



**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 Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Monday, February 11, 2019
Time: 10:00 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 1052, Relating to Taxation

The Department of Taxation (Department) offers the following comments regarding S.B. 1052 for the Committee's consideration.

S.B. 1052 amends the State earned income tax credit (EITC) from nonrefundable to refundable. The bill is effective upon its approval and applies to taxable years beginning after December 31, 2018.

First, the Department notes that Act 107, Session Laws of Hawaii 2017 (Act 107), establishes a State nonrefundable EITC equal to 20% of federal EITC allowed and properly claimed under section 32 of the Internal Revenue Code, and reported on the taxpayer's federal income tax return. The State nonrefundable EITC applies to taxable year beginning after December 31, 2017, but not to taxable years beginning after December 31, 2022. The Department suggests monitoring the effectiveness of the State nonrefundable EITC as established by Act 107 before adopting a State refundable EITC.

Second, the Department has several concerns with the administration of State refundable EITC, as outlined below.

- It is important to note that the Treasury Inspector General for Tax Administration (TIGTA) in its April 9, 2018 audit report highlighted that the Office of Management and Budget announced the EITC a high risk program (currently, the EITC is the only high-risk program for the Internal Revenue Service (IRS)), subject to reporting in the Department of Treasury Agency Financial Report. The IRS estimated EITC improper payments for fiscal year 2017 at \$16.2 billion or 24%. The EITC improper payment rates has not improved much since 2009 (ranges from 23% to 27%).

- The Department has serious concerns regarding these error rates because as proposed, the State EITC will share the same error rate since the proposal is to allow 20% of the federal EITC as a State credit. These error rates exist despite the fact that the IRS has extensive data matching capabilities with federal databases such as the Social Security Administration database.
- Most individual income tax refunds are 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 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 has serious concerns regarding its ability to recover any amounts which are improperly refunded. 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.
- The Department prefers nonrefundable tax credits because 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 this level of improper claims due to each claimant being limited to the amount of their tax liability.

Lastly, if the Committee wishes to advance this measure, the Department respectfully requests this measure be made applicable to taxable years beginning after December 31, 2019 to allow time for the Department to make the necessary changes to forms, instructions, and computer system.

Thank you for the opportunity to provide comments on this measure.

SB-1052

Submitted on: 2/10/2019 9:50:35 AM

Testimony for WAM on 2/11/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Testifying for O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments:

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Make EITC Refundable

BILL NUMBER: SB 1052

INTRODUCED BY: L. THIELEN, S. CHANG, KANUHA, J.KEOHOKALOLE, MORIWAKI, RUDERMAN, K. Kahele, Shimabukuro

EXECUTIVE SUMMARY: Makes Hawaii EITC refundable. To do that increases the risk to the State of fraudulent claims.

SYNOPSIS: Amends section 235-55.75, HRS, to make the earned income tax credit (EITC) refundable.

EFFECTIVE DATE: Taxable years beginning after December 31, 2018.

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 pressing 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 2/5/2019



ADA

HAWAII

AMERICANS FOR DEMOCRATIC ACTION

OFFICERS

John Bickel, President
Alan Burdick, Vice President
Marsha Schweitzer, Treasurer
96823
Dylan Armstrong, Secretary

DIRECTORS

Melodie Aduja
Guy Archer
Juliet Begley
Gloria Borland
Ken Farm
Chuck Huxel
Jan Lubin
Jenny Nomura

MAILING ADDRESS

P.O. Box 23404
Honolulu
Hawaii

Feb. 7 , 2018

TO: Honorable Chair Dela Cruz & WAM Committee Members

RE: SB 1052 RELATING TO TAX CREDITS

Support for hearing on Feb. 11

Americans for Democratic Action is an 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 1052 as it would make the EITC refundable. This will help the very low-income earners. The more we can do to use the tax code to reduce income inequality, the more progress we will make on a host of other issues and will probably save money in the long run.

Thank you for your favorable consideration.

Sincerely,

John Bickel President





Board Members

President

Jason Okuhama
Managing Partner,
Commercial & Business Lending

Secretary

Marcus Kawatachi
Deputy Director,
Hawai'i Civil Rights Commission

Trina Orimoto

Clinical & Research
Psychologist

Kaipo Kukahiko

Executive Director,
KEY Project

Miwa Tamanaha

Deputy Director,
Kua'āina Ulu 'Auamo

HACBED Staff

Brent N. Kakesako

Executive Director

Keoki Noji

Chief Operating Officer

Athena T. Esene

Bookkeeper & Office Manager

Foley Pfalzgraf

Program Specialist

Chelsie Onaga

AmeriCorps VISTA

Date: February 9, 2019

To: Senator Donovan M. Dela Cruz, Chair, Senator Gilbert S.C. Keith-Agaran, 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 SB1052

Aloha Chair Dela Cruz, Vice-Chair Keith-Agaran, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB1052, 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 Department of Business, Economic Development and Tourism's latest Self-Sufficiency Income Standard Family Economic Self-Sufficiency Income Standard (2016) depicts the obstacles that Hawai'i families are facing. The Standard 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 SB1052 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



49 South Hotel Street, Room 314 | Honolulu, HI 96813
www.lwv-hawaii.com | 808.531.7448 | voters@lwv-hawaii.com

COMMITTEE ON WAYS AND MEANS

MONDAY, 2/11/19, 10 am, Room 211
SB1052, RELATING TO TAXATION
TESTIMONY

Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair DELA CRUZ, Vice-Chair KEITH-AGARAN and Committee Members:

The League of Women Voters of Hawaii **strongly supports SB1052** that sets the Hawaii Earned Income Tax Credit (EITC) at 20% of the federal EITC; and makes the credit refundable so low income taxpayers can receive cash payments if their state income tax liability is less than the calculated amount of the state EITC.

Due to Hawaii's regressive General Excise Tax, the lowest income working families here pay more in total taxes than in all but one other state. The 2017 legislature, to its credit, created Hawai'i's EITC, which can provide much-needed relief to working families with very low incomes.

Now SB1052 provides an opportunity to provide that relief to the very poorest working households, those who owe in taxes less than the amount which the EITC would waive for them. SB1052 would give to these struggling families the difference between their state income tax bill and their state EITC. The amounts of money are small, but at the income levels we are talking about the "refunded" EITC would relieve some of the intense economic pressure these families are under.

The fact that these families are supported by a working family member makes an even stronger case for supporting them. One can imagine the immediate uses for this - clothing, appliance repair, school supplies..... it would make a real difference.

As a side benefit, this spending would help businesses as consumer spending would increase.

Please pass SB1052 and give the full EITC benefit to our poorest working families.

Thank you for the opportunity to submit testimony.



SB 1052, RELATING TO TAXATION

FEBRUARY 11, 2019 · SENATE WAYS AND MEANS
COMMITTEE · CHAIR SEN. DONOVAN M. DELA
CRUZ

POSITION: Support.

RATIONALE: IMUAlliance supports SB 1052, relating to taxation, which converts the earned income tax credit from a nonrefundable to a refundable tax credit.

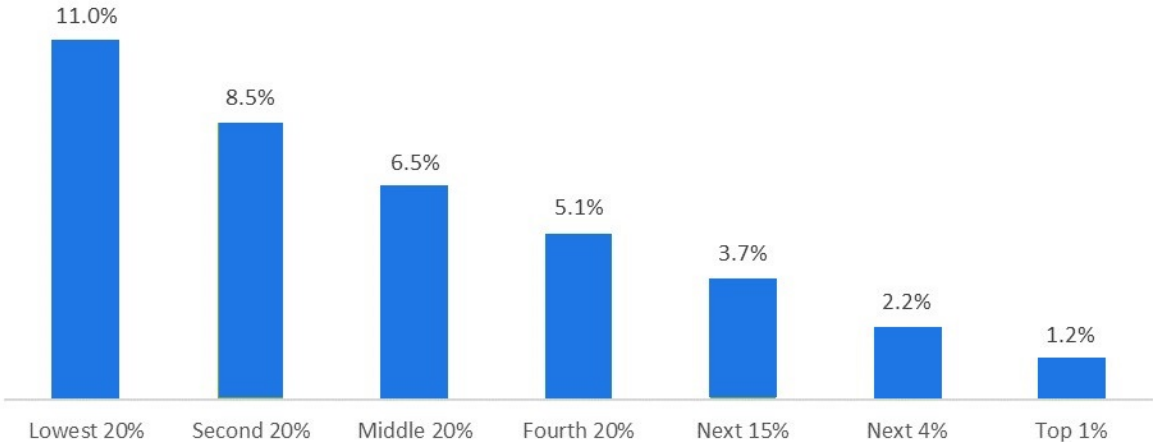
Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2018* report found that a full-time worker would need to earn \$36.13/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 2005 and 2015. Average rent for a two-bedroom unit surpassed \$2,000 in recent years, with minimum wage workers needing to log 109 hours per week at their jobs to afford a modest one-bedroom apartment at fair market value and 143 hours per week to afford a two-bedroom—a number that is equivalent to working over 20 hours a day with no days off year-round. In the past three years alone, Honolulu rent has increased by more than 25 percent.

While 43 percent of Hawai'i residents are renters (a number that does not include individuals and families renting outside of the regulated rental market), they earn an average wage of \$16.16/hour, scarcely enough to meet their basic needs. One out of every four households in Hawai'i report that they are “doubling up” or are three paychecks or less away from being homeless, per the Hawai'i Appleseed Center for Law and Economic Justice. Additionally, 54 percent of households are cost-burdened, meaning that they pay more than 30 percent of their

income for housing costs, a number that rises to 83 percent of extremely low-income households. Homelessness, unsurprisingly, is directly tied to our state’s exorbitant cost of living and penchant for catering to people who use the islands as their own private Monopoly board. We beseech you to seek innovative ways of making Hawai’i more affordable, while funding services that show aloha for our economically disadvantaged neighbors.

To help ease Hawai’i’s highest-in-the-nation cost of living, lawmakers must pass measures enhancing tax fairness and economic justice. Hawai’i’s low-income families face the second-highest tax rate in the nation, with our lowest-income households paying almost twice as much of their income in taxes, 15 percent, as those in the top 5 percent of income earners, who pay about 9 percent. A cardinal driver of this disparity is the GET, which disproportionately impacts low-income and working-class families because they spend almost all of their earnings on items and services that are taxed by the GET.

The GET Hits Low-Income Workers Almost 10 Times As Hard As the Top 1%
Hawaii's General Excise Tax as a Share of Family Income



Households in the bottom fifth of our state’s income spectrum make an average of \$10,100 per year and pay 11 percent of their income in excise taxes, for an average of \$1,111 per year. In contrast, they pay about 0.5 percent in state income tax, for an average of \$50. Accordingly, we support making the earned income tax credit refundable. If tax credits are refundable, filers can

get tax refunds when their credits total more than the amount of income tax that they owe. Of the 30 states that have EITCs, 24 of them are refundable.

A single parent with two children working a full-time minimum wage job, for example, 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 taxes. If the EITC were refundable, though, as it is at the federal level, she'd be able to claim the full \$883, generating a tax refund of \$451.



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

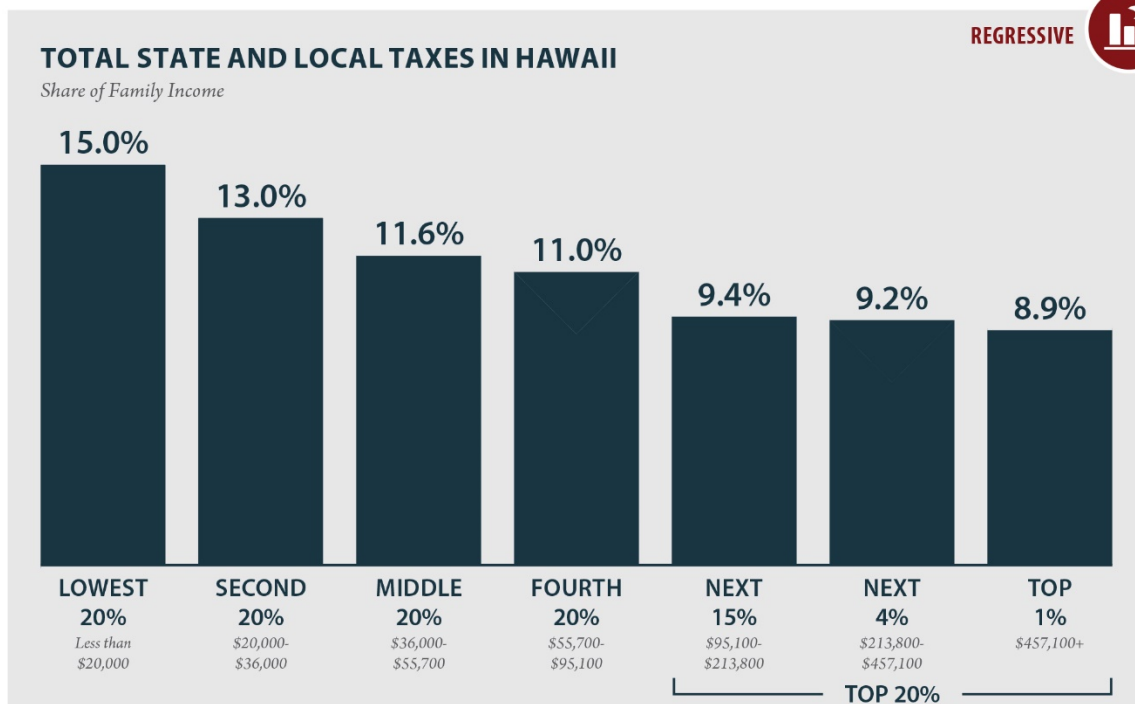
Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting SB 1052 – Relating to Taxation
Senate Committee on Ways and Means
Monday, February 11, 2019, at 10:00 AM in conference room 211

Dear Chair Dela Cruz, Vice Keith-Agaran, and members of the Committee:

Thank you for the opportunity to testify in **SUPPORT** of **SB 1052**, 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 EITC in 2017. It is helping 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 15 percent of their income in state and local taxes, while those at the top pay only about 9 percent.



The main reason for the regressivity of our local tax system 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.

In fact, most low-income households pay far more in the GET every year than they do in state income taxes. That is why making the EITC refundable, as SB 1052 would do, is so important to these families. A refundable EITC would help reduce the heavy burden of the GET on those who need tax relief the most.

We appreciate your consideration of this testimony.

The Hawai'i Appleseed Center for Law and Economic Justice is committed to a more socially just Hawai'i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems that perpetuate inequality and injustice through policy development, advocacy, and coalition building.

Donald Erway
Sebastian Mosur
Randy Gonce
Andrea N Brower
Greg and Pat Farstrup

To: Senate Committee on Ways and Means
Location: Conference room 211

Subject: In support of SB 1052: Relating to Taxation

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee,

Thank you for creating the Hawaii state EITC during the 2017 Session. I urge you to pass SB 1052, which would improve our EITC by making it refundable.

Low-wage working parents pay far more in the General Excise Tax than in state income tax. That's why it's so important to make our EITC refundable. When tax credits are refundable, taxpayers can get tax refunds when their credits total more than the amount of income tax that they owe.

Not only is the federal EITC refundable, but of the 30 states that have EITCs, 24 of them also are refundable. We should join them.

Please pass SB 1052. Mahalo for this opportunity to testify.

LATE

SB-1052

Submitted on: 2/10/2019 12:42:43 PM

Testimony for WAM on 2/11/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Laura Gray	Individual	Support	No

Comments: