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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 earned income tax  
2 credits (EITC) provide tax reductions and wage supplements for  
3 low- and moderate-income working families. The federal tax  
4 system has included an EITC since 1975, with major expansions in  
5 1986, 1990, and 1993, and an additional expansion in 2001. In  
6 2002, more than twenty-one million families and individuals  
7 filing federal income tax returns, nearly one out of every six  
8 families who filed, claimed the federal EITC.

9           The EITC has been widely praised for its success in  
10 supporting work and reducing poverty. The federal credit now  
11 lifts more children out of poverty than any other government  
12 program. Some four million nine hundred thousand people,  
13 including two million seven hundred thousand children, were  
14 removed from poverty in 2002 as a result of the federal EITC.  
15 The federal EITC also has been proven effective in encouraging  
16 work among welfare recipients. According to a study by the  
17 Center on Budget and Policy Priorities, the EITC has a large



1 impact on encouraging more single mothers to work. Support for  
2 the EITC has come from across the political spectrum.

3 The EITC is a federal refundable tax credit. Families are  
4 eligible for the EITC if their income is at or below \$35,458 and  
5 investment income is limited to \$2,650 per year. The 2004  
6 federal poverty guideline was \$12,490 for a family of two,  
7 \$15,670 for a family of three, and \$18,850 for a family of four  
8 in the District of Columbia and forty-eight contiguous states  
9 (it is slightly higher in Alaska and Hawaii). The maximum  
10 credit in 2004 was \$2,604 for families with one child, and  
11 \$4,300 for families with more than one child. The federal EITC  
12 supplements wages of low-income families and complements welfare  
13 reform efforts. The tax credit helps lift families out of  
14 poverty and can be used as a tool to build assets.

15 The legislature also finds that federal Temporary  
16 Assistance for Needy Families (TANF) regulations permit TANF  
17 money to be used to fund refundable tax credits. According to  
18 the United States Department of Health and Human Services'  
19 Administration for Children and Families' TANF Financial Data  
20 report for 2003, ten states use TANF to fund their state earned  
21 income tax credit programs:



- 1 (1) Minnesota and Wisconsin use federal TANF funds to pay  
2 for their refundable state EITC;
- 3 (2) Indiana, Kansas, Maryland, New York, and Wisconsin use  
4 state maintenance of effort (MOE) money designated to  
5 a separate state program for their refundable state  
6 EITC;
- 7 (3) Massachusetts and Vermont use state MOE money for  
8 their refundable state EITC; and
- 9 (4) New Jersey uses both federal TANF and state MOE moneys  
10 for its state refundable EITC.

11 The purpose of this Act is to provide a refundable state  
12 EITC and require the refundable portion of the EITC to be  
13 reimbursed by federal TANF or state TANF MOE funds.

14 SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
15 amended by adding a new section to be appropriately designated  
16 and to read as follows:

17 "§235- Earned income tax credit. (a) Each resident  
18 individual taxpayer who:

- 19 (1) Files an individual income tax return for a taxable  
20 year; and
- 21 (2) Is not claimed or is not eligible to be claimed as a  
22 dependent by another taxpayer for income tax purposes;



1 may claim a refundable earned income tax credit. The tax  
2 credit, for the appropriate taxable year, shall be equal to  
3 twenty per cent of the earned income credit allowed under  
4 section 32 of the Internal Revenue Code, as may be amended, and  
5 reported as such on the resident individual's federal income tax  
6 return.

7 (b) In the case of a part-year resident, the tax credit  
8 shall equal the amount of the tax credit calculated in  
9 subsection (a) multiplied by the ratio of adjusted gross income  
10 attributed to this state to the entire adjusted gross income  
11 attributed to this state to the entire adjusted gross income  
12 computed without regard to source in the state pursuant to  
13 section 235-5.

14 (c) For purposes of claiming the tax credit allowed by  
15 this section, a resident individual taxpayer shall use the same  
16 filing status on the taxpayer's Hawaii tax return as used on the  
17 taxpayer's federal return for the taxable year. In the case of  
18 a husband and wife filing separately, the credit allowed may be  
19 applied against the income tax liability of either, or divided  
20 between them, as they elect.

21 (d) If the tax credit under this section exceeds the  
22 taxpayer's income tax liability, the excess of tax credits over



1 liability shall be refunded to the taxpayer; provided that no  
2 refund or payment on account of the tax credits allowed by this  
3 section shall be made for amounts less than \$1.

4 (e) All claims, including any amended claims for tax  
5 credits under this section, shall be filed on or before the end  
6 of the twelfth month following the close of the taxable year for  
7 which the tax credit may be claimed. Failure to comply with  
8 this subsection shall constitute a waiver of the right to claim  
9 the tax credit.

10 (f) The director of taxation:

11 (1) Shall prepare such forms as may be necessary to claim  
12 a tax credit under this section;

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

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

16 (4) Shall prepare an annual report to the governor and  
17 legislature containing the:

18 (A) Number of credits granted for the prior calendar  
19 year;

20 (B) Total amount of the credits granted; and



1           (C) Average value of the credits granted to taxpayers  
2           whose earned income falls within various income  
3           ranges; and

4           (5) May adopt rules pursuant to chapter 91 to effectuate  
5           this section.

6           (g) On a regular basis, the director of taxation, with the  
7           assistance of the director of human services, shall calculate  
8           the value of the refundable portion of the tax credits provided  
9           under this section that qualifies for reimbursement from  
10          temporary assistance for needy families funds. The director of  
11          taxation shall provide the director of human services with such  
12          tax credit records and information as are necessary to support  
13          draws of funds. The director of human services shall reimburse  
14          the director of taxation for the costs of providing the  
15          information required by this section.

16          (h) Temporary assistance for needy families funds are  
17          appropriated, as provided by law in the Temporary Assistance for  
18          Needy Families Authorization Act, to the director of human  
19          services based on calculations under subsection (g) that qualify  
20          for reimbursement from the temporary assistance for needy  
21          families funds for income tax refunds. The draws of temporary  
22          assistance for needy families funds shall be made each fiscal

1 quarter based on calculations of credits authorized by the  
 2 director of taxation and shall be deposited to the credit of the  
 3 general fund."

4 SECTION 3. New statutory material is underscored.

5 SECTION 4. This Act, upon its approval, shall apply to  
 6 taxable years beginning after December 31, 2005.

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HB 2018

**Report Title:**

Taxation; Earned Income Credit

**Description:**

Provides a refundable state earned income tax credit (EITC) equivalent to twenty percent of the federal EITC. Requires the refundable portion of the EITC to be reimbursed by federal Temporary Assistance for Needy Families (TANF) or state TANF Maintenance of Effort funds.

