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 Mele Carroll, Chair
and Members of the House Committee on Human Services

Date: Tuesday, March 18, 2014
Time: 9:45 A.M.
Place: Conference Room 329, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 2205, S.D. 1, Relating to Taxation

The Department appreciates the intent of S.B. 2205, S.D. 1, and provides the following information and comments for your consideration.

S.B. 2205, S.D. 1, creates a refundable earned income tax credit (EITC) at the state level. The credit is equal to ten percent of the federal EITC allowed under section 32 of the Internal Revenue Code, as amended. This measure has a defective effective of date July 1, 2050, and the credit applies to taxable years beginning after December 31, 2014.

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.

First, the Department has difficulty with compliance enforcement of refundable tax credits because they create an incentive and opportunity for fraud. Conversely, nonrefundable tax credits limit the incentive for fraud because they only benefit state taxpayers to the extent of their tax liability.

For Fiscal Year 2012, the U.S. Department of the Treasury has reported that approximately 21-25% of the amounts paid for the federal EITC has gone to taxpayers improperly claiming the tax credit; this translates into approximately \$11.6 to \$13.6 billion dollars improperly paid out.

Second, refunds are generally paid before a complete review of each return is done. Although on its face it seems simple to create a Hawaii EITC based on a percentage of the federal EITC, the Department has no way to obtain the information necessary to independently determine whether an EITC claim is proper. Thus, if this measure were enacted, the only way that the Department would know that a claim was improper would be through notification from the Internal Revenue Service (IRS).

Third, the IRS generally does not conduct an EITC examination until months after a refund is paid out. Thus, if the State were adopt a Hawaii EITC and rely on the IRS to identify invalid EITC claims, by the time the Department is informed that an EITC credit was improperly claimed, a substantial amount of time would have passed. The Department would already have paid out such refund and would have no way of effectively retrieving the refunds generated from the improperly claimed credits. The Department currently does not have sufficient data matching capabilities that could identify and prevent some of the improper claims from being refunded.

It is important to note that the IRS, which has extensive data matching capabilities with federal databases such as the Social Security Administration database, still has a 21-25% rate of improper claims being filed and paid. Therefore, the Department believes that the Hawaii error rate will at least be equal to if not greater than the federal error rate of 21-25%, particularly if the State intends to use the federal EITC claim as the base upon which taxpayers may claim a state EITC credit. In addition to the substantial loss of revenue due to the high error rate, the Department is concerned that the high rate of errors will divert the Department's limited staff resources to enforcement of a tax credit, instead of revenue collection.

Thank you for the opportunity to provide comments.

HAWAII
STATE
COMMISSION
ON THE
STATUS
OF
WOMEN

Chair
LESLIE WILKINS

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LISA ELLEN SMITH

Executive Director
CATHY BETTS, JD

Email:
DHS.HSCSW@hawaii.gov

Visit us at:
humanservices.hawaii.gov/hscsw/

235 S. Beretania #407
Honolulu, HI 96813
Phone: 808-586-5758
FAX: 808-586-5756

March 18, 2014

To: Representative Mele Carroll, Chair
Representative Bertrand Kobayashi, Vice Chair
Members of the House Committee on Human Services

From: Cathy Betts, Executive Director, Hawaii State Commission on the Status of Women

Re: Testimony in Strong Support, SB 2205 Relating to Taxation

Thank you for this opportunity to testify in strong support of SB 2205, which would help Hawaii's low and moderate income families through revision of our tax policies. This bill would create a state earned income tax credit.

Currently, Hawaii is the 8th poorest state under the United States Census Supplemental Poverty Measure. Hawaii is considered the 4th worst state for taxing people in poverty. Many of our families are reliant on state benefits just to "get by" and the majority of those families are headed by women as single heads of household. This measure seeks to alleviate some of our more regressive tax policies in order to allow families to become self sufficient.

This measure would create a state earned income tax credit (EITC), mirroring our federal EITC, which is considered one of the most effective tax measures to battle poverty. A state EITC would create a state income tax credit set at a percentage of the federal EITC. Twenty five states and the District of Columbia already have such a measure in place.

Over taxing working families living in poverty is not good public policy. Similar to eliminating the asset tests for TANF recipients (which our state legislature did last year), progressive tax policies help our families build assets to move forward, rather than spend down their assets to barely survive economically. Revising our tax policies and providing a state EITC will further assist our working families. The Commission strongly supports SB 2205.

Thank you for this opportunity to testify.

Aloha United Way

200 N. Vineyard Blvd., Suite 700
Honolulu, Hawaii 96817-3938
Telephone (808) 536-1951
Fax (808) 543-2222
Website: www.auw.org

Cover Sheet

Testifying Agency: Aloha United Way
Kim Gennaula, President & CEO

House Committee on Human Services
Rep. Mele Carroll, Chair
Rep. Bertrand Kobayashi, Vice Chair

Tuesday, March 18, 2014 at 9:45 A.M.

Conference Room 329

SB 2205, SD1: Relating to Taxation: Testimony in Support

Aloha United Way

200 N. Vineyard Blvd., Suite 700
Honolulu, Hawaii 96817-3938
Telephone (808) 536-1951
Fax (808) 543-2222
Website: www.auw.org

March 13, 2014

Committee on Human Services
Representative Mele Carroll, Chair
Representative Bertrand Kobayashi, Vice Chair
Tuesday, March 18, 2014 at 9:45 A.M.
Conference Room 329

SB 2205, SD1: Relating to Taxation - SUPPORT

Dear Chair Mele Carroll, Vice Chair Bertrand Kobayashi and Committee Members:

Aloha United Way strongly encourages your favorable consideration of SB 2205, SD1 which makes several changes to our tax policy to reduce the tax burden on our lowest income residents.

In January 2011, 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 a workforce as fully 27% 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. 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 a state earned income tax credit and the other tax relief provisions of SB 2205, SD1 target those who are emerging from reliance on state support programs.

SB 2205, SD1 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,

Kim Gennaula

Kim Gennaula
President & Chief Executive Officer

Testimony in Support of SB 2205: Relating to Taxation

TO: Representative Mele Carroll, Chair, Representative Bertrand Kobayashi, Vice Chair, Members of the Committee on Human Services

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

Hearing: Tuesday, March 18, 2014 9:45 a.m., Conference Room 329

Thank you for the opportunity to testify in support of SB 2205, which establishes a refundable state earned income tax credit at ten percent of the federal earned income tax credit as reported on the individual's federal income tax return.

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. This bill speaks directly to our advocacy priority of reducing poverty in Hawai'i.

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 shelter [1] in the country. A family of four in Hawaii pays 68% more for food than families on the mainland[2]. 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 pay for their basic living expenses. EITC is a direct incentive for low income workers since it targets workers with families.

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 SB 2205**. Please contact me at (808)527-4810 or trisha.kajimura@catholiccharitieshawaii.org if you have any questions.

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[1] Hawaii 2013 State Housing Profile, National Low Income Housing Coalition. http://nlihc.org/sites/default/files/SHP-HI.pdf.

[2] Based on the U.S. Department of Agriculture's Thrifty Food Plan, which is used as the basis for Supplemental Nutrition Assistance Program benefits. See http://www.cnpp.usda.gov/usdafoodplanscostoffood.htm.

PARTNERS IN CARE
Oahu's Coalition of Homeless Providers

TESTIMONY IN SUPPORT OF SB 2205 SD1 RELATING TO TAXATION

TO: Representative Mele Carroll, Chair; Representative Bert Kobayashi, Vice Chair; and members of the House Committee on Human Services

FROM: Peter K. Mattoon, Advocacy Committee Co-Chair, Partners in Care

Hearing: Tuesday, March 18, 2014, 9:45 AM, Room 329

Dear Chair Carroll, Vice Chair Kobayashi, and members of the committee:

Thank you for the opportunity to provide testimony in **strong support** of Senate Bill 2205, which would create a state earned income tax credit (EITC) set at 10 percent of the federal EITC. My name is Peter K. Mattoon, and I am an Advocacy Committee Co-Chair for Partners In Care, a coalition of care providers focusing on the needs of homeless persons and strategies to end homelessness. We support this policy to promote the financial security of low-income families at risk of homelessness.

Hawai'i has the highest cost of living in the United States, at nearly 60% of the national average. We also have the 8th highest rate of poverty among the states, with 17% of our households living below the U.S. Census Supplemental Poverty Measure. Given the high cost of living and high poverty rate, it's no surprise that we have the highest rate of homelessness among the states.

Our regressive tax system makes it even harder for low-income families to get by. The bottom 40 percent of households pay around 13 percent of their income toward state and local taxes, while those earning over $400,000 pay closer to 8 percent. A state earned income tax credit will help make our tax system fairer so that working families can make ends meet.

The federal EITC has been a highly effective anti-poverty measure that puts money back in the pockets of low-income workers, especially family breadwinners: in 2011, it lifted 15,000 of Hawai'i's children above the poverty guidelines. We can build on this success by creating a state EITC. It encourages work because only filers with earned income can claim it, and it is particularly targeted at families with children. The EITC is one way to help prevent homelessness because it lets workers keep more of what they earn and supplements their income. It helps families to pay their bills and purchase necessities, and households are also encouraged to save some of their EITC to build assets. Even families experiencing homelessness can benefit from the EITC: the 2010 Homeless Services Utilization Report found that more than half of Hawai'i's homeless families have at least one adult working.

We respectfully urge the Committee to pass SB 2205 to create a state EITC, which will provide critical relief to our families struggling to make ends meet and prevent homelessness.

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: SB 2205, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: Establishes a state earned income tax credit (EITC) equal to 10% of the federal earned income tax credit amount. While 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 and has 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 equal to 10% 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.

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.

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.

EFFECTIVE DATE: July 1, 2050; applicable to tax years beginning after December 31, 2014

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. 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 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 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 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 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.

Digested 3/13/14

PHOCUSED

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

TO: Representative Mele Carroll, Chair
Representative Bertrand Kobayashi, Vice Chair
Members, Committee on Human Services

FROM: Scott Morishige, Executive Director, PHOCUSED

HEARING: House Committee on Human Services
Tuesday, March 18, 2014 at 9:45 a.m. in Conf. Rm. 329

Testimony in Support of SB2205 SD1, Relating to Taxation.

Thank you for the opportunity to provide testimony **in support** of SB2205, create a refundable state earned income tax credit (EITC) set at 10 percent of the filer's federal EITC. PHOCUSED is a statewide coalition of health, housing, and human services organizations committed to strengthening policies and programs that benefit the marginalized and underserved in Hawaii.

Households in Hawaii experience the highest cost of living in the nation – paying more for food, utilities 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. In addition, Hawaii's poverty rate of 17.3% makes Hawaii the 9th poorest State in the nation according to 2012 U.S. Census Bureau data.

The federal EITC is widely considered to be one of the most effective government anti-poverty programs, and provides a refundable tax credit targeted at working families with children. A Hawaii state EITC would create a refundable credit that is set at a percentage of the federal EITC, which would make the state EITC straightforward to administer while also providing a helpful "hand up" to Hawaii's low-income working families.

Once again, PHOCUSED **strongly urges your support** of SB2205, and appreciates the opportunity to testify on this important issue. If you have any questions, please do not hesitate to contact PHOCUSED at 521-7462 or by e-mail at admin@phocused-hawaii.org.

200 N. Vineyard Blvd, Bldg B Honolulu, HI 96817 P: 808.521.7462
www.phocused-hawaii.org admin@phocused-hawaii.org

HAWAI'I APPLESEED CENTER
LAW
AND
ECONOMIC
JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting SB 2205 SD1 Relating to Tax Credits
House Committee on Human Services
Scheduled for Hearing Tuesday, March 18, 2014, 9:45 AM, Room 329

Hawai'i Appleseed Center for Law and Economic Justice is a nonprofit law firm created to advocate on behalf of low-income individuals and families in Hawai'i on 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.

Thank you for the opportunity to testify in **strong support** of Senate Bill 2205 SD1, which would create a state earned income tax credit (EITC) set at 10 percent of the federal EITC. The federal EITC is highly effective strategy to alleviate the impact of poverty and financial instability of low-income households, and we should build on its success to help working families who are struggling to get by.

Hawai'i is the most expensive state in the country, with a cost of living at almost 160 percent of the national average. Groceries cost 57 percent more than they do on the mainland, and the cost of shelter is more than double. We face the ninth highest rate of poverty based on the U.S. Census's Supplemental Poverty Measure. Even our moderate income families struggle to make ends meet. Meanwhile, Hawai'i's regressive tax system further exacerbates these struggles. The Institute on Taxation and Economic Policy has ranked Hawai'i as the fourth worst state in the country for taxing residents living in poverty, and our low-income residents face a disproportionately high tax burden. We can begin to change this by implementing a state EITC.

A state earned income tax credit is an easy, straightforward, and cost-effective way to help working families make survive in Hawai'i. The federal EITC has been hailed as the most effective anti-poverty program in the U.S. In Hawai'i alone, some 108,000 residents benefit each year from the federal EITC, and 15,000 of Hawai'i's children were lifted out of poverty by the federal EITC in 2011. A refundable EITC puts money into the pockets of those who need it most. It not only reduces the tax burden on the low-income population, but also acts as a wage supplement and an incentive for employment because only workers with earned income can claim it. Twenty-five other states and the District of Columbia have recognized these benefits by creating a state EITC.

By raising families out of poverty, the EITC improves health and educational outcomes for children, and as an influx of cash, it can encourage families to build assets. While any eligible worker can claim the federal EITC, it is highest for families with children. Earned income tax credits also boost local economies, because families receiving the EITC often spend it quickly to purchase everyday necessities or durable goods. This spending increases activity in the local economy directly and indirectly as it is re-spent.

Because the EITC is done through the tax system and a state EITC would be set at a percentage of the federal credit, it is a more efficient means of supplementing workers' income than traditional forms of government assistance. The cost of the program is very containable and predictable. In 2013, low and moderate income filers in Hawai'i receive a total of $237 million in federal EITC benefits. If the state adopted an EITC set at 10 percent of the federal credit, it would cost $23.7 million; at a 5 percent rate, the costs would be $12 million; and at 2

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

percent, the cost would be $4.75 million. The costs are also controllable and can be raised or lowered by the Legislature in any year when revenues grow or diminish.

Hawai‘i Appleseed would also like to respond to points included in the Senate Committee on Ways and Means' committee report:

- **The error rate and improper payment figures do not indicate a commensurate level of fraud by tax filers.** Speculation about intentional deception should not be conflated with the "error rate" (the term used by the IRS and other federal agencies), which includes underpayments and miscalculations by the IRS, as well as valid claims that lack sufficient documentation. Moreover, incorrect EITC claims occur primarily not because of fraud, but unintentional errors related to claiming the credit. Farm income, small business income, and rents and royalty income all have much greater error rates than the EITC and responsible for a much greater portion of the tax gap.

- Almost half of claims initially deemed erroneous (43 percent) were **actually valid upon reconsideration**, according to the National Taxpayer Advocate's testimony to Congress. This number is likely low because most EITC claimants being audited do not have a tax professional representing them. Claimants with representation were almost twice as likely to be found eligible than those without representation. Correcting for this calculation alone would reduce the error rate to only 13 percent. Following audits, any additional tax recommended as a result of an erroneous EITC averages significantly less than the amount of additional tax levied on individual returns in general.

- DOTAX can easily take steps to ensure accuracy of the applications filed by **working with the IRS, as other states do, to share data on a timely basis, develop compliance strategies, and avoiding duplication in efforts to educate taxpayers and tax preparers about the EITC.** The IRS is continuing to implement greater compliance efforts and imposed greater due diligence requirements and penalties on commercial tax preparers, furthering reducing errors.

Please feel free to contact Hawai‘i Appleseed if you have any questions about this highly successful, efficient, and effective program. Regardless of the rate set, it is important to begin the program at any level to help gain a familiarity with the operation and benefits of the program as well as provide am important vehicle in the future to address poverty among low wage families.

Again, thank you for this opportunity to testify in **strong support**. We respectfully urge you to **pass SB 2205** to create a state EITC that will provide much-needed assistance to Hawai‘i's low-income residents.

HAWAI'I
AMERICANS FOR DEMOCRATIC ACTION

OFFICERS DIRECTORS MAILING ADDRESS

John Bickel, President	Juliet Begley	Jan Lubin		PO. Box23404
Barbara Polk, Vice-President	Josh Frost	Stephen O'Harrow		Honolulu
Fritz Fritschel, Treasurer	Karin Gill	Jim Olson	Bart Dame (Alt)	Hawai'i 96823
Chuck Huxel, Secretary	Brien Hallett	George Simson	Marsha Schweitzer (Alt)	

March 14, 2014

TO: Chair Mele Carroll, Vice Chair Bert Kobayashi
Members of the House Committee on Human Services

FROM: John Bickel, President
Americans for Democratic Action/Hawai'i

RE: Support and Comments on SB 2205 SD1On Taxation

The Americans for Democratic Action, Hawai'i is strongly in support of SB 2205 SD1. With the popularization of movies such as Reich's "Inequality for All" and books like The Spirit Level by Pickett and Wilkinson, scholars and policy makers should be aware of the problems with income inequality.

Despite its reputation as a progressive state, Hawai'i has its share of the problem. Hawai'i has the highest cost of living in the United States, at almost 160% of the national average. Our residents earn the lowest wages in the country when adjusted for the cost of living, while the tax rate for low-income households is among the highest in the nation. The poorest taxpayers pay, on average, approximately thirteen cents of every dollar of income in taxes, while those earning more than $400,000 pay closer to eight cents on every dollar of income. Hawaii's residents in poverty pay more in state taxes than all but thee other states. SB 2206 would take an important step toward justice by establishing an Earned Income Tax Credit and adjust the refundable low-income household renters and food/excise tax credits for inflation.

Hawai'i 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

HACBED
Community Voice, Collective Action

Date: March 14, 2014
To: Representative Mele Carroll, Chair, Representative Bertrand Kobayashi, Vice-Chair, and members of the Committee on Human Services
From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)
Re: Strong Support for SB 2205 SD1

Aloha Chair Carroll, Vice-Chair Kobayashi, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB 2205 SD1, which establishes a refundable state 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 and asset building strategies. 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 facilitates the Family & Individual Self-Sufficiency Program (FISSP), 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. As such, HACBED strongly supports the proposed bill that would provide needed assistance in the area of state taxes through the establishment of a state EITC, a low-income workers credit, and adjusting essential tax credits for inflation.

The Family Economic Self-Sufficiency Standard (FESS) depicts the obstacles that Hawai'i 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:

- 25.9% of families with two adults and two children;
- 77.3% of single-adult families with one child; and
- 74.3% of single-adult families with two children.

These tax measures would provide an immediate lift for these families to pull themselves out of a financial crisis, smooth out fluctuations in family finances, and build on-going assets. Through the FISSP efforts, HACBED has served 16,871 low to moderate income families, saved them $2.7 million in filing fees, helped to claim $23.7 million in refunds, and brought $12.8 million in new federal funds to the State of Hawai'i through claiming the federal EITC and Child Tax Credit (CTC).

Through the FISSP surveys, families have indicated that they have 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 SB 2205 SD1 would go a long way to supplement the needs of these families with a refundable state earned income tax credit that would assist these families in their efforts to truly build their assets.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Executive Director
Hawaiʻi Alliance for Community-Based Economic Development

The Twenty-Seventh Legislature
Regular Session of 2014

HOUSE OF REPRESENTATIVES
Committee on Human Services
Rep. Mele Carroll, Chair
Rep. Bertrand Kobayashi, Vice Chair
Hawaii State Capitol, Conference Room 329
Tuesday, March 18, 2014; 9:45 a.m.

STATEMENT OF THE ILWU LOCAL 142 ON S.B. 2205, SD1
RELATING TO TAXATION

The ILWU Local 142 supports S.B. 2205, SD1, which establishes a refundable state Earned Income Tax Credit (EITC) and requires the Department of Taxation to provide a public report to the Legislature and the Governor on the EITC's usage for the previous year.

Income inequality in this nation and in this state continues to grow. The rich get richer larger because they are able to accumulate assets that can be invested to make more money while the poor and middle-income folks need all of their income to eke out a living for themselves and their families and have nothing left to save. Lower income workers in Hawaii and elsewhere spend every last dime of their income to pay for food, medical costs, housing, and other necessities. They are the ones helping to keep this economy running by patronizing grocery stores, retail outlets, restaurant, car repair shops and the like for goods and services needed for their families.

Unfortunately, because they spend whatever they earn on these necessities, lower income workers have little in savings. One ingenious program has been the federal Earned-Income Tax Credit (EITC). Those who work and earn less than a certain amount qualify for a refundable tax credit from the federal government when they file their tax returns. S.B. 2205, SD1 intends to implement a similar EITC to help low income taxpayers in Hawaii build assets. The calculation of the EITC is a simple 10% of the federal EITC.

A refundable EITC would allow a low wage earner to use the tax refund to begin to build assets needed for a home (deposit for rent or down payment for purchase), education (college tuition), or emergency costs (unexpected medical bills).

The ILWU urges passage of S.B. 2205, SD1. Thank you for the opportunity to share our views on this matter.

Goodwill
Industries of Hawaii, Inc.

To: The Honorable Representative Mele Carroll, Chair
The Honorable Representative Bertrand Kobayashi, Vice Chair
House Committee on Human Services

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

Date: March 18th, 2014

Re: **Testimony in Support of SB 2205 SD1, – Relating to Taxation**

Thank you for the opportunity to testify in **strong support** of Senate Bill 2205, which would create a refundable state earned income tax credit (EITC) set at 10 percent of the filer's federal EITC. Earned income tax credits support low and moderate-income working families, especially those with children, keep more of what they earn and avoid poverty.

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 approximately 15,000 people, placing almost 1,500 into jobs in our community. Goodwill also served as a statewide Volunteer Income Tax Assistance (VITA) site preparing approximately 1,100 returns, many of which included federal Earned Income Tax Credits.

A state earned income tax credit modeled after the federal EITC will provide much needed assistance to Hawaii's working families. The federal EITC is a refundable tax credit with a lengthy record as an effective antipoverty measure and has consistently enjoyed bipartisan support. It supports low-income workers through a targeted tax reduction that is particularly beneficial to families with children. The EITC gets and keeps people working because only households with earned income can receive the EITC. It is considered by many to be the most efficient poverty program in existence today because it directly supports low-income workers without the administrative burden of government assistance programs. The benefits of the federal EITC have led 25 other states and the District of Columbia to create their own EITCs.

Another benefit of the structure of the EITC is that it increases as a household earns more income and then slowly tapers down as they pass a certain threshold. This structure allows families to receive support as they move towards self-sufficiency and then reduce the support as they are better able to support themselves. This targeted approach truly embodies how the state can support families in their move towards self-sufficiency.

It should also be noted that this is the most targeted and effective measure in offering tax relief to working families. While raising the standard deduction and/or personal exemptions may seem like a viable option it is a much less effective option. In order to effectively offer the same relief as a 10% EITC for a family of four making $26,000 the standard deduction and/or personal exemptions would have to double.

The federal EITC is an efficient and effective means to address poverty and its negative impacts. Hawai'i should learn from the success of the federal and other state EITCs and implement one to provide additional support to our low and moderate-income families. We strongly urge you to **support** SB 2205 to create a state earned income tax credit that will encourage work, help low-income wage earners make ends meet, and provide lasting benefits to their children.

Thank you for the opportunity to testify today,

HAWAII CATHOLIC CONFERENCE
6301 Pali Highway
Kaneohe, HI 96744-5224

ONLINE SUBMITTAL
Hearing on Tuesday, March 18, 2014 @ 9:45 a.m.
Conference Room 329

DATE: March 15, 2014
TO: House Committee on Human Services
Rep. Mele Carroll, Chair
Rep. Bertrand Kobayashi, Vice Chair
From: Walter Yoshimitsu, Executive Director
Re: Support for SB 2205 SD1 Relating to Taxation

Honorable Chair and members of the House Committee on Human Services, I am Walter Yoshimitsu, **representing the Hawaii Catholic Conference**. The Hawaii Catholic Conference is the public policy voice for the Roman Catholic Church in the State of Hawaii, which under the leadership of Bishop Larry Silva, represents Roman Catholics in the State of Hawaii.

The Catholic Church in Hawaii has long encouraged members of our faith community to engage every level of the Church in study, discussion and decisions about how the Church can and must respond to the cry of the poor. Our church teaching is clear that our desire is that the poor should rise above poverty and wretchedness, and should better their condition in life; and for this it strives. As Christians, we are called by the Gospel to do everything we can to help those who are least among us.

The Hawaii Catholic Conference strongly supports a State Earned Income Tax Credit (EITC) to help local families in poverty and prevent homelessness. The EITC is a direct incentive for low-income workers since it specifically addresses workers with families. Our understanding, however, is that there may be a low level of literacy and English speaking skills among these groups of people so it is imperative that an effort to provide education on the application process for the EITC be added to the discussion.

Raising the State Earned Income Tax Credit (EITC) in Hawaii for the lowest wage-earners in the state, promotes the human dignity of each person and provides much needed tax relief, thereby empowering them to rise against the cycle of poverty. The EITC will encourage a better work ethic, reduce poverty, and allow those struggling financially in our state to meet their basic needs. The goal of empowering these people, especially families, to raise themselves out of the cycle of poverty, is one that has long been supported by the Catholic Church and many other faith communities.

Thank you for supporting this bill. Mahalo for the opportunity to provide testimony.

6301 Pali Highway • Kaneohe, HI 96744-5224 • Ph: 808-203-6735 • Fax: 808-261-7022
E-mail: wyoshimitsu@rcchawaii.org | hcc@rcchawaii.org | www.catholichawaii.org

March 18, 2014

TO: Representative Mele Caroll, Chair
Representative Bertrand Kobayashi, Vice Chair and
Members of the Committee on Human Services

FROM: Jeanne Y. Ohta, Co-Chair

RE: SB 2205 SD1 Relating to Taxation
Hearing: Tuesday, March 18, 2014, 9:45 a.m., Room 329

POSITION: STRONG SUPPORT

The Hawai‘i State Democratic Women's Caucus writes in strong support of SB 2205 SD1 Relating to Taxation, which would create a refundable state earned income tax credit (EITC) set at 10 percent of the filer's federal EITC. Earned income tax credits support low and moderate-income working families, especially those with children, keep more of what they earn and avoid poverty.

The federal Earned Income Tax Credit (EITC) is a refundable tax credit targeted at working families with children. Widely considered the most efficient anti-poverty program, it helps workers keep more of what they earn. Twenty-five other states have EITC's as a percentage of the federal EITC. These tax credits help boost families and the communities in which they live.

Working families would use the money to pay rent, pay for groceries or medicines, putting money into the local economy. Not only does the additional income from the credit help a family care for a child, but it is associated with a variety of benefits, including better health and educational outcomes. The benefits of income supplements such as the EITC last into adulthood and are associated with more hours worked and higher earnings.

The lowest-income taxpayers in Hawai‘i pay an average of approximately 13% of their income in state and local taxes—among the highest in the nation—while those earning more than $400,000 pay closer to 8%. The GET is a major contributor to the regressive impact of Hawai‘i's tax system.

Hawai‘i's families in poverty pay a larger share of their income in taxes than those in all but 3 other states. The lack of adequate credits and exemptions means that some working poor families are actually pushed deeper into poverty by our tax system.

The Hawai‘i State Democratic Women's Caucus is a catalyst for progressive, social, economic, and political change through action on critical issues facing Hawaii's women and girls. It is because of this mission that the Women's Caucus supports this measure. Thank you for the opportunity to provide our testimony in support.

Hawai'i State Democratic Women's Caucus, 404 Ward Avenue Suite 200, Honolulu, HI 96814
hidemwomen@gmail.com

LEAGUE OF WOMEN VOTERS®

49 South Hotel Street, Room 314 | Honolulu, HI 96813
www.lwv-hawaii.com | 808.531.7448 | voters@lwvhawaii.com

COMMITTEE on HUMAN SERVICES

Tuesday, March 18 2014 at 9:45 AM
Conference Room 329

SB2205, SD1 RELATING TO TAX CREDITS
TESTIMONY
Beppie Shapiro for the League of Women Voters of Hawai`i

Chair Carroll, Vice-Chair Kobayashi, Members of the Committee:

The League of Women Voters of Hawaii supports SB2205 SD1 which establishes a refundable earned-income tax credit equal to 10% of the taxpayer's federal Earned Income Tax Credit (EITC); requires a report on the usage of this provision from the Department of Taxation; and proposes implementation be postponed to allow further discussion.

The League believes that public policy should promote self-sufficiency and that the most effective social programs to address health, education, and use of social services are those designed to prevent or reduce poverty.

Poverty at the level eligible for the federal EITC (e.g. household income below $14,500 for a single person or below $38,511 for a single parent with one child) has destructive effects on the health of individuals, and of neighborhoods; it is particularly destructive for children. In 2012 20% or 2,000 of Hawai'i's children under age six lived in low-income working families.[4] Eight percent, or 25,000 children under age 18 lived in extreme poverty – less than half the Federal Poverty Level (FPL). [2] Research on early childhood development has found that income insecurity negatively affects brain development – making it more difficult to form positive relationships, to learn, and to control debilitating stress. Providing a little financial relief to very poor families will help ameliorate these problems.

The federal EITC has been repeatedly cited as the most effective anti-poverty measure ever created by the federal government. The Center on Budget and Policy Priorities provides the following data [3] (the Center's report provides detailed research descriptions and citations):
"For families that have very low earnings and are just gaining a toehold in the labor market, the size of their EITC and CTC *increases* as the families' earnings rise, countering the phase-down of some other benefits that *fall* as earnings rise… These tax credits boost the families' overall income and strengthen incentives to work.

The EITC promotes work, as numerous studies have found. The overwhelming finding of the empirical literature is that the EITC has been especially successful at encouraging the employment of single parents, especially mothers,"

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"The EITC lifts more *children* out of poverty than any other program"

"Most EITC recipients claim the credit for short periods (a year or two) and mostly to offset the temporary costs of a child's birth or a spouse's loss of income. Most EITC recipients pay more in federal taxes over the long run than they receive in EITC benefits."

"Programs that supplement the earnings of low-income working families, like the EITC and CTC, boost children's school achievement and future economic success, and participating children are healthier as infants and have more economic success as adults."

SB2205, SD1 is a creative way to provide these benefits to our poorest individuals and families in Hawai`i. We acknowledge the validity of the concerns expressed in prior testimony by the Department of Taxation; however, the benefits of a state EITC would we believe be far greater than the disadvantages that Department describes.

The extra money families would have if SB2205 is enacted would surely be spent immediately on basic necessities of life, thus adding economic activity to the State and its businesses.

We are also pleased to see the Legislature following up, by means of the required report, on some of the effectiveness of its legislation.

We believe that this hearing, and others in the 2014 Legislature, will suffice to discuss this important measure. We recommend that you pass this bill with an implementation date no later than 2017. Thank you for the opportunity to submit testimony.

[4] Population Reference Bureau, analysis of data from the U.S. Census Bureau, 2008 - 2012 American Community Survey.

[2] Annie E Casey Foundation, National Kids Count. Retrieved from http://datacenter.kidscount.org/data/tables/45-children-in-extreme-poverty?loc=13&loct=2#detailed/2/any/false/868,867,133,38,35,13/any/325,326 on 3/15/2014.

[3] **Sherman, A., Trisi, D. & Parrot, S. (2013).** Various Supports for Low-Income Families Reduce Poverty and Have Long-Term Positive Effects On Families and Children. Center on Budget and Policy Priorities, retrieved from **http://www.cbpp.org/cms/?fa=view&id=3997** on 3/15/2014.

kobayashi1-Joni

From:	mailinglist@capitol.hawaii.gov
Sent:	Monday, March 17, 2014 4:54 AM
To:	HUStestimony
Cc:	abbycutter@gmail.com
Subject:	*Submitted testimony for SB2205 on Mar 18, 2014 09:45AM*

SB2205
Submitted on: 3/17/2014
Testimony for HUS on Mar 18, 2014 09:45AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Abigail Cutter	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 17, 2014 11:38 AM
To: HUStestimony
Cc: barbarapolk@hawaiiantel.net
Subject: Submitted testimony for SB2205 on Mar 18, 2014 09:45AM

SB2205
Submitted on: 3/17/2014
Testimony for HUS on Mar 18, 2014 09:45AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Barbara Polk	Individual	Support	No

Comments: Income inequality has gotten out of hand and threatens our society. It is very important to take whatever steps we can to ease the burden on low-income people. A State earned income tax credit will help low income working families meet their needs.

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To: HUStestimony
Cc: drodrigues2001@yahoo.com
Subject: Submitted testimony for SB2205 on Mar 18, 2014 09:45AM

SB2205
Submitted on: 3/17/2014
Testimony for HUS on Mar 18, 2014 09:45AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Darlene Rodrigues	Individual	Support	No

Comments: Aloha. I write in strong support of this bill. Hawai'is low income families deserve tax relief. Creating a State Earned Income Tax Credit would help alleviate poverty. Mahalo for the opportunity to testify.

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Sent:	Monday, March 17, 2014 7:59 AM
To:	HUStestimony
Cc:	dejamarie@gmail.com
Subject:	Submitted testimony for SB2205 on Mar 18, 2014 09:45AM

SB2205

Submitted on: 3/17/2014

Testimony for HUS on Mar 18, 2014 09:45AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Deja	Individual	Support	No

Comments: • A Hawai'i state EITC would create a state income tax credit set at a percentage of the federal EITC. Twenty-five other states and the District of Columbia have EITCs. • Because the EITC is targeted at families, the credit is particularly effective at alleviating the impact of child poverty. Almost 15,000 children in Hawai'i were kept out of poverty due to the federal EITC in 2011; a state EITC would further bolster working families' incomes. • An EITC helps it helps workers get and keep jobs by helping them pay for work-related expenses such as care repairs or child care is much easier for the public to grasp.

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LATE

OFFICE OF HAWAIIAN AFFAIRS
Legislative Testimony

SB2205 SD1
Relating to Taxation
House Committee on Human Services

March 18, 2014 | 9:45 a.m. | Room 329

The Office of Hawaiian Affairs (OHA) **SUPPORTS** SB2205 SD1, which would establish a state earned-income tax credit. This bill aligns with OHA's strategic priority of improving the economic self-sufficiency of Native Hawaiians.

According to a report by the Institute on Taxation and Economic Policy (ITEP), Hawai'i is one of the ten states with the highest taxes on the poor. Notably, these taxes are applied to a disproportionate number of Native Hawaiian families with children. For example, while 13.2 percent of all Hawai'i families with children live in poverty, the percentage of Native Hawaiian families with children living in poverty is a much higher 20.9 percent. Although there are many ways to address poverty, SB2205 SD1 proposes a pragmatic way to reduce the tax burden on our neediest populations, including Native Hawaiians.

This measure proposes to establish a state Earned Income Tax Credit (EITC). Currently, there are 42 states that have an income tax and 24 of those states have enacted a state EITC. Under this measure, the state EITC would equal 10 percent of the federal EITC; therefore, a family receiving a federal EITC of $2,500 would receive $250 in state EITC. Such a credit may address economic disparities in a systemic way, by providing our indigent families with additional funds to purchase basic necessities and contribute to Hawai'i's economy.

Accordingly, OHA urges the Committee to **PASS** SB2205 SD1. Mahalo nui for the opportunity to testify on this important measure.

kobayashi1-Joni

From:	mailinglist@capitol.hawaii.gov
Sent:	Tuesday, March 18, 2014 12:34 AM
To:	HUStestimony
Cc:	annsfreed@gmail.com
Subject:	Submitted testimony for SB2205 on Mar 18, 2014 09:45AM

LATE

SB2205
Submitted on: 3/18/2014
Testimony for HUS on Mar 18, 2014 09:45AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Ann S Freed	Hawaii Women's Coalition	Support	No

Comments: The Hawaii Women's Coalition is in strong support of this measure, one that we have proposed for many years as a way to relieve the burden on Hawaii's poor and working families. Consider: With the extremely high cost of living in Hawai‘i, working low-income households face a daunting struggle to make ends meet, which is made even more difficult by our regressive tax system: • Hawai‘i has the highest cost of living in the United States, at almost160% of the national average. • Our residents earn the lowest wages in the country when adjusted for the cost of living, while the tax rate for low-income households is among the highest in the nation. • The poorest taxpayers pay, on average, approximately13 cents of every dollar of income in taxes, while those earning more than $400,000 pay closer to 8 cents on every dollar of income. Hawaii’s residents in poverty pay more in state taxes than all but 3 other states. Earned Income Tax Credit • The federal Earned Income Tax Credit (EITC) is a refundable tax credit that provides financial relief to low- income workers through a targeted tax reduction. • The EITC gets and keeps people working by providing a wage subsidy to low income wage earners, targeting those with families. Only households with earned income can receive the EITC. • It is considered by many to be the most efficient poverty program in existence today because it directly supports low-income workers without the administrative burden of government social services. • Over the 38 years since its inception, the federal EITC has helped millions of families stay out of poverty he crushing reality of poverty in our country. In 2011 alone, the federal EITC helped over three million children stay out of poverty and has been shown to improve family health and educational outcomes.

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