

Honolulu, Hawaii

APR 05 2017

RE: H.B. No. 209
H.D. 1
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Twenty-Ninth State Legislature
Regular Session of 2017
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred H.B. No. 209, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose and intent of this measure is to amend the State's income tax law.

More specifically, this measure:

- (1) Expands the income tax credit for low-income household renters, based on adjusted gross income and filing status;
- (2) Establishes a state earned income tax credit equal to twenty percent of the federal earned income tax credit authorized under the Internal Revenue Code;
- (3) Restores the income tax rates for high income brackets that were repealed on December 31, 2015; and
- (4) Removes the sunset date for amendments made to the refundable food/excise tax credit by Act 223, Session Laws of Hawaii 2015.



The Hawaii State Commission on the Status of Women; League of Women Voters of Hawaii; Early Childhood Action Strategy; We Are One, Inc.; Community Alliance on Prisons; Young Progressives Demanding Action; PHOCUSED (Protecting Hawaii's Ohana, Children, Under Served, Elderly and Disabled); Hawaii Appleseed Center for Law and Economic Justice; IMUAlliance; Hawaii Children's Action Network; Progressive Democrats of Hawaii; Hawaiian Community Assets; HACBED (Hawaii Alliance for Community-Based Economic Development); Parents And Children Together; LGBT Caucus of the Democratic Party of Hawaii; Hawaii State Democratic Women's Caucus; Graduate Student Organization, University of Hawaii at Manoa; Common Cause Hawaii; YWCA Oahu; Catholic Charities Hawaii; CHOW Project; Americans for Democratic Action Hawaii; Hawaii Alliance for Progressive Action; Hawaii Women's Coalition; and eighty-seven individuals submitted testimony in support of this measure.

The Department of Taxation; Tax Foundation of Hawaii; Chamber of Commerce Hawaii; and Hawaii Association of REALTORS submitted comments on this measure.

Your Committee finds that Act 223, Session Laws of Hawaii 2015, temporarily increased the amount of the refundable food/excise tax credit. According to the Department of Taxation, making this increase permanent is expected to result in an annual revenue loss to the general fund of \$6,500,000.

Your Committee also finds that establishing a refundable state earned income tax credit, set at ten or twenty percent of the amount of the federal earned income tax credit, is expected to result in the following revenue loss to the general fund:

<u>Fiscal Year</u>	<u>10%</u>	<u>20%</u>
2018	\$24,500,000	\$49,000,000
2019	\$25,100,000	\$50,200,000
2020	\$25,700,000	\$51,500,000
2021	\$26,400,000	\$52,800,000
2022	\$27,000,000	\$54,100,000
2023	\$27,700,000	\$55,500,000



On the other hand, establishing a nonrefundable state earned income tax credit is expected to result in the following revenue loss:

<u>Fiscal Year</u>	<u>10%</u>	<u>20%</u>
2018	\$6,400,000	\$12,700,000
2019	\$8,300,000	\$16,700,000
2020	\$10,200,000	\$20,400,000
2021	\$11,900,000	\$23,800,000
2022	\$13,500,000	\$27,100,000
2023	\$15,000,000	\$30,100,000

Your Committee finds that the state income tax law may be made more progressive by not only reinstating higher income tax rates on high-income taxpayers, but also lowering the rates on the lowest income taxpayers. Your Committee supports such a restructuring of the income tax rates that is revenue neutral.

Your Committee has amended this measure by deleting its contents and inserting the provisions of Senate Bill No. 648, S.D. 1, a similar measure, and making further amendments, which cumulatively have the effect of amending the measure by:

- (1) Deleting the provisions regarding the income tax credit for low-income household renters;
- (2) Changing the amount of the state earned income tax credit to an unspecified percentage of the federal earned income tax credit;
- (3) Reducing income tax rates for lower income brackets and increasing income tax rates for the highest income brackets. Your Committee intends that this restructuring of the rates result in revenue neutrality;
- (4) Clarifying the taxable years to which the new income tax rates established by this measure shall apply;
- (5) Inserting appropriations of \$250,000 for each year of the 2017-2019 fiscal biennium to fund certain Department of Taxation tax preparation assistance outreach programs, as a means of expanding community



participation in such programs and reducing tax preparation errors;

- (6) Changing the effective date to July 1, 2050, to promote further discussion on the measure; and
- (7) Making technical nonsubstantive amendments for the purposes of consistency, clarity, and style.

Your Committee notes that the income tax rates that appear in this measure, as amended by your Committee, have been updated from those in S.B. No. 648, S.D. 1, based on the suggestions of the Department of Taxation. The intent of the updated rates is to smooth out the effects of the tax rate changes. Your Committee considers those rates a work in progress that shall be subject to further review as this measure moves through the deliberations of the Conference Committee.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 209, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 209, H.D. 1, S.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,




JILL N. TOKUDA, Chair



The Senate
 Twenty-Ninth Legislature
 State of Hawai'i

Record of Votes
Committee on Ways and Means
WAM

Bill / Resolution No.:*	Committee Referral:	Date:		
HB 209, HD1	WAM	3/28/17		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
TOKUDA, Jill N. (C)	/			
DELA CRUZ, Donovan M. (VC)	/			
ENGLISH, J. Kalani				/
GALUTERIA, Brickwood	/			
HARIMOTO, Breene				/
INOUYE, Lorraine R.	/			
KAHELE, Kaiali'i	/			
RIVIERE, Gil	/			
SHIMABUKURO, Maile S.L.	/			
TANIGUCHI, Brian T.				/
WAKAI, Glenn	/			
TOTAL	8			3
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes