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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. Chapter 231, Hawaii Revised Statutes, is  
2 amended by adding a new section to be appropriately designated  
3 and to read as follows:

4           "§231-     Tax preparation; earned income tax credit. No  
5 person who is engaged in the business of preparing or providing  
6 services in connection with the preparation of tax returns for  
7 compensation to clients who are recipients of the state earned  
8 income tax credit under section 235-     , shall charge such  
9 recipients more than           per cent interest for any tax  
10 preparation service provided to the recipient. Interest  
11 received on any refund anticipation loan or comparable  
12 arrangement shall be deemed to be interest charged for tax  
13 preparation service.

14           Any person who violates this section shall be guilty of a  
15 misdemeanor."

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



1       "§235-    Earned income tax credit. (a) Each resident  
2 individual taxpayer who files an individual income tax return  
3 for a taxable year, and is not claimed or eligible to be claimed  
4 as a dependent by another taxpayer for income tax purposes, may  
5 claim a refundable earned income tax credit. The tax credit  
6 shall be equal to            per cent of the earned income credit  
7 allowed under Section 32 of the Internal Revenue Code, as  
8 amended.

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

15       (c) For purposes of claiming the earned income tax credit,  
16 a resident individual taxpayer shall use the same filing status  
17 on the taxpayer's Hawaii income tax return as used on the  
18 taxpayer's federal income tax return for the taxable year.

19       In the case of a husband and wife filing separately, the  
20 tax credit allowed may be applied against the income tax  
21 liability of either, or divided between them, as they elect.



1        (d) The earned income tax credit shall be reduced by other  
2 tax credits allowed under this chapter. If the tax credit under  
3 this section exceeds the taxpayer's income tax liability, the  
4 excess of tax credits over liability shall be refunded to the  
5 taxpayer; provided that no refund or payment on account of the  
6 tax credits allowed by this section shall be made for amounts  
7 less than \$1.

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

14        (f) The director of taxation, with the assistance of the  
15 director of human services, shall calculate the value of the  
16 refundable portion of the tax credits provided under this  
17 section. The director of human services shall transfer  
18 temporary assistance for needy families funds to the director of  
19 taxation to pay for the refundable tax credits; provided that  
20 the transfer of such funds shall not apply to taxable years  
21 after December 31, 2009.

22        (g) The director of taxation:



- 1        (1) Shall prepare such forms as may be necessary to claim  
2            a tax credit under this section;
- 3        (2) May require proof of the claim for the tax credit;
- 4        (3) Shall alert eligible taxpayers of the tax credit using  
5            appropriate and available means;
- 6        (4) Shall prepare an annual report to the governor and  
7            legislature containing:
- 8            (A) The number of credits granted for the prior  
9            calendar year;
- 10          (B) The total amount of the credits granted; and
- 11          (C) The average value of the credits granted to  
12            taxpayers whose earned income falls within  
13            various income ranges; and
- 14          (5) May adopt rules pursuant to chapter 91 to effectuate  
15            this section."

16        SECTION 3. There is appropriated, pursuant to section 346-  
17 51.5, Hawaii Revised Statutes, out of temporary assistance for  
18 needy families funds the sum of \$                      or so much thereof  
19 as may be necessary for fiscal year 2009-2010 to fund the  
20 refundable earned income tax credit pursuant to section 235-  
21 (f).



1           The sum appropriated shall be expended by the department of  
2 human services for the purposes of this Act.

3           SECTION 4. There is appropriated out of the general  
4 revenues of the State of Hawaii the sum of \$                    or so  
5 much thereof as may be necessary for fiscal year 2009-2010 and  
6 the same sum or so much thereof as may be necessary for fiscal  
7 year 2010-2011 to fund public service announcements to alert  
8 eligible taxpayers of the earned income tax credit, pursuant to  
9 section 235- (g) (3).

10           The sums appropriated shall be expended by the department  
11 of taxation for the purposes of this Act.

12           SECTION 5. New statutory material is underscored.

13           SECTION 6. This Act shall take effect on January 1, 2050.



**Report Title:**

Earned Income Tax Credit; Tax Preparers; TANF Funds

**Description:**

Creates a state earned income tax credit funded initially with TANF funds. Restricts the interest charged by tax preparers to clients who claim the earned income tax credit. (HB333 HD1)

