
A BILL FOR AN ACT

RELATING TO INCOME.

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

1 PART I

2 SECTION 1. The legislature finds that the coronavirus
3 disease 2019 (COVID-19) pandemic presented the world with
4 unprecedented issues, forcing people out of employment or even
5 their own homes. The COVID-19 pandemic further exacerbated the
6 economic hardship for many Hawaii families who are above the
7 federal poverty line but still struggle to make ends meet.
8 According to Aloha United Way, the COVID-19 pandemic
9 significantly increased the percentage of households that are
10 considered to be asset limited, income constrained, and employed
11 (ALICE) to fifty-nine per cent, which is up from forty-two per
12 cent prior to the pandemic. Aloha United Way further reported a
13 six hundred per cent increase in calls received from people
14 seeking assistance during the pandemic.

15 The legislature recognizes that to address the
16 unprecedented issues presented by the COVID-19 pandemic for
17 residents of the State, changes to the existing tax structure



1 and minimum wage must be made to help working families succeed.
2 Amending certain tax credits targeted for the working class will
3 improve the quality of life for many and will help lessen the
4 financial burden of the working class.

5 The legislature further finds that increases to the cost of
6 living in the State, combined with stagnant wages, have
7 contributed to the increase in the number of ALICE households.
8 The legislature also finds that while the cost of living
9 continues to increase, minimum wage has not increased to an
10 appropriate amount necessary to offset the higher increase in
11 cost of living. Increasing the minimum wage to support the
12 working class is necessary to ensure that living in Hawaii is
13 affordable. The legislature acknowledges the economic hardships
14 experienced not only by ALICE households, but also by businesses
15 that employ many of these families. While increasing the
16 minimum wage will support employees, it will also have an impact
17 on certain businesses, especially during a time of significant
18 economic hardships brought on by government mandates to mitigate
19 the spread of COVID-19. However, the legislature believes that
20 helping working families by increasing the minimum wage is a
21 necessary step to foster economic stability in Hawaii.



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; provided further that no refunds or payments on
3 account of the tax credit allowed by this section shall be made
4 for amounts less than \$1. All claims, including amended claims,
5 for a tax credit under this section shall be filed on or before
6 the end of the twelfth month following the close of the taxable
7 year for which the credit may be claimed. Failure to comply
8 with the foregoing provision shall constitute a waiver of the
9 right to 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 (g) If nonrefundable credits claimed under this section
- 21 for any of the four consecutive taxable years beginning after



1 December 31, 2017, exceed the taxpayer's income tax liability
 2 for the original claim year, the excess of the tax credits over
 3 liability may be used as a credit against the taxpayer's net
 4 income tax liability in subsequent years until exhausted;
 5 provided that no credit carried forward under this subsection
 6 shall be used as a credit for a taxable year beginning after
 7 December 31, 2024."

PART III

9 SECTION 4. The purpose of this part is to amend the
 10 eligibility and claimable amount of the food/excise tax credit.

11 SECTION 5. Section 235-55.85, Hawaii Revised Statutes, is
 12 amended by amending subsection (b) to read as follows:

13 "(b) Each ~~[individual]~~:

14 (1) Individual taxpayer with a federal adjusted gross
 15 income equal to or less than \$30,000; or

16 (2) Heads of household, married couples filing joint
 17 returns, and surviving spouses with a federal adjusted
 18 gross income equal to or less than \$50,000,

19 may claim a refundable food/excise tax credit of \$150 multiplied
 20 by the number of qualified exemptions to which the taxpayer is
 21 entitled ~~[in accordance with the table below]~~; provided that a



1 ~~[husband and wife]~~ married couple filing separate tax returns
 2 for a taxable year for which a joint return could have been
 3 filed by them shall claim only the tax credit to which they
 4 would have been entitled had a joint return been filed.

5	[Adjusted gross income	Credit per exemption
6	for taxpayers filing	
7	a single return	
8	Under \$5,000	\$110
9	\$5,000 under \$10,000	\$100
10	\$10,000 under \$15,000	\$ 85
11	\$15,000 under \$20,000	\$ 70
12	\$20,000 under \$30,000	\$ 55
13	\$30,000 and over	\$ 0.

14	Adjusted gross income	Credit per exemption
15	for heads of household,	
16	married individuals filing	
17	separate returns, and	
18	married couples filing	
19	joint returns	
20	Under \$5,000	\$110
21	\$5,000 under \$10,000	\$100



1	\$10,000 under \$15,000	\$ 85
2	\$15,000 under \$20,000	\$ 70
3	\$20,000 under \$30,000	\$ 55
4	\$30,000 under \$40,000	\$ 45
5	\$40,000 under \$50,000	\$ 35
6	\$50,000 and over	\$ 0.] "

PART IV

SECTION 6. The purpose of this part is to:

- (1) Increase the minimum wage on January 1 of each year from 2023 through 2030;
- (2) Increase the tip credit on January 1 of each year from 2023 through 2030; and
- (3) Adjust the minimum wage and tip credit amount on January 1 of each year beginning in 2031, based on the average of the increases to the statewide median hourly wage for all occupations over the previous three years compiled by the United States Bureau of Labor Statistics.

SECTION 7. Section 387-2, Hawaii Revised Statutes, is amended to read as follows:



1 "**§387-2 Minimum wages.** (a) Except as provided in section
2 387-9 and this section, every employer shall pay to each
3 employee employed by the employer, wages at the rate of not less
4 than:

- 5 (1) \$6.25 per hour beginning January 1, 2003;
6 (2) \$6.75 per hour beginning January 1, 2006;
7 (3) \$7.25 per hour beginning January 1, 2007;
8 (4) \$7.75 per hour beginning January 1, 2015;
9 (5) \$8.50 per hour beginning January 1, 2016;
10 (6) \$9.25 per hour beginning January 1, 2017; ~~and~~
11 (7) \$10.10 per hour beginning January 1, 2018~~[+]~~;
12 (8) \$11.00 per hour beginning January 1, 2023;
13 (9) \$12.00 per hour beginning January 1, 2024;
14 (10) \$13.00 per hour beginning January 1, 2025;
15 (11) \$14.00 per hour beginning January 1, 2026;
16 (12) \$15.00 per hour beginning January 1, 2027;
17 (13) \$16.00 per hour beginning January 1, 2028;
18 (14) \$17.00 per hour beginning January 1, 2029; and
19 (15) \$18.00 per hour beginning January 1, 2030.



1 (b) The hourly wage of a tipped employee may be deemed to
2 be increased on account of tips if the employee is paid [~~not~~] no
3 less than:

4 (1) 25 cents;

5 (2) 50 cents per hour beginning January 1, 2015; [~~and~~]

6 (3) 75 cents per hour beginning January 1, 2016[~~r~~];

7 (4) \$1.00 per hour beginning January 1, 2023;

8 (5) \$1.25 per hour beginning January 1, 2024;

9 (6) \$1.50 per hour beginning January 1, 2025;

10 (7) \$1.75 per hour beginning January 1, 2026;

11 (8) \$2.00 per hour beginning January 1, 2027;

12 (9) \$2.25 per hour beginning January 1, 2028;

13 (10) \$2.50 per hour beginning January 1, 2029; and

14 (11) \$2.75 per hour beginning January 1, 2030,

15 below the applicable minimum wage by the employee's employer and
16 the combined amount the employee receives from the employee's
17 employer and in tips is at least 50 cents more than the
18 applicable minimum wage; provided that beginning January 1,
19 2015, the combined amount the employee receives from the
20 employee's employer and in tips is at least \$7.00 more than the
21 applicable minimum wage.



1 SECTION 9. Section 235-55.6, Hawaii Revised Statutes, is
2 amended by amending subsection (b) to read as follows:

3 "(b) Definitions of qualifying individual and employment-
4 related expenses. For purposes of this section:

5 (1) Qualifying individual. The term "qualifying
6 individual" means:

7 (A) A dependent of the taxpayer ~~[who is under the age~~
8 ~~of thirteen and]~~ with respect to whom the
9 taxpayer is entitled to a deduction under section
10 235-54(a) ~~[τ]~~i

11 (B) A dependent of the taxpayer who is physically or
12 mentally incapable of caring for oneself ~~[τ]~~i or

13 (C) The spouse of the taxpayer, if the spouse is
14 physically or mentally incapable of caring for
15 oneself.

16 (2) Employment-related expenses.

17 (A) In general. The term "employment-related
18 expenses" means amounts paid for the following
19 expenses, but only if such expenses are incurred
20 to enable the taxpayer to be gainfully employed
21 for any period for which there are one or more



- 1 qualifying individuals with respect to the
2 taxpayer:
- 3 (i) Expenses for household services~~[r]~~i; and
4 (ii) Expenses for the care of a qualifying
5 individual.
- 6 ~~[Such]~~ The term shall not include any amount paid
7 for services outside the taxpayer's household at
8 a camp where the qualifying individual stays
9 overnight.
- 10 (B) Exception. Employment-related expenses described
11 in subparagraph (A) ~~[which]~~ that are incurred for
12 services outside the taxpayer's household shall
13 be taken into account only if incurred for the
14 care of:
- 15 (i) A qualifying individual described in
16 paragraph (1) (A) ~~[r]~~i; or
17 (ii) A qualifying individual (not described in
18 paragraph (1) (A)) who regularly spends at
19 least eight hours each day in the taxpayer's
20 household.



- 1 (C) Dependent care centers. Employment-related
2 expenses described in subparagraph (A) [~~which~~
3 that] are incurred for services provided outside
4 the taxpayer's household by a dependent care
5 center (as defined in subparagraph (D)) shall be
6 taken into account only if:
- 7 (i) [~~Such~~] The center complies with all
8 applicable laws, rules, and regulations of
9 this State, if the center is located within
10 the jurisdiction of this State; or
- 11 (ii) [~~Such~~] The center complies with all
12 applicable laws, rules, and regulations of
13 the jurisdiction in which the center is
14 located, if the center is located outside
15 the State; and
- 16 (iii) The requirements of subparagraph (B) are
17 met.
- 18 (D) Dependent care center defined. For purposes of
19 this paragraph, the term "dependent care center"
20 means any facility [~~which~~] that:



- 1 (i) Provides care for more than six individuals
2 (other than individuals who reside at the
3 facility) [~~r~~]; and
4 (ii) Receives a fee, payment, or grant for
5 providing services for any of the
6 individuals (regardless of whether such
7 facility is operated for profit)."

PART VI

9 SECTION 10. The purpose of this part is to appropriate
10 funds specifically for the department of taxation to provide an
11 outreach campaign for low-wage earners to educate them about
12 their income withholding options and provide support when
13 completing their federal and state withholding forms.

14 SECTION 11. Section 235-20.5, Hawaii Revised Statutes, is
15 amended to read as follows:

16 "**§235-20.5 Tax administration special fund; established.**

17 (a) There is established a tax administration special fund,
18 into which shall be deposited:

- 19 (1) Fees collected under sections 235-20 and 235-110.9;
20 (2) Revenues collected by the special enforcement section
21 pursuant to section 231-85; provided that in each



1 fiscal year, of the total revenues collected by the
2 special enforcement section, all revenues in excess of
3 [~~\$2,000,000~~] \$4,000,000 shall be deposited into the
4 general fund; and

5 (3) Fines assessed pursuant to section 237D-4.

6 (b) The moneys in the fund shall be used for the following
7 purposes:

8 (1) Issuing comfort letters, letter rulings, written
9 opinions, and other guidance to taxpayers;

10 (2) Issuing certificates under [+]section[+] 235-110.9;

11 (3) Administering the operations of the special
12 enforcement section;

13 (4) Funding support staff positions in the special
14 enforcement section; and

15 (5) Developing, implementing, and providing taxpayer
16 education programs, including tax publications[-] and
17 outreach for low-wage earners to educate them about
18 their income withholding options and provide support
19 when completing their federal and state withholding
20 forms."



1 SECTION 12. There is appropriated out of the tax
2 administration special fund the sum of \$ or so much
3 thereof as may be necessary for fiscal year 2022-2023 for the
4 department of taxation to provide outreach for low-wage earners
5 to educate them about their income withholding options and
6 provide support when completing their federal and state
7 withholding forms.

8 The sum appropriated shall be expended by the department of
9 taxation for the purposes of this Act.

10 PART VII

11 SECTION 13. Statutory material to be repealed is bracketed
12 and stricken. New statutory material is underscored.

13 SECTION 14. This Act shall take effect on December 25,
14 2040; provided that parts II, III, and V shall apply to taxable
15 years beginning after December 31, 2022.

16



Report Title:

Earned Income Tax Credit; Refundable Food/Excise Tax Credit; Minimum Wage; Household and Dependent Care Tax Credit; Tax Administration Special Fund; Appropriation

Description:

Part II: Makes the state earned income tax credit refundable and permanent. Provides for carryforward of nonrefundable credits previously claimed. Part III: Increases and amends the refundable food/excise tax credit. Part IV: Increases minimum wage rate to \$11.00 per hour beginning on 1/1/2023, \$12.00 per hour beginning on 1/1/2024, \$13.00 per hour beginning on 1/1/2025, \$14.00 per hour beginning on 1/1/2026, \$15.00 per hour beginning on 1/1/2027, \$16.00 per hour beginning on 1/1/2028, \$17.00 per hour beginning on 1/1/2029, and \$18.00 per hour beginning 1/1/2030. Increases the tip credit over the same period. Beginning 7/1/2030 and each year thereafter, requires DLIR to annually adjust the minimum wage hourly rate and tip credit amount for the following January 1 based on the average of the increases to the statewide median hourly wage for all occupations over the previous three years compiled by the United States Bureau of Labor Statistics. Part V: Amends the household and dependent care tax credit to apply to expenses paid for the care of a qualifying individual, regardless of age. Part VI: Increases the cap on revenues that may be deposited into the tax administration special fund and authorizes that moneys in the fund shall also be used for outreach to educate low-wage earners about their withholding options and to provide support when completing their withholding forms. Appropriates funds from the tax administration special fund for the purpose of this part. Effective 12/25/2040. (HD1)

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