TO : SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION
Senator Carol Fukunaga, Chair
Senator Will Espero, Vice Chair

FROM: Eldon L. Wegner, Ph.D.,
PABEA (Policy Advisory Board for Elder Affairs)

SUBJECT: **SB 2049, SD 1 Relating to Taxation**

HEARING: 9:25 am Tuesday, February 12, 2008
Conference Room 224, Hawaii State Capitol

PURPOSE: This bill provides a tax credit to taxpayer caregivers who care for qualified recipients.

POSITION: **PABEA supports this bill to provide a refundable tax credit to eligible family caregivers as specified in the provisions of the bill.**

RATIONALE:

I am offering testimony on behalf of PABEA, the Policy Advisory Board for Elder Affairs, which is an appointed board tasked with advising the Executive Office on Aging (EOA). My testimony does not represent the views of the EOA but of the Board. I am also a professor of medical sociology at UH-Manoa who has worked with elderly services in Hawaii for more than 20 years.

$ We support legislation which would provide financial assistance to family caregivers. The statewide caregiver survey confirmed that a majority of family caregivers have low incomes and suffer from financial strain. In addition, they have difficulty affording needed services. A tax credit was one of the most frequent requested forms of assistance by the caregivers responding to the survey.

$ The provisions of this bill reflect the consideration of legislative committees in hearing issues raised by similar bills during the past several years . We support the general parameters of the tax credit contained in this bill, including:

$ The tax credit is refundable. Many low-income tax payers do not pay state taxes or pay very low state taxes, but they should not be excluded from receiving the level of financial they qualify for based on the income criterion;

$ Offering a sliding scale, so that the limited funds in the program can provide greater assistance to the lowest income categories of caregivers but that all family caregivers receive some support for their financial sacrifices in caregiving;

Thank you for the opportunity to testify.

LEGISLATIVE

TAXBILLSERVICE

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SUBJECT: INCOME, Caregiver tax credit

BILL NUMBER: SB 2049, SD-1

INTRODUCED BY: Senate Committee on Human Services and Public Housing

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow eligible taxpayers to claim a caregiver tax credit that shall be deductible from a taxpayer's income tax liability. The credit shall be based on the adjusted gross income of the caregiver according to the following:

Adjusted gross income	Tax credit percentage
Under $30,000	100%
$30,000 to under $50,000	70
$50,000 to under $75,000	40
$75,000 and over	10

The tax credit shall not exceed $1,000.

A husband and wife filing separate returns for which a joint return could have been filed shall be entitled only to the credit to which they would have been entitled if they filed jointly. An eligible taxpayer may claim the credit for every year the taxpayer provides care to a care recipient; only one caregiver per household may claim a credit for any one care recipient cared for in a taxable year. Prohibits an eligible taxpayer from claiming multiple tax credits under this section regardless of the number of care recipients receiving care from the eligible taxpayer.

Defines "eligible taxpayer" for purposes of the measure. Defines "qualified care recipient" as a person who is 18 years of age or older, a citizen or resident alien of the United States, who: (1) has co-resided with the caregiver for at least six months of the tax year for which the credit is claimed or has received more than 50% of the qualified care recipient's financial support during the tax year from a caregiver; and (2) is certified by a licensed physician or advanced practice registered nurse as requiring the specified care delineated.

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

Requires the department of taxation to report annually to the legislature on the number of taxpayers claiming the tax credit and the total cost of the credit to the state during the past year. Requires the department to assist the executive office on aging in providing information on caregiver services to each taxpayer who claims the credit. provided the executive office on aging shall provide to the department the proper informational material to be disseminated regarding its caregiver services.

Requires the executive office on aging, with the assistance of the department of taxation, to submit a report to the 2011 legislative session evaluating the caregiver tax credit over a three-year period.

Appropriates $100,000 in general funds to enable the department of taxation to process and mail executive office on aging caregiver program materials to taxpayers effective on July 1, 2008.

EFFECTIVE DATE: Tax years beginning after December 31, 2007

STAFF COMMENTS: This measure proposes to grant an income tax credit to caregivers for a person cared for during the taxable year that has lived in the caregiver's home for at least six months during the taxable year. The needs of the care recipient must meet criteria of disability outlined in the bill. While the measures propose that the credit is a percentage, depending on the caregiver's adjusted gross income, there is no credit amount that the percentage is to be applied to, i.e., for taxpayers with adjusted gross incomes of under $30,000 and eligible for a tax credit of 100%, what is the dollar amount of the credit? As drafted, the credit may not exceed $1,000 in the measure but the language does not specify a specific dollar amount.

It should be noted that while the enactment of this measure would utilize the tax system to hand out a subsidy to encourage persons to provide such care for relatives, the use of the tax system as an in-lieu welfare agency is not efficient nor is it productive. The proposed tax credit amounts to nothing more than an appropriation of taxpayer dollars through the back door by way of the tax credit. It represents an uncontrolled cost to state government for a program over which lawmakers will have no opportunity to review and approve the level of these "back door" expenditures.

Since neither the department of human services nor the department of health would be responsible for providing intermediate care or skilled nursing services, such subsidies, if deemed appropriate, would be better administered through those departments as a state program with funds appropriated to it. As the program comes up for review, lawmakers can assess the effectiveness of the program and decide whether or not more money is needed to make the program work.

The credit, on the other hand, would be afforded without regard as to how effective it is in keeping the elderly out of intermediate care facilities. More importantly, from a dollars and sense point of view, lawmakers would have no control over the cost of the credit as the revenue losses will be dictated by the amount of response the credit elicits. From the human services and health department perspective, there would be no assurance of the quality of care being provided. How would taxpayers view this program if it were discovered that credit claimants were abusive and neglectful of their relatives yet still received the credit? This measure assumes that because the care is being provided by a relative that the care should be rewarded with a tax subsidy of taxpayer dollars. More often than not, many of the cases of elder abuse are perpetrated by relatives. As recently as last year, the media covered the issue of elder abuse where it was revealed that more often than not, the perpetrators of that abuse are relatives of the elders. Obviously the sponsors have given little thought to the down side of this incentive.

Finally, it should be remembered that once enacted, a tax benefit is difficult to reduce or eliminate. Thus, while the credit proposed in this measure may be reviewed and statistically analyzed, it will more than likely become a permanent fixture of the tax system, if approved. Instead of spending hard-earned tax dollars on such "quick-fix" solutions, more thought should be devoted to this growing and complex issue of elder and assisted care. Efforts should be directed toward growing the supply of available care and the reform of the delivery system for such care.

Instead of handing out tax credits, the revenues foregone might be used to provide respite care so that caregivers can get some relief and therefore lessen the stress that comes with providing care to an elderly relative. Or the funds foregone could be put into a program that provides education on how to provide better care for the disabled person be it lifting the person from a seated position to standing or how to bathe the disabled relative. The support system for such care providers would provide far more assistance to the caregiver in the skills needed to provide quality care while providing alternatives to alleviate the stress that is placed on the caregiver.

Digested 2/11/08

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SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION

TESTIMONY REGARDING SB 2049 SD 1
RELATING TO TAXATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 12, 2008
TIME: 9:25AM
ROOM: 224

This bill proposes a refundable tax credit to eligible taxpayers caring for qualified care recipients. The amount of the credit will vary depending on the taxpayer's adjusted gross income.

The Senate Committee on Human Services & Public Housing substantially amended this measure taking into account the Department's concerns. Included in the amendments was the extension of the credit to the disabled.

The Department of Taxation (Department) **provides comments** on this legislation; **however prefers the Administration measure SB 3117**, which provides substantial targeted tax relief to those persons who modify their homes for the safety and mobility of the elderly or disabled.

I. THE DEPARTMENT ACKNOWLEDGES THE IMPORTANCE OF CARE INCENTIVES FOR HAWAII TAXPAYERS.

The Department acknowledges that as Hawaii's residents age, more and more responsibility is falling upon the family to care and provide for the elderly. By 2020, the elderly and disabled population of Hawaii will constitute over one-fourth of the State's adult population. It is critical that policies are enacted to ease the burden on the aging and their families that must cope with the caregiving issue. It is the position of the Department that the policy of this bill is laudable.

However, given the fiscal picture within which the government must operate, the Department prefers the tax incentive provided by the Administration measure to provide a more generous refundable credit to assist both the elderly and disabled to modify their homes in order to enjoy their independence. SB 3117 provides for such relief and has been factored into the executive budget.

II. APPROPRIATION

The Department appreciates the appropriation inserted in this version of the legislation.

This revenue will be necessary to ensure that materials are timely disseminated to those that could benefit from this legislation.

III. REVENUE IMPACT.

Annual revenue loss is estimated at $47.1 million (aged 18 to 29 = $3.5 million & aged 60 or older = $43.6) for FY 2009 and after. The expenditure of general fund revenue increases by $100,000 in FY 2009.

Qualified caregivers who provide care to elderly aged 60 or older—Based on the Hawaii Health Survey 2003 coordinated by the Department of Health, there are 192,390 caregivers who provide regular care or assistance to elderly aged 60 years old or older. About 20% of caregivers (38,478 caregivers) live in the same household with their elderly care recipients. We assumed all 38,478 caregivers qualify for the credit and each caregiver provides care to one elderly relative. We further assumed that there is only one caregiver per household. We assumed 10% of caregivers (19,239 caregivers) provided more than 50% of financial support but not live in the same household with the elderly. The total number of qualified caregivers who provide care to elderly aged 60 or older is 57,717 (38,478 + 19,239).

Qualified caregiver who provide care to persons aged 18 to 59—According to the Hawaii Data Book 2006, there are 76,632 persons who are 16 to 64 years old and are disable. We assumed 20% of them (15,326 persons) received informal and family care. We further assumed 20% of the care recipients (3,065 care recipients) lived in the same household with the caregivers. We assumed 10% of the care recipients (1,533 care recipients) received more than 50% of financial support but not live in the same household with the caregivers. Assuming there is one caregiver per care recipient, the total number of qualified caregivers who provide care to person aged 18 to 59 is 4,598 (3,065 +1,533).