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To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Tuesday, February 27, 2018
Time: 12:00 P.M.
Place: Conference Room 308, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 1718, H.D. 1, Relating to Taxation

The Department of Taxation (Department) offers the following comments on H.B. 1718, H.D. 1, for the Committee's consideration.

H.B. 1718, H.D. 1, creates a nonrefundable income tax credit equal to an unspecified percentage of costs incurred for child care expenses. The credit is capped at an unspecified amount. H.D. 1 has a defective effective date of July 1, 3000, but otherwise applies to expenses incurred in taxable years beginning after December 31, 2018.

The Department notes that a tax credit for child care expenses already exists under Hawaii Revised Statutes (HRS) section 235-55.6. That section creates a refundable income tax credit for expenses for household and dependent care necessary for gainful employment and would apply to expenses paid for child care. If the Committee wishes to amend or expand the State's existing tax incentives for child care, it may do so by amending HRS section 235-55.6, rather than creating a new tax credit.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

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SUBJECT: INCOME, Tax Credit for Child Care Costs

BILL NUMBER: HB 1718, HD-1

INTRODUCED BY: House Committee on Health & Human Services

EXECUTIVE SUMMARY: Provides an unspecified credit for child care costs for children up to four years of age. The proposed credit may duplicate ground already covered by the existing credit for household and dependent care services necessary for gainful employment in section 235-55.6, HRS.

BRIEF SUMMARY: Adds a new section to Chapter 235, HRS, that would provide a nonrefundable credit in an unspecified percentage of qualifying costs, with an unspecified limit. Qualifying costs are defined as those paid after December 31, 2018, for child care for an eligible child at a child care facility; except that "qualifying costs" shall not include any cost of attendance at a public or private preschool or elementary school.

EFFECTIVE DATE: July 1, 3000; applies to taxable years beginning after December 31, 2018.

STAFF COMMENTS: Lawmakers need to keep in mind two things. First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount. The second point to remember about tax credits is that they are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse?

If lawmakers want to help struggling families, then a direct appropriation would be more accountable and transparent.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation or adding on to an existing program may be a far less costly method to accomplish the same thing.

Finally, lawmakers should note that the subject of the proposed credit may be covered by the existing credit for expenses for household and dependent care services necessary for gainful employment in section 235-55.6, HRS.

Digested Date: 1/23/18