

CREATING A STATE EARNED INCOME TAX CREDIT: A COMMON SENSE TAX CREDIT FOR WORKING FAMILIES



HAWAII APPLESEED
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Hawai'i should create a 10% state Earned Income Tax Credit (EITC) because it will give a much-deserved break to **over 108,000 households** who work but struggle to get by on low wages, while also boosting local communities and economies across the state. The EITC is a common sense tax break that helps people make ends meet and keep working despite low wages.

How the EITC works

The EITC is a refundable tax credit that can only be claimed by people with earned income. The credit amount is determined by the filer's income and family size and phases out as income increases.

- **Hawai'i's tax structure is one of the most regressive in the country:** Our poorest taxpayers pay the largest share of income in taxes, at more than **13%**, while those earning more than \$375,000 pay the lowest share of income in taxes at only **7%**. **The lowest earners pay almost twice as much as the wealthiest.**
- **Reduce tax liability for families in poverty:** Working families in poverty face income tax liability—in addition to the General Excise Tax they pay throughout the year. A state EITC of 10% would **reduce 11,000 families' income tax liability to \$0**

Earned Income Tax Credit Program

- **Only households with earned income can receive the EITC:** The federal EITC provides financial relief to low-income workers through a targeted tax reduction. The EITC gets and keeps people working by supplementing the wages of low-income workers, targeting those with families.
- **A targeted, efficient and cost-effective program:** A state EITC is easy to administer and goes directly into the pockets of families. Because it is administered through the existing tax system, it reduces administrative costs and inefficiencies compared to other government programs.
- **Short-term, modest investment offering a hand up:** This tax credit offers working families a hand up by encouraging them and supporting work and reducing the use of public assistance. It's a modest investment that can make a big difference in the lives of working families.

Benefits of State EITC Program

- **Keeps more in the pockets of hard working families:** The tax credit lets low- and moderate- income working families keep more of what they earn to help meet basic needs and pay for things that allow them to keep working, such as child care and transportation, and that boosts the local economy.
- **Stimulates the local economy:** Every \$1 received in the EITC generates an estimated \$1.50–\$2.00 in local economic activity for businesses.
- **Lifts children out of poverty:** Because the EITC is targeted at families, the credit is particularly effective at alleviating the impact of child poverty. Approximately 18,000 children in Hawai'i were kept out of poverty due to the federal EITC each year between 2011-2013; a state EITC would further bolster working families' incomes.
- **Strengthens tomorrow's workforce:** Children who grow up in homes with additional income through the EITC have improved health and educational outcomes, helping prepare a stronger workforce. The EITC is associated with increased graduation and college attendance rates, higher test scores, especially in math, and greater earnings as adults—all decreasing the likelihood of poverty.

A 10% state refundable EITC would help 309,060 people – including 127,018 children –and put close to \$24 million into the state economy.

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