THE WORKING FAMILY CREDIT
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The Working Family Tax Credit: Common Sense for Hawai‘i

Hawai‘i is the second worst state in the nation in terms of taxing people in poverty**.** In fact, we are in the minority of states that actually pushes low-income people deeper into poverty with taxes.

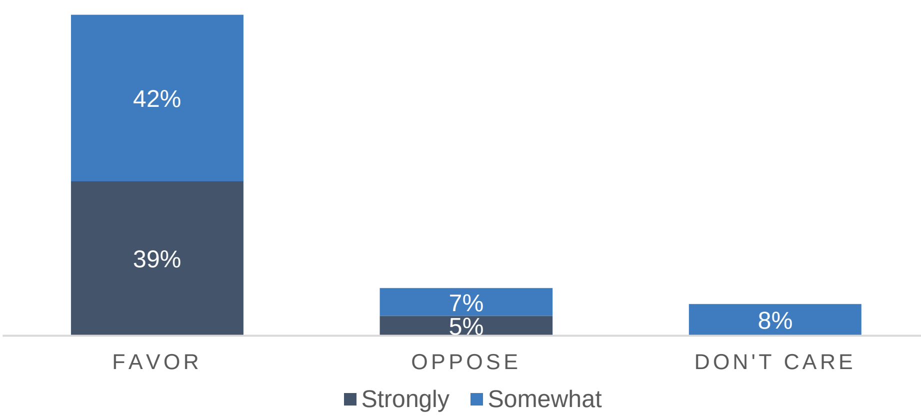
Our lowest-income households pay almost twice as much of their income (over 13%) **in taxes as those at the top** (who pay 8% or less). A main reason for this is the General Excise Tax (GET), applied to almost all goods and services, which hits low-income and working-class families the hardest.

On top of that, Hawai‘i has the lowest wages in the nation after adjusting for our cost of living, which is the highest in the nation. Faced with this one-two-three punch, Hawai‘i's low-income and working-class families face a daunting challenge to make ends meet.

Meanwhile, the federal Earned Income Tax Credit (EITC) helps low-income families keep more of their earnings through tax refunds. Twenty-six states and the District of Columbia have created state-level working family credits, ranging from 3.5 percent to 85 percent of the federal EITC, but Hawai‘i is not one of them.

Since they are facing the nation's highest cost of living, our low-income and working-class households need a state-level EITC more than those in any other state. **We should create a Working Family Credit**, which would bring **11,000 families**' state income tax bill down to zero. It is estimated that a credit set at 10% of the federal EITC this would cost about $24 million per year and be targeted at those workers who need tax relief the most.

4 OUT OF 5 REGISTERED HAWAI‘I VOTERS
FAVOR A WORKING FAMILY CREDIT



The Working Family Credit

…is a proven, successful program

- The federal EITC provides financial relief to low-income workers through tax refunds.
- Democrats and Republicans praise it as the most effective anti-poverty tool in the nation.

…is efficient and easy to administer

- Most state calculate their credits as a percent of the federal (between 3.5 and 85 percent).
- Tax refunds go directly to families, instead of through a government program, making it extremely efficient and cost-effective.

…encourages work and reduces public benefits

- The credit goes only to people who earn income through low-wage work.
- It incentivizes work by allowing low-income workers to keep more of what they earn.
- This decreases their dependence on government assistance.

…especially helps families with children

- The credit is scaled to give greater relief to workers with children, so it is particularly effective at alleviating child poverty.
- About 18,000 keiki in Hawaiʻi are kept out of poverty due to the federal EITC each year.
- The EITC has been shown to boost the health, test scores and future earnings of young children in families that receive it.

…is good for local businesses

- Tax refunds go to low-income workers, who are the most likely to spend their dollars at local stores and businesses.
- Every tax credit dollar generates an estimated $1.50 to $2 in local economic activity.
- The credit helps give low-income workers some financial stability, making them more dependable employees.

How much would a family get from a Working Family Credit?

One Parent, One Child

A single parent of one child, working full-time and earning the minimum wage, earns $18,500 annually, and would owe Hawaiʻi about $172 in state income tax.

A Working Family Credit set at 10% of the federal EITC would amount to $332. That means they'll get a tax refund of $160 instead, allowing them to catch up on bills and debts.

Married Couple, Two Children

A couple with two keiki earning a combined income of $29,000 would owe $582 in taxes. A 10% Working Family Credit would reduce their tax liability by over $446, down to just $136.

Married Couple, Three Children

A married couple with three children earning a combined income of $40,000 would owe $1,261 in state income taxes. After applying the Working Family Credit, they would owe $977.

This family on their way to the middle class, so the credit has begun to phase out for them. However, it still plays an important role in relieving a portion of their tax liability, which allows them to continue on their path up the economic ladder.