

Honolulu, Hawaii

FEB 13 2007

RE: S.B. No. 707  
S.D. 1

Honorable Colleen Hanabusa  
President of the Senate  
Twenty-Fourth State Legislature  
Regular Session of 2007  
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred S.B. No. 707 entitled:

"A BILL FOR AN ACT RELATING TO A NEW MARKETS TAX CREDIT,"

begs leave to report as follows:

The purpose of this measure is to create a new markets tax credit equal to an applicable percentage of the amount paid to a qualified community development entity for a qualified equity investment.

Testimony in support of this measure was received from the Chamber of Commerce of Hawaii; Hawaii Science and Technology Council; Chun, Kerr, Dodd, Beaman and Wong; KUD International; and Phase 3 Properties. The Department of Taxation and the Tax Foundation of Hawaii submitted comments.

Your Committee finds that this measure would provide for conformity with the federal new markets tax credit, which is designed to attract private-sector capital investment to low-income areas in order to finance community development projects, stimulate growth, and create jobs.

Your Committee further finds that the federal tax credit was adopted in 2000, as part of the Community Renewal Tax Relief Act, and that it is equal to thirty-nine per cent of the qualified equity investment and can be claimed over seven years. Administered by the United States Treasury Department, credits are allocated on a competitive basis.



Your Committee supports this measure as a means of attracting investments in Hawaii's low-income areas, and contributing to the diversification of the State's economic opportunities.

Your Committee has amended this bill by:

- (1) In the new section being added to chapter 235, Hawaii Revised Statutes (HRS);
  - (A) Clarifying that the new markets tax credit shall be one hundred per cent of the applicable percentage of the amount paid to a qualified community development entity located in Hawaii, for a qualified investment in Hawaii, and specifying that a qualified community development entity shall be as defined in section 45D(c) of the Internal Revenue Code, relating to federal new markets tax credits;
  - (B) Requiring the taxpayer to have received an allowance of credit under section 45D of the Internal Revenue Code;
  - (C) Deleting the provision that the allocation of the credits shall be made on a first-come, first-served basis; and
  - (D) Adding annual reporting requirements for the Director of Taxation;
- (2) Adding a new section in chapter 241, HRS, that the new markets income tax credits shall be operative under this chapter;
- (3) Adding a new section in chapter 431:7, HRS, that new markets income tax credits shall be operative under this chapter and may be claimed against the tax imposed under section 431:7-202; and
- (4) Amending section 235-2.45, HRS, to add allocations of new markets tax credits among partners.

Your Committee notes that the Department of Taxation stated the revenue impact of this measure is indeterminate at this time



because of the unspecified maximum tax credit allowed in the original bill.

Your Committee believes that requiring the taxpayer to have received an allowance of credit under section 45D of the Internal Revenue Code will lessen the potential revenue impact.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 707, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 707, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on  
behalf of the members of the  
Committee on Economic  
Development and Taxation,



CAROL FUKUNAGA, Chair



The Senate  
 Twenty-Fourth Legislature  
 State of Hawaii

**Record of Votes**  
**Committee on Economic Development and Taxation**  
**EDT**

Bill / Resolution No.:*	Committee Referral:	Date:		
<i>SB 707</i>	<i>EDT, WAM</i>	<i>2/4/07</i>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
ESPERO, Will (VC)	✓			
ENGLISH, J. Kalani	✓			
IGE, David Y.	✓			
SLOM, Sam	✓			
<b>TOTAL</b>	<i>5</i>			
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <i>Will Espero</i>				
Distribution:             Original     Yellow     Pink File with Committee Report     Clerk's Office     Drafting Agency				

\*Only one measure per Record of Votes