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To: The Honorable John M. Mizuno
and Members of the House Committee on Health & Human Services

Date: Wednesday, January 24, 2018
Time: 10:00 A.M.
Place: Conference Room 329, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 1718, Relating to Taxation

The Department of Taxation (Department) offers the following comments on H.B. 1718 for the committee's consideration.

H.B. 1718 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. The bill is effective upon approval and 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 section 235-55.6, Hawaii Revised Statutes (HRS). That section creates a refundable income tax credit 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.



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To: Representative John M. Mizuno, Chair
Representative Bertrand Kobayashi, Vice Chair
House Committee on Health & Human Services

From: Deborah Zysman, Executive Director
Hawaii Children's Action Network

Re: **H.B. 1718, Relating to Taxation, SUPPORT**
Hawaii State Capitol, Room 329 – January 24, 2018 – 10:00 A.M.

Directors

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On behalf of Hawaii Children's Action Network (HCAN), formerly Good Beginnings Alliance, we are writing in support of H.B. 1718, which would provide an income tax credit for childcare costs.

Hawaii has the nation's least affordable childcare. In 2017, the University of Hawaii Center on the Family and Hawai'i Children's Action Network released the Hawai'i Early Learning Needs Assessment. The purpose of the study was to inform strategic planning for early childhood development, care, and learning programs in the state. The study found that the average annual cost for full-time child care is \$7,800 for family childcare homes and \$9,500 for licensed childcare centers. For infant-toddler care, the average cost exceeds \$13,000/year.¹ The cost to cover center-based childcare for just *one* child equates to 13% of the state median family income, almost 50% of the annual full-time minimum wage, and 92% of UH Manoa annual undergraduate tuition.

H.B. 1718 is intended offset the extreme costs of childcare by providing an income tax credit. However, as currently written, the bill is not entirely sufficient to provide relief to those who need it most—our low and middle-income families. We would therefore suggest amending the bill to make the tax credit entirely refundable, targeted to low and middle-income families (as are existing federal and state child tax credits), and structuring the credit as a flat amount to account for households where one parent is staying home to care for a child, and therefore losing income.

For the above reasons, HCAN respectfully requests the Committee to support this measure.

¹ Debaryshe, B. D., Stern, I., Bellasario, C., Zysman, D., & Bird, O. (2017). *Early childhood programs in Hawaii*. Honolulu: University of Hawai'i Center on the Family.



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting HB 1718 – Relating to Taxation
House Committee on Health & Human Services
Scheduled for hearing Wednesday, January 24, 2018, at 10:00 am, in Conference Room 329

Dear Chair Mizuno, Vice Chair Kobayashi, and members of the Committee:

Thank you for the opportunity to testify in SUPPORT of **HB 1718**, which would provide an income tax credit for child care costs. The need is certainly great: according to the Economic Policy Institute, the cost of infant or child care in Hawai'i exceeds the average cost of in-state college tuition at a public 4-year institution in this state.

We would suggest that the credit be targeted to low and middle-income families, as are the federal child tax credit and the existing state child tax credits. All of those credits are limited to families that earn below a certain income ceiling. Some of these credits phase out as family income rises.

We would also like to suggest that the credit be made fully refundable, in order to allow very low-income families to also benefit from this credit. While most low-income families do not have significant income tax liabilities, they pay almost 10 times as much of their income to the General Excise Tax as do the highest earners in our state. These low-wage workers are the least able to afford the costs of child care, so it makes sense to provide them with the financial support of a refundable credit.

Finally, we would ask you to consider structuring the credit as a flat amount, which could phase out a higher income levels, rather than as a percent of qualifying costs, in order to avoid complication and potential filing errors. While the intent of this bill appears to be to target only costs incurred at child care facilities, if a parent stays home to care for a child that family is losing a worker's income, so they also would need the financial relief of this credit.

As with all costs, the expense of raising children in Hawai'i is far higher than the national average, while our jobs tend to be concentrated in lower-paying service industries. Our state's families deserve the support that this tax credit would provide.

Thank you for your consideration of this testimony.

The Hawai'i Appleseed Center for Law and Economic Justice is committed to a more socially just Hawai'i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems that perpetuate inequality and injustice through policy development, advocacy, and coalition building.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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LATE

SUBJECT: INCOME, Tax Credit for Child Care Costs

BILL NUMBER: HB 1718

INTRODUCED BY: ING, GATES, LOWEN, MIZUNO, WOODSON

EXECUTIVE SUMMARY: Provides an unspecified credit for child care costs for children up to four years of age.

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: January 12, 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.

Digested Date: 1/23/18



HAWAII

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January 22 , 2018

TO: Honorable Chair Mizuno and Members of the Health & Human Services Committee

RE: HB 1718 Relating to Taxation

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Support for hearing on Jan 24

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We support HB 1718 to provide a nonrefundable tax credit for eligible taxpayers for child care costs for children up to four years of age. Although the bill in its current form lacks details, we support the concept of giving tax relief to low income families. Given the massive tax cut given to the wealthy by Congress, it seems only fair to help the needy. It would also be fair to pay for this by increasing taxes on those who will see big benefits from federal tax changes.

Thank you for your favorable consideration.

Sincerely,

John Bickel
President