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WRITTEN ONLY
TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
ON
HOUSE BILL NO. 954

February 8, 2023
10:15 a.m.
Room 423 and Videoconference

RELATING TO TAXATION

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

House Bill No. 954 changes the amount of the State earned income tax credit to an unspecified percentage of the federal earned income tax credit.

Rather than taking a piecemeal approach, B&F strongly believes that the holistic, targeted approach in the Green Affordability Plan, House Bill No. 1049, is a more suitable and cost-effective option in providing needed financial relief to Hawai'i's residents.

Thank you for your consideration of our comments.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



GARY S. SUGANUMA
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**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 954, Relating to Taxation

BEFORE THE:

House Committee on Economic Development

DATE: Wednesday, February 8, 2023

TIME: 10:15 a.m.

LOCATION: State Capitol, Room 423

Chair Holt, Vice-Chair Lamosao, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 954 for your consideration.

H.B. 954 amends section 235-55.75, Hawaii Revised Statutes (HRS), relating to the refundable earned income tax credit, by changing the amount of the credit from 20 percent of the federal earned income tax credit allowed and properly claimed to an unspecified percent. The measure is effective upon approval and applies to taxable years beginning after December 31, 2022.

The Department notes that due to the number of bills with tax law changes that have been introduced this year, the Department may not have the resources to implement all measures passed this session in time for tax year 2023. The Department will continue to monitor the status of proposed legislation and will advise whether some changes will require a later effective date.

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

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Amend State Earned Income Tax Credit

BILL NUMBER: HB 954

INTRODUCED BY: SAIKI, AIU, AMATO, BELATTI, CHUN, COCHRAN, GANADEN, GARRETT, GATES, HASHEM, HASHIMOTO, HOLT, HUSSEY-BURDICK, ICHIYAMA, ILAGAN, KAHALOA, KAPELA, KILA, KITAGAWA, KOBAYASHI, LAMOSAO, LOWEN, MARTEN, MARTINEZ, MATAYOSHI, MIZUNO, MORIKAWA, NAKAMURA, NISHIMOTO, ONISHI, PERRUSO, POEPOE, QUINLAN, SAYAMA, TAKAYAMA, TAKENOUCI, TAM, TARNAS, TODD, WOODSON, YAMASHITA

EXECUTIVE SUMMARY: Changes the amount of the state earned income tax credit (EITC) to an unspecified percentage of the federal EITC allowed based on an individual's federal income tax return.

SYNOPSIS: Amends section 235-55.75, HRS, such that the state EITC is ___% of the federal EITC. The current percentage is 20%.

EFFECTIVE DATE: Taxable years beginning after December 31, 2022.

STAFF COMMENTS: While it appears that this measure proposes tax relief to lower income taxpayers, consideration should be given to adjusting the income tax rates or the threshold amounts so those taxpayers that these credits are aimed to help will not need to claim these credits to get tax relief (or forfeit the credits if they fail to do so).

We in Hawaii have several disparate programs and tax credits aimed at poverty relief. They include the EITC, the food/excise tax credit (HRS section 235-55.85), the household and dependent care credit (HRS section 235-55.6), and the credit for low-income household renters (HRS section 235-55.7). The credits have non-duplication provisions and strict time limits on when they may be claimed upon pain of credit forfeiture. Apparently, lawmakers of the past had many different ideas on how to address the problem of poverty in Paradise but couldn't figure out which program to go with, so they adopted them all. The principal disadvantage of this is that people can and do get confused over which credits they can and can't claim, and as a result could expose themselves to credit disallowance, penalties, and other undesirable consequences.

Now, we simply can't afford tax credits and business as usual. Yes, we need to help those who need it, but the shotgun style used in the past has not produced results. Perhaps a better approach would be lopping off the income tax brackets that now apply to lower-income taxpayers, including taxpayers below the poverty line, and designing ONE credit to encourage social behavior necessary to lift the taxpayer out of poverty.

Digested:



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 954 – Relating to Taxation**

Hawai'i State Capitol, Via Videoconference & Conference Room 423

February 8, 2023, 10:15 AM

Dear Chair Holt, Vice Chair Lamosao, and Committee Members,

On behalf of Hawai'i Children's Action Network Speaks!, I am testifying in **in SUPPORT of HB 954, relating to taxation**. This bill changes the amount of the state earned income tax credit (EITC) to an unspecified percentage of the federal earned income tax credit allowed based on an individual's federal income tax return.

Mahalo for creating the state EITC. It has helped balance our tax system by providing a boost to low- to moderate-income families since 2018. Thanks for also making the EITC permanent and refundable – which allows those families who need to EITC the most to get the full amount of the credit that they qualify for.

This bill would build on that momentum and raise the EITC percentage from its current level of 20% of the federal EITC. Looking at the next seven highest cost-of-living states,¹ they all provide a higher percentage of the federal EITC (except in Washington, which has a flat credit amount) than in Hawai'i.²

Most Expensive States	Percent of Federal EITC
Hawai'i	20
California	85
D.C.	70 - 100
New York	30
New Jersey	40
Washington	\$300 per person
Massachusetts	30
Maryland	45 - 100

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

Thank you,

Nicole Woo

Director of Research and Economic Policy

¹ Bureau of Economic Analysis, <https://www.bea.gov/news/2022/real-personal-consumption-expenditures-state-and-real-personal-income-state-and>

² Institute on Taxation and Economic Policy, <https://itep.org/boosting-incomes-and-improving-tax-equity-with-state-earned-income-tax-credits-2022/>



HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice
In Support of [HB 954] – Relating to Taxation
House Committee on Economic Development
Wednesday, February 8, 2023, 10:15 AM, conference room 423

Dear Chair Holt, Vice Chair Lamosao, and members of the Committee:

Thank you for the opportunity to testify in **support** of HB 954, which would change Hawai‘i’s state EITC to an unspecified percentage of the federal EITC.

Like other tax credits, the state EITC provides essential tax relief to working families in Hawai‘i, many of which struggle to make ends meet. It accomplishes this by reducing the tax burden for low- to moderate-income taxpayers or giving a tax refund to those with little to no tax liability. Consequently, the EITC has proven to be a highly effective tool against poverty and economic insecurity throughout the United States.¹

The EITC has continued to serve as an invaluable support for Hawai‘i’s residents, particularly in the wake of the COVID-19 pandemic. The number of state EITCs claimed by the taxpayers in Hawai‘i increased from 64,007 in tax year 2020 to 80,269 in tax year 2021. In addition, the total amount of credits claimed increased from \$20.98 million to \$21.61 million over that time period.²³

At the closing of the 2022 legislative session, Hawai‘i’s lawmakers directly helped thousands of working families by making the state EITC permanent and refundable. It was estimated that this would significantly boost the state EITC benefits for many recipients, with the largest gains going to individuals with the lowest incomes. On average, this change was predicted to lift the state EITC benefit for existing recipients by \$139.⁴

In 2023, the Hawai‘i State Legislature can build on the enormous success of last year’s session by strengthening our state EITC. Currently, the value of Hawai‘i’s EITC is set at 20% of the federal EITC. Although HB 954 has yet to define the percentage of the federal EITC that the state EITC will be worth, we recommend that this percentage be raised to at least 30%.

¹ “Policy Basics: The Earned Income Tax Credit,” Center on Budget and Policy Priorities, 2019.

<https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit>

² “Earned Income Tax Credit Report,” Hawaii Department of Taxation, 2020.

https://files.hawaii.gov/tax/stats/stats/act107_2017/act107_earnedincome_txcredit_2020.pdf

³ “Earned Income Tax Credit Report,” Hawaii Department of Taxation, 2021.

https://files.hawaii.gov/tax/stats/stats/act107_2017/act107_earnedincome_txcredit_2021.pdf

⁴ “Refunding Hawai‘i,” Hawai‘i Budget & Policy Center, 2022.

https://static1.squarespace.com/static/5ef66d594879125d04f91774/t/61f207dc896d102d30606d6f/1643251680283/EITC+Report_REV3_FINAL.pdf

This would align our EITC with those of New York and Massachusetts—both of which have refundable state EITCs set at 30% of the federal credit. Furthermore, there are multiple states that have refundable EITCs valued at even higher percentages—California’s EITC is worth a maximum of 45% (depending on income) of the federal EITC. By 2026, the District of Columbia is scheduled to go to a 100% match of the federal credit, which would be the most generous in the nation.⁵

Thank you for your consideration of HB 954.

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https://www.google.com/url?q=https://www.dcfpi.org/all/dcs-earned-income-tax-credit-most-generous-in-the-nation-but-not-the-most-inclusive/&sa=D&source=docs&ust=1675802377931019&usg=AOvVaw2vNZRiFBtT0ITpL-MB_dFu

HB-954

Submitted on: 2/6/2023 4:39:26 PM

Testimony for ECD on 2/8/2023 10:15:00 AM

Submitted By	Organization	Testifier Position	Testify
Thomas Brandt	Individual	Support	Written Testimony Only

Comments:

Please support AND increase state EITC

Mahalo

HB-954

Submitted on: 2/6/2023 6:19:11 PM

Testimony for ECD on 2/8/2023 10:15:00 AM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Support	Written Testimony Only

Comments:

I support HB954, which would change the amount of the state earned income tax credit (EITC) to an unspecified percentage of the federal earned income tax credit allowed based on an individual's federal income tax return. This bill has the potential to build on the success of last session's EITC expansion by increasing the value of our state credit to an amount higher than the current value of 20% of the federal credit. Please pass this bill so that we can increase the value of the state EITC and continue to maximize the effectiveness of this antipoverty tax credit.