

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Sean Quinlan, Chair;
The Honorable Daniel Holt, Vice Chair;
and Members of the House Committee on Economic Development

From: Isaac W. Choy, Director
Department of Taxation

Date: Wednesday, February 9, 2022
Time: 10:00 A.M.
Place: Via Video Conference, State Capitol

Re: H.B. 2406, Relating to Taxation

The Department of Taxation (Department) offers the following comments regarding H.B. 2406 for your consideration.

H.B. 2406 makes the Earned Income Tax Credit (EITC) under Hawaii Revised Statutes (HRS) section 235-55.75 refundable and permanent. It also provides that any EITC earned in previous tax years that were carried forward can continue to be used to offset tax liability until the end of the 2022 tax year. The measure is effective upon approval and applies to taxable years beginning after December 31, 2021

Converting the EITC from nonrefundable to refundable requires the Department to go through the process of establishing a new tax credit, including forms, instructions, and significant computer system modifications. As such, the Department respectfully requests that this measure be made effective for taxable years beginning after December 31, 2022.

Thank you for the opportunity to testify on this measure.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
ON
HOUSE BILL NO. 2406

February 9, 2022
10:00 a.m.
Room 312 and Videoconference

LATE

RELATING TO TAXATION

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill No. 2406 amends Section 235-55.75, HRS, to make the Earned Income Tax Credit (EITC) refundable and permanent; and provide that any EITC earned in previous tax years that were previously carried forward can continue to be used to offset tax liability in subsequent years until exhausted, or up to the end of the 2022 tax year.

B&F notes that the federal American Rescue Plan (ARP) Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

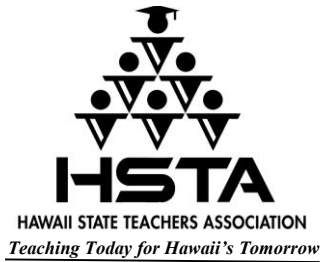
- By enacting policies to raise other sources of revenue;
- By cutting spending; or

- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with this ARP restriction.

Thank you for your consideration of our comments.



Osa Tui, Jr.
President
Logan Okita.
Vice President
Lisa Morrison
Secretary-Treasurer
Wilbert Holck
Executive Director

TESTIMONY BEFORE THE HOUSE COMMITTEE ON ECONOMIC
DEVELOPMENT

RE: HB 2406 - RELATING TO TAXATION

WEDNESDAY, FEBRUARY 9, 2022

OSA TUI, JR., PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Quinlan and Members of the Committee:

The Hawaii State Teachers Association **supports HB 2406**, relating to taxation. This bill makes the state earned income tax credit refundable and permanent. Allows nonrefundable state earned income tax credits claimed for certain taxable years that exceeded tax liability for the original claim year to be credited against net tax liability in subsequent years until exhausted, up to the end of the 2022 tax year.

The U.S. has one of the lowest levels of intergenerational economic mobility, meaning that a child's economic future is highly dependent on their parents' economic standing. If your parents were rich, you are likely to be rich simply by default—and that wealth compounds with each generation. But if your parents were poor, it is increasingly more difficult to move up the socioeconomic ladder.

We do encourage you to look at HB1507, if you are looking for a way to pay for making EITC refundable and permanent, and you could add an amendment to this bill to also do so. The federal Tax Cuts and Jobs Act gave a tremendous tax break to literally the richest among us. The state can now recapture some of those federal tax savings by raising the percentage of our state tax on capital gains to pay for EITC.

To fairly tax wealth, while also ensuring that local families can contribute to their children's financial security, the Hawaii State Teachers Association asks your committee to **support** this bill.



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony in support of HB2406—Relating to Taxation
House Committee on Economic Development
Wednesday, February 9th 10AM

Aloha Chair Quinlan, Vice Chair Holt, and members of the committee,

The Hawaii Appleseed Center for Law and Economic Justice is thankful for the opportunity to provide testimony in **SUPPORT** of SB2406, which makes the state's Earned Income Tax Credit (EITC) refundable and permanent.

In 2017, the state of Hawaii enacted its own EITC, which provides 20% of the value of the federal EITC to qualifying households. Unlike the federal EITC, Hawaii's state credit is non-refundable, meaning that households can only use the state credit to reduce their tax liability. Households with the lowest incomes are not able to make full use of the state's EITC, since they often have little to no tax liability.

According to the state Department of Taxation, households with incomes under \$15,000 are receiving only \$83 dollars in state EITC on average, while households with incomes over \$55,000 receive \$484.ⁱ Making the credit refundable would allow households in the lowest income quintile to boost their credit by \$237 on average.ⁱⁱ

Our research also shows that making the earned income tax credit refundable will be most beneficial to the Native Hawaiian, Pacific Islander, and Filipino communities. Currently, these populations have the lowest average incomes among major ethnic groups as well as the highest utilization of the credit. Making the credit fully refundable would boost the average size of the state EITC for Native Hawaiian, Pacific Islander, and Filipino households to \$497, \$536, and \$459 respectively.ⁱⁱⁱ

An extra few hundred dollars every year at tax time can make a significant difference in the lives of Hawaii's working families. That increased refund can help to relieve financial pressure that working families face every day, as our cost of living continues to rise and wages remain stagnant. A refundable and permanent EITC will help households with the lowest incomes take full advantage of this powerful tax credit, while providing a pathway to economic security for Hawaii's working families.

ⁱ Hawaii State Department of Taxation "Earned Income Tax Credit Report: Tax Year 2020," https://files.hawaii.gov/tax/stats/stats/act107_2017/act107_earnedincome_txcredit_2020.pdf

ⁱⁱ Hawaii Budget and Policy Center "Refunding Hawaii," https://static1.squarespace.com/static/5ef66d594879125d04f91774/t/61f207dc896d102d30606d6f/1643251680283/EITC+Report_REV3_FINAL.pdf

ⁱⁱⁱ Ibid



Board Members

Jason Okuhama
Managing Partner,
Commercial & Business Lending

Secretary
Marcus Kawatachi
Deputy Director,
Hawai'i Civil Rights Commission

Trina Orimoto
Clinical & Research
Psychologist

Miwa Tamanaha
O'ahu Resident

Derrick Kiyabu
Hawai'i Island Resident

HACBED Staff

Brent N. Kakesako
Executive Director

Merri Keli'ikuli
*Office Manager & Program
Support*

Corin Thornburg
*Community-Based Economic
Development Project Associate*

Date: February 7, 2022

To: Representative Sean Quinlan, Chair, Representative Daniel Holt, Vice-Chair, and members of the Committee on Economic Development

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

Re: Support for HB 2406

Aloha Chair Quinlan, Vice-Chair Holt, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports HB 2406, which would help many economically struggling families in Hawai'i by making the state earned income tax credit (EITC) refundable and permanent.

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.

The EITC supports working families to put more of their dollars back into their pockets. There are around 300,000 Hawai'i residents, or 1 in 4 residents, who would qualify for the EITC. Low-income families pay more of their income (15%) in taxes as compared to those at the top (8.9%). Similarly, due to impacts from the pandemic and inflation, working families have seen their purchasing power shrink. Making the credit refundable would allow families to claim the full size of the credit. And this proposal would benefit the state as it would cost \$41 million but the increase in the capital gains tax rate would boost revenue collections by \$57 million.

The passage of HB 2406 would go a long way to supplement the needs of vulnerable families by matching the low-income household renters' credit and its income eligibility limits to inflation so that Hawai'i residents can stay in their homes due to the exponential rise in housing costs.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Executive Director



CATHOLIC CHARITIES HAWAII

TESTIMONY IN SUPPORT OF HB 2406: RELATING TO TAXATION

TO: House Committee on Economic Development
FROM: Rob Van Tassell, President and CEO, Catholic Charities Hawaii
Hearing: Wednesday, February 9, 2022; 10:00 am; via videoconference

Chair Quinlan, Vice Chair Holt, and Members of the Committee on Economic Development:

Thank you for the opportunity to provide testimony **in Strong Support** of HB 2406, which would make the state earned income tax credit both refundable and permanent. I am Rob Van Tassell, with Catholic Charities Hawaii.

Catholic Charities Hawaii (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawaii for 75 years. CCH has programs serving elders, children, families, homeless, and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawaii. Catholic Charities Hawaii has a long history of working in the areas of affordable housing and homelessness.

Catholic Charities Hawaii strongly supports this bill. Our state's high cost of living puts tremendous stress on our families. Many are living on the edge, struggling to pay all their bills and rent with their work income. This tax credit would give an annual shot in the arm to help Hawaii's workers. Studies have also shown that these workers put this tax credit refund back into the economy, so this also benefits our local businesses.

Hawaii Perspectives 2019, a large survey of Hawaii voters, reports that "compared with 2015, far fewer Hawaii voters think they are "better off" than they were 12 months prior (35% vs 51% in 2015). An amazing 45% of residents may leave Hawaii largely due to the cost of living. The report found that "Voters say to improve life, make it more affordable." In this environment, making the Earned Income Tax Credit (EITC) permanent and refundable shows our struggling working families that the State is creating initiatives to improve living conditions for our residents.

We urge your support for this bill, as one important measure to improve the lives of Hawaii workers. Please contact our Legislative Liaison, Betty Lou Larson at bettylou.larson@catholiccharitieshawaii.org or (808) 373-0356 if you have any questions.





Hawaii
Children's Action Network Speaks!
Building a unified voice for Hawaii's children

Hawai'i Children's Action Network Speaks! is a nonpartisan 501c4 nonprofit committed to advocating for children and their families. Our core issues are safety, health, and education.

To: House Committee on Economic Development

Re: **HB 2406 - Relating to Taxation**

Hawai'i State Capitol, Via Videoconference, Conference Room 312
February 9, 2022, 10:00 AM

Dear Chair Quinlan, Vice Chair Holt, and committee members,

On behalf of Hawai'i Children's Action Network Speaks!, I am writing in SUPPORT of HB 2406, relating to taxation. This bill would make the state earned income tax credit (EITC) refundable and permanent.

Hawai'i's tax system currently is upside down. Families who earn less than \$20,000 per year pay 15% of their income in state and local taxes, while those who make over \$450,000 pay only about 9%. In fact, our state saddles our low-income families with the second-heaviest state and local tax burden in the nation.¹

The state EITC has helped balance our tax system by providing a boost to low- to moderate-income families for the last four years. But it will end this year, if it is not renewed, and it hasn't been helping those who need it most. That's why it's so important to make the EITC permanent AND refundable.

Researchers have found that the federal EITC leads to good health through better birth outcomes and greater food security, better academic achievement as evidenced by higher high school graduation rates and increased college enrollment, and stronger economic growth as every \$1 in EITC creates \$1.24 in local economic activity.²

Refundability allows those families that need tax credits the most to get the FULL amounts that they qualify for. In other words, if a family qualifies for a tax credit that's LARGER than what they owe in taxes, they get the extra amount back as a TAX REFUND. The federal EITC is refundable, and **of the 31 states that have EITCs, Hawai'i is one of only five** that are not refundable.³

Imagine a single parent, with one child, earning minimum wage, or \$21,000 per year. Their state income tax is \$424, and they're eligible for a state EITC of \$663. However, with the current NON-refundable EITC, that parent can only claim a credit of \$424 to zero out their tax liability. But with a REFUNDABLE EITC, that parent can claim the full \$663 credit and get a TAX REFUND of \$239.

In other words, with the current non-refundable EITC, the lowest-wage families can't receive the full value of their state EITC. There's no good reason to continue withholding the full value of this important financial support from those families that need it the most.⁴

¹ Institute on Taxation and Economic Policy, <https://itep.org/whopays/hawaii/>

² Hawai'i Kids Count, "Refunding Hawai'i,"

https://d3n8a8pro7vhm.cloudfront.net/goodbeginnings/pages/2185/attachments/original/1643319710/EITC_Report_REV3_FINAL.pdf

³ Center on Budget and Policy Priorities, <https://www.cbpp.org/research/state-budget-and-tax/state-earned-income-tax-credits>

⁴ Hawai'i Kids Count, "Refunding Hawai'i,"

https://d3n8a8pro7vhm.cloudfront.net/goodbeginnings/pages/2185/attachments/original/1643319710/EITC_Report_REV3_FINAL.pdf



Increase in average tax cut under proposed refundable EITC

Expanding the state EITC to make it refundable not only puts more money into the pockets of families at all four income quintiles where families are eligible, it also better distributes that money to the families that need it the most.



Chart: HCAN Speaks! • Source: "Refunding Hawai'i" Report • Created with Datawrapper

In addition, making the EITC refundable would also push back on racial income disparities. Native Hawaiians and Pacific Islanders' average EITC benefit currently is larger than the overall state average, and they would see the biggest extra boost from a refundable EITC.⁵

Increase in average benefit if the EITC became refundable

Native Hawaiians and Pacific Islanders would see the biggest boost from a refundable EITC.

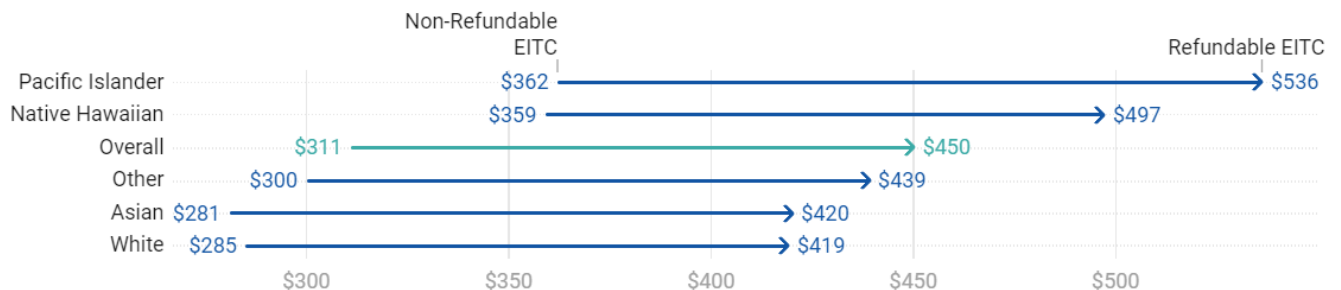


Chart: HCAN Speaks! • Source: Analysis by Institute on Taxation and Economic Policy (ITEP) • Created with Datawrapper

Mahalo for the opportunity to provide this testimony. Please pass this bill.

Thank you,

Nicole Woo
Director of Research and Economic Policy

⁵ Institute on Taxation and Economic Policy, unpublished analysis, January 2022



HB 2406, RELATING TO TAXATION

FEBRUARY 9, 2022 · HOUSE ECONOMIC
DEVELOPMENT COMMITTEE · CHAIR REP. SEAN
QUINLAN

POSITION: Support.

RATIONALE: Imua Alliance supports HB 2406, relating to taxation, which makes the state earned income tax credit refundable and permanent; and allows nonrefundable state earned income tax credits claimed for certain taxable years that exceeded tax liability for the original claim year to be credited against net tax liability in subsequent years until exhausted, up to the end of the 2022 tax year.

The earned income tax credit is intended to let working families keep more of the money they earn through their paychecks. As an economic stimulus, the EITC contributes up to \$1.24 in economic activity for every \$1 it returns to workers. As the Hawai'i Budget and Policy Center noted in a recent report:

Many of the workers eligible for an EITC do not earn enough to cover all their basic needs, including food, housing and healthcare. The credit helps these workers provide their families with the basics and makes the tax system more equitable in the process. Research on the EITC shows that the credit contributes to long-term economic and health gains for families. People of color—who are more likely to earn low wages in Hawai'i due to structural and historic barriers to economic security caused by colonialism and systemic racism—therefore tend to experience the greatest benefit from the EITC program, making it an effective anti-racist policy as well (Refunding Hawai'i, 2022).

The benefits of strengthening the EITC are clear in the islands, especially given our skyrocketing cost of living and housing crisis, both of which have worsened during the COVID-19 pandemic. There are around 300,000 Hawai'i residents who qualify for this tax credit, or 1 in 4 residents of our state. We should make sure that everyone who does qualify for the credit is able to fully take advantage of it.

Working families pay 15 percent of their incomes in state and local taxes; incomes that are already deeply strained by our high cost of living. In contrast, Hawai'i's wealthiest earners pay only 8.9 percent of their incomes in state and local taxes. When you are barely making ends meet, that 15 percent doesn't leave much remaining for essential goods and services. Furthermore, Native Hawaiians and Pacific Islanders would benefit the most from expanding the EITC because they earn less on average than their non-Hawaiian neighbors. Accordingly, as mentioned above, strengthening the EITC addresses the larger issues of systemic racism and colonial violence.

Kris Coffield · Executive Director, Imua Alliance · (808) 679-7454 · kris@imuaalliance.org



HOUSE BILL 2406, RELATING TO TAXATION

FEBRUARY 9, 2022 · HOUSE ECONOMIC
DEVELOPMENT COMMITTEE · CHAIR REP. SEAN
QUINLAN

POSITION: Support.

RATIONALE: The Democratic Party of Hawai'i Education Caucus **supports HB 2406**, relating to taxation, which makes the state earned income tax credit refundable and permanent; and allows nonrefundable state earned income tax credits claimed for certain taxable years that exceeded tax liability for the original claim year to be credited against net tax liability in subsequent years until exhausted, up to the end of the 2022 tax year.

The earned income tax credit is intended to let working families keep more of the money they earn through their paychecks. As an economic stimulus, the EITC contributes up to \$1.24 in economic activity for every \$1 it returns to workers. As the Hawai'i Budget and Policy Center noted in a recent report:

Many of the workers eligible for an EITC do not earn enough to cover all their basic needs, including food, housing and healthcare. The credit helps these workers provide their families with the basics and makes the tax system more equitable in the process. Research on the EITC shows that the credit contributes to long-term economic and health gains for families. People of color—who are more likely to earn low wages in Hawai'i due to structural and historic barriers to economic security caused by colonialism and systemic racism—

therefore tend to experience the greatest benefit from the EITC program, making it an effective anti-racist policy as well (Refunding Hawai'i, 2022).

The benefits of strengthening the EITC are clear in the islands, especially given our skyrocketing cost of living and housing crisis, both of which have worsened during the COVID-19 pandemic. There are around 300,000 Hawai'i residents who qualify for this tax credit, or 1 in 4 residents of our state. We should make sure that everyone who does qualify for the credit is able to fully take advantage of it.

Working families pay 15 percent of their incomes in state and local taxes; incomes that are already deeply strained by our high cost of living. In contrast, Hawai'i's wealthiest earners pay only 8.9 percent of their incomes in state and local taxes. When you are barely making ends meet, that 15 percent doesn't leave much remaining for essential goods and services. Furthermore, Native Hawaiians and Pacific Islanders would benefit the most from expanding the EITC because they earn less on average than their non-Hawaiian neighbors. Accordingly, as mentioned above, strengthening the EITC addresses the larger issues of systemic racism and colonial violence.

Kris Coffield · Chairperson, DPH Education Caucus · (808) 679-7454 · kriscoffield@gmail.com



Tuesday, February 8, 2022

Relating to Taxation
Testifying in Support

Aloha Chair and members of the committee,

The Pono Hawai'i Initiative (PHI) **supports HB2406 Relating to Taxation**, which makes the state earned income tax credit (EITC) refundable and permanent. This measure will help low-income and working families.

Unfortunately, Hawaii's regressive General Excise Tax (GET) hits low-wage working parents the hardest resulting in them paying far more in GET than in state income tax. By extending the EITC we will enable families to keep more of their earnings that would have otherwise been lost to the GET. This is especially helpful and necessary for those single parent or income homes where every penny counts.

EITC has also been shown to be one of the most effective means to fiscal stimulus, providing \$1.24 in community benefits for every \$1.00 spent. If the EITC is non-refundable it is stifled in its ability to help the economy and job creation.

Helping Hawaii's families who are most at risk for poverty should be a top priority. Reduce financial stress on these families will help to lower overall stress, and lead to better physical and mental health and will help them to create a better future for themselves and their families.

For all these reasons, we urge you to **vote in favor of HB2406**.

Mahalo for the opportunity to testify,

Gary Hooser
Executive Director
Pono Hawai'i Initiative



February 8th, 2022
Hawai'i State Capitol
415 S Beretania St.
Honolulu, HI 96813

RE: HB2406, Relating to Taxation

Aloha Committee Chairs and members,

The Hawai'i Association of School Psychologists supports HB2406, bills that increase the tax rate on capital gains and makes the state earned income tax credit refundable and permanent for the following reasons:

Because all families that benefit are at risk of losing it if the legislature does not take action to make the credit permanent.

Because the Earned Income Tax Credit (EITC) helps working families keep more of what they earn and make ends meet.

Because the lowest-income families that would benefit the most from the EITC cannot access its full benefits.

Because research shows that working families, when given financial breathing room, are the drivers of a consumer economy.

Because this credit would have the largest impact for families and children.

Because it would boost revenue collections by \$57 million, which would offset the initial \$41 million expenditure for 2022.

Respectfully Submitted,

Alec Marentic, NCSP
President-Elect, Hawai'i Association of School Psychologists (HASP)
Email: hasp808@gmail.com

HB-2406

Submitted on: 2/8/2022 8:44:04 AM

Testimony for ECD on 2/9/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Maya Maxym	Hawaii chapter of the American Academy of Pediatrics	Support	No

Comments:

As a pediatrician who cares for many of Hawai'i's most vulnerable keiki and families, I urge you to support this bill, which makes the EITC more fair and ensures that those who need the funds the most will be able to access financial resources they deserve to care for themselves and their families. Ample data show that financial stress leads to a wide variety of adverse health outcomes for children and families. This is a simple and fair way to ensure that lower earning families access the funds they deserve through a fairer tax system. Mahalo.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Economic Development
Wednesday, February 9, 2022, at 10:00 A.M.
Via Videoconference**

RE: HB 2406 Relating to Taxation

Chair Quinlan, Vice Chair Holt, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 2406, which makes the state earned income tax credit refundable and permanent. It also allows nonrefundable state earned income tax credits claimed for certain taxable years that exceeded tax liability for the original claim year to be credited against net tax liability in subsequent years until exhausted, up to the end of the 2022 tax year.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber recognizes and appreciates the intent of this measure to help the economic security of low-income working families with children. Hawaii is placed among the top states with the heaviest tax burden on low-income households in the nation.

The main reason for this inequity is the general excise tax (GET), which is applied at different points along the supply chain, causing its true cost to be compounded many times higher than the percentage that retailers charge at the point-of-sale to consumers. As a result, the GET disproportionately burdens low-income families, who spend virtually all their earnings on goods and services that are subject to the GET.

Hawaii's earned income tax credit is not refundable, unlike 23 of the 28 states that had an effective state earned income tax credit. Making it refundable would further help alleviate the tax burden on our families that are most in need.

Given the State's Earned Income Tax Credit is scheduled to sunset after December 31, 2022, the Chamber supports making it refundable and permanent.

Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Make State Earned Income Tax Credit Refundable and Permanent

BILL NUMBER: HB 2406

INTRODUCED BY: JOHANSON, BELATTI, BRANCO, CULLEN, ELI, KAPELA, KITAGAWA, LUKE, MATAYOSHI, MATSUMOTO, MORIKAWA, NAKAMURA, NAKASHIMA, NISHIMOTO, TAM, TARNAS, WILDBERGER, Lowen

EXECUTIVE SUMMARY: Makes the state earned income tax credit refundable and permanent. Allows nonrefundable state earned income tax credits claimed for certain taxable years that exceeded tax liability for the original claim year to be credited against net tax liability in subsequent years until exhausted, up to the end of the 2022 tax year.

SYNOPSIS: Amends section 235-55.75, HRS, to change the state Earned Income Tax Credit (EITC) to a refundable credit. Provides that carryover EITC (under existing law EITC isn't refundable but can be carried forward) cannot be used as a credit for a taxable year beginning in 2023.

EFFECTIVE DATE: Upon Approval, applicable to taxable years beginning after December 31, 2021.

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. This bill would 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 Department 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 the Department's 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 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: 2/7/2022



Parents And
Children Together
BUILDING THE RELATIONSHIPS THAT MATTER MOST

LATE

TO: Chair Quinlan, Vice Chair Holt, and Members of the House Committee on Economic Development

FROM: Ryan Kusumoto, President & CEO of Parents And Children Together (PACT)

DATE/LOCATION: February 9, 2022; 10:00 a.m., Conference Room 312/Video Conference

RE: TESTIMONY IN SUPPORT OF HB 2406 – RELATING TO TAXATION

We would like to provide testimony in support of HB 2406 which makes the state earned income tax credit refundable and permanent, allows nonrefundable state earned income tax credits claimed for certain taxable years that exceeded tax liability for the original claim year to be credited against net tax liability in subsequent years until exhausted, up to the end of the 2022 tax year.

Thank you for creating the Hawaii EITC in 2017. We support making this tax credit refundable and permanent to benefit Hawaii's families. Approximately 300,000 residents are eligible for this tax credit; roughly 1 in every 4 Hawaii residents. Making the Hawaii EITC refundable allows more people to keep what they earn and will also help tax filers get more back more through the credit than what they owe in state income taxes. Hawaii places the second-highest tax burden on low-income families and continues to have one of the highest costs of living in the United States. Wages are still far below to close any livable wage gap. While the minimum wage has increased over time, it is still not adequate enough to deal with the price disparity. As a result, many of our families continue to struggle to make ends meet or even to meet their basic needs.

History has shown that the landscape of our economy has changed, exacerbated by the stressors of the global pandemic, to negatively impact the most vulnerable and disadvantaged in our society. It has a direct tie to increased financial instability, housing instability, health instability, increased crime and substance abuse, and strained social, emotional and mental well-being. These impacts have long-lasting and multi-generational consequences and impacts our ability to create healthy and thriving communities. Supporting working families strengthens the fabric of our entire community.

EITC makes sense and pays for itself while putting money back into our local economy. Estimations for 2022 were that it would cost \$41 million and that it would also boost revenue collections by \$57 million. Every \$1 in EITC creates \$1.24 in local economic activity. **We urge you to support making the Hawaii EITC refundable and permanent** to allow more families, especially those with young children, to benefit by keeping more of their paycheck.

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 under-resourced families. Assisting more than 17,000 people across the state annually, PACT helps families identify, address and successfully resolve challenges through its 20 programs. Among its services are: early education programs, domestic violence prevention and intervention programs, child abuse prevention and intervention programs, childhood sexual abuse supportive group services, child and adolescent behavioral health programs, sex trafficking intervention, poverty prevention and community strengthening programs.

Thank you for the opportunity to testify **in support of HB 2406**, please contact me at (808) 847-3285 or rkusumoto@pacthawaii.org if you have any questions.



COMMITTEE ON ECONOMIC DEVELOPMENT

Rep. Sean Quinlan, Chair

Rep. Daniel Holt, Vice Chair

LATE

BILL HB 2406

POSITION: SUPPORT

Hearing Date: February 9, 2022; Hearing Time 10:00am

Aloha Chair Quinlan, Vice Chair Holt and Committee Members:

Aloha United Way strongly supports Bill HB2406, which makes the state earned income tax credit refundable and permanent, and allows nonrefundable state earned income tax credits claimed for certain taxable years that exceeded tax liability.

In 2018, Aloha United Way released The ALICE® Report, which showed that 47% of Hawaii residents are facing financial uncertainty. ALICE is an acronym for **Asset Limited Income Constrained Employed** and refers to households who are employed but whose incomes are not sufficient to meet their basic costs. Since the pandemic, this number has only increased, perhaps to as high as 58% of Hawaii's population.

Hawaii has the highest cost of living in the nation and imposes one of the highest tax burdens on low-income households. A permanent, refundable EITC is proven to quickly reduce poverty and economic struggle for families with children and slow Hawaii's outflow of working families.

EITC also increases the available labor pool, as it creates incentives for people, especially parents, to join or re-join the labor force, since their EITC grows with earnings (up to the maximum). Most importantly, EITC is a powerful tool for government to reduce the number of children living in poverty. In 2018 alone, EITC lifted over 3 million children in the US out of poverty, when implemented, it is quickly reduce childhood poverty by 20% or more. (CBPP 2019)

Aloha United Way supports measures that make EITC permanent and refundable, which Bill 2406 will do, because of the proven benefits of an increased labor force, decreased childhood poverty, increased income equality, and is a step to reducing the number of local families who leave to seek greater financial stability. When combined with other legislation to stabilize ALICE households, the cumulative effect will be a substantial increase in economic stability in Hawaii.

Thank you for considering this testimony and for your action to support measures to implement a refundable EITC. We appreciate your consideration and support for HB 2406.

Sincerely,

A handwritten signature in blue ink that reads "Suzanne Skjold".

Suzanne Skjold
Chief Operating Officer



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Coalition for a
Tobacco-Free Hawai'i

Community Health
Worker Initiative

COVID-19 Response

Hawai'i Drug & Alcohol Free
Coalitions

Hawai'i Farm to School Hui

Hawai'i Oral Health Coalition

Hawai'i Public Health Training Hui

Healthy Eating + Active Living

Kūpuna Food Security Coalition

Date: February 8, 2022

To: Representative Sean Quinlan, Chair
Representative Daniel Holt, Vice Chair
Members of the Committee on Economic Development

Re: Support HB 2406, Relating to Taxation

Hrg: February 9, 2022 at 10:00 AM via Videoconference

The Hawai'i Public Health Instituteⁱ is in **support of HB 2406**, which would make Hawai'i's earned income tax credit refundable and permanent.

Health improves with increasing income, and the impacts of a rise in income are greatest for those at the lowest end of the wage scale. Research shows that those who move out of the lowest income level to the next receive the greatest percentage increase in life expectancy and health status. According to the Center on Budget and Policy Priorities, the 2018 federal EITC lifted about 5.6 million people out of poverty, including about 3 million children, and reduced the severity of poverty for another 16.5 million people, including 6.1 million childrenⁱⁱ.

The EITC is designed to help working families more of keep more of their income by reducing their tax liability. In 2017, Hawai'i passed a nonrefundable state EITC of up to 20 percent of the federal EITC. One in four Hawai'i residents qualify for the tax credit and by 2023, it is estimated that Hawai'i's EITC will have provided more than \$135 million in tax relief. However, Hawaii's EITC is non-refundable and set to sunset on December 31, 2022. HB 1507 will ensure that working families continue to benefit from the EITC on a permanent, refundable basis. With refundable EITCs, taxpayers receive a refund if EITC is greater than the income tax owed. This puts more money into the pockets of working families, who can use it towards essentials like groceries, rent, or childcare.

Thank you for the opportunity to provide testimony.

Mahalo,

A handwritten signature in black ink, appearing to read "Amanda Fernandes". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Amanda Fernandes, JD
Policy and Advocacy Director

ⁱ Hawai'i Public Health Institute is a hub for building healthy communities, providing issue-based advocacy, education, and technical assistance through partnerships with government, academia, foundations, business, and community-based organizations.

ⁱⁱ Center on Budget and Policy Priorities. (2019, December 10). *Policy Basics: The Earned Income Tax Credit*. Accessed at <https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit>.

Will Caron
Pālolo Valley
willcaronforhawaii@gmail.com

February 7, 2022

TO: House Committee on Economic Development
RE: Testimony in Support of HB2406

Aloha Committee Members,

I strongly support expansion of the state Earned Income Tax Credit (EITC) to make it permanent and refundable. In passing this proposal, the legislature would give thousands of hardworking, yet struggling, Hawai'i families a much needed tax break while contributing \$1.24 to the economy for every dollar those families receive as part of their EITC. Source: <https://www.economy.com/mark-zandi/documents/2012-02-07-JEC-Payroll-Tax.pdf>

The State EITC, worth 20 percent of the federal credit, helps working families keep more of what they earn and has been helping Hawai'i residents make ends meet for the past four years. However, the lowest-income families that need it the most still can't access its full benefits. And all families that benefit from it today are at risk of losing it if the legislature takes no action to make the credit permanent.

It's tough to make ends meet in Hawai'i. We want working families to have a bigger tax refund come next year because research shows these families, when given financial breathing room, are the drivers of the consumer economy.

This credit would also have the greatest impact for families with children, and there's no better investment we can make than investing in the future of our keiki. Now is the time to invest in working families.

And with a price tag of \$41 million in 2022, but a projected revenue collection increase of \$57 million, the state program literally pays for itself and then some.

Mahalo for the opportunity to support this important measure.

HB-2406

Submitted on: 2/7/2022 2:24:33 PM

Testimony for ECD on 2/9/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Thomas Brandt	Individual	Support	No

Comments:

Support!

HB-2406

Submitted on: 2/7/2022 3:53:38 PM

Testimony for ECD on 2/9/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Shay Chan Hodges	Individual	Support	No

Comments:

Hawai‘i’s low-income families face the second-highest tax rate in the nation, with our lowest-income households paying much more of their income (15%) in taxes as those at the top (who pay only about 8.9%).

Working families in Hawai‘i have seen their purchasing power shrink in recent years. High rents, stagnant wages, and increasing energy and food costs mean a family’s dollar has to stretch further each year just to meet basic needs. The state EITC puts thousands of dollars back into the pockets of working residents with far-reaching benefits for both parents and children.

For families with very low wages, the credit increases with each dollar earned, which encourages adults to work more hours, consequently enabling them to gain a firmer foothold in the workforce and be more resilient in the face of temporary setbacks like pay reductions or layoffs. For families working their way into the middle class, this helps prevent minor hiccups from becoming major setbacks.

Households that are not in immediate need can also opt to save their refunds. Almost 30 percent of Hawai‘i’s households are “liquid asset poor,” meaning that they do not have enough liquid assets to survive for three months at the poverty level in the absence of other income. A state EITC can help families achieve greater economic security and address this issue.

--Shay Chan Hodges, Maui, Hawaii

HB-2406

Submitted on: 2/7/2022 6:41:03 PM

Testimony for ECD on 2/9/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Kathy Shimata	Individual	Support	No

Comments:

Aloha Committee members,

I support this bill because it will help families.

Mahalo.

HB-2406

Submitted on: 2/8/2022 12:18:52 AM

Testimony for ECD on 2/9/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Christy MacPherson	Individual	Support	No

Comments:

Aloha members of the House Committee on Economic Development,

I STRONGLY SUPPORT HB 2406 that would make the state EITC both permanent and refundable. This will have a significant positive impact on our low-income residents who could use their refund to pay for necessities like rent, food, toiletries, and other essentials that they need to survive here in Hawai`i.

Mahalo for your consideration.

LATE

HB-2406

Submitted on: 2/8/2022 10:34:11 AM

Testimony for ECD on 2/9/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Bethany Stetson	Individual	Support	No

Comments:

I would like to offer my support for HB2406. As a working parent with a young child, I understand the pressures and difficulties that come with the high cost of living in Hawaii and providing for my family. Making the EITC refundable and permanent will offer extra support for low income families who need it most.

HB-2406

Submitted on: 2/8/2022 10:37:40 AM
Testimony for ECD on 2/9/2022 10:00:00 AM



Submitted By	Organization	Testifier Position	Remote Testimony Requested
Laura Ramirez	Individual	Support	No

Comments:

Aloha,

I strongly support HB2406 and urge you to pass it to improve the lives of hardworking low income families trying to survive in Hawai'i.

Mahalo,

Laura Ramirez and the Bettencourt family

HB-2406

Submitted on: 2/8/2022 12:20:22 PM

Testimony for ECD on 2/9/2022 10:00:00 AM

LATE

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Shannon Rudolph	Individual	Support	No

Comments:

Support

LATE

HB-2406

Submitted on: 2/8/2022 6:43:07 PM

Testimony for ECD on 2/9/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Raymond Catania	Individual	Support	No

Comments:

Aloha,

I fully support HB2406. We need a permanent and fair tax plan that will help working families.

Mahalo,

Raymond Catania 4215 Kole Place Lihue 96766 april8nineteen18@gmail.com