

Honolulu, Hawaii

FEB 15 2007

RE: S.B. No. 798  
S.D. 2

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. 798, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO DISASTER RELIEF,"

begs leave to report as follows:

The purpose of this measure is to create a one-time tax credit for victims of the October 15, 2006, earthquakes; provided that the tax credit shall not exceed:

- (1) \$30,000 per individual taxpayer; and
- (2) \$250,000 per trust, estate, partnership, association, company, or corporation

Testimony in support of the intent of this measure was received from the State Department of Defense. The Department of Taxation submitted comments.

Your Committee finds that, according to the most recent information available, the Federal Emergency Management Agency has approved an average of \$3,626 in assistance to owners of homes damaged in the October 2006 earthquakes off the Island of Hawaii. In contrast, the County of Hawaii has estimated that home repairs will cost an average of \$50,000. As of February 9, 2006, the United States Small Business Administration had approved six hundred ninety-eight applications for low-interest loans totaling \$25,300,000.



Your Committee finds that, clearly, there is considerable need for additional financial assistance to those who suffered damage as a result of the earthquakes and aftershocks.

Your Committee received a revenue impact statement from the Department of Taxation that this measure would cost \$17,100,000 in fiscal year 2008.

The Department of Taxation's methodology states that it has been estimated that the earthquake has caused \$200,000,000 in damages. Based on preliminary reports, it is estimated that ten per cent of the total damage was to homes, fifteen per cent was to businesses, and the remainder was to public buildings and structures, including roads, bridges, and harbors. It is assumed that homeowners recouped twenty-five per cent of damages from insurance and that businesses recouped fifty per cent of damages from insurance. It further assumed that all home damages are under \$30,000, that twenty per cent of business damages are under \$30,000, and the average for the remaining businesses is \$100,000. It is also assumed that businesses are able to absorb all of the credit in the first year and that homeowners are able to absorb seventy per cent in the first year.

The Department of Taxation expressed concerns that despite the strictest standards, the credit will be subject to very substantial abuse, as it is a self-reporting tax system. The fear is that many taxpayers will include damages that predated the earthquake in their claim for a tax credit.

Your Committee has taken these concerns into account, and believes that further information on the impact is needed from state and county civil defense agencies, affected property owners, and other public agencies.

Your Committee has amended this measure accordingly, by inserting an effective date of January 1, 2035 for the purposes of receiving and evaluating additional information.

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. 798, S.D. 1, as amended herein, and recommends that it be referred to the Committee on Ways and Means, in the form attached hereto as S.B. No. 798, S.D. 2.



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

*Carol Fukunaga*

CAROL FUKUNAGA, Chair



