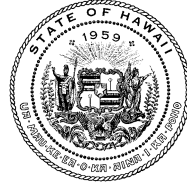


DAVID Y. IGE
GOVERNOR
JOSH GREEN M.D.
LT. GOVERNOR



RONA M. SUZUKI
DIRECTOR OF TAXATION
DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

To: The Honorable Donovan M. Dela Cruz, Chair;
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

From: Rona M. Suzuki, Director
Department of Taxation

Re: **S.B. 2294, Relating to Taxation**
Date: Wednesday, January 29, 2020
Time: 10:10 A.M.
Place: Conference Room 211, State Capitol

The Department of Taxation (Department) supports the intent of this measure and offers the following comments.

S.B. 2249 amends section 235-55.6, Hawaii Revised Statutes (HRS), by raising the adjusted gross income thresholds associated with the percentages of household and dependent care expenses necessary for gainful employment for which a taxpayer may claim an income tax credit. S.B. 2294 is effective upon approval and applies to taxable years beginning after December 31, 2019.

The Department will be able to implement the changes proposed in this measure with its current effective date.

Thank you for the opportunity to provide comments.



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of the Hawai‘i Appleseed Center for Law and Economic Justice
Supporting SB 2294 – Relating to Taxation
Senate Committee on Ways and Means
Wednesday, January 29, 2020, 10:10 AM, in 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 2294**, which would boost the amount that working families can claim through the household and dependent care tax credit.

This bill would help address the sky-high cost of child, kupuna, and other 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.

At the same time, 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 kupuna, and their numbers will continue to grow.

And the cost of home health aide and home care services, which are often needed to care for elderly relatives, are significantly higher in Hawai‘i than the national average, according to a survey by MetLife.

Please pass SB 2294 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.



Hawaii
Children's Action Network Speaks!
Building a unified voice for Hawaii's children

Hawaii Children's Action Network Speaks! is a nonpartisan 501c4 nonprofit committed to advocating for children and their families. Our core issues are safety, health, and education.

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

Re: **SB 2294-relating to taxation**
Hawaii State Capitol, Room 211
10:10AM, 1/29/2020

Chair Dela Cruz, Vice Chair Keith-Agaran, and committee members,

On behalf of Hawaii Children's Action Network Speaks!, we write in support of SB 2294, which would amend the household and dependent care tax credit, and offer an amendment. Child care cost in Hawaii are some of the most expensive in the country. Across all child care settings, the cost for full-time care can range from \$700-\$1100 monthly. Care for infants and toddlers is the most expensive, with an average of \$1100 per month. Families are desperate for relief.

In Hawaii, 7 out of 10 children live in homes where both parents work. This makes child care a necessity for both the families and our economy. Allowing families to claim a portion of their expenses as a tax credit helps them continue to pay for care and stay engaged in the workforce.

Additionally, we off the following amendment:

By amending subsection (c) to read:

"(c) Dollar limit on amount creditable. The amount of the employment-related expenses incurred during any taxable year which may be taken into account under subsection (a) shall not exceed:

(1) ~~[\$2,400]~~ \$5,000 if there is one qualifying individual with respect to the taxpayer for such taxable year, or

(2) ~~[\$4,800]~~ \$10,000 if there are two or more qualifying individuals with respect to the taxpayer for such taxable year.

Increasing both the brackets and the cap will give families a robust credit.

We appreciate the opportunity to provide testimony in support of SB 2294 and respectfully request the committee to support this measure.

Thank you,

Kathleen Algire
Director, Public Policy and Research

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Expand Brackets for Dependent Care Credit

BILL NUMBER: SB 2294

INTRODUCED BY: DELA CRUZ, Inouye, Shimabukuro, Taniguchi

EXECUTIVE SUMMARY: Amends the income brackets of the tax credit for expenses for household and dependent care services necessary for gainful employment. 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 modify the income brackets of the dependent care credit as follows:

Adjusted gross income	Tax credit (percentage of employment-related expenses)
Not over \$45,000	25%
Over \$45,000 but not over \$50,000	24%
Over \$50,000 but not over \$55,000	23%
Over \$55,000 but not over \$60,000	22%
Over \$60,000 but not over \$65,000	21%
Over \$65,000 but not over \$70,000	20%
Over \$70,000	15%

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: 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 2016 by Act 235, SLH 2016, which established the current brackets. This measure keeps the credit percentage but elevates the brackets.

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 1/27/2020