

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax credit for teacher expenses

BILL NUMBER: HB 791

INTRODUCED BY: OKIMOTO, KITAGAWA, MIZUNO, TARNAS, TODD, D. Kobayashi

EXECUTIVE SUMMARY: Establishes a nonrefundable state income tax credit for certain expenses incurred by pre-kindergarten through grade 12 teachers, instructors, school librarians, counselors, principals, registrars, or aides in a school. Applies to taxable years beginning after 12/31/2021.

SYNOPSIS: Adds a new section to HRS chapter 235 to allow qualifying taxpayers to claim a tax credit of up to \$750 for qualifying expenses. The credit shall be deductible from the taxpayer's income tax liability for the taxable year the credit is properly claimed.

Defines "qualifying taxpayer" as an individual who is employed as a pre-kindergarten through twelfth-grade teacher, instructor, school librarian, counselor, principal, registrar, or aide in a school for at least nine hundred hours during a school year. "Qualifying taxpayer" includes a classroom teacher and special education teacher.

Defines "qualifying expenses" as expenses paid or incurred by a qualifying taxpayer in connection with:

- (1) Books;
- (2) Supplies, other than athletic supplies for courses of instruction in health or physical education;
- (3) Computer equipment, including related software and services;
- (4) Supplementary materials used in the classroom;
- (5) Professional-development courses related to the curriculum in which the taxpayer provides instruction; and
- (6) Supplies, including personal protective equipment, purchased from March 21, 2020, through June 30, 2021, for the purpose of reducing the risk of coronavirus disease 2019 transmission on the premises of the school or schools at which the qualifying taxpayer is employed.

Requires a credit claimant to obtain a written certificate from the school or schools at which the taxpayer is employed that verifies the:

- (1) Amount of the qualifying expenses paid or incurred by the qualifying taxpayer; and

(2) Employment of the qualifying taxpayer during the period in which the materials or services purchased were used or applied.

Specifies that no other tax credit or deduction may be claimed for Hawaii income tax purposes for the certain expenses used to claim this tax credit for the taxable year.

The credit is not refundable but may be carried forward until exhausted.

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. Failure to do so will result in waiver of the credit.

Requires the director of taxation to prepare any necessary forms. Allows the department to require the taxpayer to furnish reasonable substantiation and adopt necessary rules pursuant to HRS chapter 91 to carry out this section.

EFFECTIVE DATE: Taxable years beginning after 12/31/2021.

STAFF COMMENTS: This measure proposes a tax credit of \$750 for 100% of certain out-of-pocket expenses incurred by a teacher. The credit proposed in this measure would be granted without regard to a taxpayer's need for tax relief. 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.

Most of us have heard stories about teachers in the public school system who have been forced to use their own funds for classroom materials, and we know that isn't right. But 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 cards of some type 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, so why can't a similar system be established for classroom supplies rather than mucking up the tax system and ignoring the budgeting and appropriation processes?

Instead of just throwing money at a problem, in this case 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.

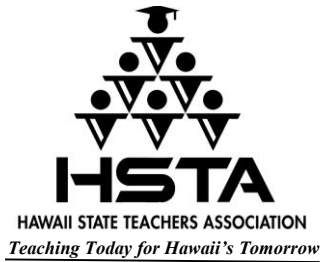
Other technical considerations that lawmakers should consider if the bill is to go forward are:

The definition of qualifying taxpayer in the bill has no threshold, so someone working as a teacher for one hour would qualify. Consider a definition like Internal Revenue Code section 62(d)(1)(A), which states:

the term “eligible educator” means, with respect to any taxable year, an individual who is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

There appears to be no requirement that the expense be unreimbursed. To prevent unintended benefit there should be recapture consequences if credited amounts are reimbursed.

Digested 2/5/2021



1200 Ala Kapuna Street ♦ Honolulu, Hawaii 96819
Tel: (808) 833-2711 ♦ Fax: (808) 839-7106 ♦ Web: www.hsta.org

Corey Rosenlee
President
Osa Tui Jr.
Vice President
Logan Okita
Secretary-Treasurer
Wilbert Holck
Executive Director

TESTIMONY BEFORE THE HOUSE COMMITTEE ON EDUCATION

RE: HB 791 - RELATING TO TAXATION

TUESDAY, FEBRUARY 9, 2021

COREY ROSENLEE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Woodson and Members of the Committee:

The Hawaii State Teachers Association **supports HB 791**, relating to taxation. This bill establishes a state income tax credit for certain expenses incurred by pre-kindergarten through grade 12 teachers, instructors, school librarians, counselors, principals, registrars, or aides in a school. Applies to taxable years beginning after 12/31/2021. Up to \$750 of “Qualifying expenses” may be claimed, as defined in this bill.

With the nation’s lowest cost of living adjusted salaries, increased healthcare costs, and the elimination of \$1,690 in special education supply funds in 2011, teachers have to dig deep into their pockets to deliver their lessons. In the case of classroom supplies, it’s true that teachers “do it for the kids,” purchasing materials out of their own paychecks, but they, and others, should be reimbursed for these purchases. However, often times funds are not available for our teachers to use, therefore. They are not allowed to use a school purchase order. However, very often, teachers purchase these supplies, with their own person funds, so as not to disrupt planned curricula and, in turn, student learning.

Previous HSTA surveys have found that a jarring 47 percent of teachers are spending between \$250 and \$500 per year on materials, with many spending \$1,000 or more. That’s \$250 to \$1,000 that would be spent on their own family needs, food, bills, and other personal expenses in a fully-funded school system. Notably, most teachers do not earn enough to claim the benefits of tax itemization—they cannot, for example, take mortgage deductions for homes that they cannot afford to buy.

Teachers should be repaid for personally purchasing school supplies. Accordingly, the Hawaii State Teachers Association asks your committee to **support** this bill.



HOUSE BILL 791, RELATING TO TAXATION

FEBRUARY 9, 2021 · HOUSE EDUCATION
COMMITTEE · CHAIR SEN. JUSTIN H. WOODSON

POSITION: Support.

RATIONALE: The Democratic Party of Hawai'i Education Caucus supports HB 791, relating to taxation, which establishes a state income tax credit for certain expenses incurred by pre-kindergarten through grade 12 teachers, instructors, school librarians, counselors, principals, registrars, or aides in a school.

According to the National School Supply and Equipment Association, public school teachers annually spend \$1.6 billion of their discretionary income on supplementary school supplies and instructional materials. On average, teachers surveyed spent a total of \$485 on school supplies and instructional materials, with more than 10 percent spending over \$1,000 of personal income each school year to educate their keiki. **Those figures have likely risen during the COVID-19 pandemic, as teachers have been forced to purchase cleaning supplies and personal protective equipment for themselves, their students, and their classrooms, since PPE supplies were not always obtainable from the Department of Education.**

That trend is, if anything, worse in Hawai'i, which consistently ranks at the bottom in national teacher compensation studies. Pay cuts, rising health care costs, adjusted insurance co-pays, and the loss of the state's \$1,690-per-special-education-teacher classroom supply fund have all

aggravated the financial burden borne by teachers' pocketbooks. In a recent survey conducted by HSTA, 47 percent of respondents cited personal expenditures between \$250 and \$500 each year on classroom supplies, with many claiming expenditures in excess of \$1,000. Lawmakers must take action to lighten their financial load.

Budget cuts and an overemphasis on standardized testing have crippled the DOE, in recent years, leading to reconsideration of whether or not to continue successful learning programs. Unfortunately, when our state's education budget fails to keep pace with inflation, successful learning centers and categorical programming get placed on the chopping block, while the DOE's priorities shift from classroom support to programmatic savings. Put simply, when we fail to adequately fund our schools, the DOE must spend more time accounting for basic programs, crowding out concerns about the efficient allocation of funds for individual teacher needs, like classroom supplies.

Ensuring that educators have more money in their pocketbooks effectively increases their purchasing power, puts money back into the local economy, and incentivizes the teaching profession at a time when our state's high cost-of-living and low adjusted-average income compel many would-be teachers to choose more highly compensated professions or, even worse, leave the state altogether. Today, approximately half of Hawai'i's teachers leave our state's classrooms every five years. If policymakers are truly interested in enhancing the DOE's ability to recruit quality teachers into our schools, providing fiscal incentives that modestly offset our state's exorbitant cost-of-living for goods that enhance the learning growth of our keiki is a worthy policy to pursue.

Kris Coffield · Chairperson, Democratic Party of Hawai'i Education Caucus · (808) 679-7454 · kriscoffield@gmail.com

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Justin H. Woodson, Chair;
The Honorable Jeanne Kapela, Vice Chair;
and Members of the House Committee on Education

From: Isaac W. Choy, Director
Department of Taxation

Date: February 9, 2021
Time: 2:00 P.M.
Place: Via Videoconference, Hawaii State Capitol

Re: H.B. 791, Relating to Taxation

The Department of Taxation (Department) offers the following comments regarding H.B. 791 for your consideration.

H.B. 791 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), creating a nonrefundable income tax credit for individuals employed as a teacher, instructor, school librarian, counselor, principal, registrar, or aide in a K-12 school who work at least nine hundred hours during a school year. To claim the credit, qualifying taxpayers must obtain a written certificate from the school or schools at which the taxpayer is employed, verifying the amount of expenses incurred as well as their employment during the period in which materials or services purchased were used. The measure applies to taxable years beginning after December 31, 2021. The credit is capped at \$750 per taxable year, with expenses allowed for the following items:

1. Books;
2. Supplies, other than athletic supplies for courses of instruction in health or physical education;
3. Computer equipment, including related software and services;
4. Supplementary materials used in the classroom;
5. Professional-development courses related to the curriculum in which the taxpayer provides instruction; and
6. Supplies, including personal protective equipment (gloves, medical masks, N-95 respirators, eye protection, gowns and aprons, boots or closed-toe work shoes, cleaning detergents, hand sanitizers, and cleaning products and tools), purchased from March 21, 2020, through June 30, 2021, to reduce the risk of COVID-19 transmission.

The Department is able to administer this measure as currently written and with its current effective date of taxable years beginning after December 31, 2021. This effective date provides the Department sufficient time to develop the new forms, instructions, and computer system modifications.

Thank you for the opportunity to provide comments.



STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

Date: 02/09/2021

Time: 02:00 PM

Location: 309 Via Videoconference

Committee: House Education

Department: Education

Person Testifying: Dr. Christina M. Kishimoto, Superintendent of Education

Title of Bill: HB 0791 RELATING TO TAXATION.

Purpose of Bill: Establishes a state income tax credit for certain expenses incurred by pre-kindergarten through grade 12 teachers, instructors, school librarians, counselors, principals, registrars, or aides in a school. Applies to taxable years beginning after 12/31/2021.

Department's Position:

The Hawaii State Department of Education (Department) supports HB 791 as a means to provide a state income tax credit for certain qualifying expenses to all pre-kindergarten through twelfth grade teachers, instructors, school librarians, counselors, principals, registrars, or aides.

HB 791 would provide a non-refundable tax credit up to \$750 per taxable year for expenses incurred by a qualifying taxpayer for books, supplies, computer equipment, supplementary materials, professional development courses, and personal protective equipment.

Efforts to use the state tax code to offset expenses paid by teachers to support their classrooms would complement the Department's efforts to increase teacher recruitment and retention through various initiatives and get more resources into the classroom.

The Department respectfully defers to the Department of Taxation on any implementation concerns.

Thank you for the opportunity to submit testimony on this measure

The Hawai'i State Department of Education is committed to delivering on our promises to students, providing an equitable, excellent, and innovative learning environment in every school to engage and elevate our communities. This is achieved through targeted work around three impact strategies: school design, student voice, and teacher collaboration. Detailed information is available at www.hawaiipublicschools.org.



TO: Chair Woodson, Vice Chair Kapela, and Members of the House Committee on Education

FROM: Ryan Kusumoto, President & CEO of Parents And Children Together (PACT)

DATE/LOCATION: February 9, 2021; 2:00 p.m., Conference Room 309/Video Conference

RE: TESTIMONY IN SUPPORT OF HB 791– RELATING TO TAXATION

We ask you to support HB 791 which seeks to establish a state income tax credit for certain expenses incurred by pre-kindergarten through grade 12 teachers, instructors, school librarians, counselors, principals, registrars, or aides in a school.

Each of us has had one of THOSE people in our lives... a teacher, instructor, librarian, counselor or principal who has truly made a difference in our lives. They went above and beyond to show us they cared. They shaped who we have become.

Educators and school staff often supplement school provided materials and supplies by purchasing items with their own personal finances. They do everything they can in the best interest of our children. Currently educators can claim a deduction of up to \$250, which is often significantly less than the out of pocket expenses that an educator spends annually. Purchasing things out of pocket adds up and this tax credit will be one way that we can honor the work of our dedicated and caring educators.

Founded in 1968, Parents And Children Together (PACT) is one of Hawaii's not-for-profit organizations providing a wide array of innovative and educational social services to families in need. Assisting more than 15,000 people across the state annually, PACT helps families identify, address and successfully resolve challenges through its 18 programs. Among its services are: early education programs, domestic violence prevention and intervention programs, child abuse prevention and intervention programs, childhood sexual abuse supportive group services, child and adolescent behavioral health programs, sex trafficking intervention, poverty prevention and community building programs.

Thank you for the opportunity to testify in **support of HB 791**, please contact me at (808) 847-3285 or rkusumoto@pacthawaii.org if you have any questions.