Let Families Keep More of What They Earn

Hawaiʻi has the lowest wages in the nation after adjusting for our cost of living, which is the highest in the nation. We also place the second highest tax burden in the country on our low-income households. Our lowest-income households pay over 13% of their income in taxes, while those at the top pay 8% or less.
Faced with this one-two-three punch, almost half (48%) of our state's residents are living paycheck-to-paycheck.

To help our struggling neighbors, we need to come together and restore tax fairness in our state. We can do that by improving the already-existing Food Credit and Renters Credit and creating a Working Families Credit, all of which are targeted at low-income and working-class households. This can be paid for by reinstating the tax rates that were in place for our highest-income earners from 2009 to 2015.

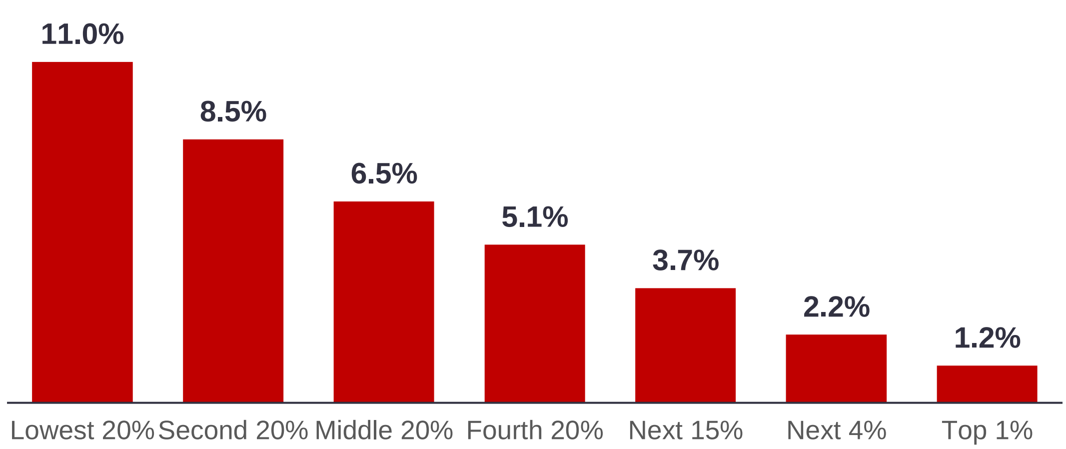
The Food Credit

Hawaiʻi's low-income families face the second highest tax rate in the nation, with our lowest-income households paying almost twice as much of their income (over 13%) in taxes as those in the top fifth (who pay 8% or less). A main reason for this disparity is the General Excise Tax (GET), which is applied to nearly all goods and services in Hawaiʻi. It hits our low-income and working-class families much harder because they spend almost all of their earnings on items and services that are taxed by the GET.

The Refundable Food/Excise Tax Credit helps ease that burden on our low-income and working-class families, but its value will drop at the end of 2017 if we don't act. We shouldn't let that happen, and **we should improve the credit with cost-of-living adjustments** to make sure it keeps up with inflation.

The GET Hits Low-Income Workers Almost 10 Times As Hard As the Top 1%

Hawaii's General Excise Tax as a Share of Family Income



The Working Families Credit

The federal Earned Income Tax Credit (EITC) helps working-class families keep more of their earnings through tax refunds. It has been praised by both Democrats and Republicans as the most effective anti-poverty tool in the nation. Twenty-six states and the District of Columbia have created state-level working families credits, ranging from 3.5 percent to 85 percent of the federal EITC, but Hawai'i is not one of them.

Because the EITC is targeted at families with children, it is particularly effective at alleviating the impact of child poverty. About 18,000 children in Hawai'i are kept out of poverty due to the federal EITC each year.

Since they are facing the nation's highest cost of living, our low-income and working-class households need a state-level EITC more than those in any other state. **We should create a Working Families Credit**, which would bring **11,000 families**' state income tax bill down to zero. It is estimated that this would cost just under $24 million per year and would be targeted at those workers who need tax relief the most.

The Renters Credit

One of the main drivers of our high cost of living is housing costs. Currently, a worker in Hawai'i needs to earn more than $34 per hour (over $68,000 per year) to afford a two-bedroom apartment. Even if a minimum wage worker were somehow able to devote 100% of their earnings toward housing (i.e., not spending any money on food, utilities, etc.), they *still* wouldn't be able to afford a market-rate apartment.

The Low-Income Household Renters Credit (LIHRC) helps make up for the high tax rates that burden our low- and moderate-income renters. However, it has not been updated since the 1980s and does not account for nearly three decades of inflation. Now, when almost three-quarters of people in Hawai'i living at or near the poverty line spend *more than half* of their incomes on rent, a more robust renters' credit is necessary.

We should **adjust the Renters Credit to recover ground lost to inflation** by increasing both the maximum value of the credit (to $150) and the income eligibility limits (to $60,000 for families). This would help about **83,000 households** and put an additional $11 million into the pockets of Hawaii's low- and moderate-income families.

Restoring Revenues

From 2009 to 2015, Hawai'i's highest-income residents (e.g., joint filers earning over $300,000 per year) paid higher tax rates than in prior years, which slightly narrowed the gap between the tax burdens of our high and low income neighbors. However, those rates were allowed to sunset at the end of 2015.

We should **reinstate those top tax rates**, which would raise about $48 million per year – more than enough to pay for needed tax relief for our state's low-income and working-class families. Under those rates, e.g., a joint-filing household making $400,000 per year would pay about $1,250 more per year. Approximately **93% of the revenues raised would be paid by the top 1%** of Hawai'i earners.

This combination of reforms – **improving the Food Credit and the Renters Credit, creating a Working Families Credit, and restoring revenues** – would go a long way towards tax fairness and help those most squeezed by Hawai'i's high costs and low wages.