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# A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 PART I

2 SECTION 1. Chapter 235, Hawaii Revised Statutes, is  
3 amended by adding a new section to part III to be appropriately  
4 designated and to read as follows:

5 "§235- Earned income tax credit. (a) Each resident  
6 individual taxpayer who:

7 (1) Files an individual income tax return for a taxable  
8 year; and

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

11 may claim a refundable earned income tax credit. The tax  
12 credit, for the appropriate taxable year, shall be equal to ten

13 per cent of the federal earned income tax credit allowed under  
14 section 32 of the Internal Revenue Code, as amended, and

15 reported as such on the individual's federal income tax return.

16 If the tax credits claimed by a resident individual exceed the  
17 amount of income tax payment due from the resident individual,

18 the excess of credit over payment due shall be refunded to the



1 resident individual; provided that a tax credit properly claimed  
2 by a resident individual who has no income tax liability shall  
3 be paid to the resident individual; and provided further that no  
4 refund or payment on account of the tax credit allowed by this  
5 section shall be made for an amount less than \$1.

6 (b) In the case of a non-resident individual taxpayer, the  
7 tax credit shall equal the amount of the tax credit calculated  
8 in subsection (a) multiplied by the ratio of adjusted gross  
9 income attributed to this State to the entire adjusted gross  
10 income computed without regard to source in the State pursuant  
11 to section 235-5.

12 (c) To claim the tax credit allowed under this section, an  
13 individual taxpayer shall use the same filing status on the  
14 taxpayer's Hawaii income tax return as used on the taxpayer's  
15 federal income tax return for the taxable year.

16 (d) Any claim, including any amended claim, for tax  
17 credits under this section shall be filed on or before the end  
18 of the twelfth month following the close of the taxable year for  
19 which the tax credit may be claimed. Failure to comply with  
20 this subsection shall constitute a waiver of the right to claim  
21 the tax credit.



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

4       (1) The period of ten taxable years after the most recent  
5 taxable year for which there was a final determination  
6 that the taxpayer's claim of credit under this section  
7 was due to fraud; and

8       (2) The period of two taxable years after the most recent  
9 taxable year for which there was a final determination  
10 that the taxpayer's claim of credit under this section  
11 was due to the reckless or intentional disregard of  
12 rules and regulations to qualify for the tax credit,  
13 but not due to fraud.

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

21       (g) The director of taxation:



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

PART II

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

20        "§235- Low-income tax credit; tax liability. (a) There  
21 shall be allowed to each taxpayer subject to the taxes imposed  
22 by this chapter, an income tax credit that reduces the



1 taxpayer's income tax liability by fifty per cent for the  
2 taxable year in which the tax credit is properly claimed;  
3 provided that:

4       (1) Any taxpayer with an income tax liability and a  
5       federal adjusted gross income at or below the federal  
6       poverty guidelines shall receive an income tax credit  
7       under this section that eliminates the taxpayer's  
8       income tax liability under this chapter; and

9       (2) The tax credit under this section shall apply to a  
10       taxpayer with an income tax liability and a federal  
11       adjusted gross income between one hundred per cent and  
12       one hundred twenty-five per cent of the federal  
13       poverty guidelines.

14 Taxpayers with a federal adjusted gross income of one hundred  
15 twenty-five per cent or more of the federal poverty guidelines  
16 and an income tax liability shall be ineligible for the tax  
17 credit under this section.

18       (b) All claims for a tax credit under this section,  
19 including any amended claims, shall be filed on or before the  
20 end of the twelfth month following the close of the taxable year  
21 for which the tax credit may be claimed. Failure to comply with



1 the foregoing provision shall constitute a waiver of the right  
2 to claim the tax credit.

3 (c) The director of taxation shall prepare any forms that  
4 may be necessary to claim a credit under this section. The  
5 director may also require the taxpayer to furnish information to  
6 ascertain the validity of the claim for credit made under this  
7 section.

8 (d) The department of taxation may adopt rules pursuant to  
9 chapter 91 necessary to effectuate the purposes of this section.

10 (e) As used in this section, "federal poverty guidelines"  
11 means the guidelines set forth each year by the United States  
12 Department of Health and Human Services."

13 PART III

14 SECTION 3. Section 235-55.7, Hawaii Revised Statutes, is  
15 amended to read as follows:

16 **"§235-55.7 Income tax credit for low-income household**  
17 **renters.** (a) As used in this section:

18 (1) "Adjusted gross income" is defined by section 235-1.

19 (2) "Consumer price index" means the consumer price index  
20 for All Urban Consumers published by the United States  
21 Department of Labor.



1        [~~(2)~~] (3) "Qualified exemption" includes those exemptions  
2                permitted under this chapter; provided that a person  
3                for whom exemption is claimed has physically resided  
4                in the State for more than nine months during the  
5                taxable year; and provided that multiple exemption  
6                shall not be granted because of deficiencies in  
7                vision, hearing, or other disability.

8        [~~(3)~~] (4) "Rent" means the amount paid in cash in any  
9                taxable year for the occupancy of a dwelling place  
10               which is used by a resident taxpayer or the resident  
11               taxpayer's immediate family as the principal residence  
12               in this State. Rent is limited to the amount paid for  
13               the occupancy of the dwelling place only, and is  
14               exclusive of charges for utilities, parking stalls,  
15               storage of goods, yard services, furniture,  
16               furnishings, and the like. Rent shall not include any  
17               rental claimed as a deduction from gross income or  
18               adjusted gross income for income tax purposes, any  
19               ground rental paid for use of land only, and any rent  
20               allowance or subsidies received.

21               (b) Each resident taxpayer who occupies and pays rent for  
22        real property within the State as the resident taxpayer's



1 residence or the residence of the resident taxpayer's immediate  
2 family which is not partially or wholly exempted from real  
3 property tax, who is not eligible to be claimed as a dependent  
4 for federal or state income taxes by another, and who files an  
5 individual net income tax return for a taxable year, may claim a  
6 tax credit under this section against the resident taxpayer's  
7 Hawaii state individual net income tax.

8 (c) Each taxpayer with an adjusted gross income of less  
9 than [~~\$30,000~~] \$59,700 who has paid more than \$1,000 in rent  
10 during the taxable year for which the credit is claimed may  
11 claim a tax credit of [~~\$50~~] \$146 multiplied by the number of  
12 qualified exemptions to which the taxpayer is entitled; provided  
13 each taxpayer sixty-five years of age or over may claim double  
14 the tax credit; and provided that a resident individual who has  
15 no income or no income taxable under this chapter may also claim  
16 the tax credit as set forth in this section.

17 (d) For each taxable year beginning after December 31,  
18 2014, each dollar amount contained in subsection (c) shall be  
19 increased by an amount equal to such dollar amount, multiplied  
20 by the percentage, if any, by which the consumer price index for  
21 the preceding calendar year exceeds the consumer price index for  
22 the calendar year 2015.





1           ~~(d)~~ (e) If a rental unit is occupied by two or more  
2 individuals, and more than one individual is able to qualify as  
3 a claimant, the claim for credit shall be based upon a pro rata  
4 share of the rent paid.

5           ~~(e)~~ (f) The tax credits shall be deductible from the  
6 taxpayer's individual net income tax for the tax year in which  
7 the credits are properly claimed; provided that a husband and  
8 wife filing separate returns for a taxable year for which a  
9 joint return could have been made by them shall claim only the  
10 tax credits to which they would have been entitled had a joint  
11 return been filed. In the event the allowed tax credits exceed  
12 the amount of the income tax payments due from the taxpayer, the  
13 excess of credits over payments due shall be refunded to the  
14 taxpayer; provided that allowed tax credits properly claimed by  
15 an individual who has no income tax liability shall be paid to  
16 the individual; and provided further that no refunds or payments  
17 on account of the tax credits allowed by this section shall be  
18 made for amounts less than \$1.

19           ~~(f)~~ (g) The director of taxation shall prepare and  
20 prescribe the appropriate form or forms to be used herein, may  
21 require proof of the claim for tax credits, and may adopt rules  
22 pursuant to chapter 91.



1           ~~[(g)]~~ (h) All of the provisions relating to assessments  
 2 and refunds under this chapter and under section 231-23(c)(1)  
 3 shall apply to the tax credits hereunder.

4           ~~[(h)]~~ (i) Claims for tax credits under this section,  
 5 including any amended claims thereof, shall be filed on or  
 6 before the end of the twelfth month following the taxable year  
 7 for which the credit may be claimed."

PART IV

8  
 9           SECTION 4. Section 235-55.85, Hawaii Revised Statutes, is  
 10 amended as follows:

11           1. By amending subsections (b) and (c) to read:

12           "(b) Each resident individual taxpayer may claim a  
 13 refundable food/excise tax credit multiplied by the number of  
 14 qualified exemptions to which the taxpayer is entitled in  
 15 accordance with the table below; provided that a husband and  
 16 wife filing separate tax returns for a taxable year for which a  
 17 joint return could have been filed by them shall claim only the  
 18 tax credit to which they would have been entitled had a joint  
 19 return been filed.

Adjusted gross income	Credit per exemption
Under <del>[\$5,000]</del> <u>\$5,700</u>	<del>[\$85]</del> <u>\$96</u>
<del>[\$5,000]</del> <u>\$5,700</u> under <del>[\$10,000]</del> <u>\$11,300</u>	<del>[75]</del> <u>\$85</u>



1	<del>[\$10,000]</del> <u>\$11,300</u> under <del>[\$15,000]</del> <u>\$17,000</u>	<del>[65]</del> <u>\$74</u>
2	<del>[\$15,000]</del> <u>\$17,000</u> under <del>[\$20,000]</del> <u>\$22,700</u>	<del>[55]</del> <u>\$62</u>
3	<del>[\$20,000]</del> <u>\$22,700</u> under <del>[\$30,000]</del> <u>\$34,000</u>	<del>[45]</del> <u>\$51</u>
4	<del>[\$30,000]</del> <u>\$34,000</u> under <del>[\$40,000]</del> <u>\$45,300</u>	<del>[35]</del> <u>\$40</u>
5	<del>[\$40,000]</del> <u>\$45,300</u> under <del>[\$50,000]</del> <u>\$56,500</u>	<del>[25]</del> <u>\$28</u>
6	<del>[\$50,000]</del> <u>\$56,500</u> and over	<u>\$0</u>

7 (c) ~~[For the purposes of this section, a qualified~~  
8 ~~exemption is defined to include those exemptions permitted under~~  
9 ~~this chapter; provided that no additional exemption may be~~  
10 ~~claimed by a taxpayer who is sixty five years of age or older;~~  
11 ~~provided that a person for whom exemption is claimed has~~  
12 ~~physically resided in the State for more than nine months during~~  
13 ~~the taxable year; and provided further that multiple exemptions~~  
14 ~~shall not be granted because of deficiencies in vision or~~  
15 ~~hearing, or other disability. For purposes of claiming this~~  
16 ~~credit only, a minor child receiving support from the department~~  
17 ~~of human services of the State, social security survivor's~~  
18 ~~benefits, and the like, may be considered a dependent and a~~  
19 ~~qualified exemption of the parent or guardian.] For each~~  
20 taxable year beginning after December 31, 2014, each dollar  
21 amount contained in subsection (b) shall be increased by an  
22 amount equal to such dollar amount multiplied by the percentage,



1 if any, by which the consumer price index for the preceding  
2 calendar year exceeds the consumer price index for the calendar  
3 year 2015."

4 2. By amending subsection (g) to read:

5 "(g) For the purposes of this section[, ~~"adjusted~~]:

6 "Adjusted gross income" means adjusted gross income as  
7 defined by the Internal Revenue Code.

8 "Consumer price index" means the consumer price index for  
9 all urban consumers published by the United States Department of  
10 Labor.

11 "Qualified exemption" means those exemptions permitted  
12 under this chapter; provided that no additional exemption may be  
13 claimed by a taxpayer who is sixty-five years of age or older;  
14 provided further that a person who claims such an exemption  
15 shall have physically resided in the State for more than nine  
16 months during the taxable year; provided further that multiple  
17 exemptions shall not be granted because of deficiencies in  
18 vision or hearing or other disability. For purposes of claiming  
19 this credit only, a minor child receiving support from the  
20 department of human services of the State, social security  
21 survivor's benefits, and the like, may be considered a dependent  
22 and a qualified exemption of the parent or guardian."



1 PART V

2 SECTION 5. If any provision of this Act, or the  
3 application thereof to any person or circumstance, is held  
4 invalid, the invalidity does not affect other provisions or  
5 applications of the Act that can be given effect without the  
6 invalid provision or application, and to this end the provisions  
7 of this Act are severable.

8 SECTION 6. Statutory material to be repealed is bracketed  
9 and stricken. New statutory material is underscored.

10 SECTION 7. This Act shall take effect upon its approval,  
11 and shall apply to taxable years beginning after December 31,  
12 2014.

13

INTRODUCED BY:

*John M. Pappas*  
*Mele Carroll*

JAN 17 2014



**Report Title:**

Taxation; Low-Income Tax Credit; Earned-Income Tax Credit; Refundable Food/Excise Tax Credit; Low-income Household Tax Credit

**Description:**

Establishes an earned-income tax credit and reduces or eliminates the state income tax liability for taxpayers with a federal adjusted gross income of less than 125 percent of the federal poverty guidelines set forth each year by the United States Department of Health and Human Services. Amends existing tax incentives for low-income household renters and taxpayers utilizing the refundable food/excise tax credit. Applies to taxable years beginning after December 31, 2014.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

