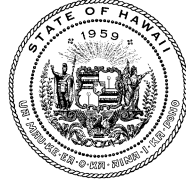


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

RONA M. SUZUKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair;
and Members of the House Committee on Finance

From: Rona M. Suzuki, Director
Department of Taxation

Re: **H.B. 1958, H.D. 1, Relating to Taxation**

Date: Thursday, February 20, 2020

Time: 1:00 P.M.

Place: Conference Room 308, State Capitol

The Department of Taxation (Department) appreciates the intent of H.B. 1958, H.D. 1, and provides the following comments. H.B. 1958, H.D. 1, amends chapter 235, Hawaii Revised Statutes (HRS) by amending the applicable percentage of household and dependent care expenses necessary for gainful employment for which a taxpayer may claim an income tax credit and amending the cap on the amount of such expenses that may be taken into account for the credit in a year. H.D. 1 has a defective effect date of December 31, 2059 and otherwise applies to taxable years beginning after December 31, 2019.

As indicated in the Department's report titled *Tax Credits Claimed by Hawaii Taxpayers, Tax Year 2017* report, \$9.9 million in claims were made for this credit on 25,671 returns.

The Department will be able to administer this measure provided that a functional effective date is inserted.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TAXATION; Income Tax Credit

BILL NUMBER: HB 1958, HD-1

INTRODUCED BY: House Committee on Human Services & Homelessness

EXECUTIVE SUMMARY: Amends the income tax credit for expenses for household and dependent care services necessary for gainful employment by changing the taxpayer's applicable percentage of employment-related expenses that constitutes the tax credit and cap amount. Takes effect on 12/31/2059

SYNOPSIS: Amends section 235-55.8, HRS, to change the applicable credit percentages to unspecified amounts, and to change the maximum dollar limit on the amount creditable to unspecified amounts.

EFFECTIVE DATE: December 31, 2059.

STAFF COMMENTS: While it appears that this measure proposes tax relief to lower income taxpayers, consideration should be given to adjusting the income tax rates or the threshold amounts so those taxpayers that these credits are aimed to help will not need to claim these credits to get tax relief (or forfeit the credits if they fail to do so).

We in Hawaii have several disparate programs and tax credits aimed at poverty relief. In addition to the credits already described, income tax credits are allowed to low-income household renters (HRS section 235-55.7) and for those with dependent care expenses necessary for gainful employment (HRS section 235-55.6). Many of the credits have non-duplication provisions and all have strict time limits on when they may be claimed upon pain of credit forfeiture. Apparently, lawmakers of the past had many different ideas on how to address the problem of poverty in Paradise but couldn't figure out which program to go with, so they adopted them all. The principal disadvantage of this is that people can and do get confused over which credits they can and can't claim, and as a result could expose themselves to credit disallowance, penalties, and other undesirable consequences.

Now, we simply can't afford tax credits and business as usual. Yes, we need to help those who need it, but the shotgun style used in the past has not produced results. Perhaps a better approach would be lopping off the income tax brackets applicable to lower-income taxpayers and designing ONE credit to encourage social behavior necessary to lift the taxpayer out of poverty. Digested 2/18/2020

Date: 18 February 2020

To: Chair Luke and Members of the Committee on Finance

From: Early Childhood Action Strategy

Re: SUPPORT for HB 1958: Expanding the Child Care Tax Credit for Families

Early Childhood Action Strategy (ECAS), a statewide public-private collaborative working to improve the system of care for Hawai'i's youngest children and their families, writes in SUPPORT of HB 1958, which would expand the child care tax credit for families.

The dependent care tax credit helps working families offset the expenses for the care of children and/or adult dependents. The cost of child care in Hawai'i is among the highest in the nation, with the average full-time cost of infant care at nearly \$1,200 per month.

There are more than 116,000 families with preschool aged children in Hawai'i and half of those families are either in poverty or are working but still struggling to make ends meet. Statewide, more than 6 in 10 children live in homes where both parents work. As a result, child care is a necessary work support.

The proposed expansion in the child care tax credit will help provide economic relief and equity to families, and will make a vital contribution to our economic infrastructure and culture of workforce development as a state.

For all of these reasons, Early Childhood Action Strategy asks that your committee support this bill.

Thank you for the opportunity to submit this testimony.



HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of the Hawai‘i Appleseed Center for Law and Economic Justice
In Support of HB 1958 HD1 – Relating to Taxation
House Committee on Finance
Thursday, February 20, 2020, 1:00 PM, conference room 308

Dear Chair Luke, Vice Chair Cullen, and members of the Committee:

Thank you for the opportunity to provide testimony in **SUPPORT of HB 1958, HD1**, which adjusts how much working families can claim for the household and dependent care services tax credit.

This bill would help address the sky-high cost of child and dependent care in Hawai‘i, which has profound consequences on the economic security of our working families. The newest report on the financial health of families in Hawai‘i found that nearly 7 in 10 Hawai‘i adults, or more than 828,000 people, are struggling with their financial health.ⁱ

It reinforces the message of the ALICE study of financial hardship in Hawai‘i,ⁱⁱ which identified child care as one of the largest financial challenges for our state’s working families. The average cost of infant and toddler care in Hawai‘i is \$13,500. That’s more than annual in-state tuition at the University of Hawai‘i.ⁱⁱⁱ

In addition, two-thirds of children in Hawai‘i live in households where both parents work, and a quarter of live in households headed by a single parent, leaving no full-time caregiver at home.^{iv}

Meanwhile, the population of Hawai‘i is both older than that of the U.S. as a whole, and is aging faster. More and more families are facing the challenges of caring for dependent kūpuna, and their numbers will continue to grow.

In 2017 (the latest year of data publicly available), the average dependent care credit claimed was only \$387.^v This is likely due to the fact that the current applicable percentages and dollar limits on the amount of dependent care costs that may be claimed are so low that they seriously restrict the amount of financial relief available through this credit.

We respectfully request that you **amend** this bill to **significantly increase** both the applicable percentages and dollar limits on the amount that may be claimed with this credit **to adequately address the true costs of dependent care** in our state. We appreciate your consideration of this testimony.

ⁱ <https://staging.cfsinnovation.org/research/hawaii-financial-health-pulse/>

ⁱⁱ <https://www.auw.org/alice>

ⁱⁱⁱ http://uhfamily.hawaii.edu/publications/brochures/e8998_HawaiiEarlyLearningAssessment-Web.pdf

^{iv} <https://datacenter.kidscount.org/data#HI/2/0/char/0>

^v <http://files.hawaii.gov/tax/stats/stats/credits/2017credit.pdf>

The Hawai‘i Appleseed Center for Law and Economic Justice is committed to a more socially just Hawai‘i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems that perpetuate inequality and injustice through policy development, advocacy, and coalition building.

HB-1958-HD-1

Submitted on: 2/18/2020 1:56:13 PM

Testimony for FIN on 2/20/2020 1:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Younghi Overly	aauw of hawaii	Support	No

Comments:

Dear Chair Luke, Vice Chair Cullen, and members of the committee,

Members of AAUW of Hawaii are grateful for this opportunity to submit a testimony in SUPPORT for H.B. 1958 HD1, which would raise the income tax credit for the household and dependent care services expense necessary for gainful employment.

Women are the primary caregivers of both our keiki and kupuna who require care. Women are more likely to take significant time out of the workforce, lowering their ability to make ends meet and save for retirement. According to a Cornell study “Getting a Job: Is there a Motherhood Penalty?”, the lifetime earnings of a woman with one child are 28% less than the earnings of a childless woman, and each additional child decreases a mother’s lifetime earnings by another 3%.^[1] Approximately 67% of caregivers for older adults are women, either wives, daughters or other family members.^[2]

This bill would allow working families keep more of what they earn; reduce the number of households headed by single mothers receiving cash welfare; and reduce the number of older women living in poverty.

The American Association of University Women (AAUW) of Hawaii is a state-wide organization made up of six branches (Hilo, Honolulu, Kauai, Kona, Maui, and Windward Oahu) and includes just over 650 active members with over 3800 supporters statewide. As advocates for gender equity, AAUW of Hawaii promotes the economic, social, and physical well-being of all persons.

Please pass this bill to help working families of Hawaii. Mahalo.



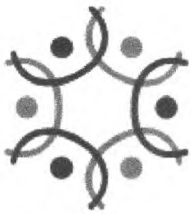
Younghee Overly

Public Policy Chair, AAUW of Hawaii

publicpolicy-hi@aauw.net

[1] <https://www.jstor.org/stable/pdf/10.1086/511799.pdf>

[2] <https://www.justiceinaging.org/wp-content/uploads/2018/12/Older-Women-and-Poverty.pdf>



Hawaii
Children's Action Network Speaks!
Building a unified voice for Hawaii's children

LATE

Hawaii Children's Action Network Speaks! is a nonpartisan 501c4 nonprofit committed to advocating for children and their families. Our core issues are safety, health, and education.

To: Representative Luke, Chair
Representative Cullen, Vice Chair
House Committee on Finance

Re: **HB 1958-Relating to taxation**
Hawaii State Capitol, Room 308
1PM, 2/20/2020

Chair Luke, Vice Chair Cullen, and committee members,

On behalf of Hawaii Children's Action Network Speaks!, we write in support of HB 1958 HD1, which would amend the household and dependent care tax credit, and offer an amendment. Child care cost in Hawaii are some of the most expensive in the country. Across all child care settings, the cost for full-time care can range from \$700-\$1100 monthly. Care for infants and toddlers is the most expensive, with an average of \$1100 per month. Families are desperate for relief.

In Hawaii, 7 out of 10 children live in homes where both parents work. This makes child care a necessity for both the families and our economy. Allowing families to claim a portion of their expenses as a tax credit helps them continue to pay for care and stay engaged in the workforce.

Additionally, we off the following amendments:

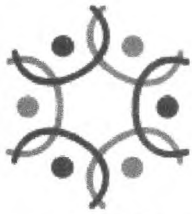
SECTION 3. Section 235-55.6, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) Allowance of credit.

(1) In general. For each resident taxpayer, who files an individual income tax return for a taxable year, and who is not claimed or is not otherwise eligible to be claimed as a dependent by another taxpayer for federal or Hawaii state individual income tax purposes, who maintains a household which includes as a member one or more qualifying individuals (as defined in subsection (b)(1)), there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the applicable percentage of the employment-related expenses (as defined in subsection (b)(2)) paid by the individual during the taxable year. If the tax credit claimed by a resident taxpayer exceeds the amount of income tax payment due from the resident taxpayer, the excess of the credit over payments due shall be refunded to the resident taxpayer; provided that tax credit properly claimed by a resident individual who has no income tax liability shall be paid to the resident individual; and provided further that no refunds or payment on account of the tax credit allowed by this section shall be made for amounts less than \$1.

(2) Applicable percentage. For purposes of paragraph (1), the taxpayer's applicable percentage shall be determined as follows:

Adjusted gross income	Applicable percentage
Not over \$25,000	[25%] 50%



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Over \$25,000 but not over \$30,000	[24%] 50%
Over \$30,000 but not over \$35,000	[23%] 45%
Over \$35,000 but not over \$40,000	[22%] 45%
Over \$40,000 but not over \$45,000	[21%] 45%
Over \$45,000 but not over \$50,000	[20%] 40%
Over \$50,000	[15%] 40%
<u>Over \$50,000 but not over \$75,000</u>	<u>35%</u>
<u>Over \$75,000 but not over \$100,000</u>	<u>30%</u>
<u>Over \$100,000 But not over \$250,000</u>	<u>15%</u>

SECTION 4. Section 235-55.6, Hawaii Revised Statutes, is amended by amending subsection (c) to read as follows:

(c) Dollar limit on amount creditable. The amount of the employment-related expenses incurred during any taxable year which may be taken into account under subsection (a) shall not exceed:

- (1) [~~\$2,400~~] \$13,000 if there is one qualifying individual with respect to the taxpayer for such taxable year, or
- (2) [~~\$4,800~~] \$26,000 if there are two or more qualifying individuals with respect to the taxpayer for such taxable year.

SECTION 5. Section 235-55.6, Hawaii Revised Statutes, is amended by adding a subsection to read: On September 30, 2021 and on September 30 of each year thereafter, the Department of Taxation shall calculate an adjustment to the income limits under subsection (a) and the dollar limit on amount creditable under subsection (c) based upon the annual change in the Urban Hawaii Consumer Price Index or successor index for the 12 months prior to September 1 of each year, as calculated by the United States Department of Labor. The adjusted income limits and dollar limit creditable will take effect on January 1 of the following year.

SECTION 6. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 7. This Act shall apply to taxable years beginning after December 31, 2019.

Increasing both the brackets and the cap will give families a robust credit.

We appreciate the opportunity to provide testimony in support of HB 1958 HD1 and respectfully request the committee to support this measure.

Thank you,

Kathleen Algire
Director, Public Policy and Research



Hawaii

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