

# HACBED

Community Voice, Collective Action

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Monday, February 1, 2010 at 8:30 a.m.

House Committee on Human Services

## **Testimony in Support of HB 1915**

Relating to Asset Building

Dear Chair Mizuno and Committee Members:

The Hawai'i Alliance for Community Based Economic Development (HACBED) is submitting testimony in support of **HB 1915** which would: 1) establish a state earned income tax credit, 2) provide financial education to TANF recipients, and 3) require the Department of Human Services to provide technical and administrative assistance to fiduciary organizations and appropriate funds to the individual development account (IDA) program.

Asset building is an approach to fostering financial independence. It provides individuals with tangible incentives to save, helping them to gain financial success. Assets are essential for three reasons:

1. To have **financial security** against difficult times
2. To create **economic opportunities** for oneself
3. To **leave a legacy** for future generations to have a better life

We support **HB 1915** in that it is part of a package that we believe does just that. The **Ho'owaiwai Asset Policy** agenda addresses these needs by putting together a comprehensive package of bills and policies that encourages and widens opportunities for asset building.

## **State EITC**

Adopting a state earned income tax credit would be an important economic development tool because in many cases families use these refunds to purchase their basic needs. In this manner the EITC creates a multiplier effect because those dollars circulate throughout the economy, thus part of the initial cost to the state is offset by general excise tax revenues.

To date, there are 42 states that have an income tax and therefore eligible to create a state EITC. 24 states (including the District of Columbia) have enacted EITC's. These states will combine for close \$2 billion to nearly 6 million families. **EITC's put money back into the community where it is needed most.**

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For most taxpayers, their annual refunds from both federal and state filings are the largest lump sum of discretionary funds they ever see. These funds can be used for home down payments, debt reduction, creation of Individual Development Accounts, and rainy day funds.

According to the *CFED 2009-2010 Assets & Opportunity Scorecard*, Hawai'i ranks last place in the nation for average annual pay. If Hawai'i adopted a state EITC, it would help offset the high-cost of living, including housing costs.

#### How would a state EITC work?

HB 1915 establishes a state EITC that is similar to the 24 other states that utilize the credit. Hawai'i individual filers that qualify for a federal EITC may claim a percentage of the earned income credit allowed and reported on the individuals' federal income tax return. Filers have already been utilizing tax preparation assistance from HACBED since the incorporation of the federal EITC and will be provided the same opportunity should a state EITC become available to them. It is key to note that these credits encourage timely filing and offer an opportunity to educate filers on the importance of early filing and financial planning.

#### Financial Education for TANF Recipients

Financial education helps people understand the choices available to them. It teaches people how to weigh our options realistically and how to make assets grow for the future.

After several years of forming strategies to build family and community assets, the State Asset Building Task Force reported its recommendations in a final report at the end of 2009 (viewable at <http://www.hacbed.org/images/stories/PDF/asset%20building%20task%20force%20final%20report.pdf>). One of the major goals set by the Task Force is, "all Hawai'i residents will receive (or have the opportunity to receive) financial education when interacting with the State to receive public assistance."

With a high rate of people living in extreme asset poverty and the 2<sup>nd</sup> worst homeownership rate in the country, financial literacy in Hawai'i can assist people in understanding the importance of saving and asset building to improve their net worth and save for homeownership.

Further, participants in Hawai'i's TANF strategic planning process identified financial education as one of the key areas in which funding should be directed given the key role that it can play for

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TANF recipients. As our nation and state economy faces tough economic challenges, Hawai'i residents are yearning for financial information and resources to assist them in making informed financial decisions.

### **Individual Development Accounts**

Individual development accounts (IDAs) are matched savings accounts that enable low-income families to save, build their assets, and enter the financial mainstream. IDAs reward working families who are building toward an asset, such as buying a home, paying for college tuition, or starting a small business. This makes for a better life for Hawai'i families and communities while giving families a sense of empowerment when they achieve their savings goal.

IDAs are part of a comprehensive public policy agenda to help people build assets. Since 2001, a growing network of nonprofit organizations in partnership with local financial institutions have successfully implemented IDA programs. This bill would expand IDA opportunities to more families.

This bill would also provide organizations running IDA programs access to sufficient operational funds that are needed to provide financial education and planning, resources for case management, and funds for technical assistance and support. Most IDA programs have long waiting lists of eligible low-income individuals but not the matching funds to support them. The investment in this bill will allow more families in Hawai'i to achieve their asset goals.

In closing, Hawai'i families are struggling to provide for their families given the high cost of living across the state, especially during these hard economic times. They are overburdened by taxes and have few opportunities to build their assets and work toward self-sufficiency. Asset building strategies like a state EITC, financial education, and matched-savings help working families in Hawai'i so they can save, build assets, and contribute to the overall state economy.

Thank you for the opportunity to submit testimony.

Sincerely,

Larissa Meinecke  
Asset Policy Associate

## Aloha United Way

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February 1, 2010

House of Representatives Committee on Human Services  
Rep. John M. Mizuno, Chair  
Rep. Tom Brower, Vice Chair  
Monday, February 1, 2010 at 8:30am  
Conference Room 329  
State Capitol  
415 South Berentania Street

### **HB 1915: Relating to Asset Building: Written Testimony in Strong Support**

Dear Chair Mizuno, Vice Chair Brower and Committee Members:

Aloha United Way strongly encourages your favorable consideration of HB 1915 which addresses several important asset building initiatives.

In January 2009, The Department of Business, Economic Development & Tourism published a report titled "Self-Sufficiency Income Standard – Estimates for Hawaii 2007". This report looks at the critical issue of family and individual self-sufficiency. DBEDT defines self-sufficiency as the ability to meet basic needs without government or other subsidies. The report clearly shows the impact of the ever-increasing cost of living in Hawaii on the workforce as fully 32.3% of Hawaii's families have inadequate income to be self-sufficient.

The federal earned income tax credit has proven to be the most efficient and effective way of providing tax relief to low income working families. This credit has lifted over 4.4 million Americans out of poverty every year. Financial literacy training and enhanced savings opportunities are also important pieces of the total Asset Building effort. While our current "income-support" based welfare system is important to ensure our most needy are cared for, moving families from support to self-sufficiency requires a comprehensive set of asset building strategies – and the initiatives proposed in HB1915 are powerful tools to target those who are emerging from reliance on state support programs.

HB 1915 provides an excellent start on a comprehensive set of programs that will eventually enable more of our citizens to enjoy a self-sufficient life and Aloha United Way strongly encourages favorable consideration of this important legislation.

Sincerely,



Susan Doyle  
President & Chief Professional Officer

**GIVE. ADVOCATE. VOLUNTEER. LIVE UNITED.**

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Earned income credit

BILL NUMBER: HB 1915

INTRODUCED BY: Mizuno

**BRIEF SUMMARY:** Adds a new section to HRS chapter 235 to allow taxpayers to claim a state earned income tax credit equal to \_\_\_\_% of the federal earned income tax credit amount.

Credits in excess of tax liability shall be refunded to the taxpayer provided such amounts are over \$1. Requires claims, 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.

Directs the director of taxation to: (1) prepare the necessary forms to claim the credit; (2) require proof of the claim for the tax credit; (3) alert eligible taxpayers of the tax credit; (4) 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; and (5) adopt rules pursuant to HRS chapter 91 to effectuate this section.

Makes other nontax amendments and appropriations.

**EFFECTIVE DATE:** Tax years beginning after December 31, \_\_\_\_.

**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 reports an error rate of greater than 25% for this credit.

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 a number of 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.

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 some 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 exemptions. Rates and brackets are still much too high for all of Hawaii’s working people.

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 all of the problems outlined with those targeted business tax credits. There is no oversight as to how these refunds are aiding families, whether or not 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 but, as a result, 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 willy-nilly 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 latest state Tax Review Commission (TRC). The 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 the EITC were adopted.

Lawmakers should understand that by taking a percentage of a number calculated at the federal level, they are surrendering their oversight over this tax policy to Congress. What is even scarier is that Congress could choose to substantially increase the amount of the credit such that the result at the state level may mean a huge unexpected impact on state resources. Such is the case with the state inheritance taxes which were tied into the tax credit offered under the federal law which calculated an amount the federal government assumed the state took in death taxes. However, this provision was eliminated by EGTRRA in 2001, phasing out the state death tax credit completely over four years such that Hawaii has no tax on inheritance and estates.

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.

Digested 1/29/10



To: Representative John Mizuno  
Chair of the Committee on Human Services

From: Laura Robertson, President/CEO; Goodwill Industries of Hawaii, Inc.

Date: January 30, 2010

Re: **HB 1915: Relating to Asset Building**

Goodwill Industries of Hawaii, Inc. is in support of HB 1915 which establishes a refundable state earned income tax credit and amends provisions of 257, HRS, Regarding Individual Development Accounts.

Goodwill Industries of Hawaii, Inc. ("Goodwill") has served the State of Hawaii as a non-profit organization for nearly 50 years consistently delivering high-quality employment and social services.

Goodwill Industries operates a free VITA Tax-Clinic annually for low income wage earners on Oahu, Maui and Hawaii and this year expanding to Kauai. Services are provided free of charge by staff and volunteer tax preparers, and no funding is received from State or County governments to fund this program.

EITC is the largest federal antipoverty program for working families and individuals in the United States, and many EITC-qualified taxpayers are not claiming this valuable benefit. Goodwill's program targets eligible taxpayers in the local community who are most vulnerable to missing out on EITC benefits, including: those who earn very low incomes through part-time employment or self-employment; homeless workers; grandparents who work and are raising grandchildren; foster parents; and workers who do not speak English as their first language.

Our efforts successfully bring additional Federal dollars into the state because a substantial portion of EITC refunds issued to taxpayers are used by these low-income individuals and families to purchase local goods and services.

In fact, last year's tax clinic provided over 1,500 volunteer hours to assist in this program. 616 tax returns were filed and tax payers received federal refunds in the amount of \$757,751 and an additional \$286,548 through the EITC tax program.

One of our success stories included a family receiving welfare assistance that was referred by our Honolulu program office. The family consisted of a Head of Household with three dependents. They received \$9,260 in federal and state refunds; and Received \$4,782 in EITC refunds.

This is truly a program that works for those who are in poverty and we would like to see it expanded and also to include the establishment of Individual Development Accounts.

Thank you for the opportunity to provide testimony on this measure.

**LATE**  
testimony

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