

Eliminating Income Tax for Those Below Poverty Level

2015-2017 Hawaii Tax Review Commission

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Introduction

- The 2015-2017 Tax Review Commission requested an updated analysis of the potential revenue impact of eliminating individual income tax for taxpayers who fall below the poverty level.
- Topics:
 - Who is in poverty?
 - Who pays Hawaii's individual income tax?
 - Tax credits to promote social welfare
 - Estimating the potential revenue impact
 - Discussion

Who Is In Poverty?

Who is in Poverty?

- Federal poverty thresholds vs. guidelines

	Poverty Thresholds	Poverty Guidelines
Issuing Agency	U.S. Census Bureau	U.S. Department of Health and Human Services
Purpose/Use	Statistical — calculating the number of people in poverty	Administrative — determining financial eligibility for certain programs
Geographic Variation	There is <u>no</u> geographic variation; the same figures are used for all 50 states and D.C.	There is one set of figures for the 48 contiguous states and D.C.; one set for Alaska; and one set for Hawaii.
Determination of Poverty	It uses money income <u>before taxes</u> and does <u>not</u> include capital gains or noncash benefits (such as public housing, Medicaid, and food stamps).	It varies by programs to determine eligibility. It could be gross income, net income before or after taxes, or some other measure of income.

Poverty Level

- For this exercise, we are using the poverty guidelines because it is adjusted for Hawaii
- 2017 Poverty Guidelines:

Persons in Family/Household	48 Contiguous States and the D.C.	Hawaii	Alaska
1	\$12,060	\$13,860	\$15,060
2	\$16,240	\$18,670	\$20,290
3	\$20,420	\$23,480	\$25,520
4	\$24,600	\$28,290	\$30,750
5	\$28,780	\$33,100	\$35,980
6	\$32,960	\$37,910	\$42,210
7	\$37,140	\$42,720	\$46,440
8	\$41,320	\$47,530	\$51,670
For families with more than 8 persons, add:	\$4,180/additional person.	\$4,810/additional person.	\$5,230/additional person

Who Pays Hawaii Income Tax?

Hawaii
Individual Income Tax
Data

Individual Income Tax Filing Thresholds

- Hawaii

Filing Status	Standard Deduction	Personal Exemption	Total
Single; Married filing separately	\$2,200	\$1,144	\$3,344
Head of household	\$3,212	\$1,144	\$4,356
Married filing jointly	\$4,400	\$2,288	\$6,688

- Taxpayers 65 or older are entitled to additional personal exemption of \$1,144.

- Federal

Filing Status	Standard Deduction	Personal Exemption	Total
Single; Married filing separately	\$6,350	\$4,050	\$10,400
Head of household	\$9,350	\$4,050	\$13,400
Married filing jointly	\$12,700	\$8,100	\$20,800

- Taxpayers 65 or older are entitled to additional standard deduction of \$1,250 for married taxpayers or \$1,550 for unmarried taxpayers.

Hawaii Individual Income Tax Rates

- New Rates and Brackets: Tax years 2009 to 2015; 2018 and thereafter.

Tax Rates	Taxable Income					
	Single/MFS		Joint		Head of Household	
1.40%	\$0 -	\$2,400	\$0	\$4,800	\$0	\$3,600
3.20%	\$2,401 -	\$4,800	\$4,801 -	\$9,600	\$3,601 -	\$7,200
5.50%	\$4,801 -	\$9,600	\$9,601 -	\$19,200	\$7,201 -	\$14,400
6.40%	\$9,601 -	\$14,400	\$19,201 -	\$28,800	\$14,401 -	\$21,600
6.80%	\$14,401 -	\$19,200	\$28,801 -	\$38,400	\$21,601 -	\$28,800
7.20%	\$19,201 -	\$24,000	\$38,401 -	\$48,000	\$28,801 -	\$36,000
7.60%	\$24,001 -	\$36,000	\$48,001 -	\$72,000	\$36,001 -	\$54,000
7.90%	\$36,001 -	\$48,000	\$72,001 -	\$96,000	\$54,001 -	\$72,000
8.25%	\$48,001 -	\$150,000	\$96,001 -	\$300,000	\$72,001 -	\$225,000
9.00%	\$150,001 -	\$175,000	\$300,001 -	\$350,000	\$225,001 -	\$262,500
10.00%	\$175,001 -	\$200,000	\$350,001 -	\$400,000	\$262,501 -	\$300,000
11.00%	\$200,001 and over		\$400,001 and over		\$300,001 and over	

Federal Individual Income Tax Rates

- Tax year 2017

Tax Rates	Taxable Income					
	Single/MFS		Joint		Head of Household	
10.00%	\$0 -	\$9,325	\$0	\$18,650	\$0	\$13,350
15.00%	\$9,326 -	\$37,950	\$18,651 -	\$75,900	\$13,351 -	\$50,800
25.00%	\$37,951 -	\$91,900	\$75,901 -	\$153,100	\$50,801 -	\$131,200
28.00%	\$91,901 -	\$191,650	\$153,101 -	\$233,350	\$131,201 -	\$212,500
33.00%	\$191,651 -	\$416,700	\$233,351 -	\$416,700	\$212,501 -	\$416,700
35.00%	\$416,701 -	\$418,400	\$416,701 -	\$470,700	\$416,701 -	\$444,550
39.60%	\$418,401 and over		\$470,701 and over		\$444,551 and over	

Who Pays Hawaii Income Tax?

- A total of 618,366 individual income tax returns were filed by Hawaii residents for tax year 2014.
- Of the total resident returns, 83% (511,199) reported a tax liability, and 17% (107,167) reported no tax liability (before applying any tax credits) (see Figure 1).
- Non-residents filed a total of 85,182 returns.

Figure 1. Number of Individual Income Tax Returns (with a tax liability vs. without a tax liability)

Hawaii Adjusted Gross Income	Returns with a tax liability	Returns without a tax liability
LOSS		13,665
\$0 - 5K	15,731	71,034
\$5K - 10K	36,852	11,230
\$10K - 20K	76,440	11,238
\$20K - 30K	72,262	
\$30K - 40K	62,387	
\$40K - 50K	47,743	
\$50K - 75K	75,013	
\$75K - 100K	46,556	
\$100K - 150K	45,380	
\$150K - 200K	16,411	
\$200K - 300K	9,395	
\$300K & OVER	7,029	

Who Pays Hawaii Income Tax?

- The total liability for residents for tax year 2014 was \$1.79 billion.
- Resident taxpayers with Hawaii adjusted gross income (“HAGI”) of under \$50,000 represents a majority (61%) of the returns with a tax liability, however, the amount of tax liability only accounts for 16% or \$0.29 billion of the total individual income tax.

Who Pays Hawaii Income Tax?

- 84% or \$1.50 billion was paid by resident taxpayers with HAGI over \$50,000.
- Taxpayers with HAGI of \$100,000 or more represent 15% of returns with a tax liability, but accounts for 60% or \$1.07 billion of the total individual income tax.
- Taxpayers with HAGI of \$300,000 or more represent 1.4% of returns with a tax liability, but accounts for 26% or \$0.46 billion of total individual income tax (see Figure 2).

Figure 2. Individual Income Tax: Tax Liability by Income Group

Hawaii Adjusted Gross Income	Returns with a tax liability	Tax Liability
\$0 - 5K	15,731	\$264,000
\$5K - 10K	36,852	\$3,284,000
\$10K - 20K	76,440	\$28,503,000
\$20K - 30K	72,262	\$64,567,000
\$30K - 40K	62,387	\$91,312,000
\$40K - 50K	47,743	\$97,603,000
\$50K - 75K	75,013	\$222,191,000
\$75K - 100K	46,556	\$205,703,000
\$100K - 150K	45,380	\$299,006,000
\$150K - 200K	16,411	\$165,394,000
\$200K - 300K	9,395	\$152,323,000
\$300K & OVER	7,029	\$455,724,000

**Figure 3. Individual Income Tax: Average Tax Liability & Effective Tax Rates
(Before Tax Credits)**

Hawaii Adjusted Gross Income	Average Tax Liability Before Credits	Effective Tax Rates
\$0 - 5K	\$17	1.50%
\$5K - 10K	\$89	2.40%
\$10K - 20K	\$373	3.90%
\$20K - 30K	\$894	4.90%
\$30K - 40K	\$1,464	5.50%
\$40K - 50K	\$2,044	5.90%
\$50K - 75K	\$2,962	6.20%
\$75K - 100K	\$4,418	6.50%
\$100K - 150K	\$6,589	6.80%
\$150K - 200K	\$10,078	7.20%
\$200K - 300K	\$16,213	7.60%
\$300K & OVER	\$64,835	8.70%

Tax Credits to Promote Social Welfare

Tax Credits

- Refundable Food/Excise Tax Credit
 - \$27.7 million claimed for tax year 2014

Federal AGI	Single Filer	All Other Filers				
	Tax Credit Amount	Tax Credit Amount for Households of:				
		1	2	3	4	5
Under \$5,000	\$110	\$110	\$220	\$330	\$440	\$550
\$5,000 - \$10,000	\$100	\$100	\$200	\$300	\$400	\$500
\$10,000 - \$15,000	\$85	\$85	\$170	\$255	\$340	\$425
\$15,000 - \$20,000	\$70	\$70	\$140	\$210	\$280	\$350
\$20,000 - \$30,000	\$55	\$55	\$110	\$165	\$220	\$275
\$30,000 - \$40,000	\$0	\$45	\$90	\$135	\$180	\$225
\$40,000 - \$50,000	\$0	\$35	\$70	\$105	\$140	\$175
\$50,000 and over	\$0	\$0	\$0	\$0	\$0	\$0

- Low-income Household Renters Tax Credit
 - \$3.6 million claimed for tax year 2014
 - This credit has not been adjusted for 27 years

Hawaii AGI	Tax Credit Amount for Households of:					
	1	2	3	4	5	6
Under \$30,000	\$50	\$100	\$150	\$200	\$250	\$300

Hawaii Earned Income Tax Credit

- Hawaii Earned Income Tax Credit (EITC) is 20% of the federal EITC for the tax year.
- However, unlike federal EITC, it is non-refundable, meaning that the Hawaii EITC can only be used to offset tax liability. If the Hawaii EITC exceeds the tax liability the taxpayer will not receive a cash refund of the difference.
- Available for tax years 2018 to 2022.
- Estimated revenue impact of \$16.7 million for tax year 2018.

Figure 4. Tax Liability After Tax Credits (excluding EITC) (Returns with a Tax Liability)

Hawaii Adjusted Gross Income	No. of Returns	Tax Liability - After Tax Credits (Excluding EITC)
\$0 - 5K	15,731	-\$214,000
\$5K - 10K	36,852	\$250,000
\$10K - 20K	76,440	\$19,180,000
\$20K - 30K	72,262	\$56,146,000
\$30K - 40K	62,387	\$85,323,000
\$40K - 50K	47,743	\$93,381,000
\$50K - 75K	75,013	\$214,116,000
\$75K - 100K	46,556	\$196,115,000
\$100K - 150K	45,380	\$282,751,000
\$150K - 200K	16,411	\$156,781,000
\$200K - 300K	9,395	\$143,066,000
\$300K & OVER	7,029	\$402,091,000

Figure 5. Tax Refunds After Tax Credits (excluding EITC) (Returns without a Tax Liability)

Hawaii Adjusted Gross Income	No. of Returns	Tax Liability (Refund) After Credits
LOSS	13,665	-\$5,130,000
\$0 - 5K	71,034	-\$7,458,000
\$5K - 10K	11,230	-\$1,942,000
\$10K & OVER	11,238	-\$1,731,000

Figure 6. Effective Tax Rates: Before Tax Credits (2004 vs. 2014)

Hawaii Adjusted Gross Income	2004	2014
\$0 - 5K	1.6%	1.5%
\$5K - 10K	2.8%	2.4%
\$10K - 20K	4.3%	3.9%
\$20K - 30K	5.2%	4.9%
\$30K - 40K	5.7%	5.5%
\$40K - 50K	6.0%	5.9%
\$50K - 75K	6.2%	6.2%
\$75K - 100K	6.6%	6.5%
\$100K - 150K	7.0%	6.8%
\$150K - 200K	7.3%	7.2%
\$200K & OVER	7.7%	8.4%

Figure 7. Effective Tax Rates: After Tax Credits (2004 vs. 2014)

Hawaii Adjusted Gross Income	2004 After Credits	2014 After Credits
\$0 - 5K	1.1%	-1.2%
\$5K - 10K	2.2%	0.2%
\$10K - 20K	3.9%	2.6%
\$20K - 30K	5.0%	4.3%
\$30K - 40K	5.6%	5.1%
\$40K - 50K	5.8%	5.6%
\$50K - 75K	6.1%	6.0%
\$75K - 100K	6.4%	6.2%
\$100K - 150K	6.8%	6.5%
\$150K - 200K	7.1%	6.8%
\$200K & OVER	6.2%	7.5%

Figure 8. Tax Liability After Credits (including EITC)

Based on 2015 Data

Hawaii Adjusted Gross Income	Tax Liability After Credits (including EITC)
\$0 & LESS	\$12,353,000
\$1 - <5K	\$5,273,000
\$5K - <10K	\$721,000
\$10K - <20K	\$20,444,000
\$20K - <30K	\$55,544,000
\$30K - <40K	\$88,245,000
\$40K - <50K	\$102,532,000
\$50K - <75K	\$233,740,000
\$75K - <100K	\$215,325,000
\$100K - <150K	\$321,595,000
\$150K - <200K	\$182,450,000
\$200K - <250K	\$104,597,000
\$250K - <300K	\$65,097,000
\$300K - <350K	\$46,675,000
\$350K - <400K	\$37,284,000
\$400K - <450K	\$30,773,000
\$450K - <500K	\$25,389,000
\$500K & OVER	\$381,425,000

**Figure 9. Effective Tax Rates: After Tax Credits For All Returns
Based on 2015 Data (Before and After EITC)**

Hawaii Adjusted Gross Income	2015 Before EITC	2015 After EITC
\$1 - <5K	-12.2%	-12.3%
\$5K - <10K	-0.2%	-0.4%
\$10K - <20K	2.7%	2.4%
\$20K - <30K	4.3%	3.8%
\$30K - <40K	5.2%	4.9%
\$40K - <50K	5.6%	5.6%

Estimating the Potential Revenue Impact of Eliminating Income Tax for Those in Poverty

Determination of Poverty

- Assuming that “poverty” means taxpayers with an adjusted gross income (AGI) below the poverty guidelines.
- Why both Federal and Hawaii AGI?
 - Examples of the differences between Federal and Hawaii AGI.

	Federal Adjusted Gross Income	Hawaii Adjusted Gross Income
Cost of Living Allowances	Not included	Included
Contribution to State Employees' Retirement System	Not included	Included
Out-of-state Bonds	Not included	Included
Employers-funded Pensions	Included	Not included
Social Security Benefits	Included	Not included
First \$6,279 of Military Reserve or Hawaii National Guard Duty Pay	Included	Not included
Payments to An Individual Housing Account	Included	Not included

- Data: 2015 individual income tax data

Result of Eliminating Income Tax for Taxpayers Below Poverty Level

- Proposal: Eliminate (zero out) State tax liability if both the Federal and Hawaii AGI are below poverty guidelines (yellow line).
- Tax credits reduces tax liability for the majority of taxpayers with income below poverty level (see Figure 10).

**Figure 10. Effective Tax Rates: After All Tax Credits
Current vs. Proposed**

Hawaii Adjusted Gross Income	Current After Credits	Proposed After Credits
\$1 - <5K	-12.3%	-12.9%
\$5K - <10K	-0.4%	-1.2%
\$10K - <20K	2.4%	1.9%
\$20K - <30K	3.8%	3.8%
\$30K - <40K	4.9%	4.9%
\$40K - <50K	5.6%	5.6%

Additional Considerations

Legislative History

- Efforts to reduce tax burden of lower-income taxpayers:
 - Act 110, SLH 2006:
 - Increased standard deductions to 40% of 2005 Federal standard deduction
 - Joint: \$4,000 (from \$1,900)
 - Head of household: \$2,920 (from \$1,650)
 - Single: \$2,000 (from \$1,500)
 - Expanded tax brackets by approximately 20%
 - Act 211, SLH 2007:
 - Replaced low-income refundable tax credit with refundable food/excise tax credit (food credit)
 - Increased the income threshold from \$20,000 to \$50,000
 - Increased the credit amount from a maximum of \$35/exemption to a maximum of \$85/exemption
 - Act 60, SLH 2009:
 - Increased standard deductions by 10%
 - Increased personal exemptions by 10%
 - Act 223, SLH 2015:
 - Increased the credit amount for the food credit from a maximum of \$85/exemption to \$110/exemption
 - Act 107, SLH 2017:
 - Established a State non-refundable EITC equals to 20% of Federal EITC
 - Made permanent changes to the food credit by Act 223, SLH 2015

Alternatives

- Alternative options to provide additional tax relief to lower income households
 - Index/increase standard deduction
 - Index/increase personal exemption
 - Modify/increase the amount of the low-income household renters credit
 - Modify/increase the amount of the refundable food/excise tax credit
 - Increase the percentage of the State non-refundable EITC

THANK YOU