WHY WE NEED REFUNDABLE TAX CREDITS

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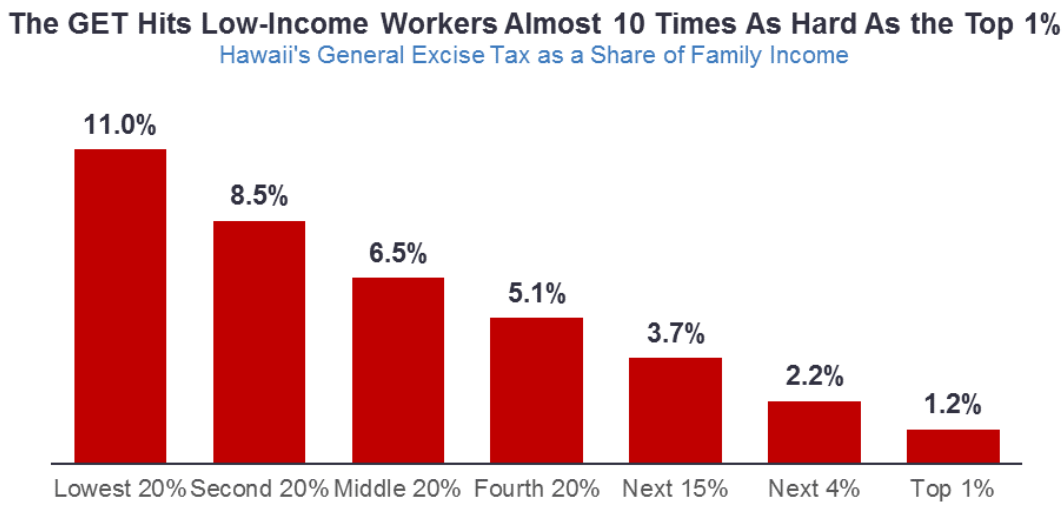
The Unfair Burden of the GET

Hawai‘i ranks second nationally in how heavily we tax our low-income households. In fact, we are in the minority of states that actually pushes low-income people deeper into poverty with taxes. As a result, nearly half of our state’s residents live paycheck-to-paycheck.

Our lowest-income households pay over 13% of their income in state and local taxes, while those at the top pay less than 8%. The main reason for this inequity is the General Excise Tax (GET), applied to almost all goods and services, which hits low-income and working-class families almost ten times harder than those at the top.



Households in the bottom fifth of the income spectrum make an average of $10,100 per year. They pay 11% of their income in the GET, for an average of $1,111 per year. In contrast, they pay about 0.5% in state income tax, for an average of $50.

Refundable Tax Credits Help Families Keep More of What They Earn

While Hawai‘i should eliminate income taxes for all families struggling in poverty, that alone would not return significant portions of their GET payments to them, since the amount that they pay in the GET is so much larger than the amount that they owe in state income taxes.

That is why we also need to have robust REFUNDABLE tax credits for low-income and working-class households. If tax credits are refundable, filers can get tax refunds when their credits total more than the amount of income tax that they owe.

For example, a single parent of one child, working full-time at the minimum wage, earns $18,500 annually, and would owe Hawai‘i about $170 in state income tax. If this filer’s refundable tax credits amount to $500, then he or she would receive a tax refund of $330, which could go a long way towards catching up on bills and debts.