

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES

P. O. Box 339
Honolulu, Hawaii 96809-0339

March 25, 2013

MEMORANDUM

TO: The Honorable David Y. Ige, Chair
Senate Committee on Ways and Means

FROM: Patricia McManaman, Director

SUBJECT: **H.B. 385, H.D. 2 - RELATING TO HUMAN SERVICES**

Hearing: Monday, March 25, 2013; 9:10 a.m.
Conference Room 211, State Capitol

PURPOSE: The purpose of this bill is to establish a refundable state Earned Income Tax Credit and requires the Department of Human Services to offer financial education to applicants for and recipients of Temporary Assistance for Needy Families.

DEPARTMENT'S POSITION: The Department of Human Services (DHS) supports the intent of this bill, provided it does not adversely impact nor replace the priorities in the Executive Biennium Budget. We respectfully defer to the Department of Taxation on its implementation.

The Department currently provides limited financial education to Temporary Assistance for Needy Families (TANF) eligible families on Oahu which provides basic concepts of setting financial goals, banking, budgeting, understanding credit, and investing. This helps TANF families make decisions about employment opportunities and how it impacts their family's income in order to remain self-sufficient.

Based on this limited financial education service we currently provide, we estimate that the per family cost is \$170, to provide such a service. Additionally, the

total number of TANF applicants and recipients that the Department served in SFY 2012 was 19,008. Therefore, the Department estimates that an appropriation of \$3,231,360 will be needed to provide the financial literacy services as proposed in this bill. Further, the Department estimates that an appropriation of \$3,117,290 will be needed to provide the financial literacy services to TANF recipients only.

Thank you for the opportunity to provide comments on this bill.



CATHOLIC CHARITIES HAWAII

TESTIMONY IN STRONG SUPPORT OF HB 385, HD2: Relating to Human Services

TO: Senator David Y. Ige, Chair, Senator Michelle N. Kidani, Vice Chair,
Members of the Committee on Ways and Means

FROM: Trisha Kajimura, Social Policy Director, Catholic Charities Hawaii

Hearing: **Monday, March 25, 2013 9:10 a.m. Conference Room 211**

Thank you for the opportunity to testify **in strong support of HB 385**, which establishes a refundable state earned income tax credit, and financial education to applicants for and recipients of temporary assistance for needy families. *If this bill is passed, it will be the most meaningful anti-poverty measure taken by the legislature this session.*

Catholic Charities Hawai'i has a strong commitment to decreasing poverty. Poverty is clearly linked to poor social and health outcomes. People living below the poverty line are especially hard hit in Hawaii, with the highest cost of living in the U.S. A family of four in Hawaii pays 61% more for food than families on the mainland. Our cost for housing is also the highest in the nation. 75% of people at or below the poverty line spend more than 50% of their income on housing. This population is frequently teetering at the brink of homelessness. Any change to their financial situation like a decrease in wages or increase in rent will tip them over into homelessness. Increasing their resources through this measure is much more cost-effective than trying to help them out of homelessness once they have lost everything

Catholic Charities Hawaii supports a State Earned Income Tax Credit (EITC) to help families in poverty and prevent homelessness. EITC is a direct incentive for low income workers since it targets workers with families. Funding for education on this benefit is also critical to reach those who are most in need. Many low-income earners in Hawaii may have low literacy levels or limited English and need education to understand and apply for the EITC. Funding the financial education and tax workshops are important to ensure those in most need can take advantage of this tax credit.

25 states and the District of Columbia already have enacted a state EITC. The federal EITC has been in existence for 37 years. Over time, it has helped millions of families escape the burdens of poverty. Studies of the federal experience have also shown that workers who receive the EITC immediately spend the money on daily necessities which adds money to the local economy.

We thank you for your concern and dedication to helping the working poor in our community. **We urge your support for HB 385.** Please contact me at (808)527-4810 or trisha.kajimura@catholiccharitieshawaii.org if you have any questions.



COMMUNITY ALLIANCE ON PRISONS

76 North King Street, Honolulu, HI 96817

Phones/E-Mail: (808) 533-3454, (808) 927-1214 / kat.caphi@gmail.com



COMMITTEE ON WAYS AND MEANS

Sen. David Ige, Chair

Sen. Michelle Kidani, Vice Chair

Monday, March 25, 2013

9:10 a.m.

Room 211

SUPPORT FOR HB 385 HD2 - EARNED INCOME TAX CREDIT

Aloha Chair Ige, Vice Chair Kidani and Members of the Committee!

My name is Kat Brady and I am the Coordinator of Community Alliance on Prisons, a community initiative promoting smart justice policies for more than a decade. This testimony is respectfully offered on behalf of the 5,800 Hawai'i individuals living behind bars, always mindful that approximately 1,500 individuals are serving their sentences abroad, thousands of miles away from their loved ones, their homes and, for the disproportionate number of incarcerated Native Hawaiians, far from their ancestral lands.

HB 385 HD2 establishes a refundable state Earned Income Tax Credit and requires the Department of Human Services to offer financial education to applicants for and recipients of Temporary Assistance for Needy Families.

Community Alliance on Prisons stands in support of this measure. As long-time members of the Hawai'i Women's Coalition, we have worked together to support this common sense approach to asset building for our struggling families.

Many of our incarcerated citizens come from economically-challenged families and communities. The costs of food of shelter are continually rising in Hawai'i pushing more and more people to the margins of society. Hawai'i has the highest cost of living in the United States.

The federal Earned Income Tax Credit (EITC) program was adopted in 1975 to provide relief to low-income workers through a targeted tax reduction and has since been expanded several times because of its proven success at getting and keeping people working. It can only be claimed by people who earn income through work, and the credit is structured to encourage people to work more hours. People who work full time should be able to support their families and stay out of poverty.

The EITC is essential to ensuring that people who work are able to make ends meet. The EITC is mostly used as a temporary support. Three out of five recipients claim the EITC for short periods – only one or two years. The EITC is a good way to help families that experience temporary job loss, reduced hours, or reduced pay stay on their feet.

State EITCs help make sure that people who work hard are able to meet basic needs, support their families, and stay off welfare. They are a **small** investment that can make a **BIG** difference in the lives of working families

As of this year, 25 states and the District of Columbia have enacted a state EITC and nearly all 25 states calculate the value of the state credit as a percentage of the federal EITC amount.

A recent report entitled, **STACKED DECK - How the Dominance of Politics by the Affluent & Business Undermines Economic Mobility in America**¹ recommends policies that:

Reduce Economic Inequality

Widely shared prosperity has long been recognized as critical for a strong democracy. When all citizens have a stake in society, they have an incentive to resolve political conflicts through peaceful, democratic means. Conversely, when the middle class erodes and the gulf between the wealthy and the poor widens, politics become more polarized. Thus while an inclusive economy can be the product of democratic politics, it also helps to reinforce democracy. Building a stronger middle class that fully reflects America's diversity will require policies that:

Use tax policy to strengthen and expand the middle class. Too often, the nation's tax policy bolsters the already wealthy rather than supporting Americans trying to work their way into the middle class. A more progressive tax system could increase economic mobility and reduce inequality. The Earned Income Tax Credit and the Child Tax Credit, which benefit low-income workers and their families, should be expanded. To ensure that the home mortgage tax credit helps middle-class families rather than subsidizing the super-wealthy, its value should be capped. Meanwhile taxes on capital gains and dividends – income which disproportionately flows to the wealthiest Americans – should be increased, and corporate tax loopholes should be eliminated. To reduce the transfer of tremendous wealth from one generation to the next, estate taxes should be increased.

Please help our struggling families by supporting the state EITC. A rising tide floats ALL boats!

Mahalo for this opportunity to testify.

¹ STACKED DECK How the Dominance of Politics by the Affluent & Business Undermines Economic Mobility in America, by: David Callahan & J. Mijin Cha. <http://www.demos.org/sites/default/files/publications/Demos-Stacked-Deck.pdf>



To: The Honorable Senator David Ige, Chair
The Honorable Senator Michelle Kidani, Vice Chair
Senate Committee on Ways and Means

From: Laura Smith, President/CEO
Scott Fuji, Assistant Director of Community Services
Goodwill Industries of Hawaii, Inc.

Date: March 25th, 2013

Re: **Testimony in Support of HB 385, HD2 – Relating to Human Services**

Goodwill Industries of Hawaii, Inc. (Goodwill) is among the largest human service non-profit organizations in Hawaii. Our mission is to help people find and succeed in employment. With a Statewide footprint and offices on Oahu, Maui, Hilo, Kona and Kauai, last year Goodwill served over 15,000 people, placing more than 1,500 into jobs in our community.

Goodwill stands in strong support of HB385 HD2 for the immediate impact on poverty it would have for Hawaii's working poor. Goodwill's experience in working with the under and unemployed of Hawaii leads us to believe that there remains a strong impetus to work and improve the quality of life for themselves and their families. A state Earned Income Tax Credit (EITC) will act as an incentive for employment, not a handout, as the amount received increases with the amount of income received from work.

A state EITC will have the greatest targeted impact for tax relief that can be offered to working low-income families. For example, a family of four filing jointly with two dependents at the federal poverty line of \$24,000 will incur a state tax liability of \$564 for 2012. A 10% state EITC (\$487) linked to the federal EITC will reduce that tax liability from \$564 down to \$77 and a 20% state EITC (\$974) will put \$410 into that family's pockets. In order to reduce that same family's state tax liability through a manipulation of the state standard deduction and/or personal exemptions would have to double in order to have the same effect as a 10% state EITC. This would result in wide-scale tax revenues lost for the state as that same standard deduction and/or personal exemption manipulation would be applied to all filers.

In addition, the tax revenue lost to the State government will not be lost to the state of Hawaii. Studies indicate that low-income wage earners spend a larger portion of their income on day-to-day survival needs such as food and shelter. The return on investment for every state level EITC dollar equates to an additional \$1.67 in new earnings for the state. In times of economic recovery these are dollars infused directly into the economy to stimulate growth from the bottom up.

Thank you for this opportunity to provide testimony on this matter.

Board Members

President
Jason Okuhama (*at large*)
Managing Partner,
Commercial & Business Lending

Vice President
Rian Dubach (*at large*)
Vice President, Corporate Banking
American Savings Bank

Secretary/Treasurer
Wayne Tanna (*at large*)
Asset Building Coalition &
Chaminade University

HACBED Staff

Brent N. Kakesako
Chief Operating Officer

Susan Tamanaha
Family & Individual Self-
Sufficiency Program Coordinator

Will Chen
Planning and Research Associate

Athena T. Esene
Administrative Assistant

Date: March 25, 2013

To: Senator David Y. Ige, Chair, Senator Michelle N. Kidani, Vice-Chair, and members of the Committee on Ways and Means

From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)

Re: Strong Support for HB 385 HD 2

Aloha Chair Ige, Vice-Chair Kidani, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports HB 385 HD 2, which establishes a refundable state earned income tax credit (EITC) and requires financial education for TANF recipients. HACBED was established in 1992 as a nonprofit statewide intermediary to address social, economic, and environmental justice concerns through community-based economic development and asset building strategies. It advances its mission with core competencies in the areas of community and organizational capacity building, community and economic development planning, and asset policy development and advocacy. HACBED played a facilitating role in the State Asset Policy Task Force and was a key contributor to the State Asset Policy Road Map. HACBED also facilitates the Family & Individual Self-Sufficiency Program (FISSP), which administers the Internal Revenues Services' Volunteer Income Tax Assistance (VITA) program as a part of its larger asset building and financial education initiatives for needy families. As such, HACBED strongly supports the proposed bill that would enact a state EITC, which would be calculated as a percentage of what the taxpayer already qualifies for as based on the federal EITC, and require the Department of Human Services to offer financial education to TANF applicants and recipients -- most of whom would qualify for federal and state EITCs

The Family Economic Self-Sufficiency Standard (FESS) further depicts the obstacles that Hawai'i families are facing. The FESS measures the amount of money that individuals and families require to meet their basic needs without government and/or other subsidies and the data shows the following percentage of families who fall below the self-sufficiency standard statewide:

- 25.9% of families with two adults and two children;
- 77.3% of single-adult families with one child; and
- 74.3% of single-adult families with two children.

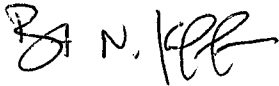
A state EITC would provide an immediate lift for these families to pull themselves out of a financial crisis, smooth out fluctuations in family finances, and build on-going assets. HACBED uses a network approach to scale its work to increase family self-sufficiency and resilience as embodied in its Family and Individual Self-Sufficiency Program, which administers the Internal Revenue Service's Volunteer Income Tax Assistance (VITA) Program as part of a larger asset building approach through a network of over forty-six organizational partners. Since 2006, HACBED has served 16,871 low to moderate income families, saved them \$2.7 million in filing

HB 385 HD 2 - Testimony in Support

March 25, 2013 - Page 2

fees, helped to claim \$23.7 million in refunds, and brought \$12.8 million in new federal funds to the State of Hawai'i through claiming the federal EITC and Child Tax Credit (CTC). Through our FISSP surveys, families have indicated that they have used the money to manage daily expenses, eliminate debt, open and maintain savings accounts, purchase a new home, cover education costs, and start a business. FISSP also incorporates financial education tools and strategies to push on long-term and sustained family asset building to empower families by helping them control their financial situation and in the process increase their overall self-sufficiency and resiliency. The passage of HB 385 would go a long way to supplement the needs of these families with a state EITC and the financial education support would assist these families in their efforts to truly build their assets.

Mahalo for this opportunity to testify,



Brent N. Kakesako
Chief Operating Officer
Hawai'i Alliance for Community-Based Economic Development



HAWAII CATHOLIC CONFERENCE

6301 Pali Highway
Kaneohe, HI 96744-5224

ONLINE SUBMITTAL
Hearing on Monday, March 25, 2013 @ 9:10 a.m.
Conference Room 211

DATE: March 21, 2013
TO: Senate Committee on Ways & Means
Sen. David Ige, Chair
Sen. Michelle Kidani, Vice Chair
From: Walter Yoshimitsu, Executive Director
Re: Support for HB 385 SD2 Relating to Human Services

Honorable Chair and members of the Senate Committees on Ways & Means, I am Walter Yoshimitsu, **representing the Hawaii Catholic Conference**. The Hawaii Catholic Conference is the public policy voice for the Roman Catholic Church in the State of Hawaii, which under the leadership of Bishop Larry Silva, represents Roman Catholics in the State of Hawaii.

The Catholic Church in Hawaii has long encouraged members of our faith community to engage every level of the Church in study, discussion and decisions about how the Church can and must respond to the cry of the poor. Our church teaching is clear that our “desire is that the poor should rise above poverty and wretchedness, and should better their condition in life; and for this it strives.”ⁱ As Christians, we are called by the Gospel to do everything we can to help those who are least among us.

The Hawaii Catholic Conference strongly supports a State Earned Income Tax Credit (EITC) to help local families in poverty and prevent homelessness. The EITC is a direct incentive for low income workers since it specifically addresses workers with families. Our understanding, however, is that there may be a low level of literacy and English speaking skills among these groups of people so it is imperative that an effort to provide education on the application process for the EITC be included in all discussions.

Raising the State Earned Income Tax Credit (EITC) in Hawaii for the lowest wage-earners in the state, promotes the human dignity of each person and provides much needed tax relief, thereby empowering them to rise against the cycle of poverty. The EITC will encourage a better work ethic, reduce poverty, and allow those struggling financially in our state to meet their basic needs. The goal of empowering people, especially families, to raise themselves out of the cycle of poverty, is one that has long been supported by the Catholic Church and many other faith communities.

Thank you for supporting this bill. Mahalo for the opportunity to provide testimony.

ⁱ *Rerum Novarum* - 'Condition of Labour' (1981), paragraph 23



Hawaii Women's Coalition

LATE

COMMITTEE ON WAYS AND MEANS
Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair

DATE: Monday, March 25, 2013
TIME: 9:10 a.m.
PLACE: Conference Room 211

COMMENTS IN SUPPORT OF HB385 – Establishing a state earned income tax credit and requirement financial training to TANF recipients.

Aloha Chair Ige, Vice Chair Kidani, Members of the Committee,

The Hawai'i Women's Coalition is in strong support of this long-overdue measure. We have seen the tie between women, poverty and increasingly bad outcomes for our families in Hawai'i. Previous testimony from community advocates has provided the sad statistics that need not be repeated here.

This simple, but common sense approach, was adopted by the Federal Government in 1975 to provide relief to low-income workers through a targeted tax reduction and has since been expanded several times because of its proven success at getting and keeping people working. In the richest country on earth, people who work full time should be able to support their families and stay out of poverty.

This asset building measure could not come at a more opportune time as the economy has begun a slow recovery but faces an uncertain future. Let's build a better future and give the working poor, including single mothers some hope.

Mahalo nui loa,

Ann S. Freed
Co-Chair, Hawai'i Women's Coalition
Contact: annsreed@gmail.com
Phone: 808-623-5676



[COMMITTEE ON WAYS AND MEANS](#)

Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair

Measure: HB385

Date: Monday, March 25th, 2013

Time: 910 AM

Place: Conference Room 211

From: David Derauf, Executive Director, Kokua Kalihi Valley Health Center

Re: In Strong Support of HB385

.

Aloha Kākou e Committee Chair David Ige and Committee Vice Chair Kidani, Kokua Kalihi Valley wishes to offer STRONG SUPPORT of HB385, which creates an Earned Income Tax Credit.

At least 25 other states already have earned income tax credits to help struggling families make ends meet on low wage jobs. These are the families who we care for every day at Kokua Kalihi Valley. We understand that health is as much a product of an equitable society as it is health services. This act is one small way for Hawaii to make things just a little bit better for those struggling with poverty.

We ask for your support of this measure!

Respectfully submitted,

David Derauf, MD
Executive Director
Kokua Kalihi Valley Health Center



Protect working families: Establish a Hawaii EITC

Testimony for the Hawaiian Senate Committee on Ways & Means'
consideration of HB385

By Sean Noble, Director of Policy & Research, The National Community Tax Coalition

25 March 2013

The National Community Tax Coalition appreciates the opportunity to emphasize the importance of safeguarding and promoting the well-being of Hawaii's low- to middle-income, working families by creating a state Earned Income Tax Credit.

NCTC's nonpartisan, nonprofit network of more than 2,400 members is dedicated to the financial security of America's working families, primarily through Volunteer Income Tax Assistance (VITA). Our community-based VITA programs provide low- to moderate-income households with tax-preparation help, as well as asset-building and financial-education services – all with the help of well-trained and IRS-certified volunteers. During the 2012 filing season, Community VITA programs helped taxpayers file 1.6 million federal tax returns across the nation (more than 7,700 of them in Hawaii).

As we work with families, we see the vital, day-to-day impact of the EITC as it helps taxpayers who work hard and play by the rules, but whose low pay leaves them little to show for their efforts. The EITC helps them handle life's basics – putting groceries on the table and clothes on their kids' backs, keeping a roof over their heads and covering utility bills. Nowhere are these positive effects more visible than in the two-dozen states that have added their own, critical level of EITC help to that of the underlying, federal credit. Now, Hawaii has – and should take – the important opportunity to join those states.

Underscoring these points, we list here some of the chief ways that the federal EITC helps low-income, working families. These benefits are admirably amplified for families by the presence of a state EITC, and represent strong arguments for adoption of Hawaii's own such tax credit.

Across the nation, the EITC:

- 1. Reflects hard work.** The credit is available only to taxpayers who work and have earned income.
- 2. Helps families to cover their basics.** Groceries, rent, and utility bills are common uses for families' EITC dollars. Another frequently-cited expense: car repairs, to help family breadwinners with the transportation necessary to get to and maintain their jobs.
- 3. Is particularly important to households with children.** The amount of the credit is greater for families who incur the added expenses of raising kids. And this federal EITC assistance

was responsible for keeping an average of 3.1 million children out of poverty annually from 2009-2011, more than 14,300 of them in Hawaii. The federal credit also lessened the effects of poverty for more than 40,000 other Hawaiian children.¹

- 4. Is typically needed for only temporary stretches of time.** Families only use the credit until they can get back on their feet. Indeed, among federal EITC filers studied between 1989 and 2006: 42 percent claimed the credit for only one year at a time, 19 percent retained it for two straight years, and only about one in five kept the credit for five or more consecutive years.²
- 5. Helps struggling families who already pay a significant amount in federal taxes.** In fact, the poorest one-fifth of Americans paid 8.3 percent of their incomes in payroll taxes in 2009, compared with the wealthiest 1 percent of households, who paid only 2.5 percent of their incomes in payroll taxes.³ And among those Americans who owed no federal income taxes in 2011, about 93 percent were either workers who still owed federal payroll taxes, elderly, not working due to illness or disability, or students.⁴
- 6. Helps struggling families who also pay a significant amount in state and local taxes.** In 2011, the poorest one-fifth of Americans paid 12.3 percent of their incomes in state and local taxes, while the wealthiest 1 percent of households paid only 7.9 percent of their incomes in state and local taxes.⁵ In Hawaii, the poorest one-fifth of taxpayers paid 13 percent of their earnings in state and local taxes, compared with the wealthiest 1 percent paying 8 percent.⁶
- 7. Lifts more families out of poverty than any other federal policy.** The federal EITC kept an average of 6.1 million people out of poverty annually from 2009-2011, and reduced the effects of poverty for another 21.2 million people. In Hawaii alone, the federal EITC kept an average of more than 28,800 people out of poverty each year during that period, and reduced poverty's effects on about 106,300 more of the state's residents.⁷
- 8. Strengthens families' health outcomes.** The EITC is associated with decreases in maternal smoking and increases in infants' birthweights, according to research.⁸
- 9. Bolsters students' education outcomes.** The EITC is associated with increases in kids' math and reading test scores, studies show.⁹
- 10. Boosts the economic strength of local communities.** As families spend the money they save through the EITC, small businesses benefit. In fact, studies have shown that one EITC dollar – spent at the local level – generates as much as \$1.50 to \$2 in economic activity for the area.¹⁰
- 11. Is important to rural Americans as well as those living in other areas of the country.** In fact, a higher percentage of rural tax-filers claimed the federal EITC in 2007 than did urban filers.¹¹

12. Helps families to begin or improve upon savings. Many families strive to set-aside some of their EITC to work toward long-term goals or to brace for emergencies. One survey found that about 39 percent of households receiving the credit devoted about 15 percent of their EITC refund dollars to savings.¹²

13. Has historically enjoyed bipartisan support. The federal EITC was designed during the Nixon administration, established during the Ford presidency, and improved by bipartisan majorities of Congress working with Presidents Reagan, Clinton, George W. Bush, and Obama.

¹ Brookings Institution analysis of U.S. Census Bureau Supplemental Poverty Measure Public Use Research Files data. December 2012

² Dowd, Tim and Horowitz, John B. "Income Mobility and the Earned Income Tax Credit: Short-Term Safety Net or Long-Term Income Support." *Public Finance Review*. Sept. 28, 2011.

³ Congressional Budget Office. "The Distribution of Household Income and Federal Taxes, 2008 and 2009." July 2012.

⁴ Center on Budget & Policy Priorities. Analysis of Current Population Survey and Tax Policy Center data, cited in *Off the Charts* blog post, Oct. 18, 2012.

⁵ Citizens for Tax Justice. "Who Pays Taxes in America?" April 4, 2012.

⁶ Davis, Carl et al. "Who Pays? A Distributional Analysis of the Tax System in All 50 States." *Institute on Taxation & Economic Policy*. January 2013.

⁷ Brookings Institution analysis of U.S. Census Bureau Supplemental Poverty Measure Public Use Research Files data. December 2012.

⁸ Strull, Kate; Rekopf, David; and Xuan, Ziming. "Effects of Prenatal Poverty on Infant Health: State Earned Income Tax Credits and Birth Weight." *American Sociological Review*. August, 2010.

⁹ Dahl, Gordon, and Lochner, Lance. "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit." *University of California, San Diego; University of Western Ontario; and NBER*. June 15, 2011.

¹⁰ Author. "Dollarwise Best Practices: Earned Income Tax Credit, 2nd Edition." *U.S. Conference of Mayors*. 2008.

¹¹ O'Hare, William, and Kneebone, Elizabeth. "EITC is Important for Working-Poor Families in Rural America." *For the Carsey Institute*. Fall, 2007.

¹² Mendenhall, Ruby, University of Illinois, et al. "The Role of Earned Income Tax Credit in the Budgets of Low-Income Families." *National Poverty Center*. June, 2010.



PROTECTING HAWAII'S OHANA, CHILDREN, UNDER SERVED, ELDERLY AND DISABLED

March 24, 2013

P13:021T:LKR

Board of Directors

Howard Garval, Chair
Nanci Kreidman, Vice Chair
Joanne Lundstrom, Vice Chair
Jerry Rauckhorst,
Secretary & Treasurer
Susan Chandler
Liz Chun
Jan Dill
Victor Geminiani
Marya Grambs
Kathi Hasegawa
Robert Piper
Ruthann Quitiquit
Alan Shinn
Laura Smith

TO: Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair
Members, Committee on Ways and Means

FROM: Laura Kay Rand, Interim Executive Director, PHOCUSED

HEARING: Committee on Ways and Means
March 24, 2013 at 9:10 a.m.

Testimony in Support of HB385, HD2, Relating to Human Services

Thank you for the opportunity to provide testimony in support of HB385, which establishes a refundable state earned income tax credit (EITC). PHOCUSED is a coalition of health, housing, human services agencies and individual advocates voicing the needs of the marginalized and underserved in Hawaii.

As a community, we must support our citizens who are classified as asset poor, lacking the resources to subsist at the poverty level for three months in the absence of a source of income. Working families in Hawaii strive towards financial self-sufficiency against powerful economic realities. They experience the highest cost of living in the United States, paying more for food and shelter than comparable families on the mainland. And they pay these elevated costs while earning the lowest adjusted income among all of the mainland states and experiencing among the highest tax rates for low-income households in the nation.

And these families and individuals continue to work in order to provide for their daily living expenses. It's said that people will work put their effort towards what is incentivized. A refundable EITC supports employment as the avenue out of poverty. With the EITC, these families who are asset-poor and working towards a better future will find further understanding that this is indeed is the case.

With HB385 and the establishment of a refundable EITC, we have an opportunity to help Hawaii families escape the crippling effects of poverty and change their financial family tree for generations to come. The EITC will support families who are working hard toward self-sufficiency by reducing the tax burdens of the low-income population through an incentive for employment. Since most people who receive federal EITC refunds immediately put them into use through spending on day-to-day needs, such as food and shelter, the EITC also supports our local economy.

I urge your support of HB385. We appreciate the opportunity to testify in support of this measure.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Earned income credit

BILL NUMBER: HB 385, HD-2

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a state earned income tax credit equal to ____% of the federal earned income tax credit amount.

Credits in excess of tax liability shall be refunded to the taxpayer provided such amounts are over \$1. Requires claims, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit may be claimed.

No credit shall be allowed under this section for any taxable year in the disallowance period which is: (1) the period of ten tax years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to fraud; and (2) the period of two taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to reckless or intentional disregard of rules and regulations, but not due to fraud.

Any person who is a tax return preparer with respect to any return or claim for refund who fails to comply with due diligence requirements imposed by the department of the treasury by regulations with respect to determining eligibility for, or the amount of, the credit allowable by section 32 of the Internal Revenue Code shall pay a penalty of \$100 for each such failure.

Requires the director of taxation to: (1) prepare any forms necessary to claim a tax credit; (2) may require proof of the claim for the tax credit; (3) alert eligible taxpayers of the tax credit using appropriate and available means; (4) prepare an annual report to the legislature, the governor, and the public containing the: (a) number of credits granted for the prior calendar year; (b) total amount of the credits granted; and (c) average value of the credits granted to taxpayers whose earned income falls within various income ranges; and (5) adopt rules pursuant to HRS chapter 91 to effectuate this section.

Makes other nontax amendments and appropriations.

EFFECTIVE DATE: July 1, 2030 for tax years beginning after December 31, 2012

STAFF COMMENTS: The federal earned income tax credit (EITC) provides an incentive to low-income households to remain in the workforce. The credit is targeted at households with children but the credit is also available at a lower amount to low-income households without children. The credit is based on a number of tests for earned income, investment income, number of qualifying children, dependency, etc. Given the complexity of the credit, the IRS will optionally calculate the amount of the credit for taxpayers. The IRS reports an error rate of greater than 25% for this credit.

The proposed measure would adopt an earned income credit by merely taking a percentage of the amount that the taxpayer would be eligible for under the federal table or determination. It should be remembered that the federal EITC was established for low and moderate-income workers to offset the burden of Social Security payroll taxes that might have otherwise been paid to them but were instead paid to the federal government by the employer. Enacted in 1975 at the federal level primarily as a means of tax relief, the credit was expanded three times during the 1980's and 1990's by the federal government to boost income from work and lessen poverty among families with children. In other words, it became a tool by which the federal government undertook social policy beginning with the first expansion of the credit in 1986. It is interesting to note the date of the first expansion because that was also the year that the federal Code was dramatically restructured, eliminating a number of tax benefits such as the deduction of consumer credit interest, deduction of state sales taxes, and institution of a minimum tax for those taxpayers receiving generally exempt income. It was also the year that rates were dramatically reduced, and together with the standard deduction and personal exemption, rates were indexed.

Thus, what started out as a mechanism to “refund” payroll taxes that might otherwise have been paid to low and moderate-income workers by the federal government, has turned into a subsidy for these families. While federal policymakers have the luxury of expending millions of dollars to accomplish a social goal through the tax system, state lawmakers do not have the same level of resources.

If the intent of state lawmakers is to alleviate the burden on the low and moderate-income workers in Hawaii who claim the federal EITC, their efforts should focus on the state income tax burden as it affects these families. Hawaii has one of the lowest thresholds of the some 43 states that levy a state income tax. An income tax threshold is the income level at which families begin to pay the state income tax. Despite the reduction in personal income tax rates in 1998 and adoption of a low-income tax credit, as well as a modest increase in the standard deduction, much more work needs to be done to adjust the standard deduction and the personal exemptions. Although Act 60, SLH 2009, increased the standard deduction, it did so only temporarily until 2015. Rates and brackets are still much too high for all of Hawaii's working people.

While advocates point to a variety of national articles that hail the EITC as a means of helping the poor out of poverty and encouraging the poor to go to work, they miss the point that taking a percentage of the federal amount bears no relationship to the tax burden imposed by the state. Thus, the EITC amounts to nothing more than a back door welfare program, handing out money merely because a person falls into a low-income category and has joined the workforce with a dependent or two. So while welfare advocates may point to tomes of literature that praise the EITC as a way to lift the poor out of the abyss of poverty, there is just as much material that decries the EITC as poor tax policy and one that is fraught with errors and compliance difficulties. In other words, if the poor are to be helped, don't do it through the tax system as there is very little transparency and accountability. And despite claims that many of these problems have been resolved, there is general agreement from administrators and practitioners that this is one of the most difficult and complicated federal tax credits with which to administer and comply, with increasing errors and inaccuracies.

Like many of the targeted tax credits aimed at encouraging business activities, the EITC comes with all of the problems outlined with those targeted business tax credits. There is no oversight as to how these refunds are aiding families, whether or not outcomes are being achieved or for that matter whether a

family is getting sufficient assistance to actually leave the welfare rolls and become self-sufficient. As a recent study reported, nearly one-third of Hawaii's families are not self-sufficient. What will the EITC do for those families who are working two or three jobs to make ends meet but, as a result, make too much money to qualify for the EITC? Where is the tax relief for those families? Lawmakers can make much more of a difference by making the needed structural changes to the state income tax rates and brackets and by boosting the standard deduction. Again, one must ask what is the relationship between taking a percentage of the federal credit amount and the amount of state tax burden relieved?

Lawmakers should also consider the interaction of a state tax credit that produces negative income and how that will affect the amount of income that would then be exposed to the federal rate structure. There are comprehensive studies on the interaction of the credit with the overall federal income tax system. Adopting the credit willy-nilly for state tax purposes may disrupt the incentive to remain employed or to increase the number of hours worked. It should be noted that an EITC has not been recommended by the 2005-2007 nor the latest state Tax Review Commission (TRC). The 2005-2007 TRC examined the effects of what would have happened if an EITC was enacted equal to 20% of the federal EITC in 2006. Based on 2003 tax returns, the staff of the tax research and planning office of the department of taxation found that fewer than half of the Hawaii resident income tax returns would have benefitted from a Hawaii EITC. Of the 308,652 returns with AGI of under \$30,000, only 68,845 or 22.3% claimed the federal EITC. They also estimated that there would be a \$23.2 million decline in tax collections if the EITC were adopted.

Lawmakers should understand that by taking a percentage of a number calculated at the federal level, they are surrendering their oversight over this tax policy to Congress. What is even scarier is that Congress could choose to substantially increase the amount of the credit such that the result at the state level may mean a huge unexpected impact on state resources.

Finally, where would the revenue loss generated by this credit be taken? Which programs would be cut or not funded at all? What is known in the social services community is that unless the poor are given the tools and skills to become self-sufficient they will remain on welfare. The funds lost in this tax credit program would be far better spent on services that assist those on welfare, especially in public housing, in gaining the skills they need to hold gainful employment, provide childcare so that those who need to go to work will have childcare, and learn how to manage what money they earn. Without these skills, merely subsidizing their earned income with a tax credit will not hold a promise of self-sufficiency. Rather than duplicating the federal earned income tax credit, the state should use its resources to instead complement the effort with more skill building and family support so these families can hold gainful employment. Thus, advocates must weigh the consequences of taking revenues from these capacity building programs against doling out the earned income tax credit based on some federal number that bears no relationship to the tax burden imposed by state taxes.

Digested 3/12/13



From: mailinglist@capitol.hawaii.gov
To: [WAM Testimony](#)
Cc: w9w@hotmail.com
Subject: *Submitted testimony for HB395 on Mar 25, 2013 09:10AM*
Date: Monday, March 25, 2013 4:39:13 AM

HB395
Submitted on: 3/25/2013
Testimony for WAM on Mar 25, 2013 09:10AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
kurt	Individual	Oppose	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov

To: Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice-Chair
Senate Committee on Ways and Means

From: Liz Chun, Early Education Policy Consultant

Date: Monday, March 25, 2013, 9:10 am
Conference Room 211

Subject: HB 385, Relating to Earned Income Tax Credit

I submit this testimony **in strong support of HB 385, Relating to Earned Income Tax Credit (EITC.)** Hawaii must recognize and be deeply concerned about the ability of our low-income families to afford the necessities of life. Families with young children would especially benefit from such a tax credit. A refundable state earned income tax credit will accomplish three important goals.

First, an EITC provides concentrated tax relief for the working families in Hawaii who need it most. These refundable credits will be re-circulated in the local economy as families use them to meet day-to-day needs (Center on Budget and Policy Priorities, 2003).

Second, an EITC provides incentives for low-income earners to stay employed and to increase their incomes. History proves that these incentives work (Center for Policy Alternatives, 2000). In 2009 alone, the federal EITC helped raise over three million children from six million families out of poverty.

Third, an EITC helps compensate for Hawaii's regressive general excise tax which has the poorest fifth of the population paying 10% of their incomes in GET while the richest pay only 2% (Institute of Taxation and Economic Policy, 2003).

Currently 25 states, the District of Columbia have enacted EITCs to promote tax fairness and raise their children and families from poverty. The EITC can:

- Raise parental employment levels, lift family incomes and improve school achievement for elementary school and preschool-age children according to evaluations of programs that include employment-based fiscal incentives like the EITC.
- Stimulate the economy at the state level by providing significant relief to low-income working families.

Hawaii will be stronger when it provides adequate supports to help struggling families move toward empowerment and self-sufficiency. I strongly urge the passage of this progressive and proven legislation.

Contact Information: lizchun@hawaii.rr.com

From: mailinglist@capitol.hawaii.gov
To: [WAM Testimony](#)
Cc: shannonkona@gmail.com
Subject: *Submitted testimony for HB385 on Mar 25, 2013 09:10AM*
Date: Saturday, March 23, 2013 11:34:41 PM

HB385

Submitted on: 3/23/2013

Testimony for WAM on Mar 25, 2013 09:10AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Shannon Rudolph	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov