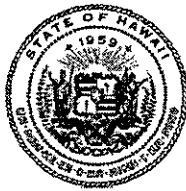


LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



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## SENATE COMMITTEE ON WAYS & MEANS

### TESTIMONY REGARDING SB 2047 SD 2 RELATING TO TAXATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 25, 2008

TIME: 10:30AM

ROOM: 211

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In its original form, this measure provided a refundable income tax credit for modifications to a home for purposes of adding home accessibility features.

The Committee on Human Services & Public Housing amended this measure by incorporating many of the suggestions of the Department of Taxation, including several components of the Administration measure, SB 3117.

The Committee on Economic Development & Taxation substantially modified the bill by:

- (1) Including an income tax credit for caregivers that provide care for qualified persons;
- (2) Providing an additional exemption for persons with children aged 18 and under; and
- (3) Expanding the current dependent care credit.

The Department of Taxation (Department) **strongly supports** this measure. As amended, this measure serves as comprehensive tax relief for the struggling families of Hawaii that deal with the high cost of caring for their ohana, including the young, elderly, and disabled.

#### **I. STRONG SUPPORT FOR AGING AND DISABILITY INDEPENDENCE**

With the increasing aging population in Hawaii, it is important that the government support efforts to maintain the independence of these individuals. As independent aging persons, the home is the natural target for this relief. As elderly have lived in their homes for many years, it is not uncommon for the physical and structural aspects of the homes to be unsuited for the special needs of the elderly and disabled.

Independent elderly and disabled are faced with financing exorbitant costs to modify their residences in order to ensure their safety and welfare. Costs include planning, structural, construction, and other charges determined necessary for medical needs.

As amended, this measure provides the necessary financial support for the elderly and disabled by providing a refundable income tax credit equal to fifty percent of the costs incurred by a taxpayer in modifying a principal residence to allow for "aging in place." The amount of qualified costs incurred includes maximum amounts, depending upon the taxpayers filing status: \$5,000 for taxpayers filing as single or married filing separately (\$2,500 maximum credit); \$7,500 for taxpayers filing as head of household or surviving spouse (\$3,750 maximum credit); and \$10,000 for taxpayers filing a joint return (\$5,000 maximum credit).

As amended, this measure also includes an effective definition of qualified costs that will assist taxpayers and the administration of this credit.

## **II. STRONG SUPPORT FOR OF CARE INCENTIVES FOR HAWAII TAXPAYERS.**

The Department acknowledges that as Hawaii's residents age, more and more responsibility is falling upon the family to care and provide for the elderly. By 2020, the elderly and disabled population of Hawaii will constitute over one-fourth of the State's adult population. It is critical that policies are enacted to ease the burden on the aging and their families that must cope with the caregiving issue.

The Department appreciates the appropriation inserted in this version of the legislation. This revenue will be necessary to ensure that materials are timely disseminated to those that could benefit from this legislation.

## **III. STRONG SUPPORT FOR ADDITIONAL PERSONAL EXEMPTION FOR SCHOOL-AGED DEPENDENTS.**

This legislation provides for what is known as the "Ohana Exemption." This exemption is an additional exemption that may be claimed by a taxpayer with a dependent, as defined by the Internal Revenue Code, aged 18 and under. The Ohana Exemption is provided on a sliding scale basis to provide those families with less income a greater benefit. The means testing of the exemption is as follows:

<u>Federal Adjusted Gross Income</u>	<u>Ohana Exemption Amount</u>
\$100,000 and under	\$1,000
\$100,001 to \$200,000	\$500
Over \$200,000	\$0

Currently, there is no relief provided for the direct costs parents incur for their children to attend school or other costs associated with raising a child. Parents can spend hundreds or thousands of dollars providing the necessary food, clothing, shelter, supplies, equipment, and other fees

associated with raising a child.

As a result of this legislation, an average family of four in Hawaii would be entitled to claim a personal exemption of \$1,040 for each spouse and child; plus an additional \$1,000 exemption for each child. Rather than a personal exemption of \$4,160, the family would be entitled to exclude from gross income \$6,160—a 68% increase in benefit.

The above-mentioned federal income amounts are rational because most families in Hawaii have both spouses working, which results in a large gross income for tax purposes; however only enough to get-by financially with Hawaii's high cost of living. It is the Department's position that the \$100,000 and \$200,000 income thresholds are realistic given Hawaii's high cost of living.

#### **IV. STRONG SUPPORT FOR DEPENDENT CARE CREDIT EXPENDITURE CEILING INCREASE.**

Hawaii currently conforms to the Internal Revenue Code, which provides for a dependent care credit for employment-related costs associated with providing dependent care. *See* HRS § 235-55.6. This tax credit applies to both children and adult-aged dependent care. The tax credit is a percentage of the dependent care expenses. The percentage is a sliding scale based upon income. The expenditures are capped at a ceiling amount.

This legislation will help offset the high cost of dependent care in Hawaii. Because of Hawaii's high cost of dependent care for both children and adults, many families are forced to have two-worker, two-job families only to cover the cost of care, effectively separating the family for several hours per week. Moreover, the revenue generated by these additional jobs many times only goes to pay for dependent care. This bill increases the dependent care credit employment-related expense ceiling from a two-tiered amount to a flat-per-dependent amount. Under current law, the credit may be used to offset the following amounts—

One qualifying dependent	Up to \$2,400
More than one qualifying dependent	Up to \$4,800

This bill will eliminate the two-tiered dependent expenditure maximums, in favor of a flat \$5,000 ceiling per dependent.

For example, under current law, a family with three children can only claim a credit based on a sliding scale for a percentage of the dependent care costs of up to \$4,800 per year—or the same amount that can be claimed for a family with only two children. Whereas under this legislation, a family of three can obtain a credit based on a sliding scale percentage of up to \$15,000 in dependent care costs and the family of two can claim up to \$10,000. In short, this bill eliminates the penalty for having additional children and provides meaningful relief commensurate with the number of children.

This proposal applies to dependent adults in the same manner.

## **II. REVENUE IMPACT**

With a July 1, 2008 effective date, this legislation has the following revenue impact:

	<b>FY2009</b>	<b>FY2010 (and annually thereafter)</b>
<b>Section 2</b>	\$8.0 million	\$8.0 million
<b>Section 4</b>	\$47.1 million	\$47.1 million
<b>Section 8</b>	-	\$16.9 million
<b>Section 9</b>	\$9.0 million	\$9.0 million
<b>Total</b>	<b>\$64.1 million</b>	<b>\$81.0 million</b>

The Department's revenue estimate was arrived at as follows—

### ***Section 2 (SB2047 SD1):***

The Department assumed there were 4,000 qualified taxpayers and each qualified taxpayer made renovation at an average cost of \$4,000.

### ***Section 4 (SB2049 SD1):***

#### **Qualified caregivers who provide care to elderly aged 60 or older**

Based on the Hawaii Health Survey 2003 coordinated by the Department of Health, there are 192,390 caregivers who provide regular care or assistance to elderly aged 60 years old or older. About 20% of caregivers (38,478 caregivers) live in the same household with their elderly care recipients. The Department assumed all 38,478 caregivers qualify for the credit and each caregiver provides care to one elderly relative. The Department further assumed that there is only one caregiver per household.

The Department assumed 10% of caregivers (19,239 caregivers) provided more than 50% of financial support but not live in the same household with the elderly.

The total number of qualified caregivers who provide care to elderly aged 60 or older is 57,717 (38,478 + 19,239).

#### **Qualified caregiver who provide care to persons aged 18 to 59**

According to the Hawaii Data Book 2006, there are 76,632 persons who are 16 to 64 years old and are disabled. The Department assumed 20% of them (15,326 persons) received informal and family care. The Department further assumed 20% of the care recipients (3,065 care recipients) lived in the same household with the caregivers.

The Department assumed 10% of the care recipients (1,533 care recipients) received more than 50% of financial support but not live in the same household with the caregivers.

Assuming there is one caregiver per care recipient, the total number of qualified caregivers who provide care to persons aged 18 to 59 is 4,598 (3,065 + 1,533).

***Section 8 and 9 (SB3111 SD1):***

The estimates are based on the 2004 individual returns. The number of child/dependent exemptions totaled 345,161 and the dependent care tax credit amounted to \$8.6 million for TY2004. The Department assumed all child/dependent exemptions qualified for the Ohana Exemption.



**To: Senate Committee on Ways and Means  
Senator Rosalyn Baker, Chair  
Senator Shan S. Tsutsui, Vice-Chair**

**Date: February 25, 2008  
Conference Room 211  
10:30 am**

**Re: SB 2047, SD2 RELATING TO TAXATION**

Chair Baker and Members of the Committee:

My name is Ed Thompson, Associate State Director of Advocacy for AARP Hawaii. We are a membership organization for people 50 and older with 156,000 members in Hawaii. AARP provides access to services and information, meaningful volunteer opportunities, and the opportunity for our members to create positive change in their lives.

AARP supports SB 2047, SD2, which provides tax relief incentives to offset the high cost of living in Hawaii. While we support all of the tax credits listed in this bill, we want to provide testimony on home modification tax credits because it is our belief that creation of such a credit would encourage and enable homeowners to find the help they need to make the proper modifications and to do so in a more affordable manner. Here are a few basic facts:

- In 2000, individuals 60 + represented 17% of the total population and by 2020 it is estimated that individuals 60 and over will comprise 25% of Hawaii's total population.
- Hawaii is experiencing an acute housing shortage.
- In 2003, the occupancy rate for long term care facilities was 93%.
- In a recently completed survey of Hawaii residents 18 and older commissioned by AARP Hawaii, 80% of respondents said it is very important to be able to stay at home for as long as possible and to receive long term care services in their home.

Aging in place is the preferred housing option for the vast majority of our older residents. However, a number of barriers hinder efforts to make this a viable alternative. These barriers include excessive housing expenditures, inadequate home maintenance, and a low rate of home modifications to accommodate health and mobility limitations. SB 2047, SD2, will help to remove some of these barriers.

Thank you for the opportunity to testify before your committee.

# Hawai'i Alliance for Retired Americans

An affiliate of the Alliance for Retired Americans  
c/o AFSCME • 888 Mililani Street, Suite 101 • Honolulu, Hawaii 96813

AFT Hawaii Retirees  
HGEA Retirees  
HSTA – Retired  
ILWU Retirees  
Kokua Council  
Machinists Union Retirees  
UPW Retirees  
ADA/Hawaii

(Submitted by email to [testimony@capitol.hawaii.gov](mailto:testimony@capitol.hawaii.gov) February 21, 2008)

Joint statement of Al Hamai, President, and Carol Nitta, Legislative Committee  
Member, Supporting SB 2047, SD2, Relating to Taxation

## **Hearing of the Senate Committee on Ways and Means**

**February 25, 2008, 10:30 a.m. Conference Room 211**

Chair Rosalyn H. Baker and Members of the Committee,

We are submitting testimony on behalf of the Hawaii Alliance for Retired Americans (HARA). HARA represents 17,000 retirees, members of the above organizations and individuals. We are a chapter of the Alliance for Retired Americans (ARA), a national advocacy organization for retirees.

HARA supports SB 2047, SD 2, which proposes to provide refundable tax credits to taxpayers for the modification of accommodations for persons with disabilities or for persons who wish to age-in-place and for family caregivers. We know that one of the most frequently mentioned concerns of seniors and retirees is long term care and what would happen to them in the event that they or their loved ones will need long term care services. We also know that seniors do not wish to be institutionalized in a care facility, which can be very costly to the individuals confined and to state and federal governments. Rather, seniors wish to age-in-place, to spend their remaining lives at their own homes where they lived and worked and played. SB 2047, SD2 is a major step by this legislature not only to express appreciation to the thousands of family caregivers, who daily care for their disabled and aging loved ones, but also to provide these caregivers with some financial assistance for their efforts, which truly benefits our community. For these reasons, HARA urges the Committee on Ways and Means to approve SB 2047, SD2. Mahalo.

*Ke hana like nei na kupuna i 'oi loa a'e 'o Hawai'i*  
Senior citizens working together for a better Hawai'i



**STATE OF HAWAII**  
STATE COUNCIL  
ON DEVELOPMENTAL DISABILITIES  
919 ALA MOANA BOULEVARD, ROOM 113  
HONOLULU, HAWAII 96814  
TELEPHONE: (808) 586-8100 FAX: (808) 586-7543  
February 25, 2008

The Honorable Rosalyn H. Baker, Chair  
Senate Committee on Ways and Means  
Twenty-Fourth Legislature  
State Capitol  
State of Hawaii  
Honolulu, Hawaii 96813

Dear Senator Baker and Members of the Committee:

**SUBJECT: SB 2047 SD2 – RELATING TO TAXATION**

The position and views expressed in this testimony do not represent nor reflect the position and views of the Department of Health (DOH) and Department of Taxation (DOTax).

The State Council on Developmental Disabilities (DD) **SUPPORTS THE INTENT OF SB 2047 SD2**. The purpose of SB 2047 SD2 is to: (1) provide a refundable tax credit for taxpayers who make modifications to their homes to accommodate individuals with disabilities or facilitate aging-in-place for up to 50 percent of qualified costs incurred by the taxpayer to renovate with accessible features up to specified maximums in qualified costs; (2) create a caregiver tax credit for eligible taxpayers who care for qualified care recipients, and to require DOTax to submit a report to the Legislature evaluating the tax credit program after three years; and (3) provide financial relief to families that provide care for children and dependents by providing an additional personal income tax exemption for any dependent age 18 and under and by increasing the tax relief provided by the child and dependent income tax credit.

The Joint Legislative Committee on Family Caregiving (JLCFC) created by Act 285, SLH 2006 was established to address the needs of family caregivers who provide unpaid, informal assistance to a person 60 and older with physical or cognitive disabilities or a grandparent who is a caregiver for a grandchild 18 or younger or 19 or older with physical or cognitive limitations. JLCFC continued its work during the 2007 Interim, pursuant to Act 204, SLH 2007, and submitted a report to the Legislature on the findings and recommendations of the Committee.

Special Committee Report Number 1, among other things, provides a summary of the studies and surveys conducted, including the Family Caregiver Needs Assessment, and the findings and recommendations of the Committee.



According to the needs assessment, family caregivers indicated an interest in some type of caregiver tax credit (94 percent selected this option). One of the recommendations in the report is that a tax credit be provided for the cost of home modifications to enable the caregiver to better assist the care recipient in the home and a tax credit to provide relief for the costs of care for the caregiver.

The Council believes that family caregiving plays a crucial role in addressing the needs of the increasing elder and disability populations needing long-term care in the community and supports initiatives that would strengthen support for family caregivers.

The Council supports the provisions of this bill relating to:

- (1) a refundable tax credit for taxpayers who make modifications to their homes to accommodate individuals with disabilities or facilitate aging-in-place;
- (2) a caregiver tax credit for eligible taxpayers who care for qualified care recipients; and
- (3) financial relief to families that provide care for children and dependents by increasing the tax relief provided by the child and dependent income tax credit for employment-related expenses to \$5,000 annually.

The Council defers to DOTax for (1) the appropriation necessary for FY 2008-2009 to enable DOTax to process and mail the Executive Office on Aging program informational materials on caregiver services to taxpayers who claim the credit, and (2) for the financial implications to the State should these tax credits for caregivers be established.

We appreciate the opportunity to present testimony in **supporting the intent of SB 2047 SD2.**

Sincerely,

A handwritten signature in black ink, appearing to read "Waynette K.Y. Cabral", written in a cursive style.

Waynette K.Y. Cabral  
Executive Administrator