

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587



SUBJECT: INCOME, Reduce Tax Rates for Low-Income Taxpayers

BILL NUMBER: SB 3029; HB 2295 (Identical)

INTRODUCED BY: SB by SHIMABUKURO, BAKER, K. KAHELE, KEITH-AGARAN, TOKUDA, Dela Cruz, Galuteria, Inouye, Kidani, Nishihara, Taniguchi, Wakai; HB by LOPRESTI, BROWER, CACHOLA, CREAGAN, ICHIYAMA, HOHANSON, KEOHOKALOPE, C. LEE, MORIKAWA, OHNO, QUINLAN, SAIKI, TAKUMI, WOODSON, Evans, Learmont, Nakamura, San Buenaventura

EXECUTIVE SUMMARY: This bill reduces tax rates for low-income taxpayers by compressing the low income brackets and adjusting them so the tax impact on taxpayers with taxable income above \$28,800 (married filing joint) is unaffected.

SYNOPSIS: Amends section 235-51, HRS, to amend the tax brackets. For MFJ status as an example, the amendment is as follows.

Existing Law			Proposed in Bill		
From	To	Tax Rate	From	To	Tax Rate
-	4,800	1.40%	-	6,600	0.00%
4,800	9,600	3.20%	6,600	9,600	3.20%
9,600	19,200	5.50%	9,600	28,800	6.60%
19,200	28,800	6.40%			

Beyond the \$28,800 income level for married taxpayers, the tax is the same as existing law.

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2017.

STAFF COMMENTS: 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 is 11%.

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-

Re: SB 3029

Page 2

engineer our brackets to give relief to the people who need it, and make up for it by those higher up on the food chain. 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 because of bracket creep.

This bill attempts to accomplish this by compressing the first four brackets into three, one of which is a zero bracket unlike current law.

Digested 2/11/2018



To: Hawaii State Senate Committee on Ways and Means
Hearing Date/Time: Tuesday, February 13, 2018, 10:15AM
Place: Hawaii State Capitol, Rm. 211

Position Statement Supporting Senate Bill 3029

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

I urge the committee to pass SB 3029, which would eliminate state income tax for those living in poverty in our state. Almost a quarter of all female-headed households live in poverty. For these working families who are caring for the next generation, the elimination of state income tax would provide much-needed relief.

While we've taken some steps to balance our tax system, like creating a state Earned Income Tax Credit, many of our working families are still struggling.

Hawai'i is one of only fifteen states that taxes the income of residents living at or below the poverty level.

In fact, Hawai'i places the second highest tax burden in the nation on low-income families. Our lowest income households pay over 13% of their income in taxes, while those at the top pay 8% or less.

Let's restore some balance to our state's tax system by providing tax relief to those with the lowest incomes in the state.

Thank you for the chance to testify on this important bill. Please pass SB 3029.

Kathleen Algire
Director, Public Policy and Advocacy

SB-3029

Submitted on: 2/12/2018 11:40:39 AM

Testimony for WAM on 2/13/2018 10:15:00 AM

LATE

Submitted By	Organization	Testifier Position	Present at Hearing
Seena Clowser	Individual	Support	No

Comments:

From: [Heather Lusk](#)
To: [WAM Testimony](#)
Subject: SB 3029 -- Relating to Taxation
Date: Monday, February 12, 2018 9:18:30 AM

LATE

TO: Senate Committee on Ways and Means
HEARING: Tuesday, February 13, 2018, 10:15 AM
PLACE: Conference Room 211
FROM: Heather Lusk
RE: SB 3029 -- Relating to Taxation
ATTENDING HEARING: No

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

I urge the committee to pass SB 3029, which would be to eliminate state income tax for those living in poverty in our state.

Hawai'i is one of only fifteen states that taxes the income of residents living at or below the poverty level.

In fact, Hawai'i places the second highest tax burden in the nation on low-income families. Our lowest income households pay over 13% of their income in taxes, while those at the top pay 8% or less. While we tax the income of those in poverty in Hawai'i, most other states either provide a refund or require no payment.

Let's restore some balance to our state's tax system by providing tax relief to those with the lowest incomes in the state. A first step to help families in poverty in our state would be to eliminate state income tax liability for workers in the lowest tax brackets.

Thank you for the chance to testify on this important bill. Please pass SB 3029.