

JAN 17 2020

A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. The legislature finds that Act 107, Session
2 Laws of Hawaii 2017, established a nonrefundable earned income
3 tax credit (EITC). However, the legislature notes that the
4 federal EITC is refundable, and that two-thirds of the working
5 families in Hawaii who are eligible for Hawaii's EITC are not
6 benefitting because the tax credit is nonrefundable. A
7 refundable tax credit means that a person can receive a tax
8 refund when the amount of the credit is more than the person's
9 income tax liability. The EITC is designed to help low-income
10 families with children keep more of their earnings. Making the
11 State's EITC refundable would assist a greater number of
12 families in need.

13 The legislature also finds that, according to the Institute
14 on Taxation and Economic Policy, Hawaii places the second
15 heaviest state and local tax burden on low-income households in
16 the nation. In fact, Hawaii's lowest-income families pay
17 fifteen per cent of their income in state and local taxes, while



1 those at the top pay only about nine per cent. The main reason
2 for this inequity is the general excise tax (GET), which is
3 applied at different points along the supply chain, causing its
4 true cost to be compounded many times higher than the percentage
5 that retailers charge at the point-of-sale to consumers. As a
6 result, the GET disproportionately burdens low-income families,
7 who spend virtually all of their earnings on goods and services
8 that are subject to the GET -- nine times more than those with
9 the highest incomes.

10 Hawaii households that earn less than \$20,000 per year pay
11 10.5 per cent of their income in the GET, in contrast to 0.6 per
12 cent in state income tax. As a result, without refundability,
13 the state EITC cannot return significant portions of GET
14 payments to low-income working families, since the amount that
15 they pay in the GET is larger than the amount that they owe in
16 state income taxes.

17 The legislature also notes that, in its current form, the
18 state EITC will cease to be available for taxable years
19 beginning after December 31, 2022.

20 Extensive research shows that the EITC is especially
21 beneficial to women and children. According to the National



1 Women's Law Center, "The EITC is particularly important to
2 women, who typically earn less than men and are more likely to
3 bear the expenses of raising children on their own."

4 The Center on Budget and Policy Priorities finds that
5 expansions of the federal EITC contributed to "subsequent
6 increases in work among single mothers and female heads of
7 households . . . In addition, the research shows that by
8 boosting the employment of single mothers, the EITC reduces the
9 number of female-headed households receiving cash welfare
10 assistance . . . The EITC may also improve the health of infants
11 and mothers[.]"

12 An analysis by the Federal Reserve Bank of New York
13 concludes that the "EITC is successful in helping single women
14 climb the wage ladder."

15 The Congressional Budget Office states that the "EITC leads
16 to an increase in the share of less-educated women that will be
17 eligible for Social Security retirement benefits and leads to an
18 increase in their monthly benefit amount. Thus, the existence
19 of the EITC contributes to the financial security of affected
20 women as they age and retire."



1 Accordingly, the purpose of this Act is to make the state
2 earned income tax credit permanent and refundable.

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

5 "~~[+]§235-55.75[+]—Earned]~~ Refundable earned income tax
6 **credit.** (a) Each qualifying individual taxpayer may claim a
7 [~~nonrefundable~~] refundable earned income tax credit. The tax
8 credit, for the appropriate taxable year, shall be twenty per
9 cent of the federal earned income tax credit allowed and
10 properly claimed under section 32 of the Internal Revenue Code
11 and reported as such on the individual's federal income tax
12 return.

13 (b) For a part-year resident, the tax credit shall equal
14 the amount of the tax credit calculated in subsection (a)
15 multiplied by the ratio of Hawaii adjusted gross income to
16 federal adjusted gross income.

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

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



1 (2) Files a Hawaii income tax return using the filing
2 status used on the federal income tax return for the
3 taxable year and claiming the same dependents claimed
4 on the federal income tax return for the taxable year.

5 (d) The credit allowed under this section shall be claimed
6 against the net income tax liability for the taxable year. [~~If~~
7 ~~the tax credit under this section exceeds the taxpayer's income~~
8 ~~tax liability, the excess of the tax credit over liability may~~
9 ~~be used as a credit against the taxpayer's net income tax~~
10 ~~liability in subsequent years until exhausted.~~] If the tax
11 credit claimed by the taxpayer under this section exceeds the
12 amount of the income tax payments due from the taxpayer, the
13 excess of credit over payments due shall be refunded to the
14 taxpayer; provided that the tax credit properly claimed by a
15 taxpayer who has no income tax liability shall be paid to the
16 taxpayer; and provided that no refunds or payments on account of
17 the tax credit allowed by this section shall be made for amounts
18 less than \$1. All claims, including amended claims, for a tax
19 credit under this section shall be filed on or before the end of
20 the twelfth month following the close of the taxable year for
21 which the credit may be claimed. Failure to comply with the



1 foregoing provision shall constitute a waiver of the right to
2 claim the credit.

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

6 (1) The period of ten taxable years after the most recent
7 taxable year for which there was a final
8 administrative or judicial decision that the
9 taxpayer's claim for credit under this section was due
10 to fraud; and

11 (2) The period of two taxable years after the most recent
12 taxable year for which there was a final
13 administrative or judicial decision disallowing the
14 taxpayer's claim for credit.

15 (f) The director of taxation:

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

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

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



S.B. NO. 2309

- 1 (4) Shall prepare an annual public report to the
- 2 legislature and the governor containing the:
- 3 (A) Number of credits granted for the prior calendar
- 4 year;
- 5 (B) Total amount of the credits granted; and
- 6 (C) Average value of the credits granted to taxpayers
- 7 whose earned income falls within various income
- 8 ranges; and
- 9 (5) May adopt rules pursuant to chapter 91 to effectuate
- 10 this section.

11 ~~[(g) This section shall apply to taxable years beginning~~
 12 ~~after December 31, 2017, but shall not apply to taxable years~~
 13 ~~beginning after December 31, 2022.]"~~

14 SECTION 2. Statutory material to be repealed is bracketed
 15 and stricken. New statutory material is underscored.

16 SECTION 3. This Act shall take effect on January 1, 2021,
 17 and apply to taxable years beginning after December 31, 2020.

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INTRODUCED BY: Michelle A. Stedini

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S.B. NO. 2309



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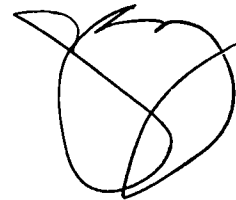
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S.B. NO. 2309

Report Title:

Earned Income Tax Credit

Description:

Makes the state earned income tax credit refundable and permanent. Applies to taxable years beginning after 12/31/2020.

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