
A BILL FOR AN ACT

RELATING TO THE EARNED INCOME TAX CREDIT.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that Hawaii has the
2 second highest tax burden in the country, and that a
3 disproportionate share of this burden falls on the working poor
4 and their families. The 2017 legislature established a state
5 earned income tax credit in order to help combat poverty while
6 boosting the local economy. According to the Hawaii Appleseed
7 Center, an earned income tax credit reaches more people than
8 social services programs. The Tax Policy Center reports that
9 the federal earned income tax credit has been the single most
10 effective antipoverty program for working people, lifting about
11 6.5 million people out of poverty.

12 The legislature finds that Hawaii's earned income tax
13 credit has significant differences from those established in the
14 27 other states, plus the District of Columbia, that have
15 enacted them. The most significant difference is that unlike
16 the refundable credits offered in 24 out of these 28
17 jurisdictions, or the federal credit, Hawaii's earned income tax



1 credit is nonrefundable. A refundable tax credit is
2 advantageous to the working poor because of its ability to
3 potentially increase a tax refund, providing needed cash to the
4 low-income families who need it most.

5 Because Hawaii's earned income tax credit is nonrefundable,
6 the relief it can provide to working families is limited.
7 Approximately two-thirds of the people who might have benefitted
8 from a refundable earned income tax credit will receive nothing
9 from a nonrefundable credit. According to the Institute on
10 Taxation and Economic Policy, the legislature "should consider
11 lifting these restrictions during the next legislative session."

12 The purpose of this Act is to amend the Hawaii earned
13 income tax credit by making the tax credit refundable.

14 SECTION 2. Section 235-55.75, Hawaii Revised Statutes, is
15 amended to read as follows:

16 "[~~§~~235-55.75~~]~~ Earned income tax credit. (a) Each
17 qualifying individual taxpayer may claim [~~a nonrefundable~~] an
18 earned income tax credit. The tax credit, for the appropriate
19 taxable year, shall be twenty per cent of the federal earned
20 income tax credit allowed and properly claimed under section 32



1 of the Internal Revenue Code and reported as such on the
2 individual's federal income tax return.

3 (b) For a part-year resident, the tax credit shall equal
4 the amount of the tax credit calculated in subsection (a)
5 multiplied by the ratio of Hawaii adjusted gross income to
6 federal adjusted gross income.

7 (c) For purposes of this section, "qualifying individual
8 taxpayer" means a taxpayer that:

9 (1) Files a federal income tax return for the taxable year
10 claiming the earned income tax credit under section 32
11 of the Internal Revenue Code; and

12 (2) Files a Hawaii income tax return using the filing
13 status used on the federal income tax return for the
14 taxable year and claiming the same dependents claimed
15 on the federal income tax return for the taxable year.

16 (d) The credit allowed under this section shall be claimed
17 against the net income tax liability for the taxable year. If
18 the tax credit under this section exceeds the taxpayer's income
19 tax liability, the excess of the tax credit over liability ~~may~~
20 ~~be used as a credit against the taxpayer's net income tax~~
21 ~~liability in subsequent years until exhausted.] shall be~~



1 refunded to the taxpayer; provided that a tax credit properly
2 claimed by a resident individual who has no income tax liability
3 shall be paid to the resident individual; and provided further
4 that no refund or payment on account of the tax credit allowed
5 by this section shall be made for an amount less than \$1. All
6 claims, including amended claims, for a tax credit under this
7 section shall be filed on or before the end of the twelfth month
8 following the close of the taxable year for which the credit may
9 be claimed. Failure to comply with the foregoing provision shall
10 constitute a waiver of the right to claim the credit.

11 (e) No credit shall be allowed under this section for any
12 taxable year in the disallowance period. For purposes of this
13 subsection, the disallowance period is:

14 (1) The period of ten taxable years after the most recent
15 taxable year for which there was a final
16 administrative or judicial decision that the
17 taxpayer's claim for credit under this section was due
18 to fraud; and

19 (2) The period of two taxable years after the most recent
20 taxable year for which there was a final



1 administrative or judicial decision disallowing the
2 taxpayer's claim for credit.

3 (f) The director of taxation:

4 (1) Shall prepare any forms necessary to claim a tax
5 credit under this section;

6 (2) May require proof of the claim for the tax credit;

7 (3) Shall alert eligible taxpayers of the tax credit using
8 appropriate and available means;

9 (4) Shall prepare an annual public report to the
10 legislature and the governor containing the:

11 (A) Number of credits granted for the prior calendar
12 year;

13 (B) Total amount of the credits granted; and

14 (C) Average value of the credits granted to taxpayers
15 whose earned income falls within various income
16 ranges; and

17 (5) May adopt rules pursuant to chapter 91 to effectuate
18 this section.

19 (g) This section shall apply to taxable years beginning
20 after December 31, 2017, but shall not apply to taxable years
21 beginning after December 31, 2022."



1 SECTION 3. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 4. This Act shall take effect upon its approval.
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H.B. NO. 2485

Report Title:

Taxation; Earned Income Tax Credit; Refundable

Description:

Amends the state earned income tax credit by making it refundable.

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