
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 the cost of living
2 in Hawaii is one of the highest in the nation. Recent reports
3 have shown that more and more local families are moving off
4 island due to financial burdens, with financial instability
5 forcing families to take on debt that can sometimes exceed the
6 full earned income tax credit lump sum payment. Low- and
7 moderate-income households are turning to credit cards to
8 finance their expenses, with more than one in four paying
9 interest rates above twenty per cent, making accruing
10 precautionary savings extraordinarily difficult.

11 The legislature further finds that economic precarity
12 affects a number of families on a daily basis. A survey
13 conducted in 2016 highlighted that forty-nine per cent of
14 respondents said they do not have enough funds to cover monthly
15 expenses, and other research has pointed out that low-income
16 families often experience a shortfall of only a few hundred
17 dollars.



1 In 2015, the Center for Economic Progress released a report
2 detailing Chicago's recent full earned income tax credit
3 periodic payment pilot program, which demonstrated that those
4 receiving periodic payments reported a larger disposable income
5 at certain points in the year and experienced less stress in
6 meeting monthly expenses. According to the report, eighty-six
7 per cent of the periodic payment funds were used to pay down
8 debt, pay current bills, and purchase necessities and the share
9 of participants planning to save a portion of their tax refund
10 doubled from the year before, suggesting that periodic payments
11 might improve recipients' capacity for saving during tax season.
12 After the Chicago full earned income tax credit pilot program,
13 ninety per cent of participants expressed a preference for the
14 periodic payment model over a single lump-sum payment.

15 The legislature further finds that periodic payments could
16 increase the affordability of housing, provide cover for short-
17 term day-to-day expenses, or decrease dependence on payday loans
18 and other forms of debt while also enhancing other initiatives,
19 such as refundable assistance for higher education and child
20 care.



1 The purpose of this Act is to help families finance monthly
2 expenses and make them less susceptible to debt by making the
3 earned income tax credit refundable in twelve monthly payments,
4 unless the taxpayer opts out to receive the refund in a lump
5 sum.

6 SECTION 2. Section 231-23, Hawaii Revised Statutes, is
7 amended by amending subsection (c) to read as follows:

8 "(c) This subsection shall apply to all taxes.

9 (1) All refunds shall be paid only upon a form to be known
10 as a "refund voucher" prepared by the collector. The
11 refund vouchers shall set forth all the details of
12 each transaction, [~~shall~~] be approved by the director,
13 and [~~shall~~] be forwarded to the comptroller from time
14 to time. The comptroller shall issue a warrant, in
15 the form prescribed by section 40-52, for the payment
16 of any [~~such~~] refund out of the tax reserve fund
17 hereinafter created; provided that if the person
18 entitled to the refund is delinquent in the payment of
19 any tax, the comptroller, upon demand of the collector
20 and after notice to the delinquent taxpayer, shall
21 withhold the amount of the delinquent taxes, together



1 with penalties and interest thereon, from the amount
2 of the refund and pay the same to the collector.

- 3 (2) There is hereby appropriated, from the general
4 revenues of the State not otherwise appropriated, the
5 sum of \$25,000 [~~which~~] that shall be set aside as a
6 trust fund to be known as the tax reserve fund.
7 Within the tax reserve fund there shall be a
8 subaccount for the earned income tax credit
9 established under section 235-55.75. All refunds of
10 taxes collected by the department under chapters of
11 the law under title 14 administered by the department
12 shall be made out of the tax reserve fund~~-~~; provided
13 that refunds under section 235-55.75 shall be made
14 from the subaccount for the earned income tax credit.
15 The director of taxation, from time to time, may
16 deposit taxes collected under chapters of the law
17 under title 14 administered by the department in the
18 state treasury to the credit of the tax reserve fund
19 so that there may be maintained at all times a fund
20 not exceeding \$25,000. The amounts deposited shall be



1 made from the taxes with respect to which a particular
2 refund is made."

3 SECTION 3. Section 235-55.75, Hawaii Revised Statutes, is
4 amended to read as follows:

5 "~~§~~**235-55.75**~~§~~ **Earned income tax credit.** (a) Each
6 qualifying individual taxpayer may claim a ~~[nonrefundable]~~
7 refundable earned income tax credit. The tax credit, for the
8 appropriate taxable year, shall be twenty per cent of the
9 federal earned income tax credit allowed and properly claimed
10 under section 32 of the Internal Revenue Code and reported as
11 such on the individual's federal income tax return.

12 (b) For a part-year resident, the tax credit shall equal
13 the amount of the tax credit calculated in subsection (a)
14 multiplied by the ratio of Hawaii adjusted gross income to
15 federal adjusted gross income.

16 (c) For purposes of this section, "qualifying individual
17 taxpayer" means a taxpayer ~~[that-]~~ who:

18 (1) Files a federal income tax return for the taxable year
19 claiming the earned income tax credit under section 32
20 of the Internal Revenue Code; and



1 (2) Files a Hawaii income tax return using the filing
2 status used on the federal income tax return for the
3 taxable year and claiming the same dependents claimed
4 on the federal income tax return for the taxable year.

5 (d) The credit allowed under this section shall be claimed
6 against the net income tax liability for the taxable year. If
7 the tax credit under this section exceeds the taxpayer's income
8 tax liability, the excess of the tax credit over liability [~~may~~
9 ~~be used as a credit against the taxpayer's net income tax~~
10 ~~liability in subsequent years until exhausted.~~] shall be
11 refunded to the taxpayer; provided that the tax credit properly
12 claimed by an individual who has no income tax liability shall
13 be paid to the individual; and provided further that no refunds
14 or payment on account of the tax credit allowed by this section
15 shall be made for amounts less than \$1. All claims, including
16 amended claims, for a tax credit under this section shall be
17 filed on or before the end of the twelfth month following the
18 close of the taxable year for which the credit may be claimed.
19 Failure to comply with the foregoing provision shall constitute
20 a waiver of the right to claim the credit.



1 (e) No credit shall be allowed under this section for any
2 taxable year in the disallowance period. For purposes of this
3 subsection, the disallowance period is:

4 (1) The period of ten taxable years after the most recent
5 taxable year for which there was a final
6 administrative or judicial decision that the
7 taxpayer's claim for credit under this section was due
8 to fraud; and

9 (2) The period of two taxable years after the most recent
10 taxable year for which there was a final
11 administrative or judicial decision disallowing the
12 taxpayer's claim for credit.

13 (f) A refund under subsection (d) shall be made in twelve
14 monthly payments, unless the taxpayer opts to receive the refund
15 as a lump sum. The refund shall be made out of the tax reserve
16 fund subaccount for the earned income tax credit in the manner
17 provided in section 231-23(c).

18 [~~f~~] (g) The director of taxation:

19 (1) Shall prepare any forms necessary to claim a tax
20 credit under this section;

21 (2) May require proof of the claim for the tax credit;



1 (3) Shall alert eligible taxpayers of the tax credit using
2 appropriate and available means;

3 (4) Shall prepare an annual public report to the
4 legislature and the governor containing the:

5 (A) Number of credits granted for the prior calendar
6 year;

7 (B) Total amount of the credits granted; and

8 (C) Average value of the credits granted to taxpayers
9 whose earned income falls within various income
10 ranges; and

11 (5) May adopt rules pursuant to chapter 91 to effectuate
12 this section.

13 [~~g~~] (h) This section shall apply to taxable years
14 beginning after December 31, 2017, but shall not apply to
15 taxable years beginning after December 31, 2022."

16 SECTION 4. This Act does not affect rights and duties that
17 matured, penalties that were incurred, and proceedings that were
18 begun before its effective date.

19 SECTION 5. Statutory material to be repealed is bracketed
20 and stricken. New statutory material is underscored.



1 SECTION 6. This Act, upon its approval, shall apply to
2 taxable years beginning after December 31, 2017.

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INTRODUCED BY:

[Signature]
T. Sale

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

Nicole E. Lowen

[Signature]

[Signature]

JAN 22 2018



H.B. NO. 2245

Report Title:

Earned Income Tax Credit; Refundable; Tax Reserve Fund
Subaccount

Description:

Makes the earned income tax credit refundable in twelve monthly payments, unless the taxpayer opts to receive the refund in a lump sum. Creates a subaccount in the tax reserve fund for refunds of the earned income tax credit.

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