

Honolulu, Hawaii

FEB 16 2007

RE: S.B. No. 1962
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. 1962, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to provide an income tax deduction to residential unit owner occupants for qualifying costs of installation of an automatic fire sprinkler system installed after December 31, 2007.

Testimony in opposition to the measure was submitted by the Department of Taxation (Department).

In its testimony, the Department stated that the revenue loss was indeterminate because the amount of the deduction was not specified. Subsequently, the Department submitted an annual revenue loss of \$602,000; \$420,000 for multi-family residential condominiums, and \$182,000 for single family residences.

In its methodology, the Department stated that there are an estimated three hundred twelve buildings that will need to be retrofitted with a sprinkler system. It is assumed that five per cent of the three hundred twelve buildings will be retrofitted with a sprinkler system per year, and that each building has one hundred units. Approximately six per cent of the units are owner-occupied. With a maximum deduction of \$7,000 applied, the total deduction is \$7,000,000. At the average tax rate of six per



cent, the revenue loss is estimated to be \$420,000 for multi-family residential condominiums.

Your Committee also notes that according to the Hawaii Council of Association of Apartment Owners, the cost of retrofitting a unit in a multi-family residence is estimated to be \$8,500 to \$13,000.

Your Committee believes that fire safety is a greater issue in multi-family dwellings -- such as condominiums - and particularly in those built before sprinkler systems were routinely installed. Therefore, it is the intent of your Committee to begin with a fire sprinkler tax deduction for units in older condominiums, and for a five-year period.

Your Committee has amended this measure accordingly, by:

- (1) Restricting the tax credit to qualifying costs of the installation of an automatic fire sprinkler system to serve the entire residential or mixed use condominium that was constructed before December 31, 1975; and
- (2) Making the tax deduction applicable for costs incurred between July 1, 2007, and June 30, 2012.

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. 1962, 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. 1962, S.D. 2.

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 1962 SD1</i> | <i>IGM, EDT, WAM</i> | <i>2/13/07</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 | | | ✓ | |
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| TOTAL | <i>3</i> | | <i>1</i> | <i>1</i> |
| 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 | | |

*Only one measure per Record of Votes