

STAND. COM. REP. NO. **3150**

Honolulu, Hawaii

MAR 20 2008

RE: H.B. No. 2778
H.D. 2
S.D. 2

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred H.B. No. 2778, H.D. 2, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAX CREDITS,"

begs leave to report as follows:

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

Testimony in support of this measure was submitted by the Department of Taxation, the American Council of Life Insurers, Kokua Council, National Association of Insurance and Financial Advisors, and The Chamber of Commerce of Hawaii. Comments on this measure were submitted by the Tax Foundation of Hawaii.

Your Committee finds that this measure could provide a very worthwhile incentive to encourage employers to make long-term care insurance available for their employees, which would in turn reduce the future financial burden on the State for the costs of long-term care.

Your Committee received a fiscal impact statement from the Department of Taxation that this measure, as introduced, would result in an annual revenue loss to the State of approximately \$900,000, beginning in fiscal year 2010. Their methodology is as follows:

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Based upon the best estimate from the long-term care industry, employers pay between \$5 and \$15 in premiums per employee each month. It is estimated that approximately 50,000 employees have long-term care insurance provided to them through their employer. It is also assumed that employers pay \$120 in premiums per employee each year for long-term care insurance. A fifty per cent tax credit on those premiums would be equal to \$60. According to the Hawaii State Data Book of 2006, 490,682 workers were employed in 2005 and fifty-nine per cent of those employees were employed by small businesses. The Department of Taxation assumed employers purchased long-term care insurance for fifty per cent of small business employment share, i.e. approximately thirty per cent. Thus, approximately 15,000 employees had their long-term care insurance covered by their employers (50,000 x 30%). The total tax credits from the long-term care insurance would amount to approximately \$900,000 (\$15,000 x \$60) each year.

Your Committee has amended this measure by changing the effective date to July 1, 2050, and applying the tax credit to taxable years beginning after December 31, 2050.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2778, H.D. 2, S.D. 1, as amended herein, and recommends that it be referred to the Committee on Ways and Means, in the form attached hereto as H.B. No. 2778, H.D. 2, S.D. 2.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Taxation,



CAROL FUKUNAGA, Chair



