DAVID Y. IGE
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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: Friday, February 6, 2015
Time: 9:00 A.M.
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 556, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of S.B. 556 and offers the following comments.

S.B. 556 creates a refundable earned income tax credit (EITC) at the state level. The credit is equal to an unspecified percentage of the federal EITC allowed under section 32 of the Internal Revenue Code, as amended.

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 prefers nonrefundable credits because refundable credits often lead to improper claims and create a potential for fraud. Nonrefundable tax credits limit the incentive for fraud because they only benefit 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.

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 independent way to obtain the information necessary to independently determine whether an EITC claim is proper. 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).

The IRS, like the Department, generally does not conduct an EITC examination until months after a refund is paid out. Thus, by the time the Department is informed that a credit was improperly claimed under this section, the Department would already have paid out a refund that it would have no way of effectively retrieving.

Third, the Department also has serious concerns regarding its ability to recover any amounts which are improperly refunded. Specifically, once a refund is issued on a fraudulent or improper claim, there is a very little chance the Department will be able to recover those amounts. The Department currently does not have sufficient data matching capabilities that could identify 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 be at least 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 also is concerned that the high rate of errors will divert the Department's limited staff resources.

The estimated annual revenue loss is $20 million per year, beginning in FY 2017.

Thank you for the opportunity to provide comments.

OFFICE OF HAWAIIAN AFFAIRS
Legislative Testimony

SB556
RELATING TO TAXATION
Senate Committee on Ways and Means

February 6, 2015 9:00 a.m. Room 211

The Office of Hawaiian Affairs (OHA) Committee on Beneficiary Advocacy and Empowerment will recommend to the Board of Trustees a position of **SUPPORT** for SB556, which would provide tax relief to low-income families through 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), Hawaiʻi has the second heaviest tax burden in the country for the bottom 20% of income levels. Notably, this tax burden on low-income taxpayers falls on a disproportionate number of Native Hawaiian families with children. Native Hawaiian families have substantially less income, making $9,105 lower per-capita income than the state average, despite having a labor force participation rate 4.5% higher than the statewide rate. Additionally, this limited wealth must be distributed to a greater extent, as Native Hawaiians have larger families and households than the state average. 17.8% of the Native Hawaiian population (who live in households) live with other relatives; 4.3 percentage points more than the total state population (13.5%). SB556 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 Hawaiʻi 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. Because the EITC is tied to income generation and family size, it is a highly-targeted approach that provides tax relief in proportion to taxpayers' needs. Such a credit addresses economic disparities in a systemic way, and provides our indigent families with additional funds to purchase basic necessities, contribute to Hawaiʻi's economy, and achieve economic self-sufficiency.

Accordingly, OHA urges the Committee to **PASS** SB556. Mahalo nui for the opportunity to testify on this important measure.

Hawai'i Alliance for Community-Based Economic Development
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Ph. 808.550.2661 Fax 808.534.1199
Email info@hacbed.org www.hacbed.org

HACBED
Community Voice, Collective Action

Date: February 4, 2015
To: Senator Jill N. Tokuda, Chair, Senator Ronald D. Toguchi, Vice-Chair, and members of the Committee on Ways and Means
From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)
Re: Strong Support for SB 556

Aloha Chair Tokuda, Vice-Chair Kouchi, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB 556, 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.

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.

A state EITC 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 556 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

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Senate Bill 556 Relating to Taxation
Senate Committee on Ways and Means
Scheduled for Hearing Friday, February 6, 2015 9:00 AM, Room 211

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 policy and legal issues. 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 556, 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 by creating a state credit 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 more than 160 percent of the national average. Groceries almost 60 percent more than they do on the mainland, and the cost of shelter is more than double. Our state has the fifth 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 structure exacerbates these struggles. The Institute on Taxation and Economic Policy has ranked Hawai'i as the second worst state in the country for taxing our low-income residents, who 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 ends meet. The federal EITC has been hailed as the most effective anti-poverty program in the U.S. In Hawai'i alone, some 110,000 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 low-income families, but it also acts as 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 both directly and indirectly as it is re-spent. Because the EITC is administered through the tax system, and a state EITC would be set at 10 percent of the federal credit, it is a more efficient means of supplementing workers' income than traditional forms of government assistance.

Again, thank you for this opportunity to testify in **strong support**. We respectfully urge you to **pass SB 556** to create a state EITC that will provide much needed help to Hawai'i's working families.

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

PHOCUSED

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

TO: Senator Jill Tokuda, Chair
Senator Ron Kouchi, Vice-Chair
Members, Committee on Ways and Means

FROM: Scott Morishige, Executive Director, PHOCUSED

HEARING: Senate Committee on Ways and Means
Friday, February 6th, 2015 at 9:00 am in Conference Room 211

Testimony in support of SB556, Relating to Taxation

Thank you for the opportunity to provide testimony in regards to SB556, Relating to Taxation. PHOCUSED is a nonprofit membership and advocacy organization that works together with community stakeholders to impact program and policy change for the most vulnerable in our community, such as the homeless. We strongly support SB556 allowing the creation of a State Earned Income Tax Credit.

The Earned Income Tax Credit (EITC) has been found to be one of the most effective anti-poverty measures the federal government has employed in helping families get themselves out of poverty. What makes the EITC so unique and effective is that it provides a work incentive, tapers off gradually, and specifically targets working individuals and families. The EITC does this by staggering its benefit on a bell curve. For example as an individual or family increases their income, so too does their EITC benefit rise, thus creating an incentive to work. As this same households income continues to grow and their need for the EITC benefit decreases so does the benefit. By tapering off the amount of benefit the household gets it does not create an incentive for hitting an "income plateau"; or preventing a household's income from exceeding the maximum allowable amount to receive the benefit. Finally the EITC can only be claimed by **working households**. As the name implies, income that can be counted towards this benefit is earned through wages and jobs.

The benefit amount, i.e. cost to the state, can be easily calculated by tying the amount to a percentage of the Federal EITC amount. 25 states plus the District of Columbia have adopted a State EITC and all of them calculate the State benefit as a percentage of the Federal. For example a family receiving $3,500 from the federal EITC in Illinois would receive $350, or 10%, back through their State EITC. To maintain fiscal balance some States adjust the percentage amount based on fiscal projections to prevent over-expenditures when the State can least afford it. This gives the State continued oversight and control over expenses associated with the State EITC.

Once again, PHOCUSED is in **strong support** of SB556, creating a State Earned Income Tax Credit for Hawaii's working households. If you have any questions, please do not hesitate to contact PHOCUSED at 521-7462 or by e-mail at admin@phocused-hawaii.org.

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www.phocused-hawaii.org admin@phocused-hawaii.org

From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	cwatanabe@unitehere5.org
Subject:	Submitted testimony for SB556 on Feb 6, 2015 09:00AM
Date:	Thursday, February 05, 2015 10:25:10 AM

SB556

Submitted on: 2/5/2015

Testimony for WAM on Feb 6, 2015 09:00AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Cade Watanabe	UNITE HERE Local 5	Support	No

Comments: UNITE HERE Local 5, a local labor organization representing 10,500 hotel, health care and food service workers employed throughout our State, hereby registers our support for Senate Bill 556, relating to taxation. As an organization representing 10,500 service workers, many of whom earn just enough to survive in Hawai'i, we are part of the growing demographic that would directly benefit from the proposed changes articulated in the measure. As the standard quality of life for ordinary working people in our islands continue to deteriorate, Hawaii's economic future and our ability as a community to secure good jobs for our local people remains one of our greatest concerns. Our State has the highest cost of living in the nation and the lowest average adjusted income rate, and our current tax system only makes it harder for our working families. Our people are being pushed off our islands while so many of us can't afford homes, and more and more of our local jobs go to mainland companies while locals struggle to earn a living wage. Rather than hold wealthy developers and private equity interests more accountable in our largest industry - tourism, working families seem to have bear the burden of shortages in our State's treasury year after year. Our State government can play a bigger, more productive role in improving the lives of so many of our local people. Hawai'i can.

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 556; HB 56 (Identical)

INTRODUCED BY: SB by Espero, Chun Oakland and 1 Democrat; HB by Mizuno, LoPresti, Morikawa

EXECUTIVE SUMMARY: Establishes a state earned income tax credit (EITC) equal to 10% of the federal earned income tax credit amount. 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. In addition, the complexity of the credit has resulted in an "error rate" – improper payments – that has remained in the twenties without a downward trajectory despite over a decade of experience. 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: Tax years beginning after December 31, 2015

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 U.S. Treasury's Inspector General for Tax Administration (TIGTA), in a 2014 report, included a table showing tens of billions in "improper payments" over the years, with no clear end in sight:

Fiscal Year	Minimum Improper Payments Percentage	Maximum Improper Payments Percentage	Minimum Improper Payments ($Billion)	Maximum Improper Payments ($Billion)
2003	25	30	9.5	11.5
2004	22	27	8.6	10.7
2005	23	28	9.6	11.4
2006	23	28	9.8	11.6
2007	23	28	10.4	12.3
2008	23	28	11.1	13.1
2009	23	28	11.2	13.3
2010	24	29	15.3	18.4
2011	21	26	13.7	16.7
2012	21	25	11.6	13.6
2013	22	26	13.3	15.6

Source: Treasury Inspector General for Tax Administration, "The Internal Revenue Service Fiscal Year 2013 Improper Payment Reporting Continues to Not Comply With the Improper Payments Elimination and Recovery Act" (Mar. 31, 2014), available at http://www.treasury.gov/tigta/auditreports/2014reports/-201440027fr.pdf

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. 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 for taxpayers and administrators alike.

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. The most recent statistics from the IRS, calendar year 2013, show that in Hawaii 110,000 filers claimed a total of $239 million in EITC. A state credit based on 10% of federal, therefore, could be expected to cost about $24 million.

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 2/4/15

CATHOLIC CHARITIES HAWAI‘I

Testimony in Support of SB 556: Relating to Taxation

TO: Senator Jill Tokuda, Chair, Senator Ronald Kouchi, Vice Chair, Members of the Committee on Ways and Means

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

Hearing: Friday, February 6, 2015 9:00 a.m., Conference Room 211

Thank you for the opportunity to testify in support of SB 556, 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 38 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 556**. 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.

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Committee on Ways and Means

Friday, February 6 2015 9:00 a.m., Conference Room 211
SB556 Relating to Taxation
TESTIMONY
Beppie Shapiro, League of Women Voters of Hawaii

Chair Tokuda, Vice-Chair Kouchi, and Committee Members:

The League of Women Voters of Hawaii supports SB556 which establishes a refundable earned-income tax credit equal to 10% of the taxpayer's federal Earned Income Tax Credit (EITC); and requires a report on the usage of this provision from the Department of Taxation

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 Hawaiʻi's children under age six lived in low-income working families.[1] 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.

1

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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,"

"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."

SB556 is a creative way to provide these benefits to our poorest individuals and families in Hawai`i.

The extra money families would have if SB556 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 will suffice to discuss this important measure. We urge you to pass/hold this bill. Thank you for the opportunity to submit testimony.

Please note we regret that no representative of LWVHI is available to attend this hearing.

[1] 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.