
A BILL FOR AN ACT

RELATING TO ASSET BUILDING.

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

1 PART I

2 PURPOSE

3 SECTION 1. The legislature finds that one third of
4 Hawaii's middle class families are asset poor, lacking the
5 resources to subsist at the poverty level for three months in
6 the absence of a source of income. The legislature further
7 finds that assets are necessary to provide financial security
8 during economically difficult times, create economic
9 opportunities, and improve future generations' quality of life.

10 Senate Concurrent Resolution No. 92, S.D. 1 (2008) and
11 Senate Resolution No. 52, S.D. 1 (2008) established the Hawaii
12 state asset building and financial education task force, charged
13 with developing policy recommendations to implement various
14 asset building strategies in the State. In 2010, the task force
15 submitted its recommendations to the legislature. The
16 recommendations included implementing tax policies that make
17 work pay, improving financial education, encouraging people to
18 save, helping people start businesses, helping people become



1 homeowners, and removing barriers to asset building. The
2 purpose of this Act is to implement some of the recommendations
3 submitted by the Hawaii state asset building and financial
4 education task force.

5 PART II

6 EARNED INCOME TAX CREDIT

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

10 "§235- Earned income tax credit. (a) Each resident
11 individual taxpayer who:

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

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

16 may claim a refundable earned income tax credit. The tax
17 credit, for the appropriate taxable year, shall be equal to
18 per cent of the federal earned income tax credit allowed
19 under section 32 of the Internal Revenue Code, as amended, and
20 reported as such on the resident individual's federal income tax
21 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) To claim the tax credit allowed under this section, a
8 resident individual taxpayer shall use the same filing status on
9 the taxpayer's Hawaii income tax return as used on the
10 taxpayer's federal income tax return for the taxable year.

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

17 (e) No credit shall be allowed under this section for any
18 taxable year in the disallowance period. For purposes of this
19 subsection, the disallowance period is:

20 (1) The period of ten taxable years after the most recent
21 taxable year for which there was a final determination



1 that the taxpayer's claim of credit under this section
2 was due to fraud; and

3 (2) The period of two taxable years after the most recent
4 taxable year for which there was a final determination
5 that the taxpayer's claim of credit under this section
6 was due to reckless or intentional disregard of rules
7 and regulations, but not due to fraud.

8 (f) Any person who is a tax return preparer with respect
9 to any return or claim for refund who fails to comply with due
10 diligence requirements imposed by the Secretary of the United
11 States Department of the Treasury by regulations with respect to
12 determining eligibility for, or the amount of, the credit
13 allowable by section 32 of the Internal Revenue Code shall pay a
14 penalty of \$100 for each such failure.

15 (g) The director of taxation:

16 (1) Shall prepare any forms necessary to claim a tax
17 credit under this section;

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

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

21 (4) Shall prepare an annual report to the legislature, the
22 governor, and the public containing the:



- 1 (A) Number of credits granted for the prior calendar
- 2 year;
- 3 (B) Total amount of the credits granted; and
- 4 (C) Average value of the credits granted to taxpayers
- 5 whose earned income falls within various income
- 6 ranges; and
- 7 (5) May adopt rules pursuant to chapter 91 to effectuate
- 8 this section."

PART III

FINANCIAL EDUCATION

11 SECTION 3. Chapter 346, Hawaii Revised Statutes, is

12 amended by adding a new section to part II to be appropriately

13 designated and to read as follows:

14 "§346- Financial education. The department shall offer

15 financial education to applicants for and recipients of

16 temporary assistance for needy families, in addition to any

17 mandatory programs available to these applicants, as required by

18 federal law.

19 For purposes of this section, "financial education" means

20 education that promotes an understanding of consumer, economic,

21 and personal finance concepts, including the basic principles



1 involved in earning, budgeting, spending, saving, investing, and
2 taxation."

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 2011-2012 and
6 the same sum or so much thereof as may be necessary for fiscal
7 year 2012-2013 for the department of human services to offer
8 financial education to applicants for and recipients of
9 temporary assistance for needy families.

10 The sums appropriated shall be expended by the department
11 of human services for the purposes of this part.

12 PART IV

13 ENCOURAGE SAVINGS

14 SECTION 5. Section 257-3, Hawaii Revised Statutes, is
15 amended to read as follows:

16 "[~~f~~]**\$257-3**[~~}]~~ **Fiduciary organizations.** (a) [~~Fiduciary~~
17 ~~organizations~~] A fiduciary organization shall serve as an
18 intermediary between individual development account holders and
19 financial institutions holding accounts. The fiduciary
20 organization's responsibilities may include:

- 21 (1) Marketing participation;
- 22 (2) Soliciting matching contributions;



- 1 (3) Counseling program participants; and
- 2 (4) Conducting verification and compliance activities.
- 3 (b) Locally-based organizations shall enter into a
- 4 competitive process for the right to become fiduciary
- 5 organizations for a portion of the state matching dollars [~~that~~
- 6 ~~would be authorized initially~~]. Fiduciary organization
- 7 proposals shall be evaluated and participation rights awarded on
- 8 the basis of [~~such items as~~]:
- 9 (1) Their ability to market the program to potential
- 10 individual development account holders and potential
- 11 matching fund contributors;
- 12 (2) Their ability to provide safe and secure investments
- 13 for individual development accounts;
- 14 (3) Their overall administrative capacity, including:
- 15 (A) Certifications or verifications required to
- 16 assure compliance with eligibility requirements;
- 17 (B) Authorized uses of the accounts matching
- 18 contributions by individuals or businesses; and
- 19 (C) Penalties for unauthorized distributions;
- 20 (4) Their capacity to provide financial counseling and
- 21 other related services to potential participants; and



1 (5) Their links to other activities designed to increase
2 the independence of individuals and families through
3 high return investments, including homeownership,
4 education and training, and small business
5 development.

6 The department of human services shall contract with an
7 appropriate agency whose regular course of business dealings
8 involves financial obligations or contracts. The agency
9 contracted by the department of human services shall provide
10 technical and administrative assistance to fiduciary
11 organizations to meet the criteria under this subsection;
12 provided that the State may expend appropriate federal moneys,
13 including community development block grants, for this purpose
14 as applicable.

15 (c) If the State approves an application to fund an
16 individual development account project under this section, the
17 State shall [~~not later than one month after June 28, 1999,~~]
18 authorize the applicant to conduct the project with state funds
19 [~~for five project years~~] in accordance with the approved
20 application and this section; provided that an applicant may
21 apply for funding during future fiscal years [~~for five project~~
22 ~~years if the State lacks the~~] if there are insufficient



1 resources to fund an individual development account project
2 pursuant to this subsection.

3 ~~[(d) For each individual development account program
4 approved under this section, the State shall make a grant to the
5 qualified entity or collaboration of entities authorized to
6 conduct the project on the first day of the project year in an
7 amount not to exceed \$100,000 per year for five years.~~

8 ~~(e)]~~ (d) From among the individuals eligible for
9 assistance under the Hawaii individual development account
10 program, each selected fiduciary organization shall select the
11 individuals whom the fiduciary organization deems to be best
12 suited to receive such assistance."

13 SECTION 6. Section 257-11, Hawaii Revised Statutes, is
14 amended as follows:

15 1. By amending subsection (a) to read:

16 "(a) The fiduciary organization running an individual
17 development account program shall have sole authority over the
18 administration of the project. The State may ~~[prescribe only
19 such regulations]~~ adopt rules with respect to demonstration
20 projects ~~[under this chapter]~~ as are necessary to ensure
21 compliance ~~[pursuant to]~~ with this chapter."

22 2. By amending subsection (d) to read:



1 "(d) Selected fiduciary organizations may use no more than
2 [~~ten~~] twenty-five per cent of state funds as appropriated under
3 this [chapter] to cover [administrative] operating costs in
4 any given year."

5 SECTION 7. There is appropriated out of the general
6 revenues of the State of Hawaii the sum of \$ or so
7 much thereof as may be necessary for fiscal year 2011-2012 and
8 the same sum or so much thereof as may be necessary for fiscal
9 year 2012-2013 for fiduciary organizations, as defined in
10 section 257-1, Hawaii Revised Statutes, to conduct individual
11 development account programs, as provided in section 257-3,
12 Hawaii Revised Statutes.

13 The sums appropriated shall be expended by the department
14 of human services for the purposes of this section.

15 **PART V**

16 **MISCELLANEOUS**

17 SECTION 8. Statutory material to be repealed is bracketed
18 and stricken. New statutory material is underscored.

19 SECTION 9. This Act, upon its approval, shall apply to
20 taxable years beginning after December 31, 2010; provided that
21 sections 4 and 7 of this Act shall take effect on July 1, 2011.

22



Report Title:

Earned Income Tax Credit; Asset Building; Appropriation

Description:

Establishes a refundable state earned income tax credit. Requires the department of human services to provide financial education to applicants for and recipients of temporary assistance for needy families. Amends provisions of section 257, HRS, regarding individual development accounts. (SD1)

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