

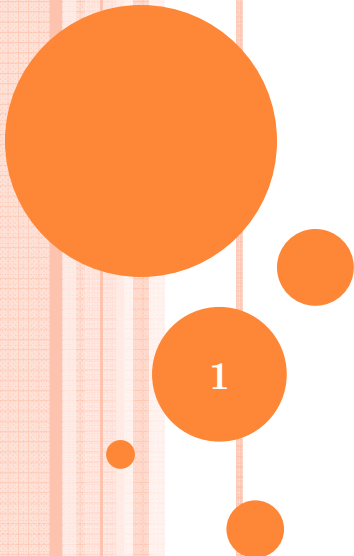


# **ELIMINATING INCOME TAX FOR THOSE BELOW POVERTY LEVEL**

**2010-2013 Hawaii Tax Review  
Commission**

**Presented by Titin Sakata**

**August 29, 2012**





## INTRODUCTION

- The 2010-2013 Tax Review Commission requested an analysis of the potential revenue impact of eliminating individual income tax for taxpayers who fall below poverty level.
- Topics:
  - Who is in poverty?
  - Who pays Hawaii's individual income tax?
  - Tax credits for the poor
  - Estimating the potential revenue impact
  - Discussion



## WHO IS IN POVERTY?

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# WHO IS IN POVERTY?

- Federal poverty thresholds vs. guidelines

	Poverty Thresholds	Poverty Guidelines
<b>Issuing Agency</b>	Census Bureau	Department of Health and Human Services
<b>Purpose/Use</b>	Statistical — calculating the number of people in poverty	Administrative — determining financial eligibility for certain programs
<b>Geographic Variation</b>	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.
<b>Determination of Poverty</b>	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 use poverty guidelines as it has a set of figures for Hawaii

## 2012 Poverty Guidelines

Persons in Family/Household	48 Contiguous States and the D.C.	Hawaii	Alaska
1	\$11,170	\$12,860	\$13,970
2	\$15,130	\$17,410	\$18,920
3	\$19,090	\$21,960	\$23,870
4	\$23,050	\$26,510	\$28,820
5	\$27,010	\$31,060	\$33,770
6	\$30,970	\$35,610	\$38,720
7	\$34,930	\$40,160	\$43,670
8	\$38,890	\$44,710	\$48,620
For families with more than 8 persons, add:	\$3,960/additional person.	\$4,550/additional person.	\$4,950/additional person



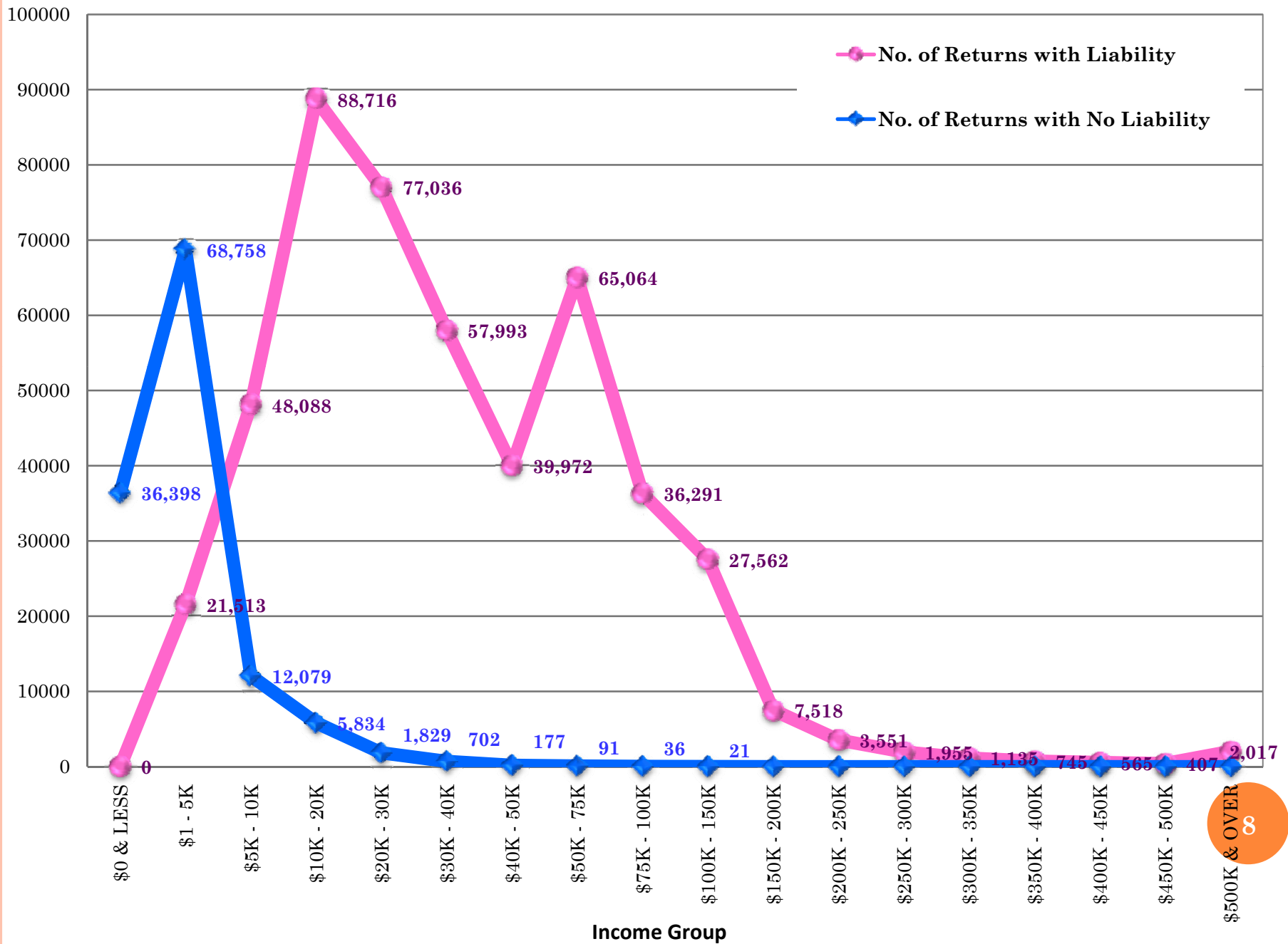
# HAWAII INDIVIDUAL INCOME TAX DATA

# INDIVIDUAL INCOME TAX RATES

- For tax years 2009 to 2015.

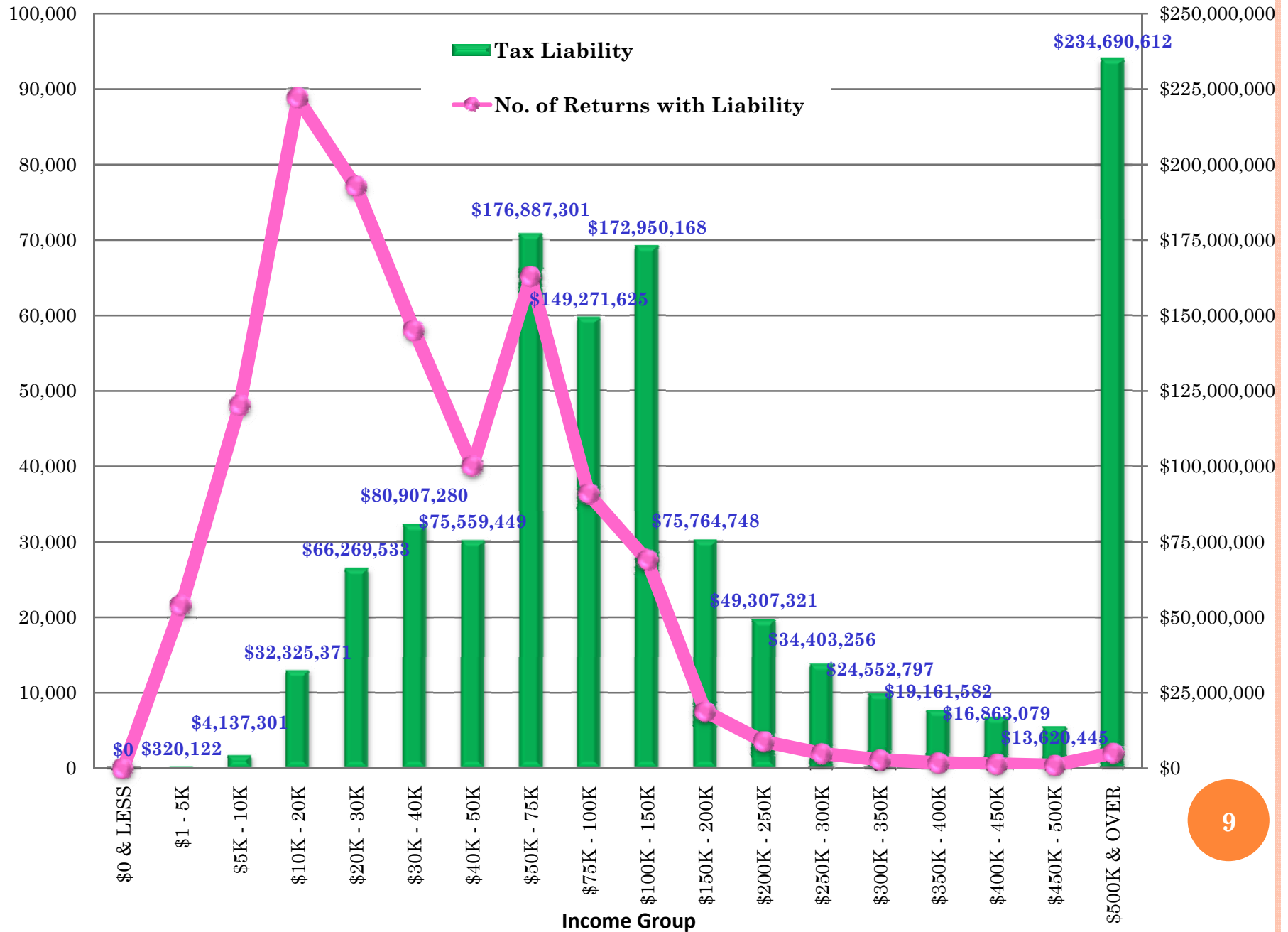
Tax Rates	Taxable Income					
	Single/MFS		Joint		Head of Household	
1.40%	Under	\$2,400	Under	\$4,800	Under	\$3,600
3.20%	2,400 "	4,800	4,800 "	9,600	3,600 "	7,200
5.50%	4,800 "	9,600	9,600 "	19,200	7,200 "	14,400
6.40%	9,600 "	14,400	19,200 "	28,800	14,400 "	21,600
6.80%	14,400 "	19,200	28,800 "	38,400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

# Figure 1. Individual Income Tax Data - No. of Returns

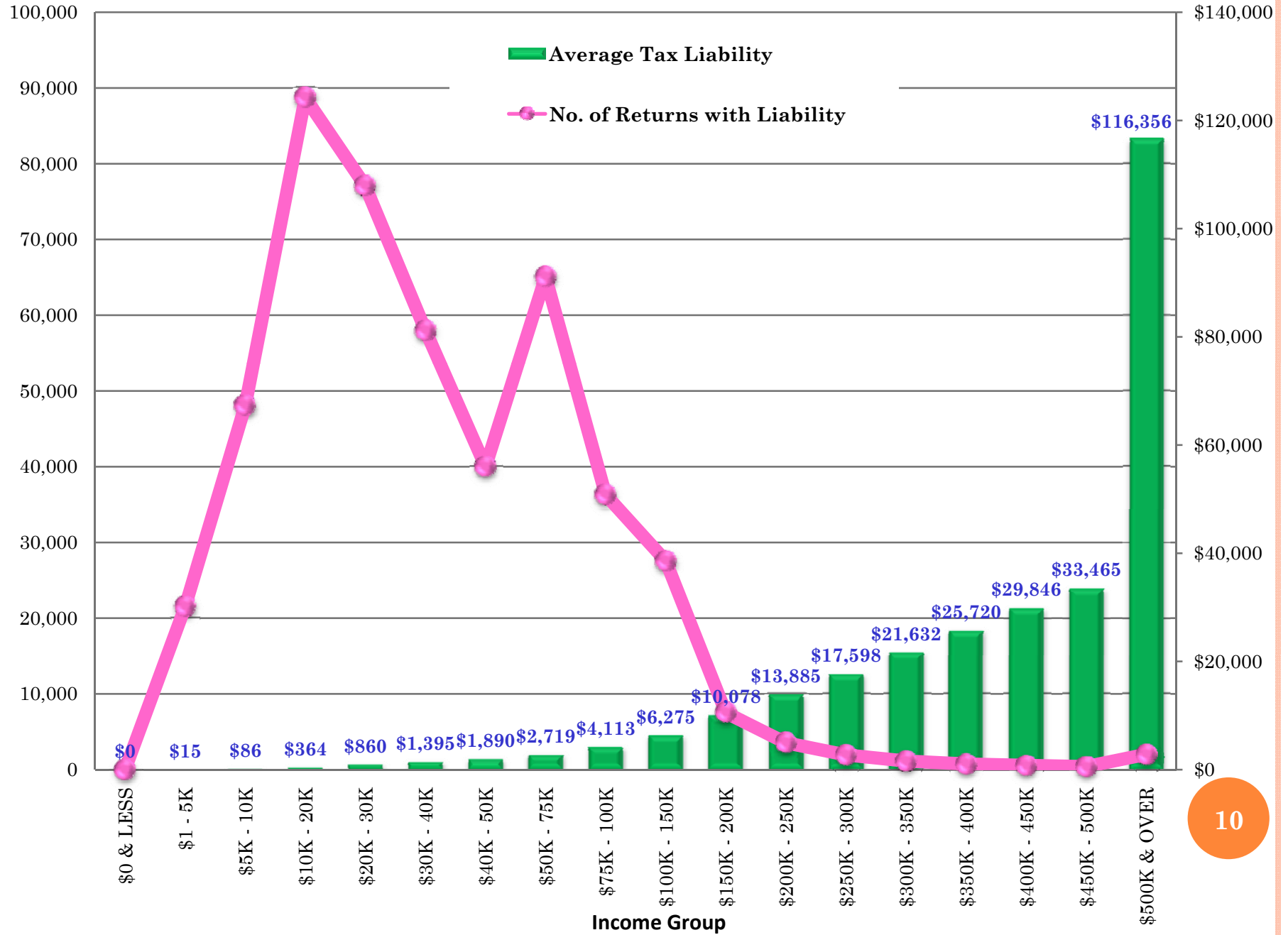




## Figure 2. Individual Income Tax Data - Total Liability



### Figure 3. Individual Income Tax Data - Average Liability





## **TAX RELIEFS (TAX CREDITS) AVAILABLE FOR THE LOWER INCOME GROUP**

# FOOD/EXCISE AND RENTERS' TAX CREDITS

- Food/excise tax credit

Federal AGI	Tax Credit Amount for Households of:				
	1	2	3	4	5
Under \$5,000	\$85	\$170	\$255	\$340	\$425
\$5,000 - \$10,000	\$75	\$150	\$225	\$300	\$375
\$10,000 - \$15,000	\$65	\$130	\$195	\$260	\$325
\$15,000 - \$20,000	\$55	\$110	\$165	\$220	\$275
\$20,000 - \$30,000	\$45	\$90	\$135	\$180	\$225
\$30,000 - \$40,000	\$35	\$70	\$105	\$140	\$175
\$40,000 - \$50,000	\$25	\$50	\$75	\$100	\$125
\$50,000 and over	\$0	\$0	\$0	\$0	\$0

- Low income household renters' tax credit

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



# **ESTIMATING THE POTENTIAL REVENUE IMPACT OF ELIMINATING INCOME TAX FOR THOSE IN POVERTY**

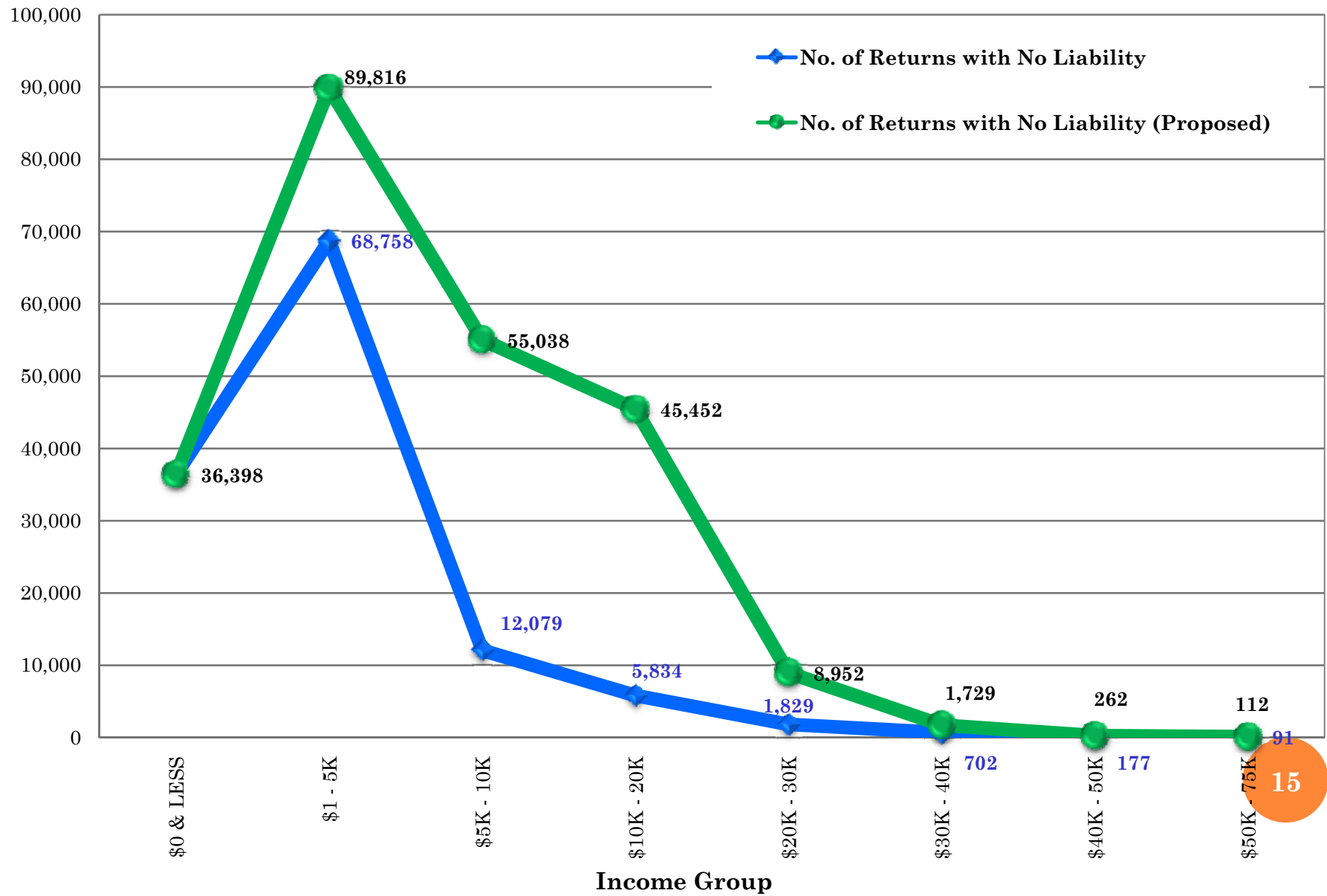
# DETERMINATION OF POVERTY

- Assume poverty means taxpayers with adjusted gross income (AGI) below the poverty guidelines
- Formula: If both Federal and Hawaii AGI are below poverty guidelines, then ordinary liability tax rate is 0%
- Why both Federal and Hawaii AGI?
  - Examples of the differences between Federal and Hawaii AGI

	<b>Federal Adjusted Gross Income</b>	<b>Hawaii Adjusted Gross Income</b>
<b>COLA</b>	Not included	Included
<b>Contribution to State Employees' Retirement System</b>	Not included	Included
<b>Out-of-state Bonds</b>	Not included	Included
<b>Employers-funded Pensions</b>	Included	Not included
<b>Social Security Benefits</b>	Included	Not included
<b>First \$5,881 of Military Reserve or Hawaii National Guard Duty Pay</b>	Included	Not included
<b>Payments to An Individual Housing Account</b>	Included	Not included

- Data: 2004 individual income tax data

**Figure 1-A. Individual Income Tax Data - No. of Returns with No Liability  
(Proposed = No Tax on Households with AGI Below Poverty Guidelines)**



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# REVENUE IMPACT OF ELIMINATING INCOME TAX FOR THOSE BELOW POVERTY LEVEL

- Reported liability would decrease by an estimated \$17.7 million
  - 111,900 additional returns with zero liability
- Revenue loss is likely higher
- It could be several times higher than the estimated reduction in reported liability
  - 12-years average difference between reported liability and tax collection: \$143 million (or 14%)
  - Possible explanation: Withholding of tax by employers, but employees did not file tax returns





# **IMPACT OF ELIMINATING INCOME TAX FOR HOUSEHOLDS WITH AGI BELOW POVERTY GUIDELINES**

# IMPACT OF ELIMINATING TAX TO THOSE BELOW POVERTY LEVEL – HYPOTHETICAL EXAMPLES

## 1. Single: Income \$10,000

		<b>Current</b>	<b>Proposed</b>
Adjusted Gross Income		\$10,000	\$10,000
Standard Deduction		2,000	2,000
Exemption	1	1,040	1,040
Taxable Income		6,960	6,960
<b>Tax Liability Before Credits</b>		<b>229</b>	<b>0</b>
Renter's Credit		50	50
Food/Excise Tax Credit		65	65
<b>Tax Liability After Credits</b>		<b>114</b>	<b>(115)</b>

## 2. Single Parent with One Child: Income \$15,000

		<b>Current</b>	<b>Proposed</b>
Adjusted Gross Income		\$15,000	\$15,000
Standard Deduction		2,920	2,920
Exemption	2	2,080	2,080
Taxable Income		10,000	10,000
<b>Tax Liability Before Credits</b>		<b>320</b>	<b>0</b>
Renter's Credit		100	100
Food/Excise Tax Credit		110	110
<b>Tax Liability After Credits</b>		<b>110</b>	<b>(210)</b>

# IMPACT OF ELIMINATING TAX TO THOSE BELOW POVERTY LEVEL – HYPOTHETICAL EXAMPLES

## 3. Elderly Couple: Income \$15,000

		<b>Current</b>	<b>Proposed</b>
Adjusted Gross Income		\$15,000	\$15,000
Standard Deduction		4,000	4,000
Exemption	4	4,160	4,160
Taxable Income		6,840	6,840
<b>Tax Liability Before Credits</b>		<b>132</b>	<b>0</b>
Renter's Credit		200	200
Food/Excise Tax Credit		110	110
<b>Tax Liability After Credits</b>		<b>(178)</b>	<b>(310)</b>

## 4. Family of Five: Income \$25,000

		<b>Current</b>	<b>Proposed</b>
Adjusted Gross Income		\$25,000	\$25,000
Standard Deduction		4,000	4,000
Exemption	5	5,200	5,200
Taxable Income		15,800	15,800
<b>Tax Liability Before Credits</b>		<b>562</b>	<b>0</b>
Renter's Credit		250	250
Food/Excise Tax Credit		225	225
<b>Tax Liability After Credits</b>		<b>87</b>	<b>(475)</b>



## **DISCUSSION ON ELIMINATING INCOME TAX FOR THOSE BELOW POVERTY LEVEL**

# DISCUSSION ON ELIMINATING INCOME TAX FOR THOSE BELOW POVERTY LEVEL

- Tax reliefs available to lower income households
  - Food/excise tax credit
  - Low income household renters' credit
  
- How do you define “income” to determine poverty?
  - Issue with using AGI to determine poverty
    - AGI includes business loss, capital loss, depreciation, etc.
    - Low or negative AGI, but not necessarily poor
  
- Alternative options to provide tax reliefs to lower income households
  - Increase food/excise tax credit amounts
  - Increase the credit amount for the low income household renters
  - Index/increase standard deduction
  - Index/increase personal exemption

THANK YOU