For immediate release, January 14, 2015

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New Analysis: Low-income taxpayers in Hawai‘i pay nearly twice the tax rate as the richest Hawai‘i residents; second heaviest tax burden on the poor

A new study released today by the Institute on Taxation and Economic Policy (ITEP) and the Hawai‘i Appleseed Center for Law and Economic Justice finds that Hawai‘i's lowest income residents pay almost two times more in taxes as a percent of their income compared to the state's wealthiest residents. This aggressive taxation of low-income residents leaves Hawai‘i with the country's second heaviest tax burden on people in poverty.

The study, *Who Pays?*, analyzes tax systems in all 50 states and factors in every major state and local tax, including personal and corporate income taxes, property taxes, and sales and other excise taxes. The analysis shows that in Hawai‘i, households with income in the lowest quintile spend 13.4 of their income in taxes, while those in the top 1 percent pay just 7 percent of their income.

“Hawai‘i has the highest cost of living in the country and the sixth highest rate of poverty under the U.S. Census's supplemental poverty measure,” said Victor Geminiani, executive director of Hawai‘i Appleseed. “Yet we are the second worst state in the country for taxing our people deeper into poverty.”

Hawai‘i's tax system is unfair, or regressive, because the lower one's income, the higher one's tax rate. This is in part because Hawai‘i, like most other states, relies more heavily on sales and excise taxes to raise revenue and is less dependent on personal income taxes, which tend to be more progressive (meaning the higher one's income, the higher one's effective personal income tax rate). Nonetheless, all states, including Hawai‘i, have a long way to go to make state tax systems fairer.

How Hawai‘i taxes its residents matters for myriad reasons. In recent years, anti-tax advocates across the country have pushed for tax policies that would reduce tax rates for the wealthy and businesses. There are clear problems with this agenda. Foremost, many anti-tax proposals would make regressive tax structures even worse. Here in Hawai‘i, the 2009 tax rate increases on the wealthiest households are scheduled to sunset this year. Second, aggressive tax cuts that favor businesses and the wealthy can result in states having difficulty adequately funding basic public obligations such as education, which can lead to increasing the taxes that fall more heavily on the poor.

There’s also a more practical reason for Hawai‘i and all states to be concerned about regressive tax structures, according to ITEP. If the nation fails to address its growing income inequality problem, states will have difficulty raising the revenue they need over time. The more income that goes to the wealthy—and the lower a state’s tax rate on the wealthy—the slower a state’s revenue grows over time.

“In recent years, multiple studies have revealed the growing chasm between the wealthy and everyone else,” said Matt Gardner, executive director of ITEP. “Upside down state tax systems didn’t cause the growing income divide, but they certainly exacerbate the problem. State policymakers shouldn’t wring their hands or ignore the problem. They should thoroughly explore and enact tax reform policies that will make their tax systems fairer.”

For the upcoming session, Hawai‘i Appleseed has proposed four tax policy changes that will create a fairer, more progressive tax policy that helps struggling families make ends meet. Its major priorities include adjusting the refundable low-income household renters credit for inflation—from $50 per exemption to $150, and $30,000 to $60,000 for the income eligibility threshold. This credit has not been adjusted for inflation since the 1980s, let alone for skyrocketing rents. Another top priority is the creation of a state earned income tax credit, set as a percentage of the federal credit, which will help working families keep more of what they earn. Often lauded as the most effective anti-poverty program in the country, half the states have created their own EITC. Hawai‘i, the most expensive state in the country, should follow their lead.

Other tax initiatives include adjusting the refundable food/excise tax credit for inflation; this credit has not been increased since its creation in 2007 and continues to lose ground as prices rise. Hawai‘i Appleseed also supports eliminating the state’s counterproductive practice of imposing income tax liability on workers in poverty by establishing a nonrefundable low-income workers credit.

The full report is available at www.whopays.org.

Hawai‘i Appleseed Center for Law and Economic Justice *(www.hiappleseed.org) advocates on behalf of low-income people in Hawai‘i to help them gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.*

The Institute on Taxation and Economic Policy *(ITEP, www.itep.org) is a 501 (c) (3) non-profit, non-partisan research organization that works on federal, state, and local tax policy issues. ITEP's mission is to ensure that elected officials, the media, and the general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies.*

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