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STARING DOWN POVERTY

As more in Hawaii fall near the poverty line, tax help such as a state Earned Income Tax Credit is being pushed

By **Lee Catterall**
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The recession has hit many hard, throwing more Hawaii families and individuals on the edge of poverty, if not completely onto the streets.

Official Census Bureau data from 2009-11 shows Hawaii with a 12 percent poverty rate — but in November, a new federal formula factoring in Hawaii's high cost of living showed the true poverty rate to be about 17 percent. Almost 1 in 5. In lives, that's some 229,000 Hawaii residents who fall below the poverty line.

Support can come in various forms, including ways to help the working poor stay afloat.

After years of coping with low tax revenues that mired initiatives, the state Legislature is now going forward cautiously to provide relief for low-income families that need a tax break, one commonly available elsewhere: a state Earned Income Tax Credit.

The federal government provides tax refunds to 109,000 low-wage earners in Hawaii via an EITC, and 25 of the 42 states that tax incomes do likewise. While some call it welfare, proponents

argue that it is badly needed in Hawaii.

"The EITC program is one of the most popular poverty programs ever created in history, because it does bypass the bureaucracy in terms of getting money out or services delivered," said Victor Geminiani, executive director of the Hawaii Appleseed Center for Law and Economic Justice. "It puts money directly into the pockets of low-income wage earners."

The EITC proposal is paired by the Appleseed Center before the Legislature with a proposed poverty tax credit as a "backstop to prevent the poor from being taxed deeper into poverty," at a projected cost of \$19 million. Essentially, it would reduce or eliminate the state income tax for those whose income falls below the federal poverty level. In 2013, that level is \$11,490 annually for an individual, or \$23,550 for a family of four.

Also, proposed increases in the minimum wage by both President Barack Obama and Gov. Neil Abercrombie would play a significant role in helping those with low incomes, Geminiani said.

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The (Earned Income Tax Credit) program is one of the most popular poverty programs ever created in history, because it does



POVERTY: Advocates push for state Earned Income Tax

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Obama's proposal would raise the federal hourly minimum to \$9 from \$7.25 by the end of 2015; Abercrombie proposes to raise the state hourly minimum to \$8.75 from \$7.25 starting next year.

One man's help-up, though, can be seen by another man as a dependency hand-out.

Lowell Kalapa, executive director of the Tax Foundation of Hawaii, contended in testimony before legislators that the Earned Income Tax Credit "amounts to nothing more than a back-door welfare program, handing out money merely because a person falls into a low-income category and has joined the workforce with a dependent or two."

Geminiani countered in an interview: "Does Lowell Kalapa really think that we ought to expand state programs that serve the low

income through increases in taxes? We have plenty of welfare programs that support a whole variety of different needs. These are people who don't necessarily need job training."

Instead, the Appleseed Center points out in a report that monthly food costs alone for a family of four in Hawaii are 60 percent higher than on the mainland. Three-fourths of those living at or below the poverty level spend more than half of their incomes on housing.

Hawaii was rated by the Institute on Taxation and Economic Policy last month as the fourth-worst state in its tax system with the highest taxes on the poor. Hawaii residents in the bottom 20 percent of wage earners pay an average of 13 percent in various taxes, more than those making more money.

The federal version of the tax credit for the low- and middle-income individ-

uals and families was enacted in 1975 and has expanded in subsequent years. Former President Ronald Reagan praised it as "the best antipoverty, the best pro-family, the best job creation to come out of Congress."

Geminiani said the EITC program helps to buoy low-income wage earners "in both wage supplement, because wages just are not high enough in terms of what this community pays, as well as the work incentives for people to buy into the American ethic, and so what they can to support themselves."

The Legislature is considering Senate Bill 301 and House Bill 385 that would replicate the federal Earned Income Tax Credit, essentially creating a percentage of the federal credit, which now reimburses more than \$200 million to 109,000 low-wage earners in Hawaii, according to Geminiani.

Twenty percent of that,

as proposed for reimbursement in Hawaii, would cost \$50.2 million, according to the state Department of Taxation.

"It is directed at a population which is particularly popular in this community, given our liberal nature," Geminiani said, "and that's a population that is working and still living in poverty or close to poverty."

On the EITC bills' prospects, "it looks fairly good in the Senate," Geminiani said. "The House, we don't know after what happened (Thursday). We were kind of surprised, frankly. There may be some maneuvering between the House and Senate in terms of who is going to give on what at the end of the session."

As liberal as Hawaii might be regarded, though, the state has been reluctant to take the step toward EITCs.

"The difficulty with this

Credit and other bills to help Hawaii's working poor

ADVOCATING FOR LOW-INCOME HELP

The nonprofit Hawaii Appleseed Center for Law and Economic Justice is following several bills in the 2013 Legislature. These include:

A state Earned Income Tax Credit: Senate Bill 301 passed the Senate Committee on Human Services and was awaiting a hearing with the Ways and Means Committee. Companion bill HB 385 passed the House Committee on Human Services but was deferred Thursday by House Finance.

Poverty tax credit: To eliminate income taxes on those families living under the poverty line. SB 98 has been passed by the Senate Committee on Ways and Means and awaits crossover.

Gambling: Partnering with the

Hawaii Coalition Against Legalized Gambling to oppose all gambling legislation. So far, none of the bills legalizing lotteries or casinos have been heard by any committee.

Housing: Collaborating with Partners in Care, a coalition of homeless providers and advocates, to support measures that would provide additional affordable housing and improve the lives of those who are homeless.

Source: www.hiappleseed.org/2013-legislative-priorities

law is that it is expensive for the taxpayer to comply with and is targeted to taxpayers who can least afford to hire professional assistance," the late Alfred B. Fernandez, chairman of the tax commission from 1995 to 1997, wrote in an opinion piece in the Honolulu Star-Bulletin in 2007. "Addition-

ally, because of its complexity, it often results in errors, whether unintentionally or intentionally."

Kalapa pointed out that the Internal Revenue Service reports an error rate of more than 25 percent for the federal credit. Organizations such as the Legal Aid Society now help many

poverty individuals in Hawaii to fill out their federal tax forms.

State Rep. Isaac W. Choy, chairman of the Tax Review Commission from 2005-2007, responded that the proposal before the Legislature would allow below-poverty taxpayers to be eligible for a simple per-

centage of the federal credit. Choy supports the proposal pending in the Legislature.

State taxation director Frederick D. Pablo testified before a House committee that the "tax credit may not be the most direct avenue to provide assistance" to the poverty-stricken, and his department has begun discussions with Department of Human Services officials "to determine if there is a more efficient method" to assist those in need.

Whatever emerges to help Hawaii's working poor, there's little doubt of the growing need.

"There's still a total picture that has to be looked at, a long-term view that has to be looked at, and no more kicking the car down the road," said Randall Y. Iwase, a former state senator and chairman of the state Tax Review Commission from 2010-2012.