



**HB1727**  
**RELATING TO TAXATION**

House Committee on Labor & Public Employment

February 16, 2016

10:00 a.m.

Room 309

The Office of Hawaiian Affairs (OHA) **SUPPORTS** HB1727, which helps to increase awareness and use of the federal earned income tax credit (EITC), by requiring employers to notify employees that they may be eligible for the federal EITC on annual wage summary sheets. OHA supports this bill because it furthers our strategic priority of improving the economic self-sufficiency of Native Hawaiians.

To ease the tax burden on working families, the United States Congress established the federal EITC in 1975. Today, the federal EITC is considered one of the nation's largest and most successful anti-poverty and work incentive programs. Because the EITC is tied to income generation and family size, it is a highly-targeted approach that provides tax relief to working families in proportion to their needs. Notably, in addition to reducing poverty, the EITC can also help to stimulate the economy, as credits are quickly spent on essential goods and services provided, in many instances, by local businesses. Accordingly, the federal EITC addresses economic disparities in a systemic way, and provides our indigent families with additional funds to purchase basic necessities, contribute to Hawai'i's economy, and achieve economic self-sufficiency.

According to the Family and Individual Self Sufficiency Program of the Hawai'i Alliance for Community-Based Economic Development (a non-profit that encourages and supports community-centered economic development in Hawai'i), an estimated 19,000 families could claim the federal EITC, if they were aware of it. However, it is estimated that Hawai'i workers fail to claim between \$31,299,580 and \$41,732,301 in federal EITC benefits, every year. **It appears that promoting greater awareness of the federal EITC may better ensure that Hawai'i's families can apply for and receive these federal funds, allowing them to purchase much-needed goods and services, support local businesses, and generate millions of dollars in general excise tax revenues.**

Therefore, OHA respectfully urges the Committee to **PASS** HB1727. Mahalo for the opportunity to testify on this important measure.



# HAWAII APPLESEED

## CENTER FOR LAW & ECONOMIC JUSTICE

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Testimony of Hawai'i Appleseed Center for Law and Economic Justice  
Supporting **HB 1727, Relating to Taxation**  
House Committee on Labor and Public Employment  
Scheduled for Hearing Tuesday, February 16, 2016, 10:00 AM, Room 309

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

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Dear Chair Nakashima, Vice Chair Keohokalole, and Members of the Committee on Labor and Public Employment:

Thank you for the opportunity to testify in **strong support** of House Bill 1727, which would require employers to notify employees of their potential eligibility for the federal Earned Income Tax Credit (EITC). The federal EITC is universally recognized as a highly effective strategy to alleviate the impact of poverty and financial instability of low-income households, and this measure asks for a minimal effort on the part of employers to help expand the EITC's reach in the state.

Hawai'i is the most expensive state in the country, with a cost of living at almost 160 % of the national average. Groceries cost 57 % 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 the fourth worst state in the country for taxing residents living in poverty, and our low-income residents face a disproportionately high tax burden.

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, which keeps 18,000 children out of poverty. A state refundable EITC puts money into the pockets of those who need it most. It not only reduces economic burdens 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. Moreover, the EITC provides increased benefits to families, significantly increasing the credit for households with children. It is a finely-tuned tax-policy instrument that targets those most in need: low- and moderate-income working families.

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. In 2013, the EITC put an average of \$2,175 back into the pockets of Hawai'i's working families. That year, EITC claimants brought a total of \$238 million into Hawai'i. Because families receiving the EITC often spend it quickly to purchase everyday necessities or durable goods, EITC dollars can significantly boost local economies. Studies have found that each \$1.00 of federal EITC benefit received generates between \$1.50–\$2.00 in economic activity.



# HAWAII APPLESEED

## CENTER FOR LAW & ECONOMIC JUSTICE

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The EITC incentivizes work, reduces families' reliance on public assistance, and stabilizes families' finances. It has been associated with wide ranging benefits from improved maternal health, to improved school performance, and better long-term job prospects for youths.

Supplementing working families' incomes helps them pay the costs of childcare and transportation, thus making it easier for them to continue working and enabling the work more hours. Moreover, it further stabilizes their finances by helping them to be able to absorb life's unavoidable economic shocks. A study just released by the Annie E. Casey Foundation found that 47% of Americans cannot handle a \$400 emergency, like having to replace a car's alternator or pay for out-of-pocket emergency medical expenses. Being able to afford an unforeseen car repair, an unexpected illness, or manage during times of reduced hours or lost employment is often the difference between financial ruin and success for low-income families trying to work their way into the middle class.

Because the EITC has been so widely successful, Hawai'i should take whatever steps it can to make sure that everyone who is eligible for the EITC files for and receives the credit. HB 1727 would do much to spread awareness and increase utilization. To this end we also request that the bill **be amended** to include \$200,000 in additional funding for Volunteer Income Tax Assistance (VITA) programs operating in the state. The VITA program offers free tax help to people who generally make \$52,000 or less and need assistance in preparing their own tax returns. Those who qualify can have both their state and federal tax returns completed and filed, free of charge. IRS-certified volunteers provide free basic income tax return preparation with electronic filing to qualified individuals. VITA programs have very high filing accuracy rates (as high as 90%), and can provide vital support to working families struggling to navigate our tax code.

Again, thank you for this opportunity to testify in **strong support**. We respectfully urge you to **pass HB 1727 with amendments** to require employers to notify their workers that they might be eligible for the EITC and to provide further support for those seeking to qualify.



## HAWAII RESTAURANT ASSOCIATION

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Date: February 14, 2016

To: Chair Nakashima, Vice Chair Keohokalole, and Members of the Committee on Labor & Public Employment

From: Victor Lim, Legislative Chair, Hawaii Restaurant Association

Subj: HB 1727 Federal Earned Income Tax Credit Reporting

The Hawaii Restaurant Association opposes HB 1727 that requires employers to notify employees when providing annual wage summary statements, that they may be eligible to receive the federal earned income tax credits. This will be another example of putting additional reporting requirements on small business which makes up of most of our members. This is a redundant work done at employees' personal tax filings.

HRA has been servicing the restaurant industry here in Hawaii for 69 years representing over 3,300 restaurants making up mostly of small businesses. We are in most cases the first employer for people entering the work force and at the same time provides tremendous opportunities for individual growth. 9 in 10 restaurants managers start at entry level, and 8 in 10 restaurant owners also start at entry level.

Thank you for giving us the opportunity to testify on this.



# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: INCOME, Notice of Federal Earned Income Tax Credit Information

BILL NUMBER: HB 1727

INTRODUCED BY: MIZUNO

EXECUTIVE SUMMARY: Requires employers to notify employees, when providing their annual wage summary statements, that they may be eligible to receive the federal earned income tax credit. The requirement in this bill may be overkill, but some other states do have similar requirements. This particular bill appears to be based on the California provision.

BRIEF SUMMARY: Amends HRS section 235-63 to provide that every employer subject to withholding shall notify all employees that they may be eligible for the federal earned income tax credit, within one week before or after (or at the same time) the employer provides a withholding statement to the employee.

Also provides that the notice shall be hand delivered or mailed to the employee, and that its content may be created by the employer but needs to contain substantially the same language as IRS Notice 797 (<https://www.irs.gov/pub/irs-pdf/n797.pdf>) or language specified in the bill as follows:

Based on your annual earnings, you may be eligible to receive the earned income tax credit from the federal government. The earned income tax credit is a refundable federal income tax credit for low-income working individuals and families. The earned income tax credit has no effect on certain welfare benefits. In most cases, earned income tax credit payments will not be used to determine eligibility for Medicaid, supplemental security income, food stamps, low-income housing, or most temporary assistance for needy families payments. Even if you do not owe federal taxes, you must file a tax return to receive the earned income tax credit. Be sure to fill out the earned income tax credit form in the federal income tax return booklet. For information regarding your eligibility to receive the earned income tax credit, including information on how to obtain the IRS Notice 797 or any other necessary forms and instructions, contact the Internal Revenue Service at 1-800-829-3676 or through its website at [www.irs.gov](http://www.irs.gov).

EFFECTIVE DATE: Applies to taxable years beginning after to December 31, 2015.

STAFF COMMENTS: The federal Earned Income Tax Credit (EITC), provided in IRC section 32, is a refundable tax credit for certain workers.

Federal regulations already provide for the following information about the EITC, which is printed on the back of the employee's copy of their W-2 form:

**Earned income credit (EIC).** You may be able to take the EIC for 2016 if your adjusted gross income (AGI) is less than a certain amount. The amount of the credit is based on

income and family size. Workers without children could qualify for a smaller credit. You and any qualifying children must have valid social security numbers (SSNs). You cannot take the EIC if your investment income is more than the specified amount for 2016 or if income is earned for services provided while you were an inmate at a penal institution. For 2016 income limits and more information, visit [www.irs.gov/eitc](http://www.irs.gov/eitc). Also see Pub. 596, Earned Income Credit. **Any EIC that is more than your tax liability is refunded to you, but only if you file a tax return.**

Federal regulations (Treas. Reg. section 31.6051-1(h)) provide that Notice 797, referred to above, is to be given or mailed to any employee for whom the employer worked, but where no federal income tax was withheld.

Although it is arguable that the special notice to all employees is overkill, some states (California, Illinois, Louisiana, New Jersey and Texas) require special EITC notification in a form similar to that contemplated by this bill. The notice in proposed subsection 235-63(c) is substantially identical to the notice required in California.

Digested 2/12/16

TO: Members of the Committee on Labor and Public Employment

FROM: Natalie Iwasa, CPA, CFE  
Honolulu, HI 96825  
808-395-3233

HEARING: 10 a.m. Tuesday, February 16, 2016

SUBJECT: HB1727, Notification to Employees (EIC) - **OPPOSED**

Aloha Chair and Committee Members,

Thank you for allowing me to provide testimony on HB1727, which would require employers to provide employees with a statement that they may qualify for the federal earned income tax credit. I oppose this bill.

Time after time Hawaii is listed as an unfriendly state for small businesses. This bill would add to the paperwork burdens of all employers as well as the cost of doing business. There are other ways in which taxpayers may find out about this credit, including tax preparation software such as Turbo Tax.

Please **vote “no”** on this bill.