

JAN 19 2007

A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. The federal earned income tax credit is a
2 refundable tax credit for qualifying wage earners. The federal
3 earned income tax credit was approved by the United States
4 Congress in 1975, and has developed through the years as more
5 emphasis was directed at supporting working families with lower
6 incomes. The federal earned income tax credit has become the
7 largest and most cost-efficient federal anti-poverty and work
8 incentive program for families with low to moderate incomes.
9 Families may continue to qualify for the federal earned income
10 tax credit even with increased earnings since tax credits
11 increase until earnings reach two hundred per cent of the
12 federal poverty level. Tax credits gradually begin to phase-out
13 as family earnings continue to increase. It also decreases tax
14 liabilities for families eligible for the federal earned income
15 tax credit.

16 The family economic self-sufficiency pilot program in
17 Hawaii began in October 2005, coordinated by Aloha United Way,



1 under the direction of the department of labor and industrial
2 relations, office of community services. The program provides
3 free and confidential tax preparation services to households
4 eligible for the federal earned income tax credit. The program
5 produces and distributes outreach materials to inform the
6 community about the federal earned income tax credit, and
7 coordinates the activities of a large number of volunteers and
8 agencies within the community. Additionally, the family
9 economic self-sufficiency pilot program collaborates with other
10 interested agencies on additional asset building efforts
11 including literacy programs, anti-payday lending initiatives,
12 and alternatives to expensive commercial refund anticipation
13 loans. All of these efforts will be directed at low- to
14 moderate-income populations.

15 Studies have shown that the federal earned income tax
16 credit program has made significant impact on moving low income
17 families out of poverty. The program assisted 4.4 million
18 people nationwide out of poverty in 2003, of which 2.4 million
19 were children. The program contributes to families becoming
20 self-sufficient and less dependent on other forms of public
21 assistance. Families will be able to build their own safety
22 nets, providing a foundation for their economic self-



1 sufficiency. According to research, families with accumulated
2 assets are found to be goal-oriented and civic-minded, and most
3 importantly, their children are less likely to be impoverished
4 when they reach adulthood.

5 The federal income tax credit income eligibility guidelines
6 for tax year 2006 are:

- 7 (1) Families with one child that had an annual income of
8 less than \$32,001 or \$34,001 for joint-filers, may
9 receive as much as \$2,747 in federal earned income tax
10 credit;
- 11 (2) Families with two or more children that had an annual
12 income of less than \$36,348 or \$38,348 for joint-
13 filers, may receive as much as \$4,536 in federal
14 earned income tax credit; and
- 15 (3) Individuals with no children that had an annual income
16 of less than \$12,120 or \$14,120 for joint filers, may
17 receive as much as \$412 in federal earned income tax
18 credit.

19 In addition to assisting families with low- to moderate-
20 incomes, the federal earned income tax credit also provides
21 financial benefits to the State by providing federal moneys
22 which will be spent in the State's economy. According to the



1 Internal Revenue Service, in tax year 2004, there were eighty-
2 one thousand seven hundred seventy-two tax returns filed that
3 received the federal earned income tax credit in Hawaii,
4 totaling \$133,400,000 of federal moneys issued to Hawaii
5 families. This amount is an average credit of \$1,632 per
6 federal earned income tax credit claimant.

7 Nationally, however, the Internal Revenue Service and the
8 United States Government Accountability Office estimate that
9 approximately twenty-five per cent of the eligible federal
10 earned income tax credit population did not claim this tax
11 credit. This equates to over twenty-seven thousand Hawaii
12 households that may be eligible for the federal income tax
13 credit, but did not claim it on their returns. This leaves
14 approximately \$45,000,000 of federal moneys unclaimed by Hawaii
15 residents. The failure of eligible Hawaii residents to claim
16 the federal earned income tax credit also reduces state tax
17 revenues.

18 Aloha United Way received \$100,000 in state funds in fiscal
19 years 2005 and 2006 to coordinate the federal earned income tax
20 credit pilot program. In the 2005 tax year, total tax filings
21 at free tax preparation sites increased from three hundred
22 seventy-two to six hundred sixty (a seventy-seven per cent



1 increase). The federal earned income tax credit filings
2 increased from one hundred twenty-five to two hundred thirty-
3 five (an eighty-eight per cent increase). The total federal
4 earned income tax credit for the sites assisted by the family
5 economic self sufficiency program totaled approximately
6 \$1,500,000. In recognition of the level of filings during this
7 first year, the target number of filings through free sites for
8 the 2006 tax year has been increased to one thousand five
9 hundred.

10 The purpose of this Act is to make a grant to Aloha United
11 Way, in order for it to continue the family economic self-
12 sufficiency pilot program that assists low- to moderate-income
13 families and individuals to claim the federal earned income tax
14 credit.

15 SECTION 2. (a) Under the direction of the department of
16 labor and industrial relations, office of community service, the
17 federal earned income tax credit pilot program is administered
18 by Aloha United Way under its family economic self sufficiency
19 program. The pilot program assists individuals and families
20 whose incomes are below the eligibility guidelines to claim the
21 federal earned income tax credit. The program shall continue to
22 provide:



- 1 (1) Free tax counseling and income tax return preparation
2 for individuals and families with low to moderate
3 incomes;
- 4 (2) Outreach services to local communities targeting
5 eligible federal earned income tax credit households;
6 and
- 7 (3) Information through campaign efforts to increase
8 public awareness, volunteerism, and to improve
9 financial literacy.
- 10 (b) The pilot program shall continue its operation until
11 June 30, 2008. To continue the program, a grant-in-aid shall be
12 issued to Aloha United Way for \$185,000 a year to assist low- to
13 moderate-income families and individuals to claim the federal
14 earned income tax credit. For the taxable year 2008, the
15 department of labor and industrial relations, office of
16 community service shall issue a request for proposal in a timely
17 manner, taking into consideration the tax season, to contract
18 with a nonprofit agency or agencies to assume the responsibility
19 for this program. The requested contract shall be calculated
20 based upon a formula of ten per cent of the total claimed amount
21 on returns filed by assisted individuals; provided that the
22 total payment to such agency under the contract shall not exceed



1 \$200,000. The department of labor and industrial relations,
2 office of community service shall require Aloha United Way to
3 report on the accomplishments of the pilot program as necessary
4 to enable the department to submit a report on the results of
5 the program to the legislature at least twenty days before the
6 regular session of 2008.

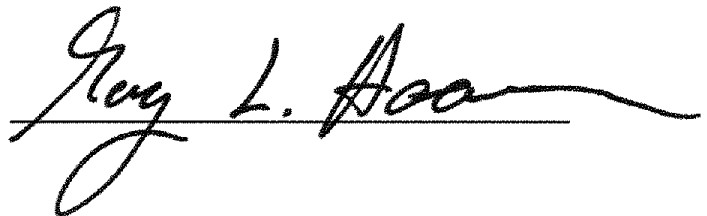
7 SECTION 3. There is appropriated out of the general
8 revenues of the State of Hawaii the sum of \$, or so
9 much thereof as may be necessary for fiscal year 2008-2009, for
10 the federal earned income tax credit program.

11 The sum appropriated shall be expended by the department of
12 labor and industrial relations, office of community service for
13 the purposes of this Act.

14 SECTION 4. This Act shall take effect on July 1, 2007.

15

INTRODUCED BY:



Report Title:

Appropriation; Taxation; Family Economic Self-Sufficiency Program

Description:

Appropriates moneys to Aloha United Way to coordinate and administer the family economic self sufficiency program which focuses primarily on increasing individual filing and state revenue from the federal earned income tax credit under the direction of the department of labor and industrial relations, office of community services.

