

Board of Directors

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Contact: Shannon Spillane
202-408-1080, spillane@cbpp.org

HAWAII'S TAXATION OF WORKING-POOR FAMILIES REMAINS AMONG WORST IN NATION

Income tax bills for Hawaii's working-poor families remain among the highest in the country, according to a new study from the Center on Budget and Policy Priorities, which examines the income tax burdens on the poor in the 42 states that levy income taxes. The tax cut package that was passed last year and is set to take effect next tax season will do little to improve Hawaii's ranking.

"Last year's tax-cutting legislation failed to target low-income families struggling to work their way out of poverty," said Jason Levitis, author of the report. "Hawaii can do better by adopting a state Earned Income Tax Credit that allows working-poor families to keep more of what they earn."

The report finds that Hawaii is one of only six states that levy an income tax on families with income less than three-quarters of the poverty line. Hawaii's "tax threshold" (the income level at which families begin owing taxes) for tax year 2006 is \$11,500 for a two-parent family of four and \$9,800 for a single-parent family of three. These thresholds are the 4th- and 3rd-lowest in the nation, respectively.

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

A two-parent family of four in Hawaii with income at the federal poverty line of \$20,615 owes \$546 in state income taxes for 2006. A single-parent family of three in Hawaii with income at the federal poverty line of \$16,079 owes \$401. Those amounts are the nation's second-highest, after Alabama, the report finds.

The report also assesses the likely impacts of tax changes enacted in Hawaii (and other states) that have not yet taken effect. It finds that if those tax cuts had been fully in effect for 2006, Hawaii's ranking would be worst in the nation for single-parent families of three and 2nd-worst for two-parent families of four. This is because the 2006 tax cut in Hawaii was less well targeted to the working poor than were tax cuts enacted in other states.

Hawaii is presently considering additional tax cuts, which could include tax cuts targeted to low-income families.

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"By eliminating state income taxes on working families with incomes at or below the poverty line, Hawaii could offset some of the child care and transportation

costs that families incur as they strive to become economically self-sufficient,” said Levitis. “In other words, by eliminating income taxes on poor working families, Hawaii can help make work pay.”

The full report, with Hawaii-specific fact sheet, is available at: <http://www.cbpp.org/3-27-07sfp.htm>.

Note to editors: The Center on Budget will host a Hawaii-specific media conference call briefing to discuss the findings for Hawaii and proposals to reduce state income taxes paid by low-income families at 10:00 a.m. (HT) [4:00 p.m. (ET)] on Tuesday, March 27.

To participate, please register by e-mailing spillane@cbpp.org, or calling the communications office at (202) 408-1080.

You may register on-line at <<http://www.cbpp.org/confcall.htm>>.

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