JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAIʻI
DEPARTMENT OF TAXATION
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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
H.B. No. 938, Relating to Tax Credit for On-Site Early Childhood Facilities

BEFORE THE:
House Committee on Human Services

DATE: Thursday, February 9, 2023
TIME: 9:00 a.m.
LOCATION: State Capitol, Room 329

Chair Mizuno, Vice-Chair Amato, and Members of the Committee:

The Department of Taxation ("Department" or DOTAX) offers the following comments regarding H.B. 938 for your consideration.

H.B. 938 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create a nonrefundable income tax credit for employers who create an on-site early childhood facility, equal to 25 percent of the taxpayer's "qualified costs."

The credit also has a recapture provision, equal to 100% of the amount of the total tax credit claimed for all years claimed, should the facility fail to operate for a minimum of ten years unless the closure is for reasonable cause as outlined in the measure.

The bill sets an unspecified individual taxpayer cap as well as an unspecified aggregate cap, and requires DOTAX to certify the amount of the qualified costs. The Department of Human Services (DHS) is required to provide a certificate of approval to qualified on-site early childhood facilities.

This bill is effective on July 1, 2024 and applies to taxable years beginning after December 31, 2023.

The Department notes that it currently does not have the personnel to certify the qualified costs and administer the aggregate cap. The Department further notes that it will need additional time to make the necessary form and system changes. Accordingly, the Department requests that the effective date of the bill is amended to apply to taxable years beginning after December 31, 2024.

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

JOSH GREEN, M.D.
GOVERNOR
KE KIAʻĀINA

CATHY BETTS
DIRECTOR
KA LUNA HOʻOKELE

JOSEPH CAMPOS II
DEPUTY DIRECTOR
KA HOPE LUNA HOʻOKELE

STATE OF HAWAII
KA MOKUʻĀINA O HAWAIʻI
DEPARTMENT OF HUMAN SERVICES
KA ʻOIHANA MĀLAMA LAWELAWE KANAKA
Office of the Director
P. O. Box 339
Honolulu, Hawaii 96809-0339

February 7, 2023

TO: The Honorable Representative John M. Mizuno, Chair
House Committee on Human Services

FROM: Cathy Betts, Director

SUBJECT: **HB 938 – RELATING TO TAX CREDIT FOR ON-SITE EARLY CHILDHOOD FACILITIES.**

Hearing: February 9, 2023, 9:00 a.m.
Conference Room 329 & 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 the appropriates in this measure not replace or reduce priorities identified in the executive budget.

PURPOSE: The bill 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 12/31/2023. Takes effect on 7/1/2024.

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 is not defined in the child care definitions established under section 346-151, HRS. DHS requests clarification on whether the intent 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., that may include preschools). If so, DHS suggests an amendment 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.

For the tax credit, the department has concerns about the proposed criteria DHS should consider when approving a license certificate as they do not align with applicable administrative rules. The following are proposed in Section 2, page 5, at lines 4-8,

"(2) Participation rate of employees;
(3) Quality of the early childhood programs being provided; and
(4) Whether the presence of an on-site early childhood facility promotes a healthy workplace environment."

These criteria do not align with the criteria used for licensure of group child care centers. The department issues a license certificate to a group child care center compliant with minimum health and safety standards as provided by the Hawaii Administrative Rules (HAR). The applicable HARs aim to establish minimum health and safety requirements to protect the best interests of minor children provided care in a group child care center. Additionally, DHS does not collect parents' or guardians' information as part of licensure, currently has a quality rating system, and does not have a way to measure an employee's workplace environment. Therefore, DHS suggests the criteria be consistent with current licensure requirements.

DHS requests clarification on what "unforeseeable circumstances" would be acceptable to force the facility to close and still allow the employer to claim the tax credit. The proposed subsection (h)(1), Pages 6-7, lines 20-21 and 1-4 in Section 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 but not limited to, going out of business, being forced to close due to natural disaster or other unforeseeable circumstances, and closing the facility temporarily for reasons such as facility refurbishment or improvement with the intention of reopening it[.]"

DHS supports increasing the availability and capacity of child care facilities for Hawai'i's families and children and will continue to discuss strategies. As the measure moves through the session and issues are clarified, DHS will update its resource needs.

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

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

JOSH GREEN, M.D.
GOVERNOR

YUUKO ARIKAWA-CROSS
DIRECTOR

STATE OF HAWAI'I
Executive Office on Early Learning
2759 South King Street
HONOLULU, HAWAI'I 96826

February 7, 2023

TO: Representative John M. Mizuno, Chair
Representative Terez Amato, Vice Chair
House Committee on Human Services

FROM: Yuuko Arikawa-Cross, Director
Executive Office on Early Learning

SUBJECT: **Measure:** H.B. No. 938 – RELATING TO TAX CREDIT FOR ON-SITE CHILDHOOD FACILITIES
Hearing Date: Thursday, February 9, 2023
Time: 9:00 am
Location: Conference Room 329

EXECUTIVE OFFICE ON EARLY LEARNING'S POSITION: Support Intent

EOEL supports the intention of H.B. No. 938, offering suggested amendments, and defers to the Department of Human Services (DHS) and Department of Taxation (DoTAX) as it pertains to the provisions of the bill that relate to their departments.

EOEL supports the intent of the 1.0 FTE on-site group child care center coordinator position within the EOEL. 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.

We recommend Section 3 be amended as follows:
"There is established one full-time equivalent (1.0 FTE) on-site group child care coordinator position in the executive office on early learning to assist with ~~licensure and~~ accreditation requirements, work with providers, and ensure appropriate facility <u>and/or classroom</u> design of on-site group child care centers ~~established by employers~~ in the State <u>by providing technical assistance to implement a high-quality learning environment for young children</u>."

Regulatory oversight of registered and licensed facilities falls under the DHS, and EOEL would defer to the department to ensure child care licensing requirements are met. EOEL provides high-quality learning experiences through the EOEL Public Prekindergarten Program that address children's physical development and health, social and emotional development, cognition, language and literacy, and approaches to learning. EOEL can utilize our expertise and knowledge in building and designing high-quality programs to support on-site group child care centers.

We would also like to respectfully request that any appropriation not supplant budget priorities identified in the executive supplemental budget. Thank you for the opportunity to testify.

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, On-Site Early Childhood Facility Tax Credit.

BILL NUMBER: HB 938

INTRODUCED BY: MATSUMOTO, COCHRAN, GARCIA, NAKASHIMA, WARD

EXECUTIVE SUMMARY: 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.

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, 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" means an on-site early childhood facility, offered by an employer to all employees, that is: (1) Licensed and approved by the department of human services; and (2) Accredited by a recognized national early childhood accrediting 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 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, 2024, applicable to taxable years beginning after December 31, 2023.

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 early childhood facilities much like how Hawaii Energy offers rebates for energy-saving appliances and components.

Digested: 2/7/2023

Chamber *of* Commerce HAWAII

The Voice of Business

Testimony to the House Committee on Human Services
Thursday, February 9, 2023, at 9:00 A.M.
Conference Room 329 & Videoconference

RE: HB 938 Relating to Taxation

Aloha Chair Mizuno, Vice Chair Amato, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **strongly supports HB 400**, which 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 12/31/2023. Takes effect on 7/1/2024.

The average cost of childcare in Hawaii is $640 a month per child. This is typically the second largest expense in a family budget after rent or mortgage. Meanwhile, one of the biggest challenges for the local business community is the workforce shortage.

Hawaii's resident population continues to decline due to the high cost of living and many employees did not return to the workforce after COVID. The most recent data released in October 2022 by the Bureau of Labor Statistics shows that only 60.8% of Hawaii's population over 16 years of age is working or actively looking for work.

Our Chamber members, especially our Hawaii Chamber Young Professional members, cite the lack of childcare resources and the extremely high cost of childcare as significant barriers to reentering the workforce. Families with young children must choose between spending a significant portion of their income on childcare or leaving the workforce altogether to become a full-time caregiver.

The Chamber believes that Hawaii would benefit from supporting businesses that support the childcare needs of our workforce. Our keiki also deserve quality care to prepare them to enter our future workforce.

When companies offer childcare benefits, they see increased employee retention and loyalty, improved productivity, and a better workplace environment. Despite the clear advantages, 2020 data from the Bureau of Labor Statistics indicates just 11% of all workers have access to employer-provided childcare, and those with lower incomes were less likely to receive a benefit.

Employer-Provided Child Care Credit, under the Internal Revenue Code Section 45F, offers employers a tax credit of up to 25% of qualified childcare expenditures and 10% of qualified child care resource and referral expenditures. Currently, 18 U.S. states have passed employer

Chamber of Commerce HAWAII
The Voice of Business

provided childcare incentives, including New York, Oregon, Colorado, and Georgia. Other states plan to follow this year, and we hope Hawaii is one of them.

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.

733 Bishop Street, Suite 1200 • Honolulu, Hawaii 96813 • Phone: (808) 545-4300 • Facsimile: (808) 545-4369

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

HAWAII FOOD INDUSTRY ASSOCIATION

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Toby Taniguchi, KTA Superstores, *Advisor*
Joe Carter, Coca-Cola Bottling of Hawaii, Odom, *Advisor*
Charlie Gustafson, Tamura Super Market, *Immediate Past Chair*

TO: Committee on Human Services

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: February 9, 2023
TIME: 9am
PLACE: Via Videoconference

RE: HB938 Relating to Tax Credits for On-Site Early Childhood Facilities

Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, and distributors of food and beverage related products in the State of Hawaii.

HFIA is in support of this measure. Prior to the COVID-19 pandemic workforce shortages was one of the primary concerns for food industry businesses. The pandemic, economic downturn, workers leaving Hawaii, and great resignation have all greatly exacerbated the labor crisis. As this measure explains, childcare can be a critical component in brining more workers into the workforce and alleviating the labor shortage. Many of our businesses want to be involved in helping their employees, and potential employees, find great childcare. This measure supports those efforts and gives our businesses a resources to become part of the solution to this issue.

We encourage the committee to pass this measure and we thank you for the opportunity to testify.