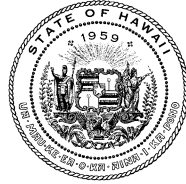


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
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RONA M. SUZUKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

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. 3014, S.D. 1, Relating to On-Site Early Education Facilities**

Date: Thursday, February 20, 2020

Time: 10:35 A.M.

Place: Conference Room 211, State Capitol

The Department of Taxation (Department) appreciates the intent of S.B. 3014, S.D. 1, and provides the following comments. S.B. 3014, S.D. 1, adds a new section to chapter 235 to create an on-site early childhood facility tax credit.

The Department notes that the Senate Committee on Human Services reported that it amended the measure by removing the implementation of the certifications for the credit, however, S.D. 1 deleted the Department of Human Services (DHS) certification provision and preserved the Department on Taxation certification provisions in subsections (b) and (c). As discussed below, the Department of Taxation is unable to administer an aggregate cap on a credit without a certifying agency.

The Department recommends that an agency with subject matter expertise be designated to certify the credit, instead of placing the certification process on the Department (subsections (b) and (c) of this measure). The Department has final authority over examination and adjustment of tax returns and **should not certify a credit it would need to examine.**

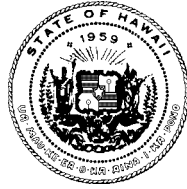
It is unclear whether the credit is intended to be refundable or nonrefundable. Subsection (f) does not allow for the refund of any excess credit over liability and also does not allow a carryforward of unused credit, a common feature of most nonrefundable credits. This should be clarified.

The Department also has concerns about the aggregate cap imposed under subsection (e)(2). As currently written, subsection (e)(2) may not be sufficient to impose an aggregate cap on the credit. The Department is not able to administer an aggregate cap as the credit claims come in with tax returns. In other credits that have an aggregate cap, such as the Important Agricultural Land Tax Credit under section 235-110.93(h), Hawaii Revised Statutes (HRS), the aggregate cap is enforced through a certification process that requires immediately discontinuing certifying credits when the cap is reached. In addition, because most taxpayers report taxes on a calendar year, the Department suggests applying the aggregate cap to the calendar year instead of fiscal year. To adopt these

suggestions, and assuming that DHS is reinserted as the certifying agency in subsections (b) and (c), the Department recommends amending subsection (e)(2) to read as follows:

- (2) The total amount of tax credits allowed under this section shall not exceed \$_____ for all taxpayers in any year. If the total amount of credits claimed under this section by all taxpayers in any year exceeds \$_____, the department of human services shall immediately discontinue issuing letters under subsection (c) and notify the department of taxation. In no instance shall the department of human services issue letters under subsection (c) for a total amount of credits exceeding \$_____ per year. To comply with this restriction, the department of human services shall issue letters under subsection (c) for credits on a first come, first served basis. Any taxpayer whose qualified costs are not eligible to be issued a letter under subsection (c) by the department of human services in a year due to the \$_____ cap having been exceeded for that year shall be eligible to have those qualified costs be issued a letter under subsection (c) in the subsequent year and those qualified costs shall receive priority for a letter under subsection (c) over qualified costs incurred in that subsequent year. The department of taxation shall not allow the aggregate amount of credits claimed to exceed \$_____ per year.

Thank you for the opportunity to provide comments.



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

February 18, 2020

TO: The Honorable Senator Donovan M. Dela Cruz,
Chair Senate Committee on Ways and Means

FROM: Pankaj Bhanot, Director

SUBJECT: **SB 3014 SD1 - RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES**

Hearing: February 20, 2020, 10:35 a.m.
Conference Room 211, State Capitol

DEPARTMENT'S POSITION: The Department of Human Services (DHS) appreciates the intent of this bill to establish an income tax credit for employers who create on-site child care facilities, provides comments, and proposes amendments. DHS defers to the Department of Taxation (DoTax) and the Executive Office on Early Learning on the issues of implementation.

PURPOSE: This bill proposes to establish an income tax credit for employers who create on-site early childhood facilities and establishes and appropriates funds for 1.0 position for an on-site early childhood facility coordinator within the Executive Office on Early Learning.

The Senate Committee on Human Services amended the measure by:

1. Removing the implementation of certification of tax credit of early childhood facilities;
2. Eliminating appropriations for fiscal year 2021-2022; and
3. Making technical, nonsubstantive amendments for the purpose of clarity and consistency.

DHS supports the need to increase the availability and capacity of child care facilities for Hawai'i's families and children and welcomes the dialogue about the various strategies that aim to do so.

DHS is the regulatory agency of the state's child care system codified in Part VIII, Chapter 346, Hawaii Revised Statutes (HRS). The department points out that the term "early childhood facility" proposed in this measure does not fall under the child care definitions established under section 346-151, HRS.

If the intent of the Legislature is for the tax credit only to be applicable when an employer establishes an on-site group child care center, which includes both infant and toddler child care centers and group child care centers (i.e. preschools), then the bill should be amended to reference "group child care centers," as defined in section 346-151, HRS, rather than using the term "early childhood facilities" which is currently not defined.

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



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

February 17, 2020

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. 3014, S.D. 1 – RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES
Hearing Date: February 20, 2020
Time: 10:35 a.m.
Location: Room 211

Bill 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.

EXECUTIVE OFFICE ON EARLY LEARNING'S POSITION: Comments

Good morning. I am Lauren Moriguchi, Director of the Executive Office on Early Learning (EOEL).

We appreciate the Legislature's support of EOEL's work to increase access to high-quality early learning. 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 support the intent of S.B. 3014, S.D. 1, to increase the availability and capacity of high-quality early learning programs for our keiki and families. The Hawaii Early Childhood State Plan, which launched in January 2019, identifies incentivizing growth in the availability and quality of early childhood care and education providers and services as one of the shared priorities of the early childhood community across the state. Throughout the past year, EOEL convened many workgroups with public and private sector representatives to identify strategies associated with improving availability and quality of providers and services, and will continue working with the community to advance this work.

Thank you for the opportunity to offer comments on this bill.

Date: 17 February 2020

To: Chair and Members of the Committee

From: Early Childhood Action Strategy

Re: SUPPORT for SB 3014: Establishing a tax credit for employers who create on-site early childhood care facilities

Early Childhood Action Strategy (ECAS), a statewide public-private collaborative working to improve the system of care for Hawai'i's youngest children and their families, writes in SUPPORT of SB 3014, which would increase the availability of accessible child care for working families and would provide a vital work support. This is particularly important in Hawaii where more than 2 in 3 young children are in child care because both of their parents are working full-time.

In Hawaii, the average annual cost of center-based care for an infant is 18.6% of state median income.¹ Access to affordable child care can increase labor force participation and supports our state's economic growth. Affordable child care supports parents who are seeking additional education and training, contributing to higher earnings over a lifetime. Meanwhile, supporting employers' efforts to address their employees' child care needs contributes to the culture of workforce and economic development.

Early Childhood Action Strategy supports this measure and encourages the Committee to support its passage. Thank you for the opportunity to provide this testimony.

¹ Committee for Economic Development. 2019. *Child Care in State Economies: Hawaii*.
https://www.ced.org/assets/reports/childcareimpact/fact_sheets/revise/Hawaii%20Fact%20Sheet%201312019.pdf



**Hawaiian
Electric**

**TESTIMONY BEFORE THE SENATE COMMITTEE ON
WAYS AND MEANS**

S.B. 3014, SD1

Relating to On-Site Early Childhood Facilities

Thursday, February 20, 2020

10:35 a.m.

State Capitol, Conference Room 211

Written Testimony Only

Shannon Asato
Treasurer
Hawaiian Electric Company, Inc.

Dear Chair Dela Cruz, Vice Chair Keith-Agaran and Committee Members,

My name is Shannon Asato and I am testifying on behalf of Hawaiian Electric Company Inc., (Hawaiian Electric Company) **in support of S.B. 3014, SD1** Relating to On-Site Early Childhood Facilities.

Due to the high cost of child care and the shortage of early childhood facilities in Hawaii, businesses can benefit from supporting their employees by creating on-site childhood facilities. The Hawaiian Electric Companies are supportive of the intent of the bill that will make available more early childhood facilities for the residents of Hawaii, including our employees. If the concept is enacted, we would be pleased to be part of the discussions for implementation to see if we could make the credit apply to our unique situation, as a regulated public utility, and would be happy to add to the discussion.

Accordingly, the Hawaiian Electric Companies support S.B. 3014, SD1. Thank you for this opportunity to testify.



HAWAI'I COMMUNITY
FOUNDATION

LATE

February 20, 2020

Senate Committee on Ways and Means
Hearing: 10:35 a.m., February 20, 2020
Hawaii State Capitol Room 211

Re: SUPPORT for SB3014, SD1 RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES

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

My name is Micah Kane, CEO & President of the Hawai'i Community Foundation. I appear before you to testify in SUPPORT of SB3014, SD1. SB3014, SD1 establishes an income tax credit for employers who create on-site early childhood facilities, and it appropriates funds for an early childhood facility coordinator position.

It is estimated that about 54% or 20,000 3- and 4-year olds in Hawai'i are not enrolled in nursery school, preschool or kindergarten. In addition to the lack of qualified pre-kindergarten teachers and assistants, we are also constrained by the number of classrooms facilities available for early learning instruction. To meet the demand for space, in addition to new construction of classrooms, it is important to identify a variety of classroom alternatives, including using existing facilities at public schools, government facilities, nonprofit entities, commercial buildings, and workplaces of private employers.

Providing incentives for private employers to make childcare facilities available for their employees is a creative and effective way to increase the number of classrooms available for early learning opportunities. For employees, they would be comforted that their children are at or near their workplace, and that it could dramatically reduce the commute time for drop-off and pick-ups of their children.

We strongly support SB3014, SD1. Thank you for the opportunity to testify on this matter.