A BILL FOR AN ACT

RELATING TO THE EARNED INCOME TAX CREDIT.

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

SECTION 1. The legislature finds that Act 107, Session Laws of Hawaii 2017, established a nonrefundable earned income tax credit (EITC). However, the legislature notes that the federal EITC is refundable, and that two-thirds of families in Hawaii who are eligible for Hawaii's EITC are not benefitting because the tax credit is nonrefundable. A refundable tax credit means that a person's income tax can be reduced to zero, and any unused credit is refunded. The EITC is designed as an anti-poverty program to help low-income families, and making the State's EITC refundable would assist a greater number of families in need.

Accordingly, the purpose of this Act is to make Hawaii's EITC refundable.

SECTION 2. Section 235-55.75, Hawaii Revised Statutes, is amended to read as follows:

1. By amending subsection (a) to read:
"(a) Each qualifying individual taxpayer may claim a refundable earned income tax credit. The tax credit, for the appropriate taxable year, shall be twenty percent of the federal earned income tax credit allowed and properly claimed under section 32 of the Internal Revenue Code and reported as such on the individual's federal income tax return."

2. By amending subsection (d) to read:

"(d) The credit allowed under this section shall be claimed against the net income tax liability for the taxable year. [If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the tax credit over liability may be used as a credit against the taxpayer's net income tax liability in subsequent years until exhausted.] If the tax credits claimed by a taxpayer exceed the amount of income tax payment due from the taxpayer, the excess of credits over payments due shall be refunded to the taxpayer; provided that tax credits properly claimed by an individual who has no income tax liability shall be paid to the individual; provided further that no refunds or payment on account of the tax credits allowed by this section shall be made for amounts less than $1.
All claims, including amended claims, for a tax credit under this section shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit."

SECTION 3. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 4. This Act shall, upon its approval, apply to taxable years beginning after December 31, 2019.
Report Title:
Earned Income Tax Credit; Refundable Tax Credit; Department of Taxation

Description:
Changes the earned income tax credit from a nonrefundable tax credit to a refundable tax credit.

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