

JAN 23 2009

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

9           The earned income tax credit has been widely praised for  
10 its success in supporting work and reducing poverty. The  
11 federal credit now lifts more children out of poverty than any  
12 other government program. Over 4.9 million people, including  
13 2.7 million children, were removed from poverty in 2002 as a  
14 result of the federal earned income tax credit. The federal  
15 earned income tax credit also has been proven effective in  
16 encouraging work among welfare recipients. According to a study  
17 by the Center on Budget and Policy Priorities, the federal



1 earned income tax credit has had a large impact on encouraging  
2 more single mothers to work. Support for the federal earned  
3 income tax credit has been widespread across the political  
4 spectrum.

5 The federal earned income tax credit is a refundable tax  
6 credit. For the 2008 tax year families are eligible for the  
7 federal earned income tax credit if their income is at or below  
8 \$39,782 and investment income is limited to \$2,900 per year.  
9 The 2008 federal poverty guideline was \$14,000 for a family of  
10 two, \$17,600 for a family of three, and \$21,200 for a family of  
11 four in the District of Columbia and forty-eight contiguous  
12 states (it is slightly higher in Alaska (\$26,500) and Hawaii  
13 (\$24,380)). The maximum credit in 2008 was \$2,853 for families  
14 with one child, and \$4,716 for families with more than one  
15 child. The federal earned income tax credit supplements wages  
16 of low-income families and complements welfare reform efforts.  
17 The tax credit helps lift families out of poverty and can be  
18 used as a tool to build assets.

19 The legislature also finds that federal temporary  
20 assistance for needy families regulations permit temporary  
21 assistance for needy families moneys to be used to fund  
22 refundable tax credits. According to the United States



1 Department of Health and Human Services' Administration for  
2 Children and Families' Temporary Assistance for Needy Families  
3 Financial Data report for 2003, ten states use temporary  
4 assistance for needy families to fund their state earned income  
5 tax credit programs:

6 (1) Minnesota and Wisconsin use federal temporary  
7 assistance for needy families funds to pay for their  
8 refundable state earned income tax credit;

9 (2) Indiana, Kansas, Maryland, New York, and Wisconsin use  
10 state maintenance of effort money designated to a  
11 separate state program for their refundable state  
12 earned income tax credit;

13 (3) Massachusetts and Vermont use state maintenance of  
14 effort money for their refundable state earned income  
15 tax credit; and

16 (4) New Jersey uses the federal temporary assistance for  
17 needy families and state maintenance of effort moneys  
18 for its state refundable earned income tax credit.

19 According to an article from the Center on Budget and  
20 Policy Priorities, as of 2008, twenty-three states and the  
21 District of Columbia have enacted an earned income tax credit  
22 for low-income and moderate-income working families that ranged



1 between 3.5 per cent and forty per cent of the federal earned  
2 income tax credit amount.

3 The purpose of this Act is to provide a refundable state  
4 earned income tax credit and require the refundable portion of  
5 the earned income tax credit to be reimbursed by temporary  
6 assistance for needy families and state maintenance of effort  
7 moneys.

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

11 "§235- Earned income tax credit. (a) Each resident  
12 individual taxpayer who:

13 (1) Files an individual income tax return for a taxable  
14 year; and

15 (2) Is not claimed or is not eligible to be claimed as a  
16 dependent by another taxpayer for income tax purposes;

17 may claim a refundable earned income tax credit. The tax  
18 credit, for the appropriate taxable year, shall be equal to  
19 twenty per cent of the earned income tax credit allowed under  
20 section 32 (with respect to earned income) of the Internal  
21 Revenue Code and reported as an earned income tax credit on the  
22 resident individual's federal income tax return.



1        (b) In the case of a part-year resident, the tax credit  
2 shall equal the amount of the tax credit calculated in  
3 subsection (a) multiplied by the ratio of adjusted gross income  
4 attributed to this State to the entire adjusted gross income  
5 computed without regard to source in the State pursuant to  
6 section 235-5.

7        (c) For purposes of claiming the tax credit allowed by  
8 this section, a resident individual taxpayer shall use the same  
9 filing status on the taxpayer's Hawaii tax return as is used on  
10 the taxpayer's federal return for the taxable year. In the case  
11 of a husband and wife filing separately, the credit allowed may  
12 be applied against the income tax liability of either, or  
13 divided between them, as elected by the husband and wife.

14        (d) The tax credit shall be reduced by other tax credits  
15 allowed under this chapter. If the tax credit under this  
16 section exceeds the taxpayer's income tax liability, the excess  
17 of tax credits over liability shall be refunded to the taxpayer;  
18 provided that no refund or payment on account of the tax credits  
19 allowed by this section shall be made for amounts less than \$1.

20        (e) All claims, including any amended claims for the tax  
21 credit under this section, shall be filed on or before the end  
22 of the twelfth month following the close of the taxable year for



1 which the tax credit may be claimed. Failure to comply with  
2 this subsection shall constitute a waiver of the right to claim  
3 the tax credit.

4 (f) The director of taxation:

5 (1) Shall prepare any forms that may be necessary to claim  
6 a tax credit under this section;

7 (2) May require proof from the taxpayer for their claim of  
8 the tax credit;

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

11 (4) Shall prepare an annual report to the governor and  
12 legislature containing the:

13 (A) Number of credits granted for the prior calendar  
14 year;

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

16 (C) Average value of the credits granted to taxpayers  
17 whose earned income falls within various income  
18 ranges; and

19 (5) May adopt rules necessary to effectuate the purposes  
20 of this section pursuant to chapter 91.

21 (g) On a regular basis, the director of taxation, with the  
22 assistance of the director of human services, shall calculate



1 the value of the refundable portion of the tax credits provided  
2 under this section that qualifies for reimbursement from  
3 temporary assistance for needy families funds. The director of  
4 taxation shall provide the director of human services with any  
5 necessary tax credit records and information that are required  
6 to draw from the funds. The director of human services shall  
7 reimburse the director of taxation for the costs of providing  
8 the information required by this section.

9 (h) Temporary assistance for needy families funds are  
10 appropriated, as provided by law in the Temporary Assistance for  
11 Needy Families Authorization Act, to the director of human  
12 services based on calculations under subsection (g) that qualify  
13 for reimbursement from the temporary assistance for needy  
14 families funds for income tax refunds. The draws of temporary  
15 assistance for needy families funds shall be made each fiscal  
16 quarter based on calculations of credits authorized by the  
17 director of taxation and shall be deposited to the credit of the  
18 general fund."

19 SECTION 3. New statutory material is underscored.



# S.B. NO. 790

1           SECTION 4. This Act, upon its approval, shall apply to  
2 taxable years beginning after December 31, 2008.

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INTRODUCED BY: *Suzanne Chun Cahill*





**Report Title:**

Asset Building Task Force; Earned Income Tax Credit

**Description:**

Provides a refundable state earned income tax credit equivalent to twenty per cent of the federal earned income tax credit. Requires the refundable portion of the earned income tax credit to be reimbursed by federal or state temporary assistance for needy families funds.

