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 David Y. Ige, Chair
and Members of the Senate Committee on Ways and Means

Date: Wednesday, February 12, 2014
Time: 10:30 A.M.
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 2205, Relating to Taxation

The Department appreciates the intent of S.B. 2205 and provides the following information and comments for your consideration.

S.B. 2205 creates a refundable earned income tax credit (EITC) at the state level. The credit is equal to ten percent of the federal EITC allowed under section 32 of the Internal Revenue Code, as amended. The tax credit applies to taxable years beginning after December 31, 2014.

The Department appreciates the intent of this bill, to provide additional resources to economically disadvantaged taxpayers, but notes that the tax system is not necessarily the most efficient structure for providing financial support to such taxpayers.

First, the Department has difficulty with compliance enforcement of refundable tax credits because they create an incentive and opportunity for fraud. Conversely, nonrefundable tax credits limit the incentive for fraud because they only benefit taxpayers to the extent of their tax liability.

For Fiscal Year 2012, the U.S. Department of the Treasury has reported that approximately 21-25% of the amounts paid for the federal EITC has gone to taxpayers improperly claiming the tax credit; this translates into approximately $11.6 to $13.6 billion dollars improperly paid out.

Second, refunds are generally paid before a complete review of each return is done. Although on its face it seems simple to create a Hawaii EITC based on a percentage of the federal EITC, the Department has no way to obtain the information necessary to independently determine whether an EITC claim is proper. If this measure were enacted, the only way that the Department would know that a claim was improper would be through notification from the Internal Revenue Service (IRS).

The IRS, like the Department, generally does not conduct an EITC examination until months after a refund is paid out. Thus, by the time the Department is informed that a credit was improperly claimed under this section, the Department would already have paid out a refund that it would have no way of effectively retrieving.

Third, the Department also has serious concerns regarding its ability to recover any amounts which are improperly refunded. Specifically, once a refund is issued on a fraudulent or improper claim, there is a very little chance of the Department being able to recover those amounts. The Department currently does not have sufficient data matching capabilities that could identify some of the improper claims from being refunded.

It is important to note that the IRS, which has extensive data matching capabilities with federal databases such as the Social Security Administration database, still has a 21-25% rate of improper claims being filed and paid. Therefore, the Department believes that the Hawaii error rate will at least be equal to, if not greater than the federal error rate of 21-25%, particularly if the State intends to use the federal EITC claim as the base upon which taxpayers may claim a state EITC credit. In addition to the substantial loss of revenue due to the high error rate, the Department is concerned that the high rate of errors will divert the Department's limited staff resources to enforcement of a tax credit, instead of revenue collection.

Thank you for the opportunity to provide comments.

LATE

HAWAII STATE COMMISSION ON THE STATUS OF WOMEN

Executive Director
Catherine Betts, JD

Email:
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February 12, 2014

To: Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair
Members of the Senate Committee on Ways and Means

From: Cathy Betts
Executive Director, Hawaii State Commission on the Status of Women

Re: Testimony in Support, SB 2205, Relating to Taxation

Thank you for this opportunity to testify in strong support of SB 2205, which would help Hawaii's low and moderate income families through revision of our tax policies. This bill would create a state earned income tax credit.

Currently, Hawaii is the 8th poorest state under the United States Census Supplemental Poverty Measure. Hawaii is considered the 4th worst state for taxing people in poverty. Many of our families are reliant on state benefits just to "get by" and the majority of those families are headed by women as single heads of household. This measure seeks to alleviate some of our more regressive tax policies in order to allow families to become self sufficient.

This measure would create a state earned income tax credit (EITC), mirroring our federal EITC, which is considered one of the most effective tax measures to battle poverty. A state EITC would create a state income tax credit set at a percentage of the federal EITC. Twenty five states and the District of Columbia already have such a measure in place.

Over taxing working families living in poverty is not good public policy. Similar to eliminating the asset tests for TANF recipients (which our state legislature did last year), progressive tax policies help our families build assets to move forward, rather than spend down their assets to barely survive economically. Revising our tax policies and providing a state EITC will further assist our working families. The Commission strongly supports SB 2205.

Thank you for this opportunity to testify.

Hawai'i Alliance for Community-Based Economic Development
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Ph. 808.550.2661 Fax 808.534.1199
Email info@hacbed.org www.hacbed.org

HACBED
Community Voice, Collective Action

Date: February 10, 2014
To: Senator David Y. Ige, Chair, Senator Michelle N. Kidani, Vice-Chair, and members of the Committee on Ways and Means
From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)
Re: Strong Support for SB 2205

Aloha Chair Ige, Vice-Chair Kidani, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB 2205, 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. 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 provide needed assistance in the area of state taxes through the establishment of a state EITC, a low-income workers credit, and adjusting essential tax credits for inflation.

The Family Economic Self-Sufficiency Standard (FESS) 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.

These tax measures 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. Through the FISSP efforts, 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 the 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. The passage of SB 2205 would go a long way to supplement the needs of these families with a refundable state earned income tax credit that would assist these families in their efforts to truly build their assets.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Executive Director
Hawai'i Alliance for Community-Based Economic Development

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Earned income credit

BILL NUMBER: SB 2205; HB 1807 (Identical)

INTRODUCED BY: SB by Chun Oakland and Ihara; HB by Mizuno

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a state earned income tax credit equal to 10% 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.

EFFECTIVE DATE: Tax years beginning after December 31, 2014

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. According to the IRS, 19.2% of the 146 million income taxpayers in 2011 claimed the EITC.

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.

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 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.

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 2/5/14

Aloha United Way

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Cover Sheet

Testifying Agency: Aloha United Way
Kim Gennaula, President & CEO

Senate Committee on Ways and Means
Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair

Wednesday, February 12, 2014 at 10:30 A.M.

Conference Room 211

SB 2202, SB 2205, SB 2208: Relating to Tax Credits, Taxation, & Income Tax Credits: Testimony in Support

Aloha United Way

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February 7, 2014

Committee on Ways and Means
Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair
Wednesday, February 12, 2014 at 10:30 A.M.
Conference Room 211

SB 2202, SB 2205, SB 2208: Relating to Tax Credits, Taxation, & Income Tax Credits - SUPPORT

Dear Chair David Y. Ige, Vice Chair Michelle N. Kidani and Committee Members:

Aloha United Way strongly encourages your favorable consideration of SB 2202, SB 2205, SB 2208 which makes several changes to our tax policy to reduce the tax burden on our lowest income residents.

In January 2011, The Department of Business, Economic Development & Tourism published a report titled "Self-Sufficiency Income Standard – Estimates for Hawaii 2007". This report looks at the critical issue of family and individual self-sufficiency. DBEDT defines self-sufficiency as the ability to meet basic needs without government or other subsidies. The report clearly shows the impact of the ever-increasing cost of living in Hawaii on a workforce as fully 27% of Hawaii's families have inadequate income to be self-sufficient.

The federal earned income tax credit has proven to be the most efficient and effective way of providing tax relief to low income working families. This credit has lifted over 4.4 million Americans out of poverty every year. While our current "income-support" based welfare system is important to ensure our most needy are cared for, moving families from support to self-sufficiency requires a comprehensive set of asset building strategies – and a state earned income tax credit and the other tax relief provisions of SB 2202, SB 2205, SB 2208 target those who are emerging from reliance on state support programs.

SB 2202, SB 2205, SB 2208 provides an excellent start on a comprehensive set of programs that will eventually enable more of our citizens to enjoy a self-sufficient life and Aloha United Way strongly encourages favorable consideration of this important legislation.

Sincerely,

Kim Gennaula

Kim Gennaula
President & Chief Executive Officer

To: The Honorable Senator David Ige, Chair
The Honorable Senator Michelle Kidani, Vice Chair
Senate Committee on Ways and Means

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

Date: February 12th, 2014

Re: **Testimony in Support of SB 2205, – Relating to Taxation**

Thank you for the opportunity to testify in **strong support** of Senate Bill 2205, which would create a refundable state earned income tax credit (EITC) set at 10 percent of the filer's federal EITC. Earned income tax credits support low and moderate-income working families, especially those with children, keep more of what they earn and avoid poverty.

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 approximately 15,000 people, placing almost 1,500 into jobs in our community. Goodwill also served as a statewide Volunteer Income Tax Assistance (VITA) site preparing approximately 1,100 returns, many of which included federal Earned Income Tax Credits.

A state earned income tax credit modeled after the federal EITC will provide much needed assistance to Hawaii's working families. The federal EITC is a refundable tax credit with a lengthy record as an effective antipoverty measure and has consistently enjoyed bipartisan support. It supports low-income workers through a targeted tax reduction that is particularly beneficial to families with children. The EITC gets and keeps people working because only households with earned income can receive the EITC. It is considered by many to be the most efficient poverty program in existence today because it directly supports low-income workers without the administrative burden of government assistance programs. The benefits of the federal EITC have led 25 other states and the District of Columbia to create their own EITCs.

Another benefit of the structure of the EITC is that it increases as a household earns more income and then slowly tapers down as they pass a certain threshold. This structure allows families to receive support as they move towards self-sufficiency and then reduce the support as they are better able to support themselves. This targeted approach truly embodies how the state can support families in their move towards self-sufficiency.

The federal EITC is an efficient and effective means to address poverty and its negative impacts. Hawai'i should learn from the success of the federal and other state EITCs and implement one to provide additional support to our low and moderate-income families. We strongly urge you to **support** SB 2205 to create a state earned income tax credit that will encourage work, help low-income wage earners make ends meet, and provide lasting benefits to their children.

Thank you for the opportunity to testify today

CATHOLIC CHARITIES HAWAI'I

Testimony in Support of SB 2205: Relating to Taxation

TO: Senator David Y. Ige, Chair, Senator Michelle N. Kidani, Vice Chair, Members of the Committee on Ways and Means

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

Hearing: Wednesday, February 12, 2014 10:30 a.m., Conference Room 211

Thank you for the opportunity to testify in support of SB 2205, which establishes a refundable state earned income tax credit at ten percent of the federal earned income tax credit as reported on the individual's federal income tax return.

Catholic Charities Hawai`i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai`i for over 60 years. CCH has programs serving elders, children, developmentally disabled, homeless and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawai`i. This bill speaks directly to our advocacy priority of reducing poverty in Hawaiʻi.

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 shelter[1] in the country. A family of four in Hawaii pays 68% more for food than families on the mainland[2]. 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 pay for their basic living expenses. EITC is a direct incentive for low income workers since it targets workers with families.

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 SB 2205**. Please contact me at (808)527-4810 or trisha.kajimura@catholiccharitieshawaii.org if you have any questions.

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[1] Hawaii 2013 State Housing Profile, National Low Income Housing Coalition. http://nlihc.org/sites/default/files/SHP-HI.pdf.

[2] Based on the U.S. Department of Agriculture's Thrifty Food Plan, which is used as the basis for Supplemental Nutrition Assistance Program benefits. See http://www.cnpp.usda.gov/usdafoodplanscostoffood.htm.

HAWAII CATHOLIC CONFERENCE
6301 Pali Highway
Kaneohe, HI 96744-5224

ONLINE SUBMITTAL
Hearing on Wednesday, February 12, 2014 @ 10:30 a.m.
Conference Room 211

DATE: February 9, 2014
TO: Senate Committee on Ways & Means
Sen. David Ige, Chair
Sen. Michelle Kidani, Vice Chair
From: Walter Yoshimitsu, Executive Director
Re: Support for SB 2205 Relating to Taxation

Honorable Chair and members of the Senate Committee on Ways & Means, I am Walter Yoshimitsu, **representing the Hawaii Catholic Conference**. The Hawaii Catholic Conference is the public policy voice for the Roman Catholic Church in the State of Hawaii, which under the leadership of Bishop Larry Silva, represents Roman Catholics in the State of Hawaii.

The Catholic Church in Hawaii has long encouraged members of our faith community to engage every level of the Church in study, discussion and decisions about how the Church can and must respond to the cry of the poor. Our church teaching is clear that our desire is that the poor should rise above poverty and wretchedness, and should better their condition in life; and for this it strives. As Christians, we are called by the Gospel to do everything we can to help those who are least among us.

The Hawaii Catholic Conference strongly supports a State Earned Income Tax Credit (EITC) to help local families in poverty and prevent homelessness. The EITC is a direct incentive for low-income workers since it specifically addresses workers with families. Our understanding, however, is that there may be a low level of literacy and English speaking skills among these groups of people so it is imperative that an effort to provide education on the application process for the EITC be added to the discussion.

Raising the State Earned Income Tax Credit (EITC) in Hawaii for the lowest wage-earners in the state, promotes the human dignity of each person and provides much needed tax relief, thereby empowering them to rise against the cycle of poverty. The EITC will encourage a better work ethic, reduce poverty, and allow those struggling financially in our state to meet their basic needs. The goal of empowering these people, especially families, to raise themselves out of the cycle of poverty, is one that has long been supported by the Catholic Church and many other faith communities.

Thank you for supporting this bill. Mahalo for the opportunity to provide testimony.

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PARTNERS IN CARE
Oahu's Coalition of Homeless Providers

TESTIMONY IN SUPPORT OF SB 2205 RELATING TO TAXATION

TO: Senator David Ige, Chair; Senator Michelle Kidani, Vice Chair; and members of the Committee on Ways and Means

FROM: Peter K. Mattoon, Advocacy Committee Co-Chair, Partners In Care

Hearing: Wednesday, February 12, 2014, 10:30 AM, Room 211

Dear Chair Ige, Vice Chair Kidani, and committee members:

Thank you for the opportunity to provide testimony in **strong support** of Senate Bill 2205, which would create a state earned income tax credit (EITC) set at 10 percent of the federal EITC. My name is Peter K. Mattoon, and I am an Advocacy Committee Co-Chair for Partners In Care, a coalition of care providers focusing on the needs of homeless persons and strategies to end homelessness. We support this policy to promote the financial security of low-income families at risk of homelessness.

Hawaiʻi has the highest cost of living in the United States, at nearly 60% of the national average. We also have the 8th highest rate of poverty among the states, with 17% of our households living below the U.S. Census Supplemental Poverty Measure. Given the high cost of living and high poverty rate, it's no surprise that we have the highest rate of homelessness among the states.

Our regressive tax system makes it even harder for low-income families to get by. The bottom 40 percent of households pay around 13 percent of their income toward state and local taxes, while those earning over $400,000 pay closer to 8 percent. A state earned income tax credit will help make our tax system fairer so that working families can make ends meet.

The federal EITC has been a highly effective anti-poverty measure that puts money back in the pockets of low-income workers, especially family breadwinners: in 2011, it lifted 15,000 of Hawaiʻi's children above the poverty guidelines. We can build on this success by creating a state EITC. It encourages work because only filers with earned income can claim it, and it is particularly targeted at families with children. The EITC is one way to help prevent homelessness because it lets workers keep more of what they earn and supplements their income. It helps families to pay their bills and purchase necessities, and households are also encouraged to save some of their EITC to build assets. Even families experiencing homelessness can benefit from the EITC: the 2010 Homeless Services Utilization Report found that more than half of Hawaiʻi's homeless families have at least one adult working.

We respectfully urge the Committee to pass SB 2205 to create a state earned income tax credit, which will provide critical relief to our families struggling to make ends meet and prevent homelessness.

Protect working families: Establish a Hawaii EITC

Testimony for the Hawaiian Legislature's consideration of SB 2205: Relating to Taxation
Senate Committee on Ways and Means

By Jackie Lynn Coleman, President & CEO, The National Community Tax Coalition

February 10, 2014

The National Community Tax Coalition (NCTC) greatly appreciates this opportunity to testify in strong support of SB 2205, which would create a state Earned Income Tax Credit (EITC) for Hawaii – a much-needed support for the low- and moderate-income working families of this state.

NCTC is the nation's largest, most comprehensive membership organization for community-based organizations offering free Volunteer Income Tax Assistance (VITA) and financial services to low-income working families. Our more than 2,400 members empower low-income workers to build a more secure financial future for themselves and their families through innovative financial services. During the 2013 tax season, Community VITA programs helped taxpayers file approximately 1.7 million federal tax returns – including more than 7,400 in Hawaii alone.

While low-income families across the nation are struggling to get by, the challenges of living in or near poverty are exacerbated by Hawaii's cost of living, which is the highest in the country. The EITC is a proven and effective means for keeping working families and their children out of poverty and enabling them to pay for their basic needs. Research has also shown the EITC to be associated with better education outcomes (math and reading scores) for children and better health for families.

The families who claim the EITC work hard – they must have earned income to qualify – and already pay a significant portion of their income in taxes. In Hawaii, taxpayers in the lowest quintile of earners paid a steep 13 percent of their limited incomes in state and local taxes. Creating a state EITC to complement the federal tax credit would help alleviate the negative effects of these tax rates on the families who need help the most, allowing them to keep more of what they have earned.

Currently, more than 11.5 percent of Hawaiians are living in poverty – but the rate for children living in poverty is a staggering 17.1 percent. Implementing a state EITC would help the state of Hawaii to leverage the anti-poverty impact of the federal EITC and target those households, especially those with children, who are the neediest. Each year, the EITC lifts approximately 6.6 million people out of poverty, about half of whom are children. In Hawaii, almost 15,000 children were kept out of poverty due to the federal EITC in 2011. A state-level EITC, working in conjunction with the federal, would have a significant impact on Hawaii's low-income families and children, setting them on the path to financial security.

Half of all of the states in the U.S. have created their own EITCs, recognizing the tax credit's successful track record at mitigating poverty, especially among children, and encouraging work. Hawaii has here the opportunity to join these states in the fight against poverty. As such, NCTC respectfully urges Hawaii's legislators to support the state's low- and moderate-income families by supporting SB 2205.

HAWAI'I APPLESEED CENTER
LAW
AND
ECONOMIC
JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting SB 2205 Relating to Tax Credits
Senate Committee on Ways and Means
Scheduled for Hearing Wednesday, February 12, 2014, 10:30 AM, Room 211

Hawai'i Appleseed Center for Law and Economic Justice is a nonprofit law firm created to advocate on behalf of low-income individuals and families in Hawai'i on 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.

Thank you for the opportunity to testify in **strong support** of Senate Bill 2205, which would create a state earned income tax credit (EITC) set at 10 percent of the federal EITC. The federal EITC is highly effective strategy to alleviate the impact of poverty and financial instability of low-income households, and we should build on its success to help working families who are struggling to get by.

Hawai'i is the most expensive state in the country, with a cost of living at almost 160 percent of the national average. Groceries cost 57 percent more than they do on the mainland, and the cost of shelter is more than double. We face the ninth highest rate of poverty based on the U.S. Census's Supplemental Poverty Measure. Even our moderate income families struggle to make ends meet. Meanwhile, Hawai'i's regressive tax system further exacerbates these struggles. The Institute on Taxation and Economic Policy has ranked Hawai'i as the fourth worst state in the country for taxing residents living in poverty, and our low-income residents face a disproportionately high tax burden. We can begin to change this by implementing a state EITC.

A state earned income tax credit is an easy, straightforward, and cost-effective way to help working families make survive in Hawai'i. The federal EITC has been hailed as the most effective anti-poverty program in the U.S. In Hawai'i alone, some 108,000 residents benefit each year from the federal EITC, and 15,000 of Hawai'i's children were lifted out of poverty by the federal EITC in 2011. A refundable EITC puts money into the pockets of those who need it most. It not only reduces the tax burden on the low-income population, but also acts as a wage supplement and an incentive for employment because only workers with earned income can claim it. Twenty-five other states and the District of Columbia have recognized these benefits by creating a state EITC.

By raising families out of poverty, the EITC improves health and educational outcomes for children, and as an influx of cash, it can encourage families to build assets. While any eligible worker can claim the federal EITC, it is highest for families with children. Earned income tax credits also boost local economies, because families receiving the EITC often spend it quickly to purchase everyday necessities or durable goods. This spending increases activity in the local economy directly and indirectly as it is re-spent. Because the EITC is done through the tax system and a state EITC would be set at 10 percent of the federal credit, it is a more efficient means of supplementing workers' income than traditional forms of government assistance.

Again, thank you for this opportunity to testify in **strong support**. We respectfully urge you to **pass SB 2205** unamended to create a state EITC that will provide much-needed assistance to Hawai'i's low-income residents.

From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	barbarapolk@hawaiiantel.net
Subject:	Submitted testimony for SB2205 on Feb 12, 2014 10:30AM
Date:	Monday, February 10, 2014 10:45:15 PM

SB2205

Submitted on: 2/10/2014

Testimony for WAM on Feb 12, 2014 10:30AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Barbara Polk	Individual	Support	No

Comments: We must take action to reduce the rapidly increasing divide between the rich and the poor. Because our minimum wage is so low (and none of the bills before the legislature this year would raise it to above poverty level for a full time worker), there need to be rewards an incentives for people to work. A refundable earned income tax credit provides this. I urge you to pass this bill.

From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	mendezj@hawaii.edu
Subject:	*Submitted testimony for SB2205 on Feb 12, 2014 10:30AM*
Date:	Friday, February 07, 2014 4:35:37 PM

SB2205

Submitted on: 2/7/2014

Testimony for WAM on Feb 12, 2014 10:30AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	joycemcharles@gmail.com
Subject:	*Submitted testimony for SB2205 on Feb 12, 2014 10:30AM*
Date:	Sunday, February 09, 2014 9:15:15 PM

SB2205

Submitted on: 2/9/2014

Testimony for WAM on Feb 12, 2014 10:30AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Joyce Midori Charles	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Lynn B. Wilson, PhD
SB 2202, 2205, 2208
Senate Committee on Ways and Means
February 12, 2014, 10:30 AM, Room 211

As a community member participating in the Action Strategy Teams of the Governor's Executive Office of Early Learning, I have carefully studied proposed laws supporting economic equity in Hawaii.

I strongly support: 1) adjusting the refundable food/excise tax credit for inflation, especially since its last adjustment for inflation occurred in 2007; 2) creating a State Earned Income Tax Credit set at 10% of the federal EITC; and, adjusting the refundable low-income household renters credit for inflation since its last adjustment for inflation occurred in the 1980s.

Hawaii has the highest cost of living in the United States. Hawaii's tax system is one of the most regressive in the country, meaning that Hawaii taxes more families in poverty or who are close to poverty than other states. Hawaii has the 9th highest rate of poverty in the country.

Families with young children are more likely to live in or close to the poverty line. Think about it: families with young children in Hawaii would benefit greatly from restoring economic equity through these measures. If we want to support families with young children, then we need to have economic policies in place that will support low-income families through tax credits, adjusting tax credits for inflation, and raising the minimum wage.

Hawaii can choose to improve early childhood outcomes— social and emotional development, educational and later economic success— by working to restore economic equality and passing SB 2202, 2205, 2208.

Thank you and Mahalo!

Lynn B. Wilson, PhD
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From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	morganthursday@yahoo.com
Subject:	Submitted testimony for SB2205 on Feb 12, 2014 10:30AM
Date:	Sunday, February 09, 2014 3:53:09 PM

SB2205
Submitted on: 2/9/2014
Testimony for WAM on Feb 12, 2014 10:30AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Mary Morgan Evans	Individual	Support	No

Comments: I strongly support reforming Hawai'i's tax laws so that they are more progressive and keep up with the changing needs of our community.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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February 9, 2014

Senate Committee on Ways and Means
Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair

Testimony in strong support of SB2205

Thank you for the opportunity to testify Chair Ige and Vice Chair Kidani. I am N. Tod Robertson a resident of 620 McCully Street. I strongly support SB2205. I would like to encourage the Senate Committee on Ways and Means to create a refundable state earned income tax credit (EITC) set at 10 percent of the filer's federal EITC. Earned income tax credits support low and moderate-income working families, especially those with children, keep more of what they earn and avoid poverty.

Hawaiʻi's low-income families face significant barriers to financial stability. Hawaiʻi has the highest cost of living in the United States, at more than 160 percent of the national average. Our working families struggle as a result of their low incomes relative to the cost of living in Hawaiʻi. When considering these costs as well as the availability of government assistance, we have the eighth highest rate of poverty among the states, with 17 percent of our households living below the U.S. Census Supplemental Poverty Measure.

Meanwhile, the state tax rate for low-income and poor households is among the highest in the nation. The lowest-income taxpayers spend, on average, approximately 13 cents of every dollar of their income in state and local taxes, while those earning over $400,000 pay closer to 8 cents on every dollar of income. Hawaiʻi's residents in poverty pay more in state taxes than those in all but three other states. Faced with such high expenses, our low-income households desperately need meaningful reductions in their state tax burdens.

A state earned income tax credit modeled after the federal EITC will provide such assistance. The federal EITC is a refundable tax credit with a lengthy record as an effective antipoverty measure and has consistently enjoyed bipartisan support. It supports low-income workers through a targeted tax reduction that is particularly beneficial to families with children. The EITC gets and keeps people working because only households with earned income can receive the EITC. It is considered by many to be the most efficient poverty program in existence today because it directly supports low-income workers without the administrative burden of government assistance programs. The benefits of the federal EITC have led 25 other states and the District of Columbia to create their own EITCs.

Earned income tax credits are particularly important for low-income families with children. Not only does the additional income from the credit help a family care for a child, but it is associated with a variety of benefits, including better health and educational outcomes. The benefits of income supplements such as the EITC last into adulthood and are associated with more hours worked and higher earnings. The EITC also benefits the entire community by boosting the local economy. Households typically spend it quickly on necessities. Others may use it to pay off debts or save it to build assets..

The federal EITC is an efficient and effective means to address poverty and its negative impacts. Hawaiʻi should learn from the success of the federal and other state EITCs and implement one to provide additional support to our low and moderate-income families. I strongly urge you to **support** SB 2205 to create a state earned income tax credit that will encourage work, help low-income wage earners make ends meet, and provide lasting benefits to their children.