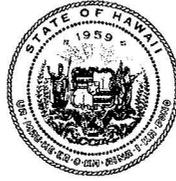


LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

HOUSECOMMITTEE ON PUBLIC SAFETY

TESTIMONY REGARDING HB 1626 RELATING TO FIRE SPRINKLER TAX DEDUCTION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 18, 2009

TIME: 2PM

ROOM: 309

The purpose of this bill is to provide an income tax deduction for the installation of an automatic fire sprinkler system placed in service after December 31, 2009.

The Department of Taxation (Department) **opposes the unbudgeted revenue loss** contained in this measure.

I. COMMENTS REGARDING THE SPRINKLER DEDUCTION.

Current law allows for the depreciation of the cost of a fire sprinkler system when used in a rental facility. There is no corresponding tax benefit for the owner-occupants of a residential unit.

The Department notes the following concerns:

- The bill provides that the owner of a residential unit may claim the deduction for the cost of the system, up to a maximum of \$7,000, which is claimed in its entirety in the year the system is placed in service. Owners of rental property are already entitled to depreciate the entire cost of installing a sprinkler system. This measure should be limited to owner-occupants only. A requirement for the minimum number of years the person is required to occupy the unit should also be included.
- The deduction would include the cost of labor required to install the system, which invites collusion between taxpayers and sellers of fire sprinkler systems to inflate the cost so that greater amounts of deduction can be claimed. This will pose an allocation problem where the contractor/installer is doing work in addition to installing the sprinkler system such as general plumbing replacement or installation. The Department would need to conduct an audit to determine if labor for non-qualifying tasks is included. This will entail extensive

and time-consuming effort to determine.

II. REVENUE ESTIMATE.

The Department cannot support the tax provision in this measure because it is not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

There is an expected revenue loss of approximately \$10.3 million in FY2010 and annually thereafter.

Linda Lingle
Governor



Darwin L.D. Ching
Director

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
State Fire Council
830 Punchbowl Street
Honolulu, Hawaii 96813

February 17, 2009

The Honorable Faye Hanohano, Chair
Committee on Public Safety
House of Representatives
State Capitol, Room 303
Honolulu, Hawaii 96813

The Honorable Karl Rhoads, Chair
Committee on Labor and Public Employment
House of Representatives
State Capitol, Room 326
Honolulu, Hawaii 96813

Dear Chairs Hanohano and Rhoads:

Subject: H.B. 1626 Relating to a Fire Sprinkler Tax Deduction

I am Kenneth G. Silva, Chair of the State Fire Council (SFC) and Fire Chief of the Honolulu Fire Department (HFD). The SFC and the HFD support H.B. 1626, which proposes to provide an income tax deduction for residential owners for the qualifying costs of automatic fire sprinkler systems installed and placed into service after December 31, 2009.

According to the Home Fire Sprinkler Coalition, fires kill more people in the U.S. every year than all natural disasters combined. Eighty percent of fire deaths occur in a home. Sprinklers typically reduce the loss of life and property in a fire by one-half to two-thirds, as compared to when sprinklers are not present. Ninety percent of home fires are contained with a single sprinkler head. On an average, fire hoses use eight and one-half times more water than sprinklers to contain a fire.

During 2005-2007, fires in single-family homes within the City and County of Honolulu accounted for 42% of the structure fires, 46% of the property damage, and 82% of the fatalities. For the same period, fire damage estimates in sprinklered buildings totaled to \$1,659,000 or 3.3% of the total property damages and no fatalities. Fire damage

The Honorable Faye Hanohano, Chair
The Honorable Karl Rhoads, Chair
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February 17, 2009

estimates in nonsprinklered buildings totaled to \$49,213,082 or 96.7% of the total property damages and 11 fire fatalities.

Automatic fire sprinklers are proven fire protection devices that save lives, reduce property loss, prevent injuries and fires from escalating, and do not rely on human factors to be effective. There have never been multiple lives lost due to fire or smoke in a fully sprinklered building. This bill would promote the installation of automatic fire sprinklers by creating a financial incentive for existing renovations, mandated retrofit ordinances, and new construction.

The SFC and the HFD request your committee's support on the passage of H.B. 1626.

Should you have any questions, please call HFD Legislative Liaison Lloyd Rogers at 723-7171.

Sincerely,



KENNETH G. SILVA
Chair

KGS/LR:cn

William P. Kenoi
Mayor



Darryl J. Oliveira
Fire Chief

Glen P. I. Honda
Deputy Fire Chief

County of Hawai'i

FIRE DEPARTMENT

25 Aupuni Street • Suite 103 • Hilo, Hawai'i 96720
(808) 981-8394 • Fax (808) 981-2037

February 15, 2009

TO : REPRESENTATIVE KARL RHOADS, CHAIR
COMMITTEE ON LABOR & PUBLIC EMPLOYMENT

FROM : DARRYL OLIVEIRA, FIRE CHIEF
HAWAII FIRE DEPARTMENT

SUBJECT : HB 1626 RELATING TO A FIRE SPRINKLER TAX DEDUCTION
DATE/TIME OF HEARING: FEBRUARY 18, 2009, 2:00 P.M.
NUMBER OF COPIES REQUESTED: 3 COPIES

As the Fire Chief of the Hawaii Fire Department, I ask for your support of HB 1626, which would provide an income tax deduction to residential unit owner occupants for qualifying costs to install an automatic fire sprinkler system.

Automatic fire sprinklers are proven fire protection devices that save lives, prevent injuries, and reduce property losses. Automatic fire sprinklers prevent fires from escalating and do not rely on human factors to be effective. This bill would promote the installation of automatic fire sprinklers by creating a financial incentive for existing renovations or mandated retrofit ordinances.

The Hawaii Fire Department requests your committee's support on the passage of HB 1626.

Sincerely,


DARRYL OLIVEIRA
Fire Chief

DO:lk



TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Automatic fire sprinkler system

BILL NUMBER: HB 1626

INTRODUCED BY: Evans, Yamane and 1 Democrat

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim an income tax deduction for the installation of an automatic fire sprinkler system that is not required by the building code provided the system is placed in service after 12/31/09. The deduction shall be equal to the qualifying cost to install the system not to exceed \$7,000. In the case of a residential unit or building, the deduction shall be a portion of the maintenance fees allocable to the qualifying costs to install the system.

Defines “automatic fire sprinkler system” and “qualifying costs” for purposes of the measure.

Requires the director of taxation to require the taxpayer to furnish reasonable information to validate a claim for the deduction and adopt rules pursuant to chapter 91.

EFFECTIVE DATE: Tax years beginning after December 31, 2009

STAFF COMMENTS: This measure proposes an income tax deduction for every automatic fire sprinkler system installed and placed in service in a residential or commercial property after 12/31/09. The proposed measure would grant preferential tax treatment to a very select group of taxpayers and do so without the taxpayer’s need for tax relief.

Inasmuch as there is absolutely no relationship between the cost of the automatic fire sprinkler system and the taxpayer’s tax burden, there is little justification for granting this tax preference which is merely a subsidy of the cost of an automatic fire sprinkler system by state government.

Undoubtedly this measure is being submitted in response to fires in multi-family dwelling units or condominiums. While it is true that older condominiums in Honolulu were not required to install fire sprinkler systems, that is not true of newer condominiums or those that will be built in the future. Newer buildings are now required to install such systems and, as such, the developers of those buildings that will be built in the future should accommodate the cost

Finally, this is one more divergence from the legislature’s stated intent to maintain conformity with the federal Code to minimize differences between the state and federal law as a way to ease administration and compliance with the law. By creating a deduction not found in the Code, this measure adds yet one more digression from the Code and adds to the complexity of filing the annual income tax return. Further, it sets a bad precedent for other deductions that may be considered health and safety expenditures. What about sewer connections in older subdivisions where cesspools were the norm when the subdivisions were built? One might argue that residents in these older homes are now retired and on fixed incomes and therefore cannot afford the tremendous cost of hooking up to the city’s sewer system.

HB 1626 - Continued

Should these residents be allowed a special deduction because undertaking the hookup is crucial to the sanitary condition of that home?

If the legislature believes public assistance is needed to encourage the installation of fire sprinkler systems, then a program of low-interest, no-interest loans might be more efficient and appropriate. It should be remembered that in order to claim the deduction, the taxpayer must have the capital to make the improvement first. Should the taxpayer not be capable of putting up the initial cost, then the deduction would not be available.

Digested 2/17/09