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# A BILL FOR AN ACT

RELATING TO ON-SITE EARLY CHILDHOOD FACILITIES.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1       SECTION 1. The legislature finds that Hawaii has one of  
2 the highest costs for child care in the nation. The annual  
3 tuition cost of many child care facilities in Hawaii exceeds the  
4 annual in-state tuition at the University of Hawaii at Manoa.  
5 In many cases, the costs for child care for two children are as  
6 much as one full-time working parent would make in a year after  
7 taxes. Not surprisingly, in many families, one parent will  
8 leave the workforce to care for their children on a full-time  
9 basis instead of enrolling the children in child care.

10       The legislature further finds that more of Hawaii's  
11 children are entering kindergarten without the physical,  
12 cognitive, linguistic, social, and emotional skills necessary to  
13 prepare them for success in school life. The link between  
14 school readiness and success in school is indisputable.  
15 According to kindergarten teachers within the department of  
16 education, many of the children who do not attend  
17 pre-kindergarten programs could be eighteen to twenty-four



1 months behind developmentally than their peers who do attend  
2 preschool.

3 The legislature also finds that the creation of on-site  
4 early childhood facilities by employers addresses concerns of  
5 child care costs while also providing access to early childhood  
6 learning programs. Employers who create on-site early childhood  
7 facilities may see greater employee retention, performance, and  
8 lower absenteeism as well as a more productive and positive  
9 workplace environment.

10 The purpose of this Act is to establish an income tax  
11 credit for employers who create on-site early childhood  
12 facilities to increase access to high quality early childhood  
13 programs from child care to preschool and junior kindergarten.

14 SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
15 amended by adding a new section to be appropriately designated  
16 and to read as follows:

17 "§235- On-site early childhood facility tax credit. (a)  
18 There shall be allowed to each taxpayer subject to the taxes  
19 imposed by this chapter, an income tax credit that shall be  
20 deductible from the taxpayer's net income tax liability, if any,  
21 imposed by this chapter for the taxable year in which the credit



1 is properly claimed. In the case of a partnership, S  
2 corporation, estate, or trust, the tax credit allowable is for  
3 qualified costs incurred by the entity for the taxable year.  
4 The cost upon which the tax credit is computed shall be  
5 determined at the entity level. Distribution and share of the  
6 credit shall be determined pursuant to section 704(b) of the  
7 Internal Revenue Code.

8 (b) For the purposes of this section:

9 "Qualified costs" means the expenses incurred in acquiring,  
10 constructing, and establishing an on-site early childhood  
11 facility and the associated operating costs.

12 "Qualified on-site early childhood facility" means an on-  
13 site early childhood facility offered by an employer to all  
14 employees that is licensed and approved by the department of  
15 human services and receives an accreditation from a recognized  
16 national early childhood accredited agency within two years of  
17 initial operation.

18 (c) The director of human services shall adopt rules  
19 pursuant to chapter 91 that shall determine the criteria for  
20 eligibility for the credit. The rules shall require proof of an  
21 on-site early childhood facility. The department of human



1 services shall issue a certification to the taxpayer after the  
2 taxpayer submits documentation as required by the department of  
3 human services. Such certification shall be acceptable as proof  
4 of the qualified costs.

5 (d) The department of human services, in consultation with  
6 the department of taxation, shall provide a certificate of  
7 approval to qualified on-site early childhood facilities  
8 implemented by employers. In developing criteria for an on-site  
9 early childhood facility certificate of approval, the department  
10 of human services shall consider:

11 (1) Whether the on-site early childhood facility provides  
12 early childhood programs from child care to preschool  
13 and junior kindergarten;

14 (2) Participation rate by employees;

15 (3) Quality of the early childhood programs being  
16 provided; and

17 (4) Whether the presence of an on-site early childhood  
18 facility promotes a healthy workplace environment.

19 (e) The director of human services, in consultation with  
20 the director of taxation, shall create a form that indicates an  
21 employer is using an on-site early childhood facility.



1        (f) The tax credit shall be equal to twenty-five per cent  
2 of the qualified costs, subject to the following:

3        (1) The total credit allowed for an employer in any  
4 taxable year shall not exceed \$ \_\_\_\_\_ ;

5        (2) The on-site early childhood facility shall operate for  
6 a minimum of ten years or the credit may be  
7 recaptured; provided that the credit shall not be  
8 subject to recapture if the department of human  
9 services certifies that the employer ceased operating  
10 the facility for reasonable cause, including but not  
11 limited to going out of business, being forced to  
12 close the facility due to a natural disaster or other  
13 unforeseeable circumstances, and closing the facility  
14 temporarily with the intention of reopening it for a  
15 reason such as facility refurbishment or improvement;

16        (3) Costs paid or incurred by an employer for insurance  
17 shall not be taken into account when calculating the  
18 costs included in the on-site early childhood facility  
19 credit computation;

20        (4) The total amount of credit claimed on returns filed by  
21 all employers in the State's fiscal year shall not



1 exceed the annual on-site early childhood facility  
2 credit cap. If the total amount of credit claimed on  
3 returns filed by all employers in the State's fiscal  
4 year exceeds the on-site early childhood facility  
5 credit annual cap, the credit shall be allowed to  
6 employers based on the date of certification by the  
7 department of human services on a first come, first  
8 served basis. Any employer who is certified by the  
9 department of human services in a fiscal year and who  
10 does not receive the on-site early childhood facility  
11 credit because the annual credit cap has been exceeded  
12 for that fiscal year shall receive priority for the  
13 credit in the following fiscal year before employers  
14 receiving certification in that fiscal year; and

15 (5) The annual on-site early childhood facility credit cap  
16 shall be \$ .

17 (g) If the tax credit under this section exceeds the  
18 taxpayer's net income tax liability, the amount of the excess  
19 tax credit over payments due shall be refunded to the eligible  
20 taxpayer.



1        (h) Every claim, including amended claims, for the tax  
2 credit under this section shall be filed on or before the end of  
3 the twelfth month following the close of the taxable year for  
4 which the tax credit may be claimed. Failure to meet the filing  
5 requirements of this subsection shall constitute a waiver of the  
6 right to claim the tax credit.

7        (i) No taxpayer shall claim any other credit under this  
8 chapter for the same qualified costs used to properly claim a  
9 tax credit under this section for the taxable year.

10       (j) The director of taxation:

11       (1) Shall prepare forms as may be necessary to claim the  
12 tax credit under this section;

13       (2) Shall require the taxpayer to furnish certification  
14 designated by the department of human services to  
15 ascertain the validity of the claim for the tax  
16 credit; and

17       (3) May adopt rules pursuant to chapter 91 to effectuate  
18 the purposes of this section.

19       (k) This section shall not apply to any amount paid or  
20 incurred before January 1, 2019."



SECTION 3. There is established one full-time equivalent (1.0 FTE) on-site early childhood facility coordinator position in the executive office on early learning to assist with licensure and accreditation requirements, work with providers, and ensure appropriate facility design of on-site early childhood facilities established by employers in the State.

SECTION 4. There is appropriated out of the general revenues of the State of Hawaii the sum of \$ or so much thereof as may be necessary for fiscal year 2018-2019 for one full-time equivalent (1.0 FTE) on-site early childhood facility coordinator position in the executive office on early learning to assist with licensure and accreditation requirements, work with providers, and ensure appropriate facility design of on-site early childhood facilities established by employers in the State.

The sum appropriated shall be expended by the department of education for the purposes of this Act.

SECTION 5. New statutory material is underscored.

SECTION 6. This Act shall take effect on July 1, 2019; provided that the tax credit established in section 2 of this



1 Act shall apply to taxable years beginning after December 31,  
2 2018.  
3



**Report Title:**

On-site Early Childhood Facilities; Income Tax Credit;  
Appropriation

**Description:**

Establishes an income tax credit for employers who create on-site early childhood facilities. Establishes and appropriates funds for one on-site early childhood facility coordinator position. Applies to taxable years after 12/31/2018. Effective 7/1/2019. (SD1)

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