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KE KIA'ĀINA



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DIRECTOR  
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DEPUTY DIRECTOR  
KA HOPE LUNA HO'OKELE

STATE OF HAWAII  
KA MOKU'ĀINA O HAWAI'I  
**DEPARTMENT OF HUMAN SERVICES**  
KA 'OIHANA MĀLAMA LAWELAWE KANAKA  
Office of the Director  
P. O. Box 339  
Honolulu, Hawaii 96809-0339

February 11, 2023

TO: The Honorable Senator Sharon Y. Moriwaki, Chair  
Senate Committee on Labor & Technology

The Honorable Senator Joy A. San Buenaventura, Chair  
Senate Committee on Health and Human Services

FROM: Cathy Betts, Director

SUBJECT: **SB 800 – RELATING TO TAXATION.**

Hearing: Monday, February 13, 2023, 3:10 p.m.  
Conference Room 224, State Capitol

**DEPARTMENT'S POSITION:** The Department of Human Services (DHS) appreciates the intent of the bill, provides comments, and requests clarification. DHS further defers to the Department of Taxation.

**PURPOSE:** The purpose of the bill is to establish income tax credits for employers who provide their employees with child care.

DHS appreciates the Legislature's attention to incentivizing employers to provide regulated child care services on the employer's premises or subsidize the cost of child care for their employees by proposing a child care tax credit.

DHS is the State's regulatory office for child care registration and licensing. It also administers child care subsidy programs for eligible families through its Child Care Connection Hawaii (CCCH) and Preschool Open Doors (POD) programs.

Establishing a licensed child care center will contribute to the State's overall need for more child care. Additionally, subsidizing the employee's cost for child care will make child care more affordable for families who may not be eligible through DHS' CCCH or POD subsidy programs.

As the measure progress, DHS requests clarification of section 1, (c)(3) as to what information is necessary for taxpayers to access the credit and will update its resource needs to implement this program.

Should this measure pass, DHS will work with employers or interested child care providers through the child care licensing process.

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

JOSH GREEN M.D.  
GOVERNOR

SYLVIA LUKE  
LT. GOVERNOR



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**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:**

S.B. No. 800, Relating to Taxation

**BEFORE THE:**

Senate Committee on Labor and Technology and Senate Committee on Health and Human Services

**DATE:** Monday, February 13, 2023

**TIME:** 3:10 p.m.

**LOCATION:** State Capitol, Room 224

Chairs Moriwaki and San Buenaventura, Vice-Chairs Lee and Aquino, and Members of the Committees:

The Department of Taxation ("Department") offers the following comments regarding S.B. 800 for your consideration.

S.B. 800 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), creating a nonrefundable income tax credit to be administered by the Department for: (1) up to 75 percent of the "qualified cost of operating" employer-provided or employer-sponsored child care for their employees, less the amount paid for child care by the employees, not to exceed 50 percent of the employers net tax liability with excess benefit available for carry forward over the next five years; and (2) up to 100 percent of the cost of "qualified child care property" purchased or acquired by the employer for an employer-provided child care facility during the taxable year that it is first placed in service, at an amount prorated equally over a period of 10 years beginning in the taxable year that the "qualified child care property" is placed in service, and with a three year carry forward of claimed credit that is not used. A definition for "qualified child care property," and "qualified cost of operating" are included in the measure. The bill applies to taxable years after December 31, 2022.

First, the Department requests that an agency with the requisite expertise be responsible for certifying this credit to ensure that only taxpayers who provide or sponsor approved child care services, or place in service a child care facility, pursuant to this measure qualify to claim this income tax credit.

Finally, the Department notes that due to the number of bills with tax law changes that have been introduced this year, the Department may not have the resources to implement all measures passed this session in time for the tax year 2023. The Department will continue to monitor the status of proposed legislation and will advise whether some changes will require a later effective date.

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

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit for Employer Provided Child Care

BILL NUMBER: SB 800

INTRODUCED BY: DECOITE by request

EXECUTIVE SUMMARY: Establishes income tax credits for employers who provide their employees with child care.

SYNOPSIS: Adds a new section to Chapter 235, HRS, that would provide a tax credit for employers providing child care.

The amount of the credit is:

- 75% of the qualified costs of operation incurred in the taxable year by a taxpayer who is an employer that provides child care services for the taxpayer's employees on the premises of the employer, less any amounts paid by the employee to the employer as compensation for such child care services. This credit may be carried forward for five years if not currently usable. This credit may only offset up to 50% of the taxpayer's liability (computed without regard to any tax credits the taxpayer might have).
- 75% of costs incurred in the taxable year by a taxpayer who is an employer that sponsors or pays for child care services provided at a location other than at the premises of the employer for the taxpayer's employees. This credit may be carried forward for five years if not currently usable. This credit may only offset up to 50% of the taxpayer's liability (computed without regard to any tax credits the taxpayer might have).
- 100% of the costs of qualified child care property purchased and acquired by a taxpayer who is an employer to provide child care facilities on the premises of the employer for their employees. This credit is prorated over 10 years beginning in the taxable year the property is placed in service.

Defines "employer-provided" as child care services offered on the premises of the employer.

Defines "employer-sponsored" as child care provided through a contractual arrangement with a child care provider that is paid for by the employer.

Defines "premises of the employer" as any location in the State that is used by an employer as a place of business at which the employer provides child care; provided that if the place of business is impracticable or otherwise unsuitable for on-site provision of child care, such child care may be provided at another location that is within a reasonable distance of the employer's place of business.

Defines “qualified child care property” as any property purchased or acquired by the taxpayer and placed in service during a taxable year for the provision of child care to the taxpayer's employees.

Defines “qualified cost of operation” as reasonable, direct operational costs incurred by a taxpayer as a result of operating employer-provided child care facility for an employee or employer-sponsored child care at a child care facility licensed and approved by the department of human services.

Defines “qualifying taxpayer” as an employer who provides child care services on the premises of the employer or subsidizes the cost of child care for the employer's employee.”

All claims for the tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure shall constitute a waiver of the right to claim the credit.

The credit amount is determined at the entity level. The sale, merger, acquisition, or bankruptcy of any taxpayer shall not create new eligibility in any succeeding taxpayer.

EFFECTIVE DATE: Taxable years beginning after December 31, 2022.

STAFF COMMENTS: Hawaii already offers a credit to families for dependent care expenses necessary for gainful employment (HRS section 235-55.6). This measure gives additional refundable credits to any employer who pays for child care for the employer’s employees or builds out a facility to do so. Although the credits appear complementary, they are not. The existing credit is only given to families at or below specified income levels, while the proposed employer credits are not. The existing credit has strict limits on the amount of credit given, while the proposed employer credit does not. If the idea is to provide a complementary credit when an employer provides child care, lawmakers should consider integrating the two credits so that no windfalls are created (such as the State subsidizing child care of families with income levels well north of the limits contained in the existing credit).

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. Indeed, 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?

Furthermore, the additional credits would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation or subsidy, or adding on to an existing program, may be a far less costly method to accomplish the same thing. At least with a direct appropriation or subsidy, the taxpayers know what they are buying and what they are paying for it. With a tax credit you know neither and must simply total up the damage later.

Re: SB 800

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Digested: 2/9/2023



# Chamber of Commerce HAWAII

*The Voice of Business*

## Testimony to the Senate Committee on Labor and Technology & Health and Human Services

**Monday, February 13, 2023, at 3:10 P.M.  
Conference Room 224 & Videoconference**

### **RE: SB 800 Relating to Taxation**

Aloha Chairs Moriwaki and San Buenaventura, Vice Chairs Lee and Aquino, and Members of the Committees:

The Chamber of Commerce Hawaii ("The Chamber") **strongly supports SB 800**, which establishes income tax credits for employers who provide their employees with childcare.

**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 childcare resource and referral expenditures. Currently, 18 U.S. states have passed





# Chamber of Commerce HAWAII

*The Voice of Business*

employer 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.



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#### **Executive Officers**

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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 Labor and Technology and Committee on Health and Human Services

FROM: HAWAII FOOD INDUSTRY ASSOCIATION  
Lauren Zirbel, Executive Director

DATE: Monday, February 13, 2023  
TIME: 3:10pm  
PLACE: Via Videoconference



RE: SB800 Relating to Taxation

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 bringing 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.