



STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaii 96809-0339

March 10, 2020

TO: The Honorable Representative Joy A. San Buenaventura
House Committee on Human Services & Homelessness

FROM: Pankaj Bhanot, Director

SUBJECT: **SB 2291 SD2 - RELATING TO TAXATION**

Hearing: March 11, 2020, 10:00 a.m.
Conference Room 329, State Capitol

DEPARTMENT'S POSITION: The Department of Human Services (DHS) supports the intent of this bill to establish a refundable tax credit of a taxpayer's eligible child care expenses that would include supporting the child care needs of taxpayer's employees or purchasing child care slots at a child care facility for the taxpayer's employees. DHS requests clarification and proposes an amendment.

DHS defers to the Department of Taxation as to implementation and to the Department of Budget & Finance as to the fiscal implications.

PURPOSE: This bill establishes a refundable tax credit equal to an unspecified percentage of a taxpayer's eligible child care expenses. Defines eligible child care expenses to mean the sum the taxpayer paid to a child care facility in the State to: (1) support the child care needs of the taxpayer's employees in the taxable year; and (2) purchase child care slots at the child care facility that are actually provided or reserved for children of the taxpayer's employees. Effective 7/1/2050. (SD2)

DHS clarifies that as written the proposed subsection (g) indicates that "child care facility" means a *licensed* child care facility as defined under section 346-151," and therefore

subsection (b) would be limiting the “eligible business child care expenses” to “the sum of the amounts a taxpayer paid to” a licensed group child care home and licensed group child care center.

Importantly, under the proposed subsection (g)(2), any purchased child care enrollment at a registered family child care home would *not* be “eligible business child care expenses,” as family child care homes are registered with the department and are not licensed by the department as the requirements for registration are less strict than the requirements for licensure, in accordance with section 346-172, Hawai`i Revised Statutes. If the intent of the Legislature is to include the use of registered family child care for the refundable tax credit, the proposed language in (g) should be revised to be “‘child care facility’ means a licensed or registered child care facility defined under section 346-151.”

DHS supports the need to increase the availability and capacity of child care facilities for Hawai`i’s families and children and increase access to child care by working families. This proposed tax credit would incentivize employers to support the needs of their employees with young children and help retain Hawai`i’s workforce.

Thank you for the opportunity to provide testimony on this bill.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit for Business-Supported Child Care

BILL NUMBER: SB 2291, SD-2

INTRODUCED BY: Senate Committee on Ways & Means

EXECUTIVE SUMMARY: Establishes a refundable tax credit equal to an unspecified percentage of a taxpayer's eligible child care expenses. Defines eligible child care expenses to mean the sum of the taxpayer paid to a child care facility in the State to: (1) support the child care needs of the taxpayer's employees in the taxable year; and (2) purchase child care slots at the child care facility that are actually provided or reserved for children of the taxpayer's employees. Applies to taxable years beginning after December 31, 2020.

SYNOPSIS: Adds a new section to Chapter 235, HRS, that would provide a refundable credit equal to an unspecified percentage of eligible business child care expenses. Eligible business child care expenses are defined as the sum of the amounts a taxpayer paid to a child care facility in the State to: (1) support the child care needs of the taxpayer's employees in the taxable year, not to exceed \$ _____ per child per taxable year; and (2) purchase child care slots at the child care facility that are actually provided or reserved for children of the taxpayer's employees, not to exceed \$ _____ per taxable year.

Provides that all claims for a tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the tax credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

States that no other tax credit or deduction shall be claimed under this chapter for the certain expenses used to claim a tax credit under this section for the taxable year.

Defines "child care facility" as a licensed child care facility as defined under section 346-151, HRS.

EFFECTIVE DATE: 7/1/2050.

STAFF COMMENTS: Hawaii already offers a credit to families for dependent care expenses necessary for gainful employment (HRS section 235-55.6). This measure gives additional refundable credits to any employer who pays for child care for the employer's employees. Although the two credits appear complementary, they are not. The existing credit is only given to families at or below specified income levels, while the proposed employer credit is not. The existing credit has strict limits on the amount of credit given, while the proposed employer credit does not. If the idea is to provide a complementary credit when an employer provides child care, lawmakers should consider integrating the two credits so that no windfalls are created (such as

the State subsidizing child care of families with income levels well north of the limits contained in the existing credit).

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. Indeed, tax credits 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?

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 3/9/2020

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To: The Honorable Joy A. San Buenaventura, Chair;
The Honorable Nadine K. Nakamura, Vice Chair;
and Members of the House Committee on Human Services & Homelessness

From: Rona M. Suzuki, Director
Department of Taxation

Re: **S.B. 2291, S.D. 2, Relating to Taxation**

Date: Wednesday, March 11, 2020

Time: 10:00 A.M.

Place: Conference Room 329, State Capitol

The Department of Taxation (Department) appreciates the intent of S.B. 2291, S.D. 2 and provides the following comments.

S.B. 2291, S.D. 2, creates a refundable income tax credit equal to an unspecified percentage of eligible business child care expenses during the taxable year. It has a defective effective date of July 1, 2050 and is otherwise effective for taxable years beginning after December 31, 2020.

The Department notes that the Senate Committee on Human Services made amendments to this measure at the Department's request. The Department appreciates the consideration of its testimony and notes that it can administer S.B. 2291, S.D. 2, provided a functional effective date is inserted.

Thank you for the opportunity to provide comments.



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

LATE

March 10, 2020

TO: Representative Joy A. San Buenaventura, Chair
Representative Nadine K. Nakamura, Vice Chair
House Committee on Human Services & Homelessness

FROM: Lauren Moriguchi, Director
Executive Office on Early Learning

SUBJECT: **Measure:** S.B. No. 2291, S.D. 2 – RELATING TO TAXATION
Hearing Date: March 11, 2020
Time: 10:00 a.m.
Location: Room 329

Bill Description: Establishes a refundable tax credit equal to an unspecified percentage of a taxpayer's eligible child care expenses. Defines eligible child care expenses to mean the sum the taxpayer paid to a child care facility in the State to: (1) support the child care needs of the taxpayer's employees in the taxable year; and (2) purchase child care slots at the child care facility that are actually provided or reserved for children of the taxpayer's employees. Effective 7/1/2050.

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 Senate Bill 2291, S.D. 2.

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 more affordable, high-quality child care options. Incentivizing employers to address their employees' child care needs through tax credits such as the one proposed in this bill would help provide our families with the support they need.

Thank you for the opportunity to testify on this bill.