
A BILL FOR AN ACT

RELATING TO TAX CREDIT FOR ON-SITE EARLY CHILDHOOD FACILITIES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that the cost of child
2 care in Hawaii is one of the highest in the nation. The annual
3 cost of child care in the State can exceed the annual in-state
4 tuition at the University of Hawaii at Manoa. In many cases,
5 families are choosing to have one parent leave the workforce
6 instead of paying for child care because the cost can equal what
7 one full-time working parent would make in a year after taxes.

8 The legislature further finds that more of Hawaii's
9 children are entering kindergarten without the physical,
10 cognitive, linguistic, social, and emotional skills necessary to
11 prepare them for success in school life. The link between
12 school readiness and success in school is indisputable.
13 Kindergarten teachers within the department of education report
14 that many of the children who do not attend pre-kindergarten
15 programs are developmentally behind by eighteen to twenty-four
16 months compared to their peers who attend preschool.



1 The legislature also finds that employers who create on-
 2 site early childhood facilities see greater employee retention
 3 and performance, lower absenteeism, and a more productive and
 4 positive workplace environment. On-site early childhood
 5 facilities at workplaces may help parents to address concerns of
 6 child care costs and provide more opportunities for access to
 7 early childhood learning programs.

8 The purpose of this Act is to expand child care options for
 9 parents and increase the number of high-quality early childhood
 10 programs by establishing an income tax credit for employers who
 11 create on-site early childhood facilities.

12 SECTION 2. Chapter 235, Hawaii Revised Statutes, is
 13 amended by adding a new section to be appropriately designated
 14 and to read as follows:

15 "§235-_____ On-site early childhood facility tax credit.
 16 (a) There shall be allowed to each taxpayer subject to the
 17 taxes imposed by this chapter, an income tax credit that shall
 18 be deductible from the taxpayer's net income tax liability, if
 19 any, imposed by this chapter for the taxable year in which the
 20 credit is properly claimed.



1 In the case of a partnership, S corporation, estate, or
2 trust, the tax credit allowable shall be for qualified costs
3 incurred by the entity for the taxable year. The cost upon
4 which the tax credit is computed shall be determined at the
5 entity level. Distribution and share of the credit shall be
6 determined pursuant to section 704(b) of the Internal Revenue
7 Code.

8 (b) Every taxpayer claiming a tax credit under this
9 section shall submit a written, sworn statement to the
10 department of taxation no later than ninety days following the
11 end of each taxable year in which qualified costs were paid or
12 incurred, identifying:

13 (1) Qualified costs, if any, paid or incurred in the
14 previous taxable year; and

15 (2) The amount of tax credits claimed pursuant to this
16 section, if any, in the previous taxable year.

17 (c) The department of taxation shall:

18 (1) Maintain records of the names and addresses of the
19 taxpayers claiming the credit under this section and
20 the total amount of the qualified costs upon which the
21 tax credit is based;



- 1 (2) Verify the amount of the qualified costs;
- 2 (3) Total all qualified costs that the department of
- 3 taxation certifies; and
- 4 (4) Provide a letter to the director of taxation
- 5 specifying the amount of the tax credit for each
- 6 taxable year and cumulative amount of the tax credit
- 7 for all years claimed.

8 Upon each determination made under this subsection, the
9 department of taxation shall issue a letter to the taxpayer
10 verifying the information submitted to that department,
11 including the amount of qualified costs and the credit amount
12 qualified for in each taxable year a credit is claimed. The
13 taxpayer shall file the letter from the department of taxation
14 with the taxpayer's tax return. The director of taxation may
15 audit and adjust the tax credit amount to conform to the
16 information filed by the taxpayer.

17 (d) The department of human services shall provide a
18 certificate of approval to qualified on-site early childhood
19 facilities implemented by taxpayers. In determining whether to
20 grant approval to an on-site early childhood facility, the



1 department of human services shall consider the following
2 criteria:

- 3 (1) Whether the on-site early childhood facility provides
4 early childhood programs from child care to preschool
5 and junior kindergarten;
- 6 (2) Participation rate of employees;
- 7 (3) Quality of the early childhood programs being
8 provided; and
- 9 (4) Whether the presence of an on-site early childhood
10 facility promotes a healthy workplace environment.

11 The department of human services shall adopt rules pursuant to
12 chapter 91 to implement the certification requirements under
13 this section.

14 (e) The director of human services, in consultation with
15 the director of taxation, shall create a form that indicates a
16 taxpayer is using an on-site early childhood facility.

17 (f) The tax credit shall be equal to twenty-five per cent
18 of the taxpayer's qualified costs subject to the following:

- 19 (1) The total credit allowed for a taxpayer in any taxable
20 year shall not exceed \$ _____ ;



1 (2) The total amount of tax credits allowed under this
2 section shall not exceed \$ for all taxpayers
3 in any fiscal year. If the total amount of credits
4 claimed under this section by all taxpayers in any
5 fiscal year exceeds \$, the credit shall be
6 allowed to taxpayers based on the date of
7 certification by the department of human services on a
8 first come, first served basis. Any taxpayer who is
9 certified by the department of human services in a
10 fiscal year and who is not eligible to claim the
11 credit due to the \$ cap having been exceeded
12 for that fiscal year shall be eligible to claim the
13 credit in the subsequent year and shall receive
14 priority for the credit over taxpayers who receive
15 certification in the subsequent fiscal year.

16 (g) If the tax credit under this section exceeds the
17 taxpayer's net income tax liability, the excess shall not be
18 refunded to the taxpayer; provided that no payments of the tax
19 credits allowed by this section shall be made for amounts less
20 than \$1.



1 (h) Any credit under this section shall be recaptured
2 following the close of the taxable year for which the credit is
3 claimed if:

4 (1) The on-site early childhood facility fails to operate
5 for a minimum of ten years; provided that the credit
6 shall not be subject to recapture if the department of
7 human services certifies that the employer ceased
8 operating the facility for reasonable cause,
9 including, but not limited to, going out of business,
10 being forced to close due to natural disaster or other
11 unforeseeable circumstances, and closing the facility
12 temporarily for reasons such as facility refurbishment
13 or improvement with the intention of reopening it; or
14 (2) The credit was claimed for acquiring, constructing, or
15 establishing a facility that is not certified under
16 subsection (d) within one hundred eighty days of the
17 completion of its acquisition, construction, or
18 establishment.

19 The recapture shall be equal to one hundred per cent of the
20 amount of the total tax credit claimed under this section in the
21 preceding ten taxable year and shall be added to the taxpayer's



1 tax liability for the taxable year in which the recapture occurs
2 pursuant to this subsection.

3 (i) Every claim, including amended claims, for the tax
4 credit under this section shall be filed on or before the end of
5 the twelfth month following the close of the taxable year for
6 which the tax credit may be claimed. Failure to comply with the
7 foregoing provision shall constitute a waiver of the right to
8 claim the credit.

9 (j) No taxpayer shall claim any other credit under this
10 chapter for the same qualified costs used to properly claim a
11 tax credit under this section for the taxable year.

12 (k) The director of taxation:

13 (1) Shall prepare any forms that may be necessary to claim
14 a tax credit under this section;

15 (2) May require the taxpayer to furnish reasonable
16 information to ascertain the validity of the claim for
17 the tax credit made under this section; and

18 (3) May adopt rules pursuant to chapter 91 to effectuate
19 the purposes of this section.

20 (l) This section shall not apply to any amount paid or
21 incurred before January 1, 2021.



1 (m) For the purposes of this section:

2 "Qualified costs" means the expenses incurred in acquiring,
3 constructing, and establishing a qualified on-site early
4 childhood facility and the associated operating costs; provided
5 that qualified costs shall not include costs paid or incurred
6 for insurance.

7 "Qualified on-site early childhood facility" means an on-
8 site early childhood facility, offered by an employer to all
9 employees, that is:

10 (1) Licensed and approved by the department of human
11 services; and

12 (2) Accredited by a recognized national early childhood
13 accrediting agency within two years of initial
14 operation."

15 SECTION 3. There is established one full-time equivalent
16 (1.0 FTE) on-site early childhood facility coordinator position
17 in the executive office on early learning to assist with
18 licensure and accreditation requirements, work with providers,
19 and ensure appropriate facility design of on-site early
20 childhood facilities established by employers in the State.



1 SECTION 4. There is appropriated out of the general
2 revenues of the State of Hawaii the sum of \$ or so
3 much thereof as may be necessary for fiscal year 2020-2021 and
4 the same sum or so much thereof as may be necessary for fiscal
5 year 2021-2022 for one full-time equivalent (1.0 FTE) on-site
6 early childhood facility coordinator position in the executive
7 office on early learning to assist with licensure and
8 accreditation requirements, work with providers, and ensure
9 appropriate facility design of on-site early childhood
10 facilities established by employers in the State.

11 The sums appropriated shall be expended by the department
12 of education for the purposes of this Act.

13 SECTION 5. New statutory material is underscored.

14 SECTION 6. This Act shall take effect on July 1, 2050;
15 provided that section 2 shall apply to taxable years beginning
16 after December 31, 2020.



Report Title:

On-site Early Childhood facilities; Tax credit; Appropriation

Description:

Establishes an income tax credit for employers who create on-site early childhood facilities. Establishes and appropriates funds for 1.0 FTE on-site early childhood facility coordinator position. Applies to taxable years beginning after 12/31/2020. Takes effect on 7/1/2050. (HD1)

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