DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR

ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Sean Quinlan, Chair;
The Honorable Daniel Holt, Vice Chair;
and Members of the House Committee on Economic Development

From: Isaac W. Choy, Director
Department of Taxation

Date: Friday, February 11, 2022
Time: 10:00 A.M.
Place: Via Video Conference, State Capitol

Re: H.B. 2131, Relating to Earned Income Tax Credit

The Department of Taxation (Department) supports H.B. 2131, an Administration measure, and offers the following analysis for your consideration.

H.B. 2131 extends the availability of the state earned income tax credit (EITC) until tax year 2028. The measure is effective upon approval.

The Department is able to administer this measure as it is written as it will not have a significant administrative impact.

Thank you for the opportunity to provide testimony in support of this measure.

DAVID Y. IGE
GOVERNOR

CATHY BETTS
DIRECTOR

JOSEPH CAMPOS II
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaii 96809-0339

February 10, 2022

TO: The Honorable Representative Sean Quinlan, Chair
House Committee on Economic Development

FROM: Cathy Betts, Director

SUBJECT: **HB 2131 – RELATING TO EARNED INCOME TAX CREDIT**

Hearing: February 11, 2022, 10:00 a.m.
Via Videoconference, State Capitol

DEPARTMENT'S POSITION: The Department of Human Services (DHS) supports this administration measure.

PURPOSE: The purpose of this measure is to extend the availability of the state earned income tax credit (EITC) until tax year 2028.

DHS supports the state earned income tax credit as an important anti-poverty tool for low-income taxpayers. Extending the EITC will allow more working families to take advantage of the tax credit and reduce their tax liability. Recognizing that women and people of color are overrepresented as low-wage earners, the EITC can create equitable change for these communities. Additionally, the EITC allows families to further their economic security while boosting the local economy.

Thank you for the opportunity to provide testimony on this bill.

DAVID Y. IGE
GOVERNOR

CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAI'I EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAIʻI
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAIʻI 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY

TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
ON
HOUSE BILL NO. 2131

February 11, 2022
10:00 a.m.
Room 312 and Videoconference

RELATING TO EARNED INCOME TAX CREDIT

The Department of Budget and Finance (B&F) supports House Bill (H.B.) No. 2131, or Administration Proposal GOV-1(22), and offers the following comments.

H.B. No. 2131 amends Section 235-55.75, HRS, to extend the availability of the State Earned Income Tax Credit until tax year 2028.

B&F notes that the federal American Rescue Plan (ARP) Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

- By enacting policies to raise other sources of revenue;
- By cutting spending; or
- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawaiʻi complies with this ARP restriction.

Thank you for your consideration of our comments.

Committee on Economic Development
Chair Quinlan, Vice Chair Holt

Friday, February 11, 2022, 10 am Videoconference
HB2131 — RELATING TO EARNED INCOME TAX CREDIT

TESTIMONY
Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair Quinlan, Vice Chair Holt, and Committee Members:

The League of Women Voters of Hawaii comments on HB2131, which would prevent the expiration of the Earned Income Tax Credit until 2028.

In 2018, Hawaii's Legislators created the Hawaii EITC, following the format of the federal EITC as have 29 other states. However, the federal EITC and most state EITC's, are refundable. Hawaii's EITC is non-refundable (if your income, and thus your income tax, is so low that the amount of the credit you are eligible for is greater than your income tax, you can't use all of the credit); the poorest working families lose some of the credit every year. These struggling households comprise about 25% of households receiving the Hawaii EITC. Their incomes are frighteningly low – less than $25,000/year. Imagine trying to live on that!

With this valuable credit about to expire, this support for our low income workforce must continue, so preventing its imminent expiration is vital.

But more needs to be done: the EITC should be made permanent – we see little value in just "kicking the can down the road" and bringing it back in a few years for legislative action. And it should be made refundable.

Thank you for the opportunity to submit testimony.

League of Women Voters of Hawaii
P.O. Box 235026 ♦ Honolulu, HI 96823
Voicemail 808.377.6727 ♦ my.lwv.org/hawaii ♦ voters@lwvhi.org

HAWAI'I HEALTH
& HARM REDUCTION CENTER
The New Chapter for Life Foundation and The CHOW Project

TESTIMONY IN SUPPORT OF HB 2131 with Amendments

TO:	Chair Quinlan, Vice Chair Holt, & Members – House Committee on Economic Development
FROM:	Trisha Kajimura Deputy Director - Community
DATE:	February 11, 2022 at 10:00 AM

Hawaiʿi Health & Harm Reduction Center (HHHRC) **supports** HB 2131, which extends the state Earned Income Tax Credit to tax year 2028. ***HHHRC requests amendments that would make the EITC permanent and refundable.***

HHHRC's mission is to reduce harm, promote health, create wellness, and fight stigma in Hawaiʽi and the Pacific. We work with many individuals who are impacted by poverty, housing instability, and other social determinants of health even as they work a full-time job or multiple jobs. Many have experienced the direct consequences of the lack of health equity and healthcare access experienced by people struggling with the unforgivingly high cost of living in Hawaiʻi.

Hawaiʽi's working families have been hit especially hard during the protracted economic downturn precipitated by the COVID-19 pandemic. Increasing levels of housing instability and food insecurity have accompanied job losses and reductions in working hours. Prior to the pandemic DOE determined that almost half of its students were economically disadvantaged.

Passing HB 2131 with amendments making the EITC permanent and refundable will help bring greater fairness to our working families.

- Improving the EITC would give a boost to the lowest-income workers. Because the state EITC is not currently "refundable," low-wage workers cannot take full advantage of the credit.
- The EITC improves the health, education, and economic stability of children and families. In fact, every $1 in EITC creates $1.24 in local economic activity.

Thank you for the opportunity to testify in support of this bill.

CATHOLIC CHARITIES HAWAIʻI

COMMENTS ON HB 2131: RELATING TO EARNED INCOME TAX CREDIT

TO: House Committee on Economic Development

FROM: Rob Van Tassell, President and CEO, Catholic Charities Hawaiʻi

Hearing: Friday, February 11, 2022; 10:00 am; via videoconference

Chair Quinlan, Vice Chair Holt, and Members of the Committee on Economic Development:

Thank you for the opportunity to provide COMMENTS on HB 2131, which would extend the state earned income tax credit until tax year 2028. I am Rob Van Tassell, with Catholic Charities Hawaiʻi.

Catholic Charities Hawai`i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai`i for 75 years. CCH has programs serving elders, children, families, homeless, and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawai`i. Catholic Charities Hawaiʻi has a long history of working in the areas of affordable housing and homelessness.

Catholic Charities Hawaii **urges you to amend this bill to make this tax credit <u>permanent and refundable.</u> We prefer the language in HB 2406,** which your Committee passed earlier this session.

Catholic Charities Hawaii <u>strongly supports the state Earned Income Tax Credit (EITC)</u>. <u>Making it permanent and refundable is critical to provide ongoing relief to our struggling workers</u>. Our state's high cost of living puts tremendous stress on our families. Many are living on the edge, struggling to pay all their bills and rent with their work income. This tax credit would give an annual shot in the arm to help Hawai`i`s workers. Studies have also shown that these workers put this tax credit refund back into the economy, so this also benefits our local businesses.

Hawaii Perspectives 2019, a large survey of Hawai`i voters, reports that "compared with 2015, far fewer Hawaii voters think they are "better off" than they were 12 months prior (35% vs 51% in 2015). An amazing 45% of residents may leave Hawai`i largely due to the cost of living. The report found that "Voters say to improve life, make it more affordable." In this environment, making the Earned Income Tax Credit (EITC) permanent and refundable shows our struggling working families that the State <u>hears their concerns about the cost of living in Hawai`i and is creating initiatives to improve living conditions for our residents.</u>

We urge your support for this bill, with the suggested amendment, as one important measure to improve the lives of Hawai`i workers. Please contact our Legislative Liaison, Betty Lou Larson at bettylou.larson@catholiccharitieshawaii.org or (808) 373-0356 if you have any questions.

Chamber of Commerce HAWAII
The Voice of Business

Testimony to the House Committee on Economic Development
Friday, February 11, 2022, at 10:00 A.M.
Via Videoconference

RE: HB 2131 Related to Earned Income Tax Credit

Chair Quinlan, Vice Chair Holt, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 2131, which extends the availability of the state earned income tax credit until tax year 2028

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber recognizes and appreciates the intent of this measure to help the economic security of low-income working families with children. Hawaii is placed among the top state with the heaviest tax burden on low-income households in the nation.

The main reason for this inequity is the general excise tax (GET), which is applied at different points along the supply chain, causing its true cost to be compounded many times higher than the percentage that retailers charge at the point-of-sale to consumers. As a result, the GET disproportionately burdens low-income families, who spend virtually all their earnings on goods and services that are subject to the GET.

Given the State's Earned Income Tax Credit is scheduled to sunset after December 31, 2022, the Chamber supports the 6-year extension as proposed in HB 2131.

Thank you for the opportunity to testify.

733 Bishop Street, Suite 1200 • Honolulu, Hawaii 96813 • Phone: (808) 545-4300 • Facsimile: (808) 545-4369

Hawaii
Children's Action Network Speaks!
Building a unified voice for Hawaii's children

Hawaiʻi Children's Action Network Speaks! is a nonpartisan 501c4 nonprofit committed to advocating for children and their families. Our core issues are safety, health, and education.

To: House Committee on Economic Development

Re: **HB 2131 - Relating to Earned Income Tax Credit**
Hawaiʻi State Capitol, Via Videoconference, Conference Room 312
February 11, 2022, 10:00 AM

Dear Chair Quinlan, Vice Chair Holt, and committee members,

On behalf of Hawaiʻi Children's Action Network Speaks!, I am writing in SUPPORT with SUGGESTED AMENDMENTS to HB 2131, relating to earned income tax credit. This bill would extend the availability of the state earned income tax credit (EITC) until tax year 2028.

Hawaiʻi's tax system currently is upside down. Families who earn less than $20,000 per year pay 15% of their income in state and local taxes, while those who make over $450,000 pay only about 9%. In fact, our state saddles our low-income families with the second-heaviest state and local tax burden in the nation. [1]

The state EITC has helped balance our tax system by providing a boost to low- to moderate-income families for the last four years. But it will end this year, if it's not renewed, and it hasn't been helping the families who need it the most. That's why it's so important to make the EITC permanent, beyond tax year 2028, ***and*** refundable.

There are reams of evidence showing that the federal EITC helps kids from before they're even born through their adult lives. It improves their physical and mental health by freeing up money for families to spend on healthcare and healthy food. It improves education results, which has economic benefits down the road. Abd every $1 in EITC creates $1.24 in local economic activity.[2]

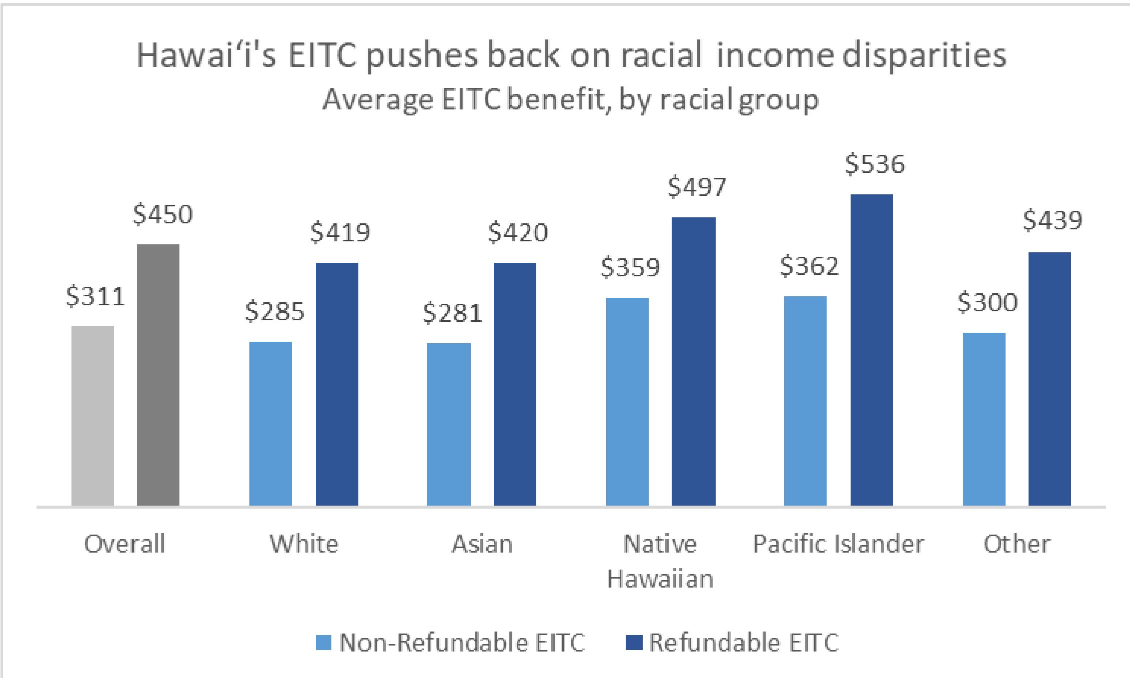
Refundability allows those families that need tax credits the most to get the **full** amounts that they qualify for. In other words, if a family qualifies for a tax credit that's **larger** than what they owe in taxes, they get the extra amount back as a **tax refund**. The federal EITC is refundable, and of the 31 states that have EITCs, **Hawaiʻi is one of only five** that are not refundable.[3]

Imagine a single parent, with one child, earning minimum wage, or $21,000 per year. Their state income tax is $424, and they're eligible for a state EITC of $663. However, with the current **non-refundable** EITC, that parent can only claim a credit of $424 to zero out their tax liability. But with a **refundable** EITC, that parent can claim the **full** $663 credit and get a **tax refund** is $239.

[1] Institute on Taxation and Economic Policy, https://itep.org/whopays/hawaii/
[2] Hawaiʻi Kids Count, https://d3n8a8pro7vhmx.cloudfront.net/goodbeginnings/pages/2185/attachments/original/1643319710/EITC_Report_REV3_FINAL.pdf
[3] Center on Budget and Policy Priorities, https://www.cbpp.org/research/state-budget-and-tax/state-earned-income-tax-credits

850 Richards Street, Suite 201 • Honolulu, HI 96813 • 808-531-5502
speaks.hawaii-can.org • speaks@hawaii-can.org

Making the EITC refundable would also push back on racial income disparities. Native Hawaiians and Pacific Islanders' average EITC benefit is currently larger than the overall state average, and they would see the biggest extra boost from a refundable EITC.[4]



In order to make our state's EITC permanent and refundable, we SUGGEST AMENDMENTS to this bill that would adopt the language pertaining to the EITC as contained in HB 2406.

Mahalo for the opportunity to provide this testimony. Please pass this bill with our suggested amendments.

Thank you,

Nicole Woo
Director of Research and Economic Policy

[4] Institute on Taxation and Economic Policy, unpublished analysis, January 2022

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Earned Income Tax Credit Extension

BILL NUMBER: SB 3099, HB 2131

INTRODUCED BY: SB by KOUCHI by request, HB by SAIKI by request

EXECUTIVE SUMMARY: Extends the availability of the state earned income tax credit until tax year 2028.

SYNOPSIS: Amends section 235-55.75(g), HRS, to change the sunset date to Dec. 31, 2028.

EFFECTIVE DATE: Upon Approval

STAFF COMMENTS: This is an Administration bill sponsored by the Office of the Governor and designated GOV-01 (22).

According to the bill's justification sheet, the projected revenue losses for the next few years are:

FY 2023-2024	($11.8 million)
FY 2024-2025	($14.1 million)
FY 2025-2026	($17.3 million)
FY 2026-2027	($20.3 million)

In Act 107, SLH 2017, the earned income tax credit (EITC) was adopted. Its supporters maintained it's the best solution to lift families out of poverty since sliced bread. At the Department of Taxation's urging, however, the EITC was made nonrefundable. Other bills would make the credit refundable.

Well, what's the difference? Let's start with a nonrefundable credit, which is current law. Suppose you either have lots of credits or not very much income, so you have more credits than tax liability. If you have made tax payments throughout the year, through wage withholding perhaps, you still can get all your payments back. But once the tax liability hits zero, there's no more. The state does not cut you a check, but you get a credit carryover which can be used against next year's tax liability.

In contrast, a refundable credit is just as good as cash. Not only can this type of credit reduce the amount of tax owed, but if the tax liability is less than the credit the State will cut the taxpayer a check for the difference.

Why is the Department concerned about issuing refundable credits? There are several reasons.

First, issuing a refund is administratively expensive. In most businesses, the internal process necessary to send money to someone goes through several checks and balances to make sure that no mistakes are made. In our state government, we need to do those processes twice. At the

Department of Taxation, staff can ask for a refund to be issued but no one can issue a check. Instead, a document called a “refund voucher” is sent to a different department altogether, the Department of Accounting and General Services (DAGS). Once DAGS gets the refund voucher, it goes through its own processes, checking to see if the recipient doesn’t owe another agency for example, and then issues the check.

Second, a refund can become a target for bad actors. We earlier pointed to reports from the U.S. Treasury Inspector General for Tax Administration estimating that more than 20% of all federal EITC payouts were improper. Other studies estimated that about half of these so-called improper payments were paid out because someone made a mistake. Perhaps the taxpayer was confused by the tax form, which is admittedly complex. The other half were paid out because of bad actors. Maybe a taxpayer claimed credits for kids they don’t have. Maybe an unethical tax preparation service filled in data claiming credits for people who exist but aren’t part of the taxpayer’s family. Once the cash goes out, however, it’s tough to get back. In Hawaii, our credit is 20% of the federal credit so a smaller check would go out, and because the number is smaller the Department of Taxation might not be motivated to chase down the improper payments given the number and severity of other items on their plate.

Indeed, the Department recently estimated that changing the Hawaii EITC to a refundable one would cost the State $32 million more than a nonrefundable credit. It’s not clear how they came up with that number. But that amount of money could cool a few sweltering classrooms, or perhaps fix a few plumbing facilities at the airport. In this situation, what are our priorities? Where is the need greatest?

We are also wondering why the revenue loss is estimated to increase from year to year. The increases average around 20%, which is more than an inflationary adjustment.

Digested: 2/1/2022

Parents And Children Together
BUILDING THE RELATIONSHIPS THAT MATTER MOST

TO: Chair Quinlan, Vice Chair Holt, and Members of the House Committee on Economic Development

FROM: Ryan Kusumoto, President & CEO of Parents And Children Together (PACT)

DATE/LOCATION: February 11, 2022; 10:00 a.m., Conference Room 312/Video Conference

RE: COMMENTS REGARDING HB 2131 – RELATING TO EARNED INCOME TAX CREDIT

We would like to provide comments on HB 2131 which extends the availability of the state earned income tax credit until tax year 2028.

Thank you for creating the Hawaii EITC in 2017. We would suggest making this tax credit **refundable** and **permanent** to benefit Hawaii's families. Approximately 300,000 residents are eligible for this tax credit; roughly 1 in every 4 Hawaii residents. Making the Hawaii EITC refundable allows more people to keep what they earn and will also help tax filers get more back more through the credit than what they owe in state income taxes. Hawaii places the second-highest tax burden on low-income families and continues to have one of the highest costs of living in the United States. Wages are still far below to close any livable wage gap. While the minimum wage has increased over time, it is still not adequate enough to deal with the price disparity. As a result, many of our families continue to struggle to make ends meet or even to meet their basic needs.

History has shown that the landscape of our economy has changed, exacerbated by the stressors of the global pandemic, to negatively impact the most vulnerable and disadvantaged in our society. It has a direct tie to increased financial instability, housing instability, health instability, increased crime and substance abuse, and strained social, emotional and mental well-being. These impacts have long-lasting and multi-generational consequences and impacts our ability to create healthy and thriving communities. Supporting working families strengthens the fabric of our entire community.

EITC makes sense and pays for itself while putting money back into our local economy. Estimations for 2022 were that it would cost $41 million and that it would also boost revenue collections by $57 million. Every $1 in EITC creates $1.24 in local economic activity. **We urge you to consider making the Hawaii EITC refundable and permanent** to allow more families, especially those with young children, to benefit by keeping more of their paycheck.

Founded in 1968, Parents And Children Together (PACT) is one of Hawaii's not-for-profit organizations providing a wide array of innovative and educational social services to under-resourced families. Assisting more than 17,000 people across the state annually, PACT helps families identify, address and successfully resolve challenges through its 20 programs. Among its services are: early education programs, domestic violence prevention and intervention programs, child abuse prevention and intervention programs, childhood sexual abuse supportive group services, child and adolescent behavioral health programs, sex trafficking intervention, poverty prevention and community strengthening programs.

Thank you for the opportunity to testify regarding **HB 2131,** please contact me at (808) 847-3285 or rkusumoto@pacthawaii.org if you have any questions.