

JAN 19 2007

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# A BILL FOR AN ACT

RELATING TO TAXATION.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that earned income tax  
2 credits provide tax reductions and wage supplements for low- and  
3 moderate-income working families. The federal tax system has  
4 included an earned income tax credits since 1975, with major  
5 expansions in 1986, 1990, and 1993, and an additional expansion  
6 in 2001. In 2002, more than twenty-one million families and  
7 individuals filing federal income tax returns, nearly one out of  
8 every six families who filed, claimed the federal earned income  
9 tax credits.

10           The earned income tax credit has been widely praised for  
11 its success in supporting work and reducing poverty. The  
12 federal credit now lifts more children out of poverty than any  
13 other government program. Some four million nine hundred  
14 thousand people, including two million seven hundred thousand  
15 children, were removed from poverty in 2002 as a result of the  
16 federal earned income tax credit. The federal earned income tax  
17 credit also has been proven effective in encouraging work among



1 welfare recipients. According to a study by the Center on  
2 Budget and Policy Priorities, the earned income tax credit has a  
3 large impact on encouraging more single mothers to work.  
4 Support for the earned income tax credit has come from across  
5 the political spectrum.

6 The earned income tax credit is a federal refundable tax  
7 credit. Families are eligible for the earned income tax credit  
8 if their income is at or below \$35,458 and investment income is  
9 limited to \$2,650 per year. The 2004 federal poverty guideline  
10 was \$12,490 for a family of two, \$15,670 for a family of three,  
11 and \$18,850 for a family of four in the District of Columbia and  
12 forty-eight contiguous states (it is slightly higher in Alaska  
13 and Hawaii). The maximum credit in 2004 was \$2,604 for families  
14 with one child, and \$4,300 for families with more than one  
15 child. The federal earned income tax credit supplements wages  
16 of low-income families and complements welfare reform efforts.  
17 The tax credit helps lift families out of poverty and can be  
18 used as a tool to build assets.

19 The legislature also finds that federal Temporary  
20 Assistance for Needy Families regulations permit Temporary  
21 Assistance for Needy Families money to be used to fund  
22 refundable tax credits. According to the United States



1 Department of Health and Human Services' Administration for  
2 Children and Families' Temporary Assistance for Needy Families  
3 Financial Data report for 2003, ten states use Temporary  
4 Assistance for Needy Families to fund their state earned income  
5 tax credit programs:

- 6 (1) Minnesota and Wisconsin use federal Temporary  
7 Assistance for Needy Families funds to pay for their  
8 refundable state earned income tax credit;
- 9 (2) Indiana, Kansas, Maryland, New York, and Wisconsin use  
10 state maintenance of effort money designated to a  
11 separate state program for their refundable state  
12 earned income tax credit;
- 13 (3) Massachusetts and Vermont use state maintenance of  
14 effort money for their refundable state earned income  
15 tax credit; and
- 16 (4) New Jersey uses both federal Temporary Assistance for  
17 Needy Families and state maintenance of effort moneys  
18 for its state refundable earned income tax credit.

19 The purpose of this Act is to provide a refundable state  
20 earned income tax credit and require the refundable portion of  
21 the earned income tax credit to be reimbursed by Temporary



1 Assistance for Needy Families and state maintenance of effort  
2 moneys.

3 SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
4 amended by adding a new section to be appropriately designated  
5 and to read as follows:

6 "§235- Earned income tax credit. (a) Each resident  
7 individual taxpayer who:

8 (1) Files an individual income tax return for a taxable  
9 year; and

10 (2) Is not claimed or is not eligible to be claimed as a  
11 dependent by another taxpayer for income tax purposes;

12 may claim a refundable earned income tax credit. The tax  
13 credit, for the appropriate taxable year, shall be equal to  
14 twenty per cent of the earned income credit allowed under  
15 section 32 (with respect to earned income) of the Internal  
16 Revenue Code and reported as such on the resident individual's  
17 federal income tax return.

18 (b) In the case of a part-year resident, the tax credit  
19 shall equal the amount of the tax credit calculated in  
20 subsection (a) multiplied by the ratio of adjusted gross income  
21 attributed to this State to the entire adjusted gross income



1 computed without regard to source in the State pursuant to  
2 section 235-5.

3 (c) For purposes of claiming the tax credit allowed by  
4 this section, a resident individual taxpayer shall use the same  
5 filing status on the taxpayer's Hawaii tax return as used on the  
6 taxpayer's federal return for the taxable year. In the case of  
7 a husband and wife filing separately, the credit allowed may be  
8 applied against the income tax liability of either, or divided  
9 between them, as they elect.

10 (d) The tax credit shall be reduced by other tax credits  
11 allowed under this chapter. If the tax credit under this  
12 section exceeds the taxpayer's income tax liability, the excess  
13 of tax credits over liability shall be refunded to the taxpayer;  
14 provided that no refund or payment on account of the tax credits  
15 allowed by this section shall be made for amounts less than \$1.

16 (e) All claims, including any amended claims for tax  
17 credits under this section, shall be filed on or before the end  
18 of the twelfth month following the close of the taxable year for  
19 which the tax credit may be claimed. Failure to comply with  
20 this subsection shall constitute a waiver of the right to claim  
21 the tax credit.

22 (f) The director of taxation:



- 1        (1) Shall prepare any forms that may be necessary to claim  
2            a tax credit under this section;
- 3        (2) May require proof of the claim for the tax credit;
- 4        (3) Shall alert eligible taxpayers of the tax credit using  
5            appropriate and available means;
- 6        (4) Shall prepare an annual report to the governor and  
7            legislature containing the:
  - 8            (A) Number of credits granted for the prior calendar  
9                year;
  - 10           (B) Total amount of the credits granted; and
  - 11           (C) Average value of the credits granted to taxpayers  
12                whose earned income falls within various income  
13                ranges; and
- 14        (5) May adopt rules pursuant to chapter 91 to effectuate  
15            this section.
- 16        (g) On a regular basis, the director of taxation, with the  
17            assistance of the director of human services, shall calculate  
18            the value of the refundable portion of the tax credits provided  
19            under this section that qualifies for reimbursement from  
20            temporary assistance for needy families funds. The director of  
21            taxation shall provide the director of human services with such  
22            tax credit records and information as are necessary to support



1 draws of funds. The director of human services shall reimburse  
2 the director of taxation for the costs of providing the  
3 information required by this section.

4 (h) Temporary assistance for needy families funds are  
5 appropriated, as provided by law in the Temporary Assistance for  
6 Needy Families Authorization Act, to the director of human  
7 services based on calculations under subsection (g) that qualify  
8 for reimbursement from the temporary assistance for needy  
9 families funds for income tax refunds. The draws of temporary  
10 assistance for needy families funds shall be made each fiscal  
11 quarter based on calculations of credits authorized by the  
12 director of taxation and shall be deposited to the credit of the  
13 general fund."

14 SECTION 3. New statutory material is underscored.

15 SECTION 4. This Act, upon its approval, shall apply to  
16 taxable years beginning after December 31, 2006.

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INTRODUCED BY: 

**Report Title:**

Taxation; Earned Income Credit

**Description:**

Provides a refundable state earned income tax credit equivalent to twenty per cent of the federal credit. Requires the refundable portion of the earned income tax credit to be reimbursed by federal or state Temporary Assistance for Needy Families funds.

