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STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: February 11, 2016
Time: 9:00 A.M.
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 2299, Relating to State Earned Income Tax Credit.

The Department of Taxation (Department) appreciates the intent of S.B. 2299 and offers the following comments for your consideration.

S.B. 2299 creates a refundable earned income tax credit (EITC) at the state level. The credit is equal to an unspecified percentage of the federal EITC allowed under section 32 of the Internal Revenue Code, as amended. S.B. 2299 applies to taxable years beginning after December 31, 2016.

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. In addition, the Department has several concerns with the administration of this bill, as outlined below.

First, the Department recommends nonrefundable tax credits because refundable credits often lead to improper claims and create a potential for fraud. Nonrefundable tax credits limit the incentive for fraud because they only benefit taxpayers to the extent of their tax liability.

For fiscal year 2013, the U.S. Department of the Treasury reported that approximately 22-26% of federal EITC payments go to taxpayers who are improperly claiming the tax credit; this translates into approximately $13.3 to $15.6 billion dollars. A nonrefundable credit would not generate this level of improper claims due to each claimant being limited to the amount of their tax liability.

Second, refunds are generally paid before a complete review of each return is done; therefore, it is very difficult for the Department to stop improperly claimed or fraudulent refunds. Although it seems simple to base a new Hawaii EITC on a portion of the federal EITC, the

Department has no independent way to determine whether an EITC claim is proper. The Department would be reliant on the Internal Revenue Service (IRS) for notification that a claim was improper. Any notification from IRS is likely to be received after refunds have been paid by the State because the IRS also doesn't begin their examination process until months after refunds are paid out.

Third, the Department 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 the Department will be able to recover the amount.

Finally, it is important to note that the IRS, which has extensive data matching capabilities with federal databases such as the Social Security Administration database in order to validate claims, still reports that 22-26% of its payments are improper. The Department believes that the Hawaii error rate will be at least equal to the federal error rate of 22-26%, as this measure bases the State EITC on the federal EITC.

Finally, the Department requests that the effective date be amended to taxable years beginning after December 31, 2017, to provide the Department with sufficient time to implement the form, instructions and computer system changes proposed in this bill.

The estimated annual revenue loss is $23.7 million per year, beginning in FY 2018.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Earned Income Tax Credit

BILL NUMBER: SB 2299

INTRODUCED BY: ESPERO, CHUN OAKLAND, Baker, Dela Cruz

EXECUTIVE SUMMARY: Establishes a state earned income tax credit (EITC) equal to 10% of the federal earned income tax credit amount. The federal EITC was established for low and moderate-income workers to offset the burden of Social Security payroll taxes that might otherwise have been paid to low and moderate-income workers by the federal government, but turned into a government subsidy for low-income taxpayers. The cost of administering the EITC on the federal level has run into the millions of dollars which state lawmakers do not have. 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. 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.

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow resident taxpayers to claim a state earned income tax credit equal to 10% of the federal earned income tax credit amount. Specifies that the credit is refundable.

Nonresident taxpayers are also allowed the credit, but it must be multiplied by the ratio of Hawaii AGI to the taxpayer's AGI from all sources.

Requires an individual taxpayer to use the same filing status on the taxpayer's Hawaii return as used on the taxpayer's federal tax return for the taxable year.

Requires claims for the credit, 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.

The director of taxation: (1) shall prepare the necessary forms to claim the credit; (2) may require proof of the claim for the tax credit; (3) shall alert eligible taxpayers of the tax credit; (4) shall 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) may adopt rules pursuant to HRS chapter 91.

EFFECTIVE DATE: Tax years beginning after December 31, 2016.

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 has consistently reported an error rate of greater than 22% for this credit.

The U.S. Treasury's Inspector General for Tax Administration (TIGTA), in a 2014 report, included a table showing tens of billions in "improper payments" over the years, with no clear end in sight:

Fiscal Year	**Minimum Improper Payments Percentage**	**Maximum Improper Payments Percentage**	**Minimum Improper payments ($Billion)**	**Maximum Improper Payments ($Billion)**
2003	25	30	9.5	11.5
2004	22	27	8.6	10.7
2005	23	28	9.6	11.4
2006	23	28	9.8	11.6
2007	23	28	10.4	12.3
2008	23	28	11.1	13.1
2009	23	28	11.2	13.3
2010	24	29	15.3	18.4
2011	21	26	13.7	16.7
2012	21	25	11.6	13.6
2013	22	26	13.3	15.6

Source: Treasury Inspector General for Tax Administration, "The Internal Revenue Service Fiscal Year 2013 Improper Payment Reporting Continues to Not Comply with the Improper

Payments Elimination and Recovery Act" (Mar. 31, 2014), available at http://www.treasury.gov/tigta/auditreports/2014reports/-201440027fr.pdf

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 approximately 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 problems. 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.

In addition, please also consider the following technical comments:

- On page 1, lines 13-14, the reference to “section 32 of the Internal Revenue Code, as amended” is not appropriate because “Internal Revenue Code” is a term defined in HRS section 235-2.3(a).
- On page 2, subsection (b) beginning on line 7, the text sets forth the amount of credit for a nonresident but does not say that any credit is allowed. The allowance subsection (a) is presently limited to residents.
- On page 2, subsection (c) beginning on line 13, the text requires a taxpayer to use the same filing status as federal. This might not be proper because a joint return election in Hawaii requires certain legal consequences such as an agreement to be jointly and severally bound, as described in HRS section 235-93(a).
- On page 3, subsection (f) beginning on line 16, a preparer penalty is imposed for failure to comply with federal due diligence requirements. There is no connection to the state credit. One element of the penalty would have to be that the state credit was claimed.

Digested 2/6/16

OFFICE OF HAWAIIAN AFFAIRS
Legislative Testimony

SB2299
RELATING TO STATE EARNED INCOME TAX CREDIT
Senate Committee on Ways and Means

February 11, 2015 9:00 a.m. Room 211

The Office of Hawaiian Affairs (OHA) Committee on Beneficiary Advocacy and Empowerment will recommend to the Board of Trustees a position of **SUPPORT** for SB2299 which would provide tax relief to low-income families through a state Earned-Income Tax Credit ("EITC"). This bill aligns with OHA's strategic priority of improving the economic self-sufficiency of Native Hawaiians.

To ease the burden on working families, the United States Congress established the federal EITC in 1975. Today, the federal EITC is considered one of the nation's largest and most successful anti-poverty and work incentive programs. In 2014 tax year, over 108,000 working taxpayers in Hawaiʻi received the Federal credit.[1] This measure proposes to establish a state EITC. Currently, there are 42 states that have an income tax and 24 of those states have enacted a state EITC. Under this measure, the Hawaiʻi state EITC would equal 10 percent of the federal EITC; therefore, a family receiving a federal EITC of $2,500 would receive $250 in state EITC. Because the EITC is tied to income generation and family size, it is a highly-targeted approach that provides tax relief to working families in proportion to taxpayers' needs. Such a credit addresses economic disparities in a systemic way, and provides our indigent families with additional funds to purchase basic necessities, contribute to Hawaiʻi's economy, and achieve economic self-sufficiency.

Notably, a state EITC would provide important systemic relief to address economic disparities of a number of Native Hawaiian families with children. Despite participating in the labor force at higher rates than the statewide population, Native Hawaiian families have substantially less income, making $9,105 lower per-capita income than the state average.[2] In particular, a state EITC will benefit working mothers with children. Native Hawaiian single mother's median income was only 76 percent of single mothers' median income statewide.[3] SB2299 proposes a pragmatic way to reduce the tax burden on our neediest populations, including Native Hawaiians.

Accordingly, OHA urges the Committee to **PASS** SB2299. Mahalo nui for the opportunity to testify on this important measure

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[1] See Internal Revenue Service 2014 Statistics for Tax Returns with EITC *available at* https://www.eitc.irs.gov/EITC-Central/eitcstats

[2] *See* OFFICE OF HAWAIIAN AFFAIRS, INCOME INEQUALITY AND NATIVE HAWAIIAN COMMUNITIES IN THE WAKE OF THE GREAT RECESSION: 2005 TO 2013 (2014) http://www.oha.org/wp-content/uploads/2014/05/Income-Inequality-and-Native-Hawaiian-Communities-in-the-Wake-of-the-Great-Recession-2005-2013.pdf

[3] In 2014, Native Hawaiian single mother's median income was $37,649 or 76% of single mothers' median income statewide of $49,797. See 2014 American Community Survey, 1 Year Table SO201.

SENATE COMMITTEE ON WAYS AND MEANS
Senator Jill Tokuda, Chair
Senator Donovan W. Dela Cruz, Vice Chair

DATE: Thursday February 11, 2016
TIME: 9:00 A.M.
PLACE: Conference Room 211

SB2299: TESTIMONY IN SUPPORT

Aloha, Chair Tokuda and Committee Members.

The **Democratic Party of Hawaiʻi** has identified attention to economic inequality as its top legislative priority for this session and, therefore, **strongly supports** the establishment of an earned income tax credit (EITC) in Hawaiʻi as provided for by this bill, SB2299.

SB2299 will allow relief for working resident families and proportional relief to non-residents at a point in time when inequality in income in the U.S. is the highest in 88 years.[1] SB2299 addresses not just a moral issue, though the moral point it makes is compelling. Giving tax relief to lower income working families also makes sense from an *economic* viewpoint. Simply stated, with the extra income they are allowed to retain and a tendency to spend it immediately, the results should be more money going to local businesses and a potential boost to Hawaiʻi's economic growth rate.

The Census Bureau estimates that real mean income has "declined in 2011 and 2012 for all groups other than those in the top fifth of earners."[2] This trend contributes to the slowing of economic growth. Economists have pointed out time and again that on the upper end of the pay scale a greater part of income is discretionary and goes into savings, thereby tending to dampen economic growth.

An increase in after-tax income that is retained by working families is one step among others that can be taken to help offset suppressed purchasing power. It is time for Hawai`i to enact

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[1] Desilver, Drew. "U.S. income inequality, on rise for decades, is now highest since 1928," Pew Research Center (December 5, 2013).

[2] Standard and Poor's Rating Services, "How Increasing Income Inequality is Dampening U.S. Economic Growth and Possible Ways to Change the Tide." (August 5, 2014).

legislation that has already proven effective, is easily administered and will allocate income tax refunds to those who are likely to spend them immediately. 26 states have already done so.

The establishment of an earned income tax credit for Hawai‘i’s working families would begin to address the issue of economic inequality and, at the same time, contribute to economic growth for local businesses. It encourages work and puts resources into the hands of those who need them and are most likely to spend them. A growing economy provides benefits to all levels of society. We strongly urge you to pass SB2299.

Mahalo for the opportunity to testify,

Stephanie Ohigashi
Chair, Democratic Party of Hawai‘i

DEMOCRATIC PARTY OF HAWAI`I
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HAWAII STATE COMMISSION ON THE STATUS OF WOMEN

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February 9, 2016

To: Senator Jill N. Tokuda, Chair
Senator Donovan M. Dela Cruz, 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 2299, Relating to Taxation

Thank you for this opportunity to testify in strong support of SB 2299, 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 (EITC).

This bill represents financial hope for many families—the current estimate reveals that a 10% state refundable EITC would benefit 309, 060 people, including 127, 018 children. A state EITC would provide financial relief to low income workers through a targeted tax reduction. Currently, Hawaii is the 8th poorest state under the United States Census Supplemental Poverty Measure.

This measure seeks to alleviate some of our more regressive tax policies in order to allow families to become economically self sufficient. Additionally, this measure mirrors our federal EITC, which is considered one of the most effective tax measures in battling poverty. Twenty five states and the District of Columbia already have such a measure in place. A state EITC of just 10% would reduce 11,000 families' income tax liability to zero. The Commission strongly supports SB 2299 and we urge your passage of this measure.

Thank you for this opportunity to testify.

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http://www.civilbeat.com/2016/02/uproar-over-doe-behavior-analyst-bill/
Committee on WAYS AND MEANS

Thursday, February 11, 2016, 9:00 am, Room 211
SB2299 RELATING TO STATE EARNED INCOME TAX CREDIT

TESTIMONY
Beppie Shapiro, League of Women Voters of Hawaii

Chair Tokuda, Vice-Chair Dela Cruz, and Committee Members:

The League of Women Voters of Hawaii supports SB2299 which establishes a refundable earned-income tax credit equal to 10% of the taxpayer's federal Earned Income Tax Credit (EITC); and requires a report on the usage of this provision from the Department of Taxation.

The League believes that public policy should promote self-sufficiency and that the most effective social programs to address health, education, and use of social services are those designed to prevent or reduce poverty.

Poverty at the level eligible for the federal EITC (e.g. household income below $14,500 for a single person or below $38,511 for a single parent with one child) has destructive effects on the health of individuals, and of neighborhoods; it is particularly destructive for children. In 2014 more than 20% or 2,000 of Hawai'i's children under age 6 lived in low-income working families.[1] Eight percent, or 25,000 children under age 18 across the country lived in extreme poverty – less than half the Federal Poverty Level (FPL).[2] Research on early childhood development shows that income insecurity negatively affects brain development – making it more difficult to form positive relationships, to learn, and to control debilitating stress. Providing a little financial relief to very poor families will help ameliorate these problems: a small increase in income has been found to raise children's' school achievement[3] and to increase their later earnings[4].

The federal EITC has been repeatedly cited as the most effective anti-poverty measure ever created by the federal government. The Center on Budget and Policy Priorities provides the following data [5] (the Center's report provides detailed research descriptions and citations):
"For families that have very low earnings and are just gaining a toehold in the labor market, the size of their EITC and CTC *increases* as the families' earnings rise, countering the phase-down of some other benefits that *fall* as earnings rise… These tax credits boost the families' overall income and strengthen incentives to work.

The EITC promotes work, as numerous studies have found. The overwhelming finding of the empirical literature is that the EITC has been especially successful at encouraging the

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employment of single parents, especially mothers, "The EITC lifts more *children* out of poverty than any other program"

"Most EITC recipients claim the credit for short periods (a year or two) and mostly to offset the temporary costs of a child's birth or a spouse's loss of income. Most EITC recipients pay more in federal taxes over the long run than they receive in EITC benefits."

"Programs that supplement the earnings of low-income working families, like the EITC and CTC, boost children's school achievement and future economic success, and participating children are healthier as infants and have more economic success as adults."

SB2299 is a creative way to provide these benefits to our poorest individuals and families.

The extra money families would have if SB2299 is enacted would surely be spent immediately on basic necessities of life, thus adding economic activity to the State and its businesses. A 10% state refundable EITC would put over $23 million into the state economy.

We are also pleased to see the Legislature following up, by means of the required report, on some of the effectiveness of its legislation. We do not expect that establishing the tax credit described in the bill would cause revenue insufficient to cover basic state services, but we hope the Department of Taxation will provide your Committee confirmation of the revenue impact.

We believe that this hearing will suffice to discuss this important measure. We urge you to pass this bill. Thank you for the opportunity to submit testimony.

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[1] Population Reference Bureau, analysis of data from the U.S. Census Bureau, 2008 - 2012 American Community Survey.
[2] Annie E Casey Foundation, National Kids Count. Retrieved from http://datacenter.kidscount.org/data/tables/45-children-in-extreme-poverty?loc=13&loct=2#detailed/2/any/false/868,867,133,38,35,13/any/325,326 on 3/15/2014.

[3] Greg J. Duncan, Pamela Morris, and Christopher Rodrigues, "Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement with Data from Random Assignment Experiments, "Developmental Psychology, Volume 47, Issue 5, September 2011, pp.12631279; also Kevin Milligan and Mark Stabile, "Do Child Tax Benefits Affect the Wellbeing of Children? Evidence from Canadian Child Benefit Expansions," National Bureau of Economic Research, December 2008; and Gordon Dahl and Lance Lochner, "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit," National Bureau of Economic Research¨ December 2008.

[4] See Greg J. Duncan, Ariel Kalil, and Kathleen M. ZiolGuest, "Early Childhood Poverty and Adult Attainment, Behavior and Health," Child Development¨January/February 2010, pp. 306-325.

[5] Sherman, A., Trisi, D. & Parrot, S. (2013). Various Supports for Low-Income Families Reduce Poverty and Have Long-Term Positive Effects On Families and Children. Center on Budget and Policy Priorities, retrieved from http://www.cbpp.org/cms/?fa=view&id=3997 on 3/15/2014.

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Committee on WAYS AND MEANS

Thursday, February 11, 2016, 9:00 am, Room 211
SB2299 RELATING TO STATE EARNED INCOME TAX CREDIT

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SB2299 is a creative way to provide these benefits to our poorest individuals and families.

The extra money families would have if SB2299 is enacted would surely be spent immediately on basic necessities of life, thus adding economic activity to the State and its businesses. A 10% state refundable EITC would put over $23 million into the state economy.

We are also pleased to see the Legislature following up, by means of the required report, on some of the effectiveness of its legislation. We do not expect that establishing the tax credit described in the bill would cause revenue insufficient to cover basic state services, but we hope the Department of Taxation will provide your Committee confirmation of the revenue impact.

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[2] Annie E Casey Foundation, National Kids Count. Retrieved from http://datacenter.kidscount.org/data/tables/45-children-in-extreme-poverty?loc=13&loct=2#detailed/2/any/false/868,867,133,38,35,13/any/325,326 on 3/15/2014.

[3] Greg J. Duncan, Pamela Morris, and Christopher Rodrigues, "Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement with Data from Random Assignment Experiments, "Developmental Psychology, Volume 47, Issue 5, September 2011, pp.12631279; also Kevin Milligan and Mark Stabile, "Do Child Tax Benefits Affect the Wellbeing of Children? Evidence from Canadian Child Benefit Expansions," National Bureau of Economic Research, December 2008; and Gordon Dahl and Lance Lochner, "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit," National Bureau of Economic Research¨ December 2008.

[4]See Greg J. Duncan, Ariel Kalil, and Kathleen M. ZiolGuest, "Early Childhood Poverty and Adult Attainment, Behavior and Health," Child Development¨January/February 2010, pp. 306-325.

[5] Sherman, A., Trisi, D. & Parrot, S. (2013). Various Supports for Low-Income Families Reduce Poverty and Have Long-Term Positive Effects On Families and Children. Center on Budget and Policy Priorities, retrieved from http://www.cbpp.org/cms/?fa=view&id=3997 on 3/15/2014.

WOMEN'S CAUCUS
DEMOCRATIC PARTY OF HAWAI'I

February 11, 2016

To: Senator Jill Tokuda, Chair
Senator Donovan Dela Cruz, Vice Chair and
Members of the Committee on Ways and Means

From: Jeanne Y. Ohta, Co-Chair

RE: SB 2299 Relating to State Earned Income Tax Credit
Hearing: Thursday, February 11, 2016, 9:00 a.m., Room 211

Position: Support

The federal Earned Income Tax Credit (EITC) is one of the nation’s most effective anti-poverty measures, lifting millions of Americans out of poverty each year by allowing them keep more of what they earn. Despite its effectiveness, earnings plus the federal tax credit do not guarantee an escape from poverty for all families struggling to make ends meet.

In many cases, state-level EITCs have helped to fill that gap across the country. Unfortunately, Hawai‘i remains one of 24 states without a state EITC. In a state where low-income residents pay more state and local taxes as a share of their income than higher-income residents, a refundable credit against state income taxes would contribute toward keeping the tax system fair.

Growing up in poverty and economic hardship can have long-lasting consequences for children. Decades of research have documented the association between poverty and negative health, developmental, and education outcomes for children. A growing body of research also documents important links between the tax credit (both at the federal and state-levels) and family and child well-being, such as improved maternal and infant health, greater educational achievement and attainment, and better employment and economic outcomes when children reach adulthood.

A state EITC can leverage the associated benefits of the federal credit and further combat poverty and economic hardship among working poor and low-income families. The estimated number of children in Hawai‘i that would benefit from a state EITC in the first few years could range from 41,622 to 97,118, depending on the participation rate of eligible families with children.

Since the Hawai‘i General Excise Tax has been increased and recently extended, passing the EITC will help reverse some of the regressive effects of the tax.

We ask that the committee pass this measure. Thank you for the opportunity to provide testimony.

COMMUNITY ALLIANCE ON PRISONS

P.O. Box 37158, Honolulu, HI 96837-0158

Phone/email: (808) 927-1214 / kat.caphi@gmail.com

COMMITTEE ON WAYS AND MEANS
Sen. Jill Tokuda, Chair
Sen. Donovan Dela Cruz, Vice Chair
Thursday, February 11, 2016
9:00 a.m.
Room 211

STRONG SUPPORT FOR SB 2299 – EARNED INCOME TAX CREDIT

Aloha Chair Tokuda, Vice Chair Dela Cruz and Members of the Committee:

My name is Kat Brady and I am the Coordinator of Community Alliance on Prisons, a community initiative promoting smart justice policies in Hawai`i for almost two decades. This testimony is respectfully offered on behalf of the 6,000 Hawai`i individuals living behind bars or under the "care and custody" of the Department of Public Safety. We are always mindful that approximately 1,400 of Hawai`i's imprisoned people are serving their sentences abroad thousands of miles away from their loved ones, their homes and, for the disproportionate number of incarcerated Native Hawaiians, far from their ancestral lands.

SB 2299 creates a ten per cent state earned income tax credit applies to taxable years beginning after 12/31/2016 and requires reporting by department of taxation.

Community Alliance on Prisons supports this measure that will help many of our families and communities who are suffering from the impacts of incarceration.

The fact that so many families in Hawai`i are struggling just to make ends meet is a clarion call for some kind of earned income tax credit.

Please help those families working to help themselves and yet still not making ends meet. Bills like this show compassion for our community.

We support Hawai`i Appleseed's research on these bills as they have proven themselves to be experts in this area.

Please support an Earned Income Tax Credit this session…it's long overdue.

Mahalo for this opportunity to testify.

Feb. 8, 2016

TO: Honorable Chair Tokuda and Ways and Means Committee

RE: SB2299 Relating to State Earned Income Tax Credit (EITC)
Support

HEARNG DATE: Feb. 11

Americans for Democratic Action is a national organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We support SB 2299 as it would provide for a ten per cent state earned income tax credit. Twenty-six states and D.C. offer a state EITC to help families keep more of their earnings. The credit has been championed by Democrats and Republicans in other states as it gives a much-needed break to working families struggling to get by on low wages, and boosts local economies. Now is the time for Hawaii to invest in its residents and businesses by creating this ten percent EITC credit on our state income tax. It would put dollars in the pockets of those workers who need it most.

Thank you for your consideration.

Sincerely,

John Bickel
President

Aloha United Way

200 N. Vineyard Blvd., Suite 700
Honolulu, Hawaii 96817-3938
Telephone (808) 543-2202
Fax (808) 543-2222
www.auw.org

February 9, 2016

Senate Committee on Ways and Means
Senator Jill N. Tokuda, Chair
Senator Donovan M. Dela Cruz, Vice Chair
February 11, 2016 9:00 AM., Conference Room 211

SB 2299: Relating to State Earned Income Tax Credit - SUPPORT

Dear Chair Jill N. Tokuda, Vice Chair Donovan M. Dela Cruz and Committee Members:

Aloha United Way strongly encourages your favorable consideration of SB 2299 creating a state earned income tax credit in the tax proposals you are considering.

With our regressive tax system, in our state the bottom 40 percent of households pay almost 13 percent of their income in state and local taxes, while the top 1 percent pay around 8 percent. Tax credits intended to reduce this disproportionate share of taxes have not been updated for years, even decades.

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. Twenty-six states and D.C. have followed the federal governments lead by enacting their own state EITC. 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 2299 target those who are emerging from reliance on state support programs.

SB 2299 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,

Cindy Adams
President & Chief Executive Officer

PARENTS AND CHILDREN TOGETHER
A FAMILY SERVICE AGENCY

TO: Chair Tokuda, Vice Chair Dela Cruz, and Members of the Senate Committee on Ways and Means
FROM: Ryan Kusumoto, President & CEO of Parents And Children Together (PACT)
DATE/LOCATION: February 11, 2016; 9:00 a.m., Conference Room 211

RE: <u>TESTIMONY IN SUPPORT OF SB 2299 – RELATING TO STATE EARNED INCOME TAX CREDIT</u>

We strongly urge you to support SB 2299 – Relating to State Earned Income Tax Credit. We support the intent of this bill. Over 90% of the people we serve live in extreme poverty with the most of them making less than $10,000 per year. This bill will support many of Hawaii's families who are struggling to provide the basic needs for their family such as food and shelter. Families living in poverty are balancing stability and have very little room in their budgets to absorb cost of living increases. A State Earned Income Tax Credit (EITC) would provide relief for these low-income families who are most impacted by increased costs. A State EITC will also provide a valuable economic stimulus that will generate more economic activity in all parts of Hawaii. This will put money in the hands of those who need it the most to spend on immediate needs.

Founded in 1968, Parents And Children Together (PACT) is one of Hawaii's not-for-profit organizations providing a wide array of innovative and educational social services to families in need. Assisting more than 18,000 people across the state annually, PACT helps families identify, address and successfully resolve challenges through its 16 programs. Among its services are: early education programs, domestic violence prevention and intervention programs, child abuse prevention and intervention programs, child and adolescent behavioral health programs, and community building programs.

Thank you for the opportunity to testify in **strong support of SB 2299**, please contact me at (808) 847-3285 or rkusumoto@pacthawaii.org if you have any questions.

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
Supporting **SB 2299, Relating to State Earned Income Tax Credit**
Senate Committee on Ways and Means
Scheduled for Hearing Thursday, February 11, 2016, 9:00 AM, Room 211

Hawaiʻi Appleseed Center for Law & Economic Justice is a nonprofit law firm created to advocate on behalf of low income individuals and families in Hawaii. 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.

Dear Chair Tokuda, Vice Chair Dela Cruz, and Members of the Committee on Ways and Means:

Thank you for the opportunity to testify in **strong support** of Senate Bill 2299, which would create a state earned income tax credit (EITC) set at 10 % of a filer's federal EITC. The federal EITC has been shown to be a 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 here in Hawaiʻi.

Hawaiʻi is the most expensive state in the country, with a cost of living at almost 160 % of the national average. Groceries cost 57 % 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, Hawaiʻi's regressive tax system further exacerbates these struggles. The Institute on Taxation and Economic Policy has ranked Hawaiʻi 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 with a state EITC.

A state earned income tax credit is an easy, straightforward, and cost-effective way to help working families survive in Hawaiʻi. The federal EITC has been hailed as *the most effective* anti-poverty program in the U.S. In Hawaiʻi alone, some 108,000 residents benefit each year from the federal EITC, which keeps 18,000 children out of poverty. A state 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.

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 provides the largest benefit 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. Studies have found that each $1.00 of federal EITC benefit received generates between $1.50–$2.00 in economic activity.

The EITC incentivizes work, reduces families reliance on public assistance, and stabilizes families' finances. It has been associated with wide ranging benefits from improved maternal health, to improved school performance, and better long-term job prospects for youths.

Supplementing working families' incomes helps them pay the costs of childcare and transportation, thus making it easier for them to continue working and enabling the work more hours. Moreover, it further stabilizes their finances by helping them to be able to absorb life's unavoidable economic shocks. Being able to afford an unforeseen car repair, an unexpected illness, or manage during times of reduced hours or lost employment is often the difference between financial ruin and success for low-income families trying to work their way into the middle class.

Because the EITC is administered through the existing tax system, it is a more efficient means of supplementing workers' income than other government programs. Approximately 11,000 households in Hawaiʻi would have their state income taxes reduced to zero or less with a 10 % refundable state credit, while many other households would see their taxes reduced. The program is so effective and efficient that twenty-six other states and the District of Columbia have created a state EITC with an average benefit of 17.95 % of a filer's federal EITC. A state EITC would give Hawaiʻi the opportunity to follow these other states in building on the federal EITC's impressive successes.

Again, thank you for this opportunity to testify in **strong support**. We respectfully urge you to **pass SB 2299** unamended to create a state EITC that will provide much-needed assistance to Hawaiʻi's low- and moderate-income residents.

HPCA

HAWAI'I PRIMARY CARE ASSO(

Senate Committee on Ways and Means
The Hon. Jill N. Tokuda, Chair
The Hon. Donovan M. Dela Cruz, Vice Chair

Testimony in Support of Senate Bill 2299

<u>Relating to State Earned Income Tax Credit</u>
Submitted by Dustin Stevens, Public Affairs and Policy Director
February 11, 2016, 9:00 am, Room 211

The Hawaii Primary Care Association (HPCA), which represents the federally qualified community health centers in Hawaii, supports Senate Bill 2299, establishing an earned income tax credit for working families in Hawaii.

The HPCA is a staunch believer in the social determinants of health, those economic and social conditions that influence an individual and a community's health status. These conditions serve as risk factors endemic to a person's living and working environment, rather than their behavioral or genetic histories. Factors such as income, education, access to recreation and healthy foods, housing, and employment, can and do have measurable impacts on a person and a community, both in health and financial outcomes.

Seventy-three percent of the patients seen by community health centers live below one hundred percent of the federal poverty limit. This living situation has been shown to manifest in poorer health outcomes, often as a direct result the social determinants associated therein, such as lack of adequate housing or access to fresh produce.

In addition, this measure as written would provide some modicum of financial relief for more than 300,000 people in Hawaii as well as inject close to $24M into the state economy. For these reasons, the HPCA supports this measure and thanks you for the opportunity to testify.

ADD 735 BISHOP STREET, SUITE 230 HONOLULU, HI 96813   TEL 808.536.8442   FAX 808.524.0347   W

PHOCUSED

PROTECTING HAWAII'S OHANA, CHILDREN, UNDER SERVED, ELDERLY AND DISABLED

TO: Senator Jill N. Tokuda, Chair
Senator Donovan M. Dela Cruz, Vice Chair
Members, Senate Committee on Ways and Means

FROM: Scott Fuji, Executive Director, PHOCUSED

HEARING: **Thursday, February 11th, 2016 at 9:00a.m. in Conf. Rm. 211**

Testimony in Support of SB2299 RELATING TO THE STATE EARNED INCOME TAX CREDIT

Thank you for the opportunity to provide testimony in **strong support** of SB2299,which would create a 10% matching State Earned Income Tax Credit (EITC). PHOCUSED is a nonprofit membership and advocacy organization that works together with community stakeholders to impact program and policy change for the most vulnerable in our community.

Hawaii's regressive tax structure increase the burden and difficulty for low-income wage earners in Hawaii with those earning at the lowest levels paying an average of 13% of their income in taxes while those earning the most average only 7%. With as many of our families are just barely getting by despite an unemployment rate just over 3% it is clear that our working households are just a paycheck away from collapse.

One of the most cost-effective and targeted approaches used by the Federal government to offer working households a financial foundation is through the EITC. By pairing a State EITC to go along with the Federal EITC we would ensure that local families have the ability to prevent some of the unforeseen financial crisis that can come up in our everyday lives such as car repairs, high-interest credit card debt, past-due rent, or expensive medical bills.

A State EITC is a sound-way of ensuring that Hawaii's working families have a little extra cushion to catch them when they need it or a foundation with which to plan for their future. It is for these reasons that PHOCUSED strongly urges your support of this bill. If you have any questions, please do not hesitate to contact PHOCUSED at 521-7462 or by e-mail at admin@phocused-hawaii.org.

From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	leilani.maxera@gmail.com
Subject:	*Submitted testimony for SB2299 on Feb 11, 2016 09:00AM*
Date:	Wednesday, February 10, 2016 8:21:08 AM

SB2299

Submitted on: 2/10/2016

Testimony for WAM on Feb 11, 2016 09:00AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Leilani Maxera	The CHOW Project	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.

HACBED
Community Voice, Collective Action

Hawai'i Alliance for Community-Based Economic Development
677 Ala Moana Blvd., Suite 702 Honolulu, HI 96813
Ph. 808.550.2661 Fax 808.534.1199
Email info@hacbed.org www.hacbed.org

Date: February 10, 2016
To: Senator Jill N. Tokuda, Chair, Senator Donovan M. Dela Cruz, 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 2299

Aloha Chair Tokuda, Vice-Chair Dela Cruz, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB 2299, 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.

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.

A state EITC 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 from 2006, HACBED has served 32,674 low to moderate income families, saved close to $6 million in filing fees, helped to claim over $50 million in refunds, and brought over $24 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 2299 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
Hawaiʻi Alliance for Community-Based Economic Development

Written Testimony Only

TESTIMONY BY ROBERT N.E. PIPER
TO
THE SENATE WAYS AND MEANS COMMITTEE
ON
SB 2299: RELATING TO STATE EARNED INCOME TAX CREDIT

Conference Room 211, State Capitol
9:00 a.m.
February 11, 2016

Chairperson Tokuda, Vice-Chairperson Dela Cruz, and Members of the Senate Ways and Means Committee:

Aloha mai kakou. My name is Robert N.E. Piper and I thank you for the opportunity and honor to submit this written testimony relating to SB 2299, which establishes a refundable State earned income tax credit ("EITC") at ten percent of the Federal earned income tax credit as reported on the individual filer's Federal income tax return.

I am the Executive Director of the Honolulu Community Action Program, Inc. ("HCAP"), a private non-profit human services agency serving Oahu since 1965 through its mission of POI: Providing Opportunities and Inspiration to enable low-income individuals or families to achieve self-reliance. HCAP offers a range of programs and services in six major areas: Early Childhood; Employment; Education; Economic Development; Emergency and Transitional Programs; and Community Development and Advocacy.

In light of our status as a 501(c)(3) organization, and our participation as a service provider under the Federal Community Services Block Grant, we submit this testimony solely to share our experiences with the Federal EITC program and the many positive impacts felt by our clients as a result of the program.

The Federal EITC is a practical and cost-effective method to help lower-income families develop additional financial resources to meet challenging cost-of-living expenses such as, but not limited to, services for children, housing and food costs, vocational education tuition, and health services. The Federal EITC has been considered the most effective anti-poverty program in the United States. It is estimated that 10,000 Hawaii residents benefit each year from the Federal EITC, and that 15,000 of Hawaii's children were removed from poverty by the Federal EITC in 2011.

In partnership with the IRS and as part of the Hawaii Volunteer Income Tax Assistance & Financial Empowerment Coalition, HCAP's EITC income tax services program has assisted with 3217 tax filings since 2010, resulting in total Federal refunds in the amount of $5,053,730. Of these filings, 1583 were EITC eligible, resulting in total Federal refunds in the amount of $3,123,870.

Given these results, it is our experience that the EITC provides much-needed assistance to working families struggling to get by on low wages. EITC is a practical incentive for low-income workers to increase their financial resources, and thus become economically self-sufficient.

On behalf of the people we serve, we thank you for your dedication and commitment to assisting the low-income community. Please feel free to contact me at (808) 521-4531, or via e-mail at rpiper@hcapweb.org, if you have any questions.

From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	maukalani78@hotmail.com
Subject:	Submitted testimony for SB2299 on Feb 11, 2016 09:00AM
Date:	Sunday, February 07, 2016 8:36:17 PM

SB2299

Submitted on: 2/7/2016

Testimony for WAM on Feb 11, 2016 09:00AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
E. Ileina Funakoshi	Individual	Support	No

Comments: Many of us, whether retired or one working member in the family are struggling to make ends meet with the high cost of food in Hawai`i especially.

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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From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	lady.flach@gmail.com
Subject:	*Submitted testimony for SB2299 on Feb 11, 2016 09:00AM*
Date:	Monday, February 08, 2016 4:31:21 PM

SB2299

Submitted on: 2/8/2016

Testimony for WAM on Feb 11, 2016 09:00AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Teri Heede	Individual	Support	No

Comments:

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From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	the-green-one@hawaii.rr.com
Subject:	Submitted testimony for SB2299 on Feb 11, 2016 09:00AM
Date:	Friday, February 05, 2016 10:18:20 PM

SB2299

Submitted on: 2/5/2016

Testimony for WAM on Feb 11, 2016 09:00AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Natalie Iwasa	Individual	Support	No

Comments: Please do not post my email address online.

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From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	amymonk99@hotmail.com
Subject:	*Submitted testimony for SB2299 on Feb 11, 2016 09:00AM*
Date:	Tuesday, February 09, 2016 10:32:35 AM

SB2299

Submitted on: 2/9/2016

Testimony for WAM on Feb 11, 2016 09:00AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Amy Monk	Individual	Support	No

Comments:

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From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	ben@bikesharehawaii.org
Subject:	Submitted testimony for SB2299 on Feb 11, 2016 09:00AM
Date:	Tuesday, February 09, 2016 11:57:28 AM

SB2299

Submitted on: 2/9/2016

Testimony for WAM on Feb 11, 2016 09:00AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Ben Trevino	Individual	Support	No

Comments: EITC is a proven way to alleviate poverty and provide concrete assistance to the lower income residents in our state. I stand with the Hawaii Appleseed Center in supporting this bill as written. Thank you for the opportunity to testify Ben Trevino Private Citizen

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:	gladys.baisa@mauicounty.us
Subject:	Submitted testimony for SB2299 on Feb 11, 2016 09:00AM
Date:	Wednesday, February 10, 2016 1:59:40 PM

SB2299
Submitted on: 2/10/2016
Testimony for WAM on Feb 11, 2016 09:00AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Gladys Coelho Baisa	Individual	Support	No

Comments: So many families in Hawaii are struggling just to make ends meet. Please help those families working to help themselves and yet still not making ends meet. Bills like this show compassion for our community. Please support an Earned Income Tax Credit.

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.

Ronald I. Heller
700 Bishop Street, Suite 1500
Honolulu, Hawaii 96813

phone 808 523 6000 fax 808 523 6001
rheller@torkildson.com

Senate Committee on
WAYS & MEANS

Thursday Feb. 11, 2016 at 9:00 a.m.
Conference Room 211

Testimony of Ronald I. Heller

In Opposition to Senate Bill 2299
Relating to State Earned Income Tax Credit

Chair Tokuda, Vice-Chair Dela Cruz, and Members of the Committee:

I **oppose** Senate Bill 2299.

While I support the goal of reducing the burden of taxes in Hawaii, especially for lower-income families, adopting a State Earned Income Tax Credit is not the right way to do it.

At the federal level, the Earned Income Tax Credit is subject to substantial fraud and abuse, and is one of the most common areas for taxpayers to make mistakes. Even taxpayers who are sincerely and honestly trying to comply with the rules often claim incorrect amounts, because the EITC is so complicated. Study after study has shown that errors in computing the allowable EITC are among the most frequent errors on federal tax returns.

The IRS Publication that explains the EITC, Publication 596, is 37 pages long. Those 37 pages set forth a maze of rules, exceptions, exceptions to the exceptions, limitations and cross-references. Personally, I am an attorney and a CPA, with over 35 years of experience as a tax professional, and I find the EITC complicated and confusing.

Of course, provisions that are complex for taxpayers are also complicated for the Department of Taxation. Auditing EITC claims would be a lot of work. Setting the State EITC as a percentage of the federal EITC does not solve this problem, because adjustments to the EITC on the federal level are so common – making parallel adjustments at the State level would be a lot of work.

If your goal is to provide tax relief to lower-income families, there is a much easier way to do it: adjust the tax-rate schedule to provide lower rates in the bottom brackets, and/or expand the brackets at the low end.

For example, instead of putting families with taxable income under $20,000 into a 5.5% State tax bracket – which is what current law does – cut that rate to 2% or 3%, or even down to zero tax on the first $20,000 of income. That would create a substantial benefit for lower-income families, without requiring them to read 37 pages of instructions and file complicated forms.

I urge you to adopt revisions to rates and/or brackets as an alternative to this Bill.

Respectfully submitted,

Ronald I. Heller