

JAN 25 2006

**S.B. NO. 2370**

---

---

**A BILL FOR AN ACT**

RELATING TO NET INCOME TAX CREDIT FOR FOOD, MEDICAL SERVICES,  
AND NONPRESCRIPTION DRUGS.

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

1           SECTION 1. The purpose of this Act is to provide economic  
2 relief for struggling working families earning \$50,000 or less  
3 per year by establishing a refundable tax credit for food,  
4 medical services, and nonprescription drugs. This Act shall be  
5 known as the "Working Families' Tax Credit for Food, Medical  
6 Services, and Nonprescription Drugs."

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

10           "§235-\_\_\_\_\_ Tax credit for food, medical services, and  
11 nonprescription drugs. (a) Each resident individual taxpayer,  
12 who files an individual income tax return for a taxable year,  
13 and who is not claimed or is not otherwise eligible to be  
14 claimed as a dependent by another taxpayer for federal or Hawaii  
15 state individual income tax purposes, may claim a refundable tax  
16 credit for food, medical services, and nonprescription drugs  
17 against the taxpayer's individual income tax liability for the

1 taxable year for which the individual income tax return is being  
2 filed; provided that a resident individual who has no income or  
3 no income taxable under this chapter and who is not claimed or  
4 is not otherwise eligible to be claimed as a dependent by a  
5 taxpayer for federal or Hawaii state individual income tax  
6 purposes may claim this credit.

7       (b) Each resident individual taxpayer with an  
8 adjusted gross income, as defined by the Internal Revenue Code,  
9 of \$50,000 or less may claim a refundable tax credit for food,  
10 medical services, and nonprescription drugs in the amount of  
11 \$100 multiplied by the number of qualified exemptions to which  
12 the taxpayer is entitled; provided further that a husband and  
13 wife filing separate tax returns for a taxable year for which a  
14 joint return could have been filed by them shall claim only the  
15 tax credit to which they would have been entitled had a joint  
16 return been filed.

17       (c) For purposes of this section, a qualified exemption is  
18 defined to include those exemptions permitted under this  
19 chapter; provided that a person for whom an exemption is claimed  
20 was physically present in the State for more than nine months  
21 during the taxable year. For purposes of claiming this credit  
22 only, a minor child receiving support from the department of

1 human services of the State, social security survivor's  
2 benefits, and the like, who would not otherwise be considered a  
3 dependent, may be considered a dependent and a qualified  
4 exemption of the parent or guardian.

5 (d) The tax credit under this section shall not be  
6 available to:

7 (1) Any person who has been convicted of a felony and who  
8 has been committed to prison and has been physically  
9 confined for the full taxable year;

10 (2) Any person who would otherwise be eligible to be  
11 claimed as a dependent but who has been committed to a  
12 youth correctional facility and has resided at the  
13 facility for the full taxable year; or

14 (3) Any misdemeanor who has been committed to jail and  
15 has been physically confined for the full taxable  
16 year.

17 (e) The tax credit claimed by a resident taxpayer pursuant  
18 to this section shall be deductible from the resident taxpayer's  
19 individual income tax liability, if any, for the tax year in  
20 which they are properly claimed. If the tax credits claimed by  
21 a resident taxpayer exceed the amount of income tax payment due  
22 from the resident taxpayer, the excess of credits over payments

S.B. NO. 2378

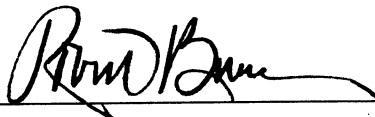
1 due shall be refunded to the resident taxpayer; provided that  
2 tax credits properly claimed by a resident individual who has no  
3 income tax liability shall be paid to the resident individual;  
4 and provided further that no refunds or payments on account of  
5 the tax credits allowed by this section shall be made for  
6 amounts less than \$1.

7 (f) All claims for tax credits under this section,  
8 including any amended claims, shall be filed on or before the  
9 end of the twelfth month following the close of the taxable year  
10 for which the credits may be claimed. Failure to comply with  
11 the foregoing provisions shall constitute a waiver of the right  
12 to claim the credit."

13 SECTION 3. New statutory material is underscored.

14 SECTION 4. This Act shall take effect upon its approval  
15 and shall apply to taxable years beginning after December 31,  
16 2005.

17  
18 INTRODUCED BY: \_\_\_\_\_



19 BY REQUEST

## JUSTIFICATION SHEET

DEPARTMENT: Taxation

TITLE: A BILL FOR AN ACT RELATING TO NET INCOME TAX CREDIT FOR FOOD, MEDICAL SERVICES, AND NON-PRESCRIPTION DRUGS.

PURPOSE: To provide economic relief for working families earning \$50,000 or less per year by establishing a refundable tax credit for food, medical services, and nonprescription drugs.

MEANS: Add a new section to chapter 235, Hawaii Revised Statutes (HRS).

JUSTIFICATION: Act 239, Session Laws of Hawaii (SLH) 1987, established a temporary food tax credit set at \$45 per qualified exemption. This tax credit was to expire on December 31, 1990, but Act 187, SLH 1990, created a permanent food tax credit and increased the credit to \$55 per qualified exemption. Act 134, SLH 1995, reduced the food tax credit from \$55 to \$27 per qualified exemption. Act 157, SLH 1998, repealed the food tax credit beginning tax year 1999 and in its place established a low-income refundable tax credit.

This bill establishes a refundable tax credit for food, medical services, and nonprescription drugs for individuals and families with a federal adjusted gross income of \$50,000 or less per year. The tax credit is \$100 multiplied by the number of qualified exemptions to which the taxpayer is entitled.

Impact on the public: Middle to low-income families will benefit from this tax credit because it will provide them with needed economic relief.

Impact on the department and other agencies:  
The Department of Taxation will need to update tax forms and instructions to accommodate the new credit.

GENERAL FUND: \$70.7 million in tax credits per year.

OTHER FUNDS: None.

PPBS PROGRAM  
DESIGNATION: TAX 102.

OTHER AFFECTED  
AGENCIES:

EFFECTIVE DATE: Upon approval and applies to taxable years beginning after December 31, 2005.