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# 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. However, the legislature notes that the federal  
4 earned income tax credit is refundable, and that two-thirds of  
5 the working families in Hawaii who are eligible for Hawaii's  
6 earned income tax credit are not benefitting because the tax  
7 credit is nonrefundable. A refundable tax credit means that a  
8 person can receive a tax refund when the amount of the credit is  
9 more than the person's income tax liability. The earned income  
10 tax credit is designed to help low-income families that include  
11 children keep more of their earnings. Making the State's earned  
12 income tax credit refundable would assist a greater number of  
13 needy families.

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



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

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



1           The legislature also notes that, in its current form, the  
2 state earned income tax credit will cease to be available for  
3 taxable years beginning after December 31, 2022.

4           Extensive research shows that the earned income tax credit  
5 is especially beneficial to women and children. According to  
6 the National Women's Law Center, "The [earned income tax credit]  
7 is particularly important to women, who typically earn less than  
8 men and are more likely to bear the expenses of raising children  
9 on their own."

10          The Center on Budget and Policy Priorities finds that  
11 expansions of the federal earned income tax credit contributed  
12 to "subsequent increases in work among single mothers and female  
13 heads of households . . . . In addition, the research shows  
14 that by boosting the employment of single mothers, the earned  
15 income tax credit reduces the number of female-headed households  
16 receiving cash welfare assistance . . . . The [earned income  
17 tax credit] may also improve the health of infants and  
18 mothers[.]"

19          An analysis by the Federal Reserve Bank of New York  
20 concludes that the "[earned income tax credit] is successful in  
21 helping single women climb the wage ladder."



1           The Congressional Budget Office states that the "[earned  
2 income tax credit] leads to an increase in the share of less-  
3 educated women that will be eligible for Social Security  
4 retirement benefits and leads to an increase in their monthly  
5 benefit amount. Thus, the existence of the [earned income tax  
6 credit] contributes to the financial security of affected women  
7 as they age and retire."

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

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

12           "~~§235-55.75~~ **Refundable earned income tax**  
13 **credit.** (a) Each qualifying individual taxpayer may claim a  
14 [~~nonrefundable~~] refundable earned income tax credit. The tax  
15 credit, for the appropriate taxable year, shall be twenty per  
16 cent of the federal earned income tax credit allowed and  
17 properly claimed under section 32 of the Internal Revenue Code  
18 and reported as such on the individual's federal income tax  
19 return.

20           (b) For a part-year resident, the tax credit shall equal  
21 the amount of the tax credit calculated in subsection (a)



1 multiplied by the ratio of Hawaii adjusted gross income to  
2 federal adjusted gross income.

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

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

8 (2) Files a Hawaii income tax return using the filing  
9 status used on the federal income tax return for the  
10 taxable year and claiming the same dependents claimed  
11 on the federal income tax return for the taxable year.

12 (d) The credit allowed under this section shall be claimed  
13 against the net income tax liability for the taxable year. [~~If~~  
14 ~~the tax credit under this section exceeds the taxpayer's income~~  
15 ~~tax liability, the excess of the tax credit over liability may~~  
16 ~~be used as a credit against the taxpayer's net income tax~~  
17 ~~liability in subsequent years until exhausted.] If the tax  
18 credit claimed by the taxpayer under this section exceeds the  
19 amount of the income tax payments due from the taxpayer, the  
20 excess of credit over payments due shall be refunded to the  
21 taxpayer; provided that the tax credit properly claimed by a~~



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

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

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

18 (2) The period of two taxable years after the most recent  
19 taxable year for which there was a final  
20 administrative or judicial decision disallowing the  
21 taxpayer's claim for credit.



- 1 (f) The director of taxation:
- 2 (1) Shall prepare any forms necessary to claim a tax
- 3 credit under this section;
- 4 (2) May require proof of the claim for the tax credit;
- 5 (3) Shall alert eligible taxpayers of the tax credit using
- 6 appropriate and available means;
- 7 (4) Shall prepare an annual public report to the
- 8 legislature and the governor containing the:
- 9 (A) Number of credits granted for the prior calendar
- 10 year;
- 11 (B) Total amount of the credits granted; and
- 12 (C) Average value of the credits granted to taxpayers
- 13 whose earned income falls within various income
- 14 ranges; and
- 15 (5) May adopt rules pursuant to chapter 91 to effectuate
- 16 this section.

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

20 SECTION 3. Statutory material to be repealed is bracketed  
 21 and stricken. New statutory material is underscored.

1 SECTION 4. This Act shall take effect on July 1, 2050, and  
2 apply to taxable years beginning after December 31, 2020.





**Report Title:**

Earned Income Tax Credit

**Description:**

Makes the state earned income tax credit refundable and permanent. Effective 7/1/2050. (SD1)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

