
A BILL FOR AN ACT

RELATING TO THE EARNED INCOME TAX CREDIT.

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

1 SECTION 1. The legislature finds that the federal earned
2 income tax credit is the most efficient and effective program to
3 reduce poverty. The program uses limited funds to effectively
4 target those struggling the most - low-income and moderate-
5 income wage earners and their families.

6 The earned income tax credit is a refundable tax credit
7 that can only be claimed by people with earned income. The
8 credit amount is determined by the filer's income and family
9 size. A state earned income tax credit is set as a percentage
10 of the federal credit, boosting its benefits. It is an
11 affordable, targeted program that encourages work and
12 strengthens businesses and the local economy. Because it is
13 administered through the existing tax system, its administrative
14 costs and inefficiencies are less than those of other government
15 programs.

16 The legislature also finds that because the credit is
17 targeted at families with children, it directs resources toward



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1 those most in need. In Hawaii, the federal earned income tax
2 credit lifted eighteen thousand children out of poverty each
3 year from 2011 to 2013. Over 127,000 children in Hawaii would
4 benefit from increased financial stability if the state adopted
5 the earned income tax credit. The credit could also stimulate
6 our economy by helping working families keep more of their wages
7 and thus increase consumer spending. Every dollar saved through
8 the credit would generate an estimated \$1.50 - \$2.00 in local
9 economic activity. It is further estimated that a state earned
10 income tax credit of ten per cent would reduce 11,000 families'
11 income tax liability to \$0, help 309,060 people, and put close
12 to \$24 million into the state economy.

13 The legislature further finds that twenty-six other states
14 and the District of Columbia have established state-funded
15 earned income tax credit programs to combat poverty while
16 boosting local economies. The legislature believes that Hawaii
17 should invest in its future by joining those states that already
18 utilize a state earned income tax credit program and boost the
19 earnings of working families and businesses.

20 The purpose of this Act is to establish a state earned
21 income tax credit.



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

4 "§235- Earned income tax credit. (a) Each individual
5 taxpayer who:

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

8 (2) Is not claimed or is not eligible to be claimed as a
9 dependent by another taxpayer for income tax purposes,
10 may claim a refundable earned income tax credit. The
11 tax credit, for the appropriate taxable year, shall be
12 equal to ten per cent of the federal earned income tax
13 credit allowed under section 32 of the Internal
14 Revenue Code, as amended, and reported as such on the
15 individual's federal income tax return. If the tax
16 credits claimed by a resident individual exceed the
17 amount of income tax payment due from the resident
18 individual, the excess of credit over payment due
19 shall be refunded to the resident individual; provided
20 that a tax credit properly claimed by a resident
21 individual who has no income tax liability shall be



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

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

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

15 (d) Any claim, including any amended claim, for tax
16 credits under this section shall be filed on or before the end
17 of the twelfth month following the close of the taxable year for
18 which the tax credit may be claimed. Failure to comply with
19 this subsection shall constitute a waiver of the right to claim
20 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 Treasury by regulations with respect to determining
18 eligibility for, or the amount of, the credit allowable by
19 section 32 of the Internal Revenue Code shall pay a penalty of
20 \$100 for each failure.

21 (g) The director of taxation:



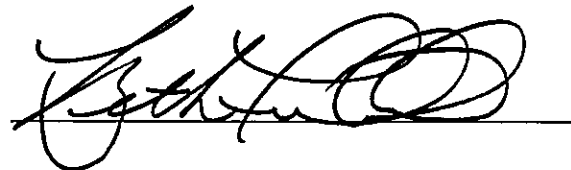
- 1 (1) Shall prepare any forms necessary to claim a tax
2 credit under this section;
- 3 (2) May require proof of the claim for the tax credit;
- 4 (3) Shall alert eligible taxpayers of the tax credit using
5 appropriate and available means;
- 6 (4) Shall prepare an annual public report to the
7 legislature,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

17 SECTION 3. New statutory material is underscored.

18 SECTION 4. This Act, upon its approval, shall apply to
19 taxable years beginning after December 31, 2015.

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 INTRODUCED BY:





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Report Title:

Taxation; Earned Income Tax Credit

Description:

Establishes a state earned income tax credit.

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