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To: The Honorable Russell E. Ruderman, Chair;  
The Honorable Karl Rhoads, Vice Chair;  
and Members of the Senate Committee on Human Services

From: Rona M. Suzuki, Director  
Department of Taxation

**Re: S.B. 2222, Relating to Individual Development Accounts**

Date: Monday, January 27, 2020

Time: 2:45 P.M.

Place: Conference Room 016, State Capitol

The Department of Taxation (Department) supports the intent of this measure and provides the following comments regarding S.B. 2222.

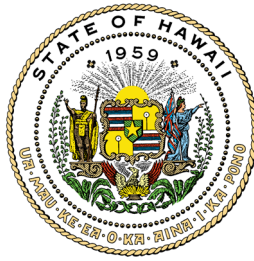
This measure reinstates the Individual Development Account (IDA) Tax Credit, which allows 50 percent of contributions to an IDA to be claimed as a credit, beginning July 1, 2020, with the tax credit being operative for taxable years beginning after December 31, 2020 but before January 1, 2026. Specifically, this measure does the following:

- Expands the eligibility for state-funded IDAs to households with income up to 100 percent of the area median income instead of 80 percent of the area median income;
- Expands the allowable uses of account funds beyond first time homeownership, post-secondary education expenses, vocational training, and micro-business capitalization to include rental housing cost, transportation costs, including repair of a motor vehicle, and to assist in opening a small business; and
- Requires the Department of Human Services (DHS) to certify the tax credits for such contributions, provided that no more than \$1 million in tax credits may be certified over the 5-year period.

The IDA Contribution Tax Credit, originally introduced in 2000 and expired in 2004, is meant to assist families in asset development. Fewer than 10 taxpayers claimed this credit in the 2000 through 2004 timeframe.

The Department will be responsible for administering the IDA Contribution Tax Credit claims on individual income returns on a non-refundable basis. **The Department will be able to administer the reinstatement of the IDA Contribution Tax Credit, provided that DHS administers and certifies the tax credit, as is contemplated by this measure.**

Thank you for the opportunity to provide comments.



SENATE COMMITTEE ON HUMAN SERVICES  
The Honorable Russell E. Ruderman, Chair  
The Honorable Karl Rhoads, Vice Chair

Testimony of the Office of the Auditor on  
**S.B. NO. 2222, RELATING TO INDIVIDUAL DEVELOPMENT ACCOUNTS**

Hearing: Monday, January 27, 2020, 2:45 p.m.

The Office of the Auditor takes **no position** on S.B. No. 2222 and offers the following comments related to reviews of tax exemptions, exclusions, and credits.

The bill, among other things, amends Section 235-5.6, Hawai'i Revised Statutes (HRS), to make the individual development account contribution tax credit available for taxable years beginning after December 31, 2020, but not available for taxable years beginning after December 31, 2025.

We are required to annually review the effectiveness of certain tax exemptions, exclusions, and credits. The questions we are asked to determine include whether: (1) a tax provision has achieved and continues to achieve the purpose for which it was enacted by the legislature, and (2) the benefit, if any, outweighs the cost of the exemption, exclusion, credit, or deduction. HRS §§ 23-71, et seq. and 23-91, et seq.

Evaluations of tax preferences require good data, which includes information about what a preference is intended to do as well as how to assess whether it is achieving its intended purpose. Therefore, for all exemptions, exclusions, credits, and deductions, we recommend the Legislature consider including the purpose of the incentive and clear measurables to determine its effectiveness. We also suggest the Legislature, in consultation with the Department of Taxation, consider the information a claimant should be required to provide that may be necessary for our evaluation of the preference. The Department of Labor and Industrial Relations may be required to assist with job creation and wage data.

The following is sample language from The Washington State Legislative Auditor's *Guidance for Drafting Performance Statements in Tax Preference Legislation* (2014) which recommends legislation include:

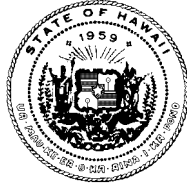
- A clear statement of purpose with a “logic chain” which identifies a sequence of steps to achieve the policy objective (for example, “It is the Legislature’s specific public policy objective to reduce the amount of carbon dioxide emissions in Washington. It is the Legislature’s intent to exempt solar powered cars from sales and use tax, in order to reduce the price charged to customers for solar-powered cars, thereby inducing some customers to buy solar-powered cars when they might not otherwise, thereby increasing

the number of solar-powered cars on the road in Washington, thereby reducing the amount of carbon dioxide emissions in Washington.”).

- Measurements of effectiveness, including clear and specific targets (for example, “If a review finds that average employment at solar-powered car manufacturing plants increased by 15 percent in the five years following enactment of this tax preference, then the Legislature intends to extend the expiration date of the tax preference.”). However, we note Washington suggests exercising caution when including causal language when describing the measurable condition, as it is often not possible to conclude a direct causal link.
- Identification of potential data sources that would allow measurement of effectiveness (for example, “In order to obtain the data necessary to perform the review in subsection (3), the Joint Legislative Audit and Review Committee may refer to the employment and wage data available from the employment security department.”).

We agree with the Washington State Legislative Auditor that including a statement of purpose and measurements of effectiveness for proposed or existing tax provisions allows for more meaningful analysis of tax preferences.

Thank you for considering our testimony related to S.B. No. 2222.



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

January 26, 2020

TO: The Honorable Senator Russell E. Ruderman, Chair  
Senate Committee on Human Services

FROM: Pankaj Bhanot, Director

SUBJECT: **SB 2222 – RELATING TO INDIVIDUAL DEVELOPMENT ACCOUNTS**

Hearing: Monday, January 27, 2020, 2:45 p.m.  
Conference Room 016, State Capitol

**DEPARTMENT'S POSITION:** The Department of Human Services (DHS) appreciates the intent of this measure and provides comments.

**PURPOSE:** The purpose of the bill is to reactivate the individual development account contribution income tax credit for the five-year period from 2021 through 2025. Amends provisions regarding state-funded individual development accounts. Appropriates funds to the department of human services.

Individual development accounts (IDA) are asset building tools individuals and families use to save for education, to purchase a first home, or to start a small business. In general, DHS supports reactivation of the tax credit and to make IDA accounts more accessible to low-income residents as it will help Hawaii residents progress towards financial independence.

However, as drafted the eligible population targeted in this measure is the population with an area median income (AMI) at 100% AMI, or an income under \$99,000; importantly, the upper limits of this population are not generally served by DHS.

DHS programs use means-testing to determine eligibility for different financial, child care and other programs; programs use the federal poverty level (FPL), or guideline,

or state median income (SMI) to determine income eligibility. DHS does not use AMI as a means-testing guide for eligibility for benefits and services. Generally, our programs use a range of income-eligible measures from 100% FPL up to 250% FPL, or 85% SMI, depending on the program. For comparison, 85% SMI for a household of four in our child care programs would mean an income under \$56,100 annually to be eligible. For the proposed program, 100% AMI would include families with an annual income under \$99,000 to be eligible.

A portion of the population proposed for this program is not a population that the Department has traditionally or currently serves. We will have to research whether federally match funded systems and administrative resources may be used for programs and services to populations that are above the current programs' income limits. The Legislature may want to consider amending the means testing limit to align with DHS program limits.

To clarify further, the current section 257-7, Hawaii Revised Statutes (HRS), requires DHS to collaborate with the IDA fiduciary to ensure that the accounts and earned interest shall be disregarded in the determination of benefits or eligibility for services as allowed by federal and state laws and regulations. Section 257-7, HRS, as it exists, does not contemplate that DHS be the oversight agency of the entire IDA program, rather that the asset and earned interest be disregarded as income for DHS program eligibility purposes.

The proposed program references fiduciary duties that are currently not within DHS subject matter expertise and initially, DHS would have to contract with a subject matter provider or vendor to carry out the intent of the measure.

Consequently, to implement the measure, DHS will require appropriations for subject matter consultants, on-going additional positions for the administration and implementation of the applications, monitoring, reconciling, and reporting required by this measure, and DHS will likely require appropriations for IT design, build and maintenance of informational systems.

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

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: NET INCOME, Individual Development Accounts

BILL NUMBER: SB 2222

INTRODUCED BY: S. CHANG, KANUHA, Baker, Keith-Agaran, Ruderman, Shimabukuro

EXECUTIVE SUMMARY: Reactivates the individual development account contribution income tax credit for the five-year period from 2021 through 2025. Amends provisions regarding state-funded individual development accounts. Appropriates funds to the department of human services.

SYNOPSIS: Amends section 257-1, HRS, to expand the definition of “qualified expenditures” from an individual development account (IDA) to include costs associated with renting a dwelling, using public transportation, purchasing or repairing a motor vehicle, and qualified business capitalization expenses for a small or micro-business.

Deletes the current definition of “qualified principal residence” in that section.

Amends section 257-2, HRS, such that an individual making up to 100% of the area household median income (AMI) can qualify for an IDA.

Amends section 257-3, HRS, to remove the funding ceiling for qualified entities. Under current law, grants to such entities could not exceed \$100,000 per year for five years.

Amends section 257-7, HRS, to provide that the Department of Human Services shall ensure that the presence of IDA account assets is disregarded in the determination of benefits or eligibility for other benefits, such as welfare benefits, administered by DHS.

Amends section 257-8, HRS to provide that the State shall match an amount of up to \$100,000 per calendar year for IDAs. (This appears to be a cap per account.) Matching funds are to be used only when IDA withdrawal requests are being fulfilled. Matching funds are not to go in individual IDAs.

Amends section 257-11, HRS, to provide that selected fiduciary organizations may use no more than 20% of state funds for administrative costs. The ceiling under the prior law was 10%.

Amends section 235-5.6, HRS, to reinstate the nonrefundable credit for 50% of the amount contributed by the taxpayer to a fiduciary organization administering IDA’s. As amended, the credit would be allowed for taxable years beginning in 2021 to 2025.

Makes technical and conforming changes.

EFFECTIVE DATE: This Act shall take effect on July 1, 2020; provided that section 2 shall apply to taxable years beginning after December 31, 2020.

STAFF COMMENTS: The Foundation's commentary on IDA's on June 4, 2000, stated:

At least one measure approved by the legislature will give the poor a helping hand while giving taxpayers a way to reduce their own tax liabilities. Actually, the idea of Individual Development Accounts (IDA) began on the federal level and took hold for Hawaii last year with the passage of legislation that established the idea for state purposes. This year's measure fleshes out the details for the tax credit that would benefit both the IDA owner and the taxpayer.

The idea of the IDA comes in reaction to encourage those on welfare to move off the welfare rolls and into the workforce as part of the "Welfare Reform/Welfare to Work" initiative adopted by Congress several years ago. Under current welfare rules, applicants for welfare assistance are awarded assistance based on need which means if the applicants have any assets that could be sold or used to support the applicant, the applicant is denied benefits.

As a result, if a welfare recipient accumulates any kind of asset, be it a house or a savings account, welfare benefits are reduced or taken away. This discourages welfare recipients from saving or working to build a nest egg that could help them move from welfare to self-sufficiency.

This is where the concept of Individual Development Accounts comes in to play. Under the plan, welfare recipients will be allowed to establish such accounts with institutions and with the guidance of a case worker. The funds in an IDA can only be used for specific purposes such as the purchase of a first home, funds for training or education, or money to start a business. As long as these are legitimate IDA's, the welfare system will disregard the funds in such accounts in determining eligibility for welfare assistance purposes. Thus, there should be no reason for welfare recipients not to set aside some of their income to be placed in an IDA. This is especially important as more and more welfare beneficiaries are forced to find employment and go back to school for more education and training.

The IDA then becomes a way for welfare recipients to set aside some of the earnings from their first jobs for either more education, a first home, or money to start a business. In addition, individuals, employers, and organizations such as churches can match those contributions made by the welfare recipient. This is where the tax incentive that lawmakers adopted this year provides an additional benefit.

If the bill is signed into law, taxpayers can claim a state income tax credit equal to 50% of any amount contributed to an Individual Development Account. Thus, if an employer who has hired a welfare recipient promises to match whatever his welfare employee puts into an IDA, the employer can take a tax credit equal to half of the amount contributed as a match to the IDA.

Ah, but all good things do have an end or at least a limit. A total of \$1 million in the aggregate has been set aside to fund this credit. Thus, once the first \$1 million in tax

credits has been certified and claimed, that will be the end of the tax incentive. But more importantly, if taxpayers do indeed take advantage of the tax credit up to its limit, the \$1 million in tax credits claimed will have leveraged a total of \$4 million – \$2 million in contributions by taxpayers in order to maximize the tax credit limit and \$2 million in IDA owner contributions which will be matched by the taxpayer's contributions.

While taxpayers will be prohibited from taking those contributions as a deduction on the state return if they claim the credit, the dollar for dollar offset of state liability will outweigh the tax benefit of taking the contribution as an itemized deduction. The other downside of the bill is that the credit will be available for only a limited period of time. The credit can be taken for matching contributions made between June of last year and the end of 2004. Although that sounds like a long enough period in which to make matching contributions, remember that they are "matching" the contributions made by the IDA owner.

Thus, the incentive is both for the taxpayer and the account holder to make the contribution. Again, the proceeds of the account can only be used for the designated purposes to help the account holder toward self-sufficiency. Thus, the IDA represents a positive use of the tax system to encourage welfare recipients to save either for a better education, a first home, or funds to start their own business.

Now that's making a positive difference!

We are concerned that the current version of the bill bends the program out of shape. The bill would allow as qualified expenses rent, car expenses, public transportation costs, or startup expenses for a new small business. Those expenses were not allowed under the prior version of the IDA, and at least some of the new allowable expenses might not be germane to the purposes of the IDA. For example, subsidizing transportation to work or school seem to be relevant to the targeted purposes, but *all* transportation costs, regardless of destination, are qualified expenses as defined in the bill.

The bill recites that it is an "evidence-based" method for helping the poor, and that "[r]esearch demonstrates" that these accounts make families more financially secure. We question whether any past experience with the IDA would be relevant to the version now being considered. We also question whether Hawaii has had any relevant past experience with this program and credit. The following table shows IDA contribution credits claimed.

Year	Number of Taxpayers	Aggregate Credit Claimed
2000	0	0
2001	0	0
2002	0	0
2003	0	0



2004	9	\$3,000
2015	0	0
2016	Suppressed to prevent disclosure of taxpayer return information	
2017	0	0

Source: Department of Taxation, [Tax Credits Claimed by Hawaii Taxpayers](#) 23 (2017); Tax Credits Claimed by Hawaii Individuals and Corporations (2000, 2001, 2002, 2003, 2004).

We remind lawmakers that financial controls are necessary to keep a program like this from becoming a financial black hole and a magnet for fraud.

Digested 1/23/2020

**SB-2222**

Submitted on: 1/26/2020 8:08:13 PM

Testimony for HMS on 1/27/2020 2:45:00 PM

**LATE**

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

Comments:

Aloha: This is a good bill as it aids taxpayers, please pass it.

Sincerely, Dale Head sunnymakaha@yahoo.com



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Testimony to the Senate Committee on Human Services  
Monday, January 27, 2020  
Hawaii State Capitol, Room 016

**LATE**

In Support of SB 2222, Relating to Individual Development Accounts

To: The Honorable Russell Ruderman, Chair  
The Honorable Karl Rhoads, Vice-Chair  
Members of the Committee

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 51 Hawaii credit unions, representing over 800,000 credit union members across the state. We offer the following testimony in support of SB 2222, Relating to Individual Development Accounts.

SB 2222 would expand and modernize the individual development account statute, with the intent of making the program more accessible to lower-income people. The mission of Hawaii's credit unions is "people helping people", and this program could go a long way towards promoting savings and achieving financial goals. Hawaii's credit unions look forward to working with potential fiduciary organizations in this valuable program.

Thank you for the opportunity to provide testimony in strong support of SB 2222.

**From:** [Lorraine Leslie](#)  
**To:** [HMS Testimony](#)  
**Subject:** Support for SB 2339  
**Date:** Friday, January 24, 2020 6:57:47 PM

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Dear Committee Senate Human Services Committee,

Dear Chair Russell E. Ruderman, Vice Chair Karl Rhoads, and members of the Committee:

I am submitting testimony in support of Senate Bill 2339.

People living with Alzheimer's are nearly four times as likely to need skilled nursing facility care and over twice as likely to require home health care as individuals without the condition. Furthermore, 61 percent of seniors living in a nursing home have moderate or severe cognitive impairment. Among those in residential care facilities, 42 percent have Alzheimer's or another dementia.

It is critical that we ensure all workers who serve people with Alzheimer's and other dementias receive regular training that is both competency-based and culturally appropriate. All staff will encounter a person with dementia, and the quality of care and the quality of their life is in their hands.

Alzheimer's disease is incredibly different from other diseases and can manifest in many unique ways depending on the individual so ongoing, comprehensive training is necessary because nothing in life offers a sufficient understanding of the disease. Furthermore, 95 percent of individuals with dementia have at least one other chronic condition which may include heart disease, diabetes, or arthritis. People who have multiple chronic conditions including dementia require an especially sophisticated level of care.

Understanding Alzheimer's disease helps direct care workers better empathize, resolve issues, and reduce their own vulnerability to burnout. Furthermore, continuing education to reinforce best practices in the care of those with dementia leads to significantly better, lasting results.

Thank you for the opportunity to testify in support of this bill.

Regards,  
Lorraine Leslie  
3384 Kalihi St  
Honolulu, HI 96819