
A BILL FOR AN ACT

RELATING TO HUMAN SERVICES.

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

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

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



1 The purpose of this Act is to implement two recommendations
2 submitted by the Hawaii state asset building and financial
3 education task force by:

4 (1) Enacting a refundable earned income tax credit; and

5 (2) Requiring the department of human services to offer
6 financial education to applicants for and recipients
7 of temporary assistance for needy families and making
8 an appropriation therefor.

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

12 "§235- Earned income tax credit. (a) Each individual
13 taxpayer who:

14 (1) Files an individual income tax return for a taxable
15 year; and

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

18 may claim a refundable earned income tax credit. The tax
19 credit, for the appropriate taxable year, shall be equal to
20 per cent of the federal earned income tax credit allowed
21 under section 32 of the Internal Revenue Code and reported as
22 such on the individual's federal income tax return. If the tax



1 credits claimed by a taxpayer exceed the amount of income tax
2 payment due from the taxpayer, the excess of credits over
3 payments due shall be refunded to the taxpayer; provided that
4 tax credits properly claimed by an individual who has no income
5 tax liability shall be paid to the individual; and provided
6 further that no refunds or payment on account of the tax credits
7 allowed by this section shall be made for amounts less than \$1.

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

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

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



1 this subsection shall constitute a waiver of the right to claim
2 the tax credit.

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

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

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

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

22 (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."

16 SECTION 3. Chapter 346, Hawaii Revised Statutes, is
17 amended by adding a new section to part II to be appropriately
18 designated and to read as follows:

19 "§346- **Financial education.** The department shall offer
20 financial education to applicants for and recipients of
21 temporary assistance for needy families, in addition to any



1 mandatory programs available to these applicants and recipients,
2 as required by federal law.

3 For purposes of this section, "financial education" means
4 education that promotes an understanding of consumer, economic,
5 and personal finance concepts, including the basic principles
6 involved in earning, budgeting, spending, saving, investing, and
7 taxation."

8 SECTION 4. There is appropriated out of the general
9 revenues of the State of Hawaii the sum of \$ or so much
10 thereof as may be necessary for fiscal year 2013-2014 and the
11 same sum or so much thereof as may be necessary for fiscal year
12 2014-2015 for the department of human services to offer
13 financial education to applicants for and recipients of
14 temporary assistance for needy families.

15 The sums appropriated shall be expended by the department
16 of human services for the purposes of this Act.

17 SECTION 5. New statutory material is underscored.

18 SECTION 6. This Act, upon its approval, shall apply to
19 taxable years beginning after December 31, 2012; provided that
20 section 4 shall take effect on July 1, 2013.



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. (HB385 HD1)

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