E X E C U T I V E   C H A M B E R S
KE KEʻENA O KE KIAʻĀINA

JOSH GREEN, M.D.
GOVERNOR
KE KIAʻĀINA

House Committee on Finance
Tuesday, February 27, 2024
10:00 a.m.
State Capitol, Conference Room 308 and Videoconference

In Strong Support
H.B. No. 2404 Relating to Income Tax

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

The Office of the Governor strongly supports H.B No. 2404, Relating to Income Tax.

H.B. No. 2404 (administration bill) provides for re-computation of the amounts for standard deduction, itemized deduction, income tax brackets, and personal exemption each tax year, considering the cost-of-living adjustment factor. It adds a one-time adjustment to tax brackets.

The Governor is in strong support of H.B. 2404 that would be directed at helping Asset Limited, Income Constrained, Employed (ALICE) households. Families in our state struggle to make ends meet. Despite working multiple jobs — more are living paycheck to paycheck than before the pandemic. Some 44% of all families in our state are ALICE families, barely getting by. Sixty-three percent of all Hawaiian families fall into this category. With our recent rises in inflation many families are struggling daily. The cost of living in Hawaii is simply too high — especially the cost of buying or renting a home. There are still too many local families who are moving to the mainland seeking more affordable housing, and a lower cost of living.

H.B. No. 2404 will not only provide support for working families paying for daycare, babysitting, summer camps, after-school care, and dependent care and 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, but H.B. 2404 provides a one-time adjustment to tax brackets to offset inflation.

Hawaii has the highest cost of living in the country at nearly twice the national average and our high cost of living is hurting families, individuals, and our community well-being.

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

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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
H.B. No. 2404, Relating to Income Tax

BEFORE THE:
House Committee on Finance

DATE: Tuesday, February 27, 2024
TIME: 10:00 a.m.
LOCATION: State Capitol, Room 308

Chair Yamashita, Vice-Chair Kitagawa, and Members of the Committee:

The Department of Taxation ("Department") <u>supports</u> H.B. 2404, an Administration measure, and requests an amendment to section 2 of the bill, as further detailed below.

<u>Section 1: Cost-of-Living Adjustment Factor</u>

Section 1 of H.B. 2404 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 dependent care credit threshold amount to inflation.

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

Section 2 of the bill amends section 235-2.4(a), HRS, by indexing the standard deduction amounts to inflation for each taxable year beginning after December 31, 2023. The current standard deduction amounts are:

Standard Deduction Amount	Current
Joint/Surviving Spouse	$4,400
Head of Household	$3,212
Single/Married Filing Separate	$2,200

Section 2 of the bill also amends section 235-2.4(c), HRS, by increasing the income limitations for itemized deductions, to align with the applicable amounts under section 68(b)(1) of the Internal Revenue Code (IRC) operative for federal tax year 2013, as follows:

Income Limitations for Itemized Deductions	Current
Joint/Surviving Spouse	$300,000
Head of Household	$275,000
Single	$250,000
Married Filing Separate	$150,000

These income limitations are indexed to inflation using the cost-of-living adjustment factor for each tax year beginning after December 31, 2023.

Additionally, 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 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		H.B. 2404 (Tax Year 2024)	
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 $5,280	1.4% of taxable income
Over $4,800 but not over $9,600	$67.00 plus 3.20% of excess over $4,800	Over $5,280 but not over $10,260	$74.00 plus 3.20% of excess over $5,280
Over $9,600 but not over $19,200	$221.00 plus 5.50% of excess over $9,600	Over $10,560 but not over $21,120	$243.00 plus 5.50% of excess over $10,560
Over $19,200 but not over $28,800	$749.00 plus 6.40 % of excess over $19,200	Over $21,120 but not over $31,680	$824.00 plus 6.40 % of excess over $21,120
Over $28,800 but not over $38,400	$1,363.00 plus 6.80% of excess over $28,800	Over $31,680 but not over $42,240	$1,500.00 plus 6.80% of excess over $31,680

Over $38,400 but not over $48,000	$2,016.00 plus 7.20% of excess over $38,400	Over $42,240 but not over $52,800	$2,218.00 plus 7.20% of excess over $42,240
Over $48,000 but not over $72,000	$2,707.00 plus 7.60% of excess over $48,000	Over $52,800 but not over $79,200	$2,978.00 plus 7.60% of excess over $52,800
Over $72,000 but not over $96,000	$4,531.00 plus 7.90% of excess over $72,000	Over $79,200 but not over $105,600	$4,984.00 plus 7.90% of excess over $79,200
Over $96,000 but not over $300,000	$6,427.00 plus 8.25% of excess over $96,000	Over $105,600 but not over $330,000	$7,070.00 plus 8.25% of excess over $105,600
Over $300,000 but not over $350,000	$23,257.00 plus 9.00% of excess over $300,000	Over $330,000 but not over $385,000	$25,583.00 plus 9.00% of excess over $330,000
Over $350,000 but not over $400,000	$27,757.00 plus 10.00% of excess over $350,000	Over $385,000 but not over $440,000	$30,533.00 plus 10.00% of excess over $385,000
Over $400,000	$32,757.00 plus 11.00% of excess over $400,000	Over $440,000	$36,033.00 plus 11.00% of excess over $440,000

Head of Household			
Current		**H.B. 2404 (Tax Year 2024)**	
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 $3,960	1.4% of taxable income
Over $3,600 but not over $7,200	$50.00 plus 3.20% of excess over $3,600	Over $3,960 but not over $7,920	$55.00 plus 3.20% of excess over $3,960
Over $7,200 but not over $14,400	$166.00 plus 5.50% of excess over $7,200	Over $7,920 but not over $15,840	$182.00 plus 5.50% of excess over $7,920
Over $14,400 but not over $21,600	$562.00 plus 6.40 % of excess over $14,400	Over $15,840 but not over $23,760	$618.00 plus 6.40 % of excess over $15,840
Over $21,600 but not over $28,800	$1,022.00 plus 6.80% of excess over $21,600	Over $23,760 but not over $31,680	$1,125.00 plus 6.80% of excess over $23,760
Over $28,800 but not over $36,000	$1,512.00 plus 7.20% of excess over $28,800	Over $31,680 but not over $39,600	$1,663.00 plus 7.20% of excess over $31,680
Over $36,000 but not over $54,000	$2,030.00 plus 7.60% of excess over $36,000	Over $39,600 but not over $59,400	$2,233.00 plus 7.60% of excess over $39,600
Over $54,000 but not over $72,000	$3,398.00 plus 7.90% of excess over $54,000	Over $59,400 but not over $79,200	$3,738.00 plus 7.90% of excess over $59,400
Over $72,000 but not over $225,000	$4,820.00 plus 8.25% of excess over $72,000	Over $79,200 but not over $247,500	$5,302.00 plus 8.25% of excess over $79,200
Over $225,000 but not over $262,500	$17,443.00 plus 9.00% of excess over $225,000	Over $247,500 but not over $288,750	$19,187.00 plus 9.00% of excess over $247,500
Over $262,500 but not over $300,000	$20,818.00 plus 10.00% of excess over $262,500	Over $288,750 but not over $330,000	$22,900.00 plus 10.00% of excess over $288,750
Over $300,000	$24,568.00 plus 11.00% of excess over $300,000	Over $330,000	$27,025.00 plus 11.00% of excess over $330,000

Single			
Current		**H.B. 2404 (Tax Year 2024)**	
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 $2,640	1.4% of taxable income
Over $2,400 but not over $4,800	$34.00 plus 3.20% of excess over $2,400	Over $2,640 but not over $5,280	$37.00 plus 3.20% of excess over $2,640

Over $4,800 but not over $9,600	$110.00 plus 5.50% of excess over $4,800	Over $5,280 but not over $10,560	$121.00 plus 5.50% of excess over $5,280
Over $9,600 but not over $14,400	$374.00 plus 6.40 % of excess over $9,600	Over $10,560 but not over $15,840	$412.00 plus 6.40 % of excess over $10,560
Over $14,400 but not over $19,200	$682.00 plus 6.80% of excess over $14,400	Over $15,840 but not over $21,120	$750.00 plus 6.80% of excess over $15,840
Over $19,200 but not over $24,000	$1,008.00 plus 7.20% of excess over $19,200	Over $21,120 but not over $26,400	$1,109.00 plus 7.20% of excess over $21,120
Over $24,000 but not over $36,000	$1,354.00 plus 7.60% of excess over $24,000	Over $26,400 but not over $39,600	$1,489.00 plus 7.60% of excess over $26,400
Over $36,000 but not over $48,000	$2,266.00 plus 7.90% of excess over $36,000	Over $39,600 but not over $52,800	$2,492.00 plus 7.90% of excess over $39,600
Over $48,000 but not over $150,000	$3,214.00 plus 8.25% of excess over $48,000	Over $52,800 but not over $165,000	$3,535.00 plus 8.25% of excess over $52,800
Over $150,000 but not over $175,000	$11,629.00 plus 9.00% of excess over $150,000	Over $165,000 but not over $192,500	$12,791.00 plus 9.00% of excess over $165,000
Over $175,000 but not over $200,000	$13,879.00 plus 10.00% of excess over $175,000	Over $192,500 but not over $220,000	$15,266.00 plus 10.00% of excess over $192,500
Over $200,000	$16,379.00 plus 11.00% of excess over $200,000	Over $220,000	$18,016.00 plus 11.00% of excess over $220,000

Additionally, for each tax year beginning after December 31, 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 amends section 235-54, HRS, so that for each tax year beginning after December 31, 2023, the personal exemption amount of $1,144, will be indexed to inflation and therefore increased using a cost-of-living adjustment factor. The personal exemption amount has not been updated since 1984.

Section 5: Refundable Credit for Household and Dependent Care Expenses

Section 5 of the bill 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 AGI, and the total amount of employment-related expenses that may be claimed is capped at $10,000 for one qualifying dependent or $20,000 for two or more qualifying dependents (as enacted under Act 163, Session Laws of Hawaii 2023.

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

AGI	Applicable Percentage
Not over $25,000	25%
Over $25,000 but not over $30,000	24%
Over $30,000 but not over $35,000	23%
Over $35,000 but not over $40,000	22%
Over $40,000 but not over $45,000	21%
Over $45,000 but not over $50,000	20%
Over $50,000	15%

H.B. 2404

AGI	Applicable Percentage
Not over $150,000	50%
Reduced by 1% for every $3,000, or fraction thereof, above the annual threshold amount, until the percentage is not less than 25%	49.999% to 25.001%
Over $225,000	25%

Additionally, the bill adds that for each tax year beginning after December 31, 2024, the threshold amount will be indexed to inflation using a cost-of-living adjustment factor.

The bill also adds a new subsection (f) to disallow the dependent care credit if a final administrative or judicial decision is made that the taxpayer committed fraud with respect to the credit (ten-year period) or for any other such ruling (two-year period).

Effective Date

The measure applies to taxable years beginning after December 31, 2023, provided that the amendments to section 235-55.6(a), HRS, in section 5 of the bill, shall be repealed on December 31, 2027.

Department's Comments

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

The Department, however, requests that the amendments to section 235-2.4(k), which eliminates the limit on deductions for state and local taxes, be removed from the bill. After further analysis, the Department determined that the proposed amendment to section 235-2.4(k) will have a much greater revenue impact than originally anticipated. To accomplish this, the Department recommends deleting paragraph (3) in section 2 of the bill, which begins on page 5, line 7, and continues to page 6, line 9.

Assuming the Department's requested amendment is accepted, the Department estimates a revenue loss as follows:

($ millions)						
	FY2025	**FY2026**	**FY2027**	**FY2028**	**FY2029**	**FY2030**
One-Time Bracket Adjustment (10.0%)	-43.0	-43.0	-44.6	-47.4	-46.5	-53.9
Inflation Adjustment	-11.6	-28.7	-44.9	-61.0	-73.5	-98.1
Child Care Tax Credit (Increase allowable expenses)	-44.1	-54.7	-63.6	-68.2	0.0	0.0
Subtotal	**-98.6**	**-126.4**	**-153.1**	**-176.6**	**-120.0**	**-152.0**

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

SUBJECT: INCOME TAX; Standard Deduction; Itemized Deduction; Income Tax Brackets; Personal Exemption; Child and Dependent Care Tax Credit; Conformity with Federal Deductions

BILL NUMBER: HB 2404, SB 3093

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

EXECUTIVE SUMMARY: Provides for re-computation of the amounts for standard deduction, itemized deduction, income tax brackets, and personal exemption each tax year, taking into account the cost-of-living adjustment factor. Adds a one-time adjustment to tax brackets. Increases the applicable percentage of the employment-related expenses for which the child and dependent care income tax credit may be claimed; provides for re-computation of the applicable percentage taking into account the cost-of living adjustment factor; and provides for a disallowance period when there is a final administrative or judicial decision finding that the claim was due to fraud or disallowing the credit. Amends state conformity with certain federal deductions.

SYNOPSIS:

New Common Definition

Adds a new definition to HRS section 235-1 for "Cost-of-living adjustment factor" as a factor calculated by adding 1.0 to the percent change in the Urban Hawaii Consumer Price Index for all items divided by 100, as published by the United States Department of Labor, from July of the preceding 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 Consumers, 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).

Increase in Standard Deduction and Pease Limitation

Amends section 235-2.4(a)(2), HRS, to raise the standard deduction by multiplying it by the cost-of-living adjustment factor for each taxable year beginning in 2024 and thereafter.

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 (called the Pease limitation). 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 for each taxable year beginning in 2024 and thereafter. (Although the Tax Cuts and Jobs Act suspended the Pease limitation for the years to which the Tax Cuts and Jobs Act applied, Hawaii did not conform to that suspension.)

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).

Bracket and Personal Exemption Relief

Amends section 235-51, HRS, to increase each tax bracket amount for individuals, by 10%, and to annually index the bracket amounts for the cost- of- living adjustment factor.

Amends section 235-54, HRS, for each taxable year beginning after December 31, 2023, the director of taxation shall recompute the personal exemption amounts by multiplying the amount for the preceding taxable year by the cost-of-living adjustment factor.

Child and Dependent Care Tax Credit

Amends the applicable percentage of employment related expenses in section 235-55.6(a)(2), HRS to equal 50% reduced by one percentage point for each $3,000 or fraction thereof, by which the taxpayer's adjusted gross income exceeds the threshold amount ($150,000); provided the applicable percentage shall not be reduced below 25%.

Defines "threshold amount" as $150,000 for taxable years beginning after December 31, 2023, adjusted by the cost- of- living adjustment factor for each year beginning after December 31, 2024.

Adds section 235-55.6(f), to add a debarment period of: (1) 2 years if the taxpayer's claim for this credit is disallowed, or (2) 10 years if the taxpayer's claim for this credit is disallowed due to fraud. During the debarment period the credit cannot be claimed.

Adds section 235-55.6(h) to add a definition for "adjusted gross income" as adjusted gross income as defined by the Internal Revenue Code.

EFFECTIVE DATE: Upon approval, applies to taxable years beginning after December 31, 2023; provided that on December 31, 2027, amendments to the Child and Dependent Care tax credit in section 235-55.6(a), HRS, shall be repealed and section 235-55.6(a) shall be reenacted in the form in which it read before effective date of this Act.

STAFF COMMENTS: This bill is an Administration bill sponsored by the Office of the Governor and is designated GOV-01 (24).

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!"[1] (June 29, 2014)

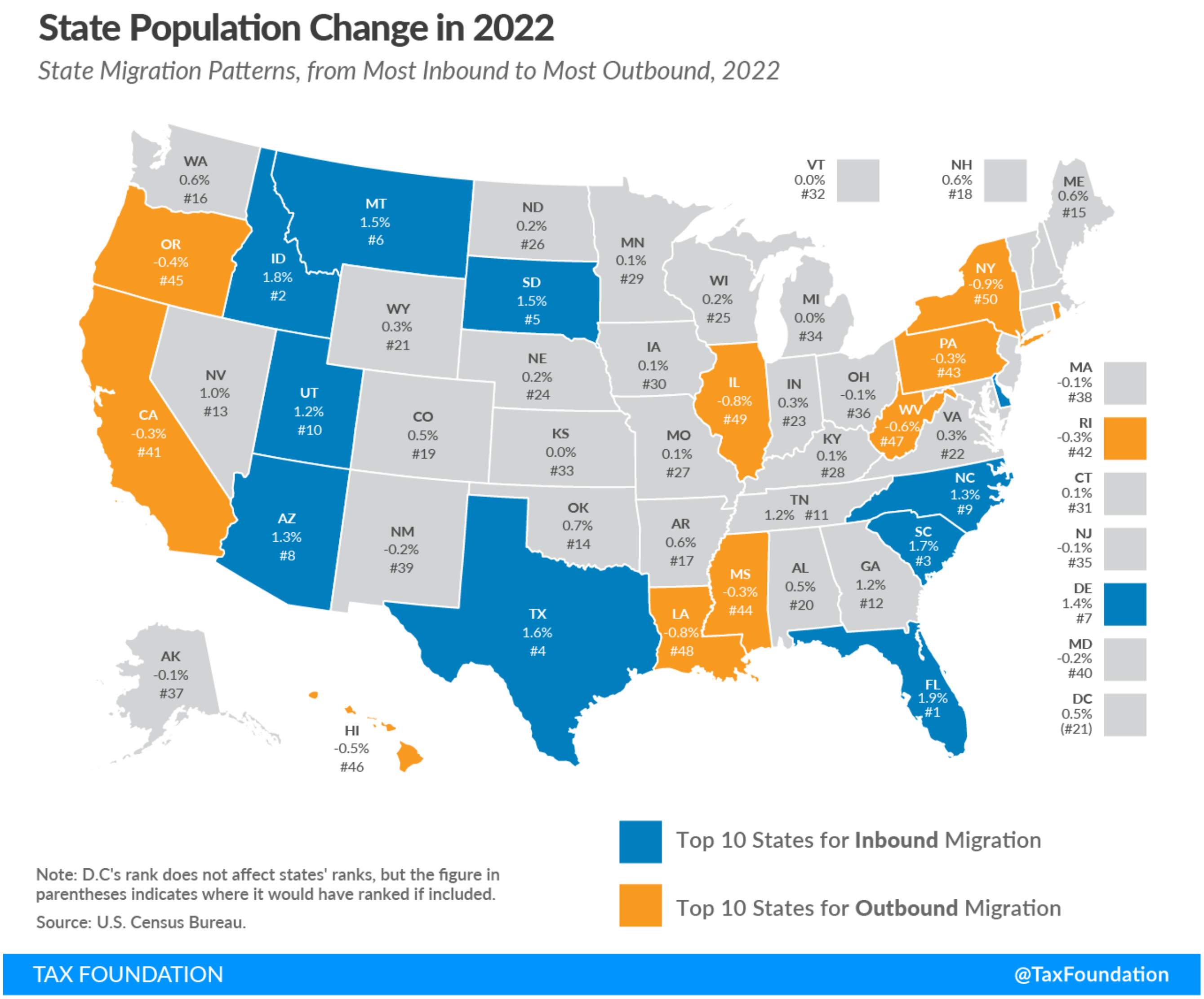
Since the time this article was written, we've made permanent the then-temporary 9%, 10%, and 11% tax rates, and we have been bracket creeped even further. Today, a family of four making the Federal Poverty Line amount for Hawaii, which is $35,880 for 2024 according to the U.S. Department of Health and Human Services[2], 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

[1] https://www.tfhawaii.org/wordpress/blog/–2014/06/weve-been-bracket-creeped/
[2] https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines

Dec. 21, 2021[3] 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%.

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,"[4] (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.)

[3] https://www.census.gov/newsroom/press-releases/2021/2021-population-estimates.html
[4] https://taxfoundation.org/state-population-change-2022/

Child and Dependent Care Tax Credit

While guardrails have been proposed for fraudulent and judicial and administrative disallowance of credits, the proposed amendments to this refundable tax credit increase the availability and amount of the credit. As proposed the minimum credit, regardless of adjusted gross income is 25% of employment related expenses, increased from 15%. The maximum amount of credit is 50%, an increase from 25%. One possible issue is that the new formula is not a table lookup formula and will be more complex for taxpayers to understand and for the Department to administer.

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." [5]. 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: 2/25/2024

[5] IR-2023-16

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Removing barriers to Hawaii's prosperity

Feb 27, 2024, 10 a.m.
Hawaii State Capitol
Conference Room 308 and Videoconference

To: House Committee on Finance
Rep. Kyle T. Yamashita, Chair
Rep. Lisa Kitagawa, Vice-Chair

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

RE: TESTIMONY SUPPORTING HB2404 — RELATING TO INCOME TAX

Aloha Chair Yamashita, Vice-Chair Kitagawa and Committee Members,

The Grassroot Institute of Hawaii would like to offer its support for HB2404, which would index Hawaii's individual income tax brackets, personal exemptions and standard deductions to inflation and increase the value of the child and dependent care tax credit.

This bill is a welcome measure that would ensure all Hawaii taxpayers receive some degree of income tax relief.

When inflation is high, as it was in 2021 and 2022, some employers give their employees raises to offset inflation; however, Hawaii's income tax structure almost guarantees that some of that raise is taxed at a higher rate as individuals move into higher tax brackets.

Hawaii's high tax rates and compressed brackets don't help. A review from the state Department of Taxation found that a Hawaii household making the median income of $88,005 pays $5,086 in income taxes each year. This makes Hawaii the second highest-taxed state in terms of what a household earning the median income must pay in income taxes — behind only Oregon, which has no sales tax.[1]

[1] Seth Colby, "Comparing Hawaii's Income Tax Burden to Other States," Hawaii Department of Taxation, June 2023. When comparing Hawaii with other states, it must be understood that Hawaii's education system is funded at the state level, without county property taxes.

Further, Hawaii's high tax burden contributes to the state's cost of living, which is a key factor in Hawaii's population decline. Tens of thousands of Hawaii residents have moved to the mainland over the past six years[2] — and mainly to states without income taxes, such as Washington, Nevada, Texas and Florida.[3] Their departure from the islands is not only emotionally distressing, but economically depressing as well.

Research shows that lowering income taxes — as this bill would do, though indirectly — has a number of benefits. The national Tax Foundation compiled a list of studies finding that income taxes tend to lower gross domestic product, decrease unemployment and increase wages.[4]

This bill would ensure that the income tax structure changes as inflation increases, giving everyone a little tax relief each year, to help offset the higher cost of living.

Please pass HB2404 out of committee to give all Hawaii taxpayers a break.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

[2] Maria Wood, "Where People from Hawaii Are Moving to the Most," 24/7 Wall Street, Jan. 23, 2022.
[3] Katherine Loughead, "How Do Taxes Affect Interstate Migration?" Tax Foundation, Oct. 11, 2022.
[4] Timothy Vermeer, "The Impact of Individual Income Tax Changes on Economic Growth," Tax Foundation, June 14, 2022.

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 Committee on Finance
Re: **HB 2404 – Relating to Income Tax**
Hawai'i State Capitol & Via Videoconference
February 27, 2024, 10:00 AM

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

On behalf of Hawai'i Children's Action Network Speaks!, I am writing in **SUPPORT of HB 2404**. This bill adds automatic inflation adjustments to the personal income tax brackets, standard deduction and personal exemption amounts. This bill also increases the percentage of expenses that may be claimed for the child and dependent care income tax credit and eliminates the income eligibility cap for state and local tax deductions.

Without inflation adjustments, we are all subject to "hidden" tax increases every year[1], as inflation causes our incomes rise up into higher tax brackets and eats into the value of the standard deduction and personal exemption. Automatic inflation adjustments eliminate that "hidden" annual tax increase. The federal government and most states already do this.[2]

The child and dependent care tax credit (CDCTC) helps working parents keep more of their hard-earned money. A main source of financial hardship is the skyrocketing cost of child and dependent care in Hawai'i. With the median cost of preschool exceeding $13,000 per year,[3] families need more support.

Last year, you and your fellow lawmakers took an important first step to boost the CDCTC. You increased the maximum *amount* of child and dependent care expenses that taxpayers can claim. To allow more families to benefit from the increase that you passed last session, we also need to increase the *percent* of care expenses that can be claimed. **This bill would raise the cap on the amount of care expenses that can be claimed, enabling more working families to access the new higher amounts of the credit that you passed last year.**

This bill also would eliminate the income eligibility cap for state and local tax deductions. Currently only those earning less than $100K single / $150K head of household / $200K couple are eligible to deduct their state and local taxes on their itemized personal income tax deductions. Elimination of this cap benefits the wealthiest households in our state. For example, the average income of those who would receive this tax break is nearly $330,000, and those in the top one percent, who make an average of $1.5 million per year, would get a tax break of nearly $12,000.[4]

Mahalo for the opportunity to provide this testimony,
Nicole Woo
Director of Research and Economic Policy

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[1] https://itep.org/indexing-income-taxes-for-inflation-why-it-matters/
[2] https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2024
[3] https://www.dol.gov/agencies/wb/topics/childcare/price-by-age-care-setting
[4] Unpublished analysis of HB2404 by the Institute on Taxation and Economic Policy, see https://itep.org/itep-tax-model/

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speaks.hawaii-can.org • info@hcanspeaks.org

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

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

I am testifying on behalf of Hawaiʻi Appleseed to offer **comments** on HB 2404, which contains a number of changes that would affect the amount of income taxes assessed on taxpayers in Hawaiʻi.

We believe that income tax relief can be an excellent tool for helping working families achieve economic prosperity. In particular, federal tax credits such as the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) have alleviated poverty for millions of people across the United States.

However, it is important to target tax relief to the populations that truly need it. Consequently, any significant reductions to the state income taxes levied in Hawaiʻi should prioritize residents who are in poverty or otherwise lack financial stability. We stand in support of several provisions in HB 2404 that lift up this demographic, such as the recommended fixes to the Household and Dependent Care Services Tax Credit. This tax credit, which was already passed by the legislature in 2023, reimburses taxpayers for a percentage of cost of caring for their dependents. Given the high cost of care—whether it is for young children or dependents who cannot care for themselves—the Household Tax Credit would provide a necessary benefit to many working families.

We urge this committee to reconsider this bill's proposed amendments to state and local tax (SALT) deductions. Analysis from the Institute on Taxation and Economic Policy shows that HB 2404's would primarily benefit the wealthiest taxpayers in Hawaiʻi. In fact, 41% of the total tax cut would go to the top 1% of income earners. On average, each taxpayer in the top 1% would receive almost $12,000 in income tax relief. On the other hand, low- to middle-income taxpayers—those earning up to about $90,300 dollars—would receive zero benefit from these changes.

Mahalo for your consideration.

HB-2404
Submitted on: 2/24/2024 3:15:30 AM
Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Jeff Sadino	Individual	Support	Written Testimony Only

Comments:

I support this Bill.

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

HB-2404
Submitted on: 2/26/2024 2:08:30 PM
Testimony for FIN on 2/27/2024 10:00:00 AM

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

Comments:

I am providing comments HB2404, which would add automatic inflation adjustments to the income tax brackets, standard deduction and personal exemption amounts and would complete the fix to the Child and Dependent Care Tax Credit that the legislature started last session.

Without inflation adjustments, we are all subject to “hidden” tax increases every year, as inflation increases our incomes. The federal government and most states already have automatic adjustments.

There’s one regressive component in this bill, however, and that is the section that would eliminate the cap on State and Local Tax deductions. The tax break this provides would go entirely to those at the top. Removing this section would make this bill a strong measure for tax fairness and economic justice.

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

HB-2404
Submitted on: 2/26/2024 3:08:49 PM
Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Jessie L Gonsalves	Individual	Support	Written Testimony Only

Comments: I support and ask for an amendment to remove the section that would eliminate the cap on state and local tax deductions.

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

HB-2404

Submitted on: 2/26/2024 3:20:30 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Diliaur Tellei	Individual	Comments	Written Testimony Only

Comments:

I am providing comments HB2404, which would add automatic inflation adjustments to the income tax brackets, standard deduction and personal exemption amounts and would complete the fix to the Child and Dependent Care Tax Credit that the legislature started last session.

Without inflation adjustments, we are all subject to "hidden" tax increases every year, as inflation increases our incomes. The federal government and most states already have automatic adjustments.

There's one regressive component in this bill, however, and that is the section that would eliminate the cap on State and Local Tax deductions. The tax break this provides would go entirely to those at the top. Removing this section would make this bill a strong measure for tax fairness and economic justice.

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HB-2404
Submitted on: 2/26/2024 5:23:35 PM
Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Pua Auyong-White	Individual	Support	Written Testimony Only

Comments:

Here are my comments:

I am providing comments HB2404, which would add automatic inflation adjustments to the income tax brackets, standard deduction and personal exemption amounts and would complete the fix to the Child and Dependent Care Tax Credit that the legislature started last session.

Without inflation adjustments, we are all subject to “hidden” tax increases every year, as inflation increases our incomes. The federal government and most states already have automatic adjustments.

There’s one regressive component in this bill, however, and that is the section that would eliminate the cap on State and Local Tax deductions. The tax break this provides would go entirely to those at the top. Removing this section would make this bill a strong measure for tax fairness and economic justice.

HB-2404
Submitted on: 2/26/2024 6:02:10 PM
Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
John Fitzpatrick	Individual	Comments	Written Testimony Only

Comments:

Aloha,

I am providing comments HB2404, which would add automatic inflation adjustments to the income tax brackets, standard deduction and personal exemption amounts and would complete the fix to the Child and Dependent Care Tax Credit that the legislature started last session.

Without inflation adjustments, we are all subject to “hidden” tax increases every year, as inflation increases our incomes. The federal government and most states already have automatic adjustments.

There’s one regressive component in this bill, however, and that is the section that would eliminate the cap on State and Local Tax deductions. The tax break this provides would go entirely to those at the top. Removing this section would make this bill a strong measure for tax fairness and economic justice.

Mahalo,
Fitz

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

HB-2404
Submitted on: 2/26/2024 10:44:00 PM
Testimony for FIN on 2/27/2024 10:00:00 AM

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

Comments:

I ask for an amendment to remove the section that would eliminate the cap on state and local tax deductions.

Thank you