

ACT 174

H.B. NO. 1406

A Bill for an Act Relating to Capital Cost Recovery.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. The legislature finds that the need for a simplified, rapid capital cost recovery system is essential for the revitalization of business to encourage stable long-term economic growth. Such a system would replace the current useful lives concept which stretches depreciation deductions over varying periods of time based on estimates of how long the asset will be in use. The useful life yardstick may have been appropriate in the past, but is no longer in keeping with present economic conditions.

During the past decade, a variety of changes — economic, political, social, and technological — have dramatically altered the business environment. These changes have exerted pressures upon businesses — large and small — in the form of accelerating inflation, advancing technology, increasing competition, and rising costs for capital. Basic reform of the tax depreciation system will help alleviate these pressures by stimulating much needed increases in investment for new, more efficient plant and equipment.

The legislature finds that there are three reasons for enacting a rapid capital cost recovery system. The first is that a faster rate of recovery of productive assets would lower the cost of capital and encourage greater investment in new plant and equipment. The resulting expansion and modernization of equipment would improve productivity, in turn easing price pressures, and thereby providing real wage increases for workers.

Second, faster recovery would reduce the erosion of capital which inflation causes under the existing long useful lives depreciation and thereby reduce the cost of doing business.

Third, a simplified system would extend the benefits of rapid recovery to all firms without the restrictions and inhibitions of complex record keeping and accounting rules. With no disputes over useful lives, an enormous administrative burden would be lifted from both the taxpayer and the state department of taxation.

A major source of audit controversy also would be ended.

Congress has also recognized the need for basic reform of the tax depreciation system. Now pending in Congress is a capital cost recovery bill, H.R. 1053. President Reagan also has proposed similar capital recovery provisions in his message to Congress in February 1981.

The legislature recognizes the urgency of enacting a capital recovery system and also the efforts of the State to conform the State Income Tax Law with the Internal Revenue Code. Therefore, the purpose of this Act is to adopt the capital recovery system finally adopted by Congress at the same time the federal law becomes effective.

SECTION 2. (a) If the provisions of H.R. 1053, "Capital Cost Recovery Act of 1981", concerning capital cost recovery for income tax purposes, or similar law concerning the recovery of capital costs such as S. 317, "Investment Tax Act of 1981", are enacted by Congress during the calendar year 1981, then the provisions of H.R. 1053 or such similar law concerning a capital cost recovery system for income tax purposes and, in particular, provisions:

- (1) Adopting a new section 168 (with respect to capital cost recovery deduction) of the Internal Revenue Code of 1954, as amended, or similar new section concerning the recovery of capital costs;
- (2) Revising or replacing all or portions of section 167 (with respect to depreciation) of the Internal Revenue Code of 1954, as amended, relating to the depreciation of property used in trade or business, or of property held for the production of income;
- (3) Conforming amendments relating to the recovery of capital costs or depreciation, or both, to the Internal Revenue Code of 1954, as amended, as made operative in this State under chapter 235, Hawaii Revised Statutes; and
- (4) Effective date or dates;

are adopted and made operative for the State of Hawaii, on the effective date or dates contained in the federal law.

(b) If H.R. 1053 or similar law referred to in subsection (a) of this section is enacted by Congress during the calendar year 1981, the department of taxation shall submit appropriate amendments to chapter 235, Hawaii Revised Statutes, as part of the bill required to be submitted to the 1982 regular session of the legislature by section 235-2.3(p), Hawaii Revised Statutes.

SECTION 3. This Act shall take effect upon its approval.

(Approved June 17, 1981.)