

BILL 37(22)
TESTIMONY

MISC. COM. 129
COUNCIL

TO: Members of the Honolulu City Council

FROM: Natalie Iwasa, CPA, CFE

DATE: Wednesday, March 15, 2023

SUBJECT: Bill 37 (2022), Low-Income Credit for Real Property Taxes – **SUPPORT**

Aloha Chair Waters and Councilmembers

Thank you for this opportunity to provide testimony on Bill 37 (2022), which would increase the threshold for the low-income credit for real property taxes from \$60,000 to \$70,000. I support increasing the credit threshold.

Please ask the administration which items of income are included in the calculation of household income. Several years ago, they did not include pre-tax income such as dependent care benefits or out-of-pocket health care benefits, i.e., income under Sec. 125 of the Internal Revenue Code. Had anyone had these benefits, they could have unfairly obtained a credit when they otherwise would not have qualified.

Here's one example that shows two people with the same amount of compensation, but one would probably receive the credit when income is actually over the current \$60,000 threshold:

	Sec. 125	No Sec. 125
Total compensation	\$ 63,000	\$ 63,000
Sec. 125 deduction	(5,000)	
W2 wages, Box 1	58,000	63,000
Income on credit application	\$ 58,000	\$ 63,000
	Credit given	No credit

One way to check for this type of income is to ask for the last paystub of the year. If that is not available, sometimes employers will also include the information on a stub attached to the W2s.

One other consideration is to exclude the state tax refund if no tax benefit was received. For example, if a taxpayer does not itemize deductions but received a refund simply because taxes were over withheld the prior year, that should not be included as income.