

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA
DIRECTOR

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

**STATE OF HAWAII
DEPARTMENT OF TAXATION**

830 PUNCHBOWL STREET, ROOM 221

HONOLULU, HAWAII 96813

<http://tax.hawaii.gov/>

Phone: (808) 587-1540 / Fax: (808) 587-1560

Email: Tax.Directors.Office@hawaii.gov

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

Date: Wednesday, February 6, 2019
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 1193, Relating to Taxation

The Department of Taxation (Department) offers the following comments on H.B. 1193 the Committee's consideration.

H.B. 1193 amends section 235-55.6, Hawaii Revised Statutes (HRS), by blanking out 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 blanking out the cap on the amount of such expenses that may be taken into account for the credit in a year. H.B. 1193 is effective upon approval and applies to taxable years beginning after December 31, 2019.

The Department notes that it can implement this measure with its current effective date.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Dependent Care Credit

BILL NUMBER: HB 1193

INTRODUCED BY: JOHANSON, BELATTI, BROWER, CULLEN, ELI, HASHIMOTO, ICHIYAMA, KITAGAWA, B. KOBAYASHI, D. KOBAYASHI, C. LEE, LOWEN, LUKE, MATAYOSHI, MORIKAWA, NAKASHIMA, NISHIMOTO, OHNO, ONISHI, PERRUSO, SAIKI, SAN BUENAVENTURA, TAKAYAMA, TARNAS, WILDBERGER, WOODSON, YAMANE, YAMASHITA

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. The applicable percentages are all changed to unspecified amounts. The caps on employment-related expenses incurred per taxable year are also changed to unspecified amounts.

EFFECTIVE DATE: Taxable years beginning after December 231, 2018.

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 2/4/2019



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting HB 1193 – Relating to Taxation
House Committee on Finance
Wednesday, February 6, 2019, 2:00 PM, conference room 308

Dear Chair Luke, Vice Chair Cullen, and members of the Committee:

Thank you for the opportunity to provide testimony in **SUPPORT** of **HB 1193**, 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 HB 1193 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.



AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS	MAILING
ADDRESS		
John Bickel, President	Melodie Aduja	Ken Farm
Alan Burdick, Vice President	Guy Archer	Chuck Huxel
Marsha Schweitzer, Treasurer	Juliet Begley	Jan Lubin
Dylan Armstrong, Secretary	Gloria Borland	Jenny Nomura
		Stephen O'Harrow P.O. Box 23404 Doug Pyle Honolulu Hawai'i 96823

Feb. 5 , 2018

TO: Honorable Chair Luke and FIN Committee Members

RE: HB 1193 RELATING TO TAXATION

Support for hearing on Feb. 6

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 1193 which raises the dependent care tax credit to offset the high costs of caring for dependents. This is especially true because of the rise in the number of senior citizens who are becoming dependents to their sons and daughters and the cost of caring for those senior citizens who often aren't covered by Long-Term Insurance policies or Medicare/Medicaid. This bill provides credit for caring for dependents other than seniors, but in Hawai'i as well as nationally, seniors comprise the largest number of those needing dependent care. Americans for Democratic Action supports raising the credit for those who care for dependent and are facing financial difficulties because they are taking care of their dependents.

Thank you for your favorable consideration.

Sincerely,

John Bickel President



HB-1193

Submitted on: 2/4/2019 10:46:15 PM

Testimony for FIN on 2/6/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Michael Golojuch Jr	LGBT Caucus of the Democratic Party of Hawaii	Support	Yes

Comments:

HB-1193

Submitted on: 2/5/2019 1:52:57 PM

Testimony for FIN on 2/6/2019 2:00:00 PM

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

Comments:

HB-1193

Submitted on: 2/5/2019 9:35:10 AM

Testimony for FIN on 2/6/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Raelyn Reyno Yeomans	Individual	Support	No

Comments:

Support!

February 5, 2019

To: Representative Sylvia Luke, Chair
Representative Ty Cullen, Vice Chair
House Committee on Finance

LATE

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

Re: **H.B. 1193– Relating to Taxation**
Hawaii State Capitol, Room 308 , February 6, 2019, 2:00 PM

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 adjust the current tax credit structure 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 love 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.