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# A BILL FOR AN ACT

RELATING TO TAX CREDITS.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that providing health  
2 care coverage for employees and their families has become an  
3 increasing economic hardship to small businesses. To contain  
4 the cost of health care coverage, many small business owners  
5 have had to make the decision not to provide health care  
6 benefits to their employees. This causes financial hardship and  
7 places pressure on employees who have to pay for coverage  
8 entirely out-of-pocket or risk going without health care  
9 coverage.

10           As an incentive for small business owners who offer health  
11 care benefits to their employees and families, a refundable tax  
12 credit should be provided to offset the costs and substantially  
13 reduce the number of uninsured people in Hawaii.

14           The purpose of this Act is to increase the number of small  
15 business owners offering health care coverage to their employees  
16 and families by establishing a refundable tax credit for their  
17 contributions to their employees' health care benefits.



1 SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
2 amended by adding a new section to be appropriately designated  
3 and to read as follows:

4 **"§235- Small business health benefits tax credit. (a)**

5 There shall be allowed to each eligible taxpayer subject to the  
6 taxes imposed by this chapter, a small business health benefits  
7 tax credit which shall be deductible from the taxpayer's net  
8 income tax liability, if any, imposed by this chapter for the  
9 taxable year in which the credit is properly claimed.

10 (b) The maximum amount of the credit shall be \$75 per  
11 month per eligible employee, or fifty per cent of the total  
12 annual premium, whichever is less. The eligible taxpayer shall  
13 be allowed a credit up to a maximum total credit of \$10,000 per  
14 taxable year.

15 (c) In the case of a partnership, S corporation, estate,  
16 or trust, the tax credit allowable is for health care coverage  
17 costs incurred by the entity for the taxable year. The cost  
18 upon which the tax credit is computed shall be determined at the  
19 entity level.

20 (d) The credit allowed under this section shall be claimed  
21 against the net income tax liability for the taxable year.

1       (e) If the tax credit under this section exceeds the  
2 taxpayer's net income tax liability, the excess credit over  
3 liability shall be refunded to the taxpayer; provided that no  
4 refund or payment on account of the tax credits allowed by this  
5 section shall be made for amounts less than \$1. All claims for  
6 a tax credit under this section shall be filed on or before the  
7 end of the twelfth month following the close of the taxable year  
8 for which the credit may be claimed. Failure to comply with the  
9 foregoing provision shall constitute a waiver of the right to  
10 claim the credit.

11       (f) The tax credit allowed under this section shall be  
12 available for taxable years beginning after December 31, 2005.

13       (g) As used in this section:

14       "Eligible taxpayer" means a small business, defined as any  
15 individual or type of organization, including any partnership,  
16 association, trust, estate, joint stock company, insurance  
17 company, or corporation, whether domestic or foreign, a debtor  
18 in possession or receiver or trustee in bankruptcy, or the legal  
19 representative of a deceased person, that has more than two  
20 employees but less than fifty working a minimum of twenty hours  
21 per week, has not contributed to a health insurance premium on  
22 behalf of an employee in the previous two years, does not report



1 a profit of more than \$1,000,000, and has applied for a tax  
2 credit certificate prior to the effective date of its health  
3 insurance coverage.

4 "Employer" does not include:

5 (1) The State, any of its political subdivisions, or any  
6 instrumentality of the State or its political  
7 subdivisions;

8 (2) The United States government or any instrumentality of  
9 the United States; and

10 (3) Any other state or political subdivision thereof or  
11 instrumentality of such state or political  
12 subdivision.

13 "Health care coverage cost" means the costs incurred after  
14 December 31, 2005, by a small business to provide health  
15 insurance coverage to an employee or their family.

16 "Net income tax liability" means income tax liability  
17 reduced by all other credits allowed under this chapter."

18 SECTION 3. New statutory material is underscored.

19 SECTION 4. This Act, upon its approval, shall apply to  
20 taxable years beginning after December 31, 2005.

21 *Will Syro* *Shianne Chun Aulland*  
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**Report Title:**

Tax Credits; Small Businesses; Health Insurance

**Description:**

Provides small business owners offering health care coverage to their employees and families by establishing a refundable tax credit for their contributions to their employees' health care benefits.

