



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

March 10, 2020

**TO:** Representative Justin H. Woodson, Chair  
Representative Mark J. Hashem, Vice Chair  
Representative Sean Quinlan, Vice Chair  
House Committee on Lower & Higher Education

Representative Aaron Ling Johanson, Chair  
Representative Stacelynn K.M. Eli, Vice Chair  
House Committee on Labor & Public Employment

**FROM:** Lauren Moriguchi, Director  
Executive Office on Early Learning

**SUBJECT: Measure:** S.B. No. 3014, S.D. 2 – RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES

**Hearing Date:** March 13, 2020

**Time:** 2:05 p.m.

**Location:** Room 308

**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 afternoon. 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.

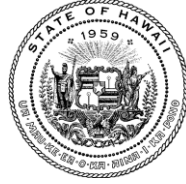
We support the intent of S.B. 3014, S.D. 2, to increase the availability and capacity of high-quality early learning programs for our keiki and families. The Hawaii Early Childhood State Plan, which launched in January 2019, identifies incentivizing growth in the availability and quality of early childhood 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.

DAVID Y. IGE  
GOVERNOR

JOSH GREEN M.D.  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
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To: The Honorable Justin H. Woodson, Chair;  
The Honorable Mark J. Hashem, Vice Chair;  
The Honorable Sean Quinlan, Vice Chair;  
and Members of the House Committee on Lower & Higher Education

The Honorable Aaron Ling Johanson, Chair;  
The Honorable Stacelynn K.M. Eli, Vice Chair;  
and Members of the House Committee on Labor & Public Employment

From: Rona M. Suzuki, Director  
Department of Taxation

Re: **S.B. 3014, S.D. 2, Relating to On-Site Early Education Facilities**

Date: Friday, March 13, 2020

Time: 2:05 P.M.

Place: Conference Room 309, State Capitol

The Department of Taxation (Department) appreciates the intent of S.B. 3014, S.D. 2, and provides the following comments. The measure adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create an on-site early childhood facility tax credit. S.B. 3014, S.D. 2, has a defective effective date of July 1, 2050, but otherwise applies to taxable years beginning after December 31, 2020.

The Department notes that the Senate Committee on Human Services reported that it amended the measure by removing the implementation of the certification of the credit. However, S.D. 1 deleted the Department of Human Services (DHS) certification provision and preserved the Department of 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**.

In addition, the Department has concerns about whether subsection (e)(2) is sufficient to impose an aggregate cap as intended. In other credits that have an aggregate cap, such as the Important Agricultural Land Tax Credit under section 235-110.93(h), HRS, the aggregate cap is enforced through a certification process that requires immediately discontinuing certifying credits when the cap is reached. 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:

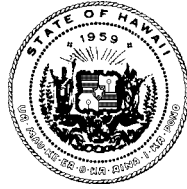
- (2) The total amount of tax credits allowed under this section shall not exceed \$\_\_\_\_\_ for all taxpayers in any year. If the total amount of credits claimed under this section by all taxpayers in any year exceeds \$\_\_\_\_\_, the department of human services shall immediately discontinue issuing 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.

It is also **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. The measure must be amended to be specific as to whether the credit is refundable or nonrefundable if it is to be enacted.

Finally, the Department notes that it is able to administer this new credit for taxable years beginning after December 31, 2020 provided that a functional effective date is inserted into the measure.

Thank you for the opportunity to provide comments.

DAVID Y. IGE  
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**LATE**

March 10, 2020

TO: The Honorable Representative Justin H. Woodson, Chair  
House Committee on Lower and Higher Education

The Honorable Representative Aaron Ling Johanson, Chair  
House Committee on Labor and Public Employment

FROM: Pankaj Bhanot, Director

SUBJECT: **SB 3014 SD2 - RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES**

Hearing: March 13, 2020, 2:05 p.m.  
Conference Room 309, 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.

The Senate Committee on Ways and Means amended the measure by:

1. Clarifying that the aggregate cap of the tax credit established by this measure shall be administered on a basis of taxable years, rather than fiscal years;
2. Changing the effective date to be July 1, 2050 to facilitate further discussion; and
3. Making technical, nonsubstantive amendments for the purpose of clarity, consistency, and style.

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.



HAWAI'I COMMUNITY  
FOUNDATION

**LATE**

March 13, 2020

House Committee on Lower & Higher Education  
House Committee on Labor & Public Employment  
Hearing: 2:05 p.m., March 13, 2020  
Hawaii State Capitol Room 309

Re: SUPPORT for SB3014, SD2 RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES

Aloha Chair Woodson, Chair Johanson, Vice-Chairs Hashem, Quinlan, and Eli and members of the committees:

My name is Micah Kane, CEO & President of the Hawai'i Community Foundation. I appear before you to testify in SUPPORT of SB3014, SD2. SB3014, SD2 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 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, SD2. Thank you for the opportunity to testify on this matter.