

STAND. COM. REP. NO. 2542

Honolulu, Hawaii

FEB 28 2014

RE: S.B. No. 2205
S.D. 1

Honorable Donna Mercado Kim
President of the Senate
Twenty-Seventh State Legislature
Regular Session of 2014
State of Hawaii

Madam:

Your Committee on Ways and Means, to which was referred S.B. No. 2205 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose and intent of this measure is to establish a state earned income tax credit.

The Hawaii State Commission on the Status of Women; Aloha United Way; Catholic Charities Hawaii; Community Alliance on Prisons; Goodwill Industries of Hawaii, Inc.; Hawaii Alliance for Community-Based Economic Development; Hawaii Appleseed Center for Law and Economic Justice; Hawaii Catholic Conference; ILWU Local 142; National Community Tax Coalition; Partners In Care; and five individuals submitted testimony in support of this measure. The Department of Taxation; Tax Foundation of Hawaii; and one individual submitted comments on the measure.

Your Committee finds that this measure is intended to provide additional resources to economically disadvantaged taxpayers by establishing a refundable state earned income tax credit equal to ten per cent of the federal earned income tax credit allowed under section 32 of the Internal Revenue Code.

Your Committee notes that the Department of Taxation had serious concerns regarding the following:



- (1) The Department has difficulty with compliance enforcement of refundable tax credits because they create an incentive and opportunity for fraud; whereas nonrefundable tax credits limit the incentive for fraud because they only benefit taxpayers to the extent of their tax liability;
- (2) Refunds are generally paid before a complete review of each return is done;
- (3) The Department would have no way to obtain the information necessary to independently determine whether a claim for a federal earned income tax credit is proper, prior to issuing a state tax refund;
- (4) There is very little chance that the Department would be able to recover refunds that are issued on fraudulent or improper claims;
- (5) The Department lacks sufficient data matching capabilities to identify and prevent improper claims from being refunded; and
- (6) Despite its extensive data matching capabilities, the Internal Revenue Service still experiences a twenty-one to twenty-five per cent error rate of improper claims for the federal earned income tax credit being filed and paid. Therefore, if the state earned income tax credit is based upon the federal earned income tax credit, it would be expected that the State's error rate will be as high, if not higher than the federal error rate.

Accordingly, your Committee has amended this measure by:

- (1) Changing the effective date to July 1, 2050, to facilitate further discussion; and
- (2) Making technical nonsubstantive amendments for the purposes of consistency, clarity, and style.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2205, as amended herein, and recommends that it pass Second



Reading in the form attached hereto as S.B. No. 2205, S.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on behalf of the members of the Committee on Ways and Means,

David Y. Ige

DAVID Y. IGE, Chair



The Senate
 Twenty-Seventh Legislature
 State of Hawai'i

Record of Votes
Committee on Ways and Means
WAM

Bill / Resolution No.:* <i>SB 2205</i>	Committee Referral: <i>WAM</i>	Date: <i>2-25-14</i>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
IGE, David Y. (C)	✓			
KIDANI, Michelle N. (VC)	✓			
CHUN OAKLAND, Suzanne	✓			
DELA CRUZ, Donovan M.	✓			
ENGLISH, J. Kalani	✓			
ESPERO, Will	✓			
KAHELE, Gilbert	✓			
KEITH-AGARAN, Gilbert S.C.	✓			
KOUCHI, Ronald D.	✓			
RUDERMAN, Russell E.	✓			
THIELEN, Laura H.	✓			
TOKUDA, Jill N.	✓			
SLOM, Sam			✓	
12	0	1	0	
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <div style="text-align:center;"><i>Michelle N. Kidani</i></div>				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes