STAND. COM. REP. NO. **2535**

Honolulu, Hawaii

FEB 15 2008

RE: S.B. No. 2722
        S.D. 2

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred S.B. No. 2722, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO A FIRE SPRINKLER TAX DEDUCTION,"

begs leave to report as follows:

The purpose of this measure is to provide an income tax deduction to residential unit owners or owner-occupants for qualifying costs of installation of an automatic fire sprinkler system installed after December 31, 2008.

Testimony in support of this measure was received from the State Fire Council, the County of Kauai Fire Department, and the Hawaii Council of Associations of Apartment Owners. The Department of Taxation (Department) and the Tax Foundation of Hawaii submitted comments.

The Department estimated a revenue loss of approximately $7,400,000 in fiscal year 2009, as it applies to systems installed after December 31, 2008, and $14,800,000 annually thereafter. The Department based its justification on information from the 2006 Hawaii Data Book, that there were 501,956 housing units in Hawaii in 2006. According to the 2000 Census, approximately twelve per cent of all housing units were vacant. The Department applied this to the number of housing units in 2006 and estimated approximately 441,721 units were occupied in 2006. Assuming eight per cent of the occupied units install fire sprinkler systems and use the full $7,000 limit, there is an estimated $247,400,000

2008-1511 SSCR SMA-1.doc

reduction in tax liability. Applying an income tax rate of six per cent, gives an overall revenue loss of $14,800,000 annually.

Your Committee believes that the Department's calculations do not take into account the decision-making process which condominium and co-op associations use before approving major cost items like installation of sprinklers for an entire building, and the likelihood that the number of available plumbers will determine the numbers of buildings that could undergo sprinkler installation each year. As such, your Committee urges the proponents of the measure and Department of Taxation staff to work on a more accurate determination of the revenue impacts of this measure.

Your Committee finds that automatic fire sprinklers are proven fire protection devices that save lives, prevent injuries, reduce property losses, prevent fires from spreading, and do not rely on human factors to be effective.

Your Committee has amended this measure by making the effective date applicable to taxable years beginning after December 31, 2035, for the purpose of further discussion.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2722, S.D. 1, as amended herein, and recommends that it be referred to the Committee on Ways and Means, in the form attached hereto as S.B. No. 2722, S.D. 2.

Respectfully submitted on behalf of the members of the Committee on Economic Development and Taxation,

CAROL FUKUNAGA, Chair

The Senate
Twenty-Fourth Legislature
State of Hawaii

Record of Votes
Committee on Economic Development and Taxation
EDT

Bill / Resolution No.:*	Committee Referral:	Date:
SB 2722, SD1	CPH, EDT, WAM	2/14/08

☐ The committee is reconsidering its previous decision on this measure.

    If so, then the previous decision was to: _____

The Recommendation is:

☐ Pass, unamended   ☑ Pass, with amendments   ☐ Hold   ☐ Recommit
    2312   2311   2310   2313

Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✔			
ESPERO, Will (VC)	✔			
BAKER, Rosalyn H.	✔			
ENGLISH, J. Kalani				✔
IGE, David Y.	✔			
SLOM, Sam	✔			
TOTAL	5			1

Recommendation:

☑ Adopted   ☐ Not Adopted

Chair's or Designee's Signature: _Will Espero_

*Only <u>one</u> measure per Record of Votes