H.B. NO. 3169

A BILL FOR AN ACT

RELATING TO LIFELONG LEARNING ACCOUNTS.

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

SECTION 1. The legislature finds that it is increasingly critical for Hawaii's workforce to be prepared for the high-skill demands of a twenty-first century economy. An unprepared workforce is a serious threat to the State's continued competitiveness and economic development. Research by the Workforce Development Council and other agencies, show that while a highly trained, entry level workforce is very important, that entry level workforce improves the overall skill level only gradually over time. An estimated seventy-five per cent of the workers who will serve the economy over the next ten years are already on the job. The impending retirement of baby boom workers is expected to exceed the entry of new workers into the economy over the next several decades.

If Hawaii is to maintain a growing economy, it must balance this shortage of workers with a more skilled and productive workforce. This means ensuring the continuous, lifelong, upgrading of skills by workers already in the workforce as well as better training among new entrants.

However, in Hawaii's predominantly small-business economy, it is difficult for firms to establish and maintain a program to upgrade training for their workers, or for those workers to engage in lifelong learning. As a result, only a very small proportion of the workforce is seriously engaged in skill upgrading. It is critical that Hawaii optimize its limited, existing workforce by assisting in the upgrading of skills and instilling the concept that learning does not stop with a traditional, formal education.

An important step is to establish a funding mechanism to encourage and help leverage private sector spending for incumbent worker training. One mechanism that has been instituted in a number of states is lifelong learning accounts.

Lifelong learning accounts are employer-matched educational savings accounts used to finance workers' education and training. The concept allows an individual worker to contribute money to a lifelong learning account and have that contribution matched by the worker's employer, similar to a 401(k), but for the purpose of education and training. Lifelong learning accounts encourage a partnership between workers and employers to effectively leverage resources and increase access to education and training. The accounts are grounded in the idea that individual

responsibility, choice, and empowerment are key building blocks for self-reliance.

SECTION 2. This Act establishes a lifelong learning accounts program in Hawaii, in order to encourage employer and employee investment in upgrading the skills of the incumbent workforce.

SECTION 3. Chapter 235, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"**§235- Lifelong learning account tax credit.** (a) There shall be allowed to each individual taxpayer, who is subject to the taxes imposed by this chapter and who is not claimed or is not otherwise eligible to be claimed as a dependent by another taxpayer for Hawaii state individual income tax purposes, a lifelong learning account credit, as provided under this section. The credit shall be equal to one-hundred per cent of the payments made by the taxpayer into a lifelong learning account during the taxable year. The credit shall be deducted against the taxpayer's net individual income tax liability for the taxable year in which the taxpayer made payments into the lifelong learning account. An individual who has no income or no income taxable under this chapter and who is not claimed or

is not otherwise eligible to be claimed as a dependent by a taxpayer for Hawaii state individual income tax purposes may also claim this credit. The tax credit shall be subject to the following:

(1) The tax credit shall not exceed $1,000 in the aggregate for a husband and wife filing a joint return, provided that a husband and wife filing separate tax returns for a taxable year, for which a joint return could have been filed by them, shall claim only the tax credit to which they would have been entitled under this section had a joint return been filed.

(2) The tax credit shall not exceed $500 in the aggregate for all other taxpayers filing an income tax return.

(b) The credit applies to payments made by the taxpayer during the taxable year into a qualified lifelong learning account that is established for the benefit of the taxpayer.

(c) As used in this section:

"Lifelong learning account" means an individual asset account held by a trustee, custodian, or fiduciary approved by the department of labor and industrial relations.

(d) For the purpose of this credit, the "net income tax liability" means net income tax liability reduced by all other credits allowed under this chapter. If the tax credits claimed by a taxpayer exceed the amount of income tax payment due from the taxpayer, the excess of credits over payments due shall be refunded to the taxpayer; provided that no refunds or payment on account of the tax credit allowed by this section shall be made for amounts less than $1.

(e) All claims, including any amended claims, for tax credits under this section 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 to comply with the foregoing provision shall constitute a waiver of the right to claim the credit."

SECTION 4. Chapter 235, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"**§235- Employer's tax credit for lifelong learning account matching funds paid on behalf of employees.** (a) Subject to the limitations of this section, a taxpayer that is an employer subject to taxation under this chapter may claim a non-refundable tax credit for payments made by the employer

during the taxable year as matching payments to lifelong learning accounts for individual employees. The tax credit shall be equal to one-hundred per cent of the contributions made by the taxpayer to the taxpayer's employees' lifelong learning accounts. The maximum tax credit shall not exceed $500 during the taxable year for each employee on whose behalf qualified lifelong learning account matching payments are made.

(b) The credit allowed under this section shall be claimed against the net income tax liability for the taxable year in which contributions are made. If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the credit may be carried forward until exhausted.

(c) All claims, including any amended claims, for tax credits under this section 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 to comply with this provision shall constitute a waiver of the right to claim the credit.

(d) The director of taxation shall prepare any forms that may be necessary to claim a credit under this section.

(e) As used in this section:

"Lifelong learning account" means an individual asset account held by a trustee, custodian, or fiduciary approved by the department of labor and industrial relations."

SECTION 5. Chapter 394, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"**§394- Lifelong learning accounts program.** (a) There is established the lifelong learning accounts program.

(b) For the purposes of this section, "lifelong learning account" means an individual asset account held by a trustee, custodian, or fiduciary approved by the department of labor and industrial relations on behalf of a healthcare, hospitality, or technology employee in the State. The moneys in the individual asset account shall be used only to pay education expenses incurred by or on behalf of the account owner.

(c) The department shall establish a lifelong learning accounts program to:

(1) Encourage both lower-income and lower-skilled healthcare, hospitality, and technology industry workers to participate in a lifelong learning account;

(2) Encourage the establishment of lifelong learning accounts in diverse geographic and economic areas,

among differing sizes of firms, and include healthcare, hospitality, and technology industry workers in urban, suburban, and rural areas of the State;

(3) Make technical assistance available to companies, and make educational and career advising available to individual participants;

(4) Document the process and outcomes in the establishment of lifelong learning accounts, and prepare a report that shall include recommendations for extension of lifelong learning accounts to other industry sectors;

(5) In conformity with and subject to chapter 91, the director of labor and industrial relations shall make rules, not inconsistent with this chapter, which the director deems necessary for or conducive to its proper application and enforcement of this chapter.

(d) The department may enter into contracts with other government agencies, non profit organizations, or for-profit firms in addressing the purpose and required activities of the lifelong learning accounts program."

SECTION 6. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 7. This Act shall take effect on July 1, 2008; Provided that Section 3 and 4 shall apply to taxable years beginning after December 31, 2007.

INTRODUCED BY: Calvin K.Y. Say

BY REQUEST

JAN 22 2008

H.B. NO. 3169

Report Title:
Lifelong Learning Accounts; Adult Education; Training; Tax Credits

Description:
Establishes a Lifelong Learning Accounts program and tax credit in the department of labor and industrial relations to support upgraded training for the incumbent workforce, and encourages participation by employers and employees through tax credit incentives.

HB 3169

JUSTIFICATION SHEET

DEPARTMENT: Labor and Industrial Relations

TITLE: A BILL FOR AN ACT RELATING TO LIFELONG LEARNING ACCOUNTS.

PURPOSE: The purpose of this bill is to establish a Lifelong Learning Accounts program to improve the skill level of the workforce.

MEANS: Add two sections to chapter 235, Hawaii Revised Statutes, and one to chapter 394, Hawaii Revised Statutes and appropriates funds.

JUSTIFICATION: The bill establishes a lifelong learning program.

The program works with other elements of the Innovation Initiative to develop a competitive workforce with the skill levels to support high skill high wage industries in the future. Without efforts to raise skill levels and institute other initiatives to build a competitive workforce, Hawaii cannot maintain, much less advance its standard of living.

Impact on the public: The program will significantly increase the skills and advancement potential of the current workforce.

Impact on the department and other agencies: The implementing department will initiate and administer the new program. Department of Taxation will administer tax credit.

GENERAL FUND: None.

OTHER FUNDS: None.

PPBS PROGRAM DESIGNATION: LBR-111

OTHER AFFECTED AGENCIES: Department of Taxation.

EFFECTIVE DATE: July 1, 2008