

# Refunding Hawai'i: Key Findings

**THE EARNED INCOME TAX CREDIT (EITC)** is a special tax credit designed to let working families keep more of the money they earned through their work. It is a critical tool for lifting workers who are paid low wages—and especially those with children—out of poverty, and it is a highly effective economic stimulus as well, contributing up to \$1.24 in economic activity for every \$1 returned to workers as part of the EITC.

In 2020 alone, 64,000 Hawai'i households claimed the state EITC, totaling almost \$21 million in credits. First claimed in 2018, the state EITC expires after 2022 unless Hawai'i legislators act to make the credit permanent. Unlike the federal EITC and the credits of most of the states with EITC programs, Hawai'i's tax credit has remained non-refundable since it was implemented in 2018. This means that the workers paid the lowest wages are unable to take full advantage of the Hawai'i credit.

## Who Benefits from the Federal EITC in Hawai'i?



The federal EITC was claimed by **90,000 Hawai'i households** in 2020.



The average household received an EITC worth **\$2,138** that year.



More than **1 in 7 Hawai'i residents** were eligible for the EITC in 2015.



Of these residents, **105,575 were children** in EITC-qualifying households.

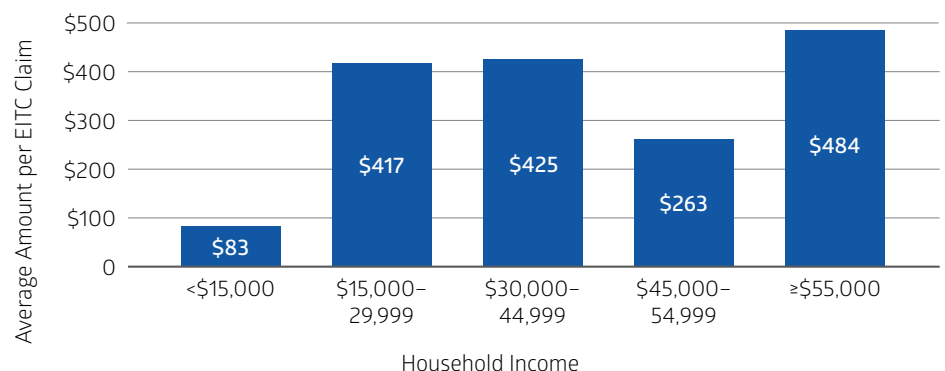
### \$1,000 Increase in the EITC:

- Reduced the rate of low-birthweight babies by 2 to 3 percent.
- For children ages 13–18, raised their likelihood of completing high school by 1.3 percent and college by 4.2 percent, and boosted their career earnings by 2.2 percent.

## The Impacts of the Non-Refundability of Hawai'i's EITC:

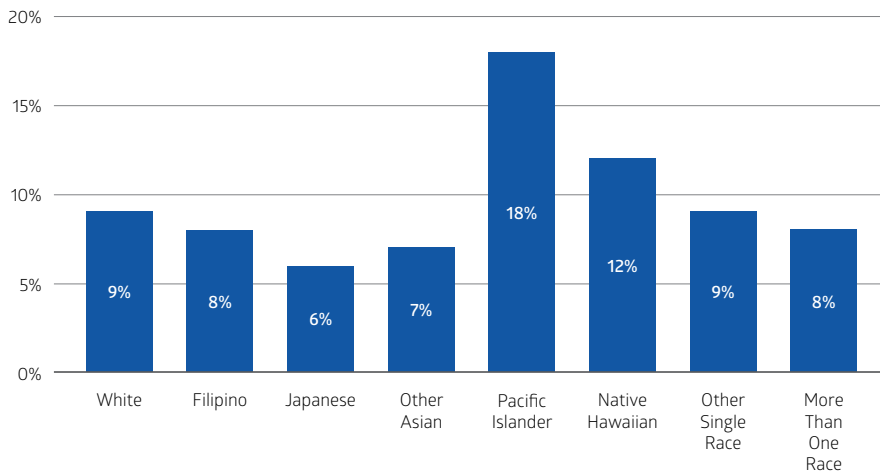
Hawai'i households with annual incomes under \$15,000 claim smaller EITC amounts on average than households with annual incomes between \$15,000–44,999. These higher-income households can make better use of the state EITC because they owe more in taxes.

Average State EITC Claim by Household Income (2020)



## Why Go Refundable?

Share of Each Racial Group Receiving EITC (Projected, 2022)



## Tax Equity

Hawai'i's tax system incurs a much heavier burden on low-income families than on high-income ones:

- In 2018, local households with incomes at the bottom 20th percentile contributed 15 percent of their income to state and local taxes. Conversely, local households in the top 1 percent contributed less than 9 percent of their income to these same taxes.
- This disparity results partly from regressive taxes, such as the general excise tax (GET) that is levied on essential goods. Households with low incomes spend much more of their incomes on essential goods than households with high incomes, causing them to pay a greater share in excise taxes.

## Racial Equity

The ongoing impact of systemic racism in creating barriers to economic opportunity has left many Native Hawaiian and Pacific Islander families, along with other families of color, at an economic disadvantage:

- Estimates show that 12 percent of Native Hawaiians and 18 percent of Pacific Islanders receive the state EITC, while the state average is 9 percent.
- Native Hawaiians, Pacific Islanders and Filipinos have the lowest average wages out of the major ethnic groups in Hawai'i. Moreover, households belonging to these ethnic groups are more likely to include children under the age of 18. As a result, a refundable EITC would benefit Native Hawaiians, Pacific Islanders and Filipinos the most.

## Economic Stability

A refundable EITC would deliver timely assistance to local residents who have felt the immense human and economic toll of the pandemic:

- In March of 2020, the unemployment rate for Hawai'i was 2.1 percent. Through the subsequent two months, this rate rapidly increased to 21.9 percent. As of January of 2022, the statewide unemployment rate was 5.7 percent—still almost three times the pre-pandemic figure.
- In August of 2020, 37.5 percent of Hawai'i adults lived in households that had trouble paying for their monthly expenses. By December of 2021, this percentage had only slightly decreased to 33.8 percent.
- After factoring in the EITC's economic multiplier (\$1.24 for every \$1 spent), Hawai'i's refundable EITC would generate \$50.84 million in economic activity in the state.

- Estimated cost of a refundable state EITC at 20 percent of the federal credit: \$41 million in 2022.
- Estimated revenue generated from Act 107 (2017) income tax reforms: \$58.7 million in 2022.