NEIL ABERCROMBIE
GOVERNOR

PATRICIA McMANAMAN
DIRECTOR

BARBARA A. YAMASHITA
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaii 96809-0339

February 21, 2013

MEMORANDUM

TO: The Honorable Sylvia Luke, Chair
House Committee on Finance

FROM: Patricia McManaman, Director

SUBJECT: **H.B. 385, H.D. 1 - RELATING TO HUMAN SERVICES**

Hearing: Thursday, February 21, 2013; 11:00 a.m.
Conference Room 308, State Capitol

PURPOSE: The purpose of this bill is to establish a refundable State Earned Income Tax Credit and appropriate funds for the Department of Human Services to provide financial education to applicants for and recipients of Temporary Assistance for Needy Families.

DEPARTMENT'S POSITION: The Department of Human Services (DHS) supports the intent of this bill, provided it does not adversely impact nor replace the priorities in the Executive Biennium Budget.

The Department believes the establishment of a State Earned Income Tax Credit is essential for asset building, however, we respectfully defer to the Department of Taxation on its implementation.

The Department currently provides limited financial education to Temporary Assistance for Needy Families (TANF) eligible families on Oahu which provides basic concepts of setting financial goals, banking, budgeting, understanding credit, and investing. This helps TANF families make decisions about employment opportunities and how it impacts their family's income in order to remain self-sufficient.

Based on this limited financial education service we currently provide, we estimate that the per family cost is $170, to provide such a service. Additionally, the total number of TANF applicants and recipients that the Department served in SFY 2012 was 19,008. Therefore, the Department estimates that an appropriation of $3,231,360 will be needed to provide the financial literacy services to TANF applicants as proposed in this bill. Further, the Department estimates that an appropriation of $3,117,290 will be needed to provide the financial literacy services to TANF recipients only.

The DHS is, however, engaged in discussions with the Department of Taxation around tax credits for low-income Hawaii TANF and TAONF (Temporary Assistance for Other Needy Families) residents. While these discussions are on-going, it is too premature to know what outcomes or recommendations may emerge.

Thank you for the opportunity to provide comments on this bill.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Thursday, February 21, 2013
Time: 11:00 a.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 385 H.D.1 Relating to Human Services

The Department appreciates the intent of H.B. 385 H.D.1 and provides the following information and comments for your consideration.

H.B. 385 H.D.1 creates a refundable earned income tax credit at the state level. The proposed credit would be equal to a percentage of the federal earned income tax credit allowed under section 32 of the Internal Revenue Code, as amended. The tax credit applies to taxable years beginning after December 31, 2012.

The Department is supportive of the intent to provide additional resources to taxpayers who may need assistance. However, we note that adoption of this tax credit will create a third economic-based income tax credit and require several changes to our forms and instructions. Our limited computer staffing resources and current technological challenges restrict our ability to implement many changes to our computer system. Additionally, due to the aforementioned challenges, the Department may not be able to comply with the reporting requirement as proposed in this bill.

The Department also notes that tax credits may not be the most direct avenue to provide assistance to the individuals impacted by this bill. The Department has commenced discussions with the Department of Human Services to determine if there is a more efficient method to deliver additional assistance to individuals in need, other than through the tax return reporting system.

We also note that section (f) of the bill refers to the United States Treasury Regulations applicable to tax return preparers. The Internal Revenue Service recently lost a challenge to the application of these regulations to tax return preparers and has ceased to apply certain requirements to them. Therefore, it may be advisable to explicitly state that the regulations apply to any tax return preparer, as defined by section 235-36.5, HRS, especially those portions imposing due diligence requirements as these are the subject of the $100 penalty imposed by the bill. The Department recommends the following amendment:

> Page 4, line 15, delete the language of subsection (f) and insert into subsection (f): Any person who is a tax return preparer under §231-36.5(h), Hawaii Revised Statutes, shall be subject to regulations issued by the Secretary of the United States Department of the Treasury at 31 C.F.R. §10 (2012) with respect to any return or claim for refund. Any tax return preparer who fails to comply with due diligence requirements under such regulations with respect to determining eligibility for, or the amount of, the credit allowable by section 32 of the Internal Revenue Code shall pay a penalty of $100 for each such failure.

The Department is not able to estimate the revenue impact as the percentage allowed for the State credit is unspecified, however, the Department estimates that for tax year 2011, EITC claims for Hawaii totaled $239 million.

Thank you for the opportunity to provide comments.

NEIL ABERCROMBIE
GOVERNOR

DWIGHT TAKAMINE
DIRECTOR

AUDREY HIDANO
DEPUTY DIRECTOR

MILA KA'AHANUI
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
OFFICE OF COMMUNITY SERVICES
830 PUNCHBOWL STREET, ROOM 420
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February 19, 2013

To: The Honorable Sylvia Luke, Chair
House Committee on Finance
Date: Thursday, February 21, 2013
Time: 11:00 a.m.
Place: Conference Room 308, State Capitol

From: Mila Kaahanui, MSW
Executive Director
Office of Community Services (OCS)

Good Morning Chair Luke,

Testimony for House Bill 385, H.D. 1, Relating to Human Services

I. OVERVIEW OF PROPOSED LEGISLATION

The present bill proposes to effectuate some of the recommendations of the Hawaii State Asset Building and Financial Literacy Task Force formed through Senate Concurrent Resolution 92 and Senate Resolution 52 of 2008. Specifically, these recommendations include the enactment of a State Earned Income Tax Credit (EITC) and the implementation of financial education by the Department of Human Services for applicants and recipients of Temporary Assistance for Needy Families (TANF) funds.

The Office of Community Services strongly supports this bill, as long as it does not conflict with the Administration's budget, and offers a few comments.

II. CURRENT LAW

The Office of Community Services (OCS) is charged to facilitate and enhance the delivery of service to low-income, immigrant, refugee, and other disadvantaged populations. This measure will directly affect the low- and moderate-income citizens of the state. The State of Hawaii does not currently have an EITC program; however there is an $85 refundable food credit for those meeting certain income requirements. The TANF program currently requires at least half of all TANF families to participate in a minimum number of work or work-related activities (such as training) for a minimum number of hours per month. This is dependent on other factors such as State use of TANF and number of work-eligible and capable persons in each family.

III. COMMENTS ON SENATE BILL

To begin, OCS strongly supports this bill. It has often been said the Federal EITC is the single largest anti-poverty program currently run by the federal government. Many have tried to characterize the support of our fellow citizens through human service programs as the creation of a "welfare state." The EITC program, because of its direct connection to earned income, that is income derived from active employment and not social security or other payments, is 100% traceable back to employed, working-class citizens.

Additionally, financial education, especially in times of budgetary crisis, is absolutely essential to assist all individuals in maintaining economic self-sufficiency through fluctuations in income and the economy. OCS is making no effort to undermine the initiatives of any other division or Department and does, in fact, support additional funding for TANF recipients under this program. However, we do offer several comments on the measure.

First, financial education is not standardized in the basic curriculum of our educational institutions and is not needed solely by recipients of TANF funds. As the recession proved, our middle-class residents can easily be overwhelmed by lack of education and financial planning because of Hawai`i's extremely high housing costs and razor-thin margins of error.

Although we believe the TANF population is well-defined and excellent start, others can benefit from more systemic and wide-reaching recognition of financial education as a key component of the success of individuals' navigating through difficult times. For the Department of Human Services, programs such as the Low-Income Home Energy Assistance Program (LiHEAP), General Assistance (GA), the Supplemental Nutrition Assistance Program (SNAP), or those transitioning from homeless shelters that may not be enrolled or eligible in TANF would benefit from such education as well. In the Department of Labor and Industrial Relations (DLIR), participants in work placement programs or job training programs, as well as those collecting unemployment would all benefit from curriculum and knowledge designed to help them make the most of their earnings.

Furthermore, the measure defines "financial education" in the following manner: "'Financial education' means education that promotes an understanding of consumer, economic, and personal finance concepts, including the basic principles involved in earning, budgeting, spending, saving, investing, and taxation." We believe this definition to be a starting point in the larger conversation toward curriculum development.

OCS has contributed to the task of gathering community input to take this concept to implementation. Other Departments, such as DHS, have also done fact-finding with regards to their programs to effectively implement "financial education." During OCS' community needs assessment process, two (2) important findings were put forth by community members and service providers with regard to implementation: 1) ***There is no standard financial education curriculum,*** and 2) ***financial literacy cannot be taught in a "vacuum."*** Because programs have different requirements, financial education in a transitional housing program could consist of homebuyer education; while a job placement financial education component may consist of household budgeting and tax deferral and refund maximization strategies.

Without a discussion and assembly of core competencies, any certification or credential awarded as a result of such classes would be inconsistent and thus useless to potential employers or other stakeholders such as mortgage brokers. Our service providers experiences in attempting to provide financial literacy has led to their expression of the conclusion above. This conclusion is logical; many of our clientele experience generational poverty and have never had tangible assets or investments of any kind. Thus, strategies targeted at savings or investment may not be immediately comprehended without an intermediate, hands-on learning tool beyond their own finances.

Second, we note that education alone does not alleviate asset poverty for those with fixed incomes such as the elderly and disabled.

In addition to this proposed meaure, we would like to offer this opportunity for the Legislature to assist by supporting our recent Request for Proposal dated November 15, 2012 and entitled "OCS LBR 903-06_14, Financial Literacy, Asset Poverty Reduction, and Savings Incentives for Low-Income Persons."

Our proposed program utilizes our community input and research to incorporate financial education components modeled after the United States' Department of the Treasury's "Money Smart" curriculum with an Individual Development Account (IDA) program designed to incentivize savings. This IDA not only matches funds for traditional IDA uses such as education and homeownership, it also matches funds for non-traditional uses. OCS has sought out to directly attack "asset poverty" by using its definition; the IDA will allow a lesser match of funds to incentivize eligible families to save three (3) months of income as a "cushion." This will, by definition, eliminate the successful family from the asset poverty rolls. A copy of the RFP can be provided by our office if you are interested, and with the current solicitation OCS will be ready to contract starting July 1.

Thank you for your consideration of these comments.

OFFICE OF HAWAIIAN AFFAIRS

Legislative Testimony

HB385 HD1

RELATING TO HUMAN SERVICES

House Committee on Finance

February 21, 2013 11:00am Conference Room 308

The Office of Hawaiian Affair's (OHA) **SUPPORTS** HB385 HD1, which would establish a refundable state Earned Income Tax Credit (EITC), and require the Department of Human Services to provide financial education to Temporary Assistance for Needy Families (TANF) applicants and recipients. OHA supports this bill as it fits within our strategic priority of improving the conditions of Native Hawaiians toward greater economic self-sufficiency.

According to a 2011 American Community Survey (ACS) data report, 20.9% of Native Hawaiians with children live in poverty compared to 13.2% for the state. Although there are many ways to address poverty, HB385 HD1 proposes a pragmatic and sure way to reform our tax system to benefit our neediest populations, while creating a mechanism to educate public assistance recipients to manage their finances, and on to the path of self-sufficiency.

The Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization that works on federal, state, and local tax policy issues. **According to a report by ITEP, Hawaiʻi is one of the ten states with the highest taxes on the poor.** By establishing a state EITC and providing financial education to TANF recipients, we can address economic disparities in Hawaiʻi in a holistic and systemic way. Our neediest population would receive a meaningful refund through the state EITC, and individuals who are receiving public assistance through TANF would be provided the necessary tools and resources to manage their finances. At the same time, the refund would enable families to purchase basic necessities and contribute to Hawaiʻi's economy.

Currently, there are 42 states that have an income tax and 24 of those states have enacted a state EITC. To be eligible to receive a state EITC, an individual must utilize the federal EITC. The individual would receive a set percentage of what was claimed for the federal EITC. If the state EITC was 20% of the federal EITC, a family receiving a federal EITC of $2500 would be refunded $500 for the state EITC.

OHA urges this committee to **PASS** HB385 HD1. Mahalo nui for the opportunity to testify.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Earned income credit

BILL NUMBER: HB 385, HD-1

INTRODUCED BY: House Committee on Human Services

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.

No credit shall be allowed under this section for any taxable year in the disallowance period which is: (1) the period of ten tax 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 with respect to any return or claim for refund who fails to comply with due diligence requirements imposed by the department of the treasury by regulations with respect to determining eligibility for, or the amount of, the credit allowable by section 32 of the Internal Revenue Code shall pay a penalty of $100 for each such failure.

Requires the director of taxation to: (1) prepare any forms necessary to claim a tax credit; (2) may require proof of the claim for the tax credit; (3) alert eligible taxpayers of the tax credit using appropriate and available means; (4) prepare an annual report to the legislature, the governor, and the public containing the: (a) number of credits granted for the prior calendar year; (b) total amount of the credits granted; and (c) 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, 2012

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. Although Act 60, SLH 2009, increased the standard deduction, it did so only temporarily until 2015. 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 2005-2007 nor the latest state Tax Review Commission (TRC). 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 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.

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 on welfare, especially in public housing, in gaining the skills they need to hold gainful employment, provide childcare 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.

Digested 2/20/13

HAWAI‘I APPLESEED CENTER

LAW AND ECONOMIC JUSTICE

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Testimony of Hawai‘i Appleseed Center for Law and Economic Justice
Supporting HB 385 HD 1 Relating to Human Services
House Committee on Finance
Thursday, February 21, 2013, 11:00 AM, Room 308

Thank you for an opportunity to testify in strong support of House Bill 385, which would create a state Earned Income Tax Credit (EITC).

Hawai‘i Appleseed Center for Law and Economic Justice is a nonprofit, 501(c)(3) law firm created to advocate on behalf of low income individuals and families in Hawai‘i on civil legal issues of statewide importance. Our core mission is to help our clients gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.

Hawai‘i has the highest cost of living in the United States, and many families in our community are in desperate need of poverty-alleviating programs such as the EITC.

- A family of four in Hawai‘i pays 61 percent more for food than those on the mainland.
- The cost of shelter in Hawai‘i is the highest in the nation, with 75 percent of those at or below the poverty level spending more than 50 percent of their income on housing.
- In addition, our residents earn the lowest adjusted income among all of the mainland states, while the tax rate in Hawai‘i for low-income households is among the highest in the nation.

A state EITC would provide low-income families with a refundable tax credit that functions as work incentive, since only wage-earning households can earn the credit.

- Considered by many to be the most efficient anti-poverty program in existence today, the EITC directly rewards low-income workers and avoids government inefficiencies in the distribution and delivery of services.
- Over the 37 years since its inception, the federal EITC has helped millions of families escape the crushing reality of poverty in our country. In 2009 alone, the federal EITC helped raise over three million children from six million families out of poverty.

State EITCs have been created around the country, reaping significant benefits for local economies.

- As of this year, 25 states and the District of Columbia have enacted a state EITC. All 25 states calculate the value of the state credit as a percentage of the federal EITC.
- Since the state EITC program piggybacks on the federal EITC program, calculating the state tax credit is simple. A taxpayer would take a set percentage of whatever was claimed for the federal EITC. We recommend that the state percentage be set at 20 percent of the federal EITC payment.
- Studies have indicated that wage earners immediately spend income received from the EITC programs on bills and basic necessities such as food, allowing that spending to “churn” through the state economy. For every dollar spent on a state-level EITC, an additional $1.67 is generated in new earnings for the state.

Implementation of a state EITC program will dramatically improve the ability of low wage families to overcome the many challenges they face to achieving stability and self-sufficiency.

Hawai`i Appleseed Center for Law and Economic Justice
119 Merchant Street, Suite 605 ◆ Honolulu, Hawai`i, 96813 ◆ (808) 587-7605

CATHOLIC CHARITIES HAWAI'I

TESTIMONY IN SUPPORT OF HB 385, HD1: Relating to Human Services

TO: Representative Sylvia Luke, Chair, Representative Scott Nishimoto, Vice Chair, Representative Aaron Johanson, Vice Chair, Members of the Committee on Finance

FROM: Trisha Kajimura, Social Policy Director, Catholic Charities Hawaii

Hearing: Thursday, February 21, 2013 11:00 a.m. Conference Room 308

Chair Carroll, Vice Chair Kobayashi, and Members, Committee on Human Services:

Thank you for the opportunity to testify **in support of HB 385**, which establishes a refundable state earned income tax credit, and financial education to applicants for and recipients of temporary assistance for needy families.

Catholic Charities Hawai'i has a strong commitment to decreasing poverty. Poverty is clearly linked to poor social and health outcomes. People living below the poverty line are especially hard hit in Hawaii, with the highest cost of living in the U.S. A family of four in Hawaii pays 61% more for food than families on the mainland. Our cost for housing is also the highest in the nation. 75% of people at or below the poverty line spend more than 50% of their income on housing. This population is frequently teetering at the brink of homelessness. Any change to their financial situation like a decrease in wages or increase in rent will tip them over into homelessness. Increasing their resources through this measure is much more cost-effective than trying to help them out of homelessness once they have lost everything

Catholic Charities Hawaii supports a State Earned Income Tax Credit (EITC) to help families in poverty and prevent homelessness. EITC is a direct incentive for low income workers since it targets workers with families. Funding for education on this benefit is also critical to reach those who are most in need. Many low-income earners in Hawaii may have low literacy levels or limited English and need education to understand and apply for the EITC. Funding the financial education and tax workshops are important to ensure those in most need can take advantage of this tax credit.

25 states and the District of Columbia already have enacted a state EITC. The federal EITC has been in existence for 37 years. Over time, it has helped millions of families escape the burdens of poverty. Studies of the federal experience have also shown that workers who receive the EITC immediately spend the money on daily necessities which adds money to the local economy.

We thank you for your concern and dedication to helping the working poor in our community. **We urge your support for HB 385**. Please contact me at (808)527-4810 or trisha.kajimura@catholiccharitieshawaii.org if you have any questions.

CLARENCE T. C. CHING CAMPUS • 1822 Ke'eaumoku Street, Honolulu, HI 96822
Phone (808)527-4810 • trisha.kajimura@CatholicCharitiesHawaii.org

Goodwill
Industries of Hawaii, Inc.

CS13:009T:SF

To: The Honorable Representative Sylvia Luke, Chair
The Honorable Representative Scott Y. Nishimoto, Vice Chair
The Honorable Representative Aaron Ling Johanson, Vice Chair
House Committee on Finance

From: Laura Smith, President/CEO
Scott Fuji, Assistant Director of Community Services
Goodwill Industries of Hawaii, Inc.

Date: February 20, 2013

Re: **Testimony in Support of HB 385, HD1 – Relating to Human Services**

Goodwill Industries of Hawaii, Inc. (Goodwill) is among the largest human service non-profit organizations in Hawaii. Our mission is to help people find and succeed in employment. With a Statewide footprint, and offices on Oahu, Maui, Hilo, Kona and Kauai, last year Goodwill served over 15,000 people, placing more than 1,500 into jobs in our community.

Goodwill stands in strong support of HB385 for the immediate impact on poverty it would have for Hawaii's working poor. Goodwill's experience in working with the under and unemployed of Hawaii leads us to believe that there remains a strong impetus to work and improve the quality of life for themselves and their families. A state Earned Income Tax Credit (EITC) will act as an incentive for employment, not a handout, as the amount received increases with the amount of income received from work.

In addition, the tax revenue lost to the State government will not be lost to the state of Hawaii. Studies indicate that low-income wage earners spend a larger portion of their income on day-to-day survival needs such as food and shelter. The return on investment for every state level EITC dollar equates to an additional $1.67 in new earnings for the state. In times of economic recovery these are dollars infused directly into the economy to stimulate growth from the bottom up.

Thank you for this opportunity to provide testimony on this matter.

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PHOCUSED

PROTECTING HAWAII'S OHANA, CHILDREN, UNDER SERVED, ELDERLY AND DISABLED

P13:012T:LKR

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February 20, 2013

TO: Representative Sylvia Luke, Chair
Representative Scott Nishimoto, Vice Chair
Representative Aaron Ling Johanson, Vice Chair
Members, Committee on Finance

FROM: Laura Kay Rand, Interim Executive Director, PHOCUSED

HEARING: Committee on Finance
February 21, 2013 at 11:00 a.m.

Testimony in Support of HB385, Relating to Human Services

Thank you for the opportunity to provide testimony in support of HB385, which establishes a refundable state earned income tax credit (EITC). PHOCUSED is a coalition of health, housing, human services agencies and individual advocates voicing the needs of the marginalized and underserved in Hawaii.

As a community, we must support our citizens who are classified as asset poor, lacking the resources to subsist at the poverty level for three months in the absence of a source of income. Working families in Hawaii strive towards financial self-sufficiency against powerful economic realities. They experience the highest cost of living in the United States, paying more for food and shelter than comparable families on the mainland. And they pay these elevated costs while earning the lowest adjusted income among all of the mainland states and experiencing among the highest tax rates for low-income households in the nation.

With HB385 and the establishment of a refundable EITC, we have an opportunity to help Hawaii families escape the crippling effects of poverty and change their financial family tree for generations to come. The EITC will support families who are working hard toward self-sufficiency by reducing the tax burdens of the low-income population through an incentive for employment. Since most people who receive federal EITC refunds immediately put them into use through spending on day-to-day needs, such as food and shelter, the EITC also supports our local economy.

I urge your support of HB385. We appreciate the opportunity to testify in support of this measure.

Sincerely,
Laura Kay Rand
Interim Executive Director

PARTNERS IN CARE
Oahu's Coalition of Homeless Providers

TESTIMONY IN SUPPORT OF HB 385 HD1: Relating to Human Services

TO: Representative Sylvia Luke, Chair; Representative Scott Y. Nishimoto, Vice Chair; Representative Aaron Ling Johanson, Vice Chair; and Members, Committee on Finance

FROM: Gladys Peraro, Co-Chair Advocacy Committee, Partners In Care (PIC)

HEARING: Thursday, 2/21/13; 11:00 am; CR 308

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and Members, Committee on Finance:

Partners In Care (PIC), appreciates the opportunity to provide testimony in **strong support of HB 385 HD1**, which would create a ***State Earned Income Tax Credit (EITC).*** I am Gladys L. Peraro, Advocacy Committee Co-Chair for Partners In Care (PIC), a coalition of care providers focusing on the needs of homeless persons and strategies to end homelessness.

Partners In Care has a strong commitment to advocating for decreasing poverty. Poverty, which is clearly linked to poor social and health outcomes, especially as it relates to those individuals and families living below the poverty line, who are especially hard hit in Hawaii, with the highest cost of living in the United States. A family of four in Hawaii pays 61% more for food than families on the mainland and our cost for housing is also the highest in the nation- 75 percent of people at or below the poverty line spends more than 50% of their income on housing- a sobering reality for this population that is frequently teetering at the brink of homelessness.

Additionally, Hawaii's residents earn the lowest adjusted income among all of the mainland states, while the tax rate in Hawaii for low-income households is among the highest in the nation- any change to this already precarious financial situation, such as a decrease in wages or increase in rent would likely send them over the edge into homelessness. The opportunity of increasing their resources through measures such as the EITC is much more cost-effective than trying to help them out of homelessness after the fact.

Partners In Care supports a State Earned Income Tax Credit (EITC) to provide low-income families with a refundable tax credit that functions as a work incentive, as only wage-earning households are eligible for the credit. The EITC is considered by many to be the most efficient anti-poverty program in existence today as it directly rewards low-income workers- since its inception over 37 years ago, the federal EITC has helped millions of families escape the crushing reality of poverty in our country. In 2009 alone, the federal EITC helped raise over three million children from within six million families out of poverty.

State EITCs have been established around the country, reaping significant benefits for local economies. As of this year, 25 states and the District of Columbia have enacted a state EITC- all 25 states calculate the value of the state credit as a percentage of the federal EITC. Since the state EITC program piggybacks on the federal EITC program, calculating the state tax credit is simple- a taxpayer would take a set percentage of whatever was claimed for the federal EITC. Studies have indicated that wage earners immediately spend income received from the EITC programs on bills and basic necessities such as food, allowing that spending to "churn" through the state economy. For every dollar spent on a state-level EITC, an additional $1.67 is generated in new earnings for the state- a way to dramatically improve the ability of low wage families to overcome the many challenges they face to achieving stability and self-sufficiency.

Partners In Care respectfully urges your **strong support of HB 385 HD1** and appreciates your tireless concern and dedication toward helping the working poor in our community.

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Partners in Care is a membership organization of homeless service providers, other service professionals, units of local and state government, homeless consumers, and other community representatives located in Hawai'i on O'ahu. It is a planning, coordinating, and advocacy body that develops recommendations for programs and services to fill gaps in the Continuum of Care on O'ahu.