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ISAAC W. CHOY
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STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Justin H. Woodson, Chair;
The Honorable Jeanne Kapela, Vice Chair;
and Members of the House Committee on Education

From: Isaac W. Choy, Director
Department of Taxation

Date: February 11, 2021

Time: 3:00 P.M.

Place: Via Videoconference, Hawaii State Capitol

Re: H.B. 514, Relating to On-Site Early Childhood Facilities

The Department of Taxation (Department) offers the following comments regarding H.B. 514 for your consideration.

H.B. 514 adds a new section to chapter 235 to create a refundable on-site early childhood facility tax credit. The credit is effective for expenses incurred on or after January 1, 2022.

The Department prefers that an agency with subject matter expertise be designated to certify the credit. Paragraph 235-__ (c)(2) makes references to Department of Human Services (DHS) certification, but no other part of the new tax credit discusses whether this certification exists or how it would be carried out. The Department suggests clarifying the details regarding certification, including which agency will be certifying the credit. For other credits, taxpayers submit a statement of qualifying costs to the certifying agency and that agency issues a certificate, either for the taxpayer's records or required to be attached to an income tax return claiming this tax credit.

The Department also has concerns about the aggregate cap imposed under subsection (c)(3). As currently written, subsection (c)(3) 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 a certifying agency would exist in subsections (b) and (c), the Department recommends amending subsection (c)(3) to read as follows:

- (3) 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 _____ shall immediately discontinue issuing certifications and notify the department of taxation. In no instance shall the department of _____ issue certificates for a total amount of credits exceeding \$_____ per year. To comply with this restriction, the department of _____ shall issue certificates for credits on a first come, first served basis. Any taxpayer whose qualified costs are not eligible to be issued a certificate by the department of _____ in a year due to the \$_____ cap having been exceeded for that year, shall be eligible to have those qualified costs be issued a certificate in the subsequent year and those qualified costs shall receive priority for a certificate 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
Executive Office on Early Learning
2759 South King Street
HONOLULU, HAWAII 96826

February 10, 2021

TO: Representative Justin H. Woodson, Chair
Representative Jeanne Kapela, Vice Chair
House Committee on Education

FROM: Lauren Moriguchi, Director
Executive Office on Early Learning

SUBJECT: Measure: H.B. No. 514 – RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES
Hearing Date: February 11, 2021
Time: 3:00 p.m.
Location: Room 309

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 12/31/2021.

EXECUTIVE OFFICE ON EARLY LEARNING'S POSITION: Support the Intent

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.

EOEL supports the intent of H.B. 514 to increase capacity for, and access to, high-quality early learning programs by incentivizing employers to develop on-site facilities. We believe that partnering with the private sector is the most cost-effective, time-efficient means for the State to increase access to early learning opportunities.

As the state's coordinating body for early learning, EOEL is working toward increasing access to high-quality early learning programs for our keiki *together* with our public and private partners. Our community-based providers have been the mainstay of early learning programs and services for decades. EOEL's statutory charge is to build a cohesive, comprehensive, and sustainable system in which *all* existing early learning programs and services – whether publicly- or privately-

run, which consist of a variety of early learning approaches, service deliveries, and settings, including center-based programs, family child care programs, family-child interaction learning programs, and home-based instruction programs designed to promote early learning, each of which provide an important option for families – are coordinated, improved, and expanded.

We would like to respectfully request that any appropriation not supplant budget priorities identified in the executive budget.

Thank you for the opportunity to testify on this bill.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Credit for On-Site Early Childhood Facilities

BILL NUMBER: HB 514

INTRODUCED BY: CULLEN

EXECUTIVE SUMMARY: Establishes an income tax credit for employers who create on site early childhood facilities. Applies to taxable years beginning after 12/31/2021.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish an on-site early childhood facility tax credit. The amount of the credit is 25% of the qualified costs for acquiring, constructing, and establishing the facility, up to \$____ per employer. The credit is refundable.

Defines “qualified costs” as the expenses incurred in acquiring, constructing, and establishing a qualified on-site early childhood facility and the associated operating costs; except for insurance.

Defines “qualified on-site early childhood facility” as an on-site early child hood facility offered by an employer to all employees that is licensed and approved by the department of human services and receives an accreditation from a recognized national early childhood accredited agency within two years of initial operation.

Limitations of the credit include: (1) the total credit allowed for an employer in any taxable year shall not exceed \$____; (2) the total amount of tax credits allowed under this section shall not exceed \$____ all taxpayers in any fiscal year; if the total amount of credits claimed is greater, the credit shall be allowed to taxpayers based on the date of certification by DHS (note: this appears to be left over from an earlier bill; there is no DHS certification requirement in this bill) on a first come, first served basis, where any taxpayer who is certified by the department of human services in a fiscal year and who is not eligible to claim the credit due to the \$____ having been exceeded for that fiscal year shall be eligible to claim the credit in the subsequent year and shall receive priority for the credit over taxpayers who receive certification in the subsequent fiscal year.

The on-site early childhood facility shall operate for a minimum of ten years or all of the credit taken in the preceding ten taxable years may be recaptured, except if the department of human services certifies that the employer ceased operating the facility for reasonable cause, including but not limited to going out of business, being forced to close the facility due to a natural disaster or other unforeseeable circumstances, and closing the facility temporarily with the intention of reopening it for a reason such as facility refurbishment or improvement.

Every claim, including amended claims, for the tax credit under this section 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 do so shall constitute a waiver of the right to claim the tax credit.

No other income tax credit may be claimed for the same qualified costs.

EFFECTIVE DATE: July 1, 2021.

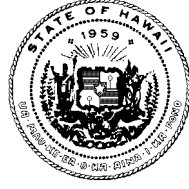
STAFF COMMENTS: The tax system is there to raise revenue to keep the government moving. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount.

Furthermore, 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, overtaxed by the pandemic?

If lawmakers want to subsidize this activity, then a direct appropriation would be more accountable and transparent. That way lawmakers will be very clear on (1) how much we taxpayers are paying, and (2) what we are getting in return. For example, lawmakers could authorize a grant program for the construction or refurbishment of on-site early childhood facilities much like how Hawaii Energy offers rebates for energy-saving appliances and components.

Digested 2/9/2021

DAVID Y. IGE
GOVERNOR



CATHY BETTS
DIRECTOR

JOSEPH CAMPOS II
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES

P. O. Box 339
Honolulu, Hawaii 96809-0339

February 10, 2021

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

FROM: Cathy Betts, Director

SUBJECT: **HB 514 – RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES**

Hearing: Thursday, February 11, 2021, 3:00 p.m.
Via Videoconference, State Capitol

DEPARTMENT'S POSITION: The Department of Human Services (DHS) appreciates the intent of this measure, provides comments, and requests clarification. DHS also respectfully requests that its passage does not replace or adversely impact priorities identified in the executive budget.

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

DHS is the regulatory agency of the state's child care system codified in Chapter 346, Part VIII, 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 under section 346-151, HRS, rather than using the term "early childhood facilities" which is currently not defined.

DHS requests clarification as to what other kinds of 'unforeseeable circumstances' would be acceptable to force the facility to close and still allow the tax credit to be claimed. The proposed subsection (c)(2), on pages 4-5, lines 14-20 and 1-2, indicate that "...provided that the credit shall not be subject to recapture if the department of human services certifies that the employer ceased operating the facility for reasonable cause, including going out of business, being forced to close the facility due to a natural disaster or other unforeseeable circumstances, or closing the facility temporarily with the intention of reopening it for reasons such as facility refurbishment or improvement; ..."

DHS requests additional clarification of the proposed subsection (c)(3), on page 5, lines 3-17, as to what other certification(s) DHS would be providing and to whom, the taxpayer or the department of taxation.

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

Thank you for the opportunity to provide comments on this measure.

HB-514

Submitted on: 2/10/2021 9:30:17 AM

Testimony for EDN on 2/11/2021 3:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Joe Hammond	Individual	Support	No

Comments:

I am in support of this bill because with this bill it may encourage others to have their child start school earlier than kindergarten. With having on-site early childhood facilities it may improve on employment retention.

Date: February 9, 2021

To: House Committee on Education
Representative Justin Woodson, Chair
Representative Jeanne Kapela, Vice Chair

From: Early Childhood Action Strategy

Re: Support for HB514, Relating to On-Site Early Childhood Facilities

Early Childhood Action Strategy (ECAS) is a statewide government-nongovernment collaborative designed to improve the system of care for Hawai'i's youngest children and their families. ECAS partners are working to align priorities for children prenatal to age eight, streamline services, maximize resources, and improve programs to support our youngest keiki.

ECAS supports passage of HB 514, which establishes an income tax credit for employers who create on-site early childhood facilities. We would recommend the On-site Facilities Coordinator be attached to the proposed School Facility Authority for more streamlined coordination.

Hawai'i faces a chronic shortage of child care and early learning opportunities for our children, which has been exacerbated by the COVID19 pandemic. Across the state, 60% of preschoolers live in homes where all adults are in the workforce, yet our supply of child care reaches fewer than half of those children. Not only is child care and early learning a vital support for working families, but high-quality early learning provides a foundation for school readiness and subsequent academic achievement. Careful research shows that children who attend preschool are more likely to reach kindergarten ready to thrive, are less likely to repeat a grade, and are more likely to graduate from high school and continue into college.

HB 514 would create reasonable incentives for businesses to create on-site child care opportunities for their employees. National research finds that it makes good sense to encourage businesses to support child care. When employers understand, and respond to, their employees' child care needs, absenteeism and turnover decline, recruitment and training costs are reduced, and productivity increases (U.S. Chamber of Commerce Foundation).

Thank you for this opportunity to provide testimony in support of this measure.

TO: Representative Justin H. Woodson, Chair
Representative Jeanne Kapela, Vice Chair
Members of the House Committee On Education

FROM: Robert G. Peters, Chair
Early Learning Board

SUBJECT: **Measure:** HB 514, Relating to On-Site Early Childhood Facilities
Hearing Date: February 11, 2021
Time: 3:00 p.m.
Location: **Via Video Conference**, Conference Room 309

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 taxable years beginning after 12/3/2021

EARLY LEARNING BOARD'S POSITION: Support the Intent

Good afternoon. I am Robert G. Peters, Chair of the Early Learning Board (ELB). Thank you for this opportunity to offer testimony in support of the intent of HB 514.

Through Act 202, Session Laws of Hawaii 2017, ELB transitioned from an advisory to a governing board for the Executive Office on Early Learning (EOEL) and is charged with formulating statewide policy relating to early learning. We are composed of members from across the early childhood field, in both the public and private sectors.

ELB's mission is to support children's academic and lifelong well-being by directing and supporting the EOEL for an effective, coordinated, high-quality early learning system from prenatal to kindergarten entry. 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

The ELB appreciates the Legislature's recognition that families of young children in Hawaii, now more than ever, need more affordable, high-quality childcare options. The number of seats available to families has decreased statewide in light of the impact of COVID-19. The increased health and safety requirements that have forced some childcare providers to remain closed have for those which opened required reducing the number of available childcare placements. This has made it especially challenging for families with young children who need to find settings for their children as they seek to remain in the workforce. Incentivizing employers to address their employees' childcare needs through tax credits such as the one proposed in this bill would help provide our families with support they need.

The Early Learning Board supports the efforts of the EOEL which is working toward increasing access to high - quality early learning programs for our keiki *together* with public and private partners. Our community - based providers have been the mainstay of early learning programs and services for decades. EOEL's statutory charge is to build a cohesive, comprehensive, and sustainable system in which *all* existing early learning programs and services, whether publicly - or privately - run, are coordinated, improved, and expanded.

We respectfully request that any appropriation not supplant budget priorities identified in the executive budget. Thank you for this opportunity to testify in support of the intent of this bill.

HB-514

Submitted on: 2/10/2021 3:01:03 PM

Testimony for EDN on 2/11/2021 3:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Kaimi	Individual	Support	No

Comments:

I support the establishment of 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 12/31/2021.

HB-514

Submitted on: 2/10/2021 3:43:31 PM

Testimony for EDN on 2/11/2021 3:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
HMS BESSD CCPO	Department of Human Services	Comments	No

Comments:

Testimony submitted by the Department of Human Services. Additional DHS staff will be available to provide clarification and respond to questions. Please send the zoom meeting link.

HB-514

Submitted on: 2/10/2021 4:52:54 PM

Testimony for EDN on 2/11/2021 3:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Kathleen Algire	Hawai'i Children's Action Network Speaks!	Support	No

Comments:

House Bill 514 is intended to increase access to childcare for working families by providing a tax incentive to employers who provided on-site childcare facilities. There is a serious shortage of early childhood seats in Hawaii, especially in rural areas and on neighbor islands. In 2017, the University of Hawaii Center on the Family and Hawai'i Children's Action Network released the Hawai'i Early Learning Needs Assessment. The purpose of the study was to inform strategic planning for early childhood development, care, and learning programs in the state. The study found that overall, there are only enough DHS-regulated childcare seats to care for one out of every four children under the age of 6. The numbers are even worse for infant-toddler care; for every thirty-seven (37) children under age 3, there is only one center-based childcare spot. The islands of Kauai, Molokai, and Lanai have no infant-toddler centers. This measure will increase access to quality childcare and promote more family-friendly work environments.

For the above reasons, HCAN Speaks! respectfully requests the Committees to support this measure.

Thank you!