SB 301

Measure Title:	RELATING TO ASSET BUILDING.
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. Appropriates funds for financial education and tax workshops.
Companion:	
Package:	Housing and Homeless
Current Referral:	HMS, WAM
Introducer(s):	CHUN OAKLAND, Dela Cruz, Ruderman, Shimabukuro

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

January 26, 2013

MEMORANDUM

TO: The Honorable Suzanne Chun Oakland, Chair
Senate Committee on Human Services

FROM: Patricia McManaman, Director

SUBJECT: **S.B. 301 - RELATING TO ASSET BUILDING**

Hearing: Saturday, January 26, 2013; 1:15 p.m.
Conference Room 229, State Capitol

PURPOSE: The purpose of S.B. 301 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.

Lastly, the Department has concerns with Section 5 of this bill as it proposes to appropriate funds to a named organization without the appropriation being subjected to the Grant-In-Aid process established in Hawaii Revised Statutes (HRS) 42F or through the procurement process established by State law. We recommend that the committee consult with the Department of the Attorney General regarding the applicability of HRS 42F in regards to this proposed appropriation.

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:
S.B. NO. 301, RELATING TO ASSET BUILDING.

BEFORE THE:

SENATE COMMITTEE ON HUMAN SERVICES

DATE: Saturday, January 26, 2013 **TIME:** 1:15 p.m.

LOCATION: State Capitol, Room 229

TESTIFIER(S): David M. Louie, Attorney General, or
Kathryn-Jean T. Kanemori, Deputy Attorney General

Chair Chun Oakland and Members of the Committee:

The purpose of this bill is to establish a refundable earned income tax credit and require the Department of Human Services to provide financial education to applicants for and recipients of temporary assistance for needy families. The bill also appropriates general revenue funds for financial education and tax workshops. We offer the following comments on this bill.

The appropriation in section 5 of the bill for the "Hawaii Alliance for Community-Based Economic Development," a private nonprofit corporation, appears to be a grant. Pursuant to article VII, section 4, of the Hawaii State Constitution, all grants of public moneys must be made in accordance with standards provided by law. The general standards for the award of grants are set forth in section 42F-103, Hawaii Revised Statutes (HRS). If the Legislature intends for that specific group to receive the funds, the bill should explicitly refer to those statutory standards. Alternatively, the bill could delete the reference to the specific group, and provide instead for an appropriation for the intended general purpose "to provide tax workshops and financial education." The Department of Human Services as the expending agency could then provide the services directly or procure the services competitively pursuant to chapter 103F, HRS.

In the event that this money is appropriated as a grant, we make no assessment about the qualifications of the recipient of the grant. Rather, the expending agency will have to make a determination of the recipient's qualifications, if the qualifications have not been established already.

NEIL ABERCROMBIE
GOVERNOR

DWIGHT TAKAMINE
DIRECTOR

AUDREY HIDANO
DEPUTY DIRECTOR

MILA KA'AHANUI
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
OFFICE OF COMMUNITY SERVICES
830 PUNCHBOWL STREET, ROOM 420
HONOLULU, HAWAII 96813
www.hawaii.gov/labor
Phone: (808) 586-8675 / Fax: (808) 586-8685
Email: dlir.ocs@hawaii.gov

January 25, 2013

To: The Honorable Suzanne Chun Oakland, Chair
Senate Committee on Human Services

Date: Saturday, January, 26 2013
Time: 1:15 p.m.
Place: Conference Room 229, State Capitol

From: Mila Kaahanui, MSW
Executive Director
Office of Community Services (OCS)

Good Morning Chair Chun Oakland,

My name is En Young, testifying on behalf of our Executive Director, Mila Kaahanui who could not be here today.

Testimony for Senate Bill 301, Relating to Asset Building

I. OVERVIEW OF PROPOSED LEGISLATION

The present bill proposes to effectuate some of the recommendations of the Hawaii State Asset Building and Financial Literacy Task Force formed through Senate Concurrent Resolution 92 and Senate Resolution 52 of 2008. Specifically, these recommendations include the enactment of a State Earned Income Tax Credit (EITC) and the implementation of financial education by the Department of Human Services for applicants and recipients of Temporary Assistance for Needy Families (TANF) funds.

The Office of Community Services strongly supports this bill, with a few comments.

II. CURRENT LAW

The Office of Community Services (OCS) is charged to facilitate and enhance the delivery of service to low-income, immigrant, refugee, and other disadvantaged populations. This measure will directly affect the low- and moderate-income citizens of the state. The State of Hawaii does not currently have an EITC program; however there is an $85 refundable food credit for those meeting certain income requirements. The TANF program currently requires at least half of all TANF families to participate in a minimum number of work or work-related activities (such as training) for a minimum number of hours per month. This is dependent on other factors such as State use of TANF and number of work-eligible and capable persons in each family.

III. COMMENTS ON SENATE BILL

To begin, OCS strongly supports this bill. It has often been said the Federal EITC is the single largest anti-poverty program currently run by the federal government. Additionally, financial education, especially in times of budgetary crisis, is absolutely essential to assist all individuals in maintaining economic self-sufficiency through fluctuations in income and the economy.

Furthermore, many have tried to characterize the support of our fellow citizens through human service programs as the creation of a “welfare state.” The EITC program, because of its direct connection to earned income, that is income derived from active employment and not social security or other payments, is 100% traceable back to employed, working-class citizens.

OCS does have several comments on the measure. Although nexus has been created for these two initiatives by the task force mentioned above, OCS feels these issues should be separate measures. To implement an EITC for the State of Hawaii is a matter of a shift in tax policy which can be immediately accomplished at the Legislative level. Financial education, on the other hand, is increasingly becoming a core component of modern survival skills and will require more development at the Departmental and community level to effectively implement.

Secondly, financial education is not standardized in the basic curriculum of our educational institutions. As such, financial education is not needed solely by recipients of TANF funds. As the recession proved, our middle-class residents can easily be overwhelmed by lack of education and financial planning because of Hawai`i’s extremely high housing costs and razor-thin margins of error.

Although we believe the TANF population is well-defined and excellent start, OCS would prefer to see more systemic and wide-reaching recognition of financial education as a key component of the success of individuals’ navigating through difficult times. For the Department of Human Services, programs such as the Low-Income Home Energy Assistance Program (LiHEAP), General Assistance (GA), the Supplemental Nutrition Assistance Program (SNAP), or those transitioning from homeless shelters that may not be enrolled or eligible in TANF would benefit from such education as well. In the Department of Labor and Industrial Relations (DLIR), participants in work placement programs or job training programs, as well as those collecting unemployment would all benefit from curriculum and knowledge designed to help them make the most of their earnings.

Furthermore, the measure defines "financial education" in the following manner: "'Financial education' means education that promotes an understanding of consumer, economic, and personal finance concepts, including the basic principles involved in earning, budgeting, spending, saving, investing, and taxation." We believe this definition to be a starting point in the larger conversation toward curriculum development.

OCS has contributed to the task of gathering community input to take this concept to implementation. Other Departments, such as DHS, have also done fact-finding with regards to their programs to effectively implement "financial education." During OCS' community needs assessment process, two (2) important findings were put forth by community members and service providers with regard to implementation: 1) ***There is no standard financial education curriculum,*** and 2) ***financial literacy cannot be taught in a "vacuum."*** Because programs have different requirements, financial education in a transitional housing program could consist of homebuyer education; while a job placement financial education component may consist of household budgeting and tax deferral and refund maximization strategies.

Without a discussion and assembly of core competencies, any certification or credential awarded as a result of such classes would be inconsistent and thus useless to potential employers or other stakeholders such as mortgage brokers.

Our service providers experiences in attempting to provide financial literacy has led to their expression of the second conclusion above. This conclusion is logical; many of our clientele experience generational poverty and have never had tangible assets or investments of any kind. Thus, strategies targeted at savings or investment may not be immediately comprehended without an intermediate, hands-on learning tool beyond their own finances.

Thirdly, we note that education alone does not alleviate asset poverty for those with fixed incomes such as the elderly and disabled.

OCS is making no effort to undermine the initiatives of any other division or Department and does, in fact, support additional funding for TANF recipients under this program. In addition to the proposed initiative, we would like to offer this opportunity for the Legislature to assist by supporting our recent Request for Proposal dated November 15, 2012 and entitled "OCS LBR 903-06_14, Financial Literacy, Asset Poverty Reduction, and Savings Incentives for Low-Income Persons."

Our proposed program utilizes our community input and research to incorporate financial education components modeled after the United States' Department of the Treasury's "Money Smart" curriculum with an Individual Development Account (IDA) program designed to incentivize savings. This IDA not only matches funds for traditional IDA uses such as education and homeownership, it also matches funds for non-traditional uses. OCS has sought out to directly attack "asset poverty" by using its definition; the IDA will allow a lesser match of funds to incentivize eligible families to save three (3) months of income as a "cushion." This will, by definition, eliminate the successful family from the asset poverty rolls. A copy of the RFP can be provided by our office if you are interested, and with the current solicitation OCS will be ready to contract starting July 1.

SUBJECT: INCOME, Earned income credit

BILL NUMBER: SB 301

INTRODUCED BY: Chun Oakland and 3 Democrats

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.

Delineates that no credit shall be allowed in the disallowance period which is: (1) the period of 10 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 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 who fails to comply with due diligence requirements imposed by the Secretary of the U.S. Department of the Treasury with respect to determining eligibility, or the amount of the credit allowable by IRC section 32, shall be subject to a penalty of $100 for each such failure.

Directs the director of taxation to: (1) prepare the necessary forms to claim the credit; (2) require proof of the claim for the tax credit; (3) alert eligible taxpayers of the tax credit; (4) prepare an annual report containing the number of credits granted for the prior calendar year, the total number of credits granted, and the 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 exemption. Although Act 60, SLH 2009, increased the standard deduction to $4,400 for couples and $2,200 for individuals and the personal exemption to $1,144, the 2011 session of the legislature delayed the implementation from January 1, 2011 to January 1, 2013. However, that legislature did make those changes permanent by repealing the sunset clause that would have automatically repealed the increases as of January 1, 2016. The same 2009 legislation also raised income tax rates on higher income individuals and the 2011 legislation placed limits on the deductibility of state income and sales taxes as well as the overall amount of itemized deductions for high-income individual income taxpayers.

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 Tax Review Commission nor did the latest Commission even consider it. 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 an EITC were adopted.

Lawmakers should understand that by taking a percentage of a number calculated at the federal level, they are surrendering their oversight of 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. Such is the case with the state inheritance taxes which were tied into the tax credit offered under the federal law which calculated an amount the federal government assumed the state took in death taxes. However, this provision was eliminated by EGTRRA in 2001, phasing out the state death tax credit completely over four years so that Hawaii had no tax on inheritance and estates. The tax on inheritance and estates was reinstated after a six-year hiatus.

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, especially in public housing, in gaining the skills they need to hold gainful employment, provide child care 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 1/24/13

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

January 25, 2013

Aloha Senator Chun Oakland and Senator Green,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB 301, which establishes a refundable state earned income tax credit (EITC). 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. 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. SB 301 would also require the Department 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 SB 301 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

CATHOLIC CHARITIES HAWAIʻI

TESTIMONY IN SUPPORT OF SB 301: RELATING TO ASSET BUILDING

TO: Senator Suzanne Chun Oakland, Chair; Committee on Human Services;
Senator Josh Green, M.D., Vice Chair, and
Members, Committee on Human Services

FROM: Betty Lou Larson, Legislative Liaison, Catholic Charities Hawaii

Hearing: Saturday, 1/26/13; 1:15 pm; CR 229

Chair Chun Oakland, Vice Chair Green, and Members, Committee on Human Services:

Thank you for the opportunity to testify on SB 301, which establishes a refundable state earned income tax credit, and financial education to applicants for and recipients of temporary assistance for needy families. I am Betty Lou Larson, Legislative Liaison for Catholic Charities Hawaii. Catholic Charities Hawaii supports this bill. We are also a member of Partners in Care, which supports this bill as homeless prevention.

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 possible homelessness. EITC is a direct work 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.

This is not a new idea. 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 has 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 SB 301. Thank you.

HAWAI'I APPLESEED CENTER
LEJ
LAW AND ECONOMIC JUSTICE

Date: January 25, 2013
To: Senator Chun Oakland, Chair, Committee on Human Services
From: Victor Geminiani, Executive Director
Hawaii Appleseed Center for Law and Economic Justice
Re: Testimony in support of SB301
Scheduled for a hearing on Saturday, January 26, 2013 at 1:15 PM – Room 229

Dear Chair Chun Oakland and committee members;

Thank you for an opportunity to testify in strong support of SB301, which would create a state Earned Income Tax Program. My name is Victor Geminiani and I am the Executive Director of the Hawaii Appleseed Center for Law and Economic Justice (formerly Lawyers for Equal Justice).

Hawai`i Appleseed Center for Law and Economic Justice (LEJ) 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 and to complement the assistance provided by existing legal services providers in the state. 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. 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 also 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.

The EITC is a direct work incentive for low income workers because it provides a direct wage subsidy targeted at low income wage earners with families. It is considered by many to be the most efficient poverty program in existence today because it 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.

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. Studies have indicated that wage earners immediately spend income received from the EITC program immediately on bills and basic necessities such as food and shelter 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.

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% of the federal EITC payment.

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.

Again, thank you for providing us with an opportunity to testify in strong support of SB301.

Aloha,

Victor Geminiani,
Executive Director

Goodwill Industries of Hawaii, Inc.

CS13:001T:SF

To: The Honorable Senator Suzanne Chun Oakland, Chair
Senator Josh Green, M.D., Vice Chair
Committee on Human Services

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

Date: January 25, 2013

Re: **Testimony in Support of SB 301 – Relating to Asset Building**

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 SB301 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.

PHOCUSED

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

P13:003T:LKR

January 23, 2013

TO: Senator Suzanne Chun Oakland, Chair
Senator Josh Green, M.D., Vice Chair
Members, Committee on Human Services

FROM: Laura Kay Rand, Interim Executive Director, PHOCUSED

HEARING: Committee on Human Services
January 26, 2013 at 1:15 p,m.

Testimony in Support of SB301, Relating to Asset Building

Thank you for the opportunity to provide testimony in support of SB301, 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 SB301 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 SB301. 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

PARTNERS IN CARE
Oahu's Coalition of Homeless Providers

TESTIMONY IN SUPPORT OF SB 301: RELATING TO ASSET BUILDING

TO: Senator Suzanne Chun Oakland, Chair, Committee on Human Services
Senator Josh Green, M.D., Vice Chair, and
Members, Committee on Human Services

FROM: Gladys L. Peraro, Advocacy Committee Co-Chair, Partner In Care

Hearing: Saturday, 1/26/13; 1:15pm; CR 229

Chair Chun Oakland, Vice Chair Green and Members of the Committee on Human Services:

Thank you for the opportunity to provide testimony on SB 301, which establishes a refundable state **earned income tax credit** (EITC), and requires the Department of Human Services to provide financial education to applicants for and recipients of temporary assistance for needy families. I am Gladys L. Peraro, Advocacy Committee Co-Chair for the Partners In Care (PIC), a coalition of care providers focusing on the needs of homeless persons and strategies to end homelessness. Partners In Care supports this bill as one way to help prevent homelessness.

Partners In Care has a strong commitment to decreasing poverty. People living below the poverty line are especially hard hit in economically challenging times such as these- especially so for the residents of Hawaii living in areas with the highest costs of living in the United States. A family of four in Hawaii pays 61% more for food than families on the mainland, our cost for housing is also among the highest in the nation, 75% of people live at or below the poverty line and spend more than 50% of their income on housing, potentially putting them as risk of becoming homeless if there is if there is any reduction in their income or increases to their current rental obligations.

Partners In Care supports this bill to create a State Earned Income Tax Credit (EITC) to help families in poverty and prevent possible homelessness; the EITC is also a direct work incentive for low income workers since it targets these workers with families. <u>Funding for education is also critical</u> to reach those workers who are most in need- many in Hawaii have limited education and limited English proficiency skills, and are in need of education in this area in order to understand how to apply for the EITC. Funding the financial education and tax workshops are important to ensure that those most in need will have the necessary skills to take advantage of this tax credit.

This is not a new idea- Twenty-five (25) 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 has also demonstrated that workers who receive the EITC immediately spend the money on daily necessities which adds a monetary boost to local economies as well.

Partners In Care thanks you for your concern and dedication to helping the working poor in our community. We urge your support for SB 301. Thank you.

To: Senator Suzanne Chun Oakland, Chair
Senator Josh Green, M.D., Vice-Chair
Senate Committee on Human Services

From: Liz Chun, Early Education Policy Consultant

Date: Saturday, January 26, 2013
1:15 pm
Conference Room 229

Subject: SB 301, RELATING TO ASSETS

I submit this testimony **in strong support of SB 301, Relating to Assets**, which provides for a state 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.

Susan M. Chandler
1617 Quincy Place
Honolulu, HI 96816

TO: Senator Suzanne Chun Oakland, Chair
Senator Josh Green, M.D., Vice Chair

From: Susan Chandler

Re: Testimony in support of SB 301, Relating to Asset Building
Saturday, January 26, 2013, 1:15, Room 229, State Capitol

Senator Chun Oakland, Senator Green and members of the Senate Committee on Human Services. I strongly support Senate Bill 301 and particularly support the provision enacting a refundable earned income tax credit (EITC) in Hawaiʻi.

I have been teaching social policy classes at the School of Social Work and in the Public Administration Program at the University of Hawaiʻi for over 30 years. I teach about the EITC at the federal level as one of the most effective and efficient anti-poverty programs ever implemented. I am frequently surprised that most of my students (as well as people in the community) are not familiar with its provisions and how well it works.

EITC was passed in 1975 at the federal level and is simple, elegant, works well and has been extremely helpful to low- income individuals and families… helping millions of families escape poverty. Establishing such a tax credit system to offset Hawaiʻi's high tax burden on low-income families is clearly the right thing to do AND it will assist Hawaiʻi's economy since the tax credit will return money into the hands of low-income people who spend the vast proportion of their hard earned money in our state.

Twenty-three states (and D.C.) have enacted **STATE** EITCs. It is now time for Hawaiʻi to join them.

Thank you for the opportunity to testify.