NEIL ABERCROMBIE
GOVERNOR

PATRICIA McMANAMAN
DIRECTOR

BARBARA A. YAMASHITA
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaii 96809-0339

February 7, 2013

MEMORANDUM

TO: The Honorable Mele Carroll, Chair
Committee on Human Services

FROM: Patricia McManaman, Director

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

Hearing: Thursday, February 7, 2013; 9:30 a.m.
Conference Room 329, State Capitol

PURPOSE: The purpose of this bill is to establish a refundable state earned income tax credit and appropriate funds for the Department of Human Services to provide financial education and tax workshops 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.

The Department believes the establishment of a state earned income tax credit is essential for asset building, however we respectfully defer to the Department of Taxation on the feasibility of 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 to TANF applicants 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.

TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
TWENTY-SEVENTH LEGISLATURE, 2013

ON THE FOLLOWING MEASURE:
H.B. NO. 385, RELATING TO HUMAN SERVICES.

BEFORE THE:
HOUSE COMMITTEE ON HUMAN SERVICES

DATE: Thursday, February 7, 2013 **TIME:** 9:30 a.m.

LOCATION: State Capitol, Room 312

TESTIFIER(S): David M. Louie, Attorney General, or
Damien Elefante, Deputy Attorney General, or
Jody Yi, Deputy Attorney General

Chair Carroll and Members of the Committee:

The Department of the Attorney General offers the following comments on this bill. This bill, if adopted into law, could be challenged as violating the Equal Protection and/or Privileges and Immunities Clauses of the United States Constitution.

One of the purposes of this bill is to create an "Earned income tax credit" for resident taxpayers. Based on the restriction of the tax credit to Hawaii residents this bill may be subject to constitutional challenge.

A court may conclude that this bill is unconstitutional because it does not expressly articulate a legitimate government interest served by the legislation sufficient to withstand constitutional challenge based on the Equal Protection and/or Privileges and Immunities Clauses of the United States Constitution.

The Equal Protection Clause prohibits discrimination against a nonresident based solely on residency. See, e.g., Williams v. Vermont, 472 U.S. 14 (1985) (use tax credit for sales taxes paid on cars purchased in other states invalidated because it was only available to Vermont residents). The Hawaii Supreme Court has recognized that the Equal Protection Clause applies where a tax operates unequally on persons or property of the same class. In re Swann, 7 Haw. App. 390, 776 P.2d 395 (1989).

Similarly, under the Privileges and Immunities Clause, a state may not impose higher taxes on nonresident individuals than it imposes on its own citizens.[1] However, a discriminatory

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[1] The Privileges and Immunities Clause does not apply to corporations. Toomer v. Witsell,

tax could be sustained if legitimate reasons for the tax exist and the discrimination bears a substantial relation to those reasons. Lunding v. New York Tax Appeals Tribunal, 522 U.S. 287 (1998) (alimony deduction for residents only struck down as violating the Privileges and Immunities Clause).

The language in the bill that creates this potential constitutional problem is the word "resident" that appears on page 2, lines 12 and 22, and page 3, lines 1, 4, 5, 6, and 16.

The residency requirement in this bill arguably violates the Equal Protection and/or Privileges and Immunities Clauses because it expressly favors residents over nonresidents.[2]

To insulate this bill from possible constitutional challenge, we recommend either of two possible remedies: (1) that the bill be amended to provide that the exclusion is available to all taxpayers subject to chapter 235, Hawaii Revised Statutes -- deleting the word "resident" in the bill should remedy this possible constitutional problem; or (2) that a legitimate government interest substantially related to providing a credit to only residents be articulated within the preamble of the bill.

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334 U.S. 385 (1948).

[2] We are aware that a few existing tax statutes have residency requirements. To date, these statutes have not been subject to constitutional challenge.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Mele Carroll, Chair
and Members of the House Committee on Human Services

Date: Thursday, February 7, 2013
Time: 9:30 a.m.
Place: Conference Room 329, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 385 Relating to Asset Building

The Department appreciates the intent of H.B. 385 and provides the following information and comments for your consideration.

H.B. 385 creates a refundable earned income tax credit at the state level. The proposed credit would be equal to a percentage of the federal earned income tax credit allowed under section 32 of the Internal Revenue Code, as amended. The tax credit applies to taxable years beginning after December 31, 2012.

The Department is supportive of the intent to provide additional resources to taxpayers who may need assistance. However, we note that adoption of this tax credit will create a third economic-based income tax credit and require several changes to our forms and instructions. Our limited computer staffing resources and current technological challenges restrict our ability to implement many changes to our computer system. Additionally, due to the aforementioned challenges, the Department may not be able to comply with the reporting requirement as proposed in this bill.

The Department also notes that tax credits may not be the most direct avenue to provide assistance to the individuals impacted by this bill. The Department has commenced discussions with the Department of Human Services to determine if there is a more efficient method to deliver additional assistance to individuals in need, other than through the tax return reporting system.

We also note that section (f) of the bill refers to the United States Treasury Regulations applicable to tax return preparers. The Internal Revenue Service recently lost a challenge to the application of these regulations to tax return preparers and has ceased to apply certain requirements to them. Therefore, it may be advisable to explicitly state that the regulations apply to any tax return preparer, as defined by section 235-36.5, HRS, especially those portions imposing due diligence requirements as these are the subject of the $100 penalty imposed by the bill.

Thank you for the opportunity to provide comments.

L E G I S L A T I V E

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

INTRODUCED BY: Mizuno and Carroll

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: 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 2/5/13

TESTIMONY IN SUPPORT OF HB 385: Relating to Human Services

TO: Representative Mele Carroll, Chair, Representative Bertrand Kobayashi, Vice Chair, and Members, Committee on Human Services

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

Hearing: Thursday, 2/7/13; 9:30 am; CR 329

Chair Carroll, Vice Chair Kobayashi, and Members, Committee on Human Services:

Thank you for the opportunity to testify **in 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.

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.

Catholic Charities USA
CLARENCE T. C. CHING CAMPUS • 1822 Ke'eaumoku Street, Honolulu, HI 96822
Phone (808)527-4810 • trisha.kajimura@CatholicCharitiesHawaii.org
United Way
Aloha United Way

Goodwill
Industries of Hawaii, Inc.

CS13:005T:AB

To: The Honorable Mele Carroll, Chair of the House Human Services Committee.
The Honorable Bertrand Kobayashi, Vice Chair of the House Human Services Committee

From: Laura Smith, President/CEO
Ann Boyd, Senior Director of Workforce Development
Goodwill Industries of Hawaii, Inc.

Date: February 5, 2013

Re: **Testimony in Support of HB 385 – 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 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.

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.

Hawai'i Alliance for Community-Based Economic Development
677 Ala Moana Blvd., Suite 702 Honolulu, HI 96813
Ph. 808.550.2661 Fax 808.534.1199
Email info@hacbed.org www.hacbed.org

HACBED

Community Voice, Collective Action

Date: February 4, 2013
To: Representative Mele Carroll, Chair, Representative Bertrand Kobayashi, Vice-Chair, and members of the Committee on Human Services
From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)
Re: Strong Support for HB 385

Aloha Chair Carroll, Vice-Chair Kobayashi, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports HB 385, 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 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

PHOCUSED

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

P13:009T:LKR

February 3, 2013

TO: Representative Mele Carroll, Chair
Representative Bertrand Kobayashi, Vice Chair
Members, Committee on Human Services

FROM: Laura Kay Rand, Interim Executive Director, PHOCUSED

HEARING: Committee on Human Services
February 7, 2013 at 9:30 a.m.

Testimony in Support of HB385, 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.

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.

Sincerely,
Laura Kay Rand
Interim Executive Director

200 N. Vineyard Blvd, Bldg B · Honolulu, HI 96817 · P: 808.521.7462
www.phocused-hawaii.org · admin@phocused-hawaii.org

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting HB 385 Relating to Human Services
House Committee on Human Services
Thursday, February 7, 2013, 9:30am, Room 329

Thank you for an opportunity to testify in strong support of HB 385, which would create a state Earned Income Tax Credit (EITC).

Hawai'i Appleseed Center for Law and Economic Justice is a nonprofit, 501(c)(3) law firm created to advocate on behalf of low income individuals and families in Hawai'i on civil legal issues of statewide importance. Our core mission is to help our clients gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.

Hawai'i has the highest cost of living in the United States, and many families in our community are in desperate need of poverty-alleviating programs such as the EITC

- A family of four in Hawai'i pays 61 percent more for food than those on the mainland.
- The cost of shelter in Hawai'i is the highest in the nation, with 75 percent of those at or below the poverty level spending more than 50 percent of their income on housing.
- In addition, our residents earn the lowest adjusted income among all of the mainland states, while the tax rate in Hawaii for low-income households is among the highest in the nation.

A state EITC would provide low-income families with a refundable tax credit that functions as work incentive, since only wage-earning households can earn the credit.

- Considered by many to be the most efficient anti-poverty program in existence today, the EITC directly rewards low-income workers and avoids government inefficiencies in the distribution and delivery of services.
- Over the 37 years since its inception, the federal EITC has helped millions of families escape the crushing reality of poverty in our country. In 2009 alone, the federal EITC helped raise over three million children from six million families out of poverty.

State EITCs have been created around the country, reaping significant benefits for local economies.

- As of this year, 25 states and the District of Columbia have enacted a state EITC. All 25 states calculate the value of the state credit as a percentage of the federal EITC.
- Since the state EITC program piggybacks on the federal EITC program, calculating the state tax credit is simple. A taxpayer would take a set percentage of whatever was claimed for the federal EITC. We recommend that the state percentage be set at 20 percent of the federal EITC payment.
- Studies have indicated that wage earners immediately spend income received from the EITC programs on bills and basic necessities such as food, allowing that spending to "churn" through the state economy. For every dollar spent on a state-level EITC, an additional $1.67 is generated in new earnings for the state.

Implementation of a state EITC program will dramatically improve the ability of low wage families to overcome the many challenges they face to achieving stability and self-sufficiency.

Hawai`i Appleseed Center for Law and Economic Justice
119 Merchant Street, Suite 605 ◆ Honolulu, Hawai`i, 96813 ◆ (808) 587-7605

PARTNERS IN CARE
Oahu's Coalition of Homeless Providers

TESTIMONY IN SUPPORT OF HB 385: Relating to Human Services

TO: Representative Mele Carroll, Chair, Representative Bertrand Kobayashi, Vice Chair, and Members, Committee on Human Services

FROM: Gladys Peraro, Co-Chair Advocacy Committee, Partners In Care (PIC)

Hearing: Thursday, 2/7/13; 9:30 am; CR 329

Chair Carroll, Vice Chair Kobayashi, and Members, Committee on Human Services:

Partners In Care (PIC), appreciates the opportunity to testify **in support of HB 385**, which establishes a refundable state earned income tax credit, and financial education for applicants and proposed recipients of temporary assistance for needy families. I am Gladys L. Peraro, Advocacy Committee Co-Chair for Partners In Care (PIC), a coalition of care providers focusing on the needs of homeless persons and strategies to end homelessness.

Partners In Care has a strong commitment to advocating for decreasing poverty. Poverty, which is clearly linked to poor social and health outcomes, especially as it relative to those individuals and families living below the poverty line, who 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 and our cost for housing is also the highest in the nation- 75 percent of people at or below the poverty line spends 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 the edge and into homelessness. The opportunity of increasing their resources through this measure is much more cost-effective than trying to help them out of homelessness once they have lost everything.

Partners In Care supports a ***State Earned Income Tax Credit (EITC)*** to help families in poverty and prevent homelessness. An 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 also have co-occurring issues such as low literacy levels or limited English proficiency and in need education to understand and apply for the EITC. Funding the financial literacy or education component as well as tax workshops are important to ensure that those in most need can take advantage of this tax credit.

Twenty-five states and the District of Columbia already have enacted a state EITC and 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.

Thank you again, on behalf of Partners In Care, for your concern and dedication toward helping the working poor in our community. **We urge your support for HB 385**.

Partners In Care, c/o Aloha United Way, 200 N. Vineyard Blvd. Suite 700
Honolulu, Hawaii 96817

Partners in Care is a membership organization of homeless service providers, other service professionals, units of local and state government, homeless consumers, and other community representatives located in Hawai'i on O'ahu. It is a planning, coordinating, and advocacy body that develops recommendations for programs and services to fill gaps in the Continuum of Care on O'ahu.

To: Representative Mele Carroll, Chair
Representative Bertrand Kobayashi, Vice-Chair
House Committee on Human Services

From: Liz Chun, Early Education Policy Consultant

Date: Thursday, February 7, 2013
9:30 am
Conference Room 329

Subject: SB 385, RELATING TO Earned Income Tax Credit

I submit this testimony **in strong support of SB 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.

Thank you for this opportunity to submit testimony.
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