

Honolulu, Hawaii

MAR 20 2008

RE: H.B. No. 2985
H.D. 1
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred H.B. No. 2985, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to establish an income tax credit for hotel renovation in the amount of fifteen per cent of the renovation costs incurred during the taxable year for each hotel facility located in the State.

Your Committee received testimony in support of this measure from the Hawai'i Tourism Authority; Tourism Liaison; Unite Here! Local 5 Hawaii; and Hawai'i Hotel & Lodging Association. Comments were received from the Department of Taxation and the Tax Foundation of Hawaii.

Your Committee notes that a similar hotel construction and remodeling tax credit was enacted by Act 195, Session Laws of Hawaii 2000, and was repealed by Act 9, Session Laws of Hawaii 2007, in accordance with a provision that did not extend the tax credit beyond December 31, 2005 (Act 10, Third Special Session 2001). The December 31, 2005 expiration date was an extension of the original December 31, 2002 expiration on the basis of the need to provide an economic stimulus from the ramifications of the events of 9/11 (Senate Committee Report No. 2, Committee on Ways and Means, Third Special Session of 2001).



Your Committee finds that the current economic condition of the State forebodes a downturn in construction. Therefore, your Committee believes that this measure would provide an incentive for hotels to undertake renovations and thereby stimulate the construction industry.

The Department of Taxation states that, depending on when this measure takes effect prior to 2014, there are two possible scenarios:

1. Construction continues as normal from now until 2015:

FY2015 (loss): \$9.1 million;
FY2016 (loss): \$9.4 million;
FY2017 (loss): \$9.7 million.

2. Hotels delay construction to take advantage of the credit:

FY2012 (loss): \$2.2 million;
FY2013 (loss): \$2.2 million;
FY2014 (loss): \$2.3 million;
FY2015 (loss): \$11.7 million;
FY2016 (loss): \$12.0 million;
FY2017 (loss): \$12.4 million;
FY2018 (loss): \$12.7 million.

Under scenario 1, the amount of eligible existing hotel stock was taken, and assuming an annual depreciation of 2.0 per cent, it is estimated that two per cent of eligible units will be renovated in any given year. Assuming a renovation cost of \$63,000 (based on inflation-adjusted renovation costs in 2002), it is estimated that the estimated renovation costs will total \$60.9 million in 2014. With a fifteen per cent tax credit, the tax credit will result in a revenue loss of \$9.1 million in FY2015.

Under scenario 2, it is assumed that any renovation after 2010 will be postponed until after 2014 to take advantage of the credit. Thus, the loss in revenue from FY2011-2014 will be the forgone general excise tax revenue from the construction that otherwise would have happened. The loss in revenue from FY2015 onwards will be the credit cost of the now-increased construction, less the additional general excise tax that was displaced from FY2011-2014.



To encourage further discussion, your Committee has amended this measure by leaving unspecified, the percentage of renovation costs that may be claimed for the proposed tax credit. Technical, nonsubstantive amendments were also made for the purpose of style and clarity.

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 H.B. No. 2985, H.D. 1, as amended herein, and recommends that it be referred to the Committee on Ways and Means, in the form attached hereto as H.B. No. 2985, H.D. 1, S.D. 1.

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:
HB 2985 HD1	TSG, EDT, WAM	3/18/08
<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)	✓	
BAKER, Rosalyn H.		✓
ENGLISH, J. Kalani	✓	
IGE, David Y.	✓	
SLOM, Sam		✓
TOTAL	4	2
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted		
Chair's or Designee's Signature: <i>Will Espero</i>		
Distribution: Original File with Committee Report Yellow Clerk's Office Pink Drafting Agency Goldenrod Committee File Copy		

*Only one measure per Record of Votes