gainful employment), to increase the credit brackets, credit rates, and dollar limits on amount creditable.

Amends section 235-55.7, HRS (credit for low-income household renters) to increase the credit per exemption from a flat $50 to a variable amount up to $350 based on federal adjusted gross income.

Amends section 235-55.75, HRS (Earned income tax credit) to increase the credit amount from 20% to 30% of the federal EITC.

Amends section 235-55.85, HRS (Food/excise tax credit) to increase the credit brackets and credit amounts.

EFFECTIVE DATE: Taxable years beginning after December 31, 2022.

STAFF COMMENTS: This bill is an Administration bill sponsored by the Office of the Governor and is designated GOV-01 (23). This bill has been called the centerpiece of the Governor's tax relief agenda.

Tax Credit for Teacher Expenses

This measure proposes a tax credit of $500 or 80% of certain out-of-pocket expenses incurred by a teacher. The credit proposed in this measure would be granted without regard to a taxpayer's need for tax relief. It should be remembered that using the tax system to achieve social goals, as this measure proposes, is an inefficient means of accomplishing such goals.

Most of us have heard stories about teachers in the public school system who have been forced to use their own funds for classroom materials, and we know that isn't right. But the problem is with the bureaucratic system of requesting the funds and having the system take as much as six months to approve the money. The money has been appropriated, and it is the system that is frustrating. Thus, instead of using the tax system to "compensate" these teachers, first consideration should be given to "fixing the system."

The suggestion has been made time and time again to give teachers debit cards of some type for the classroom supplies budget under EDN 100. The cards could be credited with a predetermined amount and could be encoded so that only defined classroom supplies could be purchased with that debit card. Such a system already has been employed to administer the state's food stamp program, so why can't a similar system be established for classroom supplies rather than mucking up the tax system and ignoring the budgeting and appropriation processes?

Instead of just throwing money at a problem, in this case a tax credit, lawmakers should demand that the department fix the problem with the money that is there. It is the bureaucracy that needs to be addressed. Since the tax credit is an indirect additional burden on all remaining taxpayers as it shifts the burden to those not so favored, this proposal amounts to a tax increase and steals money from other programs.

Other technical considerations that lawmakers should consider if the bill is to go forward are:

There appears to be no requirement that the expense be unreimbursed. To prevent unintended benefit, reimbursed amounts should not be creditable and there should be recapture consequences if credited amounts are reimbursed.

Increase in Standard Deduction and Bracket Relief

This bill proposes to bring broad-based tax relief to Hawaii individual taxpayers (note that trusts, estates, and corporate rates and brackets are unaffected). This relief is welcome because Hawaii taxpayers have been "bracket creeped" for a long time. To explain this, here is our weekly commentary from June 29, 2014:

> **We've Been Bracket Creeped!**
>
> Every year the IRS adjusts more than forty tax provisions for inflation. This is done to prevent what is called "bracket creep." This is the phenomenon by which people are pushed into higher income tax brackets or have reduced value from credits or deductions due to inflation instead of any increase in real income.

The IRS uses the Consumer Price Index (CPI) to calculate the past year's inflation and adjusts income thresholds, deduction amounts, and credit values accordingly.

In 2014, the top marginal income tax rate of 39.6 percent will hit taxpayers with an adjusted gross income of $406,751 and higher for single filers and $457,601 and higher for married filers.

The standard deduction, which all taxpayers can claim if they want it, increased by $100 from $6,100 to $6,200 for singles. For married couples filing jointly, it increased by $200 from $12,200 to $12,400. The personal exemption amount, which is available for all persons living in a household including the filer, increased by $50 to $3,950.

What does Hawaii do? For some reason, in 1978 when Hawaii adopted its present system of conforming to the federal Internal Revenue Code, inflation adjustments were left off the table. At that time, it took a lot of work and money to change our hard-coded computer systems to accept different rates and different threshold amounts. Over a long period of time, people's income rose, but our tax thresholds didn't.

As a result, today a single person making an amount equal to the federal poverty level, assuming they took one personal exemption (presently $1,144) and the standard deduction (now $2,200), would be taxed at our fourth tax bracket with a rate of 6.4%. Our top income tax rate, not counting the "temporary" rate increases adopted in 2009 and scheduled to sunset next year, is 8.25%.

What does that mean? We've been bracket creeped!

Being bracket creeped means that we are taxing the poor deeper into poverty. Fixing the issue, however, is not so simple because if we simply fixed the rates to tax lower income dollars at a lower rate, those rates would affect almost the entire population of our state and would result in massive revenue loss if we don't do it right. If we are going to do this right, we need to re-engineer our brackets to give relief to the people who need it, to be revenue neutral or close to it for those in the middle, and maybe ask a little more of the people now exposed to the 9%, 10%, and 11% rates. That would bring back the "progressivity," the principle of imposing the tax based on the ability to pay that has been slowly, but surely, vanishing from our income tax system as a result of bracket creep.

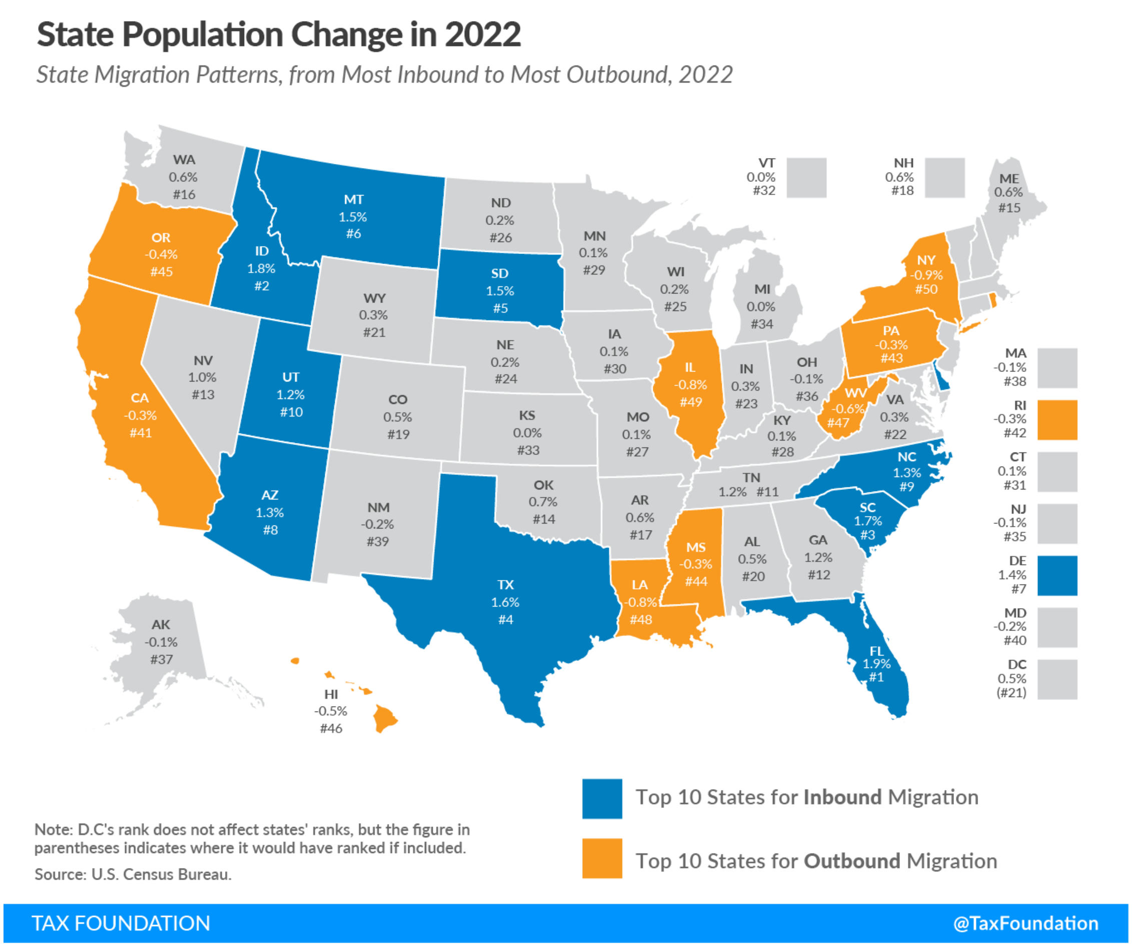
As to the 9%, 10%, and 11% rates, we need to remember that we taxpayers were promised back in 2009, that these rates would be temporary. The mindless thing to do would be to leave the existing brackets in place and make the higher rates permanent – and I'm sure there will be bills introduced in the 2015 legislative session to do just that. Lawmakers can and should be smarter about this issue, and hopefully they can deal with poverty relief at the same time they consider appropriate levels for the personal exemption, standard deduction, and the state's tax bracket structure.

Because if they don't, we can just call them bracket creeps.

Yamachika, "We've Been Bracket Creeped!" at https://www.tfhawaii.org/wordpress/blog/–2014/06/weve-been-bracket-creeped/ (June 29, 2014).

Since the time this article was written, we've been bracket creeped even further. Today, a family of four making the Federal Poverty Line amount for Hawaii, which is $34,500 for 2023 according to the U.S. Department of Health and Human Services (at https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines), would be in the *fifth* state tax bracket. Thus, the Legislature should consider consolidating some of the lower brackets, which are virtually meaningless today although they may have had some significance in the 1960's when they were first introduced into the Hawaii tax law.

Tax relief is not only welcome but needed. When people are squeezed economically by the cost of living, taxes, and inefficient bureaucracy, they can and do vote with their feet – by getting on planes, for example. Data from the Census Bureau show what we have suspected all along, that our population has been, and still is, going down. A press release from the Census Bureau on Dec. 21, 2021 states that of the ten states that lost the most population between July 1, 2020 and 2021, Hawaii was No. 4 on the list, losing 0.7%. (https://www.census.gov/newsroom/press-releases/2021/2021-population-estimates.html).



The national Tax Foundation, analyzing the data, found that Americans were on the move in 2022 and chose low-tax states over high-tax ones. Fritts, "Americans Moved to Low-Tax States in 2022," at https://taxfoundation.org/state-population-change-2022/ (Jan. 10, 2023). Tax relief, therefore, might help to slow or reverse the population trend.

(Per https://github.com/TaxFoundation/brand-assets, the Tax Foundation permits the limited fair use of its assets by third parties for the purposes of identifying the Tax Foundation and its work in public discourse. These assets may not be used for commercial or fraudulent purposes.)

Credits for Tax Relief to Lower-Income Households

While it appears that this measure proposes tax relief to lower income taxpayers, consideration should be given to adjusting the income tax rates or the threshold amounts so those taxpayers that these credits are aimed to help will not need to claim these credits to get tax relief (or forfeit the credits if they fail to do so).

We in Hawaii have several disparate programs and tax credits aimed at poverty relief. This measure adjusts four of them: the state earned income tax credit (HRS section 235-55.75), the food/excise tax credit (HRS section 235-55.85), tax credit allowed to low-income household renters (HRS section 235-55.7) and credit for those with dependent care expenses necessary for gainful employment (HRS section 235-55.6). Many of the credits have non-duplication provisions and all have strict time limits on when they may be claimed upon pain of credit forfeiture. Apparently, lawmakers of the past had many different ideas on how to address the problem of poverty in Paradise but couldn't figure out which program to go with, so they adopted them all. The principal disadvantage of this is that people can and do get confused over which credits they can and can't claim, and as a result are exposed to credit disallowance, penalties, and other undesirable consequences.

Now, we simply can't afford tax credits and business as usual. Yes, we need to help those who need it, but the shotgun style used in the past has not produced results. Perhaps a better approach would be lopping off the income tax brackets applicable to lower-income taxpayers and designing ONE credit to encourage social behavior necessary to lift the taxpayer out of poverty.

Digested: 2/7/2023

earlychildhood ACTION STRATEGY
TAKING ACTION FOR HAWAII'S CHILDREN

Date: February 9, 2023

To: House Committee on Education
Representative Justin H. Woodson, Chair
Representative Lisa Martin, Vice Chair
And members of the Committee

House Committee on Economic Development
Representative Daniel Holt, Chair
Representative Rachele F. Lamosao, Vice Chair
And members of the Committee

From: Early Childhood Action Strategy

Re: **Support for HB 1049, Relating to Income Tax**

Early Childhood Action Strategy (ECAS) is a statewide cross-sector partnership designed to improve the system of care for Hawaiʻi's youngest children and their families. ECAS partners are working to align priorities for children prenatal to age eight, streamline services, maximize resources, and improve programs to support our youngest keiki.

ECAS supports passage of HB 1049. This bill will would add new tax credits that would aid low income working families, and would add some financial relief for our teachers. Hawaii has the highest cost of living in the nation, and many of our families have a hard time making ends meet**.** Using the Aloha United Way ALICE measure, **nearly half of Hawai'i's residents are struggling:** 33% of families are working, but still low income (Asset Limited, Income Constrained, Employed), and 9% of families are living below the poverty line **(2020 Alice in Hawaii Report).**

Today, almost a third (28.7%) of Hawaiʻi's households have difficulty paying for their usual household expenses and one in ten respondents (9.3%) report sometimes or often not having enough to eat (U.S. Census Household Pulse Survey, January 16, 2023).

As these figures suggest, many of the vulnerable in Hawai`i are the working poor, people who earn low wages through hard work but due to our high cost of living struggle to make ends meet. They are often barely able to avoid homelessness, and are working several jobs to juggle their family's basic expenses.
Meaningful income support and tax relief for low-income families will help to strengthen families, create more stable communities, support the development of a strong and stable workforce, and will help to create the conditions that lead to more positive child outcomes.

Thank you for this opportunity to provide testimony in support of this important measure.

HB-1049
Submitted on: 2/12/2023 9:33:38 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Ed Schultz	Hawaiian Host Group	Support	Written Testimony Only

Comments:

Hawaiian Host supports HB 1049. The purpose of HB 1049 is to make Hawaiʻi more affordable using a variety of approaches, including: adding a new tax credit for teacher's expenses; adding an inflation index for the income tax brackets, personal exemption amount and standard deduction amounts; increasing the amounts for the income tax brackets, personal exemption amount and standard deduction amounts for tax year 2023; increasing the adjusted gross income amounts for the qualification of low-income credits; and increasing the amount of the credits that assist working families.

The inflation index adjustment for income tax brackets is critical to attracting and retaining top talent in Hawaii. While many people speak of California or other west coast state's income tax rates, you will find that our brackets for achieving the specific rates are a lot lower than many other high cost of living states. Our brackets must be adjusted annually and automatically to reflect 1) inflation, 2) affordability of Hawaii's middle class and 3) market competitiveness accross different west coast economies.

February 14, 2023

TO: Committee on Education
Representative Justin Woodson, Chair

Committee on Economic Development
Representative Daniel Holt, Chair

FROM: Kerrie Urosevich, Co-Chair
Commit to Keiki

RE: H.B. 1049
Relating to Income Tax

Commit to Keiki SUPPORTS HB 1049 Relating to Income Tax. HB 1049 is part of Governor Green's legislative package. This bill provides a variety of tax credits to help working families.

Many working families struggle with meeting their basic needs - rent, food, health care, child care, etc. Providing working families with tax credits to improve their economic stability will enable them and their young children to have a brighter start.

Thank you for allowing Commit to Keiki to provide testimony on this important measure.

700 Bishop Street, Suite 1701 Honolulu, Hawaiʻi 93813 info@committokeiki.org CommitToKeiki.org

BUILDBETTER.LIVEBETTER®

February 13, 2023

Committee:	House Committee on Education & Economic Development
Bill Number:	HB 1049, Relating to Income Tax
Hearing Date and Time:	February 14, 2023 at 2:00pm
Re:	Testimony of HPM Building Supply in support

Dear Chair Woodson & Holt, Vice Chair Marten & Lamosao, and Committee Members:

I would like to submit this letter and written testimony in support of HB 1049, Relating to Income Tax. HB 1049 seeks to add new tax credits for teachers' expenses; add an inflation index for the income tax brackets, personal exemption amount, and standard deduction amounts. The bill also increases the income tax brackets, personal exemption amount, and standard deduction amounts for the tax year 2023, increases the adjusted gross income amounts for the qualification of low-income credits and increases the amount of the credits that assist working families.

HPM Building Supply is a 100% employee-owned company serving Hawaii's home improvement market and building industry for over 100 years since 1921. With 17 locations across Hawaii and Washington State, we offer various services and products, including retail stores, building supply and lumber yards, Home Design Centers, drafting, design, roofing, and manufacturing facilities. HPM is dedicated to enhancing homes, improving lives, and transforming communities. The company is guided by its core values of Heart, Character, and Growth, striving to provide top-quality products and exceptional customer service. HPM has earned recognition as a leader in the industry for its products, services, and commitment to its community.

Our company understands the importance of investing in our education system and supporting our teachers, who play a critical role in shaping the future of our children and communities. HB 1049 is a much-needed solution to help teachers offset the costs they incur while performing their duties. These expenses are frequently out-of-pocket costs for the educator. The tax credit will provide a much-needed financial boost for teachers and continue to provide high-quality education to their students.

The proposed changes in HB 1049 to the income tax brackets, personal exemptions, and standard deductions are a significant step forward in supporting the financial stability of working-class families, who play a crucial role in our communities.

HPM BUILDING SUPPLY

(808) 966-5466 • FAX (808) 966-7564
16-166 MELEKAHIWA STREET • KEAAU, HAWAII 96749

HPMHAWAII.COM

BUILDBETTER.LIVEBETTER®

By adjusting the gross income levels required to qualify for low-income tax credits and increasing these credits, the bill can provide a much-needed boost to the finances of many families struggling to make ends meet. With the increased support, these families will be better equipped to handle their everyday expenses and work towards a more secure future.

HB 1049 is a step in the right direction toward supporting our teachers and our working-class families. I respectfully request your favorable consideration of this critical measure and support for our communities.

Sincerely,

Dennis Lin
Community Relations Administrator

HPM BUILDING SUPPLY

(808) 966-5466 • FAX (808) 966-7564
16-166 MELEKAHIWA STREET • KEAAU, HAWAII 96749

HPMHAWAII.COM

GRASSROOT
INSTITUTE OF HAWAII

February 14, 2023
2 p.m.
Conference Room 309 and Via Videoconference

To: House Committee on Education
Rep. Justin Woodson, Chair
Rep. Lisa Marten, Vice Chair

House Committee on Economic Development
Rep. Daniel Holt, Chair
Rep. Rachele Lamosao, Vice Chair

From: Grassroot Institute of Hawaii
Ted Kefalas, Director of Strategic Campaigns

RE: HB1049 — RELATING TO INCOME TAX

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on HB1049, which would implement the "Green Affordability Plan."

Announced by Gov. Josh Green in his State of the State address, the "Green Affordability Plan," if enacted, would effectuate one of Hawaii's largest tax reduction proposals in state history, putting approximately $312 million back into taxpayers' pockets.[1]

We applaud the governor for introducing such a bold plan and thank the Legislature for considering this important proposal, especially considering how skyrocketing inflation on top of Hawaii's already-high cost of living has made it hard for low-income and working class families to afford basic necessities such as food, rent and medical care.

[1] "Actions Rooted in Values," State of the State Book, Jan. 23, 2023, p. 18; Blaze Lovell, "'Too Much On The Line': Hawaii Gov. Josh Green Promises To Tackle Tough Issues Head On," Honolulu Civil Beat, Jan. 23, 2023.

We have some concerns about this measure, but we believe its overall effect on Hawaii residents would be positive.

It would be positive in two ways.

First the plan would double the personal exemption and increase the standard deduction amounts of the state personal income tax, plus index them and the income tax brackets to inflation.

Second, it would increase the food excise tax credit, the low-income renters tax credit, the earned income tax credit (EITC) and the child and dependent care tax credit, and create a tax credit for teachers who purchase classroom supplies out-of-pocket.

The bill's first prong, in making changes to the state income tax, would provide relief to residents across the board. Doubling the personal exemption from $1,144 to $2,288 would lower pre-tax income of all residents. HB1049 would also more than double the standard deduction, as shown below.

Standard deduction	**Current law**	**GAP**
Single filer	$4,400.00	$10,000.00
Married filing jointly	$2,200.00	$5,000.00
Head of household	$3,212.00	$7,500.00
Married filing separately	$2,200.00	$5,000.00

Indexing the personal exemption, the standard deduction and the income tax brackets to inflation — as suggested by the 2020-2022 Tax Review Commission — would ensure that this relief automatically increases in inflationary times.[2]

No longer would employees be punished simply for receiving a cost-of-living adjustment. Many families that did not receive pay raises in the previous year might also benefit if tax brackets increase and they are moved into a lower bracket.

There is precedent for indexing tax laws to inflation. The federal government already does this for tax brackets, the standard deduction, the EITC and certain exclusions.[3] For example, due to

[2] "2020-2022 Report of the Tax Review Commission," Dec. 20, 2021, p. 23.
[3] Robert McClelland, "What The IRS Inflation Adjustment Really Means," Tax Policy Center, Oct. 21, 2022.

high inflation, the IRS reported that for tax year 2023, the standard deduction for married couples filing jointly had increased by $1,800.[4]

The second prong of the "Green Affordability Plan" would dramatically increase several existing refundable state tax credits and would create a tax credit specifically designed to assist teachers in purchasing classroom supplies. The plan would:

>> Double the dollar amount of the food excise tax credit and increase the income eligibility by $10,000.

>> Increase the amount and eligibility of the low-income renters tax credit.

>> Increase the amount of the child and dependent care tax credit from $2,400 to $10,000 for a single child and drastically increase the percent of qualified expenses that individuals or families could claim.

>> Increase the EITC from 20% to 30% of the federal EITC.

>> Create a $500 tax credit for teachers who spend their own money to purchase classroom supplies.

All of these credits, except for the teacher tax credit, would be refundable, meaning taxpayers could receive a tax refund larger than their income tax liability.

In general, increasing these tax credits would provide relief to low- and middle-income families.

However, as to our concerns with these proposals, our view is that straightforward tax cuts — such as exempting food and medical care from the excise tax, or changing the income tax brackets — would be preferable to tax credits.

Tax cuts deliver relief immediately, either at the cash register or in a paycheck, whereas credits provide relief once a year at tax time. Waiting months for a credit to kick in makes budgeting harder and allows inflation to reduce the value of the credit.

Further, many tax credits are complicated, which makes it harder for eligible taxpayers to claim them.

[4] "IRS provides tax inflation adjustments for tax year 2023," Internal Revenue Service, Oct. 18, 2022.

For the tax year 2019, the IRS estimated that only 83.6% of eligible Hawaii taxpayers claimed the earned income tax credit. This number is slightly higher than in previous years, but over the past decade, the amount of non-claimers has hovered around 20%.[5] And little wonder: The IRS guidance on the 2022 EITC was 38 pages long.[6]

The tax credit for Hawaii's low-income renters is likewise somewhat complicated. The renters must provide their landlords' GET number, for example, to fill out the tax form.

Tax credits are also susceptible to fraudulent and improper payments.

Hawaii's EITC, for example, is indexed to the federal EITC. However, the federal EITC — and therefore, Hawaii's EITC — contains a significant amount of so-called "improper payments." The U.S. Treasury Department's Inspector General for Tax Administration estimated that 28% of EITC payments in 2021 — equivalent to $19 billion — were improper.[7]

In testimony on another measure this session, the state Department of Taxation reported that "refundable credits are more susceptible to fraud" than nonrefundable credits.[8] Considering that four of the five tax credits addressed in the "Green Affordability Plan" are refundable, this change could exacerbate existing improper claims.

The national Tax Foundation reports an additional concern with the EITC: It can penalize work.

According to the Tax Foundation, "While the EITC can encourage work by rewarding entry into the workforce or additional hours of work, it can also discourage work by declining in value as the worker's income increases. Workers therefore have an incentive to work less in order to maintain the larger EITC payment."[9]

However, even with these concerns, we believe that the overall goal of this bill — creating tax relief for Hawaii residents — is a good one.

The changes to the standard deduction and personal exemption as well as the decision to index the deduction, exemption and tax brackets to inflation are all welcome reforms.

---

[5] "EITC Participation Rate by States Tax Years 2012 through 2019," U.S. Internal Revenue Service, accessed Feb. 13, 2023.
[6] "Earned Income Credit (EIC)," IRS Publication 596, 2022, p. 1.
[7] "Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported," U.S. Treasury Department, Inspector General for Tax Administration, May 6, 2022, p. 3.
[8] Gary Suganuma, Testimony on HB233, Feb. 3, 2023, p. 1.
[9] Robert Bellafore, "The Earned Income Tax Credit: A Primer," Tax Foundation, May 2019, p. 11.

It is even possible that these reforms will benefit the economy as a whole, as they will help reduce the cost of living and put more money back in the pockets of Hawaii residents.

We commend the governor for submitting this measure and the committee for considering it, as it could prove essential in making Hawaii more affordable for years to come.

Thank you for the opportunity to submit our comments.

Sincerely,

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

HB-1049

Submitted on: 2/14/2023 7:47:17 AM

Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Ryan-Nicholas: Luther	Individual	Support	In Person

Comments:

I support HB1049 with the following amendment:

- Section 1(b) shall be increased to $1,000 for the "Qualifiying Expenses" mentioned in paragraph (g).

The reasoning is that computer software, courses of instruction, books, and classroom supplies can add up quickly in today's raised prices, as well as the increased amount for deduction would encourge teachers and the workforce at schools to retrieve viable knowledge and resources to better the school system.

HB-1049
Submitted on: 2/7/2023 11:16:33 AM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Kenneth R. Conklin, Ph.D.	Individual	Support	Written Testimony Only

Comments:

STRONGLY SUPPORT!! It's Valentine's Day. Let's show some love to Hawaii's beleaguered taxpayers -- and especially to our teachers.

HB-1049
Submitted on: 2/7/2023 7:12:04 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Lynn Murakami Akatsuka	Individual	Support	Written Testimony Only

Comments:

I support the passage of HB 1049, especially it increases the amounts for the income tax brackets, personal exemption amount and standard deduction amounts for tax year 2023.

HB-1049
Submitted on: 2/7/2023 10:53:19 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Alan Urasaki	Individual	Support	Written Testimony Only

Comments:

I stand in support of this measure. Thank you.

HB-1049
Submitted on: 2/9/2023 3:29:55 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Ryan Samonte	Individual	Support	Written Testimony Only

Comments:

I support this bill!

HB-1049
Submitted on: 2/9/2023 8:15:09 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Christy MacPherson	Individual	Support	Written Testimony Only

Comments:

I support HB1049 that will support Hawaiʻi's working families. Mahalo.

HB-1049
Submitted on: 2/10/2023 7:04:34 AM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Arjuna	Individual	Support	Written Testimony Only

Comments:

please pass hb1049

HB-1049
Submitted on: 2/10/2023 9:14:28 AM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Chris Barzman	Individual	Support	Written Testimony Only

Comments:

The EITC is a great way to help working families keep more of what they've earned through their hard work and boost the economy at the same time.

HB-1049
Submitted on: 2/10/2023 11:30:05 AM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Deb Marois	Individual	Support	Written Testimony Only

Comments:

Aloha Representatives,

I strongly urge you to pass HB1049. Hawaii's families and hard-working individuals are in dire need of increased economic support.

In every review since 1983, Hawaii's Tax Review Commission has recommended an increase in the standard deduction. This is long overdue and sorely needed, along with regularly occurring increases that account for inflation. (Source: https://files.hawaii.gov/tax/stats/trc/docs2022/sup_210915/2021-09-15-Karacaovali-Past_TRC_Recommendations_Presentation.pdf).

Additionally, teachers in Hawaii are among the most low-paid in the nation, despite their enormous responsibility of educating the future citizens and workforce. Yet, they often pay out of pocket for supplies. Their dedication needs to be recognized and reimbursed. This is one small step towards better conditions for teachers. Currently, Hawaii is considered the worst state in the nation for teachers. (Source: https://www.khon2.com/local-news/study-hawaii-is-the-worst-state-for-teachers/)

I work with the health and human services sector and understand what a difference this support could make for hardworking Hawaiian families. Tax credits provide this "concrete support," which research shows is a "protective factor" that reduces the risk of child abuse and neglect and shields families from the worst impacts of stress and trauma.

Mahalo for your consideration.

HB-1049
Submitted on: 2/10/2023 2:47:27 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Gerard Silva	Individual	Oppose	Written Testimony Only

Comments:

TAXES are Ilegal. Look it Up.!!!!

HB-1049
Submitted on: 2/11/2023 4:14:25 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
david gierlach	Individual	Support	Written Testimony Only

Comments:

Nearly half of Hawaiʻi's keiki live in households experiencing financial hardship. While almost 1 in 8 live in poverty, an additional one-third of families in Hawaiʻi aren't officially poor but still don't earn enough to afford the basic life essentials. As a result, many working-age families are choosing to move to the continent because of the high cost of living here.

There are a number of social services to support struggling families in poverty, but working class families above poverty who still can't afford the basics often don't qualify for public benefits. That's where tax credits come in.

The working family tax credits contained within this bill will help people keep more of their hard-earned money. When targeted for lower- to middle-income families, they will help reduce financial hardship. And all of this will benefit Hawaiʻi's local economy by increasing spending and allowing more families to stay and work in Hawaiʻi. Mahalo for the opportunity to support HB1049!

HB-1049
Submitted on: 2/11/2023 7:30:35 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Rev. Samuel L Domingo	Individual	Support	Written Testimony Only

Comments:

Nearly half of Hawaiʻi's keiki live in households experiencing financial hardship. While almost 1 in 8 live in poverty, an additional one-third of families in Hawaiʻi aren't officially poor but still don't earn enough to afford the basic life essentials. As a result, many working-age families are choosing to move to the continent because of the high cost of living here.

There are a number of social services to support struggling families in poverty, but working class families above poverty who still can't afford the basics often don't qualify for public benefits. That's where tax credits come in.

The working family tax credits contained within this bill will help people keep more of their hard-earned money. When targeted for lower- to middle-income families, they will help reduce financial hardship. And all of this will benefit Hawaiʻi's local economy by increasing spending and allowing more families to stay and work in Hawaiʻi.

Mahalo for the opportunity to support HB1049!

HB-1049
Submitted on: 2/12/2023 5:19:29 AM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Tony Radmilovich	Individual	Support	Written Testimony Only

Comments:

Nearly half of Hawai‘i's keiki live in households experiencing financial hardship. While almost 1 in 8 live in poverty, an additional one-third of families in Hawai‘i aren’t officially poor but still don’t earn enough to afford the basic life essentials. As a result, many working-age families are choosing to move to the continent because of the high cost of living here.

There are a number of social services to support struggling families in poverty, but working class families above poverty who still can’t afford the basics often don’t qualify for public benefits. That’s where tax credits come in.

The working family tax credits contained within this bill will help people keep more of their hard-earned money. When targeted for lower- to middle-income families, they will help reduce financial hardship. And all of this will benefit Hawai‘i's local economy by increasing spending and allowing more families to stay and work in Hawai‘i.

HB-1049
Submitted on: 2/12/2023 7:02:02 AM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Renee Rivera	Individual	Support	Written Testimony Only

Comments:

Renee L. Rivera

02/12/23

My name is Renee L. Rivera, and I am a Hawai'i Island resident and a working mother of 3. Like most working families, my family has been dealing with financial hardships to make ends meet. Even working three part-time jobs, I still have difficulties providing the essential needs for my family. Because of this, many times I have thoughts of moving to the mainland so that I can make ends meet.

I am testifying to support HB 1049 for many reasons, but supporting and encouraging local working families to continue to work is one of my top drivers. Today many families choose to stay unemployed because the day-to-day financial struggles increase when receiving a paycheck. This is partly due to the fact that most attainable positions do not offer a living wage for families and are disqualified from any assistance. The lack of support for working families has put many families in a position of being one paycheck from becoming homeless or having to live with multiple family members to make ends meet. This bill is an excellent step towards ensuring that working individuals can survive and thrive. Also, allow these tax credits to ensure working-class families above poverty can qualify for public assistance.

The working family tax credit will allow our lower to middle-class families to continue providing the essentials for their household. It will encourage more families who completely rely on public assistance to become more financially independent by entering the workforce. It will fill much-needed positions for entry-level positions throughout our communities. And all of this will improve our local economy as families can stay and work in Hawaiʻi instead of having to move to the mainland for better opportunities.

I would be so grateful if you would consider my testimony for HB1049. Thank you for the opportunity to support HB1049.

HB-1049
Submitted on: 2/12/2023 7:35:24 AM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Bethany Albrecht	Individual	Support	Written Testimony Only

Comments:

Nearly half of Hawai'i's keiki live in households experiencing financial hardship. While almost 1 in 8 live in poverty, an additional one-third of families in Hawai'i aren't officially poor but still don't earn enough to afford the basic life essentials. As a result, many working-age families are choosing to move to the continent because of the high cost of living here.

There are a number of social services to support struggling families in poverty, but working class families above poverty who still can't afford the basics often don't qualify for public benefits. That's where tax credits come in. Additionally, we are losing social services support workers due to their inability to afford to live in Hawai`i. Middle class working families are facing homelessness at an alarming rate due to a massive increase in housing costs.

The working family tax credits contained within this bill will help people keep more of their hard-earned money. When targeted for lower- to middle-income families, they will help reduce financial hardship. And all of this will benefit Hawai'i's local economy by increasing spending and allowing more families to stay and work in Hawai'i.

HB-1049
Submitted on: 2/12/2023 10:08:57 AM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Victor K. Ramos	Individual	Support	Written Testimony Only

Comments:

SUPPORT:

HB-1049
Submitted on: 2/12/2023 1:48:25 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Eric Schrager	Individual	Support	Written Testimony Only

Comments:

Aloha,

I strongly support HB1049 because it would allow working families to retain more of their income. It should be obvious why this is important in Hawaii, considering the very high cost of living here.

Thank you,

Eric Schrager

HB-1049
Submitted on: 2/12/2023 4:54:05 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Doris Segal Matsunaga	Individual	Support	Written Testimony Only

Comments:

My Hawaii Island family strongly supports HB 1049. The two young working parents are teachers who come from a long line of teachers and educators. We have got to help the working class and ALICE families in Hawaii if we want to keep our young people in Hawaii.

Doris Segal Matsunaga

Waimea Hawaii

HB-1049
Submitted on: 2/12/2023 7:30:07 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Support	Written Testimony Only

Comments:

Nearly half of Hawaiʻi's keiki live in households experiencing financial hardship. While almost 1 in 8 live in poverty, an additional one-third of families in Hawaiʻi aren’t officially poor but still don’t earn enough to afford the basic life essentials. As a result, many working-age families are choosing to move to the continent because of the high cost of living here.

There are a number of social services to support struggling families in poverty, but working class families above poverty who still can’t afford the basics often don’t qualify for public benefits. That’s where tax credits come in.

The working family tax credits contained within this bill will help people keep more of their hard-earned money. When targeted for lower- to middle-income families, they will help reduce financial hardship. And all of this will benefit Hawaiʻi's local economy by increasing spending and allowing more families to stay and work in Hawaiʻi.

Mahalo for the opportunity to support HB1049.

HB-1049
Submitted on: 2/12/2023 10:05:41 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Erica Yamauchi	Individual	Support	Written Testimony Only

Comments:

Aloha, Chair, Vice Chair, and Committee Members:

Nearly half of children in Hawaiʻi live in households experiencing financial hardship.

While almost 1 in 8 are in poverty, an even greater number -- more than 1/3 of all Hawai'i families -- don't earn enough to afford the basic life essentials, especially with higher island prices and inflation.

As we all know and have seen, many young, working-age families are choosing to move to the mainland because of the high cost of living here. Others in retirement age are also choosing to move for a better quality of life elsewhere.

There are a number of social services to support struggling families in poverty, but working families who technically live above the national poverty line still can't afford the basics and then don't qualify for public benefits.

That's where tax credits come in. They help people keep more of their hard-earned money, and when targeted for lower- to middle-income families, help reduce financial hardship.

Please support this bill. Thank you for the opportunity to testify.

Erica Yamauchi, Kaimukī/Wilhelmina Rise

HB-1049
Submitted on: 2/13/2023 11:04:43 AM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Lisa Morrison	Individual	Support	Written Testimony Only

Comments:

Please help offset the costs teachers incur every year supporting their students!

HB-1049
Submitted on: 2/13/2023 11:47:28 AM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
De Austin	Individual	Support	Written Testimony Only

Comments:

Honorable Chairs, Vice Chairs and Members of the Education and Economic Development Committees,

This is a move in the right direction to help teachers with financial compensation for the hundreds, and for some teachers, thousands of dollars they invest out of their own personal income to support their classrooms and/or their professional development to ultimately benefit our keiki and our future.

Please approve.

Respectfully,

D. Austin

Parent, educator, voter

Maui, Hawaii

HB-1049
Submitted on: 2/13/2023 1:03:01 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Kathy Shimata	Individual	Support	Written Testimony Only

Comments:

The working family tax credits contained within this bill will help people keep more of their hard-earned money. When targeted for lower- to middle-income families, they will help reduce financial hardship. And all of this will benefit Hawaiʻi's local economy by increasing spending and allowing more families to stay and work in Hawaiʻi.

HB-1049
Submitted on: 2/13/2023 2:34:08 PM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Karen L Worthington	Individual	Support	Written Testimony Only

Comments:

2/13/2023

House Committee on Education and House Committee on Economic Development

Hearing date 2/14/2023 at 2pm

Testimony in SUPPORT of HB 1049 relating to income tax

Dear Chair Holt, Chair Woodson, Vice Chair Marten, Vice Chair Lamosao, and Committee Members,

I urge you to pass HB 1049 to support working families in Hawaiʻi by providing tax credits that reduce their tax bill and allow them to use more of their hard-earned money to pay for housing, food, childcare, and other essentials to raising healthy keiki.

Nearly half of Hawaiʻi's keiki live in households experiencing financial hardship. While almost 1 in 8 live in poverty, an additional one-third of families in Hawaiʻi aren't officially poor but still don't earn enough to afford the basic life essentials. As a result, many working-age families are choosing to move to the continent because of the high cost of living here.

There are a number of social services to support struggling families in poverty, but working class families above poverty who still can't afford the basics often don't qualify for public benefits. That's where tax credits come in.

The working family tax credits contained within this bill will help people keep more of their hard-earned money. When targeted for lower- to middle-income families, they will help reduce financial hardship. And all of this will benefit Hawaiʻi's local economy by increasing spending and allowing more families to stay and work in Hawaiʻi.

Please pass this bill today.

Thank you for your service and your support of working families in Hawaiʻi.

Sincerely,

Karen Worthington

66 Puakea Place

Kula, HI 96790

TO: Members of the Committees on Education and Economic Development

FROM: Natalie Iwasa, CPA, CFE
808-395-3233

HEARING: 2 p.m. Tuesday, February 14, 2023

SUBJECT: HB 1049, Income Taxes, Including New Tax Credit for Teachers
Teacher Tax Credit – OPPOSED

Increases in Standard Deduction, Changes in Tax Brackets, Increase in Exemptions and Increase in Food & Excise Tax Credit - SUPPORT

Aloha Chairs Woodson and Holt and Committee Members,

Thank you for allowing the opportunity to provide testimony on HB 1049, which would make various changes to Hawaii income taxes, including the creation of a new tax credit for teacher expenses.

We have a problem with our public education system – adequate funding is not reaching classrooms, and teachers end up paying for much-needed supplies and other expenses. Now, rather than looking at the cause of this problem, e.g., a bloated bureaucracy, a tax credit is proposed. A tax credit needlessly makes our tax system more complex and doesn't put the related "expense" in the proper line item in the budget.

In addition, tax credits require administration and enforcement. Those amounts are not included in the bill.

Rather than giving teachers a credit for paying for educational supplies and related expenses, please be critical of the Department of Education and fund it adequately but appropriately. Waste should be cut. Proper funding would result in a more realistic per-student funding calculation as well as more efficient use of limited taxpayer dollars.

Please amend HB 1049 to remove the credit for teacher expenses.

HB-1049
Submitted on: 2/14/2023 6:09:29 AM
Testimony for EDN on 2/14/2023 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Leo Thiner	Individual	Oppose	Written Testimony Only

Comments:

aloha to all - Hawaii teachers tax credit - personal exception - low personal tax bracket -

Here we believe that HB1049 and SB 1347 is not an effective response to Hawaiians economic down fall. Just by the heading of "teachers" Is a narrow focus to gain political support for. Believe here that tax credits for Hawaii are the wrong direction and would have a negative effective on the economic down turn. Using a certain group as teacher who have a steady income would back fire threw rents and retail pricing. How much do teachers spend local. Or threw internet retailers. BOMB waiting to happen.

Leo Thiner