JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAIʻI
DEPARTMENT OF TAXATION
Ka ʻOihana ʻAuhau
P.O. BOX 259
HONOLULU, HAWAIʻI 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
H.B. No. 400, H.D.1, Relating to Taxation

BEFORE THE:
House Committee on Finance

DATE:	Wednesday, March 1, 2023
TIME:	2:30 p.m.
LOCATION:	State Capitol, Room 308

Chair Yamashita, Vice-Chair Kitagawa, and Members of the Committee:

The Department of Taxation ("Department") offers the following <u>comments</u> regarding H.B. 400, H.D.1, for your consideration.

H.B. 400, H.D.1, adds two new sections to chapter 235 creating nonrefundable income tax credits for: (1) up to 75 percent of the cost of operating employer-provided or employer-sponsored child care for their employees, less the amount paid for child care by the employees, not to exceed 50 percent of the employers tax liability with excess benefit available for carry forward over the next five years, and (2) up to 100 percent of the cost of "child care property" purchased or acquired by the employer for an employer-provided child care facility during the taxable year that it is first placed in service, at a rate of 10 percent of the cost claimed, per year for the 10 years, not to exceed 50 percent of the employers tax liability in a given year with excess benefit available for carry forward over the next nine years. A definition for "child care property" is included in the measure. The bill has a defective effective date of June 30, 3000.

The Department notes that it will require resources and time to implement the new credit. Accordingly, the Department requests that if the effective date of the measure is updated, it be amended to apply to taxable years beginning after December 31, 2023.

The Department estimates an expected revenue loss to the general fund as follows ($ millions):

FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
-1.8	-1.8	-1.8	-1.8	-1.8	-1.8

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

JOSH GREEN, M.D.
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAI'I EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAIʻI
DEPARTMENT OF BUDGET AND FINANCE
Ka ʻOihana Mālama Moʻohelu a Kālā
P.O. BOX 150
HONOLULU, HAWAIʻI 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT

WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 400, H.D. 1

March 1, 2023
2:30 p.m.
Room 308 and Videoconference

RELATING TO TAXATION

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill (H.B.) No. 400, H.D. 1, establishes: 1) an employer-provided or employer-sponsored child care income tax credit for employers that pay for certain available child care services to their employees; and 2) an employer child care property income tax credit for the cost of child care property purchased or acquired by an employer and put into service for employer-provided child care.

Rather than taking a piecemeal approach, B&F strongly believes that the holistic approach in the Green Affordability Plan, H.B. No. 1049, is a more targeted and suitable option in providing needed financial relief to Hawaiʻi's residents.

Thank you for your consideration of our comments.

HAWAII FOOD INDUSTRY ASSOCIATION

1050 Bishop St. PMB 235 | Honolulu, HI 96813
P: 808-533-1292 | e: info@hawaiifood.com

TO: Committee on Finance
Rep. Kyle T. Yamashita, Chair
Rep. Lisa Kitagawa, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: March 1, 2023
TIME: 2:30pm

RE: HB400 HD1 Relating to Taxation

Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, and distributors of food and beverage related products in the State of Hawaii.

HFIA is in support of this measure. Prior to the COVID-19 pandemic workforce shortages was one of the primary concerns for food industry businesses. The pandemic, economic downturn, workers leaving Hawaii, and great resignation have all greatly exacerbated the labor crisis. As this measure explains, childcare can be a critical component in bringing more workers into the workforce and alleviating the labor shortage. Many of our businesses want to be involved in helping their employees, and potential employees, find great childcare. This measure supports those efforts and gives our businesses a resources to become part of the solution to this issue.

We encourage the committee to pass this measure and we thank you for the opportunity to testify.

HAWAI'I Women LAWYERS

February 28, 2023

Representative Kyle T. Yamashita, Chair
House Committee on Finance

Re: **H.B. 400, H.D. 1 RELATING TO A CHILD TAX CREDIT.**

Hearing: **Wednesday, March 1, 2023, 2:30 p.m.**
Conf. Rm 308 & videoconference

Dear Chair Yamashita and Members of the Committee on Finance:

Hawaii Women Lawyers ("HWL") **supports H.B. 400, H.D. 1**, which establishes an employer childcare tax credit for employers who provide or sponsor approved childcare and establishes an employer childcare property income tax credit for the cost of childcare property purchased or acquired by an employer and put into service for employer-provided childcare.

HWL is a lawyer's trade organization that aims to improve the lives and careers of women in all aspects of the legal profession, influence the future of the legal profession, and enhance the status of women and promote equal opportunities for all.

High-quality early childhood care and education programs can provide children with opportunities for cognitive, language, emotional, and social development and provide parents with the ability to work and generate income for their families. Providing a solid learning foundation for children, while also fostering productivity for working parents, contributes to the economic stability and prosperity of the State.

Childcare is often expensive, and, in many cases, it consumes a significant share of what workers earn. Working families in Hawaii need affordable solutions. Creating incentives through tax credits encourages more businesses to support their employees with their childcare needs and allows more parents to work.

H.B. 400, H.D. 1 recognizes the importance high-quality childcare and strives to make it more affordable for working parents; and HWL supports this bill.

Thank you for the opportunity to submit testimony on this measure.

P.O. Box 2072 • Honolulu, Hawaii 96805
Email: hawaiiwomenlawyers@gmail.com

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

MAUI CHAMBER OF COMMERCE
VOICE OF BUSINESS

HEARING BEFORE THE HOUSE COMMITTEE ON FINANCE
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 308
WEDNESDAY, MARCH 1, 2023 AT 2:30 P.M.

To The Honorable Kyle T. Yamashita, Chair
The Honorable Lisa Kitagawa, Vice Chair
Members of the Committee on Finance

SUPPORT HB400 HD1 RELATING TO TAXATION

The Maui Chamber of Commerce **supports HB400 HD1** which establishes an employer-provided or -sponsored childcare income tax credit for employers that make available childcare services to their employees. It establishes an employer childcare property income tax credit for the cost of childcare property purchased or acquired by an employer and put into service for employer-provided childcare.

One of the biggest challenges for the local business community is the workforce shortage.

We understand workers across the state cite the lack of childcare resources and the extremely high cost of childcare as significant barriers for reentering the workforce. The average cost of childcare in Hawaii is $640 a month per child. This is typically the second largest expense in a family budget after rent or mortgage. We often hear that families with young children must choose between spending a significant portion of their income on childcare or leaving the workforce to become a full-time caregiver to their children.

When companies offer childcare benefits, they see increased employee retention and loyalty, improved productivity, and a better workplace environment. Despite the clear advantages, 2020 data from the Bureau of Labor Statistics indicates just 11% of all workers have access to employer-provided childcare, and those with lower incomes were less likely to receive a benefit.

Employer-Provided Child Care Credit, under the Internal Revenue Code Section 45F, offers employers a tax credit of up to 25% of qualified childcare expenditures and 10% of qualified child care resource and referral expenditures. Currently, 18 U.S. states have passed employer provided childcare incentives, including New York, Oregon, Colorado, and Georgia. Other states plan to follow this year, and we hope Hawaii is one of them.

For these reasons, we **support HB400 HD1**.

Sincerely,

Pamela Tumpap

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.

62 North Market St., Suite 302, Wailuku, Hawaii 96793 808-244-0081 legislation@MauiChamber.com MauiChamber.com

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Employer-Provided Child Care Credit, Child Care Property Credit

BILL NUMBER: HB 400 HD 1

INTRODUCED BY: House Committee on Economic Development

EXECUTIVE SUMMARY: Establishes an employer-provided or -sponsored child care income tax credit for employers that make available child care services to their employees. Establishes an employer child care property income tax credit for the cost of child care property purchased or acquired by an employer and put into service for employer-provided child care.

SYNOPSIS: Adds two new sections to Chapter 235, HRS, that would provide an employer-provided or -sponsored child care tax credit and an employer child care property tax credit respectively.

Employer-Provided or -Sponsored Child Care Tax Credit

For each taxpayer that employs at least one employee in the State and provides employer-provided child care or employer-sponsored child care to those employees, the amount of the credit shall be equal to seventy-five per cent of the cost of operation to the employer less any amounts paid by the employees during the taxable year.

The credit amount is determined at the entity level. The sale, merger, acquisition, or bankruptcy of any taxpayer shall not create new eligibility in any succeeding taxpayer.

The amount of the credit applied under this section against the tax imposed for a taxable year shall not exceed fifty per cent of the tax liability otherwise due without regard to any other credits allowed against the tax imposed. Any unused credit may be carried forward, if necessary, for use in the five taxable years following the taxable year in which the cost of operation was incurred.

All claims for the tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure shall constitute a waiver of the right to claim the credit.

Defines "cost of operation" as reasonable direct operational costs incurred by the employer-taxpayer as a result of providing employer-provided child care or employer-sponsored child care. Does not include the cost of any property that is child care property (as defined in the child care property tax credit).

Defines "employer-provided child care" as child care offered on the premises of the employer.

Defines "employer-sponsored child care" as child care provided through a contractual arrangement with a child care facility that is paid for by the employer.

Defines "premises of the employer" as any location within the State and located on the workplace premises of the employer providing the child care or one of the employers providing the child care in the event that the child care property is owned jointly or severally by the taxpayer and one or more other employers; provided that if such workplace premises are impracticable or otherwise unsuitable for the on-site location of such child care facility, as determined by the director, such facility may be located within a reasonable distance of the premises of the employer.

Employer Child Care Property Tax Credit

For each taxpayer that employs at least one employee in the State, the aggregate amount of the credit shall equal 100% of the cost of child care property purchased or acquired by the taxpayer and first placed in service during the taxable year and the credit may be claimed at a rate of 10% per year for ten years.

The credit amount is determined at the entity level. The sale, merger, acquisition, or bankruptcy of any taxpayer shall not create new eligibility in any succeeding taxpayer.

The amount of the credit applied under this section against the tax imposed for a taxable year shall not exceed fifty per cent of the tax liability otherwise due without regard to any other credits allowed against the tax imposed. Any unused credit may be carried forward, if necessary, for use in the three following taxable years.

All claims for the tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure shall constitute a waiver of the right to claim the credit.

Defines "Child care property" as all real and tangible personal property purchased or acquired for use exclusively in the construction, expansion, improvement, or operation of a facility for employer-provided child care.

EFFECTIVE DATE: June 30, 3000.

STAFF COMMENTS: Hawaii already offers a credit to families for dependent care expenses necessary for gainful employment (HRS section 235-55.6). This measure gives additional refundable credits to any employer who pays for child care for the employer's employees or builds out a facility to do so. Although the credits appear complementary, they are not. The existing credit is only given to families at or below specified income levels, while the proposed employer credits are not. The existing credit has strict limits on the amount of credit given, while the proposed employer credit does not. If the idea is to provide a complementary credit when an employer provides child care, lawmakers should consider integrating the two credits so that no windfalls are created (such as the State subsidizing child care of families with income levels well north of the limits contained in the existing credit).

Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount. Indeed, tax credits are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse?

Furthermore, the additional credits would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation or subsidy, or adding on to an existing program, may be a far less costly method to accomplish the same thing. At least with a direct appropriation or subsidy, the taxpayers know what they are buying and what they are paying for it. With a tax credit you know neither and must simply total up the damage later.

Digested: 2/28/2023

HB-400-HD-1
Submitted on: 2/27/2023 9:12:58 PM
Testimony for FIN on 3/1/2023 2:30:00 PM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Support	Written Testimony Only

Comments:

Please support HB400 HD1.