

*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 Committee on Finance

Re: **HB 561, HD1 - Relating to Tax Credits**  
Hawai'i State Capitol & Via Videoconference  
March 1, 2023, 2:30 PM

Dear Chair Yamashita, Vice Chair Kitagawa, and Committee Members,

On behalf of Hawai'i Children's Action Network Speaks!, I am writing in **OPPOSITION to HB 561, HD1**, relating to a tax credits. This bill requires income tax credits created or renewed after 12/31/23 to have a 5-year sunset or automatic annual one-third reduction beginning with its sixth year.

Hawai'i's tax system currently is upside down. Families who earn less than \$20,000 per year pay 15% of their income in state and local taxes, while those who make over \$450,000 pay only about 9%. In fact, our state saddles our low-income families with the second-heaviest state and local tax burden in the nation.<sup>1</sup>

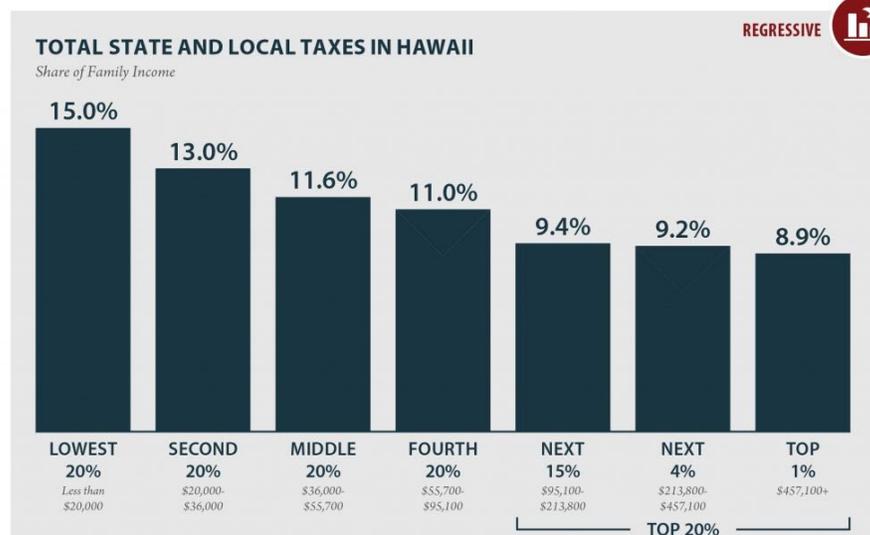
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Tax credits help people keep more of their hard-earned money, and when targeted for lower to middle-income families, reduce hardship and make our tax system more fair.

The stresses of childhood poverty have both immediate and long-term effects on keiki's physical and mental health, behavioral self-control, academic achievement, and earnings as adults.<sup>2</sup> Anything that we can do to help children avoid poverty – including creating and improving targeted tax credits – will have long-term benefits for our state.

Unfortunately, this bill would do the opposite and threaten or weaken tax credits for working families. Please defer this bill.

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

<sup>1</sup> <https://itep.org/whopays/hawaii/>

<sup>2</sup> <https://www.apa.org/pi/ses/resources/indicator/2014/06/childhood-poverty>



# HAWAII APPLESEED

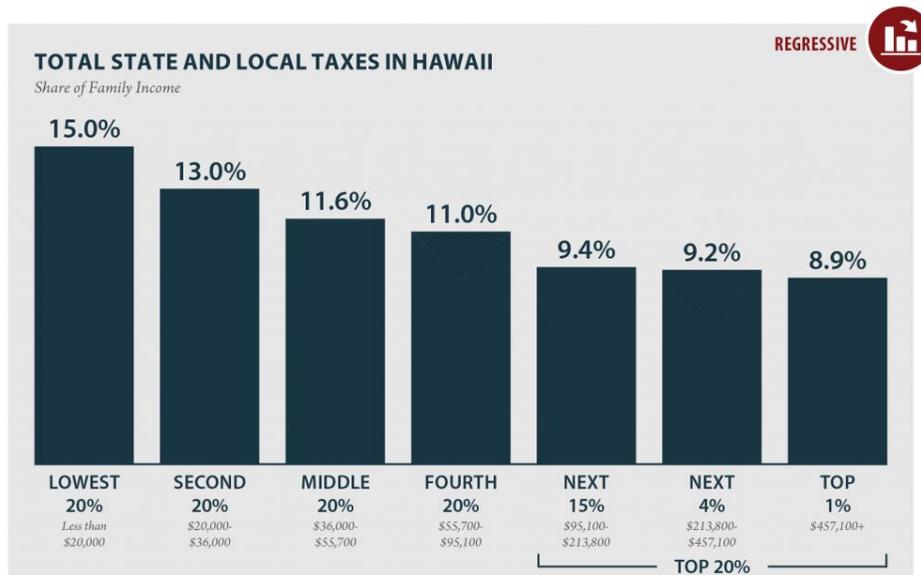
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice  
In Support of HB 561 – Relating to Tax Credits  
House Committee on Finance  
Wednesday, March 1, 2023, 2:30 PM, conference room 308

Dear Chair Yamashita, Vice Chair Kitagawa, and members of the Committee:

Thank you for the opportunity to provide testimony in **OPPOSITION** to HB 561, which would introduce a five-year sunset or an annual one-third reduction in the sixth year on income tax credits renewed or established after 2023.

Hawai‘i’s working families currently shoulder an unfair tax burden, and they rely on tax credits to help them afford basic necessities such as food, housing, child care, and transportation.



In Hawai‘i, the lowest 20% of earners spend 15% of their family income on taxes, which is considerably higher than the 8.9% figure for the top 1% of earners. Furthermore, these low-income families must spend a much higher portion of their budget on essential items, including food.

It will take many years—or decades—of policy changes to make Hawai‘i truly affordable for low-income residents. Until then, policymakers in Hawai‘i will have to use all of the tools at their disposal to reduce the tax burden and costs for these residents. Tax credits such as the Earned Income Tax Credit (EITC) are proven to be effective, targeted means of assistance for low- and middle-income individuals. In recognition of its merits, Hawai‘i legislators made the state EITC permanent and refundable in 2022. To ensure that working families receive the support they deserve, it is imperative to

*Hawai‘i Appleseed is committed to a more socially just Hawai‘i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems that perpetuate inequality and injustice through policy development, advocacy, and coalition building.*

maintain the tax credits that serve them in the long term.

As such, we argue that an automatic sunset or phase-out of tax credits would be detrimental to the families that depend on them for their economic security. The legislature already has the ability to adjust tax credits as they see fit, and it is unnecessary to place a built-in constraint on every income tax credit going forward.

Thank you for your time and consideration.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Requires new tax credits to sunset or reduce over time

BILL NUMBER: HB 561 HD 1

INTRODUCED BY: House Committee on Economic Development

EXECUTIVE SUMMARY: Requires that income tax credits established or renewed after 12/31/2023 include a five-year sunset or an annual one-third reduction beginning with the sixth year of the credit. Our concern is whether this bill would be effective if enacted.

SYNOPSIS: Adds a new section to chapter 235, HRS, providing that any income tax credit established or renewed under this chapter after December 31, 2023, shall include either: (1) A five-year sunset date; or (2) Beginning with the sixth year of the credit, a one-third annual reduction in the credit amount allowed to be claimed, over a three-year period.

EFFECTIVE DATE: July 1, 3000.

STAFF COMMENTS: We have concerns over whether this bill, if enacted, would be effective. Normally a current legislature can't bind a future legislature, and later enacted legislation normally prevails over older legislation when the two conflict. Thus, if a future legislature were to pass a bill adding a new tax credit with neither a sunset nor a phaseout, and the bill were signed into law, the law would be effective with neither a sunset nor a phaseout.

We note that the State Auditor is required to review existing income tax credits under HRS sections 23-91 to 23-96 on a five-year rolling basis, and the reports issued by the Auditor are supposed to trigger legislative review. New credits are supposed to be added to the list in those sections of chapter 23, but none of these sections were amended after 2017.

Digested: 2/28/2023

**HB-561-HD-1**

Submitted on: 2/27/2023 9:15:12 PM

Testimony for FIN on 3/1/2023 2:30:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Will Caron	Individual	Oppose	Written Testimony Only

Comments:

I oppose HB561 HD1. Working families that rely on tax credits each year to plan their household budgets need to be able to count on them as reliable income supports. This puts that reliability in jeopardy. There's nothing wrong with periodically reviewing tax credits and updating them or removing them as needed. But automatic phase-outs are a bad idea. Please defer this measure.

**HB-561-HD-1**

Submitted on: 2/28/2023 1:28:38 PM

Testimony for FIN on 3/1/2023 2:30:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Christy MacPherson	Individual	Oppose	Written Testimony Only

Comments:

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the House Committee on Finance,

I oppose HB561 HD1. Our lower-income residents will need these tax credits for a very long, long time so that they can cover their basic living expenses and remain in Hawai'i.

Mahalo for your consideration.

**HB-561-HD-1**

Submitted on: 2/28/2023 9:54:17 PM

Testimony for FIN on 3/1/2023 2:30:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
John Bickel	Individual	Oppose	Written Testimony Only

Comments:

Many tax credits make our tax structure more progressive. To sunset them is threaten our system with greater regressivity in our taxes. We need these credits to be permanent. Oppose this bill.