

STAND. COM. REP. NO.

3215

Honolulu, Hawaii

MAR 21 2024

RE: H.B. No. 1776
H.D. 2
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Second State Legislature
Regular Session of 2024
State of Hawaii

Sir:

Your Committee on Health and Human Services, to which was referred H.B. No. 1776, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO THE HOUSEHOLD AND DEPENDENT CARE SERVICES TAX CREDIT,"

begs leave to report as follows:

The purpose and intent of this measure is to amend the applicable percentage of employment-related expenses that may be claimed by a taxpayer for the Household and Dependent Care Services Tax Credit.

Your Committee received testimony in support of this measure from the Office of the Governor; Office of Hawaiian Affairs; Aloha United Way, Inc.; Hawai'i Children's Action Network Speaks!; Catholic Charities Hawai'i; AARP Hawai'i; Democratic Party of Hawai'i Women's Caucus; Chamber of Sustainable Commerce; Save Medicaid Hawaii; Hawai'i Alliance for Progressive Action; Hawaii Appleseed Center for Law and Economic Justice; 'Ohana Leadership Council; Chamber of Commerce Hawaii; Democratic Party of Hawai'i; Hawai'i State Coalition Against Domestic Violence; and twenty-eight individuals.

Your Committee received comments on this measure from the Department of Taxation, and Tax Foundation of Hawaii.



Your Committee finds that the State has the highest cost of living in the nation and is facing a critical worker shortage that impacts its economy and future. Your Committee further finds that child and dependent care remain one of the largest cost burdens for Hawaii families, secondary to housing, and yet without affordable childcare, parents and guardians face huge barriers to joining or re-joining the workforce. Your Committee also finds that although Act 163, Session Laws of Hawaii 2023, significantly raised the amount of employment-related expenses that taxpayers can claim under the Household and Dependent Care Services Tax Credit, it did not raise the maximum percentage of those expenses that could be claimed, thereby making it difficult for families to realize the full value of the tax credit. This measure addresses this issue by allowing more families to benefit from the Household and Dependent Care Services Tax Credit.

Your Committee notes the concerns raised in testimony that while it appears that this measure proposes tax relief to lower income taxpayers, consideration should be given to adjusting the income tax rates or the threshold amounts so the taxpayers that these credits intended to benefit will not need to claim these credits to get tax relief or potentially forfeit any tax relief if they fail to claim the credits. Your Committee further notes that tax credits may have non-duplication provisions and strict time limits on when credits may be claimed, exposing taxpayers seeking tax relief through these credits to credit disallowance, penalties, and other undesirable consequences.

Your Committee also notes that H.B. No. 2404, H.D. 1., Regular Session of 2023, which was previously passed by the House of Representatives and recently passed first reading in the Senate, also amends the percentage of employment-related expenses for which the Household and Dependent Care Services Tax Credit may be claimed. Your Committee finds that the language in H.B. No. 2404, H.D. 1, is preferable because it offers more comprehensive changes to income tax laws that result in more tax relief for lower income taxpayers, including a one-time adjustment to income tax brackets to offset inflation.

Accordingly, your Committee has amended this measure by:

- (1) Deleting its contents and inserting the contents of H.B. No. 2404, H.D. 1, a measure that:



- (A) Amends income tax brackets;
 - (B) Temporarily amends the applicable percentage of the employment-related expenses for which the Child and Dependent Care Income Tax Credit may be claimed;
 - (C) Permanently provides for a disallowance period when there is a final administrative or judicial decision finding that the claim was due to fraud or disallowing the credit; and
 - (D) Amends state conformity with certain federal deductions; and
- (2) Inserting an effective date of December 31, 2050, to encourage further discussion.

As affirmed by the record of votes of the members of your Committee on Health and Human Services that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1776, H.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1776, H.D. 2, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Health and Human
Services,



JOY A. SAN BUENAVENTURA, Chair



The Senate
 Thirty-Second Legislature
 State of Hawai'i

Record of Votes
Committee on Health and Human Services
HHS

Bill / Resolution No.:* HB 1776 HD2	Committee Referral: HHS, WAM	Date: 03/18/2024		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
SAN BUENAVENTURA, Joy A. (C)	✓			
AQUINO, Henry J.C. (VC)	✓			
KEOHOKALOLE, Jarrett	✓			
SHIMABUKURO, Maile S.L.	✓			
AWA, Brenton				✓
TOTAL	4			1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes