DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
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To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Thursday, February 9, 2017
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 670, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 670, and provides the following concerns for your consideration.

H.B. 670 creates a refundable earned income tax credit (EITC) at the state level, called "Hawaii working family tax credit". The credit is equal to 10% of the federal EITC allowed under section 32 of the Internal Revenue Code, as amended. The state EITC must be claimed within 12 months following the close of the taxable year for which the credit maybe claimed. The measure is effective upon approval and applies to taxable year beginning after December 31, 2016.

The Department appreciates the intent of this bill, to provide additional resources to economically disadvantaged taxpayers, but notes that the tax system is not necessarily the most efficient structure for providing financial support to such taxpayers. In addition, the Department has several concerns with the administration of this bill, as outlined below.

First, it is important to note that for fiscal year 2013, the U.S. Department of the Treasury reported that approximately 22-26% of federal EITC payments went to taxpayers who improperly claimed the tax credit; this translates into approximately $13.3 to $15.6 billion dollars. For fiscal year 2015, the Internal Revenue Service estimated the error rate to be 23.8%.

The Department has serious concerns regarding these error rates because as proposed, the State EITC will share the same error rate since the proposal is to allow 20% of the federal EITC as a State credit. These error rates exist despite the fact that the Internal Revenue Service (IRS) has extensive data matching capabilities with federal databases such as the Social Security Administration database.

Second, the Department recommends nonrefundable tax credits because refundable tax credits often lead to improper claims and create a potential for fraud. Nonrefundable tax credits limit the incentive for fraud because they only benefit taxpayers to the extent of their tax liability. A nonrefundable credit would not generate this level of improper claims due to each claimant being limited to the amount of their tax liability.

Third, beginning on January 1, 2017, the federal Protecting Americans from Tax Hikes Act of 2015 requires that the IRS hold any refunds where EITC is claimed until at least February 15. This new law is intended to provide the IRS more time to verify claims thereby reducing the improper claims. The Department suggests monitoring the effectiveness of this new policy before adopting a refundable State EITC.

Fourth, most individual income tax refunds are paid before a complete review of each return is done; therefore, it is very difficult for the Department to stop improperly claimed or fraudulent refunds. Although it seems simple to base a new Hawaii EITC on a portion of the federal EITC, the Department has no independent way to determine whether an EITC claim is proper. The new refund delay policy will not necessarily correct this issue because there is no practical way for the Department to determine whether a federal refund was issued in real-time. The Department would be reliant on the IRS for notification that a claim was improper.

Finally, the Department has serious concerns regarding its ability to recover any amounts which are improperly refunded. Once a refund is issued on a fraudulent or improper claim, there is a very little chance the Department will be able to recover the amount.

If the Committee wishes to advance this measure, the Department requests it be made applicable to taxable years beginning after December 31, 2017 to allow sufficient time for the necessary form, instruction and computer system modifications necessary for proper implementation.

Thank you for the opportunity to provide comments.

TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
TWENTY-NINTH LEGISLATURE, 2017

ON THE FOLLOWING MEASURE:
H.B. NO. 670, RELATING TO TAXATION.

BEFORE THE:
HOUSE COMMITTEE ON FINANCE

DATE: Thursday, February 9, 2017 **TIME:** 2:00 p.m.

LOCATION: State Capitol, Room 308

TESTIFIER(S): Douglas S. Chin, Attorney General, or
Mary Bahng Yokota, Deputy Attorney General

Chair Luke and Members of the Committee:

The Department of the Attorney General provides the following comments.

This bill adds a new section in chapter 235, Hawaii Revised Statutes (HRS), that creates a Hawaii working family income tax credit for individual taxpayers but appears to distinguish between resident and nonresident individual taxpayers.

This bill may be subject to constitutional challenge under the Equal Protection and/or Privileges and Immunities Clauses of the United States Constitution. Clarification of the bill may also be appropriate.

I EQUAL PROTECTION AND/OR PRIVILEGES AND IMMUNITIES CLAUSES

The Equal Protection Clause prohibits discrimination against a nonresident based solely on residency. See, e.g., Williams v. Vermont, 472 U.S. 14 (1985) (use tax credit for sales taxes paid on cars purchased in other states invalidated because it was only available to Vermont residents). The Hawaii Supreme Court has recognized that the Equal Protection Clause applies where a tax operates unequally on persons or property of the same class. In re Swann, 7 Haw. App. 390, 776 P.2d 395 (1989).

Similarly, under the Privileges and Immunities Clause, a state may not impose higher taxes on a nonresident individual than it imposes on its own citizens. However, a discriminatory tax could be sustained if legitimate reasons for the tax exist and the discrimination bears a substantial relation to those reasons. Lunding v. New York Tax

Appeals Tribunal, 522 U.S. 287 (1998) (alimony deduction for residents only struck down as violating Privileges and Immunities Clause).

Under this bill, eligible resident taxpayers who have adjusted gross income attributed to this State and outside this State would be entitled to the full tax credit while eligible nonresident taxpayers under the same circumstances would be entitled to only a portion of the tax credit (p. 2, line 9, through p. 3, line 12). Moreover, if the tax credit exceeds the tax liability of the resident taxpayer, the excess is refunded to the resident taxpayer (p. 2, line 20, through p. 3, line 6). This bill does not provide for what happens if the tax credit exceeds the tax liability of the nonresident taxpayer. As this bill appears to favor residents over nonresidents, it may be challenged under the Equal Protection Clause and/or the Privileges and Immunities Clause.[1]

We recommend that either (1) the bill be amended so that it does not discriminate against nonresidents (an example of how it may be amended is set forth in section III below) or (2) a legitimate government purpose, to which the discrimination is substantially related, be articulated within the preamble of the bill.

II. CLARIFICATIONS MAY BE APPROPRIATE

Under the bill, a resident individual taxpayer is eligible for the tax credit if the resident individual "[f]iles an individual income tax return for a taxable year" and "is not claimed or is not eligible to be claimed as a dependent by another taxpayer for income tax purposes." These requirements do not appear to apply to the nonresident individual taxpayers under the bill. If this is not the intent of the bill, we recommend that the bill be clarified.

Also, if read literally, a taxpayer may meet the requirement under subsection (a) of the new section that the taxpayer file "an" individual income tax return for "a" taxable year by filing a Hawaii individual income tax return without filing a federal individual income tax return (or vice versa) and for any tax year (not necessarily the tax year in which the tax credit is claimed). Based on the context of the bill (p. 2, lines 15-19, and p. 3, lines 13-16), however, it appears that the intent of the bill is that the eligible

[1] We are aware that other existing tax statutes have residency requirements. To date, these statutes have not been subjected to constitutional challenge.

taxpayer files both a federal and Hawaii individual income tax return for the tax year in which the tax credit is claimed. To minimize ambiguity, we recommend that the bill be clarified to clearly reflect the bill's intent.

III. POSSIBLE AMENDMENT TO BILL

If the intent of the bill is to provide the tax credit to resident and nonresident individual taxpayers in the same manner and to require these taxpayers to file both a federal and Hawaii individual income tax return for the taxable year in which the tax credit is claimed, the following is an example of how the new section (p. 2, line 9, through p. 3, line 12) may be amended:

"**§235- Hawaii working family tax credit.** (a) Each ~~resident~~ individual taxpayer subject to this chapter who:

(1) Files a~~n~~ federal and Hawaii individual income tax return for ~~a~~ the taxable year; and

(2) Is not claimed or is not eligible to be claimed as a dependent by another taxpayer for income tax purposes,

may claim a refundable earned income tax credit. The tax credit, for the appropriate taxable year, shall be equal to ten per cent of the federal earned income tax credit allowed under section 32 of the Internal Revenue Code, as amended, and reported as such on the individual's federal income tax return multiplied by the ratio of adjusted gross income attributed to this State to the entire adjusted gross income computed without regard to source in the State pursuant to section 235-5. If the tax credit~~s~~ claimed by ~~a resident~~ the individual taxpayer exceed the amount of income tax payment due from the ~~resident~~ individual taxpayer, the excess of credit over payment due shall be refunded to the ~~resident~~ individual taxpayer; provided that a tax credit properly claimed by ~~a resident~~ the individual taxpayer who has no income tax liability shall be paid to the ~~resident~~ individual taxpayer; and provided further that no refund or payment on account of the tax credit allowed by this section shall be made for an amount less than $1.

~~(b) For a non-resident individual taxpayer, the tax credit shall equal the amount of the tax credit calculated in subsection (a) multiplied by the ratio of adjusted gross income attributed to this State to the entire adjusted gross income computed without regard to source in the State pursuant to section 235-5.~~ …

(Subsections (c) through (g) would have to be re-designated accordingly.)

HACBED
Community Voice, Collective Action

Hawaiʻi Alliance for Community-Based Economic Development
677 Ala Moana Blvd., Suite 702 Honolulu, HI 96813
Ph. 808.550.2661 Fax 808.534.1199
Email info@hacbed.org www.hacbed.org

Date: February 7, 2017
To: Representative Sylvia Luke, Chair, Representative Ty J.K. Cullen, Vice-Chair, and members of the Committee on Finance
From: Brent Kakesako, Hawaiʻi Alliance for Community-Based Economic Development (HACBED)
Re: Strong Support for HB670

Aloha Chair Luke, Vice-Chair Cullen, and Committee Members,

The Hawaiʻi Alliance for Community-Based Economic Development (HACBED) strongly supports HB670, which would help many economically struggling families in Hawaiʻi by creating a Working Family Credit at 10% of the Federal Earned Income Tax Credit (EITC).

HACBED was established in 1992 as a nonprofit statewide intermediary to address social, economic, and environmental justice concerns through community-based economic development. It advances its mission with core competencies in the areas of community and organizational capacity building, community and economic development planning, and asset policy development and advocacy. HACBED played a facilitating role in the State Asset Policy Task Force and was a key contributor to the State Asset Policy Road Map. HACBED also facilitated the Family & Individual Self-Sufficiency Program (FISSP) from 2008-2016, which administers the Internal Revenues Services' Volunteer Income Tax Assistance (VITA) program as a part of its larger asset building and financial education initiatives for needy families. The Family Economic Self-Sufficiency Standard (FESS) depicts the obstacles that Hawaiʻi families are facing. The FESS measures the amount of money that individuals and families require to meet their basic needs without government and/or other subsidies and the data shows the following percentage of families who fall below the self-sufficiency standard statewide:

- 45.5% of families with two adults and two children;
- 45.3% of single-adult families with children.

Through FISSP surveys, families have indicated that they used the money to manage daily expenses, eliminate debt, open and maintain savings accounts, purchase a new home, cover education costs, and start a business.

The passage of HB670 would go a long way to supplement the needs of these families by enacting a state earned income tax credit (EITC) at 10% of the federal EITC, a bi-partisan praised anti-poverty tool, which supports families who are actively contributing to our workforce, is proven to alleviate child poverty and related child health, education, and earning issues, and has a multiplier effect on our economy as these workers are most likely to spend resources from the credit within their local community.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Executive Director

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Earned Income Tax Credit

BILL NUMBER: HB 670; SB 508 (Identical)

INTRODUCED BY: HB by EVANS, BELATTI, DECOITE, FUKUMOTO, HAR, ICHIYAMA, LOPRESTI, LOWEN, LUKE, MATSUMOTO, MIZUNO, MORIKAWA, NAKAMURA, NISHIMOTO, SAN BUENAVENTURA, THIELEN, TODD, TUPOLA; SB by KIM, BAKER, ENGLISH, GREEN, IHARA, KEITH-AGARAN, KIDANI, K. RHOADS, SHIMABUKURO, L. THIELEN, S. Chang, Inouye, Kouchi

EXECUTIVE SUMMARY: Establishes a state earned income tax credit (EITC) equal to 10% of the federal earned income tax credit amount. The federal EITC was established for low and moderate-income workers to offset the burden of Social Security payroll taxes that might otherwise have been paid to low and moderate-income workers by the federal government, but turned into a government subsidy for low-income taxpayers. The cost of administering the EITC on the federal level has run into the millions of dollars which state lawmakers do not have. If the intent of state lawmakers is to alleviate the burden on the low and moderate-income workers in Hawaii who claim the federal EITC, their efforts should focus on the state income tax burden as it affects these families. Lawmakers can make much more of a difference by making the needed structural changes to the state income tax rates and brackets and by boosting the standard deduction.

BRIEF SUMMARY:

Adds a new section to HRS chapter 235 to allow taxpayers to claim a state earned income tax credit, called the “Hawaii working family tax credit,” equal to 10% of the federal earned income tax credit amount. Specifies that the credit is refundable.

Part-year resident taxpayers are also allowed the credit, but it must be multiplied by the ratio of Hawaii AGI to the taxpayer’s AGI from all sources.

Requires an individual taxpayer to use the same filing status on the taxpayer’s Hawaii return as used on the taxpayer’s federal tax return for the taxable year.

Requires claims for the credit, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit may be claimed. Failure to comply is considered a waiver of the right to claim the credit.

Delineates that no credit shall be allowed in the disallowance period which is: (1) the period of 10 taxable years after the most recent taxable year for which there was a final determination that the taxpayer’s claim of credit under this section was due to fraud; and (2) the period of two taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to reckless or intentional disregard of rules and regulations, but not due to fraud.

Any person who is a tax return preparer who fails to comply with due diligence requirements imposed by the Secretary of the U.S. Department of the Treasury with respect to determining eligibility, or the amount of the credit allowable by IRC section 32, shall be subject to a penalty of $100 for each such failure.

The director of taxation: (1) shall prepare the necessary forms to claim the credit; (2) may require proof of the claim for the tax credit; (3) shall alert eligible taxpayers of the tax credit using appropriate and available means; (4) shall prepare an annual report containing the number of credits granted for the prior calendar year, the total number of credits granted, and the average value of the credits granted to taxpayers whose earned income falls within various income ranges.

EFFECTIVE DATE: Upon approval, applies to taxable years beginning after December 31, 2016.

STAFF COMMENTS: The federal earned income tax credit (EITC) provides an incentive to low-income households to remain in the workforce. The credit is targeted at households with children but the credit is also available at a lower amount to low-income households without children. The credit is based on a number of tests for earned income, investment income, number of qualifying children, dependency, etc. Given the complexity of the credit, the IRS will optionally calculate the amount of the credit for taxpayers. The IRS has consistently reported an error rate of greater than 22% for this credit.

The U.S. Treasury's Inspector General for Tax Administration (TIGTA), in a 2014 report, included a table showing tens of billions in "improper payments" over the years, with no clear end in sight:

Fiscal Year	**Minimum Improper Payments Percentage**	**Maximum Improper Payments Percentage**	**Minimum Improper payments ($Billion)**	**Maximum Improper Payments ($Billion)**
2003	25	30	9.5	11.5
2004	22	27	8.6	10.7
2005	23	28	9.6	11.4
2006	23	28	9.8	11.6
2007	23	28	10.4	12.3
2008	23	28	11.1	13.1
2009	23	28	11.2	13.3

2010	24	29	15.3	18.4
2011	21	26	13.7	16.7
2012	21	25	11.6	13.6
2013	22	26	13.3	15.6

Source: Treasury Inspector General for Tax Administration, "The Internal Revenue Service Fiscal Year 2013 Improper Payment Reporting Continues to Not Comply with the Improper Payments Elimination and Recovery Act" (Mar. 31, 2014), available at http://www.treasury.gov/tigta/auditreports/2014reports/-201440027fr.pdf

The proposed measure would adopt an earned income credit by merely taking a percentage of the amount that the taxpayer would be eligible for under the federal table or determination. It should be remembered that the federal EITC was established for low and moderate-income workers to offset the burden of Social Security payroll taxes that might have otherwise been paid to them but were instead paid to the federal government by the employer. Enacted in 1975 at the federal level primarily as a means of tax relief, the credit was expanded three times during the 1980's and 1990's by the federal government to boost income from work and lessen poverty among families with children. In other words, it became a tool by which the federal government undertook social policy beginning with the first expansion of the credit in 1986. It is interesting to note the date of the first expansion because that was also the year that the federal Code was dramatically restructured, eliminating several tax benefits such as the deduction of consumer credit interest, deduction of state sales taxes, and institution of a minimum tax for those taxpayers receiving generally exempt income. It was also the year that rates were dramatically reduced, and together with the standard deduction and personal exemption, rates were indexed. According to the IRS, 19.2% of the 146 million income taxpayers in 2011 claimed the EITC.

Thus, what started out as a mechanism to "refund" payroll taxes that might otherwise have been paid to low and moderate-income workers by the federal government, has turned into a subsidy for these families. While federal policymakers have the luxury of expending millions of dollars to accomplish a social goal through the tax system, state lawmakers do not have the same level of resources.

If the intent of state lawmakers is to alleviate the burden on the low and moderate-income workers in Hawaii who claim the federal EITC, their efforts should focus on the state income tax burden as it affects these families. Hawaii has one of the lowest thresholds of the approximately 43 states that levy a state income tax. An income tax threshold is the income level at which families begin to pay the state income tax. Despite the reduction in personal income tax rates in 1998 and adoption of a low-income tax credit, as well as a modest increase in the standard deduction, much more work needs to be done to adjust the standard deduction and the personal exemption.

While advocates point to a variety of national articles that hail the EITC as a means of helping the poor out of poverty and encouraging the poor to go to work, they miss the point that taking a percentage of the federal amount bears no relationship to the tax burden imposed by the state.

Thus, the EITC amounts to nothing more than a back-door welfare program, handing out money merely because a person falls into a low-income category and has joined the workforce with a dependent or two. So while welfare advocates may point to tomes of literature that praise the EITC as a way to lift the poor out of the abyss of poverty, there is just as much material that decries the EITC as poor tax policy and one that is fraught with errors and compliance difficulties. In other words, if the poor are to be helped, don't do it through the tax system as there is very little transparency and accountability. And despite claims that many of these problems have been resolved, there is general agreement from administrators and practitioners that this is one of the most difficult and complicated federal tax credits with which to administer and comply, with increasing errors and inaccuracies.

Like many of the targeted tax credits aimed at encouraging business activities, the EITC comes with problems. There is no oversight as to how these refunds are aiding families, and little information on whether outcomes are being achieved or for that matter whether a family is getting sufficient assistance to actually leave the welfare rolls and become self-sufficient. As a recent study reported, nearly one-third of Hawaii's families are not self-sufficient. What will the EITC do for those families who are working two or three jobs to make ends meet, and therefore make too much money to qualify for the EITC? Where is the tax relief for those families? Lawmakers can make much more of a difference by making the needed structural changes to the state income tax rates and brackets and by boosting the standard deduction. Again, one must ask what is the relationship between taking a percentage of the federal credit amount and the amount of state tax burden relieved?

Lawmakers should also consider the interaction of a state tax credit that produces negative income and how that will affect the amount of income that would then be exposed to the federal rate structure. There are comprehensive studies on the interaction of the credit with the overall federal income tax system. Adopting the credit for state tax purposes may disrupt the incentive to remain employed or to increase the number of hours worked. It should be noted that an EITC has not been recommended by the 2005-2007 Tax Review Commission nor did the latest Commission even consider it. The 2005-2007 TRC examined the effects of what would have happened if an EITC was enacted equal to 20% of the federal EITC in 2006. Based on 2003 tax returns, the staff of the tax research and planning office of the department of taxation found that fewer than half of the Hawaii resident income tax returns would have benefitted from a Hawaii EITC. Of the 308,652 returns with AGI of under $30,000, only 68,845, or 22.3%, claimed the federal EITC. They also estimated that there would be a $23.2 million decline in tax collections if an EITC were adopted.

Finally, where would the revenue loss generated by this credit be taken? Which programs would be cut or not funded at all? What is known in the social services community is that unless the poor are given the tools and skills to become self-sufficient they will remain on welfare. The funds lost in this tax credit program would be far better spent on services that assist those, especially in public housing, in gaining the skills they need to hold gainful employment, provide child care so that those who need to go to work will have childcare, and learn how to manage what money they earn. Without these skills, merely subsidizing their earned income with a tax credit will not hold a promise of self-sufficiency. Rather than duplicating the federal earned income tax credit, the state should use its resources to instead complement the effort with more skill building and family support so these families can hold gainful employment. Thus, advocates must weigh the consequences of taking revenues from these capacity building programs against doling out the earned income tax credit based on some federal number that bears no relationship to the tax burden imposed by state taxes.

In addition, please also consider the following technical comments:

- Subsection (b) sets forth the amount of credit for a part-year resident but apparently does not allow any credit for a nonresident even though a nonresident may have Hawaii adjusted gross income. Lawmakers may want to make clear that residency in Hawaii for part of the year is required to qualify.
- Subsection (c) beginning on line 13, the text requires a taxpayer to use the same filing status as federal. This might not be proper because a joint return election in Hawaii requires certain legal consequences such as an agreement to be jointly and severally bound, as described in HRS section 235-93(a).
- Subsection (f) imposes a preparer penalty for failure to comply with *federal* due diligence requirements with respect to determining eligibility for or the amount of credit allowable under federal law. There is no connection to the state credit. One element of the penalty would have to be that the state credit was claimed.

Digested 2/7/2017

AMERICANS FOR DEMOCRATIC ACTION
HAWAI'I

OFFICERS	DIRECTORS			MAILING ADDRESS
John Bickel, President	Guy Archer	Jan Lubin	George Simson	P.O. Box 23404
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Marsha Schweitzer, Treasurer	Gloria Borland	Stephen O'Harrow		
Karin Gill, Secretary	Chuck Huxel	Cameron Sato		www.adaaction.org

February 7 , 2017

TO: Honorable Chair Luke and Members of the Finance Committee

RE: HB 670 Relating to Taxation
Support for hearing on Feb. 9

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We strongly support HB 670 as it would create the refundable credit of up to ten percent of federal Earned Income Tax Credit (EITC). The EITC has been lauded by Republicans and Democrats alike for its ability to help working families. It has been effective in pulling many out of poverty.

The top fifth of income earners in the state in total pay about 7 percent of their income in taxes while the bottom fifth pay almost 14 percent. This is shamefully regressive. This bill would undo some of this injustice.

Thank you for your consideration.

Sincerely,

John Bickel
President

Hawaii Women's Coalition

COMMITTEE ON FINANCE
Rep. Sylvia Luke, Chair
Rep. Ty J.K. Cullen, Vice Chair

DATE: Thursday, February 9, 2017
TIME: 2:00 P.M.
PLACE: Conference Room 308

STRONG SUPPORT FOR HB670

Aloha Chair Luke, Vice Chair Cullen and members,

The Coalition is in strong support of this economic justice bill that would create the Hawaii Working Family Tax Credit, a refundable credit capped at 10 percent of the federal earned income tax credit.

The Coalition has supported some form of this bill for over a decade. If the omnibus tax fairness bill HB209 does not move forward this would be our choice to address poverty in women and girls in our state as poverty more adversely affects them than their male counterparts.

In Hawaii the statistics for those living below the poverty line demonstrate this inequity. 10 percent of men live below the poverty line compared to 12 percent of women, but sadly nearly 13 percent of children live in poverty in our state. The rates are much higher for single mothers, native Hawaiian women and other Pacific Islander women and girls.

There is precedent for doing this; 26 states and the District of Columbia have created state-level Working Family Credits. In addition tax refunds are an efficient way to directly affect families in poverty. In case we need a business reason, this measure is cost-effective; every tax credit dollar generates an estimated $1.50 to $2 in local economic activity.

Please help our working poor families and pass this important bill out of committee.

Mahalo for the opportunity to testify,
Ann S. Freed Co-Chair, Hawai`i Women's Coalition
Contact: annsfreed@gmail.com Phone: 808-623-5676

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting HB 670 Relating to Taxation
House Committee on Finance
Scheduled for Hearing Thursday, February 9, 2017, 2:00 PM, Conference Room 308

Dear Chair Luke, Vice Chair Cullen, and members of the Committee on Finance:

Thank you for the opportunity to testify in STRONG SUPPORT of **HB 670,** which would help many economically struggling families in Hawai'i by creating a Working Family Credit, targeted at low-income and working households, especially those with children.

The Federal EITC

The federal Earned Income Tax Credit (EITC) helps low-income families keep more of their earnings through tax refunds. Democrats and Republicans praise it as the most effective anti-poverty tool in the nation. Its design makes it especially effective at helping working-poor mothers.

For example, the Congressional Budget Office states, "the existence of the EITC contributes to the financial security of affected women as they age and retire." The esteemed Center on Budget and Policy Priorities (CBPP) in Washington, DC, finds that "by boosting the employment and earnings of working-age women, the EITC boosts the size of the Social Security retirement benefits they ultimately will receive."

In addition, an analysis from the Federal Reserve Bank of New York concludes that the "EITC is successful in helping single women move up the wage ladder" while research by the Federal Reserve Bank of Richmond suggests that "the EITC increases the labor supply of unskilled single mothers substantially."

About 18,000 keiki in Hawai'i are kept out of poverty due to the federal EITC each year. The EITC has been shown to boost the health, test scores and future earnings of young children in families that receive it.

The Working Family Credit

Twenty-six states and the District of Columbia have created state-level working family credits, ranging from 3.5 percent to 85 percent of the federal EITC, but Hawai'i is not one of them. Since they are facing the nation's highest cost of living, our low-income and working-class households need a state-level EITC more than those in any other state.

We should create a Working Family Credit, which would bring at least 11,000 families' state income tax bill down to zero. It is estimated that a credit set at 10% of the federal EITC would put about $23 million per year back in the pockets of those workers who need tax relief the most.

The Working Family Credit would be efficient and easy to administer, since the tax refunds go directly to families, instead of through a government program.

It incentivizes work by allowing low-income workers to keep more of what they earn. This decreases their dependence on government assistance. According to CBPP, "the EITC reduces the number of female-headed households receiving welfare cash assistance."

The credit is designed to give greater relief to workers with children, so it is particularly effective at alleviating child poverty. For example, a single parent of one child, working full-time and earning the minimum wage, earns $18,500 annually, and would owe Hawai'i about $172 in state income tax. A Working Family Credit set at 10% of the federal EITC would amount to $332. That means they'll get a tax refund of $160 instead, allowing them to catch up on bills and debts.

In addition, the Working Family Credit would be good for local businesses. Tax refunds go to low-income workers, who are the most likely to spend their dollars at local stores and businesses. Every tax credit dollar generates an estimated $1.50 to $2 in local economic activity.

CATHOLIC CHARITIES HAWAIʻI

TESTIMONY IN SUPPORT OF HB 670: RELATING TO TAXATION

TO: Rep. Sylvia Luke, Chair; Rep. Ty J.K. Cullen, Vice Chair; and Members, Committee on Finance

FROM: Terrence L. Walsh, Jr., President & Chief Executive Officer

Hearing: Thursday, 2/9/17; 2:00 PM; CR 308

Thank you for the opportunity to provide written testimony **in strong support of HB 670,** which creates the Hawaii Working Family Tax Credit, a refundable credit capped at 10% of the federal earned income tax credit. I am Terry Walsh, with Catholic Charities Hawaiʻi. This bill speaks directly to our advocacy priority of reducing poverty in Hawaiʻi.

Catholic Charities Hawai`i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai`i for over 60 years. CCH has programs serving elders, children, developmentally disabled, homeless and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawai`i.

Hawaii's lower income workers must deal with high levels of financial stress. The cost of living in Hawaii is nearly 60% higher than the national average. Groceries, housing, utilities and transportation are the most expensive in the country! Rents increased 23.5% from 2012 to 2015, per Hawaii News Now (4/14/16), on top of a 45% increase between 2005 and 2012. Catholic Charities Hawaiʻi receives many calls from workers who are stretched beyond their means and face homelessness. We need the **Working Family Credit** to help working families with greater financial stability.

We support the **Working Family Credit** since it could eliminate state income tax bills for 11,000 families. Scaled to provide more relief to workers with children, this credit would help to stabilize kids' lives. It also helps the local economy since low-income workers usually spend their full refund at Hawaii businesses. It is estimated that $1.50 to $2 in local economic activity is generated by each tax credit dollar. You get a big bang for your buck with this tax credit!

This tax credit is widely used to help working class and low-income workers. 26 states have implemented a state-wide Working Family Credit. Yet, Hawaii, with the highest cost of living in the nation, has continued to tax the working poor. It is time to give a break to Hawaii's hard working families and help them to achieve more financial stability.

We strongly urge your support of this important bill for tax fairness. Please contact me at terry.walsh@catholiccharitieshawaii.org; or Legislative Liaison, Betty Lou Larson, bettylou.larson@catholiccharitieshawaii.org, or at 373-0356, if you have any questions.

February 7, 2017

To: Rep. Sylvia Luke, Chair
Rep. Ty J.K. Cullen, Vice Chair
Committee on Finance

From: Karen Worthington, Project Coordinator
Early Childhood Action Strategy

Re: HB670 – Relating to Taxation
Hawaii State Capitol, Room 308, February 9, 2017, 2:00 PM

Position: Action Strategy supports HB670 Relating to Taxation

Dear Representative Luke, Representative Cullen, and Committee Members:

Thank you for the opportunity to provide testimony on behalf of Hawaii's Early Childhood Action Strategy, a public private collaborative that recognizes the strength of communities and works across sectors to increase the number of young children in Hawaii who are born healthy, developing on track, ready for school when they enter kindergarten, and proficient learners by third grade.

Action Strategy supports HB670 which helps thousands of Hawaii families living near or below the poverty line by creating a state working family tax credit. Helping families move out of poverty is important to Action Strategy because financial stability in a home is one of the key ingredients for children to develop on track and succeed in school and in life. Household income has been linked to children's physical and emotional health, language acquisition, physical and mental development, school success, and much more.

In 2016, Hawaii had the sixth-highest poverty rate in the country, using the Supplemental Poverty Measure. More than half of Hawaii's public school children qualify for free and reduced lunches because of low family income levels. Research shows that thousands of children would benefit from increased financial stability in their families if Hawaii had a state working family tax credit.

To help families escape poverty and children thrive in their health and development, Hawaii must revise its tax structure in a way that relieves some of the financial pressures on our struggling families. Therefore, Action Strategy asks that you pass HB670.

Action Strategy is committed to ensuring Hawaii's young children are healthy, safe and ready to learn and HB670 supports that vision. Please feel free to contact me for additional information. I can be reached at 808-214-9336 or karen@clnhawaii.org.

Sincerely,

Karen Worthington

Karen Worthington, JD

PACT Parents And Children Together
A Family Service Agency

TO: Chair Luke, Vice Chair Cullen and the Members of the House Committee on Finance
FROM: Ryan Kusumoto, President & CEO of Parents And Children Together (PACT)
DATE/LOCATION: Thursday, February 9, 2017; 2:00 p.m., Conference Room 308

RE: <u>TESTIMONY IN SUPPORT OF HB 670 – RELATING TO TAXATION</u>

We support the intent of HB 670 – Relating to Taxation. Hawaii has one of the highest cost of living in the United States. Wages are still far below to close any livable wage gap. While the minimum wage has increased, it is still not adequate enough to deal with the price disparity. As a result many of our families are living in poverty. This is a very real issue. Many families struggle to meet their basic needs. The paychecks of too many workers in Hawaii have fallen behind the ability to keep up with the costs of essential needs. This erodes the foundation of a strong economy and healthy working class. No longer can we say, "if we work hard, we will be ok." That mantra simply no longer applies to our current economics.

We support this bill as it provides a solution to reduce income inequality and provide more tax fairness, thus allowing more people to keep what they earn. Currently, we tax the lowest earner at a rate of 13% while those earning the most pay 8% or less. We must provide a better approach to taxation as our current system is pushing people deeper into poverty – we are simply redistributing income away from those in poverty.

We support the tax initiatives like the Food Tax Credit and the Earned Income Tax Credit (EITC) that will ease the burden on our low income and working class families. These credits will make the tax system more equitable and adjust for the disparities of taxes such as the General Excise Tax – which has the greatest impact on our low income population. Keeping these credits relevant and up-to-date with the cost of living is also critical.

Research has also shown that there are other benefits for these tax credits. Access to EITC and Food Tax Credits have improved the health of children, increased education opportunities and performance which have long term positive impacts and combats our war on intergenerational poverty. EITC also promotes the power of work, which is an important step to reduce the income inequality. Our communities and economy will prosper more when work is rewarded and taxes are more equitable.

History has shown that as the economy has changed to negatively impact the most vulnerable and disadvantaged in our society, it has a direct tie to increased homelessness, crime, substance abuse, decreased health, and decreased social and economic well-being. These impacts have long lasting and multi-generational consequences and impact the war on poverty and homelessness.

Founded in 1968, Parents And Children Together (PACT) is one of Hawaii's not-for-profit organizations providing a wide array of innovative and educational social services to families in need. Assisting more than 18,000 people across the state annually, PACT helps families identify, address and successfully resolve challenges through its 16 programs. Among its services are: early education programs, domestic violence prevention and intervention programs, child abuse prevention and intervention programs, child and adolescent behavioral health programs, and community building programs.

Thank you for the opportunity to testify in **support of HB 670**, please contact me at (808) 847-3285 or rkusumoto@pacthawaii.org if you have any questions.

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 8, 2017 10:15 AM
To: FINTestimony
Cc: changkwaix@aol.com
Subject: Submitted testimony for HB670 on Feb 9, 2017 14:00PM

HB670
Submitted on: 2/8/2017
Testimony for FIN on Feb 9, 2017 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Kevin Chang	Individual	Support	No

Comments: Aloha Committee Members, This bill allows working people to keep more of their hard-earned wages and is something everyone should embrace especially in these difficult and trying times for working families in our state. Mahalo Kevin

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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From: Rev. Stanley Bain <stanbain@facehawaii.org>
Sent: Wednesday, February 8, 2017 8:55 AM
To: FINTestimony
Subject: HB 670

TO: House Committee on Finance
HEARING: Thursday, February 9, 2017 at 2:00 pm
PLACE: Conference Room 308
FROM: Rev. Stanley Bain
RE: Testimony Supporting HB 670
ATTENDING HEARING: No

Dear Chair Luke, Vice Chair Cullen, and members of the Committee on Finance:

Thank you for this opportunity to submit testimony in strong support of HB 670, which will create a Working Family Tax Credit.

In Hawaii today, many families are struggling to get by. Our imbalanced tax system adds to the heavy financial burdens placed on our low-income people. The consequences can be seen all around us, with nearly half of Hawaii's families living paycheck to paycheck, and more and more of them living on the streets. This needs to change, and one of the most effective ways to do it is adopting a Working Family Credit.

The credit is based off the federal Earned Income Tax Credit, which is the nation's most effective anti-poverty program. It rewards work, provides a boost for local businesses, and helps provide children with a more stable foundation for their future.

As a founding member and an organizer for FACE (Faith Action for Community Equity) we are committed to working toward economic equity and opportunities for all of Hawaii's people to realize their highest potential. This cannot happen while we tax the highest portion from those earning the least.

Please pass HB 670 so that Hawaii can join the majority of states that recognize the tremendous value of this credit. In Hawaii especially, where taxes on our low-income people are so high, we need to adopt this credit.

Thank you for the opportunity to testify on this important bill.

From: Seena Clowser <zertle13@gmail.com>
Sent: Wednesday, February 8, 2017 11:34 AM
To: FINTestimony
Subject: HB 670

TO: House Committee on Finance
HEARING: Thursday, February 9, 2017 at 2:00 pm
PLACE: Conference Room 308
FROM: Seena Clowser
RE: Testimony Supporting HB 670
ATTENDING HEARING: No

Dear Chair Luke, Vice Chair Cullen, and members of the Committee on Finance:

Aloha and thank you for this opportunity to submit testimony in strong support of HB 670, which will create a Working Family Tax Credit.

In Hawaii today, many families are struggling to get by. Our imbalanced tax system adds to the heavy financial burdens placed on our low-income people. The consequences can be seen all around us, with nearly half of Hawaii's families living paycheck to paycheck, and more and more of them living on the streets. This needs to change, and one of the most effective ways to do it is adopting a Working Family Credit.

As Hawaii's economy is very much service-based, workers in the service sector need to be valued. I am former retail service clerk who made mostly minimum wage in Hawaii. I was able to benefit from the federal Earned Income Tax credit, but local wages and cost-of-living expenses were still prohibitively low and high, respectively. As a Hawaii resident, I would have been able to spend more of my earnings on local goods and services had I had more money to spend on things I needed, and local businesses would have benefited. Therefore, I believe a state Working Family Credit will do more than pay for itself; I believe it will grow the local economy.

The credit is based off the federal Earned Income Tax Credit, which is the nation's most effective anti-poverty program. It rewards work, provides a boost for local businesses, and helps provide children with a more stable foundation for their future.

Please pass HB 670 so that Hawaii can join the majority of states that recognize the tremendous value of this credit. In Hawaii especially, where taxes on our low-income people are so high, we need to adopt this credit.

Mahalo for the opportunity to testify on this important bill.

From Manoa,

Seena Clowser

LATE

IMUALLIANCE

46-063 Emepela Pl. #U101 Kaneohe, HI 96744 · (808) 679-7454 · Kris Coffield · Co-founder/Executive Director

TESTIMONY FOR HOUSE BILL 670, RELATING TO TAXATION

House Committee on Finance
Hon. Sylvia Luke, Chair
Hon. Ty J.K. Cullen, Vice Chair

Thursday, February 9, 2017, 2:00 PM
State Capitol, Conference Room 308

Honorable Chair Luke and committee members:

I am Kris Coffield, representing IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 350 members. On behalf of our members, we offer this testimony in strong support of House Bill 670, relating to taxation.

Hawai'i is exorbitantly expensive. Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2016* report found that a full-time worker would need to earn $34.22/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 2005 and 2015. Average rent for a two-bedroom unit surpassed $2,100 in 2015, with average rent for a 900-square-foot exceeding $2,200 in 2016. In the past three years alone, Honolulu rent has increased 23.5 percent. While 47 percent of Hawai'i residents are renters (a number that does not include individuals and families renting outside of the regulated rental market), they earn an average wage of $14.49/hour, scarcely enough to meet their basic needs. One out of every four households in Hawai'i report that they are "doubling up" or are three paychecks or less away from being homeless, per the Hawai'i Appleseed Center for Law and Economic Justice. Additionally, 54 percent of households are cost-burdened, meaning that they pay more than 30 percent of their income for housing costs.

To help ease Hawai'i's highest-in-the-nation cost of living, lawmakers must pass measures enhancing tax fairness and economic justice. Enacting an earned income tax credit, or Working Family Credit, for working families–as 26 states and Washington D.C. have already done–would benefit 127,018 children and 309,800 residents, according to the Hawai'i Appleseed Center for Law and Economic Justice. Establishing a state EITC would reduce taxes on our most economically vulnerable neighbors, boost health and educational outcomes, and bring $24 million dollars into our state each year.

A Working Family Credit is a proven tool for fostering economic prosperity, providing opportunities for working families to climb the economic ladder and strengthening local businesses. Based on the federal EITC, the Working Family Credit reduces or eliminates workers' tax liability. The EITC has been praised as the most effective anti-poverty program in the U.S.; has been endorsed by every president since Richard Nixon; and continues to receive broad, bipartisan national support. Both Democrats and Republicans have hailed it as the most effective anti-poverty tool in the nation. Eighty-six percent of Hawaiʻi residents have indicated support for a Working Family Credit which, like the EITC, would let low and moderate income working families keep more of what they earn. Now is the time for Hawaiʻi to invest in its residents and businesses by creating a state refundable EITC that puts dollars back into workers' pockets and into the cash registers of local businesses.

Mahalo for the opportunity to testify <u>in support</u> of this bill.

Sincerely,
Kris Coffield
Executive Director
IMUAlliance

From:	mailinglist@capitol.hawaii.gov
Sent:	Wednesday, February 8, 2017 11:49 PM
To:	FINTestimony
Cc:	codysilva89@gmail.com
Subject:	*Submitted testimony for HB670 on Feb 9, 2017 14:00PM*

LATE

HB670
Submitted on: 2/8/2017
Testimony for FIN on Feb 9, 2017 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Cody Silva	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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LATE

OFFICE OF HAWAIIAN AFFAIRS
Legislative Testimony

HB670
RELATING TO TAXATION
House Committee on Finance

February 9, 2017 2:00 p.m. Room 308

The Office of Hawaiian Affairs (OHA) Beneficiary Advocacy and Empowerment Committee will recommend that the Board of Trustees **SUPPORT** HB670, which creates the Hawaii Working Family Tax Credit, a refundable tax credit capped at 10 percent of the federal earned income tax credit, and intended to provide targeted tax relief to low-income families. This bill aligns with OHA's strategic priority of improving the economic self-sufficiency of Native Hawaiians.

According to a recent report by the Institute on Taxation and Economic Policy (ITEP), Hawaiʻi has the second heaviest tax burden in the country for the bottom 20% of income levels.[1] This tax burden on low-income taxpayers may fall on a disproportionate number of Native Hawaiian families with children: Native Hawaiian median family income is $9,627 (or 12.2%) lower than the state median family income,[2] despite Native Hawaiians having a labor force participation rate 4.5% higher than the statewide rate.[3] Additionally, Native Hawaiians' lower per-family income must be distributed between more family members, as Native Hawaiians have larger families and households than the state average – 17.8% of the Native Hawaiian population (who live in households) live with other relatives, 4.3 percentage points more than the total state population (13.5%).

HB670's proposed Working Family Tax Credit, as a type of earned income tax credit ("EITC"), reflects a pragmatic and highly targeted way to reduce the tax burden on our neediest community members, including Native Hawaiians. Notably, of the 42 states that impose a tax on income, 26 as well as the District of Columbia have enacted a state/local EITC at an estimated average rate of 16.6% of the federal EITC; this measure would provide for a Hawaiʻi state EITC at 10% of the federal EITC (i.e., a family receiving a federal EITC of $2,500 would receive a $250 state EITC). Because an EITC is tied to an "individual" taxpayer's income generation and family size, it is a highly targeted approach that provides tax relief in proportion to a taxpayer's needs. Such a credit addresses economic disparities in a systemic way, and provides our indigent families and working

[1] INSTITUTE ON TAXATION AND POLICY, WHO PAYS? A DISTRIBUTIONAL ANALYSIS OF THE TAX SYSTEMS IN ALL 50 STATES (5th ed. 2015) *available at* http://www.itep.org/pdf/whopaysreport.pdf.
[2] In 2015, the median family income for Native Hawaiians was $69,560 compared to the state median family income of $79,187. *See* OFFICE OF HAWAIIAN AFFAIRS, 2010-2018 STRATEGIC RESULTS: MEDIAN FAMILY INCOME INDICATOR SHEET 2015 *available at* http://www.oha.org/wp-content/uploads/Hookahua-Waiwai.-Indicator-Sheet.-MFI.-2015.pdf.
[3] *See* American Community Survey, 2013, Civilian Labor Force Datapoint, U.S. Census Bureau.

parents with additional funds to purchase basic necessities, contribute to Hawaiʻi's economy, and achieve economic self-sufficiency. Furthermore, any reductions in tax revenue will likely be off-set by increased consumer spending and economic activity.

Accordingly, OHA urges the Committee to **PASS** HB670. Mahalo nui for the opportunity to testify on this important measure.