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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
H.B. No. 954, H.D. 2, Relating to Taxation

BEFORE THE:
Senate Committee on Ways and Means

DATE: Monday, April 3, 2023
TIME: 9:40 a.m.
LOCATION: State Capitol, Room 211

Chair Dela Cruz, Vice-Chair Keith-Agaran, and Members of the Committee:

The Department of Taxation ("Department") supports H.B. 954, H.D. 2, and offers the following comments for your consideration.

The House Committee on Finance inserted into this measure many components from H.B. 1049, H.D. 1, an Administration measure. The Department continues to support the Administration's initiative to lower the cost of living for working families in the State and this measure's targeted approach at providing tax relief.

Section 1: Cost-of-Living Adjustment Factor

Section 1 of the bill amends section 235-1, Hawaii Revised Statutes (HRS), by adding a definition for "cost-of-living adjustment factor," which is used to index the standard deduction, income tax brackets, personal exemption, and other threshold amounts within the bill to inflation.

Section 2: Standard Deduction, Income Limitations for Itemized Deductions, and Income Limitations for Deduction of State and Local Taxes

Section 2 of the bill amends section 235-2.4(a), HRS, by increasing the standard deduction amounts for tax year 2023, as follows:

Standard Deduction Amount		
	Current	HB 954, H.D. 2 (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, the bill adds that for each tax year beginning after December 31, 2023, the standard deduction amounts will be indexed to inflation using a cost-of-living adjustment factor.

Section 2 of the bill also amends section 235-2.4(c), HRS, by increasing the income limitations for itemized deductions to $300,000 for married filing joint, $275,000 for head of household, $250,000 for single, and $150,000 for married filing separate, and indexes the limitations to inflation for each tax year beginning after December 31, 2023.

Further, section 2 of the bill amends section 235-2.4(k), HRS, by eliminating the federal adjusted gross income (AGI) limitations on the deduction for certain state, local, and other taxes.

Section 3: Income Tax Brackets

Section 3 of the bill, beginning on page 7, 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 954, H.D. 2 (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	$24,838.00 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	$29,644.00 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	$34,984.00 plus 11.00% of excess over $427,200

Head of Household				
Current			HB 954, H.D. 2 (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	$2,169.00 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	$3,630.00 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	$5,149.00 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	$18,630.00 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 954, H.D. 2 (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, the measure adds that for each tax year beginning after December 31, 2024, the threshold amounts will be indexed to inflation using a cost-of-living adjustment factor.

<u>Section 4: Personal Exemption</u>

Section 4 of the bill, beginning on page 18, amends section 235-54, HRS, by increasing the personal exemption amount, which has not been updated since 1984, as follows:

Personal Exemption	
Current	HB 954, H.D. 2 (Tax Year 2023)
$1,144	$2,288

Additionally, the measure adds that for each tax year beginning after December 31, 2023, the personal exemption and other deduction amounts in section 235-54, HRS, will be indexed to inflation using a cost-of-living adjustment factor.

<u>Section 5: Refundable Earned Income Tax Credit</u>

Section 5 of the bill, beginning on page 20, amends section 235-55.75, HRS, relating to the refundable earned income tax credit, by changing the amount of the credit from 20 percent of the federal earned income tax credit allowed and properly claimed to an unspecified percent.

<u>Effective Date</u>

The measure has a defective effective date of June 30, 3000 and shall apply to taxable years beginning after December 31, 2022.

<u>Revenue Impact</u>

The Department estimates an expected revenue loss to the general fund as follows ($ millions):

Proposal	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Inflation Indexation	-26.1	-37.2	-48.4	-60.1	-72.8	-86.1
Increase Standard Deduction	-69.1	-70.1	-71.2	-72.9	-74.9	-77
Double Personal Exemption	-91.8	-93.2	-94.7	-96.9	-99.6	-102.4
PEASE Limitation	-4.8	-5	-5.2	-5.4	-5.7	-6
Deductibility of State and Local Taxes	-2.5	-2.7	-2.7	-2.9	-3	-3.1
EITC	-	-	-	-	-	-
Total	**-194.3**	**-208.2**	**-222.2**	**-238.2**	**-256.0**	**-274.6**

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

EXECUTIVE CHAMBERS
KE KEʻENA O KE KIAʻĀINA

JOSH GREEN, M.D.
GOVERNOR
KE KIAʻĀINA

Senate Committee on Ways and Means
Monday, April 3, 2023
9:40 a.m.
State Capitol, Conference Room 211 and Videoconference

In Support
H.B. No. 954, H.D. 2, Relating to Taxation

Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Senate Committee on Ways and Means:

The Office of the Governor supports H.B. No. 954, H.D. 2, Relating to Taxation. Priority legislation during this 2023 Regular Session has been aimed at providing much-needed financial relief to Hawaii residents, many of whom are cash-strapped. Cost of living in our State is the highest nationwide. Families and individuals are looking for financial relief through legislation, including tax relief measures.

This measure provides more tax relief for low- to moderate-income taxpayers by changing the amount of the state Earned Income Tax Credit to an unspecified percentage of the federal Earned Income Tax Credit. This change will enable working families and individuals to keep more of the money they earn and keep people in the workforce. H.B. No. 954, H.D. 2 also addresses Hawaii's high cost of living through a number of other approaches, including amending the taxable income bracket and income tax rate, personal exemption, and standard deduction amounts for taxable years beginning after December 31, 2022. Inflationary pressures necessitate cost-of-living adjustments to help our residents afford goods and services to meet their basic needs.

Our Administration recognizes the importance of this and other measures, including H.B. No. 1049, H.D. 2, Relating to Income Tax, that are making their way through the legislative session to help Hawaii's families and individuals with the cost of living in our State. As we near closer to the end of session, we look forward to ongoing work with the Legislature to achieve legislation that will provide tax and other financial relief to our residents.

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

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 SENATE COMMITTEE ON WAYS & MEANS

RE: HB 954 HD2 - RELATING TO TAXATION

MONDAY, APRIL 3, 2023

OSA TUI, JR., PRESIDENT
HAWAI'I STATE TEACHERS ASSOCIATION

Chair Dela Cruz and Members of the Committee:

The Hawai'i State Teachers Association **supports HB 954 HD2,** relating to taxation. This bill expands and improves important tax credits for working families regarding Earned Income Tax Credit (EITC).

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 also struggling, and the majority of our families in Hawai'i are struggling financially with the ever rising high cost of living.

Notably, most teachers, and many workers in Hawai'i, 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.

Thus, this bill addresses the needs of our families in Hawaiʻi, especially those with children in households experiencing financial hardship. While almost 1 in 8 are in poverty, and an additional one-third of families in Hawaiʻi are not officially poor, but still do not 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.

It is tough to make ends meet in Hawaiʻi. There is a lot of evidence that ensuring families have enough to cover their basics is good for our keiki, and the economy as a whole. Evidence shows that this investment helps keiki from before they are 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.

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Executive Director

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% does not leave a whole lot leftover. The EITC is a great way to help working families keep more of what they have earned through their hard work and boost the economy at the same time. EITC in Hawai'i 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.

It is tough to make ends meet in Hawai'i. Teachers understand. Our families in Hawai'i are struggling. Accordingly, the Hawai'i State Teachers Association asks your committee to **support** this bill to help our families in Hawai'i.

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

WRITTEN ONLY
TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 954, H.D .2

April 3, 2023
9:40 a.m.
Room 211 and Videoconference

RELATING TO TAXATION

The Department of Budget and Finance (B&F) supports the intent of this bill.

House Bill (H.B.) No. 954, H.D. 2, incorporates many of the changes proposed in the Green Affordability Plan, H.B. No. 1049, such as the increases to the amounts for the income tax brackets, personal exemption and standard deduction amounts.

While we appreciate the support of these significant proposals, B&F strongly believes that rather than taking a piecemeal approach, the holistic, targeted approach in the Green Affordability Plan, H.B. No. 1049, is a more suitable and cost-effective option in providing needed financial relief to Hawaiʻi's residents.

Thank you for your consideration of our comments.

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

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

SUBJECT: INCOME, Amend State Earned Income Tax Credit, Bracket Relief and Cost of Living Adjustment

BILL NUMBER: HB 954 HD 2

INTRODUCED BY: House Committee on Finance

EXECUTIVE SUMMARY: Increases the amounts for the income tax brackets and personal exemption and standard deduction amounts for tax year 2023. Adjusts annually for tax years beginning after December 31, 2023, the income tax brackets and personal exemption, and standard deduction amounts by a cost-of-living adjustment factor. Amends the taxable income brackets and income tax rates for each filing status for taxable years beginning after 12/31/2022. Changes the amount of the state earned income tax credit (EITC) to an unspecified percentage of the federal earned income tax credit allowed based on an individual's federal income tax return. Changes the amount of the state earned income tax credit to an unspecified percentage of the federal EITC allowed based on an individual's federal income tax return.

SYNOPSIS:

New Common Definition

Adds a new definition to HRS section 235-1 of "Cost-of-living adjustment factor" as a factor calculated by adding 1.0 to the percentage change in the Urban Hawaii Consumer Price Index for all items, as published by the United States Department of Labor, from July of the prior calendar year to July of the current calendar year; provided that if the Urban Hawaii Consumer Price Index is discontinued, the Chained Consumer Price Index for all urban areas for all items, as published by the United States Department of Labor, shall be used to calculate the cost-of-living adjustment factor.

This new definition is used to calculate annual adjustments to credit thresholds, standard deduction amount, personal exemption, tax brackets, and the Pease limitation (limitation on itemized deductions) (discussed in Changes Regarding Conformity to the Internal Revenue Code, below).

Changes Regarding Conformity to the Internal Revenue Code

Amends section 235-2.4(c), HRS, regarding conformity to section 68 of the IRC, which phases out itemized deductions when adjusted gross income is over a certain threshold. Under current law, the thresholds used are the federal thresholds that were in use in 2009. The bill proposes to use the federal thresholds of 2013, and then to annually adjust the thresholds by the cost-of-living adjustment factor.

Amends section 235-2.4(k), HRS, regarding conformity to section 164 of the IRC, which grants an itemized deduction for state and local taxes paid. Under current law, the deduction is unavailable to corporations; however, this prohibition has had little or no practical effect because Department of Taxation Announcement No. 2011-20 stated that corporations could deduct such taxes as ordinary and necessary business expenses under the State's conformity to IRC section 162. Also under current law, the deduction becomes unavailable to individuals with a federal adjusted gross income of $100,000 (single or married filing separately), $150,000 (head of household), or $200,000 (married filing jointly). The bill removes the thresholds, allowing individuals to deduct state and local taxes paid (except that if a credit for taxes paid to another state has been claimed, those taxes cannot also be deducted).

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 cost of living.

Amends section 235-51, HRS, to increase each tax bracket amount for individuals, by 6.8%, and to annually index the bracket amounts for cost of living.

Amends section 235-54, HRS, to double the personal exemption amount, from $1,144 to $2,288, and to annually index the personal exemption amounts for cost of living.

Hawaii Earned Income Tax Credit

Amends section 235-55.75, HRS, such that the state EITC (Earned income tax credit) is __% of the federal EITC. The current percentage is 20%.

EFFECTIVE DATE: June 30, 3000.

STAFF COMMENTS: This bill contains some of the language proposed in an Administration bill sponsored by the Office of the Governor and is designated GOV-01 (23).

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.

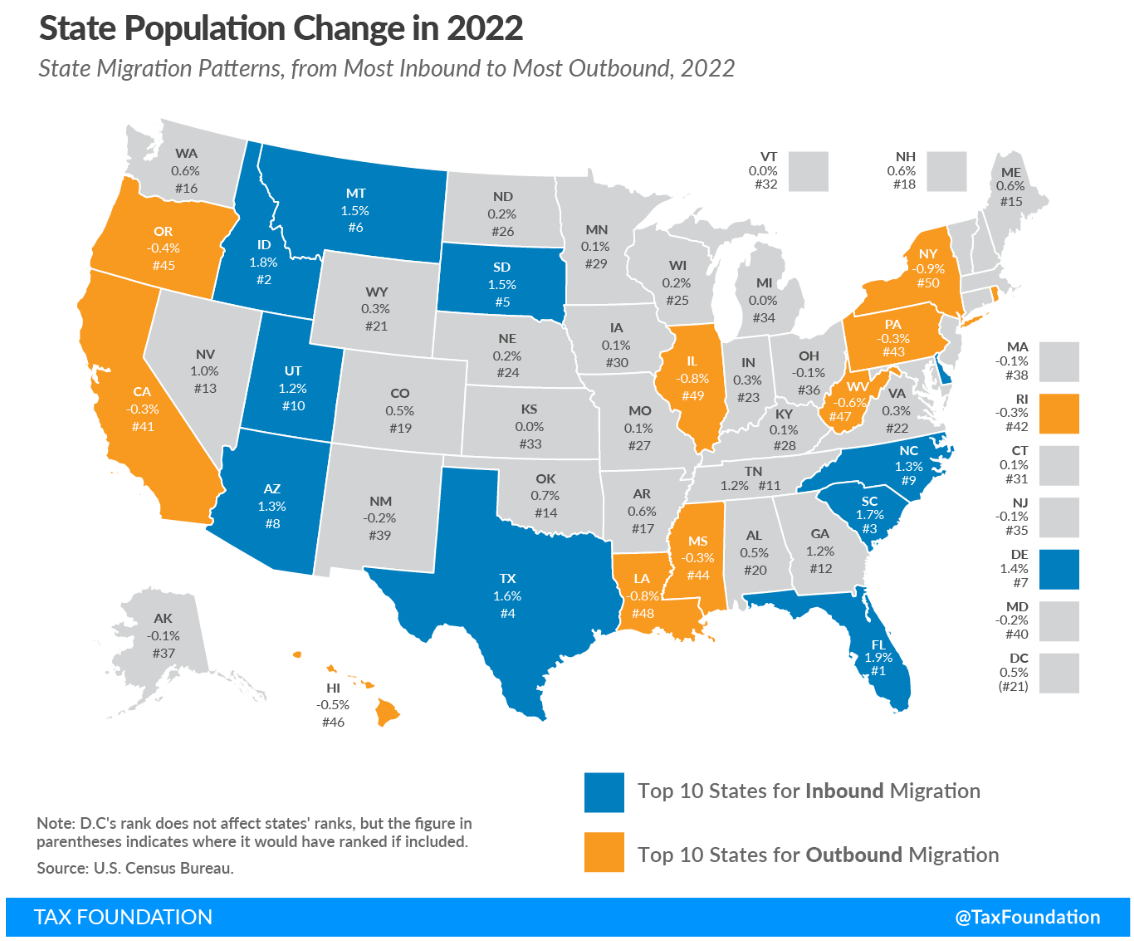
> Lawmakers can and should be smarter about this issue, and hopefully they can deal with poverty relief at the same time they consider appropriate levels for the personal exemption, standard deduction, and the state's tax bracket structure.
>
> Because if they don't, we can just call them bracket creeps.

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.)

Hawaii Earned Income Tax Credit

We in Hawaii have several disparate programs and tax credits aimed at poverty relief. They include the EITC, the food/excise tax credit (HRS section 235-55.85), the household and dependent care credit (HRS section 235-55.6), and the credit for low-income household renters (HRS section 235-55.7). The credits have non-duplication provisions and 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 could expose themselves to credit disallowance, penalties, and other undesirable consequences.

Even at the federal level, according to IRS Acting Commissioner Doug O'Donnell in January, "many people miss out on the credit because they don't know about it or don't realize they're eligible." IR-2023-16 (Jan. 27, 2023). Multiply that by about four or so in Hawaii to account for the other disparate credits, and it's tough to avoid taxpayer confusion and the resulting unfairness.

Digested: 3/31/2023

Date: April 1, 2023

To: Senate Committee on Ways and Means
Senator Donavan M. Della Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Committee Members

From: Early Childhood Action Strategy

Re: Support for HB954, which would increase Hawaiʻi's state Earned Income Tax Credit

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

ECAS strongly supports passage of HB954, which would increase Hawaiʻi's state Earned Income Tax Credit. The Earned Income Tax Credit (EITC) is a lifeline to Hawaiʻi's working families in these hard economic times. It supports low- to middle-income taxpayers by giving them a tax cut, and offers a tax refund to the lowest-income people who owe little to nothing in taxes. In addition, the EITC provides a larger benefit to taxpayers with children in their household. The credit amounts phase out with higher incomes, making sure that low-income people benefit the most. In the process, the EITC helps its recipients afford the rising costs of housing, food, healthcare, and transportation.

In 2022, our legislature made Hawaiʻi's EITC permanent and refundable, guaranteeing that all recipients could claim the full amount of the credit.

During this session, we have the opportunity to improve on the EITC by making more investments in the program and the people it serves. Hawaiʻi's EITC is equivalent to 20% of the federal EITC, and HB 954 would raise this percentage to 30%.

Thank you for your consideration of HB 954.

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
In Support of HB 954 – RELATING TO TAXATION.
Senate Committee on Ways and Means
Monday April 3, 2023, 9:40 AM, conference room 211

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee:

Thank you for the opportunity to testify in **SUPPORT** of HB 954, which would change Hawaiʻi's state EITC to an unspecified percentage of the federal EITC and adjust the personal exemption, standard deduction, and income tax brackets. We would like to emphasize the importance of expanding the state EITC.

Like other tax credits, the state EITC provides essential tax relief to working families in Hawaiʻi, many of which struggle to make ends meet. It accomplishes this by reducing the tax burden for low- to moderate-income taxpayers or giving a tax refund to those with little to no tax liability. Consequently, the EITC has proven to be a highly effective tool against poverty and economic insecurity throughout the United States.[1]

The EITC has continued to serve as an invaluable support for Hawaiʻi's residents, particularly in the wake of the COVID-19 pandemic. The number of state EITCs claimed by the taxpayers in Hawaiʻi increased from 64,007 in tax year 2020 to 80,269 in tax year 2021. In addition, the total amount of credits claimed increased from $20.98 million to $21.61 million over that time period.[2][3]

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[1] "Policy Basics: The Earned Income Tax Credit," Center on Budget and Policy Priorities, 2019. https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit
[2] "Earned Income Tax Credit Report," Hawaii Department of Taxation, 2020. https://files.hawaii.gov/tax/stats/stats/act107_2017/act107_earnedincome_txcredit_2020.pdf
[3] "Earned Income Tax Credit Report," Hawaii Department of Taxation, 2021. https://files.hawaii.gov/tax/stats/stats/act107_2017/act107_earnedincome_txcredit_2021.pdf

Table 2. Average Yearly Wages and EITC Benefit by Racial Group (Projected, 2022)[27]

Ethnic Group	Average Yearly Wages (2019)[28]	Average EITC Benefit Among Tax Units Receiving Benefit (Non-Refundable)	Average EITC Benefit Among Tax Units Receiving Benefit (Refundable)	Difference
Pacific Islander (Alone or In-Part)	$33,767	$362	$536	$174
Filipino (Alone)	$39,358	$287	$459	$172
Native Hawaiian (Alone or In-Part)	$41,573	$359	$497	$138
Japanese (Alone)	$56,066	$259	$333	$74
White (Alone)	$56,711	$285	$419	$134
Average	$47,554	$311	$450	$139

Table 2. Native Hawaiians, Pacific Islanders and Filipinos would benefit the most from a refundable state EITC.

At the closing of the 2022 legislative session, Hawai‘i's lawmakers directly helped thousands of working families by making the state EITC permanent and refundable. It was estimated that this would significantly boost the state EITC benefits for many recipients, with the largest gains going to individuals with the lowest incomes.

This EITC expansion was also predicted to benefit Native Hawaiians and Pacific Islanders in particular, since these ethnic groups tend to have the highest uptake rates of the credit. On average, it was estimated that the EITC expansion would lift the state EITC benefits for all existing recipients by $139.[4]

Recommendations

Expanding the state Earned Income Tax Credit:
In 2023, the Hawai‘i State Legislature can build on the enormous success of last year's session by strengthening our state EITC. Currently, the value of Hawai‘i's EITC is set at 20% of the federal EITC. Although HB 954 has yet to define the percentage of the federal EITC that the state EITC will be worth, we recommend that this percentage be raised to at least 30% or higher.

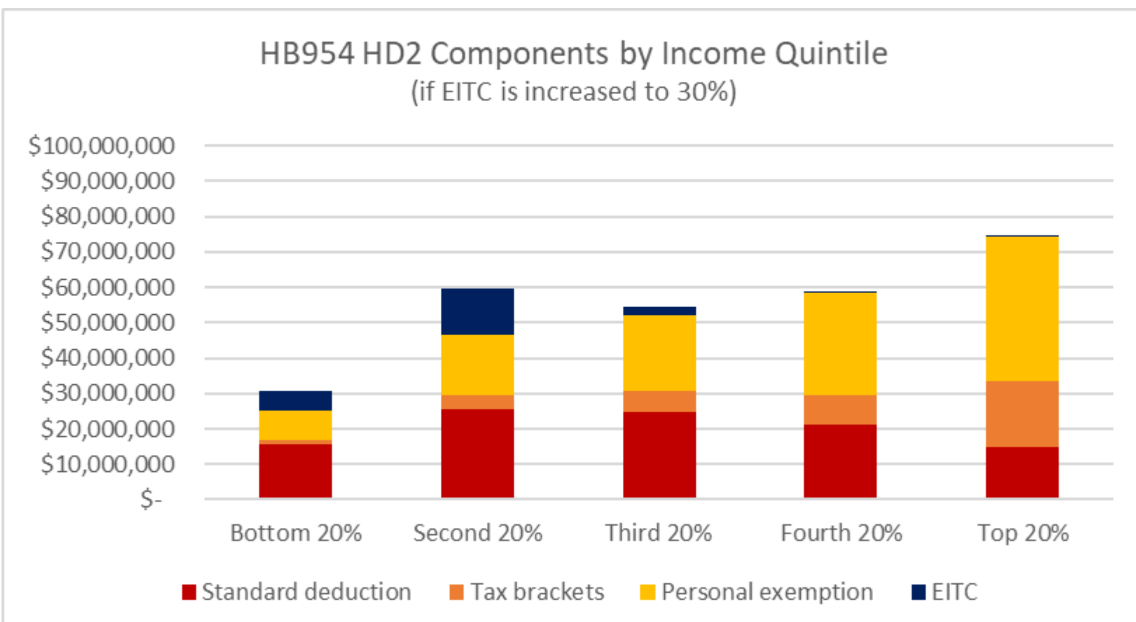
This would align our EITC with those of New York and Massachusetts—both of which have refundable state EITCs set at 30% of the federal credit. Furthermore, there are multiple states that have refundable

[4] "Refunding Hawai‘i," Hawai‘i Budget & Policy Center, 2022.
https://static1.squarespace.com/static/5ef66d594879125d04f91774/t/61f207dc896d102d30606d6f/1643251680283/EITC+Report_REV3_FINAL.pdf

EITCs valued at even higher percentages—California's EITC is worth a maximum of 45% (depending on income) of the federal EITC. By 2026, the District of Columbia is scheduled to go to a 100% match of the federal credit, which would be the most generous in the nation.[5]

Create a state level Child Tax Credit or "Keiki Credit"
To further boost tax relief and economic security for working families, the legislation should 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, Hawai'i can implement 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, Hawai'i has an opportunity to help fill the gap left by federal inaction and invest in the financial security of our keiki by creating a Hawai'i state child tax credit. Language for doing so can be found in HB233.



Target tax relief to those at the bottom:
Furthermore, we recommend that the personal exemption be **removed** from HB 954. The proposed increase to the personal exemption would benefit wealthier taxpayers more than low- to middle-income taxpayers in Hawai'i. In fact, taxpayers in the top 20 percent would receive the largest benefit from this personal exemption. As a result, it would not direct tax relief towards the working families that need it the most.

5
https://www.google.com/url?q=https://www.dcfpi.org/all/dcs-earned-income-tax-credit-most-generous-in-the-nation-but-not-the-most-inclusive/&sa=D&source=docs&ust=1675802377931019&usg=AOvVaw2vNZRiFBtT0ITpL-MB_dFu

On the other hand, the expanded EITC and state level Child Tax Credit would primarily target taxpayers in the bottom 20 percent to 40-60 percent, ensuring that struggling workers and their families receive the assistance they need to help pay for their basic necessities.

Thank you for your consideration of HB 954.

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: Senate Committee on Ways and Means
Re: **HB 954, HD2 - Relating to Taxation**
Hawaiʻi State Capitol & Via Videoconference
April 3 2023, 9:40 AM

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Committee Members,

On behalf of Hawaiʻi Children's Action Network Speaks!, I am testifying in **in SUPPORT of HB 954, relating to taxation**. This bill makes changes to the income tax brackets and standard deduction and personal exemption amounts. It also changes the amount of the state earned income tax credit (EITC) to an unspecified percentage of the federal earned income tax credit allowed based on an individual's federal income tax return.

Thank you for creating the state EITC, as well as making it permanent and refundable. It has helped balance our tax system by providing a boost to low- to moderate-income families since 2018. This bill would build on that momentum and raise the EITC percentage from its current level of 20% of the federal EITC.

The table below show the next seven highest cost-of-living states,[1] and they all provide a higher percentage of the federal EITC than in Hawaiʻi (except Washington, which has a flat credit amount).[2] **Therefore, we suggest increasing Hawaiʻi's EITC percentage to at least 30% of the federal EITC.**

Most Expensive States	Percent of Federal EITC
Hawaiʻi	20
California	85
D.C.	70 - 100
New York	30
New Jersey	40
Washington	$300 per person
Massachusetts	30
Maryland	45 - 100

The chart below shows how HB954 HD2 would affect Hawaiʻi families at different income quintiles.[3] The families in the lowest end of the income scale are shown in the first column, and those at the top are in the fifth column. Each component of the bill is shown in a different color.

The chart shows that those in the top fifth of the income scale would receive the most tax benefits from HB954 HD2. The component that gives the most to those at the top is the increase to the personal exemption amount (yellow):

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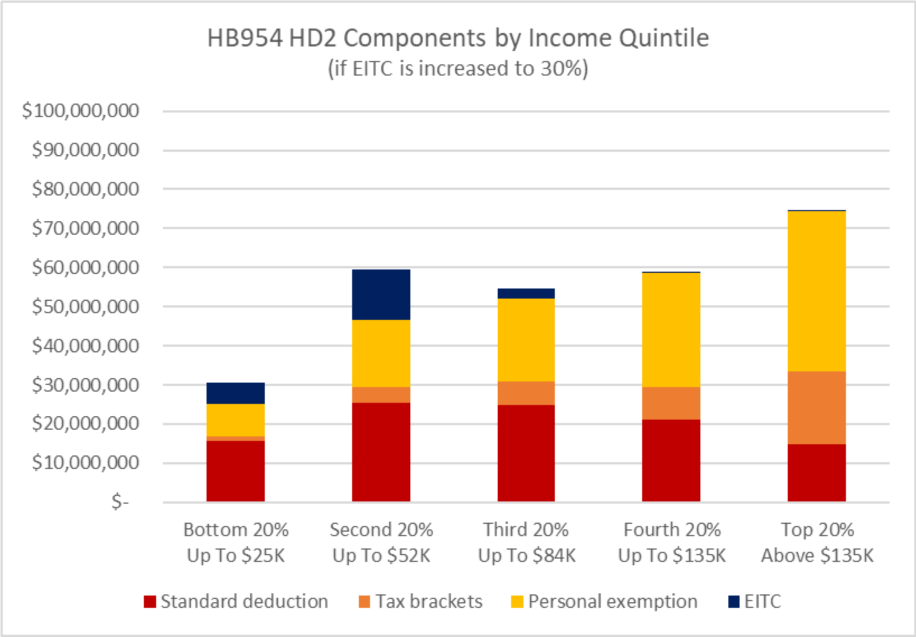
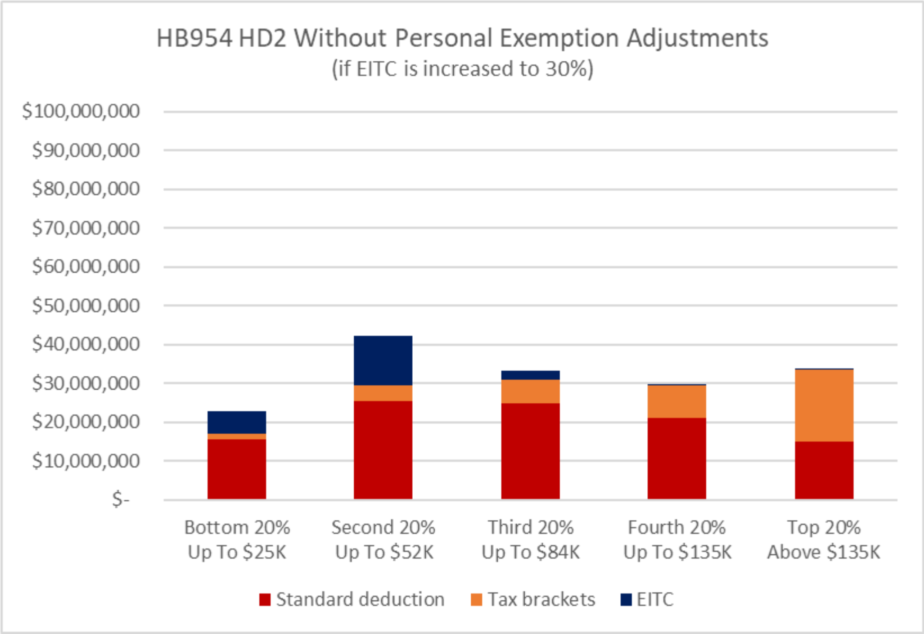
[1] Bureau of Economic Analysis, https://www.bea.gov/news/2022/real-personal-consumption-expenditures-state-and-real-personal-income-state-and
[2] Institute on Taxation and Economic Policy, https://itep.org/boosting-incomes-and-improving-tax-equity-with-state-earned-income-tax-credits-2022/
[3] Underlying data from an unpublished analysis by the Institute on Taxation and Economic Policy, February 2023.

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



There is much concern about Asset-Limited, Income-Constrained, Employed (ALICE) households in Hawai'i. A family of four is ALICE with an income between approximately $32,000 and $100,000 per year,[4] so ALICE families are represented in the second and third columns, as well as part of the fourth. **If this bill is to be modified, we suggest removing the personal exemption adjustment in order to better target the bill's tax benefits to those who need them the most, the ALICE families.** The chart below shows how HB954 would distribute tax benefits without the personal exemption adjustment:



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

Sincerely,
Nicole Woo, Director of Research and Economic Policy

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

HB-954-HD-2
Submitted on: 4/1/2023 11:23:49 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Anni C. Peterson	Testifying for Better Tomorrows	Support	Written Testimony Only

Comments:

Dear Chair Donovan M. Dela Cruz and Vice-Chair Gilbert S.C. Keith-Agaran,

re: Support for HB 954

I've worked at the Towers of Kuhio Park (aka: Kuhio Park Terrace) for 12 years in service to the 2,500+/- low-income resident population and attended a presentation on the ALICE program. Knowing the plight of the residents very well and seeing the possibilities of the ALICE program to break the chain of poverty, I implore you to pass the bill.

with respect,

Anni C. Peterson

Director of Hawaii Operations

Better Tomorrows

1475 Linapuni Street, Ste 100

Honolulu Hawaii 96817

808-987-0185

holomua COLLABORATIVE

OUR MISSION
To support and advance public policies that make Hawai'i affordable for all working families.

OUR VISION
Collaborative, sustainable, and evidence-based public policies that create a diverse and sustainable Hawai'i economy, an abundance of quality job opportunities, and a future where all working families living in Hawai'i can thrive.

Josh Wisch
President & Executive Director

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

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

HolomuaCollaborative.org

Committee:	**Senate Committee on Ways and Means**
Bill Number:	**HB 954, HD2, Relating to Taxation**
Hearing Date and Time:	**April 3, 2023 at 9:40am (Room 211)**
Re:	**Testimony of Holomua Collaborative in support**

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran, and Committee Members:

We write in support of HB 954, HD2, Relating to Taxation. The purpose of HB 954, HD2 is to increase the amounts for the income tax brackets and personal exemption and standard deduction amounts for tax year 2023; adjust annually for tax years beginning after December 31, 2023, the income tax brackets and personal exemption, and standard deduction amounts by a cost-of-living adjustment factor; amend the taxable income brackets and income tax rates for each filing status for taxable years beginning after 12/31/2022; and change the amount of the state earned income tax credit to an unspecified percentage of the federal earned income tax credit allowed based on an individual's federal income tax return.

Holomua supports innovative initiatives that help make Hawai'i affordable for all working families. We are especially interested in fostering cross-sector collaboration and supporting policies that are evidence-based. The bill's multi-faceted approach is an effective way to simultaneously target different segments of the State's population. It does this in a way that primarily assists people in the lowest income brackets, while at the same time providing some relief to everyone. As a result of this inclusive strategy, HB 954, HD2 – especially in conjunction with HB 1049, HD2 - has the potential to be transformative for all working families in Hawai'i.

As noted in recent news coverage[1], the approach taken by the policies that are now combined between HB 954 and HB 1049 have the support of business leaders and nonprofit leaders, ranging from Aloha United Way to the Chamber of Commerce. And some key components of HB 954, HD2–such as indexing tax brackets by a cost-of-living adjustment factor–have been supported by groups ranging from the Institution on Taxation and Economic Policy (ITEP), the Hoover Institution, and Hawaii's Tax Review Commission. A cost-of-living adjustment that is tied to the Consumer Price Index is a form of inflation indexing.

Hawai'i is one of only 13 states with graduated-rate income taxes that does *not* currently index for inflation or by a cost-of-living adjustment factor. Indexing tax brackets by a cost-of-living adjustment factor is also a good example of where the bill specifically aims to assist those in lower-to-middle income brackets. As ITEP has noted, inflationary tax hikes hit middle- and low-income families more heavily

[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/)

relative to their incomes, and the way tax structures can avoid this is through indexing.[2]

We also applaud the continued focus on enhancing the earned income tax credit (EITC). Last year the legislature helped thousands of working families by making the state EITC permanent and refundable. It was estimated that this would significantly boost benefits for many recipients, with the largest gains going to individuals with the lowest incomes. This EITC expansion was also predicted to benefit Native Hawaiians and Pacific Islanders in particular. On average, it was estimated that the EITC expansion would lift the state EITC benefits for all existing recipients by $139.[3] Continuing to build on these successes will be a win for all of Hawaii's working families.

For the above reasons we support HB 954, HD2 and appreciate the opportunity to testify.

Sincerely,

Josh Wisch
President & Executive Director

[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] "Refunding Hawai'i," Hawai'i Budget & Policy Center, 2022. https://static1.squarespace.com/static/5ef66d594879125d04f91774/t/61f207dc896d102d30606d6f/1643251680283/EITC+Report_REV3_FINAL.pdf

LATE

Parents And Children Together
BUILDING THE RELATIONSHIPS THAT MATTER MOST

ParentsAndChildrenTogether.org

TESTIMONY IN SUPPORT OF HB 954 HD2

TO: Chair Dela Cruz, Vice-Chair Keith-Agaran, & Members,
Senate Committee on Ways and Means
FROM: Ryan Kusumoto, President & CEO
DATE: April 3, 2023 at 9:40 AM

Parents and Children Together (PACT) supports HB 954 HD2 Relating to Taxation, which changes the amount of the refundable earned income tax credit (EITC) from 20% of the federal earned income tax credit to an unspecified amount.

Founded in 1968, PACT is a statewide community-based organization providing a wide array of innovative and educational social services to families in need. Assisting more than 15,000 people across the state annually, we help identify, address, and successfully resolve challenges through our 20 programs. Among our services are early education programs, domestic violence prevention and intervention programs, child abuse prevention and intervention programs, childhood sexual abuse supportive group services, child and adolescent behavioral health programs, sex trafficking intervention, poverty prevention and community building programs.

PACT's mission is to work together with Hawai'i's children, individuals, and families to create safe and promising futures. Financial challenges presented by the cost of living in Hawai'i clearly create many barriers and keep many people living at the edge of homelessness despite their employment. Continuing to work on improving our system of taxation so that it doesn't work against the basic needs of community members is very important.

The permanent, refundable state EITC previously established by the legislature is a proven tool that helps local low to moderate income families. Please pass an increase.

Thank you for the opportunity to testify. Please contact me at (808) 847-3285 or rkusumoto@pacthawaii.org if you have any questions.

LATE

HB 954, HD2, RELATING TO TAXATION

APRIL 3, 2023 · SENATE WAYS AND MEANS COMMITTEE · CHAIR SEN. DONOVAN DELA CRUZ

POSITION: Support with amendments.

RATIONALE: Imua Alliance **supports and suggests amendments** for HB 954, HD2, which increases the amounts for the income tax brackets and personal exemption and standard deduction amounts for tax year 2023; adjusts annually for tax years beginning after December 31, 2023, the income tax brackets and personal exemption, and standard deduction amounts by a cost-of-living adjustment factor; amends the taxable income brackets and income tax rates for each filing status for taxable years beginning after 12/31/2022; and changes the amount of the state earned income tax credit to an unspecified percentage of the federal earned income tax credit allowed based on an individual's federal income tax return.

We are particularly interested in supporting this measure's effort to expand the earned income tax credit. The earned income tax credit, or EITC, is intended to let working families keep more of the money they earn through their paychecks. As an economic stimulus, the EITC contributes up to $1.24 in economic activity for every $1 it returns to workers. As the Hawai'i Budget and Policy Center noted in a recent report:

> Many of the workers eligible for an EITC do not earn enough to cover all their basic needs, including food, housing and healthcare. The credit helps these workers provide their families with the basics and makes the tax system more equitable in the process. Research on the EITC shows that the credit contributes to long-term economic and health gains for families. People of color—who are

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

more likely to earn low wages in Hawai‘i due to structural and historic barriers to economic security caused by colonialism and systemic racism—therefore tend to experience the greatest benefit from the EITC program, making it an effective anti-racist policy as well (Refunding Hawai’i, 2022).

The benefits of strengthening the EITC are clear in the islands, especially given our skyrocketing cost of living and housing crisis, both of which worsened during the COVID-19 pandemic. Over 80,000 residents received the EITC in FY2021, receiving a total of $21.61 million in tax credits. Last year, lawmakers made the EITC permanent and refundable, strengthening the full potential of the EITC to deliver financial security for working families.

Measures being considered this year have suggested raising the state’s EITC credit amount to be 30 percent of the federal EITC percentage. Other states have gone further, however, and we humbly ask you to do the same. Vermont’s EITC is worth 38 percent of the federal EITC, for example, while the District of Colombia recently raised its EITC percentage to be 100 percent of the federal amount. In following the lead of this areas, we can ensure that our islands’ tax laws provide compassion for those who are most vulnerable to our high cost of living.

That said, we **urge your committee to eliminate the personal exemption increase that is contained in this bill**, which disproportionately benefits higher-income taxpayers and, in so doing, contravenes the State Legislature’s and Green Affordability Plan’s goal of strengthening tax fairness for Hawai’i’s most economically vulnerable residents. The personal exemption component of this bill would cost nearly $120 million, with 35 percent of that tax benefit being received by our state’s highest 20 percent of income earners. In contrast, the EITC provisions in this proposal would entirely uplift those at lower income quintiles, while 85 percent of the standard deduction modifications would uplift the bottom 80 percent of income earners in our state.

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

LATE

HOUSE BILL 954, HD2, RELATING TO TAXATION.

APRIL 3, 2023 · SENATE WAYS AND MEANS COMMITTEE · CHAIR SEN. DONOVAN DELA CRUZ

POSITION: Support with amendments.

RATIONALE: The Democratic Party of Hawai'i Education Caucus **supports and suggests amendments** for HB 954, HD2, which increases the amounts for the income tax brackets and personal exemption and standard deduction amounts for tax year 2023; adjusts annually for tax years beginning after December 31, 2023, the income tax brackets and personal exemption, and standard deduction amounts by a cost-of-living adjustment factor; amends the taxable income brackets and income tax rates for each filing status for taxable years beginning after 12/31/2022; and changes the amount of the state earned income tax credit to an unspecified percentage of the federal earned income tax credit allowed based on an individual's federal income tax return.

We are particularly interested in supporting this measure's effort to expand the earned income tax credit. The earned income tax credit, or EITC, is intended to let working families keep more of the money they earn through their paychecks. As an economic stimulus, the EITC contributes up to $1.24 in economic activity for every $1 it returns to workers. As the Hawai'i Budget and Policy Center noted in a recent report:

> Many of the workers eligible for an EITC do not earn enough to cover all their basic needs, including food, housing and healthcare. The credit helps these workers provide their families with the basics

Kris Coffield, Chair · Mitzie Higa, Vice Chair · Amy Perruso, Female SCC Representative · Justin Hughey, Male SCC Representative

> and makes the tax system more equitable in the process. Research on the EITC shows that the credit contributes to long-term economic and health gains for families. People of color—who are more likely to earn low wages in Hawai‘i due to structural and historic barriers to economic security caused by colonialism and systemic racism—therefore tend to experience the greatest benefit from the EITC program, making it an effective anti-racist policy as well (Refunding Hawai’i, 2022).

The benefits of strengthening the EITC are clear in the islands, especially given our skyrocketing cost of living and housing crisis, both of which worsened during the COVID-19 pandemic. Over 80,000 residents received the EITC in FY2021, receiving a total of $21.61 million in tax credits. Last year, lawmakers made the EITC permanent and refundable, strengthening the full potential of the EITC to deliver financial security for working families.

Measures being considered this year have suggested raising the state’s EITC credit amount to be 30 percent of the federal EITC percentage. Other states have gone further, however, and we humbly ask you to do the same. Vermont’s EITC is worth 38 percent of the federal EITC, for example, while the District of Colombia recently raised its EITC percentage to be 100 percent of the federal amount. In following the lead of this areas, we can ensure that our islands’ tax laws provide compassion for those who are most vulnerable to our high cost of living.

That said, we **urge your committee to eliminate the personal exemption increase that is contained in this bill**, which disproportionately benefits higher-income taxpayers and, in so doing, contravenes the State Legislature’s and Green Affordability Plan’s goal of strengthening tax fairness for Hawai’i’s most economically vulnerable residents. The personal exemption component of this bill would cost nearly $120 million, with 35 percent of that tax benefit being received by our state’s highest 20 percent of income earners. In contrast, the EITC provisions in this proposal would entirely uplift those at lower income quintiles, while 85 percent of the standard deduction modifications would uplift the bottom 80 percent of income earners in our state.

Kris Coffield · Chairperson, DPH Education Caucus · (808) 679-7454 · kriscoffield@gmail.com

GRASSROOT INSTITUTE OF HAWAII

LATE

April 3, 2023
9:40 a.m.
Conference Room 211 & Videoconference

To: Senate Committee on Ways and Means
Sen. Donovan Dela Cruz, Chair
Sen. Gilbert Keith-Agaran, Vice Chair

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

RE: HB954 HD2 — RELATING TO TAXATION.

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on HB954 HD2, which would increase the state earned income tax credit; increase the state income tax brackets, personal exemption and standard deduction; and index the state income tax brackets, standard deduction and personal exemption to inflation.

Increasing the personal exemption from $1,144 to $2,288 — a 100% increase — would lower the pre-tax income of all Hawaii residents. Likewise, increasing the standard deduction would provide tax relief, though mainly to lower- and middle-income households.

Indexing the state income tax brackets, personal exemption standard deduction to inflation — as suggested by the 2020-2022 Tax Review Commission — would ensure that this tax relief automatically increases in inflationary times.[1]

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.

[1] "2020-2022 Report of the Tax Review Commission," Dec. 20, 2021, p. 23.

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.[2]

For example, the IRS reported that for tax year 2023, the standard deduction for married couples filing jointly increased by $1,800 due to inflation.[3]

Regarding the earned income tax credit, we would like to remind the committee that 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.[4]

Previous iterations of the "Green Affordability Plan" included penalties for fraudulent tax credit claims. HB954 HD2 does not include those penalties, and it is unclear whether they would have served as an effective deterrent to individuals who intentionally or unintentionally file improper claims.

In general, 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

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[2] Robert McClelland, "What The IRS Inflation Adjustment Really Means," Tax Policy Center, Oct. 21, 2022.
[3] "IRS provides tax inflation adjustments for tax year 2023," U.S. Internal Revenue Service, Oct. 18, 2022.
[4] "Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported," Inspector General for Tax Administration, U.S. Treasury Department, May 6, 2022, p. 3.

LATE

Senate Committee on Ways and Means
Chair Dela Cruz and Vice Chair Keith-Agaran

Wednesday, March 3, 2023, 9:40 AM, Conference room 211

Position: In Support of HB 954 HD2 – Relating to Taxation

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Ways and Means Committee:

Aloha United Way and the ALICE Initiative support bill HB954 HD2 and the package of tax credits and adjustments included, as it supports the ALICE policy agenda to increase economic stability for households in Hawaii.

ALICE stands for Asset Limited, Income Constrained, Employed and refers to households who are employed but whose incomes are not sufficient to meet basic costs. **The "ALICE in Hawaii 2022 Report" found that a full 44% of Hawaii's households live below the ALICE Threshold,** and the number who fell into poverty increased from 9% to 15% in just 4 years, fueled by a quickly rising cost of living that is driving local families from the State.

Permanent, refundable tax credits like a robust EITC or dependent tax credit are powerful and well proven tools to quickly reduce the number of keiki living in poverty, reduce economic struggle for families, and slow Hawaii's outmigration of working families.

A strong package of tax credits that includes an expanded EITC and income tax bracket adjustments that reduce tax burden for most households can go a long way to putting a meaningful amount of money back into the pockets of working families to cover essentials like childcare, housing and food, and to help those the 2022 ALICE in Hawaii report shows are disproportionally impacted by Hawaii's rising cost of living.

Tax credit packages have a long history of quickly reversing economic hardship. We urge you to take strong action to pass a comprehensive package of tax relief that reduces taxc burden and meaningfully increases the EITC, as these are the strongest and most impactful ways to help thousands of households avoid falling into poverty or leaving the State, and measurably increasing economic stability in Hawaii. **Aloha United Way and the ALICE Initiative strongly support HB954 HD2, and we appreciate your action to pass a meaningful package of tax credits. Hawaii's working families cannot wait.**

Suzanne Skjold
Chief Operating Officer
Aloha United Way

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HB-954-HD-2
Submitted on: 3/31/2023 11:29:29 AM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
tony frascarelli	Individual	Support	Written Testimony Only

Comments:

Pass this bill. No further comment.

HB-954-HD-2

Submitted on: 3/31/2023 12:09:25 PM

Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Caroline Kunitake	Individual	Support	Written Testimony Only

Comments:

I support HB 954 HD2. Please support this bill.

HB-954-HD-2
Submitted on: 3/31/2023 2:25:30 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
kenneth Fehling	Individual	Support	Written Testimony Only

Comments:

Raising the standard Deduction and Personal Exemptions will help lower and middle income people who are paying a relatively high income tax compared to other states. I was a resident of NY for many years and paid less income tax there than the income tax in Hawaii. The standard Deduction in NY was much larger than here in Hawaii.

HB-954-HD-2
Submitted on: 3/31/2023 3:04:55 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

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

Comments:

I support the passage of HB 954, HD 2.

HB-954-HD-2
Submitted on: 3/31/2023 4:26:04 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

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

Comments:

Testimony in support of HB 954 HD2 RELATING TO TAXATION

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Committee members,

Thank you for considering HB954 HD2, which would alleviate the high cost of living in Hawaiʻi and stimulate the state's consumer economy by expanding Hawaiʻi's refundable Earned Income Tax Credit (EITC). The EITC is one of the most effective anti-poverty tools available to government, and every dollar distributed through this credit translates into up to $1.24 in economic activity.

The refundable nature of the credit means that it is smartly targeted toward the families with the lowest incomes, who are most in need of the assistance and most likely to spend the extra money buying necessities through the local economy. Expanding the EITC to at least 30% of the federal government's credit would be a huge help to Hawaiʻi's struggling families, and its economy.

There is one component of this bill that should be removed, however, and that is the doubling of the personal income tax exemption. This constitutes a significant giveaway primarily to higher-income households that do not need financial assistance, and would come at a significant cost to the state budget.

Simply put, the funds we would lose from the reduction in revenue from higher-income earners could be much better allocated on additional support for low-income working families—for the exact same reasons the EITC is so effective in the first place.

I would like to see the state use those funds to do something positive, like create a Keiki Credit through HB233, or fund universal free school meals through SB154. This kind of action from lawmakers would demonstrate a solid commitment to keeping Hawaiʻi affordable for local, hardworking families, while improving the economy for us all.

I appreciate your consideration of this critical bill and hope that you support the EITC and remove the doubling of the personal income tax exemption.

Best regards,
Karen Worthington, Kula, Hawaii 96790

HB-954-HD-2
Submitted on: 3/31/2023 5:49:50 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Andrew Crossland	Individual	Support	Written Testimony Only

Comments:

I support this Bill.

HB-954-HD-2
Submitted on: 3/31/2023 6:03:36 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Alicia Gaskin	Individual	Support	Written Testimony Only

Comments:

I Support this Bill.

HB-954-HD-2
Submitted on: 3/31/2023 7:43:27 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

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

Comments:

Mahalo for considering HB954 HD2, which would alleviate the high cost of living in Hawaiʻi and stimulate the state's consumer economy by expanding Hawaiʻi's refundable Earned Income Tax Credit (EITC). The EITC is one of the most effective anti-poverty tools available to government, and every dollar distributed through this credit translates into up to $1.24 in economic activity.

The refundable nature of the credit means that it is smartly targeted toward the families with the lowest incomes, who are most in need of the assistance and most likely to spend the extra money buying necessities through the local economy. Expanding the EITC to at least 30% of the federal government's credit would be a huge help to Hawaiʻi's struggling families, and its economy.

There is one component of this bill that should be removed, however, and that is the doubling of the personal income tax exemption. This constitutes a significant giveaway to higher-income households that do not need financial assistance, and would come at a significant cost to the state budget.

Simply put, the funds we would lose from the reduction in revenue from higher-income earners could be much better allocated on additional support for low-income working families—for the exact same reasons the EITC is so effective in the first place.

Mahalo for the opportunity to weigh-in on this important measure.

Kathy Shimata

Honolulu   96822

HB-954-HD-2
Submitted on: 3/31/2023 9:44:09 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
David Ball	Individual	Support	Written Testimony Only

Comments:

I support this bill for working families to make it work in Hawai'i nei.

David Ball, Honolulu

HB-954-HD-2
Submitted on: 4/1/2023 9:01:12 AM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Stella Ong	Individual	Support	Written Testimony Only

Comments:

I support this bill because it has been financially straining making ends meet for my family of 4. My spouse and I both work full time jobs. Yet, we are still struggling to keep up and maintain our physical and mental needs. This bill will serve many families like ours by helping to free up money to buy nutritious meals, pay for extracurricular sports to keep us safe, healthy, and prevent over weight and diabetes, as well as pay for other medical bills.

HB-954-HD-2
Submitted on: 4/1/2023 8:24:11 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Judith Wilhoite	Individual	Support	Written Testimony Only

Comments:

Mahalo for considering HB954 HD2, which would alleviate the high cost of living in Hawaiʻi and stimulate the state's consumer economy by expanding Hawaiʻi's refundable Earned Income Tax Credit (EITC). The EITC is one of the most effective anti-poverty tools available to government, and every dollar distributed through this credit translates into up to $1.24 in economic activity.

The refundable nature of the credit means that it is smartly targeted toward the families with the lowest incomes, who are most in need of the assistance and most likely to spend the extra money buying necessities through the local economy. Expanding the EITC to at least 30% of the federal government's credit would be a huge help to Hawaiʻi's struggling families, and its economy.

There is one component of this bill that should be removed, however, and that is the doubling of the personal income tax exemption. This constitutes a significant giveaway primarily to higher-income households that do not need financial assistance, and would come at a significant cost to the state budget.

Simply put, the funds we would lose from the reduction in revenue from higher-income earners could be much better allocated on additional support for low-income working families—for the exact same reasons the EITC is so effective in the first place.

I would like to see the state use those funds to do something positive, like create a Keiki Credit through HB233, or fund universal free school meals through SB154. This kind of action from lawmakers would demonstrate a solid commitment to keeping Hawaiʻi affordable for local, hardworking families, while improving the economy for us all.

Mahalo for the opportunity to weigh-in on this important measure.

With aloha,

Judith Wilhoite

HB-954-HD-2
Submitted on: 4/2/2023 8:24:02 AM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Shay Chan Hodges	Individual	Support	Written Testimony Only

Comments:

I support this bill.

- It’s tough to make ends meet in Hawai‘i. 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.
- 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.
- 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.

Mahalo!

LATE

HB-954-HD-2
Submitted on: 4/2/2023 12:33:14 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Shannon Rudolph	Individual	Support	Written Testimony Only

Comments:

Support

LATE

HB-954-HD-2
Submitted on: 4/2/2023 1:18:46 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

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

Comments:

Mahalo for considering HB954 HD2, which would alleviate the high cost of living in Hawai‘i and stimulate the state's consumer economy by expanding Hawai‘i's refundable Earned Income Tax Credit (EITC). The EITC is one of the most effective anti-poverty tools available to government, and every dollar distributed through this credit translates into up to $1.24 in economic activity.

The refundable nature of the credit means that it is smartly targeted toward the families with the lowest incomes, who are most in need of the assistance and most likely to spend the extra money buying necessities through the local economy. Expanding the EITC to at least 30% of the federal government's credit would be a huge help to Hawai‘i's struggling families, and its economy.

There is one component of this bill that should be removed, however, and that is the doubling of the personal income tax exemption. This constitutes a significant giveaway primarily to higher-income households that do not need financial assistance, and would come at a significant cost to the state budget.

Simply put, the funds we would lose from the reduction in revenue from higher-income earners could be much better allocated on additional support for low-income working families—for the exact same reasons the EITC is so effective in the first place.

I would like to see the state use those funds to do something positive, like create a Keiki Credit through HB233, or fund universal free school meals through SB154. This kind of action from lawmakers would demonstrate a solid commitment to keeping Hawai‘i affordable for local, hardworking families, while improving the economy for us all.

Mahalo for the opportunity to weigh-in on this important measure.

LATE

HB-954-HD-2
Submitted on: 4/2/2023 1:30:04 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Emily Garland	Individual	Support	Written Testimony Only

Comments:

Mahalo for considering HB954 HD2, which would alleviate the high cost of living in Hawaiʻi and stimulate the state's consumer economy by expanding Hawaiʻi's refundable Earned Income Tax Credit (EITC). The EITC is one of the most effective anti-poverty tools available to government, and every dollar distributed through this credit translates into up to $1.24 in economic activity.

The refundable nature of the credit means that it is smartly targeted toward the families with the lowest incomes, who are most in need of the assistance and most likely to spend the extra money buying necessities through the local economy. Expanding the EITC to at least 30% of the federal government's credit would be a huge help to Hawaiʻi's struggling families, and its economy.

There is one component of this bill that should be removed, however, and that is the doubling of the personal income tax exemption. This constitutes a significant giveaway primarily to higher-income households that do not need financial assistance, and would come at a significant cost to the state budget.

Simply put, the funds we would lose from the reduction in revenue from higher-income earners could be much better allocated on additional support for low-income working families—for the exact same reasons the EITC is so effective in the first place.

I would like to see the state use those funds to do something positive, like create a Keiki Credit through HB233, or fund universal free school meals through SB154. This kind of action from lawmakers would demonstrate a solid commitment to keeping Hawaiʻi affordable for local, hardworking families, while improving the economy for us all.

Mahalo for the opportunity to weigh-in on this important measure.

LATE

HB-954-HD-2
Submitted on: 4/2/2023 4:16:04 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
John Bickel	Individual	Support	Written Testimony Only

Comments:

Hawaii's tax structure is regressive. This bill will start to change that.

LATE

HB-954-HD-2
Submitted on: 4/2/2023 7:03:46 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

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

Comments:

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.

LATE

HB-954-HD-2
Submitted on: 4/2/2023 9:39:07 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Regina Blanchard-Walker	Testifying for Hawai?i Children's Action Network Speaks!	Support	Written Testimony Only

Comments:

I support this bill.

LATE

HB-954-HD-2
Submitted on: 4/2/2023 9:50:24 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Alan B Burdick	Testifying for Progressive Democrats of Hawaii	Support	Written Testimony Only

Comments:

Progressive Democrats of Hawaii strongly SUPPORTS HB 954. We support this bill because it properly addresses critical needs to make our Hawaii State Income Tax structure more progressive.

Please vote YES! Thank you for the opportunity to testify on this critical bill.

Alan B. Burdick

Chair, Progressive Democrats of Hawaii

LATE

HB-954-HD-2
Submitted on: 4/2/2023 10:14:32 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Marion McHenry	Individual	Support	Written Testimony Only

Comments:

- It's tough to make ends meet in Hawaiʻi. 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.
- 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.
- 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.

LATE

HB-954-HD-2
Submitted on: 4/2/2023 10:39:42 PM
Testimony for WAM on 4/3/2023 9:40:00 AM

Submitted By	Organization	Testifier Position	Testify
Cory Harden	Individual	Support	Written Testimony Only

Comments:

Aloha legislators,

Mahalo for considering HB954 HD2, which would alleviate the high cost of living in Hawaiʻi and stimulate the state's consumer economy by expanding Hawaiʻi's refundable Earned Income Tax Credit (EITC). The credit targets families with the lowest incomes, who are most in need of the assistance and most likely to spend the extra money buying necessities through the local economy.
BUT do not double the personal income tax exemption! It would mostly help the rich.

mahalo,

Cory Harden