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HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS AND TOURISM, CULTURE & INTERNATIONAL AFFAIRS TESTIMONY REGARDING HB 2559 RELATING TO REMODELING TAX CREDITS

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 8, 2010
TIME: 9:30AM
ROOM: 229

This measure provides a 10% nonrefundable tax credit for the construction or remodeling of a hotel or resort property, which may be used against income, general excise, or transient accommodations taxes.

The Department of Taxation (Department) **supports** this measure.

SUPPORT FOR TOURISM INDUSTRY—The Department supports the tourism industry and the importance of the economic activity this important industry brings to Hawaii. The Department acknowledges that having modern and newly renovated rooms are an important factor in maintaining the flow of tourists to this State.

SUPPORT FOR JOBS AND THE CONSTRUCTION INDUSTRY—The Department strongly supports efforts to stimulate the economy through incentives. This measure targets tax incentives at the construction industry, which is a large segment of Hawaii's economy. With many construction workers and suppliers impacted by the economic downturn, this measure will encourage taxpayers to invest in their homes and put people back to work.

PREFER ADMINISTRATION MEASURE—The Department prefers this measure over other measures because the Administration measure has a $50 million aggregate cap in credits to allow for budget certainty. This measure provides an additional incentive above and beyond a mere return of general excise taxes. This measure also allows the offset of general excise and transient accommodations taxes, in addition to income taxes.

Moreover, the Department prefers a nonrefundable credit, which spreads out the cost to the general fund over time.

REVENUE LOSS—This measure will result in a revenue loss of $50 million due to the aggregate cap in credit claims.

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
Hawaii State Senate, State Capital
415 South Beretania Street
Honolulu, Hawaii 96813

LATE TESTIMONY

RE: HB 2559 RELATING TO REMODELING TAX CREDITS

Chair Manahan and Members of the Committee:

The intent and purpose of HB 2559 is similar to that of HB 2439 – to establish a 10 percent tax credit for construction or renovation costs for hotel and other visitor-related facilities in qualified resort areas throughout the State.

The two bills, however, differ in four key areas:

1. HB 2559 would be applicable to costs incurred during a 3-year period, from January 1, 2010 to December 31, 2012. HB 2439 establishes a 6-year window, from January 1, 2010 to December 31, 2015.
2. HB 2559 excludes costs for plans, designs, and permitting from eligible costs. HB 2439 allows for inclusion of these "soft" costs.
3. HB 2559 limits eligible costs to a minimum of $10 million and a maximum of $100 million. HB 2439 establishes no such limits.
4. HB 2559 makes credits applicable only to an entity's net income tax liability and caps annual credits to $50 million. HB 2439 provides a refundable tax credit and places no limit on annual reimbursements.

Significantly, both bills recognize the value of targeted hotel construction tax credits as a means to stimulate the local economy. Subject to further analysis, however, we feel that the limitations imposed under HB 2559 may be too restrictive and could serve to severely blunt the potential effectiveness of the credits. The 3-year window and the exclusion of planning, design and permitting costs are particularly problematic, as they act against stimulating start-up of larger-scale projects which would have the most positive and significant impact on the construction industry. Such projects normally require longer lead times before commencement of construction. They also involve significant outlays of pre-development dollars, which are an important factor in an owner's/developer's decision to proceed on a project.

Accordingly, Outrigger Enterprises Group recommends that HB 2559 be amended to more closely align with the provisions of HB2439, or be deferred in favor of HB 2439.

Thank you for this opportunity to testify.

Aloha,

Eric J. Masutomi

EJM:lth

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