

JAN 20 2017

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 federal earned
2 income tax credit (EITC) is one of the most successful anti-
3 poverty programs by providing tax relief and refunds to low-
4 income and working class families. According to the National
5 Partnership for Women and Families, over 10,000 families in the
6 state have incomes that fall below the poverty level. Since it
7 is targeted especially at workers with children, about 18,000
8 children in Hawaii are kept out of poverty by it each year. It
9 is particularly important to women, who typically earn less than
10 men and are more likely to bear the expenses of raising children
11 on their own. Research shows that the federal EITC increases
12 employment rates and wages of single mothers, thereby helping to
13 narrow the gender income gap, increasing lifetime earnings, and
14 reducing the reliance on government benefits. Studies even
15 suggest that it may improve the health of mothers and their
16 children. So far, twenty-six states and the District of
17 Columbia have built on this success and created a state working



1 family tax credit. It is estimated that this would cost about
2 \$24,000,000 per year for the State.

3 The purpose of this Act is to create a tax credit, set at
4 ten per cent of the federal EITC, which would help eleven
5 thousand families in the State.

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

9 "§235- Hawaii working family tax credit. (a) Each
10 resident individual taxpayer who:
11 (1) Files an individual income tax return for a taxable
12 year; and
13 (2) Is not claimed or is not eligible to be claimed as a
14 dependent by another taxpayer for income tax purposes,
15 may claim a refundable earned income tax credit. The tax
16 credit, for the appropriate taxable year, shall be equal to ten
17 per cent of the federal earned income tax credit allowed under
18 section 32 of the Internal Revenue Code, as amended, and
19 reported as such on the individual's federal income tax return.
20 If the tax credits claimed by a resident individual exceed the
21 amount of income tax payment due from the resident individual,



1 the excess of credit over payment due shall be refunded to the
2 resident individual; provided that a tax credit properly claimed
3 by a resident individual who has no income tax liability shall
4 be paid to the resident individual; and provided further that no
5 refund or payment on account of the tax credit allowed by this
6 section shall be made for an amount less than \$1.

7 (b) For a non-resident individual taxpayer, the tax credit
8 shall equal the amount of the tax credit calculated in
9 subsection (a) multiplied by the ratio of adjusted gross income
10 attributed to this State to the entire adjusted gross income
11 computed without regard to source in the State pursuant to
12 section 235-5.

13 (c) To claim the tax credit allowed under this section, an
14 individual taxpayer shall use the same filing status on the
15 taxpayer's Hawaii income tax return as used on the taxpayer's
16 federal income tax return for the taxable year.

17 (d) Any claim, including any amended claim, for tax
18 credits under this section shall be filed on or before the end
19 of the twelfth month following the close of the taxable year for
20 which the tax credit may be claimed. Failure to comply with



1 this subsection shall constitute a waiver of the right to claim
2 the tax credit.

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

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

10 (2) The period of two taxable years after the most recent
11 taxable year for which there was a final determination
12 that the taxpayer's claim of credit under this section
13 was due to the reckless or intentional disregard of
14 rules and regulations to qualify for the tax credit,
15 but not due to fraud.

16 (f) Any person who is a tax return preparer with respect
17 to any return or claim for refund who fails to comply with due
18 diligence requirements imposed by the Secretary of the United
19 States Department of the Treasury by regulations with respect to
20 determining eligibility for, or the amount of, the credit



1 allowable by section 32 of the Internal Revenue Code shall pay a
2 penalty of \$100 for each failure.

3 (g) The director of taxation:

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

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

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

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

11 (A) Number of credits granted for the prior calendar
12 year;

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

14 (C) Average value of the credits granted to taxpayers
15 whose earned income falls within various income
16 ranges; and

17 (5) May adopt rules pursuant to chapter 91 to effectuate
18 this section."

19 SECTION 3. New statutory material is underscored.



S.B. NO. 508

1 SECTION 4. This Act, upon its approval, shall apply to
 2 taxable years beginning after December 31, 2016.

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S.B. NO. 508

Report Title:

Tax Credit; Earned Income

Description:

Creates the Hawaii Working Family Tax Credit, a refundable credit capped at 10 percent of the federal earned income tax credit.

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