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To: The Honorable Dee Morikawa, Chair
and Members of the House Committee on Human Services

Date: Tuesday, February 03, 2015
Time: 8:30 A.M.
Place: Conference Room 329, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 18, Relating to Long-Term Care

The Department of Taxation (Department) appreciates the intent of H.B. 18 and provides the following comments for your consideration.

H.B. 18 creates an income tax credit for the costs of long-term care insurance. The credit would be available to all taxpayers subject to Hawaii's income tax, provided their adjusted gross incomes (AGI) do not exceed certain thresholds. The credit is a percentage of the long-term care insurance premium payments up to a fixed cap per taxpayer per taxable year. The AGI thresholds, credit percentages, and cap amount are unspecified in this measure's current form.

H.B. 18 defines long-term care insurance and limits the credit to insurance costs for the taxpayer and certain of the taxpayer's family members. Thus, to enforce compliance the Department must confirm that each claim is for a long-term care insurance contract and that each contract is for the taxpayer or the taxpayer's family members. Enforcement will also require the Department to require taxpayers to attach their insurance contracts with their tax returns. The Department currently does not have the resources to ensure compliance with this credit.

The Department notes that H.B. 18 does not specify whether the credit is refundable or nonrefundable. In general, refundable credits are more costly and create the potential for abuse. for that reason, the Department prefers non-refundable tax credits, which are less problematic to administer and promote compliance.

The Department suggests that the bill be amended to make clear whether the credit is refundable or nonrefundable. In addition, language should also be added regarding the ability to carryforward any unused credits, if the credit is nonrefundable.

The effective date in section 3 of H.B. 18 applies this tax credit to taxable years beginning after December 31, 2014. Because this is a new tax credit, adoption will require the Department to develop new forms, instructions, and computer system enhancements. For these reasons, the Department requests that the effective date be extended to taxable years beginning after December 31, 2015.

Thank you for the opportunity to provide comments.

TESTIMONY OF THE AMERICAN COUNCIL OF LIFE INSURERS
IN SUPPORT OF HB 18, RELATING TO LONG TERM CARE

February 3, 2015

Honorable Representative Dee Morikawa, Chair
Committee on Human Services
State House of Representatives
Hawaii State Capital, Conference Room 329
415 S. Beretania Street
Honolulu, HI 96813

Dear Chair Morikawa and Committee Members:

Thank you for the opportunity to testify in support of HB 18, relating to long term care.

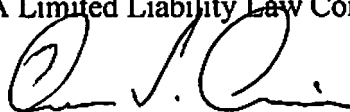
Our firm represents the American Council of Life Insurers (“ACLI”), a Washington, D.C., based trade association with more than 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers’ products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Two hundred nineteen (219) ACLI member companies currently do business in the State of Hawaii; and they represent 92% of the life insurance premiums and 89% of the annuity considerations in this State.

ACLI generally believes that as a matter of public policy the State of Hawaii should encourage individuals to provide for their own financial well-being. If a family is unable to support its long-term care needs, the State will need to spend its scarce resources for that purpose.

ACLI supports HB 18, which provides an income tax credit to an individual taxpayer having an adjusted gross income of an unspecified amount. The amount of the tax credit is equal to the lesser of an unstated dollar amount or an unspecified percentage of the long-term care insurance cost paid by the taxpayer.

Again, thank you for the opportunity to testify in support of HB 18.

LAW OFFICES OF
OREN T. CHIKAMOTO
A Limited Liability Law Company

A handwritten signature in black ink, appearing to read "Oren T. Chikamoto". The signature is stylized with a large initial "O" and a long horizontal stroke at the end.

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SUBJECT: INCOME, Credit for long-term care insurance premiums

BILL NUMBER: HB 18

INTRODUCED BY: Saiki by request

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a long-term care tax credit of \$_____ depending on a taxpayer's adjusted gross income and tax filing status. The credit shall be the lesser of \$_____ or _____% of the cost of any long-term care insurance premium payment made for the taxable year in which the payments were made.

The credit is applicable to a long-term insurance contract that covers: (1) the taxpayer; (2) the taxpayer's dependent; (3) the taxpayer's spouse; (4) a son or daughter of the taxpayer; (5) a stepson or stepdaughter of the taxpayer; (6) the father or mother of the taxpayer; or (7) a stepfather or stepmother of the taxpayer.

If a deduction is taken pursuant to IRC section 213 (with respect to medical, dental, etc., expenses) no tax credit shall be allowed for that portion of the cost of long-term care insurance for which the deduction was taken.

Requires all claims for the tax credit, including any amended claims, to be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit. No refunds or payment of the tax credit shall be made for amounts less than \$1.

EFFECTIVE DATE: Tax years beginning after December 31, 2014

STAFF COMMENTS: This measure provides an incentive to taxpayers to purchase long-term care insurance by allowing taxpayers to claim a credit for amounts paid for such insurance. While the proposed measure would merely result in a partial refund of the amount taxpayers paid for long-term care insurance premiums, the question now is whether or not the state can afford an incentive given all the other competing requests for new credits and proposals for new tax credits.

As drafted, it is questionable whether the credit is refundable or nonrefundable as it is not specified in the measure. The language of the measure should be changed to make the legislature's intention clear.

Digested 1/31/15

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The Twenty-Eighth Legislature
Regular Session of 2015

HOUSE OF REPRESENTATIVES
Committee on Human Services
Rep. Dee Morikawa, Chair
Rep. Bertrand Kobayashi, Vice Chair
State Capitol, Conference Room 329
Tuesday, February 3, 2015; 8:30 a.m.

**STATEMENT OF THE ILWU LOCAL 142 ON H.B. 18
RELATING TO LONG-TERM CARE**

The ILWU Local 142 supports H.B. 18, which provides tax credits to resident taxpayers for long-term care insurance premiums.

The Legislature is well aware of Hawaii's rapidly aging population. In 2012, Hawaii had the highest percentage of residents over the age of 85 in the U.S. This is the population that will very likely require long-term services and supports, including nursing home and in-home professional caregiver services.

Long-term care insurance is available to cover, at least in part, the cost of these services, but too many Hawaii residents have not elected to enroll in these plans, in part because of the cost of premiums and also because of limited coverage. H.B. 18 provides a tax credit as an incentive for residents to purchase long-term care insurance, either for themselves or for others. A tax credit would serve as both an incentive and a reward for those who assume responsibility for their long-term care needs.

The ILWU believes that the State must be involved in helping those needing long-term care services—either through tax credits for the purchase of long-term care insurance or through some other financing mechanism that will make long-term care more affordable.

We urge passage of H.B. 18. Thank you for considering our testimony.