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### An increase in food /excise tax credit is overdue

By Jenny Lee

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Tax Day 2015 is just behind us, but we already know that high-income households will see a significant tax cut when they file next year.

Meanwhile, the state Legislature is still deciding what, if any, additional help low and moderate-income households will be getting in 2016. With prices rising and the possible extension of the rail surcharge, it's time to give working families a boost with a long-overdue increase to the food/excise tax credit, a refundable credit that helps mitigate the regressive impact of the general excise tax (GET).

Hawaii's tax structure may appear to burden the wealthy, but it's really Hawaii's low-income residents who suffer from extraordinarily high taxes. Everyone pays the same rate, but because low-income people must spend basically all of their income on necessities subject to the GET, they pay almost twice as much of their income — 13.4 percent — toward state taxes as the wealthiest one percent. Because the burden of the GET is so high, low-income households in our state actually face the second-heaviest state tax burden in the country.

However, the state tax burden on those in poverty doesn't end there: Hawaii actually taxes people deeper into poverty by imposing the second-highest income tax burden on working poor families. A family of four with two children at the poverty guideline of \$27,890 owes \$464 in income taxes, on top of the \$2,371 of GET paid by the average household in this income range.

At the same time, we spend substantial sums on programs to mitigate the impact of poverty, when letting families keep more of what they earn would be a more efficient and effective policy.



*Jenny Lee is staff attorney for the Hawai'i Appleseed Center for Law & Economic Justice.*

The heavy tax burden on working families has long been recognized as a problem, and the refundable food/excise tax credit was created to help compensate these households for the regressive impact of the GET. But this credit hasn't been adjusted since 2007, not even for inflation, meaning low-income taxpayers are receiving less and less help.

While these families are struggling the most, it is Hawaii's wealthiest households who will be receiving a substantial tax cut this year, thanks to the expiration of the 2009 income tax rate increases. The sunset will reduce state revenues by an estimated \$43 million, with virtually all of it going back into the pockets of the wealthiest 1 percent, who will see an average tax cut of \$7,749. Anyone earning under \$100,000 will get no cut at all.

While the Legislature is taking a serious look at increasing the food/excise tax credit for the first time since 2007, the amounts proposed have been small and will not even eliminate income taxes on families living at the poverty guideline, let alone compensate them for the GET paid. With the possible extension of the GET surcharge for rail on Oahu, a meaningful increase to the food/excise tax credit takes on a new urgency.

\$100 in the pocket of a low-income family goes far. A growing body of research on education, future earnings, health and many other indicators makes clear that income determines outcomes, and even small

increases in income can help a family afford basic necessities.

The Legislature faces an extremely difficult task of dividing a limited pie among many critical needs. But these expenses should not be disproportionately funded by those who can least afford it.

How we structure our tax system can either help lift people out of poverty, or push them further into it. An increase in the food/excise tax credit is an immediate way to provide help to struggling families and a small first step toward the ultimate goal of tax fairness.

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