

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau
P.O. BOX 259

HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

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. 400, Relating to Taxation

BEFORE THE:

House Committee on Economic Development

DATE: Friday, February 3, 2023

TIME: 10:00 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. 400 for your consideration.

H.B. 400 adds two new sections to chapter 235 creating nonrefundable income tax credits for (1) up to seventy five per cent of the 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 fifty percent of the employers tax liability with excess benefit available for carry forward over the next five years, and (2) up to one hundred per cent of the cost of "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 a rate of ten per cent of the cost claimed, per year for the ten years, not to exceed fifty percent of the employers tax liability in a given year with excess benefit available for carry forward over the next nine years. A definition for "child care property" is included in the measure. The bill is effective upon approval and applies to taxable years after December 31, 2022.

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

Department of Taxation Testimony
H.B. 400
February 3, 2023
Page 2 of 2

implement all measures passed this session in time for 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.



Chamber of Commerce HAWAII

The Voice of Business

Testimony to the House Committee on Economic Development Friday, February 3, 2023, at 10:00 A.M. Conference Room 423 & Videoconference

RE: HB 400 Relating to Taxation

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

The Chamber of Commerce Hawaii ("The Chamber") **strongly supports HB 400**, which establishes an employer-provided or -sponsored childcare income tax credit for employers that make available childcare services to their employees. It establishes an employer childcare property income tax credit for the cost of childcare property purchased or acquired by an employer and put into service for employer-provided 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 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.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Employer-Provided Child Care Credit, Child Care Property Credit

BILL NUMBER: HB 400

INTRODUCED BY: HOLT, COCHRAN, GATES, HUSSEY-BURDICK, KITAGAWA, LAMOSAO, LOWEN, MARTEN, NAKASHIMA, NISHIMOTO, PERRUSO, POEPOE, SAYAMA, TAKENOUCI, TARNAS, TODD

EXECUTIVE SUMMARY: Establishes an employer-provided or -sponsored child care income tax credit for employers that make available child care services to their employees. Establishes an employer child care property income tax credit for the cost of child care property purchased or acquired by an employer and put into service for employer-provided child care.

SYNOPSIS: Adds two new sections to Chapter 235, HRS, that would provide an employer-provided or -sponsored child care tax credit and an employer child care property tax credit respectively.

Employer-Provided or -Sponsored Child Care Tax Credit

For each taxpayer that employs at least one employee in the State and provides employer-provided child care or employer-sponsored child care to those employees, the amount of the credit shall be equal to seventy-five per cent of the cost of operation to the employer less any amounts paid by the employees during the taxable year.

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.

The amount of the credit applied under this section against the tax imposed for a taxable year shall not exceed fifty per cent of the tax liability otherwise due without regard to any other credits allowed against the tax imposed. Any unused credit may be carried forward, if necessary, for use in the five taxable years following the taxable year in which the cost of operation was incurred.

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.

Defines "cost of operation" as reasonable direct operational costs incurred by the employer-taxpayer as a result of providing employer-provided child care or employer-sponsored child care. Does not include the cost of any property that is child care property (as defined in the child care property tax credit).

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

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

Defines "premises of the employer" as any location within the State and located on the workplace premises of the employer providing the child care or one of the employers providing the child care in the event that the child care property is owned jointly or severally by the taxpayer and one or more other employers; provided that if such workplace premises are impracticable or otherwise unsuitable for the on-site location of such child care facility, as determined by the director, such facility may be located within a reasonable distance of the premises of the employer.

Employer Child Care Property Tax Credit

For each taxpayer that employs at least one employee in the State, the aggregate amount of the credit shall equal 100% of the cost of child care property purchased or acquired by the taxpayer and first placed in service during the taxable year and the credit may be claimed at a rate of 10% per year for ten years.

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.

The amount of the credit applied under this section against the tax imposed for a taxable year shall not exceed fifty per cent of the tax liability otherwise due without regard to any other credits allowed against the tax imposed. Any unused credit may be carried forward, if necessary, for use in the three following taxable years.

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.

Defines "Child care property" as all real and tangible personal property purchased or acquired for use exclusively in the construction, expansion, improvement, or operation of a facility for employer-provided child care.

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.

Digested: 2/1/2023



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

LATE

LATE

**HEARING BEFORE THE HOUSE COMMITTEE ON
ECONOMIC DEVELOPMENT
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 423
FRIDAY, FEBRUARY 3, 2023 AT 10:00 A.M.**

To The Honorable Daniel Holt, Chair
The Honorable Rachele F. Lamosao, Vice Chair
Members of the committee on Economic Development

SUPPORT HB400 RELATING TO TAXATION

The Maui Chamber of Commerce **supports HB400** which establishes an employer-provided or -sponsored childcare income tax credit for employers that make available childcare services to their employees. It establishes an employer childcare property income tax credit for the cost of childcare property purchased or acquired by an employer and put into service for employer-provided childcare.

One of the biggest challenges for the local business community is the workforce shortage.

We understand workers across the state cite the lack of childcare resources and the extremely high cost of childcare as significant barriers for reentering the workforce. 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. We often hear that families with young children must choose between spending a significant portion of their income on childcare or leaving the workforce to become a full-time caregiver to their children.

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 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.

For these reasons, we **support HB400**.

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.

HB-400

Submitted on: 2/2/2023 12:15:35 AM

Testimony for ECD on 2/3/2023 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Support	Written Testimony Only

Comments:

I support the intent of HB400 and would just once again highlight the need for consistent revenue to fund this and other wonderful tax credits, like the Child Tax Credit and EITC, together with all our other needs. This revenue should be collected from improved taxes on wealth, such as the capital gains tax proposal in HB232.