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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 This refundable state earned income tax credit shall be equal to  
5 twenty 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 individual  
10 taxpayer who:

11           (1) Files an individual income tax return for a taxable  
12           year; and

13           (2) Is not claimed or is not eligible to be claimed as a  
14           dependent by another taxpayer for income tax purposes,  
15 may claim a refundable earned income tax credit. The tax  
16 credit, for the appropriate taxable year, shall be equal to  
17 twenty per cent of the federal earned income tax credit allowed



1 under section 32 (with respect to earned income) of the Internal  
2 Revenue Code and reported as such on the resident individual's  
3 federal income tax return.

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

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

18 (d) All claims including any amended claims for tax  
19 credits under this section shall be filed on or before the end  
20 of the twelfth month following the close of the taxable year for  
21 which the tax credit may be claimed. Failure to comply with



1 this subsection shall constitute a waiver of the right to claim  
2 the tax credit.

3 (e) The director of taxation:

4 (1) Shall prepare any forms that may be necessary to claim  
5 a tax credit under this section;

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

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

9 (4) Shall prepare an annual report containing the:

10 (A) Number of credits granted for the prior calendar  
11 year;

12 (B) Total amount of the credits granted; and

13 (C) Average value of the credits granted to taxpayers  
14 whose earned income falls within various income  
15 ranges; and

16 (5) May adopt rules pursuant to chapter 91 to effectuate  
17 this section."

18 SECTION 3. New statutory material is underscored.

19 SECTION 4. This Act, upon its approval, shall apply to  
20 taxable years beginning after December 31, 2007.

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INTRODUCED BY: *Mark L* *Z R*

*Manif B. Lee* *Cynthia Hidas* *Roy P. Stanek* *Carinnell L. O'Leary*

*Kal M. Wood* *John M. Thompson* *Antonia Mammoto* *Tom Brown*

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Jyla B. Berg

Neemi Droui

Della A. Belatti

~~Angi~~

~~[Signature]~~

Karen Awana

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**Report Title:**

Taxation; Earned Income Tax Credit

**Description:**

Provides a refundable state earned income tax credit.

