Hawai`i Appleseed Center for LAW AND ECONOMIC JUSTICE

Restoring Economic Equity in Hawaiʻi

Living in Hawaiʻi can be an almost insurmountable challenge for low to moderate-income residents. Hawaiʻi has the highest cost of living in the U.S. It costs a family of four 68 percent more for food than on the mainland. Our state also has the highest cost of shelter in the nation, with three-quarters of extremely low-income people spending more than half of their income on housing. Our workers earn the lowest wages in the country adjusted for cost of living. Finally, our residents living in poverty pay more in state taxes than all but three other states.

Appleseed proposes five policies that will have a real impact toward making Hawaiʻi more affordable for its low and moderate-income residents.

1. Update our Low-Income Household Renters Credit

The low-income household renters credit (LIHR) provides critical tax relief to households who rent and pay the General Excise Tax on their rental payments, but don't benefit from property tax reductions because they are not homeowners. This credit has not been adjusted since the 1980s. Its current value is roughly 40 percent of what it would be had it been adjusted for inflation. Hawaiʻi should increase both the value of the credit and the income qualification threshold to account for lost purchasing power.

Low Income Household Renters Credit:	
1981	Eligibility cutoff at HAGI $30,000 who paid more than $1000 in rent for a $50 credit exemption.
Adjusted	Should be $59,700 who paid more than $1000 for a $146 per exemption credit.
Source: Institute on Taxation and Economic Policy	

These adjustments will provide around $23 million in additional tax relief to low-income households. With these adjustments, the LIHR will benefit as many as 102,866 households.

2. Update our Refundable Food/Excise Tax Credit

The food/excise tax credit was created to mitigate the regressive impact of the GET on low and moderate-income households. As with the low-income household renters credit, it has failed to keep pace with inflation. Its value and eligibility thresholds were set in 2007. We should increase the credit values and income thresholds of the credit schedule. Currently, the credit is available to households with incomes below $50,000 and has a maximum credit value of $85 per exemption for the lowest income households.

Adjusting for inflation would result in eligibility for households making less than $56,500 and a maximum credit value of $96 per exemption for the lowest income. These adjustments will provide approximately $7.2 million in additional tax relief, benefitting some 353,977 low and moderate-income households.

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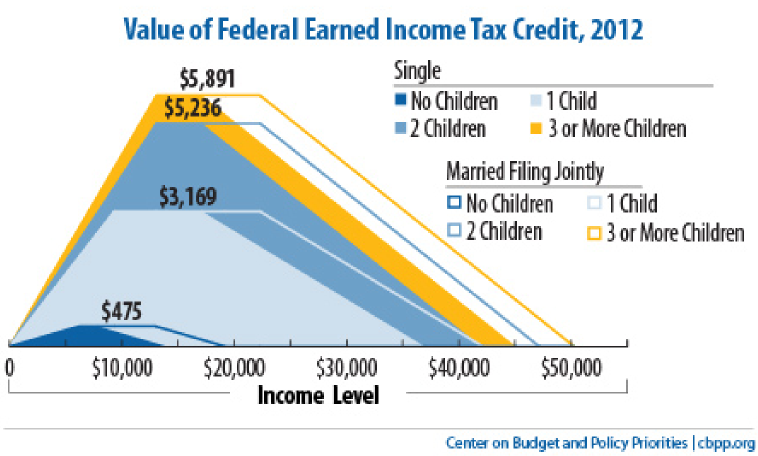
3. Create a Low-Income Workers Credit

Taxing people in poverty is bad policy. It not only runs afoul of the basic principles of our tax system, but also forces people further into poverty. Therefore, we recommend adopting a tax credit that will ensure that wage earners in households living at or below the federal poverty line will be relieved of any state income tax burden. This non-refundable credit would be set to exactly equal any post-credit tax liability for those at or below the poverty line. To avoid a steep "tax cliff," we further recommend a 50 percent credit for those wage earners with incomes between 100 – 125 percent of the federal poverty guideline.

The Low-Income Workers Credit will provide approximately $21.8 million in tax relief to those living below the poverty line. Cost estimates for the 50 percent credit are being developed.

4. Adopt a State Earned Income Tax Credit

The federal Earned Income Tax Credit (EITC) has been hailed as *the* most effective anti-poverty tool in the nation. It is a finely calibrated tax credit that puts money directly in the pockets of working families to help them work their way toward greater financial stability.



Hawai'i should follow 25 other states and create a refundable credit against state taxes equal to 10 percent of a household's federal EITC. For example, a household receiving a $2,500 EITC would receive a refundable $250 credit for on their state income taxes.

Each year, Hawai'i residents receive approximately $250 million each year in federal EITC money. A state EITC will provide an additional $25 million to Hawaii's working families and generate an estimated $46 million in new economic activity.

5. Set a More Equitable Minimum Wage

An increase in Hawaii's minimum wage is long overdue. The minimum wage of $7.25 has lost more than 20 percent of its value since it was last raised in 2007. When adjusted for inflation, it is now worth just $5.76. Today, a single adult needs to work full time at $15.44 per hour to earn a living wage. For a couple with two children, it rises to $16.35 each—more than double the minimum wage. Increasing the minimum wage is a small but essential start to meeting families' basic needs.

We recommend raising the state minimum wage to $9.50 an hour. This will affect some 74,000 workers in the state and stands to generate as much as $54 million in new economic activity.

For more information on these economic proposals, see Hawai'i Appleseed's 2013 report, "Creating a Fairer State Tax System and Economy for All Families," available at hiappleseed.org/tax-advocacy.