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GOVERNOR

SYLVIA LUKE
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GARY S. SUGANUMA
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DEPUTY DIRECTOR

STATE OF HAWAIʻI
DEPARTMENT OF TAXATION
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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
S.B. No. 1462, Relating to a State Historic Preservation Income Tax Credit

BEFORE THE:
Senate Committee on Ways and Means

DATE: Wednesday, February 26, 2025
TIME: 10:03 a.m.
LOCATION: State Capitol, Room 211

Chair Dela Cruz, Vice-Chair Moriwaki, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding S.B. 1462, an Administration measure, for your consideration.

S.B. 1462 amends chapter 235, Hawaii Revised Statutes (HRS), by adding a new section to create a historic preservation income tax credit for the substantial rehabilitation of certified historic structures.

The income tax credit would equal 30% of qualified costs incurred for the physical rehabilitation, renovation, or construction of a certified structure pursuant to an approved rehabilitation plan, not including the taxpayer's personal labor. Credits are also unavailable for costs already claimed as business deductions. The credit is not capped at the taxpayer level, but there is an annual total credit cap of $1,000,000 per year from tax year 2025 through tax year 2030. Excess credits can be carried forward until exhausted, or for a period of ten years, whichever is sooner. The Department of Land and Natural Resources will adopt rules establishing standards for the approval of rehabilitation of certified historic structures and certify the credit before taxpayers file with DOTAX.

The measure also includes provisions for recapture of the credit if taxpayers do not submit information required for the credit or do not proceed with the rehabilitation of the certified historic structure in a timely manner and in accordance with the approved rehabilitation plan.

The bill takes effect upon approval, and the income tax credit applies to taxable years beginning after December 31, 2024, with a sunset date of December 31, 2030.

DOTAX notes that the tax credit established in this bill is similar to the historic preservation income tax credit, formerly in section 235-110.97, HRS, which sunsetted on December 31, 2024. DOTAX can administer this bill as drafted.

DOTAX estimates the following revenue loss from the measure:

General Fund Impact ($ millions)

FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
-$1	-$1	-$1	-$1	-$1	-$0.5

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

JOSH GREEN, M.D.
GOVERNOR | KE KIAʻĀINA

SYLVIA LUKE
LIEUTENANT GOVERNOR | KA HOPE KIAʻĀINA

STATE OF HAWAIʻI | KA MOKUʻĀINA ʻO HAWAIʻI
DEPARTMENT OF LAND AND NATURAL RESOURCES
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DAWN N.S. CHANG
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
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CIARA W.K. KAHAHANE
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AQUATIC RESOURCES
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COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

Testimony of
DAWN N. S. CHANG
Chairperson

Before the Senate Committee on
WAYS AND MEANS

Wednesday, February 26, 2025
10:03 AM
State Capitol, Conference Room 211 & Videoconference

In consideration of
SENATE BILL 1462
RELATING TO A STATE HISTORIC PRESERVATION INCOME TAX CREDIT

Senate Bill 1462 reenacts the Historic Preservation Income Tax Credit and establishes a cap of the total annual credit awarded at $1,000,000 per year from taxable year 2025 through taxable year 2030 and repeals the tax credit on December 31, 2030. **The Department of Land and Natural Resources (Department) strongly supports this measure.**

This bill will re-establish the historic preservation tax credit (credit) that sunset on December 31, 2024; and will again make the credit available to both private residential dwellings and income producing properties. Over the past five years of the credit's existence, it has primarily been used to rehabilitate historic homes while making critical alterations that meet contemporary building standards. It has also helped to underwrite the rehabilitation and adaptive reuse of commercial buildings. Thus, the credit has proven a useful tool to prevent historic resources from becoming or remaining vacant while at the same time helped to preserve the character of historic resources and the vitality of historic districts.

The State Historic Preservation Division (Division) has seen steady and meaningful growth of the program over the course of the last five years. Before the credit expired, during the 2024 taxable year, the Division approved approximately $2.1 million dollars in qualified rehabilitation expenses and certified $633,924.16 in credits. In addition to the credit providing an incentive to rehabilitate existing buildings, it also contributes significant investments into local communities by creating jobs and supporting local businesses. These investments lead to an overall positive economic impact that help to increase property values, attract new businesses to underutilized historic districts, and provide housing that we desperately need, while enlarging the tax base as a whole.

Currently, the Division has an additional five historic preservation rehabilitation tax credit projects (two commercial and three residential) that were submitted prior to the sunset of the program but not yet completed in the 2024 taxable year. They will no longer be able to capture the historic preservation tax credit now that the program has expired. Reauthorizing the historic preservation tax credit will allow property owners with historic residential properties to purchase and stay in their homes while at the same time help commercial property owners to rehabilitate and adaptively reuse underutilized commercial properties. It will help to support local communities by creating jobs and contribute to stimulating the economy.

Mahalo for the opportunity to provide testimony on this measure.

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TO: Senator Donovan M. Dela Cruz, Chair
Senator Sharon Y. Moriwaki, Vice Chair
Committee on Ways and Means (WAM)

FROM: Kiersten Faulkner, Executive Director
Historic Hawaiʻi Foundation

Committee: Wednesday, February 26, 2025
10:03 a.m.
Via Video Conference and Conference Room 221

RE: **SB 1462, Relating to State Historic Preservation Income Tax Credit**

On behalf of Historic Hawaiʻi Foundation (HHF), I am writing in **strong support for SB 1462.** The bill would extend the historic preservation income tax credit through the 2030 tax year.

In 2019, the legislature enacted and the governor signed into law a historic preservation tax credit for qualified construction expenses incurred in rehabilitation of historic structures. The program was approved for five-year period and sunsets in 2025 (covering tax year 2024).

Preserving and appropriately using historic buildings are ways to enhance community character, provide affordable housing, provide an alternative to sprawl, create jobs, encourage heritage tourism, and generally spur economic development in older neighborhoods and commercial districts. Historic preservation tax credit programs have proved to be successful incentives for rehabilitating older structures and returning them to useful life.

The State's historic tax credit program is starting to be more widely used and gaining momentum for helping to preserve and rehabilitate historic buildings. By reauthorizing the program, the tax credits can continue to support small businesses, housing conversions and improvements, heritage tourism and other economic activity that simultaneously celebrates and honors Hawaiʻi's historic places.

Thank you for the opportunity to comment.

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME TAX; Reenact State Historic Preservation Tax Credit

BILL NUMBER: SB 1462

INTRODUCED BY: Senate Committee on Water and Land

EXECUTIVE SUMMARY: Reenacts the Historic Preservation Income Tax Credit, establishes a cap of the tax credit at $1,000,000, for taxable year 2025 to taxable year 2030, respectively, and repeals the tax credit on December 31, 2030.

SYNOPSIS: Adds a new section to Chapter 235, Part VI, for a Historic Preservation Income tax credit ("Credit") for substantial rehabilitation of a certified historic structure. The Credit is equal to 30% of qualified rehabilitation expenditures.

The Credit is allowable to a partnership, S corporation, estate, trust, or any developer at the entity level following section 704(b) of the Internal Revenue Code.

The Credit is not allowed for qualified expenses deducted under IRC section 179. The depreciable basis of eligible property for state income tax purposes shall be reduced by the amount of Credit allowable and claimed. Alternatively, the taxpayer may treat the Credit as taxable income.

The amount of the Credit is to be certified by the State Historic Preservation division ("Division") of the Department of Land and Natural Resources ("Department").

The Credit is allowed in the taxable year in which the "substantially rehabilitated certified historic structure" or phases of a certified historic project are placed in service.

If the tax credit exceeds the taxpayer's income tax liability, the excess of the credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until either exhausted or for ten years, whichever is earlier . 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 to do so waives the right to the credit.

The Department of Land and Natural Resources shall adopt rules pursuant to chapter 91. Following the completion of the rehabilitation of a certified historic structure, the taxpayer shall provide documentation to the Division for review and credit verification. Upon the Division's review and approval, the Division shall issue the taxpayer a certificate which shall be filed with the taxpayer's income tax return. The Department may assess fees to offset costs of certifying tax credit claims.

The aggregate amount of tax credits claimed for qualified rehabilitation projects shall not exceed $1,000,000 in each taxable year beginning in 2025 through 2030.

Taxpayers claiming a tax credit shall submit a written, certified statement to the Division, department of taxation, or both, prior to the last day of the twelfth month following the close of the tax year in which qualified costs were expended. Failure to do so would result in ineligibility of tax credits for those qualified costs and any credit already claimed for that taxable year shall be recaptured.

A previously claimed tax credit is recaptured if 1) projected qualified expenditures do not materialize; or 2) the rehabilitation does not proceed in a timely manner and in accordance with the approved rehabilitation plan.

Definitions for "Certified historic structure", "Qualified rehabilitation expenditures", "Qualified staff", "Rehabilitation plan", and "Substantial rehabilitation" are provided.

EFFECTIVE DATE: Upon approval, shall apply to taxable years beginning after December 31, 2024 and shall be repealed on December 31, 2030.

STAFF COMMENTS: This is an Administration bill sponsored by the Department of Land and Natural Resources and designated LNR-16(25).

This measure reinstates a tax credit, previously in section 235-110.97, HRS, for the rehabilitation of historic structures. The credit had sunset in 2024.

The tax system is the device that raises the money that they, lawmakers, like to spend. 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. The second point to remember about tax credits is that they 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?

If lawmakers want to subsidize the rehabilitation of certified historic buildings, then a direct appropriation would be more accountable and transparent.

Finally, the credit is directed to persons who might have no need for financial assistance. At the moment, we are not aware of data indicating how many taxpayers have taken advantage of this credit and whether the additional amounts are justified. We also are unsure of the public benefit from this credit. Certainly, historic buildings could be preserved; but if people are living in them and are entitled to their privacy, is it worth the supposed millions in revenue loss to have a few more structures available for people to gawk at from adjacent roadways?

We note that the Foundation is not the only one to raise this question. The City and County of Honolulu, for example, has a historic properties exemption from real property tax, and the most recent Oahu Real Property Tax Advisory Commission report (June 30, 2022)[1] stated:

The Commission reiterates the recommendation made by the 2019 Commission that the exemptions provided to historic residential and commercial real properties be amended to increase the minimum real property tax from $300 to $1,000. Should the City Council concur with the recommendation to revise and increase the minimum RPT imposed on these properties, this Commission also suggests the City Council consider a means-based qualification, as well as whether the historical properties program itself continues to serve a necessary and beneficial purpose to the City and its taxpayers, i.e. repeal.

Report, at 6 (emphasis added).

[1] Available at https://hnldoc.ehawaii.gov/hnldoc/document-download?id=14660.

Digested: 1/31/2025