Fact Sheet
Tax Credit / General Excise Tax Recommendations
(Update - 4/20/10)

Here are the key components to this tax package:
1. Double the tax credit for child and dependent care expenses.
2. Double the food/excise tax credit.
3. Double the tax credit for low-income household renters.
4. Double the standard deduction.
5. Increase the capital goods excise tax credit.
6. Raise the general excise / use tax rate.

We expect that this package will:

- Lower the total tax burden for a majority of working families until Hawaii's economy recovers.

- Prevent further cuts to government services by increasing the GET, use tax, and public service company tax from 4.0% to 5.0% for two years starting in the last quarter of 2010.

1. Double the tax credit for child and dependent care expenses

Rationale:

- During these tough economic times, it is critical to reduce the tax burden on low-income households.

- The increase in the GET (discussed below) will have a greater impact on low-income households that spend a greater percentage of their income on essential consumption items.

Recommendation:
- Double the credit for child and dependent care expenses for two years.

The following is an example of the estimated effect that this tax credit increase would have on a family of four earning $40,000:

Table 1
Family of four earning $40,000*

Current Credit	Proposed Credit	**Increase**
$720	$1,440	**$720**

* Assuming that the family claims the $1,040 per person exemption and the increase in the standard deduction (discussed below) takes effect.

Table 3
Tax credit for low-income household renters

		Current Credit	Proposed Credit	**Increase**
Family of four [1]	$40,000	$0	$400	**$400**
Retired couple [2]	$40,000	$0	$200	**$200**
Single person [3]	$25,000	$50	$100	**$50**

[1] Assuming that the family claims the $1,040 per person exemption and the increase in the standard deduction (discussed below) takes effect.

[2] Assuming that the couple's Hawaii adjusted gross income equals $15,000, they claim the $1,040 per person exemption, and the increase in the standard deduction (discussed below) takes effect.

[3] Assuming that the person qualifies for the $1,040 per person exemption and the increase in the standard deduction (discussed below) takes effect.

4. Double the standard deduction

Rationale:

- Doubling the standard deduction will increase take home pay for all and allow more money to circulate in the economy.

- Doubling the deduction will reduce the tax burden on small businesses that report their income on their owners' personal income tax returns.

Recommendation:

- Double the standard deduction for two years.

5. Increase the capital goods excise tax credit

Rationale:

- The capital goods excise tax credit refunds businesses for GET paid on depreciable tangible personal property.

- An increase in the GET rate (discussed below) should be accompanied by an increase of the capital goods excise tax credit refunded to businesses.

Recommendation:

- Raise the capital goods excise tax credit from 4.0% to 5.0% for two years.

6. Raise the general excise/use tax rate

Rationale:

- A temporary increase in the GET will preserve government services and programs until Hawaii's economy recovers. The two-year increase will generate $1.14 billion in tax revenues, which includes larger deductions for lower-income taxpayers to address regressivity concerns. Approximately 38% of the GET is

Addendum A

Effects on Hawaii Residents – Examples and Illustrations

Net Effect on a Typical Family of Four with $60,000 in Taxable Income.

- The reduction in personal income taxes more than offsets the increase in GET, assuming average expenditure patterns.
- The combined tax liability (income and GET) for an average family of four will be reduced.
- This family of four will save $639 in state taxes while these changes are in effect.
- With more money in their pockets, Hawaii residents will have more disposable income, thereby circulating more money into the economy.

Table 6
Effects of Combined Tax Rate Changes on Family of Four
$60,000 Taxable Income

Change in dollars	-$639
Percentage change	-17%

Net Effect on a Typical Family of Four with $40,000 in Taxable Income.

- The combined tax liability (income and GET) for an average family of four will be reduced.
- This family of four will pay 73% less in state taxes while these changes are in effect.

Table 7
Effects of Combined Tax Rate Changes on Family of Four
$40,000 Taxable Income

Change in dollars	-$1,272
Percentage change	-73%

Net Effect on a Retired Couple with $60,000 in Taxable Income.

- The reduction in personal income taxes more than offsets the increase in GET, assuming average expenditure patterns.
- The combined tax liability (income and GET) for the couple will be reduced.
- This couple will save $359 in state taxes while these changes are in effect.

Addendum B

REVENUE IMPACT: TEMPORARY GET INCREASE 1% AND INCOME TAX RELIEF

(All figures are in $million unless otherwise specified)

	FY2011	FY2012	FY2013
GET forecast (Council on Revenues March 2010) [1]	$2,496.3	$2,640.8	$2,803.4
4% annual GET (95.5%)	$2,384.0	$2,522.0	$2,677.2
Per month 1%	$49.7	$52.5	$55.8
Number of months (number)	7	12	8
Gain (GET increase 1% Oct 2010- Dec 2012)	$347.7	$630.5	$446.2
Increase capital goods excise tax credit from 4% to 5%		-$7.0	-$7.0
Repeal 1% TAT increase 7/1/2010	-$28.0	-$32.5	-$34.2
Double standard deduction		-$40.2	-$40.2
Double food tax credit		-$31.6	-$31.6
Double renter credit, extend income limit to $40K		-$5.3	-$5.3
Double child care credit		-$8.8	-$8.8
NET GAIN IN GENERAL FUND TAX REVENUES	$319.6	$505.1	$319.1

Source: Prepared by Tu Duc Pham, Ph.D., Former Tax Research and Planning Officer, 4/9/2010

[1] Compiled based on COR forecast March 2010

2. Detail on Impact on a Retired Couple

Retired Couple with $60,000 Taxable Income*		
	Tax Liability	
	Current	Proposed
Income tax (before credits)	$734	$391
Income tax credits	$200	$600
Net income tax liability / (refund)	$534	($209)
GET liability (assume 64% of income is expended)	$1,536	$1,920
Combined liability	$2,070	$1,711
Change in combined liability		-$359
Percentage change		-17%
Retired Couple with $40,000 Taxable Income*		
	Tax Liability	
	Current	Proposed
Income tax (before credits)	$199	$71
Income tax credits	$70	$460
Net income tax liability / (refund)	$129	($389)
GET liability (assume 64% of income is expended)	$1,024	$1,280
Combined liability	$1,153	$891
Change in combined liability		-$262
Percentage change		-23%

* Assuming the retired couple's state adjusted gross income is $15,000.

4. Proposed Changes to Major Components

Tax Credit for Child and Dependent Care Expenses				
Taxable income			Current Rate	Proposed Rate
$ 0	to	$ 22,000	25%	50%
$ 22,001	to	$ 24,000	24%	48%
$ 24,001	to	$ 26,000	23%	46%
$ 26,001	to	$ 28,000	22%	44%
$ 28,001	to	$ 30,000	21%	42%
$ 30,001	to	$ 32,000	20%	40%
$ 32,001	to	$ 34,000	19%	38%
$ 34,001	to	$ 36,000	18%	36%
$ 36,001	to	$ 38,000	17%	34%
$ 38,001	to	$ 40,000	16%	32%
$ 40,000+			15%	30%

Food/Excise Tax Credit				
Taxable income			Current Credit	Proposed Credit
$ 0	to	$ 5,000	$85	$170
$ 5,000	to	$ 10,000	$75	$150
$ 10,000	to	$ 15,000	$65	$130
$ 15,000	to	$ 20,000	$55	$110
$ 20,000	to	$ 30,000	$45	$90
$ 30,000	to	$ 40,000	$35	$70
$ 40,000	to	$ 50,000	$25	$50
$ 50,000+			$ 0	$0

Tax Credit for Low-income Household Renters	
Current	Proposed
$50	$100