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**STATE OF HAWAII
DEPARTMENT OF TAXATION**

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To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Wednesday, February 6, 2019
Time: 10:00 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 1014, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of S.B. 1014 and offers the following comments on for the Committee's consideration.

S.B. 1014 amends section 235-55.6, Hawaii Revised Statutes (HRS), by increasing the applicable percentage of household and dependent care expenses necessary for gainful employment for which a taxpayer may claim an income tax credit, as well as increasing the cap on the amount of such expenses that may be taken into account for the credit in a year. Additionally, this measure requires the Department to adjust the gross income thresholds to which the percentages apply on September 20, 2020, and every September 20 thereafter. S.B. 1014 is effective upon approval and applies to taxable years beginning after December 31, 2019.

The Department notes that it can implement this measure as currently drafted and with its current effective date. Thank you for the opportunity to provide comments.



STATE OF HAWAII
Executive Office on Early Learning
2759 South King Street
HONOLULU, HAWAII 96826

February 5, 2019

TO: Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice-Chair
Senate Committee on Ways and Means

FROM: Lauren Moriguchi, Director
Executive Office on Early Learning

SUBJECT: Measure: S.B. No. 1014 – RELATING TO TAXATION
Hearing Date: February 6, 2019
Time: 10:00 a.m.
Location: Room 211

Bill Description: Amends the income tax credit for expenses for household and dependent care services necessary for gainful employment by increasing the taxpayer's applicable percentage of employment-related expenses and dollar limit on amounts creditable that constitute the tax credit. Requires the department of taxation to make annual adjustments for inflation to the adjusted gross income thresholds and dollar limits on amounts creditable. Applies to taxable years beginning after 12/31/19.

EXECUTIVE OFFICE ON EARLY LEARNING'S POSITION: Support the Intent

Good morning. I am Lauren Moriguchi, Director of the Executive Office on Early Learning (EOEL). EOEL supports the intent of S.B. 1014.

EOEL is statutorily responsible for the development of the State's early childhood system that shall ensure a spectrum of high-quality development and learning opportunities for children throughout the state, from prenatal care until the time they enter kindergarten, with priority given to underserved or at-risk children.

We appreciate the Legislature's recognition that families of young children in Hawaii need greater assistance with accessing high-quality early learning options, and believe this measure would help.

Thank you for the opportunity to testify on this bill.

SB-1014

Submitted on: 2/5/2019 9:39:39 AM

Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Testifying for O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments:

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Dependent Care Credit

BILL NUMBER: SB 1014

INTRODUCED BY: K. RHOADS, BAKER, S. CHANG, Harimoto, Kim, Shimabukuro

EXECUTIVE SUMMARY: Sharply increases the amount of the dependent care credit. We question whether it is an efficient use of resources to deliver this type of support through the tax system.

SYNOPSIS: Amends HRS section 235-55.6 to increase the amount of the dependent care credit as follows:

Adjusted gross income	Tax credit (percentage of employment-related expenses)
Not over \$25,000	75%
Over \$25,000 but not over \$30,000	70%
Over \$30,000 but not over \$35,000	65%
Over \$35,000 but not over \$40,000	60%
Over \$40,000 but not over \$45,000	55%
Over \$45,000 but not over \$50,000	50%
Over \$50,000	25%

The percentage is applied to the “employment-related expenses” of the taxpayer, meaning expenses for household services and expenses for care of a qualifying individual.

EFFECTIVE DATE: Taxable years beginning after December 31, 2019.

STAFF COMMENTS: The dependent care credit is available only if the care provided permits taxpayers to be gainfully employed. The credit now ranges from 15% to 25% of eligible expenses. The percentage amount varies with income, with higher percentage amounts applicable to lower income taxpayers.

The credit amount was last adjusted in 1989 by Act 322, SLH 1989, which increased the credit from 10% to 15% of eligible expenses to the current amount. This measure provides a sharp increase in the dependent care credit by hoisting the applicable percentage to between 25% and 75%.

There are some issues to consider with refundable credits targeted at low-income and homeless people generally.

First, a tax return is one of the most complicated documents for government agencies to process. The administrative costs associated with each one can quickly make heads spin. Furthermore, as the U.S. Treasury has experienced with the Earned Income Tax Credit, the combination of complexity and a refundable credit result in a certain percentage of improper payouts, some due to mistake or misunderstanding, and some due to bad actors.

Second, for those in the target population who do qualify for this credit, the relief that the credit provides comes in a tax refund which is paid, at the earliest, in the early part of the year after the tax return filer needs the relief. A person who qualifies for the credit in 2017, for example, won't get a check until early 2018.

Third, as a policy matter, lawmakers might prefer that the recipient of the refund not use the money obtained on certain things, illegal drugs for example. But the tax system contains no way of restricting the uses of a refund check; other departments do have systems in place to give some assurance that the payment will go toward legitimate living expenses such as groceries (EBT, for example).

The better solution is to get such people out of the tax system entirely. They receive peace of mind because they don't have to worry about tax returns, and the department doesn't have to worry about processing those returns. If additional relief to such people is considered desirable, it can be delivered through the agencies that are better equipped to do so.

Digested 2/3/2019

To: Committee Chair Senator Donovan Dela Cruz
Committee Vice Chair Senator Gilbert Keith-Agaran
Committee on Ways and Means

Date: February 6, 2019; Room 211

RE: **Support for SB 1014; Relating to Taxation Requirements**

The Early Childhood Action Strategy (ECAS) is a statewide public-private collaborative designed to improve the system of care for Hawai'i's youngest children and their families. ECAS brings together government and non-governmental organizations to align priorities for children prenatal to age eight, streamline services, maximize resources, and improve programs to support our youngest keiki. We strongly support SB 1014, which would amend the dependent care tax credit to provide economic relief and equity for families.

The cost of child care in Hawai'i has risen over the past years and ranks as one of the highest tuition rates in the country. Across all settings, the average cost of monthly full-time tuition is \$733. For infants and toddlers, the average cost of monthly full-time care is \$1200. The childcare tax credit is designed to help working families afford the cost of care. While the cost of care has risen dramatically, child care subsidies has not and has failed to keep pace with inflation. This means parents are shouldering majority of the cost of care at unaffordable rates.

This initiative would adjust the current tax credit structure based upon the the percentage of the taxpayers adjusted gross income. The state's dependent tax credit helps working families pay expenses for the care of children and/or adult dependents and under this proposal, the percentage of expenses a family can claim steadily decreases as income rises, until families with AGI of \$50,000 or more reach the minimum claim rate of 25 percent.

We urge the committee to pass SB1014 and amend the dependent care tax credit to provide economic relief and well-being for families.



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting SB 1014 – Relating to Taxation
Senate Committee on Ways and Means
Wednesday, February 6, 2019, 10:00 AM, conference room 211

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee:

Thank you for the opportunity to provide testimony in SUPPORT of **SB 1014**, which would boost the amount that working families can claim through the dependent care tax credit as well as add automatic cost of living adjustments.

This bill would help address the sky-high cost of child and dependent care in Hawai'i, which has profound consequences on the economic security of our working families.

According to the Hawai'i Early Learning Needs Assessment, the average cost of infant and toddler care in Hawai'i is \$13,500. That's more than annual in-state tuition at the University of Hawai'i.

In addition, 7 in 10 children in Hawai'i live in households where both parents work, and over a quarter of children live in households headed by a single parent, leaving no full-time unpaid caregiver at home.

Meanwhile, the population of Hawai'i is both older than that of the U.S. as a whole, and is aging faster. More and more families are facing the challenges of caring for dependent kūpuna, and their numbers will continue to grow.

Please pass SB 1014 to help lessen some of the burden of the highest cost of living in the nation on our state's working families.

We appreciate 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.

SB-1014

Submitted on: 2/4/2019 6:50:57 PM

Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Midwives Alliance of Hawaii	Testifying for Midwives Alliance of Hawaii	Support	No

Comments:

We strongly support SB1014 and urge you to pass this bill.



Board of Directors:

Senate Committee on Ways and Means

Gary L. Hooser
President

Hawai'i Alliance for Progressive Action Supports SB 1014

Andrea N. Brower
Ikaika M. Hussey
Co-Vice Presidents

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and members of the committee,

Kim Coco Iwamoto
Treasurer

On behalf of Hawai'i Alliance for Progressive Action (HAPA) we submit this testimony in strong support of SB 1014 which will give much needed help and relief to over 116,000 families in Hawaii.

Bart E. Dame
Secretary

HAPA is a statewide environmental, social and economic justice organization and engages over 10,000 local residents annually through our work. Many local residents are deeply concerned about the rising cost of living and them and their families being priced out of their home.

Paul Achitoff

Nancy Aleck

Laura Harrelson

Please support the amendment of the dependent care tax credit to provide economic relief and equity for families. This initiative would adjust the current tax credit structure based upon the percentage of the taxpayers adjusted gross income.

Kaleikoa Ka'eo

Michael Miranda

Walter Ritte Jr.

The state's dependent tax credit that helps working families pay expenses for the care of children and/or adult dependents. Under this proposal, the percentage of expenses a family can claim steadily decreases as income rises, until families with AGI of \$50,000 or more reach the minimum claim rate of 25 percent.

Pua Rossi-Fukino

Karen Shishido

Leslie Malulani Shizue Miki

Across all childcare settings, the cost for full time care can range from \$700-\$1100 monthly. Care for infants, and toddlers specifically, are the most expensive with an average of \$1100 per month.

There are 116,205 families with children in Hawaii and 48.5 percent of them have income below the ALICE threshold. 31.7% of two parent and two children households make less than it takes to afford their basic needs.

All Children in Hawai'i should have the opportunity to live in families that can provide for their needs and invest in their future.

Thank you for your consideration! We strongly urge you to support SB 1014.

Respectfully,

A handwritten signature in black ink, appearing to read "Anne Frederick", written in a cursive style.

Anne Frederick,
Executive Director

February 1, 2019

To: Senator Donanvan Dela Cruz, Chair
Senator Gilbert Keith-Agaran, Vice Chair
Senate Committee on Ways and Means

From: Laura Nevitt, Director of Public Policy
Hawaii Children's Action Network

Re: **S.B. 1014– Relating to Taxation Requirements**
Hawaii State Capitol, Room 211 , February 6, 2019, 10:00 AM

HCAN is committed to improving lives and being a strong voice advocating for Hawai'i's children. Last fall, HCAN convened input in person and online from more than 50 organizations and individuals that came forward to support or express interest for a number of issues affecting children and families in our state that resulted in the compilation of 2019 Hawai'i Children's Policy Agenda, which can be accessed at <http://www.hawaii-can.org/childrenspolicyagenda>.

HCAN supports the amendment of the dependent care tax credit to provide economic relief and equity for families. This initiative would change the current tax rate structure from a fixed qualifying rate to a tiered rate based upon the percentage of the taxpayers adjusted gross income. The state's dependent tax credit that helps working families pay expenses for the care of children and/or adult dependents. Under this proposal, the percentage of expenses a family can claim steadily decreases as income rises, until families with AGI of \$50,000 or more reach the minimum claim rate of 25 percent.

Across all child care settings, the cost for full time care can range from \$700-\$1100 monthly. Care for infants and toddlers specifically is the most expensive with an average of \$1100 per month.

There are 116,205 families with children in Hawaii and 48.5 percent of them have income below the ALICE threshold. 31.7% of two parent and two children households make less than it takes to afford their basic needs. All Children in Hawai'i should have the opportunity to live in families that can provide for their need and invest in their future.

For these reasons, HCAN respectfully requests that the committee pass this bill.

HCAN is committed to building a unified voice advocating for Hawaii's children by improving their safety, health, and education.

SB-1014

Submitted on: 2/4/2019 6:49:58 PM

Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Lea Minton	Individual	Support	No

Comments:

I strongly support SB1014 and urger you to pass this bill. Our families in Hawaii need this adjustment to the current dependent care tax credit so that they can retain more of their income to pay for the needs of their family.