Bill 45
Testimony

TO: Members of the Honolulu City Council

FROM: Natalie Iwasa, CPA, CFE
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DATE: Wednesday, September 4, 2024

SUBJECT: Bill 45, Real Property Taxation, Tax Credit - **OPPOSED**

Aloha Chair Waters and Councilmembers,

Thank you for allowing testimony on Bill 45, which would increase the income threshold from $80,000 to $100,000. It is my understanding that the city does not consider all types of pretax income when determining eligibility for the low-income threshold. For example, dependent child care and Section 125 cafeteria plans were not considered when I checked into the credit about 10 years ago. During the meeting, Councilmember Cordero asked me to provide an example of how pretax income could impact the credit.

An applicant who has elected to have dependent care deducted from wages would be allowed to obtain the credit even though the gross income is over the $80,000 threshold. Here's an example:

	With	Without	
Gross compensation	$85,000	$80,000	
Dependent care deduction	(5,000)	-	(typically not shown in W2s)
W2 Box 4	$80,000	$80,000	

Following are other points the Council should consider when discussing this bill.

The threshold was last increased just a year ago, from $60,000 to $80,000, with the approval of Bill 37(22), CD1. Another increase at this time would put pressure on the city administration and you to keep other tax rates high, as the decrease in revenues from the credits would have to be subsidized by other taxpayers.

Rather than increase the threshold again so soon, please correct the law. Under Sec. 8-13.1, the definition of income includes "the Internal Revenue Code of the United States of 1954 . . . . " The Internal Revenue Code was overhauled in 1986.[1] Therefore, please **amend this bill to state "the Internal Revenue Code of the United States of 1986"** in Sec. 8-13.1 of the Revised Ordinances of Honolulu.

[1] Title 26, U.S. Code, history by the United States Census, https://www.census.gov/history/www/reference/privacy_confidentiality/title_26_us_code_1.html