
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. Section 235-55.75, Hawaii Revised Statutes, is
2 amended as follows:

3 1. By amending subsections (a) to (c) to read as follows:

4 "(a) Each qualifying individual taxpayer may claim a
5 refundable earned income tax credit. [~~The~~] Unless otherwise
6 provided by law, the tax credit, for the appropriate taxable
7 year, shall be forty per cent of the federal earned income tax
8 credit allowed and properly claimed under section 32 of the
9 Internal Revenue Code and reported as such on the individual's
10 federal income tax return.

11 (b) For a part-year resident [~~r~~] or a nonresident, the tax
12 credit shall equal the amount of the tax credit calculated in
13 subsection (a) multiplied by the ratio of Hawaii adjusted gross
14 income to federal adjusted gross income.

15 (c) For purposes of this section, "qualifying individual
16 taxpayer" means a [~~taxpayer~~] resident or nonresident individual
17 that:

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

4 (2) Files a Hawaii income tax return using the filing
5 status used on the federal income tax return for the
6 taxable year and claiming the same dependents claimed
7 on the federal income tax return for the taxable
8 year."

9 2. By amending subsection (g) to read as follows:

10 "(g) If nonrefundable credits claimed under this section
11 for any of the four consecutive taxable years beginning after
12 December 31, 2017, exceed the taxpayer's income tax liability
13 for the original claim year, the excess of the tax credits over
14 liability may be used as a credit against the taxpayer's net
15 income tax liability in subsequent years until exhausted;
16 provided that no credit carried forward under this subsection
17 shall be used as a credit for a taxable year beginning after
18 December 31, 2024. No nonrefundable credits claimed for the
19 taxable year beginning after December 31, 2021, and carried
20 forward under this section, shall be used as a credit for a
21 taxable year beginning after December 31, 2025."

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 Statutory material to be repealed is bracketed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

3 SECTION 3. This Act, upon its approval, shall apply to
4 taxable years beginning after December 31, 2024; provided that
5 the amendments made to section 235-55.75(a), Hawaii Revised
6 Statutes, by this Act shall not be repealed when section 235-
7 55.75(a), Hawaii Revised Statutes, is reenacted on December 31,
8 2027, pursuant to section 5 of Act 163, Session Laws of Hawaii
9 2023.

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INTRODUCED BY: *Melanie K. Nakamura*

BY REQUEST

JAN 21 2025

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Report Title:

Income Tax; Earned Income Tax Credit

Description:

Clarifies that nonresidents who claim the refundable earned income tax credit are required to adjust the amount claimed using the ratio of their Hawaii adjusted gross income to federal adjusted gross income. Eliminates the unlimited carryforward on nonrefundable earned income tax credits for tax year 2022.

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JUSTIFICATION SHEET

DEPARTMENT: Taxation

TITLE: A BILL FOR AN ACT RELATING TO THE EARNED INCOME TAX CREDIT.

PURPOSE: To clarify that nonresidents who claim the refundable earned income tax credit are required to adjust the amount claimed using the ratio of their Hawaii adjusted gross income to federal adjusted gross income and to eliminate the unlimited carryforward on nonrefundable earned income tax credits for tax year 2022.

MEANS: Amend section 235-55.75(a) to (c) and (g), Hawaii Revised Statutes (HRS).

JUSTIFICATION: Section 235-55.75(b), HRS, currently requires the adjustment of the refundable earned income tax credit for part-year residents to reflect their share of income attributable to Hawaii, but says nothing regarding nonresident claims. This bill amends sections 235-55.75(b) and (c), HRS, to impose the same requirement on nonresidents.

This bill also amends section 235-55.75(g), HRS, by establishing an expiration date for unused nonrefundable credits for tax year 2022.

Impact on the public: Clarifying nonresidents' claims to the refundable earned income tax credit will promote tax equity among nonresidents and part-year residents.

Impact on the department and other agencies: Standardizing claims for the refundable earned income tax credit for part-year residents and nonresidents will assist the Department by removing an incentive to file fraudulent claims. Eliminating the

unlimited carryforward on nonrefundable earned income tax credits for tax year 2022 will assist in administration of taxes.

GENERAL FUND: No material impact.

OTHER FUNDS: None.

PPBS PROGRAM DESIGNATION: None.

OTHER AFFECTED AGENCIES: None.

EFFECTIVE DATE: Upon approval, changes shall apply to taxable years beginning after December 31, 2024.