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Hawaii News

New law shifts taxes for wealthy and poor residents

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Gov. David Ige, right, shook hands with state Rep. Aaron Johanson before signing into law House Bill 209 during a news conference Monday at the state Capitol.

Gov. David Ige approved a new law Monday that increases income tax rates for the state's wealthiest residents while also creating a new state earned income tax credit to ease the state tax burden on some of Hawaii's poorest working families.

Act 107 also made permanent a temporary state tax credit that is designed to offset some of the state excise taxes that lower-income residents pay on their food purchases.

In all, the state treasury will gain about $20 million to $40 million a year from the new law because the extra income tax on wealthier residents will bring in more money than the tax credits will cost the state in lost revenue, according to House Finance Chairwoman Sylvia Luke.

A spokeswoman for the Department of Taxation said the state expects to collect an extra $51 million in 2018 from the tax increase on high-income residents but will forgo $16.7 million because of the new earned income tax credit.

The state will give up another $6.5 million next year because of the now-permanent refundable tax credit aimed at easing food costs for low-income residents, according to the spokeswoman.

State Rep. Aaron Johanson, who introduced House Bill 209, said the earned income credit will provide new tax relief worth about $130 million over the next six years to Hawaii's poor and working families.

Critics have said Hawaii's tax structure weighs heavily on the poor because so much of the state's tax collections come from the general excise tax, which is imposed on basic necessities such as food and rent. The excise tax accounts for nearly half of all state general treasury revenue.

Ige cited statistics showing that the lowest-income households pay about 13 percent of their incomes on state and local taxes, while the wealthiest households pay less than 8 percent.

"We know that the general excise tax does take a bigger portion of (the incomes of) those who can least afford it and is probably not the best thing to do, and so we do look toward trying to find ways that we can balance that, and seek more income for the state government from those who can afford to pay more," Ige said. "House Bill 209 does exactly that."

Johanson (D, Fort Shafter-Moanalua Gardens-Aiea) called the new law "a big win and a big victory for Hawaii's working class."

He said the bill is also something he can offer up to one of his constituents, an exasperated 40-year-old single mother named Marchell Tugadi who met Johanson when he was first running for office. Tugadi described her struggle to support her family and asked what Johanson would do to help her.

"It was stunning and awkward because I didn't have a very good answer at the time," Johanson said. With the passage of HB 209, "this is a win not just for that constituent, but it's an answer that many of us can now give to the people that we do care about from a policy perspective, that there's meaningful change occurring at the Legislature that will meaningfully impact their lives for the better."

A state earned income tax credit for Hawaii has been proposed for years by advocates for the poor. The federal government already provides an earned income credit, and 26 other states as well as the District of Columbia provide their own versions of the credit.

The new Hawaii credit will give households back 20 percent of what they are owed from the federal earned income tax credit and can be used to offset any tax liability.

For example, a married couple with three children earning a combined income of $40,000 would owe $1,261 in state income taxes, according to the HI Tax Fairness Coalition. The 20 percent credit would reduce that tax liability by $568.

The bill won support from a variety of organizations including the Hawaii Democratic Party, the Hawaii Appleseed Center for Law &Economic Justice, YWCA Oahu and Unite Here Local 5, which represents about 11,000 hotel, health care and food service workers.

However, the portion of the bill to increase income tax rates for the wealthiest households in Hawaii was more controversial and was opposed by both the Chamber of Commerce Hawaii and the Hawaii Association of Realtors.

The Tax Foundation of Hawaii remarked that the higher tax rates for high-income residents would "create an image that Hawaii is a poor place to live, work and invest, underscoring the poor business climate."

A spokeswoman for the tax department said the new law raises the individual income tax rates for single filers making over $150,000 and joint filers making over $300,000, which is the top 1.2 percent of resident tax filers in Hawaii.

For example, under the new tax rates for wealthier taxpayers, a family of four filing jointly with an income of $500,000 would see its state individual income tax liability increase by $4,000, according to the tax department.

Tugadi, the Aiea resident who pressed Johanson years ago to do something to help her to support her family, said she was “flabbergasted” when Johanson nicknamed the new law “Marchell’s Bill.”

“I didn’t realize me voicing my opinion, that it would come out to this,” said Tugadi, who works for the Hawaii Protective Association. “I hope it does work out, and I hope it does help parents who really need the help, single parents or families in general.”

She added, “For parents like me who have to work full-time jobs and take care of a family, it’s hard.”