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CBPP STATEMENT

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HAWAII AMONG WORST STATES IN NATION ON TAXING THE WORKING POOR

Unlike most states, Hawaii taxes working-poor families deeper into poverty, and it charges them higher tax bills than all but four other states, according to a new report from the Center on Budget and Policy Priorities.

"Hawaii should help working families work toward the middle class rather than undermine their efforts with steep tax bills," said Phil Oliff, policy analyst at the Center and co-author of the report. "When people strive to better themselves and the lives of their families, not only do they benefit, but the state's economy grows stronger and all Hawaii residents are better off."

Hawaii charges families of four with incomes at the poverty line $331 in income taxes, higher than all but two other states. Hawaii is one of only 15 states to tax such families at all. The federal poverty line is $23,018 for such families.

Hawaii is one of only 10 states that taxes families of *three* who are living at or below the national poverty line. Its tax at the poverty line is $258. The poverty line is $17,922 per year for such families.

Exempting Poor from Income Tax Helps Families, Makes Economic Sense

In addition to undermining the efforts of hard-working people to climb into the middle class, taxing the working poor also hinders a state's long-term efforts to create a highly-skilled workforce and vibrant economy. That's because reducing the income of poor families reduces children's chances of academic success and their future earning potential.

Since the early 1990s the number of states levying income taxes on working poor families has fallen by well over a third, thanks to a successful, bipartisan effort in many states among policymakers who recognized that such taxation is counterproductive. As a result, most states with income taxes no longer tax the poor. Hawaii remains an outlier.

"Policymakers across the political spectrum agree that taxing a working-poor family deeper into poverty is counter-productive," said Oliff. "The federal government has exempted such families for decades and a majority of states now do so as well. Hawaii should follow suit."

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State EITC Can Boost Hawaii's Working Families and the Economy

An option that Hawaii policymakers have considered in past years is a state earned income tax credit (EITC). Other states use EITCs to reduce the tax obligation of working-poor families, mostly those with children. State EITCs have enjoyed decades of bipartisan support because they also encourage work and reduce poverty.

If Hawaii were to exempt its low-income families from the state income tax through an EITC or another mechanism, those families would continue to pay a number of other federal and state taxes, including federal payroll taxes and state excise and gasoline taxes. When all state and local taxes are taken into account, the poorest fifth of households in Hawaii paid more than 12 percent of their incomes in taxes, on average, in 2007.

Bipartisan Efforts to Reduce Taxation of the Poor Have Stalled

The report, released annually by the Center, examined income taxation of the poor in the 42 states that levy income taxes. This year, it found that successful bipartisan effort over the last two decades to reduce state income taxes on working-poor families has stalled.

No new states exempted working-poor families of four from income taxes in 2011, and in almost all of the 15 states where such families still pay income taxes, including Hawaii, they saw their income taxes increase.

The full report, *The Impact of State Income Taxes on Low-Income Families in 2011,* is available at http://www.cbpp.org/cms/index.cfm?fa=view&id=3740.

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