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# A BILL FOR AN ACT

RELATING TO TAXATION.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The purpose of this Act is to establish a  
2 refundable state earned income tax credit to further encourage  
3 work and to counterbalance regressive state and local taxes.  
4 The refundable state earned income tax credit is equal to twenty  
5 per cent of the federal earned income tax credit.

6           SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
7 amended by adding a new section to be appropriately designated  
8 and to read as follows:

9           "§235-    Earned income tax credit. (a) Each resident  
10 individual taxpayer who files an individual income tax return  
11 for a taxable year, and who is not claimed or is not otherwise  
12 eligible to be claimed as a dependent by another taxpayer for  
13 income tax purposes, may claim a refundable earned income tax  
14 credit. The tax credit, for the appropriate taxable year, shall  
15 be equal to           per cent of the earned income credit allowed  
16 under Section 32 of the Internal Revenue Code and reported on  
17 the resident individual's federal income tax return.



1       (b) In the case of a part-year resident, the tax credit  
2 shall equal the amount of the tax credit calculated in  
3 subsection (a) multiplied by the ratio of adjusted gross income  
4 attributed to this State to the entire adjusted gross income  
5 computed without regard to source in the State pursuant to  
6 section 235-5.

7       (c) For purposes of claiming the tax credit allowed by  
8 this section, a resident individual taxpayer shall use the same  
9 filing status (i.e., "married filing jointly", "head of  
10 household", "qualifying widow", "qualifying widower", or  
11 "single") on the taxpayer's Hawaii tax return as used on the  
12 taxpayer's federal return for the taxable year. In the case of  
13 a husband and wife filing separately, the credit allowed may be  
14 applied against the tax of either, or divided between them, as  
15 they elect.

16       (d) If the tax credit under this section exceeds the  
17 taxpayer's income tax liability, the excess of tax credit over  
18 liability shall be refunded to the taxpayer; provided that no  
19 refund or payment on account of the tax credit allowed by this  
20 section shall be made for amounts less than \$1.

21       All claims, including any amended claims for a tax credit  
22 under this section, shall be filed on or before the end of the



1 twelfth month following the close of the taxable year for which  
2 the tax credit may be claimed; provided that failure to comply  
3 with the foregoing provision shall constitute a waiver of the  
4 right to claim the tax credit.

5 (e) The director of taxation:

6 (1) Shall prepare such forms as may be necessary to claim  
7 a tax credit under this section;

8 (2) May require proof of the claim for the tax credit;

9 (3) Shall alert eligible taxpayers of the tax credit using  
10 appropriate and available data;

11 (4) Shall prepare an annual report containing:

12 (A) The number of credits granted for the prior  
13 calendar year;

14 (B) The total amount of the credits granted; and

15 (C) The average value of the credits granted to  
16 taxpayers whose earned income falls within  
17 various income ranges;

18 and

19 (5) May adopt rules pursuant to chapter 91 to effectuate  
20 this section."

21 SECTION 3. New statutory material is underscored.



1 SECTION 4. This Act shall take effect upon its approval  
2 and shall apply to taxable years beginning after December 31,  
3 2006.



**Report Title:**

Taxation; Earned Income Tax Credit

**Description:**

Provides for a state earned income tax credit. (HB1799 HD1)

