

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Extend Earned Income Tax Credit

BILL NUMBER: HB 432

INTRODUCED BY: JOHANSON, BELATTI, BRANCO, CULLEN, ELI, ICHIYAMA, KAPELA, KITAGAWA, LOPRESTI, LOWEN, LUKE, MATAYOSHI, MIZUNO, MORIKAWA, NAKAMURA, NAKASHIMA, NISHIMOTO, ONISHI, PERRUSO, SAIKI, SAYAMA, TAM, TARNAS, YAMANE

EXECUTIVE SUMMARY: Extends the earned income tax credit by five years..

SYNOPSIS: Amends section 235-55.75, HRS, to change the sunset date of the credit from December 31, 2022, to December 31, 2027.

EFFECTIVE DATE: Upon approval.

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.

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.

The Department of Taxation, as required by Act 107, SLH 2017, has prepared two reports on the state EITC.

In the report for tax year 2019, the Department reported that there were 61,102 claims for the credit aggregating \$18.0 million. In the report for tax year 2018, the Department reported that there were 55,656 claims for the credit aggregating \$15.2 million.

We now have some data on how much this has cost us, but do have any idea on whether the EITC is working? Do we have any data on how much was lost to mistaken taxpayers, bad actors, or both? One idea behind the initial five-year life of the credit was to give all parties time to collect data on its effectiveness, or lack thereof.

Re: HB 432
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If we are going to extend this (or any other) credit, we should not be shooting blindly. We need to have some idea of what results have been obtained from this substantial investment of taxpayer dollars.

Digested 2/20/2021



AMERICANS FOR DEMOCRATIC ACTION

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Doug Pyle, Secretary	Jan Lubin	Lyn Pyle		

February 20, 2021

TO: Chair Luke and members of Finaane Committee

RE: HB 432 Relating to the Earned Income Tax Credit

Support for hearing on Feb. 23

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 HB 432 as we support the Earned Income Tax Credit (EITC). EITC has often had bipartisan support. Even Ronald Reagan supported it. Because EITC is effective in lifting people out of poverty, we support this bill and would prefer to make EITC permanent and refundable.

Thank you for your favorable consideration.

Sincerely,
John Bickel, President





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 Finance
Re: **HB 432 - Relating to the Earned Income Tax Credit**
Hawai'i State Capitol, Room 308
February 23, 2021, 2:00 PM

Dear Chair Luke, Vice Chair Cullen, and committee members,

On behalf of Hawai'i Children's Action Network Speaks!, I write in SUPPORT of HB 432, which would extend the earned income tax credit by five years.

Mahalo for passing Hawai'i's Earned Income Tax Credit (EITC) in 2017. In its second year, 2019, more than 61,000 households claimed the EITC, for a total of \$18 million.¹ Eighty-four percent of the households that claimed the credit earned less than \$45,000 per year, and the average claim amount was \$295.

The EITC is designed to put money back in the wallets of the low-income and working-class families with children. It's especially needed here, as Hawai'i's state and local tax system places the second heaviest burden in the nation on low-income households.² While the lowest-income households here pay 15% of their income in state and local taxes, those at the top pay only about 9%.³

Working families in our state also face some of the highest costs of housing and child care in the nation, rendering many unable to afford their basic needs. Nearly 12% of keiki in Hawai'i were living in poverty in 2018,⁴ and that number has undoubtedly risen during the current recession.

The Hawai'i EITC is scheduled to expire at the end of 2022. As our state's economy likely will not have fully recovered by then, that would be an especially inopportune time to pull such an important financial support away from Hawai'i's low-income and working class families.

I appreciate the opportunity to provide testimony in support of this bill. Please pass HB 432 to ensure that the EITC continues through 2027.

Thank you,

Nicole Woo
Director, Research and Economic Policy

¹ https://files.hawaii.gov/tax/stats/stats/act107_2017/act107_earnedincome_txcredit_2019.pdf

² <https://itep.sfo2.digitaloceanspaces.com/report-charts-figure10.jpg>

³ <https://itep.org/whopays/hawaii/>

⁴ <https://datacenter.kidscount.org/data#HI>



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

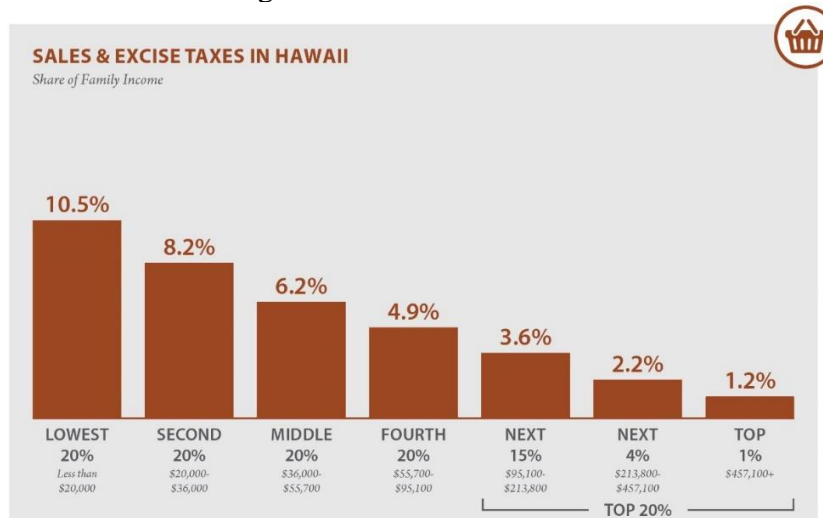
Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting HB 432 with Amendments – Relating to the Earned Income Tax Credit
House Committee on Finance
Tuesday, February 23, 2021, at 2:00 PM in conference room 308

Dear Chair Luke, Vice Chair Cullen, and members of the Committee:

Thank you for the opportunity to provide testimony in **SUPPORT** of **HB 432**, which would extend the sunset date of our state's Earned Income Tax Credit (EITC) from December 31, 2022 to December 31, 2027. The proposed extension is critical to Hawai'i's struggling working families—Hawai'i cannot afford to discontinue the EITC. We respectfully propose the bill be amended to eliminate the sunset entirely since the need for the EITC is not going to go away anytime soon. Additionally, we propose that the EITC be made refundable. While we recognize the difficulty of the state's current budget situation, making our EITC refundable would help provide tax refunds to those who need them the most at a time they are most needed.

Mahalo for creating the Hawai'i EITC in 2017. Not only is it helping thousands of our hard-working neighbors keep more of what they earn, it is helping Hawai'i's economy. Moody's Analytics has estimated that every \$1 in EITC spending boosts the local economy by \$1.24.ⁱ

In addition to helping struggling working families and boosting the economy, the EITC helps create greater fairness in our tax system, offsetting its severe regressivity. Hawai'i 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.ⁱⁱ The main reason for the regressivity of our local tax system is the General Excise Tax (GET), applied to almost all goods and services, hitting low-income and working-class families almost nine times harder than those at the top.



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.

In fact, most low-income households pay far more in the GET than they do in state income taxes. While the EITC helps to offset the regressivity of the GET, 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. As a non-refundable credit, Hawai'i's current EITC provides less benefit to the lowest-income households who need it the most.

The Department of Taxation's report on the state EITC's first year (2018) confirms this. While households earning between \$15,000 to \$45,000 per year received an average of over \$300 in the state EITC, those under \$15,000 received an average state EITC of only \$51.ⁱⁱⁱ

Table 1
Claims for the Earned Income Tax Credit, by Income Range
Tax Year 2018

Federal Adjusted Gross Income Range	Number of Credits Claimed	Amount of Credit (\$)	Average Amount per Claim (\$)
Less than \$15,000	13,397	\$684,391	\$51
\$15,000 to 30,000	20,260	7,707,318	380
\$30,000 to \$45,000	19,225	6,502,191	338
\$45,000 and above	2,774	388,250	140
Total	55,656	\$15,282,150	\$275

Amending HB 432 to make it refundable—as it is for 23 of the other 28 state EITCs, as well as the federal^{iv}—will help ensure that the benefits of the EITC get to the people who most need it. It will increase the economic stimulating power of the EITC during a time our economy desperately needs the support.

Our state and its people cannot afford to lose the powerful tool that the EITC provides, which is why we support HB 432 and recommend that, rather than extending the EITC for another five years, it be made permanent to ensure that the low and moderate-income working families in Hawaii that need the support of the EITC will continue to receive it.

We appreciate your consideration of this testimony.

ⁱ <https://www.economy.com/mark-zandi/documents/2012-02-07-JEC-Payroll-Tax.pdf>

ⁱⁱ <https://itep.org/whopays/hawaii/>

ⁱⁱⁱ http://files.hawaii.gov/tax/stats/stats/act107_2017/act107_earnedincome_txcredit_2018.pdf

^{iv} <http://www.taxcreditsforworkersandfamilies.org/state-tax-credits/>



February 23, 2021. 2:00 p.m.

To: Chair Sylvia Luke, Vice Chair Ty J.K. Cullen, and members of the House Committee on Finance

From: Beth Giesting, Director, Hawai'i Budget & Policy Center

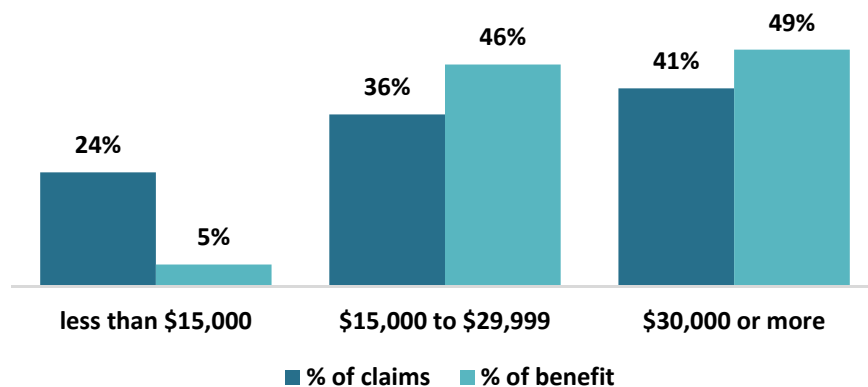
Re: Support for HB432, Relating to the Earned Income Tax Credit

The Hawai'i Budget & Policy Center provides the following comments to support and improve House Bill 432, Relating to the Earned Income Tax Credit.

The Earned Income Tax Credit (EITC) is a powerful tool to help lift families out of poverty. It encourages work and supports economic security, which also leads to better health and improved lifetime earnings, especially for mothers and children. The EITC contributes to the economic health of communities, too, because EITC provides extra cash that lower-income families can use to invest in school supplies, clothing, car repairs and other necessities.

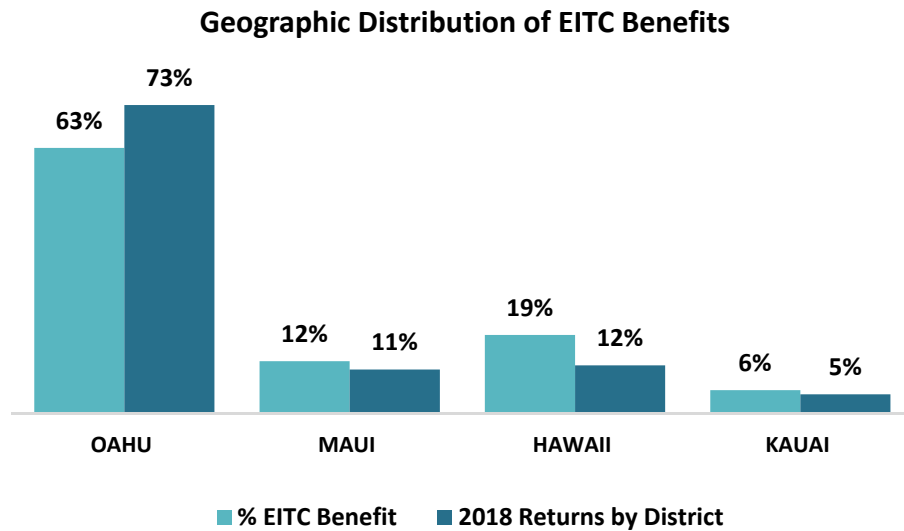
Hawai'i's EITC produced more than \$33 million in tax benefits for low-income working families in its first two years. While this has been helpful, the state EITC should be amended to become a refundable tax credit. This change would make the EITC vastly better for those most in need of a financial boost, Hawai'i's lowest income working families. As shown below, families earning less than \$15,000 per year claimed 24 percent of these tax credits in 2019, but received only 5 percent of the benefit, while the benefit-per-claim ratio greatly increased for more affluent households.

Percentage of EITC Claims Compared to % of Benefit by Income Range



The reason EITC provides less benefit to those with the least earnings is that it is not refundable; it can be used only to off-set tax liability, which is minimal for households with incomes of less than \$15,000. Note that most tax credits in Hawai'i are refundable, including those that benefit businesses and affluent individuals,

Further evidence of the value of the EITC (which would be improved with refundability), is the way it targets areas most in need. The following figure shows the disproportionate value of EITC to rural areas where earnings are typically lower and where the effects of the pandemic recession have been felt the most.



Thank you for the opportunity to testify.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Tuesday, February 23, 2021 at 2:00 P.M.
Written Only**

RE: HB 432, RELATING TO THE EARNED INCOME TAX CREDIT

Chair Luke, Vice-Chair Cullen, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 432 which extends the earned income tax credit by 5 years to December 31, 2027.

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.

We recognize and appreciate the intent of this measure to help the economic security of low-income working families with children. Hawaii is placed among the top state 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 of their earnings on goods and services that are subject to the GET.

Given the state EITC is scheduled to sunset after December 31, 2022 the Chamber supports the 5 year extension as proposed in HB 432.

Thank you for this opportunity to provide testimony.

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
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To: The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair;
and Members of the House Committee on Finance

From: Isaac W. Choy, Director
Department of Taxation

Date: February 23, 2021
Time: 2:00 P.M.
Place: Via Video Conference, State Capitol

Re: H.B. 432, Relating to the Earned Income Tax Credit

The Department of Taxation (Department) offers the following comments on H.B. 432 for your consideration.

H.B. 432 extends the sunset date of the earned income tax credit under Hawaii Revised Statutes section 235-55.75 from December 31, 2022 to December 31, 2027. This measure is effective upon approval.

The Department notes that it is able to administer this measure as currently written. Thank you for the opportunity to provide testimony on this measure.



HIPHI Board

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and Human Resources

Garret Sugai
Kaiser Permanente

Date: February 22, 2021

To: Representative Sylvia Luke, Chair
Representative Ty Cullen, Vice Chair
Members of the Finance Committee

Re: Support for HB 432, Relating to the Earned Income Tax Credit

Hrg: February 23, 2021 at 2:00 via Videoconference

The Hawai'i Public Health Instituteⁱ is in **support of HB 432**, which would extend the earned income tax credit (EITC) for five years.

The EITC is designed to help working families more of keep more of their income by reducing their tax liability. Passed in 2017, Hawaii's EITC is non-refundable and set to sunset on December 31, 2022. This legislation will ensure that working families continue to benefit from the EITC through 2027. Hawaii's EITC could be further strengthened by making it refundable like the federal EITC. 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.

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.

Thank you for the opportunity to provide testimony.

Mahalo,

A handwritten signature in black ink that reads 'Jessica Yamauchi'.

Jessica Yamauchi, MA
Executive Director

ⁱ Created by the legislature in 2012, the Obesity Prevention Task Force is comprised of over 60 statewide organizations, and works to make recommendations to reshape Hawai'i's school, work, community, and health care environments, making healthier lifestyles obtainable for all Hawai'i residents. The Hawai'i Public Health Institute (HIPHI) convenes the Task Force and supports and promotes policy efforts to create a healthy Hawai'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>.