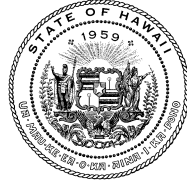


DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: March 23, 2016
Time: 9:15 A.M.
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1702, H.D. 1, Relating to Taxation.

The Department of Taxation (Department) appreciates the intent of H.B. 1702, H.D. 1, and provides the following comments for your consideration.

H.B. 1702, H.D. 1, amends the income tax credit for expenses for household and dependent care services necessary for gainful employment by changing the applicable credit percentages and adjusting the adjusted gross income (AGI) ranges for each percentage to unspecified amounts. This bill applies to taxable years beginning after December 31, 2015, but contains a defective effective date of July 1, 2030.

Because this bill only changes the percentages and AGI ranges for calculating the credit, the Department will be able to administer this change for the 2016 tax year.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase dependent care credit

BILL NUMBER: HB 1702, HD-1

INTRODUCED BY: House Committee on Finance

EXECUTIVE SUMMARY: Updates the amount of the dependent care credit.

BRIEF SUMMARY: Amends HRS section 235-55.6 to increase the amount of the dependent care credit as follows:

Adjusted gross income	Tax credit
Not over \$25,000	25%
Over \$25,000 but not over \$30,000	24%
Over \$30,000 but not over \$35,000	23%
Over \$35,000 but not over \$40,000	22%
Over \$40,000 but not over \$45,000	21%
Over \$45,000 but not over \$50,000	20%
Over \$50,000	15%

The percentage is applied to the “employment-related expenses” of the taxpayer, meaning expenses for household services and expenses for care of a qualifying individual.

EFFECTIVE DATE: July 1, 2030; applies to taxable years beginning after December 31, 2015.

STAFF COMMENTS: The dependent care credit is available only if the care provided permits taxpayers to be gainfully employed. The credit ranges from 15% to 25% of eligible expenses. The percentage amount varies with income, with higher percentage amounts applicable to lower income taxpayers.

The credit amount was last adjusted in 1989 by Act 322, SLH 1989, which increased the credit from 10% to 15% of eligible expenses to the current amount. This measure provides a modest increase in the dependent care credit by expanding the ranges of adjusted gross income over which the additional credit may be claimed.

Digested 3/17/2016



CATHOLIC CHARITIES HAWAII

TESTIMONY IN SUPPORT OF HB 1702 HD1: Relating to Taxation

TO: Senator Jill N. Tokuda, Chair; Senator Donovan M. Dela Cruz, Vice Chair,
and Members, Committee on Ways and Means

FROM: Betty Lou Larson, Legislative Liaison, Catholic Charities Hawaii

Hearing: **Wednesday, 3/23/2016; 9:15 AM; Conference Room 211**

Thank you for the opportunity to provide written testimony in support of HB1702, HD1, which would provide for a modest increase in the dependent care credit. This bill would amend the income tax credit for expenses for household and dependent care services necessary for employment by changing the manner for determining the taxpayer's applicable percentage of employment-related expenses that constitutes the tax credit.

Catholic Charities Hawai'i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai'i for over 60 years. CCH has programs serving elders, children, developmentally disabled, homeless and immigrants. Our mission is to provide services and advocacy to the most vulnerable of the people in Hawai'i. CCH's advocacy priority is reducing poverty in Hawai'i.

Hawai'i's high cost of living, including the highest cost of shelter in the country¹ and food costs for a family of four at 68% more than the mainland², makes living with a low to moderate income very difficult. Not only are families with this level of income spending a high percentage of their income on basic living expenses but also on the regressive General Excise Tax.

Increasing the dependent care credit will help to address the disproportionate tax burden faced by local families, and will help to reduce the high cost of living in our state. It is important to note that this bill impacts not only those families that have high child care costs, but also impacts caregivers who incur out-of-pocket costs to provide care for an elderly or otherwise incapacitated family member.

Thank you for the opportunity to testify. Please contact me at (808) 373-0356 or bettylou.larson@catholiccharitieshawaii.org if you have any questions.

¹ Hawaii 2013 State Housing Profile, National Low Income Housing Coalition. <http://nlihc.org/sites/default/files/SHP-HI.pdf>.

² Based on the U.S. Department of Agriculture's Thrifty Food Plan, which is used as the basis for Supplemental Nutrition Assistance Program benefits. See <http://www.cnpp.usda.gov/usdafoodplanscostoffood.htm>.





HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Support for **HB 1702, Relating to Taxation**
Senate Committee on Ways and Means
Scheduled for Hearing Wednesday, March 23, 2016, 9:15 AM, Room 211

Hawai'i Appleseed Center for Law & Economic Justice is a nonprofit law firm created to advocate on behalf of low income individuals and families in Hawaii. Our core mission is to help our clients gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.

Dear Chair Tokuda, Vice Chair Dela Cruz, and Members of the Committee on Ways and Means:

Thank you for the opportunity to express our **strong support** for HB 1702, which modifies the dependent care tax credit by extending its reach up the income scale and broadening the credit step-down tiers.

Hawai'i is the most expensive state in the country, with a cost of living at almost 160 percent of the national average. Groceries cost 57 percent more than they do on the mainland, and the cost of shelter is more than double. We face the ninth highest rate of poverty based on the U.S. Census's Supplemental Poverty Measure. Even our moderate income families struggle to make ends meet. Meanwhile, Hawai'i's regressive tax system further exacerbates these struggles. The Institute on Taxation and Economic Policy has ranked Hawai'i the fourth worst state in the country for taxing residents living in poverty, and our low-income residents face a disproportionately high tax burden. Improving our well-established tax credits to extend their reach and increase their value for Hawai'i's most vulnerable is a tried and true way to address these pressing economic problems.

A growing body of research has found that working-family centered credits like the dependent care credit are associated with numerous benefits. Not only do these credits lift families out of poverty, because they make it easier to work the credits have been shown to incentivize work. This brings additional income into homes and helps them to build assets for the future. As a result, these credits are linked to better childhood health indicators, in-school performance, and higher levels of educational attainment. Tax credits like the dependent care credit are a smart investment in the futures of Hawai'i's working families.

Getting more money into the pockets of working families helps them pay the costs of childcare and transportation, thus making it easier for them to continue working and enabling the work more hours. Moreover, it further stabilizes their finances by helping them to be able to absorb life's unavoidable economic shocks. A study just released by the Annie E. Casey Foundation found that 47% of Americans cannot handle a \$400 emergency, like having to replace a car's alternator or pay for out-of-pocket emergency medical expenses. Being able to afford an unforeseen car repair, an unexpected illness, or manage during times of reduced hours or lost employment is often the difference between financial ruin and success for low-income families trying to work their way into the middle class.

These economic burdens are all the more pressing for those with dependents requiring care. Childcare is generally the second largest expense after housing. In 2012, the cost of childcare in Hawai'i averaged \$12,500—more than the



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CENTER FOR LAW & ECONOMIC JUSTICE

cost of tuition at the University of Hawai'i. This credit is an important support for these families who need quality childcare so that they can achieve and maintain financial security.

We thank you again for the opportunity to testify and reiterate our **strong support** for HB 1702.



PROTECTING HAWAII'S OHANA, CHILDREN, UNDER SERVED, ELDERLY AND DISABLED

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TO: Senator Jill Tokuda, Chair
Senator Donovan Dela Cruz, Vice Chair
Members, Senate Committee on Ways and Means

FROM: Scott Fuji
Executive Director, PHOCUSED

HEARING: **Wednesday, March 23rd, 2016 at 9:15a.m. in Conf. Rm. 211**

Testimony in Support of HB1702 HD1, Relating to Taxation.

Thank you for the opportunity to provide testimony in **support** of HB1702 HD1 which would provide for a modest increase in the dependent care credit, and would lower the income thresholds at which the additional credit may be claimed. PHOCUSED is a nonprofit membership and advocacy organization that works together with community stakeholders to impact program and policy change for the most vulnerable in our community, including low-income families.

Hawaii has the highest cost of living in the nation – at almost 160% of the national average. As a result, many local families struggle to afford basic living costs, including housing and child care. For many families child care is generally the *second highest* cost that Hawaii families pay after rent or mortgage. The struggle to afford basic costs of living is exacerbated by Hawaii's regressive tax structure, and the fact that Hawaii's low-income residents face the second highest tax burden in the country.

Increasing the dependent care credit will help to address the disproportionate tax burden faced by local families, and will help to reduce the high cost of living in our state. It is important to note that this bill impacts not only those families that have high child care costs, but also impacts caregivers who incur out-of-pocket costs to provide care for an elderly or otherwise incapacitated family member. For these reasons we strongly support the original applicable percentage amounts found in HB1702.

Once again, PHOCUSED urges your support of this bill. If you have any questions, please do not hesitate to contact PHOCUSED at 521-7462 or by e-mail at admin@phocused-hawaii.org.