LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
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HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT

TESTIMONY REGARDING HB 3169
RELATING TO LIFELONG LEARNING ACCOUNTS

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: JANUARY 29, 2008
TIME: 8:30AM
ROOM: 309

This bill proposes, among other things, a tax credit for employee and employer contributions to Lifelong Learning Accounts.

The Department of Taxation (Department) **supports** this Lingle-Aiona administration measure.

I. LIFELONG LEARNING ACCOUNTS, GENERALLY

Workforce development and continuing professional development and education of Hawaii's employees is an important aspect to moving Hawaii forward with an economy of innovation. A Lifelong Learning Account operates similar to a 401(k), in the sense that employers may contribute matching funds to these accounts. By providing the means for employees to contribute to an educational development account (Lifelong Learning Account) and by further providing for employers to match these funds, workers of Hawaii can assure themselves of the means to remain at the cutting-edge of workplace training. This bill further seeks to provide financial incentives for Lifelong Learning Accounts through the means of both employee and employer tax credits.

II. LIFELONG LEARNING ACCOUNT TAX CREDITS

EMPLOYEE CREDIT—The employee tax credit proposed in this bill seeks to provide the following credit for payments made to a Lifelong Learning Account:

- $1,000—married filing jointly
- $500—all other filing statuses.

The credit proposed is refundable, which means that to the extent the amount contributed to the Lifelong Learning Account exceeds the taxpayer's tax liability, any remaining amount will be refunded to the taxpayer.

EMPLOYER CREDIT—The employer tax credit proposed in this bill seeks to provide a credit up to $500 per employee for contributions made to employee Lifelong Learning Accounts. The employer credit may be carried forward into future tax years, until exhausted.

This legislation will result in revenue loss of approximately $27.2 million in FY2009 and annually thereafter.

The Department supports this legislation and recommends the Committee pass this measure.

LINDA LINGLE
GOVERNOR

GREGG YAMANAKA
CHAIR

ANN YAMAMOTO
EXECUTIVE DIRECTOR

STATE OF HAWAII
WORKFORCE DEVELOPMENT COUNCIL
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
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January 29, 2008

To: Representative Alex M. Sonson, Chair
Representative Bob Nakasone, Vice Chair
and Members of the Committee on Labor and Public Employment

From: Gregg Yamanaka, Chair
Workforce Development Council

Subject: HB3169 Relating to Lifelong Learning Accounts
Establishes a LiLA Program in DLIR
Hearing Tuesday, January 29, 2008; 8:30 AM; Conference Room 309

The Workforce Development Council ("WDC") strongly supports HB3169 which establishes a lifelong learning program in the Department of Labor and Industrial Relations ("DLIR") to support upgraded training for the incumbent workforce in the healthcare, hospitality, and technology industries.

The proposed Lifelong Learning Account ("LiLA") Program will support incumbent worker training through establishment and administration of a state-supported voluntary program to facilitate employer matching of employee training expenditures. Incumbent worker training (training to raise the skill level of individuals already in the workforce) is one of WDC's priorities. The critical features of the proposal that prompts WDC support includes:

- state-support in establishing and administering the program,
- the provision of state tax credits for both employers and employees, and
- a provision to encourage participation by lower-income and lower-skilled workers.

The result of the proposed program will be larger numbers of better-prepared workers available to support and maintain Hawaii's economy. It will also mean greater opportunity, higher pay, and an improved standard of living for Hawaii's people. The proposal is wholly consistent with the state's workforce development plan.

Thank you for this opportunity to comment.

Respectfully submitted,

The Hawaii Workforce Development Council is a private-sector led body responsible for advising the governor on workforce development to support economic development and employment opportunities for all. It is the State's advisory commission on employment and human resources as defined by the Hawaii Revised Statutes. The council is also the State Workforce Investment Board for purposes of the Workforce Investment Act ("WIA") of 1998. It assists the Governor in developing and updating comprehensive five-year strategic workforce investment plans and oversees workforce (public) investment activities in the state.

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
THEODORE E. LIU
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
Tuesday, January 29, 2008
8:30 AM
State Capitol, Conference Room 309

in consideration of
HB3169
RELATING TO LIFELONG LEARNING ACCOUNTS

Chair Sonson, Vice Chair Nakasone, and Members of the House Committee on Labor and Public Employment.

The Department of Business, Economic Development and Tourism (DBEDT) strongly supports HB3169, an Administration bill that proposes to establish Lifelong Learning Accounts program and tax credit to support upgraded training for incumbent workers and participation by employers and employees through tax credit incentives.

As you know, the development of a skilled and well-trained workforce is the cornerstone of a competitive economy in new world of global commerce. The rapid pace of technological change globally means that our state's ability to compete economically depends not only on using the latest technology, but utilizing proven programs that can upgrade the skills of an experienced incumbent workforce across all of Hawaii's industrial sectors.

Initiatives in this and last years sessions address the need to make sure that high school and college graduates entering the labor market have state-of-the-art skills. Those skills will help increase the competitiveness of Hawaii's economy over time. But 70% to 80% of the workers and managers in our economy over the next 10 to 20 years are already "on the job" – they are incumbent workers. Because the addition of new workers is a slow process, these incumbent workers should periodically upgrade their skills, in order for Hawaii to more rapidly build and maintain a competitive workforce. According to the National Center for Public Policy and Higher Education, *only 3.6 percent of adult workers in Hawaii between 25 and 49 years of age were enrolled part time in any type of post-secondary training in 2006. This compares with 5.1% for the best states.* On the other hand, the state's Workforce Development Council (WDC) estimates that about 63%, or more than 400,000 jobs in state's economy, require post-secondary training that should be periodically updated with more current knowledge and skills. There is clearly a huge gap between the amount of incumbent worker training that should, and actually is taking place, even nationally.

Adding to this problem, Hawaii's small businesses, which make up over 95% our state's economy, find it costly to keep up with training requirements. Likewise, it is expensive and time consuming for workers to upgrade their skills, even though it usually results in increased pay. Thus, while the economy desperately needs more skilled workers, there are barriers for workers and businesses to make the needed investment.

According to the Workforce Development Board from the high unemployment era of the 1990s, Hawaii has encountered increasing labor shortages in the 2000s. This reversal has been primarily due to the labor demands of a fast-growing economy beginning in 2001. The labor shortage situation will likely worsen over the next decade as the large number of baby boom workers leave the labor force; in contrast, smaller numbers of youth are entering the labor force. The lack of skilled workers at all levels will likely result in the rapid movement of personnel into increasingly more responsible positions--such as mid-level management--with less experience than desirable.

Unlike conditions in the past, when finding jobs for people was the high priority for workforce and economic development, the focus is now on finding qualified workers.

Projections by the Department of Labor and Industrial Relations ("DLIR") indicate that more than 24,000 openings will occur annually in Hawaii's economy between 2004 and 2014 due to growth and replacement of workers.

At the same time, only 12,000 to 14,000 young people will enter the workforce each year over that period. Even assuming all of them enter the workforce, which is unlikely, they will only fill about half of the expected openings.

DBEDT and DLIR have looked at models for addressing this gap with our education and workforce development partners and identified the emerging program of "Lifelong Learning Accounts" (or LiLAs as they are called) as an excellent approach.

Under this program, employers and employees contribute an equal amount each year to the employee's Lifelong learning account. The accounts would be portable as an employee changes jobs, but are maintained and administered by a third party fiduciary. At the employee's discretion, the funds can be used for a range of training activities within the scope of an *Individual Learning Plan* (ILP) agreeable to both the employee and employer. There is no limit to the amounts employers and employees may contribute to the accounts, but we are proposing a tax credit of up to $500 per year each for the employee and employer to encourage participation (for a total annual training fund of $1,000). This amount can be applied to up to two part-time community college courses[1]. The program would be administered by the Department of Labor and Industrial Relations (DLIR). Assuming that an average of about 1,500 employees will contribute $500 to a LiLA account, matched by their employers over the next two years, the cost of the tax credit is estimated at about $3 million for the biennium, or an average of $1.5 million per year.

The LiLA approach is also recommended by the State Workforce Development Council. Further, states including Maine, Illinois, Kansas and Missouri have developed LiLA demonstration programs under the guidance of the national Council for Adult and Experiential Learning (CAEL). CAEL has organized and helped run LiLA demonstration projects since 2001, involving 37 companies and 359 employees in several states. In addition to working out the logistics of the LiLA process, CAEL found solid support for the program and a desire to continue beyond the demonstration stage. CAEL found that as of June 2005, all participants had established their Individual Learning Plan (ILP) and 53% had taken at least one course and many had taken more than one. These employees have experienced greater success than their non LiLA peers in receiving promotions and 88% to 90% of employees and 87% of employers were satisfied or very satisfied with the program. CAEL is currently conducting further multi-sector LiLA demonstrations in Chicago, Northeast Indiana, and San Francisco.

With the testing of LiLAs an apparent success, Congress has moved to create a nationwide pilot program to see if Federal tax incentives can accelerate the spread of this program. In early January 2007, the Lifelong Learning Accounts Act of 2007 was introduced by Senators Maria Cantwell (D-WA) and Olympia Snowe (R-ME). Representative Tom Allen (D-ME) introduced

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similar legislation, in the U.S. House of Representatives on June 28, 2007. The program is designed to demonstrate multiple approaches to Lifelong Learning Account tax benefits and targets tax incentives to lower and middle-income earners and their employers to save and spend for education and training to improve their career related skills and knowledge. This Act amends the Internal Revenue Code of 1986 to establish a LiLA demonstration program for up to 200,000 workers in up to 10 states. The Department of Treasury will select participating states in a competitive process.

We are confident that with an established and funded LiLA program, Hawaii will have a very good chance of being one of the ten states chosen. The CAEL organization stands ready to assist interested states in getting the LiLA programs set up. If only 10% of Hawaii's incumbent workers (about 60,000 workers), along with their employers, could be persuaded to contribute $500 annually to a LiLA account, Hawaii would have the equivalent of a *$60 million annual training fund.* This would not only provide substantial skill upgrading, it would also support the development of a much more extensive and effective training industry in Hawaii. By comparison the State's Employment Training Fund (ETF) generates between $1 million to $2 million per year from employers which is redistributed to firms that are ready to train workers.

In summary, we believe, that this type of employee-centered and employer supported training fund could be a critical component of what is needed to bring about life-long learning and life-long achievement among Hawaii's workforce. The concept has been successfully tested and there is ample expertise available from CAEL to help us develop the program for Hawaii. With very significant Federal support for selected states being proposed, Hawaii has the opportunity to leap ahead of most other states in significantly increasing the amount of incumbent worker upgrade training.

LiLAS have the potential to provide Hawaii's incumbent workforce with incentives to elevate their skill levels to fill the needed jobs in today's market place which in turn will lead them to a higher standard of living.

We urge you support for this needed incentive in Hawaii's worker training and re-training toolbox.

Thank you for the opportunity to offer these comments.

L E G I S L A T I V E

TAXBILLSERVICE

536-4587 126 Queen Street, Suite 304 **TAX FOUNDATION OF HAWAII** Honolulu, Hawaii 96813 Tel.

SUBJECT: INCOME, Lifelong learning account tax credit

BILL NUMBER: SB 3091; HB 3169 (Identical)

INTRODUCED BY: SB by Hanabusa by request; SB by Say by request

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a lifelong learning account tax credit. The credit shall be 100% of the payments made by a taxpayer into a lifelong learning account established for the benefit of the taxpayer during a taxable year. The credit shall be a deduction agai a taxpayer's net income tax liability for the taxable year the taxpayer makes payments into the lifelong learni account. The moneys in the lifelong learning account are to be used to pay educational expenses as delineate by the department of labor and industrial relations.

A taxpayer who is not claimed or not eligible to be claimed as a dependent by a taxpayer for Hawaii individu income tax purposes may also claim the credit. The credit shall not exceed $1,000 in the aggregate for a husband and wife filing a joint return, provided that a husband and wife filing separately shall be entitled to c the amount of credit which they would have been entitled to if they filed jointly. The credit shall not exceed $500 in the aggregate for all other taxpayers.

Defines "lifelong learning account" and "net income tax liability" for purposes of this section.

Credits in excess of a taxpayer's income tax liability may be refunded to the taxpayer provided that such amount is over $1. Claims for the credit, including any amended claims, must be filed on or before the end o the twelfth month following the close of the taxable year.

Adds a new section to HRS chapter 235 to allow employers to claim a non-refundable tax credit for payment made by the employer during the taxable year as matching payments to lifelong learning accounts for individ employees. The tax credit shall be equal to 100% of the amount contributed by the employer into the taxpayer's lifelong learning account made by the taxpayer; not to exceed $500 per employee.

Credits in excess of a taxpayer's income tax liability may be applied to subsequent income tax liability. Clair for the credit, including any amended claims, must be filed on or before the end of the twelfth month followi the close of the taxable year. The director of taxation shall prepare the necessary forms to claim the credit.

Defines "lifelong learning account" for purposes of this section.

Further adds a new section to HRS chapter 394 to require the department of labor and industrial relations to establish a lifelong learning accounts program.

EFFECTIVE DATE: July 1, 2008 applicable to tax years beginning after December 31, 2007
SB 3091; HB 3169 - Continued

STAFF COMMENTS: This is an administration measure submitted by the department of labor and industrial relations LBR-28(08). This measure proposes two income tax credits as an incentive to encourage taxpayers and their employers to make contributions or matching contributions into a lifelong learning account of the taxpayer. The monies in the lifelong learning account could then be used by the taxpayer for educational expenses.

Inasmuch as the measure allows a taxpayer to claim a credit equal to 100% of the contribution, why even dea with the taxpayer making the contribution? Skip the taxpayer and just have government write a check directl to the taxpayer's lifelong learning account since the adoption of this measure would result in a complete subs of a taxpayer's lifelong learning account. Taxpayers can merely request the "free handout" by the state withc having to deal with a tax return. If one cannot understand the silliness of this process, to be specific, the taxpayer puts $1,000 into such an account for the purpose of paying for educational sessions at a local busine school and 12 months later the taxpayer gets a check $1,000 and runs out and buys a flat screen television. T wit, taxpayers have just paid for a flat screen television for the taxpayer and the taxpayer gets to enjoy the football game while studying for his computer class at the local business school.

With respect to the tax credit for employers, the outcome could also be just ridiculous. The employee contributes to the savings account as required and the employer matches the contribution, and claims the crec While the credit will offset any tax liability that the employer may have, one has to ask the question what the amount of the contribution made by the employer to the account is to the employee? Will it be considered income to the employee and, if so, will the amount be subject to state and federal income taxes? Even if the proposal was amended to exclude this amount from income for state purposes, without a similar provision at the federal level, the contribution may actually be reduced by the amount of federal taxes that would be due c the contribution.

Further, why would an employer make a contribution to an employee's educational savings account when the employee might use those funds to improve his knowledge so that he or she can look for another job with another employer. Under current law, the employer may deduct reimbursements for educational costs incurre by an employee. However, discretion is afforded the employer as to the kind of education secured, usually to improve the skills of the employee in his or her current position. Further, the current law allows an employee deduct unreimbursed educational costs that help to improve the employee's abilities and enable that employe to secure a better job. So one must ask what this proposal is intended to accomplish other than to provide taxpayer dollars for an employee's continuing education. As noted above, why use the tax system - especiall since the credit is 100% of the amount contributed up to $1,000/$500 - to subsidize the continuing education employees? Why not just have the employee apply for the subsidy and have DAGS cut a check and send it directly to the employee?

It should be remembered that tax credits generally are designed to mitigate the tax burden of those individual who do not have the ability to pay their share of the tax burden. These credits are justified on the basis that low-income taxpayers should be relieved of the burden imposed by taxes which are not based on the ability o the taxpayer to pay that tax. In this case, the proposed credits amount to nothing more than a handout of state funds and cannot be justified.

The Chamber of Commerce of Hawaii
The Voice of Business in Hawaii

LATE TESTIMONY

Testimony to the House Committee on Labor & Public Employment
Tuesday, January 29, 2008 at 8:30 a.m.
Conference Room 309, State Capitol

RE: HOUSE BILL NO. 3169 RELATING TO LIFELONG LEARNING ACCOUNTS

Chair Sonson, Vice Chair Nakasone, and Members of the Committee:

My name is Jim Tollefson and I am the President and CEO of The Chamber of Commerce of Hawaii ("The Chamber"). The Chamber supports House Bill No. 3169 relating to Lifelong Learning Accounts.

The Chamber is the largest business organization in Hawaii, representing over 1100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. The organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

This measure establishes a Lifelong Learning Accounts program and tax credit in the Department of Labor and Industrial Relations to support upgraded training for the incumbent workforce, and encourages participation by employers and employees through tax credit incentives.

An effective workforce development system is necessary to construct a trained workforce, attract investment and business to the State, and to develop productive jobs for our people. To remain competitive, business needs employees, especially incumbent employees, who are prepared to address the quickly altering demands of the 21st century workplace. Additionally, over 90% of businesses in Hawaii are small businesses. These companies face economic obstacles and hurdles, and often struggle to improve and fund job training or educational programs on their own.

Therefore, Hawaii businesses have a crucial interest in strengthening workforce development and endeavor to be a part of the resolution. As the largest business organization, The Chamber supports legislation that recognizes state and local initiatives to improve education and workforce development.

In the Chamber's 2007 Survey, the membership identified workforce development as one of the top three issues that the Chamber should focus on as well as ranked the availability and quality of the workforce as two of the top three most important issues facing their business . This measure serves as a positive step in the right direction in addressing some of the workforce development issues.

In light of the above, The Chamber of Commerce of Hawaii supports HB 3169. We respectfully request that the committee pass this bill for further discussion and consideration.