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To: The Honorable Roy M. Takumi, Chair
and Members of the House Committee on Education

Date: Monday, January 30, 2012
Time: 2:00 P.M.
Place: Conference Room 309, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 1667, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 1667, and provides the following information and comments for your consideration.

H.B. 1667 provides a non-refundable tax credit not to exceed \$500.00 to school teachers, school librarians, and school counselors for certain expenses related to the purchase of school supplies and supplementary materials used in the classroom.

For tax years 2002 through 2011, Section 62(a)(2)(D) of the Internal Revenue Code (IRC), allowed certain expenses of an elementary and secondary school teacher, not in excess of \$250, to be deducted from their adjusted gross income. The State of Hawaii conformed to these provisions, which expired on December 31, 2011.

As opposed to the federal deduction, H.B. 1667 proposes a dollar-for-dollar tax credit which directly reduces the tax liability of the "qualified taxpayer." The Department notes that the definitions of "qualified taxpayer" and "certain expenses" in H.B. 1667 are very broad and could result in the claiming of tax credits for unintended expenses.

For example, the measure does not specify that the materials purchased by the taxpayer actually be used for instructional purposes, nor that the supplies and materials conform with any curriculum standards set by the Department of Education. Enforcement and administration of the proposed tax credit will be difficult for the Department.

Thank you for the opportunity to provide comments.

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SUBJECT: INCOME, Tax credit for expenses of school teachers

BILL NUMBER: SB 2484; HB 1667 (Identical)

INTRODUCED BY: SB by Kidani, Baker, Chun Oakland, Dela Cruz, English, Espero, Galuteria, Ige, Kahele, Nishihara, Ryan, Tokuda, Tsutsui, 4 Democrats and 1 Republican; HB by Takumi and Belatti

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow qualified taxpayers to claim a tax credit of up to \$500 for "certain expenses" which shall be deductible from the taxpayer's income tax liability for the taxable year the credit is properly claimed. Defines "qualified taxpayer" as a school teacher, special education teacher, school librarian, or counselor employed by the state public education system or by a private school in Hawaii that instructs students between K-12th grade. Defines "certain expenses" as expenses paid or incurred by a qualified taxpayer that may include books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment, and supplementary materials used by the qualified taxpayer in the classroom. The credit shall be available for tax years beginning after 12/31/11.

Credits in excess of a taxpayer's income tax liability shall be credited against a taxpayer's subsequent income tax liability. Claims for the credit, including any amended claims, must be filed on or before the end of the 12th month following the close of the taxable year. Allows the director of taxation to adopt necessary rules and forms pursuant to HRS chapter 91 to carry out this section.

EFFECTIVE DATE: Tax years beginning after December 31, 2011

STAFF COMMENTS: This measure proposes a tax credit of \$500 for out-of-pocket expenses incurred by the teacher. While the credits proposed in this measure would be granted without regard to a taxpayer's need for tax relief or for that matter undertaking any specific action other than to be a teacher, it can be characterized as a backdoor pay increase for teachers as the credit is a dollar-for-dollar reduction of state income tax liability. It should be remembered that using the tax system to achieve social goals, as this measure proposes, is an inefficient means of accomplishing such goals. Credits are appropriate for alleviating an undue tax burden which certainly is not the case.

It should be noted that The Working Families Tax Relief Act of 2004 extended provisions for educator expenses that were set to expire at the end of 2003 until the end of 2005. This provision allowed educators to deduct up to \$250 of qualified expenses incurred in 2005. Since the federal provisions have expired, it appears that this measure proposes to adopt similar provisions on the state level albeit a more generous credit instead of a deduction which is a reduction of gross income.

While there is much empathy for the anecdotal reports of teachers using their own funds for classroom materials, the problem is with the bureaucratic system of requesting the funds and having the system take as much as six months to approve the money. The money has been appropriated, and it is the system that

is frustrating. Thus, instead of using the tax system to “compensate” these teachers, first consideration should be given to “fixing the system.”

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

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

Digested 1/27/12



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TESTIMONY FOR HOUSE BILL 1591 and HOUSE BILL 1667

**House Committee on Education
Hon. Roy M. Tkumi, Chair
Hon. Della Au Belatti, Vice Chair**

**Monday, January 30, 2012, 2:00 PM
State Capitol, Conference Room 309**

Honorable Chair Takumi and committee members:

I am Kris Coffield, representing the IMU Alliance, a nonpartisan political advocacy organization that currently boasts over 150 local members. On behalf of our members, we offer this testimony in support of HB 1591 and HB 1667, relating to education.

According to a report released by the National School Supply and Equipment Association, public school teachers spent \$1.33 billion out of pocket on school supplies and instructional materials during the 2009-2010 school year, an average of \$356 dollars per teacher. While down from previous years in which analysis was conducted, that number, when broken down, nonetheless amounts to \$170 on supplies and \$186 on instructional materials that should, under a well funded education system, be provided for by the Department of Education. Moreover, NSSEA attributes the decrease not to increased funding at the classroom level, but to the fact that educators, who are paid far less than professionals with comparable work experience and training, were hit hard by the recent recession and had less discretionary income to spend.

The trend is, if anything, worse in Hawaii, which has consistently ranked at or near the bottom in national cost-of-living studies and was recently ranked last in a MoneyRates.com evaluation of adjusted-average income—at \$22,107.96, Hawaii was more than \$7,000 behind Maine, the next-to-last state on the list. Thus, we urge your committee to increase state educators' purchasing power by instituting tax credits for supplies and a localized, administratively operated debit card system, which will assist in the recruitment and retention of effective teachers who might otherwise leave the state or profession because of financial encumbrances. Mahalo for the opportunity to testify in support of these measures.

Sincerely,
Kris Coffield
Legislative Director
IMU Alliance

belatti2 - Kate

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, January 29, 2012 11:21 PM
To: EDNtestimony
Cc: imuaalliance@gmail.com
Subject: Testimony for HB1667 on 1/30/2012 2:00:00 PM
Attachments: testimony-EDU13012.odt

Testimony for EDN 1/30/2012 2:00:00 PM HB1667

Conference room: 309
Testifier position: Support
Testifier will be present: No
Submitted by: Kris Coffield
Organization: IMUAlliance
E-mail: imuaalliance@gmail.com
Submitted on: 1/29/2012

Comments: