HAWAI'I TOURISM AUTHORITY

Hawai'i Convention Center
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Neil Abercrombie
Governor

Mike McCartney
President and Chief Executive Officer

Testimony of
Mike McCartney
President and Chief Executive Officer
Hawai'i Tourism Authority
on
S.B. 2968, S.D.2
Relating to Taxation

House Committee on Tourism
Monday, March 17, 2014
10:00 a.m.
Conference Room 312

The Hawai'i Tourism Authority (HTA) supports S.B. 2968, S.D. 2, which proposes a tax credit for construction and renovation costs of qualified hotel facilities incurred after January 1, 2015 and before December 31, 2019.

The HTA is tasked with marketing and promoting Hawaii as a visitor destination, with the goal of increasing visitor spending. One of the keys to branding the Hawaii visitor industry product and increasing visitor spending is the improvement and enhancement of the tourism product, which includes the physical infrastructure. As such, the HTA supports S.B. 2968, which provides the private sector with investment incentives to improve hotel facilities.

Thank you for the opportunity to offer these comments.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Tom Brower, Chair
and Members of the House Committee on Tourism

Date: Monday, March 17, 2014
Time: 10:00 a.m.
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 2968, S.D. 2, Relating to Tourism Stimulus Initiatives

The Department of Taxation (Department) appreciates the intent of S.B. 2968, S.D. 2, to support our State's tourism industry and provides the following comments for your consideration.

S.B. 2968, S.D. 2, creates a nonrefundable income tax credit equal to an unspecified percentage of construction or renovation costs incurred for qualified hotel facilities, provided the construction or renovation costs are incurred during taxable years beginning on or after January 1, 2015, but not during taxable years beginning after December 31, 2019. S.D. 2, has a defective effective date of July 1, 2050.

The Department notes that the purpose clause and subsection (j) are not consistent. The Department suggests the following amendment to the last paragraph of Section 1 to provide clarification:

> The purpose of this Act is to provide an income tax credit for hotel construction and renovation for taxable years beginning after December 31, 2014, [~~and ending on or before~~] <u>but not for taxable years beginning after</u> December 31, 2019.

Thank you for the opportunity to provide comments.

Chamber of Commerce HAWAII
The Voice of Business

Testimony to the House Committee on Tourism and Committee on Economic Development and Business
Monday, March 17, 2014 at 10:05 A.M.
Conference Room 312, State Capitol

RE: SENATE BILL 3081 SD1 RELATING TO ECONOMIC DEVELOPMENT

Chairs Brower and Tsuji, Vice Chairs Cachola and Ward, and Members of the Committees:

The Chamber of Commerce of Hawaii ("The Chamber") **supports** SB 3081 SD1, which establishes a business interaction program in the HTA to develop synergy between an event organizer and innovative businesses to improve the economic opportunities in Hawaii.

The Chamber is the largest business organization in Hawaii, representing over 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The concept proposed in SB 3081 SD1 is similar to the program which established South by Southwest, which grew from a film festival into a collection of events that include an interactive conference for innovative businesses, entrepreneurs, and investors. By establishing the authority to implement a similar program, SB 3081 SD1 allows HTA to utilize Hawaii's unique geographic location to expand the scope of one of its events to provide an environment for innovative businesses and investors to come together and create new opportunities.

Thank you for the opportunity to testify.

1132 Bishop Street, Suite 402 • Honolulu, Hawaii 96813 • Phone: (808) 545-4300 • Facsimile: (808) 545-4369

SUBJECT: INCOME, Hotel construction and renovation tax credit

BILL NUMBER: SB 2968, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: This bill establishes a nonrefundable hotel construction and renovation tax credit as a percentage of costs incurred on or between January 1, 2015 and December 31, 2019.

As a policy matter, an evaluation should be done to ascertain the effectiveness of this credit as it existed before, in order to make sure that lawmakers know that is effective.

We also suggest technical amendments. First, the requirement that a project be in compliance with all laws, rules, and regulations is not administrable at best, and should be deleted. Second, in order to prevent unintended leakage, we recommend that the credit be based on basis of the qualified hotel facility improvements as opposed to costs, so there is no double benefit (deduction plus credit) and so as to ensure that the costs are reliably linked to the improvements to real estate.

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a nonrefundable hotel construction and renovation tax credit of the construction or renovation costs incurred on or after January 1, 2015 and ending before 12/31/19. The credit shall be ___% of the construction and renovation costs and shall not be applicable to costs of construction or improvements for which another income tax credit was claimed for the taxable year. Defines "construction or renovation costs" as those incurred for plans, design, construction, and equipment related to new construction, alterations, or modifications to a qualified hotel facility.

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 applied to subsequent tax liability. 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. Requires the taxpayer to receive certification from the department of business, economic development and tourism prior to claiming the credit.

Defines "net income tax liability," "qualified hotel facility" and "taxpayer" for purposes of the measure.

EFFECTIVE DATE: July 1, 2050; applicable to tax years beginning after December 31, 2014

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 as 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 that 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.

This measure proposes to reestablish a hotel renovation tax credit. However, no evaluation has been done to validate the effectiveness of the prior credit in spurring substantial renovations of hotel resort properties. Thus, it is difficult for taxpayers to know whether they are getting any bang for their bucks.

Some may argue that this credit is necessary to make their upcoming renovations pencil out, but is it 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, how long must all other taxpayers suffer the heavy burden of taxation so that this subsidy can be extended to a few? 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.

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 have access to the credit markets. As the nation now knows, the credit markets froze beginning in late 2007 and hit a crisis at the end of 2008. The phenomenon was a major reason for the demise of Aloha Airlines and ATA which were highly dependent on credit lines to meet on-going expenditures. When the credit markets froze, there was no way to secure cash advances to meet current liabilities and the two airlines, along with thousands of other businesses, had to shut their doors.

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 had amounted to more than $500,000 to that point and going forward, both the buyer and seller were 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 reluctant to make decisions in fear that they might make the wrong decision. The result is costly delays while construction work goes begging.

We also offer the following technical comments.

Subsection (h) of the proposed new code section requires a taxpayer to be in compliance with all applicable federal, state, and county statutes, rules, and regulations. This requirement is not administrable and probably is not necessary because the other statutes, rules, and regulations probably will contain their own sanctions for violations. Adding forfeiture of what may be a very large credit to the existing sanctions may produce a penalty grossly out of proportion to any violation that may occur.

Subsection (i) of the proposed new code section defines "construction or renovation costs" loosely as "any costs incurred ... for plans, design, construction, and equipment related to new construction, alternations [sic], or modifications to a qualified hotel facility." Rather than focusing on costs, we suggest that the credit be awarded on *tax basis* of the new construction, alterations, or modifications to the facility, thereby limiting the credit to costs properly capitalized into the basis of the hotel facility and disallowing double benefits (taxpayer deducts the costs and claims a credit as well).

Digested 3/13/14

Comments of
Gary M. Slovin / Mihoko E. Ito
on behalf of
Wyndham Vacation Ownership

DATE: March 15, 2014

TO: Representative Tom Brower
Chair, Committee on Tourism
Submitted Via TOUtestimony@capitol.hawaii.gov

RE: **S.B. 2968 S.D. 2 – Relating to Tourism Stimulus Initiatives**
Hearing Date: Monday, March 17, 2014 at 10:00 a.m.
Conference Room: 312

Dear Chair Brower and Members of the Committee on Tourism,

We submit these comments on behalf of Wyndham Vacation Ownership. Wyndham offers individual consumers and business-to-business customers a broad suite of hospitality products and services through its portfolio of world-renowned brands. Wyndham Vacation Ownership has a substantial presence in Hawaii through its Wyndham Vacation Resorts and WorldMark by Wyndham brands.

Wyndham **supports S.B. 2968 S.D. 2,** which provides an income tax credit for hotel construction and renovation. The visitor industry is a very significant part of Hawaii's economy, which creates and supports many jobs for our State. Hawaii's hotel and resort infrastructure is aging, and traditional financing has not spurred necessary renovations and new construction. Providing this tax incentive will not only create new jobs, but will help create and maintain facilities that attract tourists and keep Hawaii's principal industry competitive in the global market.

For the above reasons, we support this measure and respectfully request that the Committee pass it for further consideration.

Thank you for the opportunity to submit testimony on this measure.

Gary M. Slovin
Mihoko E. Ito
Tiffany N. Yajima
Jennifer C. Taylor

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HAWAIʻI LODGING & TOURISM ASSOCIATION

Testimony of George Szigeti
President & CEO
HAWAIʻI LODGING & TOURISM ASSOCIATION
Committee on Tourism
Hearing on March 17, 2014, 10:00 a.m.
Senate Bill 2968 SD 2 Relating to Tourism Stimulus Initiatives

Dear Chair Brower, Vice Chair Cachola, and Members of the Committee, My name is George Szigeti and I am the President and CEO of the Hawaiʻi Lodging & Tourism Association.

The Hawaiʻi Lodging & Tourism Association (HLTA) is a statewide association of hotels, condominiums, timeshare companies, management firms, suppliers, and other related firms that benefit from and strengthen Hawai`i's visitor industry. Our membership includes over 150 lodging properties, representing over 48,000 rooms, and approximately 470 other Allied members. The lodging industry alone employs over 38,000 workers across the state of Hawai`i. As part of the broader visitor industry – which employees 1/6 of all workers and 1/5 of those in the private sector, and generated $14.5 billion in visitor spending in 2013 – we represent one of Hawai`i's largest industries and a critical sector of the economy.

On behalf of HLTA, permit me to offer this testimony regarding Senate Bill 2968 SD 2, which would provide an income tax credit for hotel construction and renovation for taxable years after December 31, 2014, and ending on or before December 31, 2019.

The Hawaiʻi Lodging & Tourism Association **supports** this measure, which we believe could stimulate the revitalization of the state's inventory of aging hotel properties. Investing in our infrastructure is critical to our ability to compete against other destinations because it enables us to keep our lodging properties fresh and appealing, which in turn creates new reasons for visitors to choose Hawaiʻi as their destination of choice. Additionally, hotel construction and renovation would have the added benefit of generating construction and hospitability jobs throughout the state.

Senate Bill 2968 SD 2 can provide an important incentive for new investment in our visitor industry and we urge its favorable consideration.

Thank you for this opportunity to testify.

Hawai`i Lodging & Tourism Association
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HOUSE OF REPRESENTATIVES
THE TWENTY-SEVENTH LEGISLATURE
REGULAR SESSION OF 2014

COMMITTEE ON TOURISM
Representative Tom Brower, Chair

2/17/2014
Rm. 312, 10:00 AM

SB 2968, SD 2
Relating to Tourism Stimulus Initiatives

Chair Brower and Members of this Committee, my name is Max Sword, here on behalf of Outrigger Hotels Hawaii, in support of the intent of SB 2968, SD 2

The promotion of construction activity alone is very important to any economy—it is a significant component of overall economic activity especially in a small island state such as Hawaii. Investment in physical assets in the visitor industry, however, reaps even more benefits than straight construction alone—it provides the means by which future economic activity will take place. The visitor industry cannot be competitive without an attractive, up-to-date physical plan in the form of hotels and recreational facilities.

Construction of hotels brings more revenues back into the economy, and taxes, because the hotel/tourist industry continues to bring in revenues beyond construction. Such projects result in higher hotel occupancies, visitor-days, and room rates. It is estimated that 30% of room rates goes back to employee salaries. Both the GET and TAT is paid by the industry thru the 11+ percent assessed each hotel.

However, even with the number of jobs, taxes etc. that a hotel project will provide, the bottom line is that it is very hard to get financing to either rebuild or to build a new hotel facility in the financial marketplace today. Tax credit such as these being proposed, will help a hotel project to either a rebuild or to build a new hotel.

Mahalo for allowing me to testify.

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