**EXECUTIVE CHAMBERS**

HONOLULU

**LINDA LINGLE**
GOVERNOR

Testimony of
**Linda L. Smith**
Senior Policy Advisor to the Governor

Before the
**HOUSE COMMITTEES ON TOURISM, CULTURE, AND INTERNATIONAL AFFAIRS AND ECONOMIC REVITALIZATION, BUSINESS, AND MILITARY AFFAIRS**
Monday, February 8, 2010, 9:30 a.m.
Room 312, State Capitol

**HB2439 RELATING TO TAXATION**

Chair Manahan, Chair McKelvey, and Members of the Committees:

The Office of the Governor **supports the concept of HB2439, but prefers the Administration measure HB2559**, which is also being heard on this agenda, due to the various safeguards provided for in HB2559. HB2439 provides a ten percent refundable tax credit for the construction and renovation of hotel or resort properties from January 1, 2010 to December 31, 2015. Because the construction and visitor industries have been hit especially hard during the downturn, we believe a hotel and resort construction and remodeling tax credit has the capacity to significantly stimulate the economy, and therefore support the concept.

HB2439 establishes a ten percent refundable tax credit, applicable to costs incurred in the construction or renovation of hotel or resort properties for tax years 2010 to 2015, which may be used to offset income or transient accommodation taxes. However, this tax credit lacks a cap to control cost impacts on the State budget. As a result, we respectfully request the committee to consider HB2559, which provides additional safeguards designed to maximize construction activity while minimizing the cost of the tax credit to the State:

1) HB2559 provides a non-refundable tax credit for hotel and resort construction occurring from January 1, 2010 to December 31, 2012, and places a cap of $50 million on the amount that the Department of Taxation can award per year;
2) The tax credit sets a floor of $10 million and a cap of $100 million for qualifying costs per project, which ensures that substantial construction activity will occur with the capacity to create a critical mass of new jobs;
3) The tax credit limits qualifying construction and renovation costs to only include labor, material, and supply costs incurred in Hawaii, but do not include design, planning, or permitting costs. This provision ensures that the tax credit only incentivizes immediate construction activity, which must occur between 2010 and 2012; and
4) The tax credit cannot be taken for construction and renovation costs financed through government grants or loans, since such construction has already been incentivized by the government through other means.

A hotel and resort construction and remodeling tax credit will help to revitalize the construction industry in the key sector of hotel and resort development while providing long-term enhancements to visitor accommodations in the State. However, we must also minimize cost impacts to the State where possible. As such, the Office of the Governor supports the concept in this measure, but requests that consideration be given to HB2559 due to the additional safeguards included.

LINDA LINGLE
Governor

MIKE MCCARTNEY
President and
Chief Executive Officer

# Hawai'i Tourism Authority

Hawai'i Convention Center, 1801 Kalākaua Avenue, Honolulu, Hawai'i 96815
Website: www.hawaiitourismauthority.org

Telephone: (808) 973-2255
Fax: (808) 973-2253

Testimony of
**Mike McCartney**
President and Chief Executive Officer
Hawai'i Tourism Authority
on
**H.B. 2439 Relating to Taxation**
**H.B. 2681 Relating to Taxation**
**H.B. 2559 Relating to Remodeling Tax Credits**

House Committee on Tourism, Culture, & International Affairs
House Committee on Economic Revitalization, Business, & Military Affairs
Monday, February 8, 2010
9:30 a.m.
Conference Room 312

The Hawai'i Tourism Authority (HTA) supports the intent of the following measures:
- H.B. 2439, which proposes a tax credit of 10% of the costs of construction or renovation of qualified hotel facilities incurred from January 1, 2010 to December 31, 2015;
- H.B. 2681, which proposes a 4% tax credit for hotel construction and renovations incurred before December 31, 2011; and
- H.B. 2559, which proposes a tax credit of 10% of the costs of construction or renovation of qualified hotel facilities incurred from January 1, 2010 to December 31, 2012, where the costs are a minimum of $10 million up to a maximum of $100 million.

The HTA is tasked with marketing and promoting Hawai'i as a visitor destination, with the goal of increasing visitor spending. One of the keys to branding Hawai'i's visitor industry and increasing visitor spending is the improvement of the state's tourism product, which includes the physical infrastructure. As such, the HTA supports these measures which provide the private sector with investment incentives to upgrade Hawai'i's hotel facilities. This will help Hawai'i remain competitive as a destination while providing enhancements to the visitor experience.

The HTA would also like to point out the following:
- H.B. 2559 does not include in the qualified costs plans, designs, and permitting, which often make up the significant costs of the first two years of a project.
- H.B. 2681 only provides a 4% tax credit;
- To our knowledge, there may be few projects that are ready to break ground at this time that could benefit from the tax credit in H.B. 2681 or H.B. 2559 which has sunset dates of December 31, 2011 and December 31, 2012 respectively.

For these reasons, the HTA prefers the 6-year period in H.B. 2439 which will provide an even greater benefit to stimulate Hawai'i's visitor industry and the State of Hawai'i.

Thank you for the opportunity to provide these comments

LINDA LINGLE
GOVERNOR
MARSHA WIENERT
TOURISM LIAISON

# TOURISM LIAISON

Hawai'i State Capitol, Office of the Governor, 4th Floor
Honolulu, Hawai'i 96813

Telephone: (808) 586-2362
Fax: (808) 586-0019

Statement of
**MARSHA WIENERT**
**Tourism Liaison**
Office of the Governor
before the
**HOUSE COMMITTEE ON TOURISM, CULTURE & INTERNATIONAL AFFAIRS**
and the
**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS**
Monday, February 8, 2010
9:30 a.m.
State Capitol, Conference Room 312

in consideration of
**HB 2439**
**RELATING TO TAXATION.**

Chairs Manahan and McKelvey, Vice Chairs Tokioka and Choy and Members of the House Committees.

HB 2439 provides a tax credit for hotel renovations and we support the intent of this bill. However, we prefer HB 2559, which provides a ten percent tax credit on costs incurred for the construction or renovation of hotels or resort properties.

We support HB 2559 over HB 2439 because the non-refundable credit in HB 2559 will stimulate immediate construction activity. The credit may be used to offset corporate income, general excise and transient accommodation taxes. The tax credit can be used for construction or renovation costs including labor, material and supply costs incurred in Hawai'i. It does not include design, planning or permitting costs. We believe that this provision is necessary to ensure the credit will immediately impact our economy and create jobs.

Getting as many of our residents back to work and creating jobs now should be the primary concern and we feel that HB 2559 will deliver the kind of immediate stimulus our economy needs.

Thank you for the opportunity to testify on HB 2439.

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
PEARL IMADA IBOSHI
DEPUTY DIRECTOR

# DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt
Telephone: (808) 586-2355
Fax: (808) 586-2377

Comments of
**EUGENE TIAN**
**Acting Economics Research Administrator**
Department of Business, Economic Development, and Tourism
before the

**HOUSE COMMITTEE ON TOURISM, CULTURE AND INTERNATIONAL AFFAIRS**

**and**

**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS**

Monday, February 8, 2010
9:30 a.m.
State Capitol, Conference Room 312
in consideration of

**HB 2439**
**RELATING TO TAXATION**

Chair Manahan, Chair McKelvey and Members of the House Committee on Tourism, Culture & International Affairs, and Committee on Economic Revitalization, Business & Military Affairs.

The Department of Business, Economic Development and Tourism supports the intent of this bill, which provides a ten percent refundable tax credit for construction or renovation costs incurred on a qualified hotel facility before December 31, 2015. However, we prefer HB 2559.

This bill is similar to HB 2559 in that both provide 10% tax credit for hotel construction or renovation. However, this bill differs from HB 2559 in the following:

a. This bill restricts tax credit to net income tax while HB 2559 allows tax deduction from net income, general excise, and transient accommodation taxes.
b. This bill sets no restrictions on the amount of construction or renovation costs while HB 2559 sets a construction floor of $10 million and a ceiling of $100 million.
c. This bill sets no restrictions on the type of spending of a hotel construction or renovation project, while HB 2559 excludes spending on design and planning of such projects.

d. This bill allows a tax refund if credit exceeds tax liability while HB 2559 allows the extra credit be claimed in subsequent years.
e. This bill sets the sunset date as December 31, 2015 while the sunset date for HB 2559 is December 31, 2012.
f. This bill sets no restrictions on the funding source of the construction projects while HB 2559 excludes projects funded in whole or in part by government grants, government – issued loans, or property assessed clean energy financing.
g. This bill sets no cap on tax credits while HB 2559 sets a credit cap of $50 million a year.

An initial calculation by DBEDT shows that the net tax impact is negative under the language of this bill.

Thank you for the opportunity to offer these comments.

HGEA
AFSCME
LOCAL 152, AFL-CIO

888 Mililani Street, Suite 601
Honolulu, Hawaii 96813-2991

Telephone: 808.536.2351
Facsimile: 808.528.4059

www.hgea.org

The Twenty-Fifth Legislature, State of Hawaii
Hawaii State House of Representatives
Committee on Tourism, Culture & International Affairs
Committee on Economic Revitalization, Business and Military Affairs

Testimony by
Hawaii Government Employees Association
February 8, 2010

H.B. 2439 – RELATING TO TAXATION

The Hawaii Government Employees' Association, AFSCME Local 152, AFL-CIO opposes the purpose and intent of H.B. 2439 – Relating to Taxation. This bill proposes to create a 10% refundable tax credit for construction or renovation costs incurred by a qualified hotel facility to boost Hawaii's construction and visitor industries. The tax credit would remain in effect through December 31, 2015.

While this type of tax credit may have been helpful during the 2001 recession, the state's economy is much worse today. With a projected $1.2 billion deficit, every existing tax credit should be carefully examined before any new credits are created. Tax credits are government spending programs that are administered through the tax code. In theory, it does not matter whether state government uses direct spending through the budget or tax expenditure (credit) to achieve a policy goal. However, each tax expenditure must compete with other state priorities when the legislature makes its budget decisions.

The proposed hotel construction and renovation tax credit is not without risk. For example, adding additional hotel rooms will not automatically bring additional visitors, and without additional visitors there could be higher vacancy rates and lower hotel room rates. Consequently, the hotel industry could incur large operational losses and there would be lower transient accommodation tax revenue.

We cannot support the creation of any additional tax credits which will reduce state tax revenues by millions of dollars in the midst of a severe budget crisis. There are other viable options to boost the construction industry through federal stimulus funds that are targeted at repairing and upgrading infrastructure, and state capitol improvement project spending. Thank you for the opportunity to testify in opposition to H.B. 2439.

Respectfully submitted,

Nora A. Nomura
Nora A. Nomura
Deputy Executive Director

# Waikīkī Improvement Association

Statement of
**Rick Egged**
**President, Waikiki Improvement Association**
Before the
**House Committees on**
**Tourism, Culture & International Affairs**
**And**
**Economic Revitalization, Business & Military affairs**
Monday, February 8, 2009
9:30 AM
State Capitol, Conference Room 312
in consideration of

**HB 2439** and **HB 2681** RELATING TO TAXATION &
**HB2559** RELATING TO REMODELING TAX CREDITS

Good morning Chairs Manahan & McKelvey, Vice Chairs Tokioka & Choy and members of the respective Committees:

I am Rick Egged testifying on behalf of the Waikiki Improvement Association. WIA is a nonprofit organization representing 170 leading businesses and stakeholders in Waikiki.

Hotel Construction and Renovation Tax Credits work. A 2004 study prepared by Hospitality Associates, Inc. and economics professor Dr. James Mak found that:

1. The tax credits produced a sizable increase in hotel construction and renovation activity. Against the backdrop of a sluggish State economy, the jobs, earnings, and tax revenues generated by this increase in construction activity are extremely significant.

2. The gain in tax revenues from increased hotel construction and renovation activity far exceed the estimated amount of the tax credits given. In addition to increased tax revenues from construction activities, the improvements are generating higher room rates, which translate into higher GET and TAT collections over time.

3. The renovations spurred by the credits are attracting higher spending visitors. The key to sustainable tourism in Hawaii is our ability to increase per capita visitor spending.

By facilitating hotel renovations, the tax credits have proven to be an effective tool in helping to improve the quality of Hawaii's hotel and visitor market. Higher visitor spending, of course, produces even greater tax revenues.

The Waikīkī Improvement Association **supports** all three bills. We do have some comments regarding some of the differences in the bills. HB 2681 appears to cover only two years 2010 to 2011, HB 2559 covers three years 2010 to 2012 and HB 2439 six years 2010 to 2015. The two year period in HB 2681 my be too short to be effective. The longer time frame will spur more projects to begin work now.

HB 2439 and HB 2681 provide a refundable credit; HB 2559 can only be used to offset tax liability but allows a carry-over. HB 2712 limits eligible cost to a minimum of $10 million and a maximum of $100 million and caps annual credits at $50 million, HB 2439 has no such limits. The $10 million minimum would eliminate a number of smaller properties and cap creates uncertainty about whether the credit will be available or not. It is uncertain what is intended by 235 (g, h) (3). Does this item refer to all commercial construction in a "qualified resort area" or only that within a hotel? WIA would strongly support including non hotel properties. The shopping, dining and entertainment experiences offered by resort district properties enhance the destination regardless of whether or not located in a hotel. Including non hotel properties would of course increase the number of construction jobs created.

The Waikīkī Improvement Association would be happy to work with the committee to combine the best features of each bill.

Thank you for the opportunity to testify.

GOODSILL ANDERSON QUINN & STIFEL
A LIMITED LIABILITY LAW PARTNERSHIP LLP

GOVERNMENT RELATIONS TEAM:
GARY M. SLOVIN
ANNE T. HORIUCHI
MIHOKO E. ITO
CHRISTINA Z. NOH

ALII PLACE, SUITE 1800 • 1099 ALAKEA STREET
HONOLULU, HAWAII 96813

MAIL ADDRESS: P.O. BOX 3196
HONOLULU, HAWAII 96801

TELEPHONE (808) 547-5600 • FAX (808) 547-5880
info@goodsill.com • www.goodsill.com

INTERNET:
gslovin@goodsill.com
ahoriuchi @goodsill.com
meito@goodsill.com
cznoh@goodsill.com

# MEMORANDUM

**TO:** Representative Joey Manahan
Chair, Committee on Tourism, Culture & International Affairs

Representative Angus McKelvey
Chair, Committee on Economic Revitalization, Business & Military Affairs

***VIA EMAIL: TCItestimony@Capitol.hawaii.gov***

**FROM:** Mihoko Ito

**DATE:** February 7, 2010

**RE:** **H.B. 2439 – Relating to Taxation**
**Hearing: Monday, February 8, 2010 at 9:30 a.m., Room 312**

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Dear Chair Manahan, Chair McKelvey, and Members of the Committees:

I am Mihoko Ito, testifying on behalf of Wyndham Worldwide. Wyndham Worldwide offers individual consumers and business-to-business customers a broad suite of hospitality products and services across various accommodation alternatives and price ranges through its portfolio of world-renowned brands. Wyndham Worldwide has substantial interests in Hawaii that include Wyndham Vacation Ownership, with its resort at Waikiki Beach Walk.

We support H.B. 2439, which creates a refundable tax credit for construction or renovation costs incurred on qualified hotel facilities before December 31, 2015. This proposed tax credit will provide a boost to the hospitality industry in Hawai'i by providing an incentive to encourage hotel renovations and improvements, and creating new jobs.

Thank you very much for the opportunity to submit testimony.

2841431.1

# TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Hotel construction and remodeling tax credit

BILL NUMBER: SB 2125; HB 2439 (Similar)

INTRODUCED BY: SB by Taniguchi; HB by Say by request

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers subject to HRS chapter 235 and HRS chapter 237D to claim a refundable hotel construction and remodeling tax credit of 10% of the construction or renovation costs incurred before 12/31/15. The credit shall not be applicable to costs of construction or improvement for which another income tax credit was claimed for the taxable year.

In the case of a partnership, S corporation, estate or trust, association of apartment owners of a qualified hotel facility, time share owners association, or any developer of a time share project, the credit shall be based on qualified costs incurred by the entity with costs on which the credit is computed determined at the entity level. To qualify for the credit, the taxpayer shall be in compliance with all applicable federal, state, and county statutes, rules, and regulations. If a deduction is taken under IRC section 179 (with respect to election to expense depreciable business assets), no tax credit shall be allowed for such qualified costs for which the deduction was taken. The basis of eligible property for depreciation or accelerated cost recovery system purposes shall be reduced by the amount of credit allowable and claimed.

Credits in excess of a taxpayer's income tax liability shall be refunded provided such amounts are in excess of $1. Claims for the credit, including any amended claims, must be filed on or before the end of the twelfth month following the close of the taxable year.

Defines "construction or renovation cost" as any cost incurred after 12/31/09 for the plans, design, construction, and equipment related to new construction, alteration, or modification of a qualified hotel facility. Defines "net income tax liability," "qualified hotel facility," "qualified resort area," and "taxpayer" for purposes of the measure.

EFFECTIVE DATE: Tax years beginning after December 31, 2009

STAFF COMMENTS: The legislature by Act 195, SLH 2000, enacted a hotel construction and renovation tax credit of 4% for hotel renovations effective for tax years beginning after 12/31/98 but before 12/31/02. Act 10 of the Third Special Session of 2001 increased the hotel renovation tax credit to 10% for construction costs incurred before 7/1/03. Act 10 also provided that the credit shall revert back to 4% on 7/1/03 and sunset on 12/31/05. This measure proposes a similar credit for hotel renovation costs incurred in a taxable year.

The original tax credit was promoted on the argument that the tax credit would be an incentive for hotels to refurbish their properties in order to remain competitive with other destinations around the world. The credit amount was set at 4% to seemingly offset the 4% general excise tax. When 9/11 hit, the momentum of the crisis fostered support for an increase in the credit to 10% to supposedly keep projects which were already in progress going. However, the governor objected and threatened to veto the sweetened credit. The legislature compromised and provided that the 10% credit would be nonrefundable.

While these measures propose to reestablish a hotel renovation tax credit, it should be noted that no evaluation has been done to validate the effectiveness of this credit in spurring substantial renovations of hotel resort properties. While some may argue that this credit is necessary to make their upcoming renovations pencil out, one must ask whether or not it is the role of government to subsidize private investments. While the credit might be viewed as critical to a taxpayer's project or to the continued renovation of the resort plant, one must ask how long must all other taxpayers suffer the heavy burden of taxation so that this subsidy can be extended to a few?

It would be a very different picture if those who are asking for the subsidy would be willing to forgo other public services or make recommendations on how government can rein in spending, but that is not the case. Now, more than ever, lawmakers need to recognize that they need to set priorities for what precious few dollars taxpayers can part with to run state and local government. One must ask how lawmakers can provide subsidies like this proposal when they raised the general excise tax on all other taxpayers to pay for a transit system in Honolulu? Taking care of a few taxpayers at the expense of all other taxpayers is certainly a cavalier attitude.

More importantly, if the intent of this measure is to entice hotel owners to undertake major renovations, then the sponsors do not understand what is happening to the nation's economy. In order to undertake large scale construction or renovations, either the hotel owner has to be cash rich or else have access to the credit markets. As the nation now knows, the credit markets have frozen and despite herculean efforts to thaw those credit markets, it will be a long road to recovery. Given that fact, it is doubtful that any hotel owner will undertake new renovation projects, in fact, some who had such projects underway have pulled back or completely shut down those projects for the time being. Thus, the sponsors of this proposal may find this incentive useless in this environment.

Instead of subsidizing construction in order to get construction workers off the bench, government can assist in a number of other ways. For private projects, the permitting and planning process can be accelerated. One developer recently reported that it had taken two years to subdivide two parcels into seven house lots in rural Oahu at which time the planning and permitting department deferred approval citing eight issues to be addressed regarding subdivision approval. The interest on the seller has amounted to more than $500,000 to this point and going forward, both the buyer and seller are shelling out more than $27,000 a month for interest alone, not to mention the other planning and engineering costs. These are costs that could be mitigated if permitting officials would just work with developers and owners in streamlining these requirements. Apparently officials are reticent to make decisions in fear that they might make the wrong decision. The result is costly delays while construction work goes begging.

In the public arena, both the state and counties need to take advantage of this window of opportunity of readily available labor and exceptionally low interest rates to undertake a massive capital improvement program. As economists on the Council on Revenues noted recently, when adjusted for inflation, the amount of public construction projects in the state is at its lowest since statehood.

Digested 2/1/10

ANDREW V. BEAMAN
ANDREW R. BUNN
ANDREW W. CHAR
LEROY E. COLOMBE
RAY K. KAMIKAWA
DANTON S. WONG
ADRIENNE S. YOSHIHARA

BETHANY C.K. ACE
ANNE E. LOPEZ
KALEEN S. H. MIYASATO
JAMES T. OTA

CHUN, KERR, DODD, BEAMAN & WONG
A LIMITED LIABILITY LAW PARTNERSHIP
FORT STREET TOWER, TOPA FINANCIAL CENTER
745 FORT STREET, 9TH FLOOR
HONOLULU, HAWAII 96813-3815
TELEPHONE (808) 528-8200
FACSIMILE (808) 536-5869
www.chunkerr.com

SENIOR COUNSEL:
EDWARD Y. C. CHUN
WILLIAM H. DODD

GEORGE L. T. KERR
1933-1998

GREGORY P. CONLAN
1945-1991

**THE HOUSE OF REPRESENTATIVES**
**THE TWENTY-FIFTH LEGISLATURE**
**Regular Session of 2010**

**COMMITTEE ON TOURISM, CULTURE AND INTERNATIONAL AFFAIRS**
**Chair Manahan, Vice-Chair Tokioka, Members of the Committee:**

**COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS AND MILITARY AFFAIRS**
**Chair McKelvey, Vice-Chair Choy, Members of the Committee:**

**Hearing date: February 8, 2010**
**Testimony on HB 2439**
**(Relating to Taxation)**

Committee Chairs, Vice Chairs, Members of the Committees:

Thank you for scheduling this bill for hearing.

This bill was among those recommended by the Construction Industry Task Force, formed under SCR 132 (SLH 2009), and is a product of ideas generated by industry and of discussions over the course of several months in 2009. I served on the Tax Committee of the Task Force that assisted in drafting the measure.

Please find attached the latest draft of the bill as recommended by the Task Force, which contains some differences from the version in HB 2439. These differences are highlighted in the attached Task Force version of the bill.

Members of the industry and interested parties will be testifying on this bill.

Very truly yours,

CHUN, KERR, DODD, BEAMAN & WONG,
a Limited Liability Law Partnership

Ray Kamikawa

RKK/pss:133516.1

THE SENATE
TWENTY-FIFTH LEGISLATURE, 2010
STATE OF HAWAII

S.B. NO.

# A BILL FOR AN ACT

RELATING TO TAXATION.

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

SECTION 1. This measure was among those recommended by the Task Force convened by Senate Concurrent Resolution 132, Twenty-Fifth Legislature, Interim of 2009.

The effects of the September 11, 2001, terrorist attacks upon the United States had a devastating effect on Hawaii's economy. In October of 2001, the legislature met in special session to approve emergency measures in response to the attacks. One response was the enactment of Act 10, Third Special Session Laws of Hawaii 2001, which enhanced the existing hotel construction and remodeling tax credit. Act 10 altered the tax credit from a four per cent refundable credit to a ten per cent nonrefundable credit for costs incurred prior to July 1, 2003, to assist the tourism industry in its efforts to attract more visitors to Hawaii.

Act 10 provided the stimulus needed to boost Hawaii's workforce and economy during difficult economic times.

Hawaii is again in an economic recession. Initiatives are needed to counteract the negative impact that the worlds' economy has had on our State. Like the experience with Act 10, the legislature finds that a competitive tax credit can provide an excellent means to boost Hawaii's tourism and construction industries.

The purpose of this Act is to create a hotel construction and remodeling tax credit to boost Hawaii's construction and visitor industries. The implementation of this legislation is necessary and warranted.

SECTION 2. Chapter 235, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"**§235- Hotel construction and remodeling tax credit.** (a) There shall be allowed to each taxpayer subject to the taxes imposed by this chapter, chapter 241, or chapter 431, a tax credit, which shall be deductible from the taxpayer's tax liability under chapters 235, 241 or 431 for the taxable year in which the credit is properly claimed.

The amount of the tax credit shall be ten per cent of the construction or renovation costs incurred during the taxable year for each qualified hotel facility located in Hawaii, and shall not include the construction or renovation costs for which another credit was allowed under this chapter for the taxable year; provided that the construction or renovation costs are incurred before December 31, 2015.

In the case of a partnership, S corporation, estate, trust, association of a qualified hotel facility, time share owners association, or any developer of a time share project, the tax credit allowable is for construction or renovation costs incurred by the entity for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined by rules.

If a deduction is taken under section 179 (with respect to election to expense depreciable business assets) of the Internal Revenue Code, no tax credit shall be allowed for that portion of the construction or renovation cost for which the deduction is taken.

(b) The credit allowed under this section shall be claimed against the net income tax liability, for the taxable year.

(c) If the tax credit under this section exceeds the taxpayer's tax liability under chapters 235, 241 or 431, the excess of credit over liability shall be refunded to the taxpayer provided that no refund on account of the tax credit allowed by this section shall be made for amounts less than $1.

All claims for a 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 comply with the foregoing 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. The director may also require the taxpayer to furnish information to ascertain the validity of the claim for credit made under this section and may adopt rules necessary to effectuate the purposes of this section pursuant to chapter 91.

(e) The tax credit allowed under this section shall be available for costs incurred after December 31, 2009, and before January 1, 2016, or for costs incurred after December 31, 2009 pursuant to a binding written contract entered into prior to December 31, 2016.

(f) To qualify for the tax credit, the construction or renovation shall be in compliance with applicable law relating to wages and compensation unless otherwise agreed in a project labor agreement.

(g) As used in this section:

"Construction or renovation cost" means any costs incurred after December 31, 2009, for plans, design, construction, and equipment related to new construction, alterations, or modifications to a qualified hotel facility, and includes administrative and overhead costs under principles established under section 263A of the Internal Revenue Code of 1986, as amended.

"Qualified hotel facility" means:

(1) A hotel/hotel-condo as defined in section 486K-1;

(2) A time share facility or project; or

(3) Retail and office facilities and amenities located within a qualified resort area and limited to those attached to the qualified hotel facility.

"Qualified resort area" means an area designated for hotel use, resort use, or transient vacation rentals, pursuant to county authority under section 46-4, or where the county, by its legislative process, designates hotel, transient vacation rental, or resort use.

"Taxpayer" means a taxpayer under this chapter, and includes:

(1) Association of apartment owners; or

(2) Time share owners association."

SECTION 3. New statutory material is underscored.

SECTION 4. This Act shall take effect upon its approval.

INTRODUCED BY: ______________________________

**Report Title:**
Tax Credit; Hotel Construction; Remodeling; Resort Area

**Description:**
Creates a 10% refundable tax credit for construction or renovation costs incurred on a qualified hotel facility before January 1, 2006.

The Pacific Resource
**PARTNERSHIP**

Testimony of C. Mike Kido
External Affairs
The Pacific Resource Partnership

Committee on Tourism, Culture, & International Affairs
Representative Joey Manahan, Chair
Representative James Tokioka, Vice Chair

Committee on Economic Revitalization, Business, & Military Affairs
Representative Angus McKelvey, Chair
Representative Isaac Choy, Vice Chair

HB 2439 – RELATING TO TAXATION
Monday, February 8, 2010
9:30 AM
Conference Room 312

Chair Manahan, Chair McKelvey, members of the Committee on Tourism, Culture & International Affairs, and members of the Committee on Economic Revitalization, Business, & Military Affairs:

My name is C. Mike Kido, External Affairs of the Pacific Resource Partnership (PRP), a labor-management consortium representing over 240 signatory contractors and the Hawaii Carpenters Union.

PRP supports HB 2439 – Relating to Taxation, which creates a 10% refundable tax credit for construction or renovation costs incurred on a qualified hotel facility before December 31, 2015.

With our economy in recession, stimulus and other initiatives are needed to counteract the negative impact on our state. A hotel construction and remodeling tax credit can provide excellent means to boost Hawaii's tourism and construction industries.

Thank you for the opportunity to share our views with you and we respectfully ask for your support on HB 2439 – Relating to Taxation.

ASB Tower, Suite 1501 • 1001 Bishop Street • Honolulu, Hawaii 96813
Tel (808) 528-5557 • Fax (808) 528-0421 • www.prp-hawaii.com

# *SAH - Subcontractors Association of Hawaii*

*1188 Bishop St., Ste. 1003**Honolulu, Hawaii 96813-2938*
*Phone: (808) 537-5619 ✦ Fax: (808) 533-2739*

February 8, 2010

Testimony To: House Committee on Tourism, Culture, & International Affairs
Representative Joey Manahan, Chair

House Committee on Economic Revitalization, Business, & Military Affairs
Representative Angus L.K. McKelvey, Chair

Presented By: Tim Lyons
President

Subject: H.B. 2439 – RELATING TO TAXATION.
H.B. 2681 – RELATING TO TAXATION
H.B. 2559 – RELATING TO REMODELING TAX CREDITS

Chair Manahan, Chair McKelvey and Members of the Joint Committees:

I am Tim Lyons, President of the Subcontractors Association of Hawaii. SAH is composed of nine separate and distinct subcontracting organizations including:

ELECTRICAL CONTRACTORS ASSOCIATION OF HAWAII
HAWAII FLOORING ASSOCIATION
ROOFING CONTRACTORS ASSOCIATION OF HAWAII
HAWAII WALL AND CEILING INDUSTRIES ASSOCIATION
TILE CONTRACTORS PROMOTIONAL PROGRAM
PLUMBING AND MECHANICAL CONTRACTORS ASSOCIATION OF HAWAII
SHEETMETAL CONTRACTORS ASSOCIATION OF HAWAII
PAINTING AND DECORATING CONTRACTORS ASSOCIATION
PACIFIC INSULATION CONTRACTORS ASSOCIATION

We support this bill.

Short and simple, our members are in need of work. People are not spending money on residential renovations, commercial renovations or even hotel renovations. A tax credit? This bill is as simple as the fact that it would provide for a tax credit if you do that type of work. That will benefit our members, as well as the economy.

Based on the above, we support this bill.

Eric J. Masutomi
Vice President
Planning

OUTRIGGER®
ENTERPRISES GROUP
*Hospitality • Retail • Development*

February 5, 2010

The Honorable Joey Manahan
Chair, Committee on Tourism, Culture &
International Affairs
House of Representatives, State Capital
415 South Beretania Street
Honolulu, Hawaii 96813

RE: HB 2439 RELATING TO TAXATION

Chair Manahan and Members of the Committee:

I am Eric Masutomi, Vice President of Planning for Outrigger Enterprises Group.

The Outrigger organization strongly supports this measure.

This bill is a by-product of the work of the Construction Industry Task Force created last year by SCR No. 132, S.D.1 (2009) to, among other purposes, develop and propose measures to create and preserve jobs in the local construction industry, including incentives for the renovation or construction of hotels and other tourism-related facilities. In line with this directive, HB 2439 would establish a 10 percent refundable tax credit for construction or renovation costs for hotel and other visitor-related facilities incurred from January 1, 2010 to December 31, 2015.

The effectiveness of this approach in spurring investment in a severely recessive economy has been amply demonstrated in the past, most notably in 2001 when the legislature undertook similar action to stem the impacts on Hawaii's economy from the September 11, 2001 World Trade Center attacks. The action taken by the Legislature then had a demonstrable impact. It not only incentivized property owners such as Outrigger to move forward with improvements that it would ordinarily have nixed or deferred, it gave an immediate shot in the arm to the languishing construction sector.

By targeting two major pillars of Hawaii's economy – the visitor industry and construction - the short-term impacts of the 2001 credits on job creation and retention, investment and spending, and tax revenues were dramatic. What, however, is often overlooked is the longer term results of that action. In Waikiki alone, the investment and construction activity spurred by the 2001-03 credits laid the framework for the succeeding five years in which over $3.5 billion in new construction activity was generated.

The situation we are confronting today is much more severe than the period following September 11, 2001. No quick fix is in sight. But, the enactment of proven measures such as HB 2439 would be a positive step toward recovery.

Aloha,

Eric J. Masutomi

EJM:lth



2375 Kuhio Avenue, Honolulu, Hawaii 96815-2992 • Phone: 808-921-6657 • Fax: 808-921-6655 • E-mail: eric.masutomi@outrigger.com

HAWAI`I HOTEL & LODGING
ASSOCIATION
2270 Kalakaua Ave., Suite 1506
Honolulu, HI 96815
Phone: (808) 923-0407
Fax: (808) 924-3843
E-Mail: hhla@hawaiihotels.org
Website: www.hawaiihotels.org

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**TESTIMONY OF MURRAY TOWILL**
**PRESIDENT**
**HAWAI`I HOTEL & LODGING ASSOCIATION**

**DATE: February 8, 2010**

**RE: HB 2439 Relating to Taxation**
**HB 2559 Relating to Remodeling Tax Credits**
**HB 2681 Relating to Taxation**

Good morning Chairpersons Manahan and McKelvey and members of the House Committees on Tourism, Culture & International Affairs, and Economic Revitalization, Business And Military Affairs. I am Murray Towill, President of the Hawai`i Hotel & Lodging Association.

The Hawai`i Hotel & Lodging Association is a statewide association of hotels, condominiums, timeshare companies, management firms, suppliers, and other related firms and individuals. Our membership includes over 150 hotels representing over 48,000 rooms. Our hotel members range from the 2,680 rooms of the Hilton Hawaiian Village to the 4 rooms of the Bougainvillea Bed & Breakfast on the Big Island.

The Hawai`i Hotel & Lodging Association supports HB 2439 Relating to Taxation, HB 2559 Relating to Remodeling Tax Credits, and HB 2681 Relating to Taxation. Each of these bills provides a construction tax credit for hotel and/or resort construction. The bills also have a variety of provisions that vary from one another.

We support these measures because they all provide incentives to stimulate reinvestment in the visitor product. Perhaps most importantly in our current economic situation stimulating construction is a good way to get people back to work. It is especially valuable to get people in the construction sector back to work since they have been hit very hard by the current recession.

Currently there are a number of obstacles to investments including the uncertainty in the financial markets and the financial challenges facing many due to the recession. A tax credit of this type would be a stimulus to trigger investment.

I would like to comment on a number of features in these bills.

First, we believe the 10% credit provided in HB 2559 and HB 2439 will have the greatest possible impact. Given the challenges in the financial market and uncertainty in the economy. We do not believe a 4% credit will stimulate much new economic activity.

Second, we believe the 6-year period covered by HB 2439 will provide the most stimulus in large part due to the length of time it takes projects to go through the regulatory approval process. Unless a project has most or all of its approvals, it will have a difficult time being underway by 2011 or 2012.

Third, HB 2559 also contains a provision that limits the minimum size of a project to $10 million. We believe this is too restrictive. If the committee decides to include a minimum, we would recommend this minimum amount be lowered to $1 million.

Again, mahalo for this opportunity to testify.