

Honolulu, Hawaii

FEB 18 2008

RE: S.B. No. 2240
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred S.B. No. 2240 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to establish a refundable State of Hawaii earned income tax credit for individual taxpayers equal to twenty per cent of the federal earned income tax credit.

Specifically, this measure provides a targeted tax relief approach by establishing income tax credits for the different classes of individual taxpayers on a sliding scale to ensure that taxpayers who need tax relief actually receive it.

Testimony in support of this measure was submitted by the Hawai'i Alliance for Community-Based Economic Development, Aloha United Way, International Longshore and Warehouse Union Local 142, and the Legal Aid Society of Hawaii. Testimony in opposition of this measure was submitted by the Department of Taxation. Comments on this measure were submitted by the Tax Foundation of Hawaii.

Your Committee finds that providing individual taxpayers in Hawaii with a refundable earned income tax credit that is equal to twenty per cent of the federal earned income tax credit would enable some taxpayers to have more financial security and give low income working families an opportunity to offset the high cost of living in Hawaii. In addition, twenty-three other states already



have a state earned income tax credit available for their taxpayers.

Your Committee continues to be concerned about the lack of reliable data regarding the level of fraud/errors that exist at the federal level, that may correspondingly, affect the accuracy of a large percentage of Hawaii tax filers. Before making any final determination on the feasibility of Hawaii's adoption of the earned income tax credit, your Committee encourages the proponents of the measure and the Department of Taxation to share their most current data with each other so that a determination can be made on whether past filing problems have actually been resolved.

Your Committee is therefore advancing this measure so that further discussions can take place on the issues identified above.

Your Committee received a fiscal impact statement from the Department of Taxation which estimates that this measure, as introduced, would result in an annual revenue loss to the State of \$23,800,000. Their methodology is as follows:

Based upon data for the 2005 Income Patterns Report, 68,560 resident taxpayers in Hawaii claimed the federal earned income tax credit totaling \$114,000,000. Multiplying that amount by the twenty per cent State earned income tax credit totals \$22,800,000. The Department of Taxation estimates an additional \$1,000,000 claimed by part-year residents, which brings the total annual revenue loss to the State to \$23,800,000.

Your Committee has amended this measure by:

- (1) Adding married filing separately to the list of filing status examples;
- (2) Requiring the Director of Taxation to submit an annual report to the Legislature no later than twenty days prior to the convening of each Regular Session, beginning with the Regular Session of 2009;
- (3) Changing the applicable effective date of the tax credit to taxable years beginning after December 31, 2050, to facilitate further discussion on this measure; and
- (4) Making technical, nonsubstantive amendments for the purpose of clarity.



As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2240, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2240, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Taxation,



CAROL FUKUMAGA, Chair



