

JOSH GREEN M.D.  
GOVERNOR

SYLVIA LUKE  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**

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GARY S. SUGANUMA  
DIRECTOR

KRISTEN M.R. SAKAMOTO  
DEPUTY DIRECTOR

**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

H.B. No. 399, Relating to Tax Credits

**BEFORE THE:**

House Committee on Economic Development

**DATE:** Wednesday, February 8, 2023

**TIME:** 10:15 a.m.

**LOCATION:** State Capitol, Room 423

Chair Holt, Vice-Chair Lamosao, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 399 for your consideration.

H.B. 399 seeks to amend chapter 235, Hawaii Revised Statutes (HRS), and establish a nonrefundable tax credit for individual or corporate taxpayers who are employers of "qualified interns" for taxable years beginning after January 1, 2024, but before January 1, 2025. The credit is equal to the amount of 50 hours of the qualified intern's salary, wage, or other remuneration for services rendered, with a maximum dollar amount to be determined, and shall be no more than 50 percent of the taxpayer's tax liability. The measure requires that "qualified interns" receive a minimum wage of \$12 per hour for a minimum of one hundred and fifty hours of employment. Credits in excess of the 50 percent of liability limitation may be carried forward for up to seven years if necessary. The term "qualified intern" is defined within the measure, with the credit being limited to no more than 5,250 "qualified interns" in a calendar year in the aggregate.

The measure requires that the taxpayer submit an initial application to the Department prior to claiming the credit. The application shall include (1) a description of the daily tasks to be completed by the qualified intern; (2) expected student learning outcomes by the completion of the internship period; and (3) other questions or prompts

as necessary to qualify the internship as part of a work-based learning program approved by the Department of Education or University of Hawaii. The Department must issue an initial approval or denial of the application to the taxpayer within 90 days of receipt. After 90 days, the application is considered presumptively approved.

The measure also requires the Department to submit a report to the Office of the Governor and the Legislature at least 20 days before the convening of the regular sessions of 2025 and 2026, which contains (1) the total value of qualified internship tax credits allowed for each taxable year; (2) information on the Department's process in administering the credit; and (3) an analysis on the effectiveness of the credit as an incentive to encourage employment of qualified interns.

The measure is effective upon approval and applies to taxable years beginning after December 31, 2023.

It should be noted that the Department lacks the subject matter expertise or resources to process the required initial applications and determine whether the program is a "bona fide work-based learning program," as required on page 3, lines 16 to 18 of the bill. The Department recommends that applications be administered by a department more appropriately designated for such data points.

Additionally, the Department will not be able to provide a full and accurate report to the Office of the Governor and the Legislature at least 20 days before the convening of the regular session of 2025. Based upon the timeframe that this credit is available, and applicable filing timelines for taxpayers, the Department will not have the necessary data to complete the reports within the stated timelines. The Department suggests that any required report be provided a timeframe, to be determined after the close of the first applicable taxable year, which would be after January 1, 2025.

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



# UNIVERSITY OF HAWAII SYSTEM

## ‘ŌNAEHANA KULANUI O HAWAII

### Legislative Testimony

### Hō'ike Mana'o I Mua O Ka 'Aha'ōlelo

Testimony Presented Before the  
House Committee on Economic Development  
Wednesday, February 8, 2023, at 10:15 a.m.

By

Debora Halbert, Vice President for Academic Strategy  
University of Hawai'i System

#### HB 399 – RELATING TO TAX CREDITS

Chair Holt, Vice Chair Lamosao, and Members of the Committee:

Thank you for the opportunity to provide testimony on HB 399, which seeks to provide qualified internship income tax credits to those who employ student interns from the Hawai'i Department of Education or the University of Hawai'i.

The University of Hawai'i (UH) appreciates the House's desire to incentivize the expansion of work-based learning in order to foster collaboration between Hawai'i's educational institutions and local industry, with a common goal of addressing the State's pressing workforce needs. Internships are indeed one of several nationally recognized "high impact practices" that tend to correlate with student success beyond graduation. When done well, internships help students build their self-confidence while acclimating to workplace culture and developing key industry-based skills that will enhance their employability.

The University of Hawai'i's new Strategic Plan 2023-2029, approved by the Board of Regents in November 2022, features an imperative calling on UH to "Meet Hawai'i's workforce needs of today and tomorrow." One of the stated objectives under this imperative is to partner more effectively with employers in order to "ensure the necessary preparation and support for students to succeed in their career," and the University will track its students' participation in internships as one of the metrics used to measure achievement of this objective. Regardless of the outcome of this bill, UH will strive to expand curricular offerings that feature workplace internships in the years ahead.

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

JOSH GREEN, M.D.  
GOVERNOR



KEITH T. HAYASHI  
SUPERINTENDENT

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
KA 'OIHANA HO'ONA'AUAO  
P.O. BOX 2360  
HONOLULU, HAWAII 96804

**Date:** 02/08/2023  
**Time:** 10:15 AM  
**Location:** 423 VIA VIDEOCONFERENCE  
**Committee:** House Economic  
Development

**Department:** Education

**Person Testifying:** Keith T. Hayashi, Superintendent of Education

**Title of Bill:** HB 0399 RELATING TO TAX CREDITS.

**Purpose of Bill:** Allows employers to obtain a tax credit for offering positions to qualified interns in work-based learning programs that have been approved by the department of education or University of Hawaii.

**Department's Position:**

The Hawaii State Department of Education (Department) supports the intent of House Bill 399, which proposes a tax credit for employers offering positions to qualified interns in work-based learning programs approved by the Department or the University of Hawaii.

The Department appreciates the Legislature's support in increasing the number of work-based learning opportunities available for high school students across the state. Equitable access to work-based learning opportunities provides all students the means to obtain the experience and skills necessary to succeed in the workforce. This will enable students to secure high-demand, high-wage jobs and positively contribute to Hawaii's economy.

The Department would need more information to assess the impact and any administrative costs that may be associated with implementation of the bill.

The Department defers to the Department of Taxation with regards to the tax credit and the process through which the tax credit would be awarded.

The Department appreciates the opportunity to provide testimony on this measure.



**Testimony to the House Committee on Economic Development  
Wednesday, February 8, 2023, at 10:15 A.M.  
Conference Room 423 & Videoconference**

**RE: HB 399 Relating to Tax Credits**

Aloha Chair Holt, Vice Chair Lamosao, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **strongly supports HB 399**, which allows employers to obtain a tax credit for offering positions to qualified interns in work-based learning programs that have been approved by the department of education or University of Hawaii.

The Chamber has worked throughout the interim with a working group consisting of private sector leaders, education non-profits like Hawaii Kids CAN, Department of Education, Kamehameha Schools, and other community groups to advance work-based-learning and career pathways for high school and post-secondary students.

At the Chamber we have a team of education and workforce development staff members, led by Executive Vice President Keala Peters, who work solely on this issue and work with a number of private sector companies on advancing work-based-learning. The feedback that our staff members, along with our policy working group have gotten back was that we need more private-sector partners at the table to employ these high school and post-secondary interns.

We have worked to identify best practices to see how we can get more companies to participate, and found that incentivizing these companies in a program to offer internships was something that has worked around the county. Currently, 30 U.S. States and territories offer incentives to businesses hiring interns of apprentices, and that list is growing every year.

A 2019 survey of internship programs by the National Association of Colleges and Employers found that 70% of interns received a job offer after the conclusion of their program. Internships provide clear paths to stable, well-paying jobs.

The pandemic and recovery ahead only underscore the need for action. By encouraging businesses to provide our students with opportunities to advance their knowledge and experience, we can prepare them for a career after they graduate.

There is a cost associated with businesses taking on new interns, and it takes resources and time to get a new intern up to speed, as other employees take time out of their day for teaching and mentoring. This translates to real costs, meaning internships are unsustainable to take on and offer for many small businesses.



# Chamber of Commerce HAWAII

*The Voice of Business*

This incentive will also enable high school students to gain valuable experience in their chosen field. Internships can provide students with the opportunity to develop a deeper understanding of their field of interest, as well as gain practical skills such as communication, problem solving, and collaboration. The experience gained from an internship can be invaluable for a student's career prospects.

HB399, if passed, will help to bridge the gap between the education system and the job market. By providing real-world experiences to high school students, employers can help to create a more well-rounded and educated workforce.

This bill is mutually beneficial for students and employers alike. Boosting opportunities in students' fields of study will create thousands of new positions that some students might not be able to find otherwise, while simultaneously providing small businesses with smart, driven people who are ready and willing to work.

The Chamber of Commerce Hawaii firmly believes that this tax credit is an investment in our future. We are committed to supporting employers who are willing to invest in the development of our high school students and are confident that this credit will help to create a brighter future for our state.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

Thank you for the opportunity to testify.



david.miyashiro@hawaiikidscan.org  
hawaiikidscan.org

David Miyashiro  
Executive Director

February 8, 2023

Committee on Economic Development  
Rep. Daniel Holt, Chair  
Rep. Rachele F. Lamosao, Vice Chair

Aloha Chair Holt, Vice Chair Lamosao, and Members of the Committee,

**HawaiiKidsCAN strongly supports HB399**, which allows employers to obtain a tax credit for offering positions to qualified interns in work-based learning programs that have been approved by the department of education or University of Hawai‘i.

Founded in 2017, HawaiiKidsCAN is a local nonprofit organization committed to ensuring that Hawaii has an excellent and equitable education system that reflects the true voices of our communities and, in turn, has a transformational impact on our children and our state. We strongly believe that all students should have access to excellent educational opportunities, regardless of family income levels and circumstances.

Hawaii's youth are facing an affordability crisis if they want to remain in the state for years to come. While there are many elements needed to address this issue, a must-have is making sure our youth are equipped with the skills and connections they need to pursue their dream careers. Work-based learning opportunities, such as internships in skilled fields including healthcare, IT, and air travel, give students the chance to learn on-the-job and gain experience that will make them stand out high-paying for job opportunities in the future. On the other side, employers across Hawaii will have the opportunity to recruit and grow their own workforce by providing mentorship and training for their next generation of workers. This is a win-win for Hawaii's people and long-term future.

Accordingly, it is critical that youth are exposed to high-quality, high-paying careers while they still have access to free public education at the secondary level, and as they are gaining experience at the postsecondary level. Making sure our youth have a strong springboard prior to graduation and applying for full-time employment is more important than ever, as the current unemployment rates for youth (ages 16-24) across the country are higher than the national average of 3.4%. Currently, 7.3% of all 16-24



year-olds are unemployed. The younger half of that group, the 16-19 year-olds, are unemployed at a rate of 9.1%, while the older half still experiences higher-than-average unemployment at 6.6%. In Hawaii, the numbers are even more concerning, with 10.2% of all youth experiencing unemployment, which is one of the worst rates for this group in the country<sup>1</sup>.

This bill will address this issue head-on by encouraging and enabling more employers to offer paid internships for students. The potential impact of paid internships for youth is clearly described in several examples of academic research. One journal article highlights the benefits of internships, including the “application of experiential learning” to promote a greater understanding of their chosen field and increased confidence in entering the workforce or attaining postsecondary education<sup>2</sup>. Furthermore, employers reported that an applicant having experience, such as through an internship, was the most important factor when considering a decision to hire someone. Paid internships also make it more likely that students will invest time into an industry that is of long term interest and passion rather than a low-interest job just for money. The tax credits in this bill will enable more of Hawaii’s small and medium sized businesses to offer these internships, which broadens and diversifies the pool for potential employers, thereby better responding to student interest.

HawaiiKidsCAN recognizes the financial investment required to implement this bill as legislation, but finds the long-term benefits for our future workforce and economy far outweigh the costs. By our calculations, over 5,000 interns can benefit from this program every year for \$3.15 million dollars, with endless opportunities for professional and personal growth. These funds directly stimulate the Hawaii economy, and are a literal investment in the success of our youth.

Mahalo for your consideration,

David Miyashiro  
Founding Executive Director  
HawaiiKidsCAN

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<sup>1</sup> <https://www.mathematica.org/dataviz/youth-unemployment-tracker>

<sup>2</sup> <https://dc.swosu.edu/cgi/viewcontent.cgi?article=1313&context=aij>

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Qualified Internship Tax Credit

BILL NUMBER: HB 399

INTRODUCED BY: HOLT, GATES, HASHIMOTO, KILA, LAMOSAO, MARTEN, MARTINEZ, TAKENOUCI, TODD, WOODSON, Cochran

EXECUTIVE SUMMARY: Allows employers to obtain a tax credit for offering positions to qualified interns in work-based learning programs that have been approved by the department of education or University of Hawai'i.

SYNOPSIS: Adds a new section to chapter 235, HRS, establishing the qualified internship tax credit. The credit amount is fifty hours of the value of salaries, wages, or other remuneration services paid to a qualified intern by the qualified taxpayer, up to a maximum of \$\_\_\_\_\_ in any taxable year. Any credit claimed must be for taxable years beginning after January 1, 2024.

There are several conditions on the credit: (1) the qualified intern was not employed by the taxpayer within the six months immediately preceding the commencement of the internship; and (2) this credit shall be provided for not more than 5,250 qualified interns per calendar year.

The credit is nonrefundable and may be carried forward for seven taxable years.

Before the internship period starts, the employer needs to apply to DOTAX with an application including a description of daily tasks to be completed, expected student learning outcomes, and other questions necessary to qualify the internship under a work-based learning program approved by the Department of Education or University of Hawaii, as applicable.

Upon initial approval of the application, the employer needs to certify that the intern was employed and supervised in the State in a position that provides training and experience in the intern's chosen field of study, and was paid a wage of not less than \$12 per hour for a term of at least 150 hours but no more than 15 hours per week during the academic year and no more than 40 hours per week otherwise.

Defines "qualified intern" as an individual who is: (1) Enrolled in a department of education school or public charter school; (2) Employed and supervised in a position located in the State in a position that provides training and experience to the individual in their chosen field of study; and (3) Paid a wage of not less than \$12.00 per hour for a term of employment that includes at least one hundred fifty hours; provided that the qualified intern works not more than fifteen hours per week during the academic year and not more than forty hours per week during the winter, spring, and summer holiday periods.

EFFECTIVE DATE: July 1, 2023.

STAFF COMMENTS: The tax system is there to raise revenue to keep the government moving. Using the tax system to give taxpayers money to do things that lawmakers want them to do for social policy reasons 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?

The additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive compared to the amount that may be paid out in credits.

Digested: 2/6/2023



February 6, 2023

Committee on Economic Development  
Rep. Daniel Holt, Chair  
Rep. Rachele F. Lamosao, Vice Chair

Aloha Chair Holt, Vice Chair Lamosao, and Members of the Committee,

On behalf of FCH Enterprises, Inc. and our best-known brand name, Zippy's Restaurants, I would like to voice our full support of HB399.

At Zippy's Restaurants, we have hired interns for culinary, front-of-house, and administrative learning opportunities. Our internships have been win-win for all involved. The students earned valuable work-based learning opportunities and gained experience that will make them stand out high-paying for job opportunities in the future. We have benefited from a skilled and immediately employable workforce.

In Hawaii, 10.2% of all youth (ages 16-24) are experiencing unemployment, which is one of the worst rates for this group in the country. This bill will address this issue head-on by encouraging and enabling more employers to offer paid internships for students. The potential impact of paid internships for youth is clearly described in several examples of academic research. One journal article highlights the benefits of internships, including the "application of experiential learning" to promote a greater understanding of their chosen field and increased confidence in entering the workforce or attaining postsecondary education.

The tax credits in this bill will enable more of Hawaii's small and medium sized businesses to offer these internships, which broadens and diversifies the pool for potential employers, thereby better responding to student interest. These funds directly stimulate the Hawaii economy and are a literal investment in the success of our youth.

Mahalo for your consideration,



Jason Higa  
Chief Executive Officer  
FCH Enterprises, Inc.



**Testimony to  
The Committee on Economic Development**

**Wednesday, February 8, 2023  
10:15 AM  
Conference Room 329 & VIA Videoconference  
Hawaii State Capitol**

**HB 399**

Chair Holt, Vice Chair Lamosao, and members of the committee,

Hawaii Gas **supports HB 399**, which will allow employers to obtain a tax credit for offering internships to qualified students in work-based learning programs that have been approved by the Department of Education or University of Hawaii.

Established in 1904, Hawaii Gas serves over 70,000 customers on all islands through its pipeline and delivery services, all of whom depend on the company for sustainable, reliable, and affordable gas for water heating, cooking, drying, and other commercial and industrial applications. The company employs some 350 professionals, over 75% of whom are members of the Teamsters Union and provides both regulated utility and unregulated propane operations.

Internships allow companies to invest in their own future success and perhaps discover new talent and future leaders. Internship programs give current employees an opportunity to mentor future leaders in the field, and it can promote a healthy work culture and build company morale.

Work-based learning opportunities, such as internships in skilled fields including healthcare, IT, and engineering , give students the chance to learn on-the-job and gain experience that will make them stand out high-paying for job opportunities in the future.

The tax credits in this bill will enable more of Hawaii’s small and medium sized businesses, including Hawaii Gas, to offer these internships, which broadens and diversifies the pool for potential employers, thereby better responding to student interest. These funds directly stimulate the Hawaii economy and are a literal investment in the success of our youth.

We urge the committee to pass HB 391.

Thank you for the opportunity to testify.

**HB-399**

Submitted on: 2/7/2023 8:05:22 AM

Testimony for ECD on 2/8/2023 10:15:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Patti Cook	Individual	Support	Written Testimony Only

Comments:

Please support this proposal to help our state's young adults explore diverse work opportunities and help small-medium businesses afford to open their doors to mentor youth. MAHALO, Patti Cook

February 8, 2023

Committee on Economic Development  
Rep. Daniel Holt, Chair  
Rep. Rachele F. Lamosao, Vice Chair

Aloha Chair Holt, Vice Chair Lamosao, and Members of the Committee,

I am a **community member from Oahu** and I'm proud to support **HB399**.

Work-based learning opportunities, such as internships in skilled fields including healthcare, IT, and air travel, give students the chance to learn on-the-job and gain experience that will make them stand out high-paying for job opportunities in the future.

In Hawaii, 10.2% of all youth (ages 16-24) are experiencing unemployment, which is one of the worst rates for this group in the country. This bill will address this issue head-on by encouraging and enabling more employers to offer paid internships for students. The potential impact of paid internships for youth is clearly described in several examples of academic research. One journal article highlights the benefits of internships, including the "application of experiential learning" to promote a greater understanding of their chosen field and increased confidence in entering the workforce or attaining postsecondary education.

The tax credits in this bill will enable more of Hawaii's small and medium sized businesses to offer these internships, which broadens and diversifies the pool for potential employers, thereby better responding to student interest. These funds directly stimulate the Hawaii economy, and are a literal investment in the success of our youth.

Mahalo,

**Brian Tatsumura**