
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 the future of long-
2 term care for Hawaii's senior and adult disabled population is
3 one of the most critical health issues facing Hawaii in the
4 twenty-first century. The rapid growth of the elderly and
5 disabled populations will result in extraordinary demands on the
6 delivery of long-term care services.

7 Persons sixty years of age and older presently account for
8 almost one-fifth of the adult population in the State. By 2020,
9 they will constitute more than one-fourth of Hawaii's adult
10 population. Nearly one-third of this segment alone is expected
11 to have functional disabilities.

12 While the majority of persons receiving long-term care are
13 older adults, entire families are affected by the psychological,
14 financial, and social costs of providing long-term care to those
15 who have difficulty performing daily living activities. To
16 accommodate the demands of caregiving that grow as dependency
17 increases, caregivers reduce work hours, adjust or abandon



1 career and personal goals, and retire earlier than intended,
2 lowering their own pension and retirement benefit levels.
3 Caregivers are apt to be in poorer health than members of the
4 general population and often need care in their own advanced
5 years. Caregivers must be assisted by creating a network of
6 support services, including respite care and other support to
7 alleviate the daunting responsibility of providing daily care
8 for those who require it.

9 The costs of nursing home care is another problem faced by
10 many working families. In the case of elderly families, these
11 costs are sometimes twice their average annual disposable
12 income, threatening impoverishment upon those who are otherwise
13 self-sufficient. Thus, it is not surprising that approximately
14 eighty per cent of all nursing home residents are dependent on
15 medicaid, an entitlement program for persons with limited income
16 and assets.

17 Although families have expressed a preference for home- and
18 community-based care, these services and nursing home beds are
19 currently below requisite levels. The average annual cost for
20 nursing home care has been estimated to eventually reach in
21 excess of \$200,000 per person.



1 However, nursing home care is only one component of the
2 array of long-term care services that has been developed. Due
3 to cost factors, it is likely that home- and community-based
4 services will become more predominant. These services are
5 provided in and outside the home and are appropriate for those
6 who do not need to be institutionalized. In fact, an important
7 function of home- and community-based services is to prevent
8 institutionalization. Home- and community-based services
9 consist of a number of different modalities, some or all of
10 which may be used by the individual. These services include
11 adult day health services, case management services,
12 environmental modifications, homemaker services, personal care
13 services, personal emergency response systems, respite care
14 services, skilled nursing services, transportation services, and
15 similar services.

16 While home- and community-based services can provide care
17 that is less costly than institutional care, it is still
18 expensive. Although the legislature believes in a free market
19 economy, the private sector has not been able to develop
20 adequate financing mechanisms that appeal to the general
21 population. The insurance industry needs encouragement in
22 providing home- and community-based service options in their



1 long-term care coverage. Purchasers of such insurance also need
2 to be informed of home- and community-based service options as
3 an alternative to nursing home care. The general public must be
4 effectively educated and encouraged to purchase long-term care
5 insurance, possibly by being offered tax incentives in the form
6 of deductions or credits.

7 One innovative approach that has not been explored involves
8 providing long-term care insurance to employees in Hawaii where
9 small businesses employ the bulk of all workers.

10 The purpose of this Act is to create an incentive for small
11 businesses to purchase long-term care insurance for their
12 employees by providing a tax credit for the payment of their
13 long-term care insurance premiums.

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

17 "§235- Small business long-term care insurance premium
18 tax credit. (a) Each individual and corporate resident
19 taxpayer subject to the tax imposed by this chapter and who owns
20 a small business, as defined in this section, and files an
21 individual or corporate net income tax return for a taxable
22 year, regardless of adjusted gross income, may claim a small



1 business long-term care insurance premium credit against the
2 taxpayer's individual or corporate net income tax liability for
3 the taxable year in which the credit is claimed and for which
4 the income tax return is being filed; provided that an
5 individual or corporation who has no income taxable under this
6 chapter may claim this credit.

7 For the purposes of this section:

8 "Long-term care insurance" shall have the same meaning as
9 defined in section 431:10H-104.

10 "Small business" means a for-profit enterprise consisting
11 of fewer than one hundred full-time or part-time employees.

12 (b) The tax credit under this section, when claimed by:

13 (1) Either an individual resident taxpayer or a husband
14 and wife filing a joint return that own a small
15 business; provided that a resident husband and wife
16 filing separate tax returns for a taxable year for
17 which a joint return could have been filed by them
18 shall claim only the tax credit to which they would
19 have been entitled under this section had a joint
20 return been filed; or



1 (2) A small business that is a corporation, partnership,
2 limited liability company, or other form of business
3 entity;
4 may be claimed only once in the taxable year with respect to the
5 small business, regardless of the number of owners under
6 paragraph (1) or the number of partners or corporate officers
7 under paragraph (2).

8 (c) The amount of the tax credit shall be an amount equal
9 to the lesser of the following amounts:

- 10 (1) \$500 for each employee; or
- 11 (2) Fifty per cent of any long-term care insurance premium
12 payments made for each employee;
13 for the taxable year in which the payments were made.

14 (d) All claims, including any amended claims, for tax
15 credits under this section shall be filed on or before the end of
16 the twelfth month following the close of the taxable year for
17 which the credit may be claimed. Failure to comply with the
18 foregoing provision shall constitute a waiver of the right to
19 claim the credit.

20 (e) The director of taxation shall prepare any forms that
21 may be necessary to claim a credit under this section. The
22 director may also require the taxpayer to furnish information to



1 ascertain the validity of the claims for credits made under this
2 section and may adopt rules necessary to effectuate the purposes
3 of this section pursuant to chapter 91."

4 SECTION 3. New statutory material is underscored.

5 SECTION 4. This Act shall take effect upon its approval
6 and shall apply to taxable years beginning after December 31,
7 2006.



Report Title:

Long-Term Care Insurance; Tax Credit; Small Business

Description:

Grants tax credit to small businesses at the lesser of 50% of premiums or \$500 per employee for purchase of long-term care insurance for its employees. Defines small business as businesses employing less than 100 full-time or part-time workers. (HB2778 HD2 PROPOSED)

