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**STATE OF HAWAII**  
**DEPARTMENT OF TAXATION**  
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To: The Honorable Josh Green, Chair  
and Members of the Senate Committee on Human Services

Date: Friday, January 26, 2018  
Time: 2:45 P.M.  
Place: Conference Room 016, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: S.B. 2029, Relating to Child Care

The Department of Taxation (Department) offers the following comments on S.B. 2029 for the Committee's consideration.

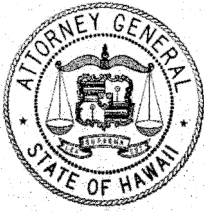
S.B. 2029 creates a refundable income tax credit equal to \$1,000 per qualifying relative. The credit may only be claimed by taxpayers with Hawaii adjusted gross incomes of less than \$75,000 if filing an individual return, or \$125,000 if married filing jointly. S.B. 2029 also amends the credit for household and dependent care expenses necessary for gainful employment under section 235-55.6, Hawaii Revised Statutes, by increasing the percentage of credit allowable for persons with adjusted gross income under \$22,000 from 25% to 30% and by decreasing the credit allowable for persons with adjusted gross income of over \$40,000 to not over \$45,000 from 21% to 20%. The bill is effective for taxable years beginning after December 31, 2018.

First, the Department notes that it is unclear whether head of household and married filing separate taxpayers would be able to claim the child tax credit. Subsection (c) limits the credit to single and married filing joint taxpayers, but subsection (d) implies that married filing separate taxpayers are able to claim the credit. If intent of the measure is to allow taxpayers of all filing statuses claim the credit the Department suggests amending subsection (c) to include the additional filing statuses and the income thresholds.

Second, the Department also notes that the child tax credit in this measure lacks a phaseout provision. For example, a married couple filing jointly with Hawaii adjusted gross income of \$124,999 may claim a credit of \$1,000 per child while a couple making merely one dollar more would receive \$0 of credit. If the Committee wishes to include a phaseout for the credit so that there is a gradual reduction based on increased income, the Department suggests using similar language in section 24(b) of the Internal Revenue Code as a reference.

Finally, the Department notes that it is able to implement the measure with its current effective date as it applies to taxable years beginning after December 31, 2018.

Thank you for the opportunity to provide comments.



**TESTIMONY OF  
THE DEPARTMENT OF THE ATTORNEY GENERAL  
TWENTY-NINTH LEGISLATURE, 2018**

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**ON THE FOLLOWING MEASURE:**

S.B. NO. 2029, RELATING TO CHILD CARE.

**BEFORE THE:**

SENATE COMMITTEE ON HUMAN SERVICES

**DATE:** Friday, January 26, 2018

**TIME:** 2:45 p.m.

**LOCATION:** State Capitol, Room 16

**TESTIFIER(S):** Russell A. Suzuki, First Deputy Attorney General, or  
Susan Won, Deputy Attorney General

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Chair Green and Members of the Committee:

The Department of the Attorney General has the following comments on this bill, which proposes to provide an income tax credit for household and dependent care services that may be claimed as tax credits by lower-income families.

This bill might be subject to constitutional challenge because the bill is facially discriminatory in that it restricts the tax credit it creates to Hawaii Residents.

A court may conclude that the tax credit is unconstitutional because the bill does not expressly articulate a legitimate government interest served by the legislation, sufficient to withstand constitutional challenge based on the Equal Protection and/or the Privileges and Immunities Clauses of the United States Constitution.

The Equal Protection Clause prohibits discrimination against a non-resident based solely on residency. See, e.g., Williams v. Vermont, 472 U.S. 14 (1985) (use tax credit for sales taxes paid on cars purchased in other states invalidated because it was only available to Vermont residents). The Hawaii Supreme Court has recognized that the Equal Protection Clause applies where a tax operates unequally on persons or property of the same class. In re Swann, 7 Haw. App. 390, 776 P.2d 395 (1989).

Similarly, under the Privileges and Immunities Clause, a state may not impose higher taxes on a nonresident individual than it imposes on its own citizens.<sup>1</sup> However,

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<sup>1</sup> The Privileges and Immunities Clause does not apply to corporations. Toomer v. Witsell, 334 U.S. 385 (1948).

a discriminatory tax could be sustained if legitimate reasons for the tax exist and the discrimination bears a substantial relation to those reasons. Lunding v. New York Tax Appeals Tribunal, 522 U.S. 287 (1998).

The residency requirement in the bill arguably violates the Equal Protection and Privileges and Immunities Clauses because it expressly favors residents over nonresidents.

To insulate the bill from possible constitutional challenge, we recommend that the bill be amended to delete the following: (1) the word “resident” on page 1, line 7 and, (2) the residency requirement on page 2, lines 11-13 (“[i]s a resident of the State of Hawaii and”).

Thank you for the opportunity to provide comments.



# HAWAII APPLESEED

## CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice  
Supporting SB 2029 – Relating to Child Care  
Senate Committee on Human Services  
Scheduled for hearing Friday, January 26, 2018, at 2:45 pm, in Conference Room 16

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Dear Chair Green, Vice Chair Chang, and members of the Committee:

Thank you for the opportunity to testify in SUPPORT of **SB 2029**, which would provide an income tax credit to help defray child care costs for working families. 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.

The federal child tax credit was enacted over 20 years ago and has been shown to be a powerful weapon against poverty. Research suggests that providing boosts to working families' incomes can improve their children's academic performance, health, and future earnings.

Currently, five other states have state-level child tax credits, similar to the one proposed in this bill. They share positive features: refundability to enable very low-income families to fully benefit from the credit as well as maximum income limits, to ensure that the credit is targeted to the low- and middle-income families who need the credit the most.

As with all costs, the expense of raising children in Hawai'i is far higher than the national average, while our wages, when adjusted for the cost of living, are some of the lowest in the nation. Our state's working families deserve the support that this tax credit would provide.

Thank you for your consideration of this testimony.

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*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.*



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To: Senator Josh Green, Chair  
Senator Stanley Chang, Vice Chair  
Senate Committee on Human Services

From: Mandy Finlay, Director of Public Policy  
Hawaii Children's Action Network

Re: **S.B. 2029, Relating to Child Care, SUPPORT**  
**Hawaii State Capitol, Conference Room 16 – January 26, 2018 – 2:45 P.M.**

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Directors

David Gaudi, Jr.  
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David Okumura  
David Randall  
Jennifer Thompson  
Sione Thompson  
Daphne Tong-Pave

**On behalf of Hawaii Children's Action Network (HCAN), formerly Good Beginnings Alliance, we are writing in support of S.B. 2029, 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.<sup>1</sup> 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.

S.B. 2029 is intended defray the cost of childcare for working families by providing a child tax credit of \$1,000 and amending the percentages of costs for household and dependent care services that may be claimed as tax credits for low-income households. With the high cost of childcare in Hawaii, our families need the type of relief that this tax credit would provide.

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

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

**SB-2029**

Submitted on: 1/25/2018 4:27:55 PM

Testimony for HMS on 1/26/2018 2:45:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Melodie Aduja	OCC Legislative Priorities	Support	No

Comments:

**PRESENTATION OF THE  
OAHU COUNTY COMMITTEE ON LEGISLATIVE PRIORITIES**

**DEMOCRATIC PARTY OF HAWAII**

TO THE COMMITTEE ON HUMAN SERVICES

THE HAWAII STATE SENATE

TWENTY-NINTH LEGISLATURE

REGULAR SESSION OF 2018

Friday, January 26, 2018

2:45 p.m.

Hawaii State Capitol, Conference Room 16

**RE: Testimony in Support** of SB 2029, RELATING TO CHILD CARE

To the Honorable Josh Green, Chair; the Honorable Stanley Chang, Vice-Chair and Members of the Committee on Human Services:

Good afternoon, my name is Melodie Aduja. I serve as Chair of the Oahu County Committee ("OCC") Legislative Priorities Committee of the Democratic Party of Hawaii. Thank you for the opportunity to provide written testimony on Senate Bill No. 2269, relating to child care. The OCC Legislative Priorities Committee is in favor of Senate Bill No. 2029 and support its passage.

Senate Bill No. 2029, is in accord with the Platform of the Democratic Party of Hawai'i ("DPH"), 2016, as it relates to an income tax credit for child care of working-class families. Specifically, the DPH Platform states, "As the party of working men and

women in Hawai'i, we work to protect labor rights and social security; to ensure fair labor practices, a living wage for all workers, equal pay for equal work and fair taxation.. . .” (Platform of the DPH, P. 3 , Lines 122-123 (2016)).

Given that the purpose of Senate Bill No. 2029 is to provide tax relief to defray childcare costs for working families in the State thus making it easier for parents to work, it is the position of the OCC Legislative Priorities Committee to support this measure to assist Hawai'i's workforce.

Thank you very much for your kind consideration.

Sincerely yours,

**/s/ Melodie Aduja**

Melodie Aduja, Chair, OCC Legislative Priorities Committee

Email: [legislativepriorities@gmail.com](mailto:legislativepriorities@gmail.com), Tel.: (808) 258-8889



Janaury 25, 2018

TO: Senator Josh Green, Chair  
Senator Stanley Chang, Vice Chair  
Senate Committee on Human Services

FROM: Park, Mei Linn  
95-674 Naholoholo Street  
Mililani, HI 96789

SUBJECT: Support for S.B. No. 2029 Relating to Child Care  
Hawaii State Capitol, Room 016, January 26, 2018, 2:45pm

Honorable Chair Green, Vice-Chair Chang and members of the committee, I am Mei Linn Park, a resident of Mililani, O‘ahu, a graduate student at the University of Hawai‘i Mānoa Myron B. Thompson School of Social Work and a single parent of a four-year-old child. I wish to submit testimony in support of S.B. No. 2029 Relating to Child Care, which would establish a new child tax credit of \$1,000 and changes percentages of costs for household and dependent care services that may be claimed as tax credits by lower-income families.

I support this bill for numerous reasons:

- The measures aim to reduce child poverty and provides relief for working families with the spiraling costs of child care.

Regarding the new child tax credit:

- Adding a child tax credit provides equitable treatment and relief to those who do not have children in child care homes/ centers such as stay-at-home parents.
- While I agree that a refund is better than no refund, I would advise the committee to thoroughly evaluate the impacts of the tax credit. With that in mind, I provide a few considerations. First, as the bill currently reads, this is a fully refundable credit. Please ensure that it remains in this form and does not become a partially refundable credit. Secondly, will there be a qualifying income to receive the credit? As it reads, there is attached dollar amount for qualifying income, but if there is to be an amendment to include such a clause, please do not create unrealistic barriers for low-income families to receive this credit.

Regarding the child care tax credit percentage adjustments:

- Child care is important for our keiki. By supporting development when children are very young, early childhood development and education programs can complement parental investments and produce large benefits to children, parents, and society.
  - Research shows that the quality of child care is important to the cognitive, language and social development of young children, with consistent and emotionally supportive care being hugely beneficial to children and families. Some of these benefits, such as increases in parental earnings and employment, are realized immediately, while other benefits, such as greater

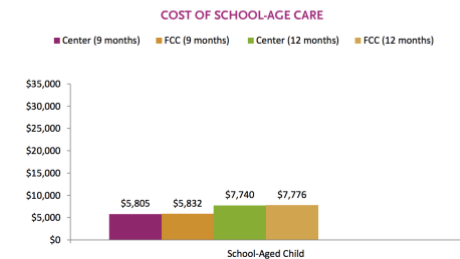
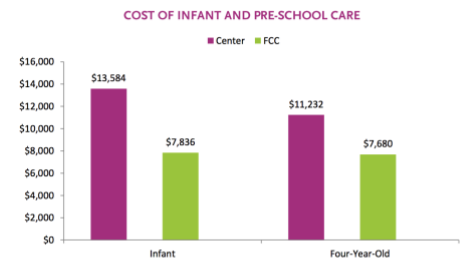
educational attainment and earnings, are realized later when children reach adulthood.

- Child care costs often consume a significant portion of household earnings and are a significant financial burden on working families, especially for lower-income and single parents.

- In 2015, there were 123,162 families with children in Hawaii, 17,323 of which were living in poverty.
- According to PATCH, the statewide average monthly full-time rates for child (ages 0-15 years) care ranges from \$646 to \$675 for child care homes and \$515 to \$1117 for child care centers. (Source: <http://patchhawaii.org/wp-content/uploads/2017/02/Data-for-Web-Ave-FT-Rates-HI-Child-Care-6.2016-PATCH.pdf>)

- Many argue that child care should be subsidized to enhance economic efficiency and growth because — especially for low- and moderate-income families — affordable, quality child care increases labor force participation among parents and has positive, long-term effects on the child’s productivity and earnings. High child care expenses make it more difficult for parents, especially mothers with younger children, to work. The effects on female labor force participation can be substantial. The Council of Economic Advisers (2014) concluded that a 10 percent reduction in child care costs increases maternal employment by 0.5 to 4.0 percent. (Source: [https://obamawhitehouse.archives.gov/sites/default/files/docs/early\\_childhood\\_report\\_update\\_final\\_non-embargo.pdf](https://obamawhitehouse.archives.gov/sites/default/files/docs/early_childhood_report_update_final_non-embargo.pdf))

### Cost of Child Care in the State of **Hawaii**



Please be reminded that the purpose of this bill is to benefit the less fortunate such as low-income families and single parents because, after all, they are the ones who need the help the most.

Mahalo for your consideration and for the opportunity to provide testimony.

Respectfully submitted by,  
Mei Linn Park