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LINDA CHU TAKAYAMA
DIRECTOR

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
830 PUNCHBOWL STREET, ROOM 221
HONOLULU, HAWAII 96813
<http://tax.hawaii.gov/>
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

To: The Honorable Josh Green, Chair
and Members of the Senate Committee on Human Services

Date: Monday, February 5, 2018
Time: 3:45 P.M.
Place: Conference Room 016, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 2309, Relating to the Earned Income Tax Credit

The Department of Taxation (Department) offers the following comments on S.B. 2309 for the Committee's consideration.

S.B. 2309 amends the state earned income tax credit (EITC) from a nonrefundable credit to refundable credit, meaning the excess of the tax credit over liability may be refunded to the taxpayer. The bill applies to taxable years beginning after December 31, 2017.

First, the Department notes that refundable tax 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. A nonrefundable credit would not generate the number of improper claims as the federal EITC (ranging from 23% to 27%).

In addition, beginning on January 1, 2017, the federal Protecting Americans from Tax Hikes Act of 2015 requires that the Internal Revenue Service hold any refunds where EITC is claimed until at least February 15. This new law is intended to provide the IRS more time to verify claims thereby reducing the number of improper claims. The Committee may wish to consider monitoring the effectiveness of this new policy before amending the state EITC from a nonrefundable to refundable credit.

Thank you for the opportunity to provide comments.

SB-2309

Submitted on: 2/2/2018 7:42:25 AM

Testimony for HMS on 2/5/2018 3:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Amy Monk	Commission on the Status of Women	Support	No

Comments:

Thank you for passing EITC last session. Please make it a refundable credit in this session. It would be tangible assistance to very low income, working individuals and families.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Make Earned Income Tax Credit Refundable

BILL NUMBER: SB 2309

INTRODUCED BY: HARIMOTO, INOUYE, Galuteria, Ihara, K. Kahele, Keith-Agaran, Kim, L. Thielen

EXECUTIVE SUMMARY: Changes the earned income tax credit from a nonrefundable tax credit to a refundable tax credit.

SYNOPSIS: Amends section 235-55.75, HRS, to change the Hawaii earned income tax credit from nonrefundable to refundable.

EFFECTIVE DATE: Taxable years beginning after December 31, 2017.

STAFF COMMENTS: In Act 107, SLH 2017, the earned income tax credit (EITC), was adopted. Its supporters maintained it's the best solution to lift families out of poverty since sliced bread. At the Department of Taxation's urging, however, the EITC was made nonrefundable. Advocates clearly didn't like that, and are already imploring the 2018 legislature to make the credit refundable.

Well, what's the difference? Let's start with a nonrefundable credit, which is current law. Suppose you either have lots of credits or not very much income, so you have more credits than tax liability. If you have made tax payments throughout the year, through wage withholding perhaps, you still can get all your payments back. But once the tax liability hits zero, there's no more. The state does not cut you a check, but you get a credit carryover which can be used against next year's tax liability.

In contrast, a refundable credit is just as good as cash. Not only can this type of credit reduce the amount of tax owed, but if the tax liability is less than the credit the State will cut the taxpayer a check for the difference.

Why is the State concerned about issuing refundable credits? There are several reasons.

First, issuing a refund is administratively expensive. In most businesses, the internal process necessary to send money to someone goes through several checks and balances to make sure that no mistakes are made. In our state government, we need to do those processes twice. At the Department of Taxation, staff can ask for a refund to be issued but no one can issue a check. Instead, a document called a "refund voucher" is sent to a different department altogether, the Department of Accounting and General Services (DAGS). Once DAGS gets the refund voucher, it goes through its own processes, checking to see if the recipient doesn't owe another agency for example, and then issues the check.

Second, a refund can become a target for bad actors. We earlier pointed to reports from the U.S. Treasury Inspector General for Tax Administration estimating that more than 20% of all federal EITC payouts were improper. Other studies estimated that about half of these so-called improper payments were paid out because someone made a mistake. Perhaps the taxpayer was confused by the tax form, which is admittedly complex. The other half were paid out because of bad actors. Maybe a taxpayer claimed credits for kids they don't have. Maybe an unethical tax preparation service filled in data claiming credits for people who exist but aren't part of the taxpayer's family. Once the cash goes out, however, it's tough to get back. In Hawaii, our credit is 20% of the federal credit so a smaller check would go out, and because the number is smaller the Department of Taxation might not be motivated to chase down the improper payments given the number and severity of other items on their plate.

Indeed, the Department recently estimated that changing the Hawaii EITC to a refundable one would cost the State \$32 million *more* than a nonrefundable credit. It's not clear how they came up with that number. But that amount of money definitely could cool a few sweltering classrooms, or perhaps fix a few plumbing facilities at the airport. In this situation, what are our priorities? Where is the need greatest?

Digested 2/1/2018



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Foley Pfalzgraf
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Date: February 2, 2018

To: Senator Josh Green, Chair, Senator Stanley Chang, Vice-Chair, and members of the Committee on Human Services

From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)

Re: Strong Support for SB2309

Aloha Chair Green, Vice-Chair Chang, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB2309, which would help many economically struggling families in Hawai'i by changing the State Earned Income Tax Credit (EITC) from a nonrefundable to a refundable tax credit.

HACBED was established in 1992 as a nonprofit statewide intermediary to address social, economic, and environmental justice concerns through community-based economic development. 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 facilitated the Family & Individual Self-Sufficiency Program (FISSP) from 2008-2016, which administered 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. 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:

- 31.7% of families with two adults and two children;
- 50.8% of single-adult families with children.

Through FISSP surveys, families have indicated that they used the EITC money to manage daily expenses, eliminate debt, open and maintain savings accounts, purchase a home, cover education costs, or start a business.

The passage of SB2309 would go a long way to supplement the needs of these families by shifting the state earned income tax credit (EITC) to be refundable, which supports families who are actively contributing to our workforce, is proven to alleviate child poverty and related child health, education, and earning issues, and has a multiplier effect on our economy as these workers are most likely to spend resources from the refundable credit within their local community.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Executive Director



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting SB 2309 – Relating to the Earned Income Tax Credit
Senate Committee on Human Services
Scheduled for hearing at 3:45 pm on Monday, February 5, 2018 in Conference Room 016

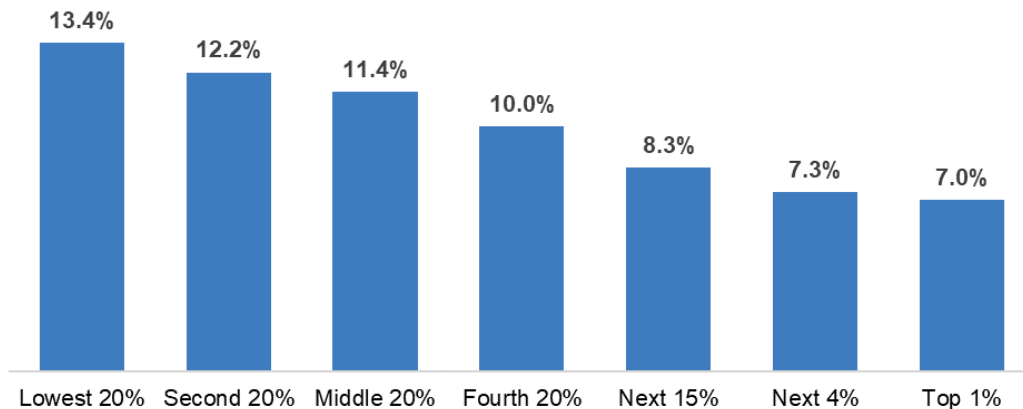
Dear Chair Green, Vice Chair Chang, and members of the Committee:

Thank you for the opportunity to testify in **STRONG SUPPORT** of **SB 2309**, which would change the earned income tax credit (EITC) from a nonrefundable tax credit to a refundable tax credit.

Mahalo for creating the Hawai'i state EITC last session. It will help thousands of our hard-working neighbors make ends meet. However, it's not as effective as it could be, because it is not refundable. That means tax filers can't get back more through the credit than what they owe in state income tax.

Hawai'i's ranks second nationally in how heavily we tax our low-income households. Our lowest-income households pay over 13% of their income in state and local taxes, while those at the top pay less than 8%.

Hawai'i's Low-Income Taxpayers' Tax Rate is Almost Twice as High as for Those at the Top
State and Local Taxes as Share of Family Income in 2015



In fact, we are in the minority of states that actually pushes low-income people deeper into poverty with taxes. As a result, nearly half of our state's residents live paycheck-to-paycheck.

A main reason for this is the General Excise Tax (GET), applied to almost all goods and services, which hits low-income and working-class families almost ten times harder than those at the top. A refundable EITC would help reduce the heavy burden of the GET on those families, by providing tax refunds to those who need them the most.

Take the example of a single parent with two children, working full-time at the minimum wage. She would make \$21,000 per year and owe approximately \$432 in state income tax. Her state EITC would total approximately \$883, but because it is not refundable, she would only be able claim \$432, the amount that she owes in income tax.

However, if the EITC were refundable – as it is at the federal level and in 24 of the 29 other states with EITCs – she would get to claim the full \$883, which means she'd get a tax refund of \$451.

That would be a significant financial boost to that parent, helping her pay rent and other bills. That is why making the EITC refundable, as SB 2309 would do, is so important to our low-income and working-class families.

We appreciate your consideration of this testimony.

SB-2309

Submitted on: 2/4/2018 9:25:15 AM

Testimony for HMS on 2/5/2018 3:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Henry Curtis	Life of the Land	Support	No

Comments:

Please support a refundable EITC

Mahalo

Henry Curtis

Life of the Land



200 North Vineyard Boulevard, A300
Honolulu, HI 96817
Ph: 808-587-7886
Toll Free: 1-866-400-1116
www.hawaiiancommunity.net

February 4, 2018

Senate Committee on Human Affairs
Monday, February 5, 2018, 3:45pm
Capitol Room 16

SB2309 – Relating to the Earned Income Tax Credit

Aloha Chair Green, Vice-Chair Chang, and Committee Members:

I am submitting testimony on behalf of Hawaiian Community Assets (HCA), the State's largest HUD-approved housing counseling agency to **SUPPORT SB2309**. Not only would the legislation would Hawaii to join 24 other states in the nation in providing workers and working families with a refundable Earned Income Tax Credit, but these funds could be used by your constituents to make rent and mortgage payments in the midst of our ongoing homeless and affordable housing crises.

At a time when Hawaii reports the highest homeless rate per capita of any state in the nation and 57.6% of our renters pay more than 30% of their monthly income toward housing, SB2309 would put money in the pockets of our renters and households most in-need so they could prevent homeless, eviction, and even save for the dream of homeownership.

A significant population that would be impacted economically by this legislation are native Hawaiians residing on Hawaiian Home Lands. Approximately 1 in every 8 homeowners on Hawaiian Home Lands are delinquent at least 30 days on their mortgage. This is due in large part to the State Department of Hawaiian Home Lands refusing to abide by Act 48 passed during the 2011 legislative session that provides for basic consumer protections and access to HUD approved housing counseling and loss mitigation options to prevent unnecessary foreclosure. As a result, our native Hawaiian homeowners do not have equal rights under the law as all other homeowners in the State of Hawaii. By making the Earned Income Tax Credit refundable, we could see 95 native Hawaiian families, who have experienced loss of income and reduce work hours, bring their mortgages current using their refundable credit and ultimately prevent unnecessary foreclosure and homelessness.

To address our homeless and affordable housing crises we will need to take a comprehensive approach that include State investments, nonprofit and for profit business participation, and access to capital for our workers and working families. **Help address our homeless and affordable housing crises – PASS SB2309.**

Mahalo for your time, leadership and consideration. Please contact me directly at 808.587.7653 or jeff@hawaiiancommunity.net should you have any questions or need additional information.

Sincerely,

A handwritten signature in black ink that reads "Jeff Gilbreath". The signature is written in a cursive style with a large, stylized "J" and "G".

Jeff Gilbreath
Executive Director



Senate Committee on Human Services

Board of Directors:

Hawaii Alliance for Progressive Action Supports SB 2309

Gary L. Hooser
President

Aloha Chair Green, Vice Chair Chang and Members of the Committee:

Andrea N. Brower
Ikaika M. Hussey
Co-Vice Presidents

My name is Anne Frederick and I am the Executive Director for the Hawai'i Alliance for Progressive Action (HAPA). I am submitting testimony in support of SB2922 to increase funding for public schools.

Kim Coco Iwamoto
Treasurer

HAPA is a statewide environmental, social and economic justice organization. HAPA engages over 10,000 local residents annually through our work.

Bart E. Dame
Secretary

We commend you for passing the Hawai'i state EITC last session. It will help thousands of low-income and working-class families in Hawai'i keep more of their hard-earned money.

Paul Achitoff

However, because our state EITC is not refundable -- meaning that taxpayers can't get back more than what they owe in state income tax -- its effectiveness is limited.

Malia K. Chun

For example, a single parent of two children, working full-time at the minimum wage, earns \$21,000 annually, and would owe Hawai'i about \$432 in state income tax. Her state EITC would total about \$883, but because it is not refundable, she would only be able to zero out her income tax bill with the credit.

Laura Harrelson

Katie McMillan

On the other hand, if the EITC were refundable -- as it is on the federal level and in 24 of the 29 other states with EITCs -- she'd receive a tax refund of \$451, which would go a long way towards paying down bills and debts.

Walter Ritte Jr.

Karen Shishido

That is why making the EITC refundable is so important to our low-income and working-class families.

Leslie Malu Shizue Miki

Mahalo for your consideration.

Kekaulike Prosper Tomich

Best Regards,

Cade Watanabe

Anne Frederick, Executive Director
Hawai'i Alliance for Progressive Action (HAPA)



To: Senator Josh Green, Chair
Senator Stanley Chang, Vice Chair and
Members of the Committee on Human Services

From: Jeanne Ohta, Co-Chair

RE: SB 2309 Relating to the Earned Income Tax Credit
Hearing: Monday, February 5, 2018, 3:45 p.m., Room 016

POSITION: STRONG SUPPORT

The Hawaii State Women's Democratic Caucus writes in strong support of SB 2309 Relating to the Earned Income Tax Credit (EITC) which would make the EITC refundable.

HSDWC has always believed that to be effective in helping lift working families out of poverty, the EITC should be refundable. The EITC is refundable on the federal level and in 24 of the 29 other states with state EITCs and would enable families, currently burdened with the regressive General Excise Tax to receive tax credits to offset these taxes, even when their income taxes are zero.

The Hawai'i State Democratic Women's Caucus is a catalyst for progressive, social, economic, and political change through action on critical issues facing Hawaii's women and girls.

We ask for the committee's support to pass this measure and we thank the committee for the opportunity to provide testimony.

SB-2309

Submitted on: 2/2/2018 7:26:17 AM

Testimony for HMS on 2/5/2018 3:45:00 PM

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

Comments:

SB-2309

Submitted on: 2/2/2018 7:29:49 PM

Testimony for HMS on 2/5/2018 3:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Randy Ching		Support	No

Comments:

Chair Green, Vice Chair Chang and members of the committee,

I support SB2309 which would make the Earned Income Tax Credit refundable. When tax credits are refundable, filers can get tax refunds when their credits total more than the amount of income tax that they owe. Currently, the EITC is not refundable.

Please pass SB2309. Thank you for the opportunity to testify.

Randy Ching / Honolulu / makikirandy@yahoo.com

SB-2309

Submitted on: 2/4/2018 3:40:27 PM

Testimony for HMS on 2/5/2018 3:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Nate Hix		Support	Yes

Comments:

Dear Chair Green, Vice Chair Chang, and members of the Committee,

I'm testifying in support of SB 2309 that would make the earned income tax credit refundable, to make sure its benefits are felt in full by all eligible taxpayers.

The effectiveness of any tax credit program is limited to those with a tax burden unless it is made refundable. I see no reason why a program should only benefit those who have a tax burden larger than the tax credit. The lack of refundability effectively mutes the intent of the program, leaving those with the lowest incomes to only receive the smallest benefit.

In 2015 alone the state gave over \$24 million in tax credits to people who invest in local tech companies, \$39 million to the film industry and over \$98 million to help people buy solar panels, and yet only \$60 million on social welfare. Making this tax credit refundable is not a question of whether we can afford it, it's a question of whether we actually care to help our population make ends meet.

Please pass SB2309.

Thank you,

Nate Hix

SB-2309

Submitted on: 2/2/2018 10:55:45 PM

Testimony for HMS on 2/5/2018 3:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Melinda Wood		Support	No

Comments:

I support SB 2309, which will make the state EITC fully refundable to those who qualify for it. As it stands, some tax filers will receive only a partial refund (up to the amount of their owed state tax), which may be less than the full refund to which they are entitled. This change will be a great help to the hard working low income earners in our state.