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To: The Honorable Jill N. Tokuda, Chair  
and Members of the Senate Committee on Ways and Means

Date: Wednesday, March 22, 2017  
Time: 9:30 A.M.  
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: H.B. 375, H.D. 1, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 375, H.D. 1, and provides the following comments for your consideration.

H.B. 375, H.D. 1, amends the individual income tax brackets and rates to eliminate any income tax liability for those at or below poverty thresholds. The measure sets this threshold at \$14,000 for joint filers and \$14,400 for single, head of household, and married filing separate filers. H.D. 1 has a defective date of July 1, 2030, and would otherwise apply to taxable years beginning after December 31, 2016.

First, the Department notes that the proposed amendments to the income tax brackets and rates favor married taxpayers who file separately versus jointly. Married taxpayers who file separately can have taxable income up to \$14,400 each, whereas the same taxpayers filing a joint return could only have \$14,000 taxable income together. The Department suggests correcting this issue.

Second, the proposed amendments have the effect of reducing income tax for all individual taxpayers, not just low-income taxpayers. The income tax is a progressive tax in that the more income you earn, the more you pay. As proposed by this measure, all taxpayers would be exempted from income tax on the first \$14,400 (\$14,000 for joint filers) of taxable income.

The following tables set forth the current and proposed marginal tax rates for all taxpayers, and illustrates how this measure would provide tax relief for all taxpayers:

**A. SINGLE OR MARRIED FILING SEPARATELY**

Taxable Income	Marginal Tax Rate	
	Current	Proposed
Not over \$2,400	1.40%	0.00%
\$2,401 to \$4,800	3.20%	0.00%
\$4,801 to \$9,600	5.50%	0.00%
\$9,601 to \$14,400	6.40%	0.00%
\$14,401 to \$19,200	6.80%	6.80%
\$19,201 to \$24,000	7.20%	7.20%
\$24,001 to \$36,000	7.60%	7.60%
\$36,001 to \$48,000	7.90%	7.90%
Over \$48,000	8.25%	8.25%

**B. HEAD OF HOUSEHOLD**

Taxable Income	Marginal Tax Rate	
	Current	Proposed
Not over \$3,600	1.40%	0.00%
\$3,601 to \$7,200	3.20%	0.00%
\$7,201 to \$14,400	5.50%	0.00%
\$14,401 to \$21,600	6.40%	6.40%
\$21,601 to \$28,800	6.80%	6.80%
\$28,801 to \$36,000	7.20%	7.20%
\$36,001 to \$54,000	7.60%	7.60%
\$54,001 to \$72,000	7.90%	7.90%
Over \$72,000	8.25%	8.25%

**C. JOINT AND QUALIFIED WIDOWS**

Taxable Income	Marginal Tax Rate	
	Current	Proposed
Not over \$4,800	1.40%	0.00%
\$4,801 to \$9,600	3.20%	0.00%
\$9,601 to \$14,000	5.50%	0.00%
\$14,001 to \$19,200	5.50%	5.50%
\$19,201 to \$28,800	6.40%	6.40%
\$28,801 to \$38,400	6.80%	6.80%
\$38,401 to \$48,000	7.20%	7.20%
\$48,001 to \$72,000	7.60%	7.60%
\$72,001 to \$96,000	7.90%	7.90%
Over \$96,000	8.25%	8.25%

If the intent of the measure is to eliminate income tax for the low-income taxpayers only, not to reduce income tax for all taxpayers, the Department notes that it may be more feasible to instead, increase the standard deduction and/or the personal exemptions for the low-income taxpayers. For federal income tax purposes, a single taxpayer with income of \$10,350 is not required to file and not subject to federal income tax (\$6,300 standard deduction plus a \$4,050 personal exemption). Hawaii has much lower standard deduction and personal exemption as illustrated in the table below.

<b>Standard Deduction</b>	<b>2016 Federal</b>	<b>2016 State</b>
Single or Married Filing Separately	\$6,300	\$2,200
Head of Household	\$9,300	\$3,212
Joint and Qualified Widow	\$12,600	\$4,400
Personal or Dependent Exemption	\$4,050	\$1,144

Other alternatives for offering tax relief to low-income taxpayers are set forth in S.B. 648, S.D. 1, and H.B. 209, H.D. 1. These measures increase the amount of the food/excise tax credit, and increase the amount and expand the income thresholds for the low-income renters tax credit.

Lastly, if the Committee wishes to advance this measure, the Department requests that it be made applicable to taxable years beginning after December 31, 2018 to allow sufficient time for the necessary form, instruction and computer system modifications necessary for proper implementation.

H.B. 375, H.D. 1, will result in an estimated net revenue loss of \$255m per year.

Thank you for the opportunity to provide comments.



**HB375 HD1**  
**RELATING TO TAXATION**  
Senate Committee on Ways and Means

March 22, 2017

9:30 a.m.

Room 211

The Office of Hawaiian Affairs (OHA) **SUPPORTS** HB375 HD1, which proposes to reduce and/or eliminate state income tax liability for those individuals and families at or below the poverty level. **This measure will provide significant and much-needed tax relief for our most financially vulnerable community members, including a disproportionate number of Native Hawaiians.**

According to the United States Census Bureau, Hawai‘i is ranked as one of the top ten most impoverished states in the nation.<sup>1</sup> **Native Hawaiians are also disproportionately represented at or below the poverty level.**<sup>2</sup> Notably, although Native Hawaiians participate in the labor force at higher rates than the state average,<sup>3</sup> Native Hawaiian median family income is much lower than the state average.<sup>4</sup> Unfortunately, Hawai‘i also ranks highest of all the states when it comes to its overall cost of living; this cost weighs most heavily on individuals and families who earn the least.<sup>5</sup> Therefore, Hawai‘i residents living in poverty and Native Hawaiians in particular may have a critical need for targeted financial relief.

HB375 HD1 represents a critical opportunity to provide much-needed financial relief to Hawai‘i families living in poverty. By eliminating their income tax liability, this measure will mitigate the disproportionate burden our cost of living places on our indigent population, thereby facilitating their economic self-sufficiency, personal growth, and upward mobility.

Mahalo nui for the opportunity to testify on this measure.

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<sup>1</sup> US Census Bureau, The Supplemental Poverty Measure, September 2016.

<sup>2</sup> US Census Bureau, Selected Characteristics of People at Specified Levels of Poverty, 2011-2015 American Community Survey 5-Year Estimates.

<sup>3</sup> See American Community Survey, 2013, Civilian Labor Force Datapoint, U.S. Census Bureau.

<sup>4</sup> In 2015, the median family income for Native Hawaiians was \$69,560 compared to the state median family income of \$79,187. See OFFICE OF HAWAIIAN AFFAIRS, 2010-2018 STRATEGIC RESULTS: MEDIAN FAMILY INCOME INDICATOR SHEET 2015 available at <http://www.oha.org/wp-content/uploads/Hookahua-Waiwai-Indicator-Sheet.-MFI.-2015.pdf>.

<sup>5</sup> Council for Community and Economic Research, Annual 2016 Cost of Living Index.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Rate Adjustment to Eliminate Tax on the Poor

BILL NUMBER: HB 375

INTRODUCED BY: House Committee on Finance

EXECUTIVE SUMMARY: This bill adjusts income tax rates to zero out any income tax liability for those at or below the poverty threshold.

BRIEF SUMMARY: Amends section 235-51, HRS, to adopt new rate schedules for taxable years beginning after December 31, 2017.

This table represents existing HRS section 235-51(a) rates and bracket amounts:

From	To	Rate
-	4,800	1.40%
4,800	9,600	3.20%
9,600	19,200	5.50%
19,200	28,800	6.40%
28,800	38,400	6.80%
38,400	48,000	7.20%
48,000	72,000	7.60%
72,000	96,000	7.90%
96,000		8.25%

The following tables show the proposed rates and bracket amounts.

Married Filing Jointly:

From	To	Rate
-	14,000	0.00%
14,000	19,200	5.50%
19,200	28,800	6.40%
28,800	38,400	6.80%
38,400	48,000	7.20%
48,000	72,000	7.60%
72,000	96,000	7.90%
96,000		8.25%

Head of Household:

<u>From</u>	<u>To</u>	<u>Rate</u>
-	14,400	0.00%
14,400	21,600	6.40%
21,600	28,800	6.80%
28,800	36,000	7.20%
36,000	54,000	7.60%
54,000	72,000	7.90%
72,000		8.25%

Single / Married Filing Separately:

<u>From</u>	<u>To</u>	<u>Rate</u>
	14,400	0.00%
14,400	19,200	6.80%
19,200	24,000	7.20%
24,000	36,000	7.60%
36,000	48,000	7.90%
48,000		8.25%

EFFECTIVE DATE: July 1, 2030, applies to taxable years beginning after December 31, 2016.

STAFF COMMENTS: In recent years, our income tax system has been criticized for taxing the poor deeper into poverty. Our current law has 10 different tax brackets. A married couple at the federal poverty line already blows through the first three brackets and is in the fourth bracket at 6.4% with a tax bill of \$1,363. This bill would substantially alleviate this problem.

Digested 3/14/2017



AMERICANS FOR DEMOCRATIC ACTION

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March 17 , 2017

TO:            Honorable Chair Tokuda and Members of the Ways & Means Committee

RE:            HB 375 HD1 Relating to Taxation  
Support for hearing on March 22 at 9:30 a.m. in Room 211

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We strongly support HB 375 HD1 as it would end income tax for those below poverty. We would not support, however, if the bill wipes out tax credits for low income people for renters' and GET.

The top fifth of income earners in the state in total pay about 7 percent of their income in taxes while the bottom fifth pay almost 14 percent. This is shamefully regressive.

Thank you for your consideration.

Sincerely,

John Bickel  
President



# HAWAII APPLESEED

## CENTER FOR LAW & ECONOMIC JUSTICE

Comments of Hawai'i Appleseed Center for Law and Economic Justice  
Pertaining to HB 375, HD1 – Relating to Taxation  
Senate Committee on Ways and Means  
Scheduled for hearing Wednesday, March 22, 2017, 9:30 AM, Conference Room 211

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Dear Chair Tokuda, Vice Chair Dela Cruz, and members of the Committee on Ways and Means:

Thank you for the opportunity to provide comments on HB 375, HD1, which intends to negate income tax liability for those at or behold poverty thresholds.

According to the Institute on Taxation and Economic Policy (ITEP), Hawai'i places the second highest tax burden in the country on our low-income neighbors. Those households pay over 13% of their income in state and local taxes, while those at the top pay less than 8%. The vast majority of this inequitable burden is due to the General Excise Tax (GET), which hits low-income and working-class families almost ten times harder than those at the top. In fact, we are in the minority of states that actually pushes low-income people deeper into poverty with taxes.

We appreciate the intended purpose of this measure, which is to remove any personal income tax liability for households in Hawai'i earning less than about \$14,000 per year. That's slightly above the federal poverty guideline for a household of one in the state.

However, the bottom 20 percent of wage earners pay only about 0.5 percent of their income in state personal income tax, according to ITEP. The average income in that quintile is \$10,100, which leads to an average state income tax bill of \$50 for those low-wage workers.

As written, HB 375, HD1 provides much larger tax relief to tax filers at higher income levels than those at the lower end of the spectrum. For example, all joint filers who earn above \$14,000 per year would pay \$463 less in state income tax per year, while those who make below \$14,000 per year would save less. For head of household filers, all those who earn above \$14,400 would save about \$562 per year, and for single filers, all who make over \$14,400 would save \$682. Similarly, tax filers in those categories earning below \$14,400 would save less.

Since every taxpayer would receive a significant tax break if this bill were passed, it would be cost-prohibitive. It would be preferable to focus tax relief on households that need it the most, for example via refundable tax credits, which would allow low-income households to get back some of what they pay in the GET.

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*The Hawai'i Appleseed Center for Law and Economic Justice 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.*