



**STATE OF HAWAII**  
**Executive Office on Early Learning**  
2759 South King Street  
HONOLULU, HAWAII 96826

February 3, 2020

**TO:** Senator Russell E. Ruderman, Chair  
Senator Karl Rhoads, Vice-Chair  
Senate Committee on Human Services

**FROM:** Lauren Moriguchi, Director  
Executive Office on Early Learning

**SUBJECT:** **Measure:** H.B. No. 2064 – RELATING TO TAX CREDIT FOR ON-SITE EARLY CHILDHOOD FACILITIES

**Hearing Date:** February 4, 2020

**Time:** 2:30 p.m.

**Location:** Room 309

**Bill Description:** Establishes an income tax credit for employers who create on-site early childhood facilities. Establishes and appropriates funds for 1.0 FTE on-site early childhood facility coordinator position. Applies to taxable years beginning after 12/31/2020.

**EXECUTIVE OFFICE ON EARLY LEARNING'S POSITION: Comments**

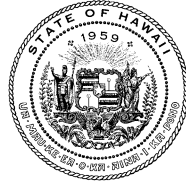
Good afternoon. I am Lauren Moriguchi, Director of the Executive Office on Early Learning (EOEL).

We appreciate the Legislature's support of EOEL's work to increase access to high-quality early learning. EOEL is statutorily responsible for the development of the State's early childhood system that shall ensure a spectrum of high-quality development and learning opportunities for children throughout the state, from prenatal care until the time they enter kindergarten, with priority given to underserved or at-risk children.

We support the intent of H.B. 2064 to increase the availability and capacity of high-quality early learning programs for our keiki and families. The Hawaii Early Childhood State Plan, which launched in January 2019, identifies incentivizing growth in the availability and quality of early childhood care and education providers and services as one of the shared priorities of the early childhood community across the state. Throughout the past year, EOEL convened many workgroups with public and private sector representatives to identify strategies associated with improving availability and quality of providers and services, and will continue working with the community to advance this work.

We defer to DHS regarding other aspects of the bill. Thank you for the opportunity to offer comments on this bill.

**DAVID Y. IGE**  
GOVERNOR  
**JOSH GREEN M.D.**  
LT. GOVERNOR



**RONA M. SUZUKI**  
DIRECTOR OF TAXATION  
**DAMIEN A. ELEFANTE**  
DEPUTY DIRECTOR

STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
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To: The Honorable Justin H. Woodson, Chair;  
The Honorable Mark J. Hashem, Vice Chair;  
The Honorable Sean Quinlan, Vice Chair;  
and Members of the House Committee on Lower & Higher Education

The Honorable Aaron Ling Johanson, Chair;  
The Honorable Stacelynn K.M. Eli, Vice Chair;  
and Members of the House Committee on Labor & Public Employment

From: Rona M. Suzuki, Director  
Department of Taxation

**Re: H.B. 2064, Relating to Tax Credit for On-Site Early Education Facilities**

Date: Tuesday, February 4, 2020

Time: 1:59 P.M.

Place: Conference Room 309, State Capitol

The Department of Taxation (Department) appreciates the intent of H.B. 2064 and provides the following comments. H.B. 2064 adds a new section to chapter 235 to create an on-site early childhood facility tax credit.

The Department prefers that an agency with subject matter expertise be designated to certify the credit. Instead of placing the certification process on the Department (subsections (b) and (c) of this measure), we prefer paragraph (f)(2), which makes the Department of Human Services (DHS) the certifying agency. The Department has final authority over examination and adjustment of tax returns and should not certify a credit it would need to examine.

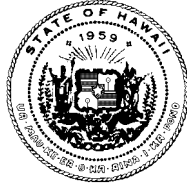
It is unclear whether the credit is intended to be refundable or nonrefundable. Subsection (g) does not allow for the refund of any excess credit over liability and also does not allow a carryforward of unused credit, a common feature of most nonrefundable credits. This should be clarified.

The Department also has concerns about the aggregate cap imposed under subsection (f)(2). As currently written, subsection (f)(2) may not be sufficient to impose an aggregate cap on the credit. The Department is not able to administer an aggregate cap as the credit claims come in with tax returns. In other credits that have an aggregate cap, such as the Important Agricultural Land Tax Credit under section 235-110.93(h), Hawaii Revised Statutes (HRS), the aggregate cap is enforced through a certification process that requires immediately discontinuing certifying credits when the cap is reached. In addition, because most taxpayers report taxes on a calendar year, the Department suggests applying the aggregate cap to the calendar year instead of fiscal year. To adopt these

suggestions, and assuming that DHS is reinserted as the certifying agency in subsections (b) and (c), the Department recommends amending subsection (f)(2) to read as follows:

- (2) The total amount of tax credits allowed under this section shall not exceed \$\_\_\_\_\_ for all taxpayers in any year. If the total amount of credits claimed under this section by all taxpayers in any year exceeds \$\_\_\_\_\_, the department of human services shall immediately discontinue issuing letters under subsection (c) and notify the department of taxation. In no instance shall the department of human services issue letters under subsection (c) for a total amount of credits exceeding \$\_\_\_\_\_ per year. To comply with this restriction, the department of human services shall issue letters under subsection (c) for credits on a first come, first served basis. Any taxpayer whose qualified costs are not eligible to be issued a letter under subsection (c) by the department of human services in a year due to the \$\_\_\_\_\_ cap having been exceeded for that year, shall be eligible to have those qualified costs be issued a letter under subsection (c) in the subsequent year and those qualified costs shall receive priority for a letter under subsection (c) over qualified costs incurred in that subsequent year. The department of taxation shall not allow the aggregate amount of credits claimed to exceed \$\_\_\_\_\_ per year.

Thank you for the opportunity to provide comments.



STATE OF HAWAII  
DEPARTMENT OF HUMAN SERVICES  
P. O. Box 339  
Honolulu, Hawaii 96809-0339

February 3, 2020

TO: The Honorable Representative Justin H. Woodson, Chair  
House Committee on Lower & Higher Education

The Honorable Representative Aaron Ling Johanson, Chair  
House Committee on Labor & Public Employment

FROM: Pankaj Bhanot, Director

SUBJECT: **HB 2064 - RELATING TO TAX CREDIT FOR ON-SITE EARLY CHILDHOOD FACILITIES**

Hearing: Tuesday, February 4, 2020, 1:59 p.m.  
Conference Room 309, State Capitol

**DEPARTMENT'S POSITION:** The Department of Human Services (DHS) appreciates the intent of this bill to establish an income tax credit for employers who create on-site early childhood facilities and provides comments including proposed amendments.

**PURPOSE:** This bill proposes to establish an income tax credit for employers who create on-site early childhood facilities and establishes and appropriates funds for 1.0 position for an on-site early childhood facility coordinator within the Executive Office on Early Learning.

DHS is the regulatory agency of the state's child care system that is codified in Part VIII, Chapter 346, HRS. The department points out that the term "early childhood facility" proposed in this measure does not fall under the child care definitions established under section 346-151, HRS.

If the intent of the legislature is for the tax credit only to be applicable when an employer establishes on an on-site group child care center, which includes both infant and toddler child care centers and group child care centers (i.e. preschools), then the bill should be amended to reference "group child care centers," as defined in section 346-151, HRS, rather than using the term "early childhood facilities" which is currently not defined.

The proposed subsection (d), on pages 5-6, lines 17-20 and 1-10, indicates that DHS would determine whether to grant approval of an on-site early childhood facility and shall consider the following criteria:

- (1) Whether the on-site early childhood facility provides programs from child care to preschool and junior kindergarten;
- (2) Participation rate of employees;
- (3) Quality of the early childhood programs being provided; and
- (4) Whether the presence of an on-site early childhood facility promotes a healthy workplace environment.

DHS respectfully requests that **subsection (d) be removed in its entirety or changed** to be the responsibility of another entity other than DHS for the following reasons:

- a. Group child care centers that are licensed by the department may care for children from six weeks until thirteen years of age. The ages of children that the group child care facility is permitted to care for is specified on the certificate of approval issued by DHS when the group child care facility meets the department's health and safety requirements for licensure. Therefore, paragraph (1) of subsection (d) is not necessary if the taxpayer submits to the Department of Taxation (DoTax) a copy of its group child care license issued by DHS when filing for the proposed tax credit;
- b. DHS would not have any authority or way to verify independently the proposed paragraph (2) of subsection (d), since DHS does not have access to the human resources records of employers that are claiming the proposed tax credit to verify the participation rate of employees at the on-site child care facility. Therefore, if DHS would accept the employer's statement of the participation rate of

employees, then the same written statement can be included when the taxpayer submits to DoTax when filing for the proposed tax credit;

- c. DHS does not rate the quality of group child care centers as Hawai'i does not have a quality rating and improvement system (QRIS) established. Additional state and/or private investment would be required to create such an infrastructure for quality raters, support coaches that assist centers in the quality improvement plans, and additional grant awards provided directly to participating centers when they have met quality benchmarks, and the grant awards can be used toward continuous quality improvement. If the proposed bill seeks to establish a QRIS in Hawai'i, then additional appropriations would be needed to set up the infrastructure to operate a QRIS. If the Legislature prefers to utilize national early childhood accreditation as an indicator of quality of the child care center, then the written verification of such national early childhood accreditation can be included when the taxpayer submits to DoTax when filing for the proposed tax credit; and
- d. A research study would need to be conducted to determine whether the presence of an on-site child care center promotes a healthy workplace environment which would require an appropriation to conduct such a study. The cost of such a research study may vary based on the number of factors that would be measured in accordance with whatever the indicators are determined to be that define a "healthy workplace environment."

Furthermore, DHS notes that proposed subsection (h)(2), on page 7, lines 5-13, indicates that "...provided that the credit shall not be subject to recapture if the department of human services certifies that the employer ceased operating the facility for reasonable cause, including, but not limited to, going out of business, being forced to close the facility due to natural disaster or other unforeseeable circumstances, and closing the facility temporarily for reasons such as facility refurbishment or improvement with the intention of reopening it; ..." The measure requires clarification as to what other kinds of 'unforeseeable circumstances' would be acceptable to force the facility to close and still allow the tax credit to be claimed.

DHS supports the need to increase the availability and capacity of child care facilities for Hawai'i's families and children and will continue to dialogue about the various strategies that aim to do so.

Thank you for the opportunity to provide comments on this bill.



**Hawaiian  
Electric**

**TESTIMONY BEFORE THE HOUSE COMMITTEE ON  
LOWER & HIGHER EDUCATION AND  
COMMITTEE ON LABOR & PUBLIC EMPLOYMENT**

**H.B. 2064**

**Relating to Tax Credit for On-Site Early Childhood Facilities**

Tuesday, February 4, 2020  
1:59 p.m. Agenda Item #3  
State Capitol, Conference Room 309

**Written Testimony Only**

Shannon Asato  
Treasurer  
Hawaiian Electric Company, Inc.

Chair Woodson, Chair Johanson, Vice Chair Hashem, Vice Chair Quinlan, Vice Chair Eli,  
and Committee Members,

My name is Shannon Asato and I am testifying on behalf of Hawaiian Electric Company Inc. (Hawaiian Electric Companies) in **support** of H.B. 2064, Relating to Tax Credit for On-Site Early Childhood Facilities.

Due to the high cost of child care and the shortage of early childhood facilities in Hawaii, businesses can benefit from supporting their employees by creating on-site childhood facilities. Hawaiian Electric is supportive of the intent of the bill that will make available more early childhood facilities for the residents of Hawaii, including our employees. If the concept is enacted, we would be pleased to be part of the discussions for implementation to see if we could make the credit apply to our unique situation, as a regulated public utility, and would be happy to add to the discussion.

Accordingly, the Hawaiian Electric supports H.B. 2064. Thank you for this opportunity to testify.



**HB-2064**

Submitted on: 1/31/2020 7:41:38 AM

Testimony for LHE on 2/4/2020 1:59:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Younghi Overly	Individual	Support	No

Comments:

**HB-2064**

Submitted on: 2/2/2020 11:18:46 PM

Testimony for LHE on 2/4/2020 1:59:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Midwives Alliance of Hawaii	Midwives Alliance of Hawaii	Support	No

Comments:

**HB-2064**

Submitted on: 2/2/2020 11:37:28 PM

Testimony for LHE on 2/4/2020 1:59:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Lea Minton	Individual	Support	No

Comments:

**HB-2064**

Submitted on: 2/3/2020 4:03:50 AM

Testimony for LHE on 2/4/2020 1:59:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Jennifer Azuma Chrupalyk	Individual	Support	No

Comments:

**LATE**

**HB-2064**

Submitted on: 2/3/2020 4:04:09 PM

Testimony for LHE on 2/4/2020 1:59:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Micah A. Kane	Hawaii Community Foundation	Support	No

Comments:

**LATE**

**HB-2064**

Submitted on: 2/3/2020 3:10:11 PM

Testimony for LHE on 2/4/2020 1:59:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Patricia Bilyk	Breastfeeding Hawaii	Support	No

Comments:

**LATE**

**HB-2064**

Submitted on: 2/3/2020 3:53:16 PM

Testimony for LHE on 2/4/2020 1:59:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
James Hinderer	Individual	Support	No

Comments:

**LATE**

**HB-2064**

Submitted on: 2/3/2020 6:51:54 PM

Testimony for LHE on 2/4/2020 1:59:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Theresa Sharman	Individual	Support	No

Comments: