

STAND. COM. REP. NO.

322

Honolulu, Hawaii

FEB 15 2007

RE: S.B. No. 216

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. 216 entitled:

"A BILL FOR AN ACT RELATING TO CAPITAL GOODS EXCISE TAX CREDIT,"

begs leave to report as follows:

The purpose of this measure is to amend the definition of "cost" with regard to the capital goods excise tax credit, by:

- (1) Deleting the actual invoice price of the tangible personal property from the definition; and
- (2) Clarifying that the basis for the depreciation was subject to tax at the rate of four per cent under chapter 237 or 238, Hawaii Revised Statutes.

The Department of Taxation (Department) submitted comments.

Your Committee received a revenue impact statement from the Department that stated canned software would be considered capital goods. Using this as an example, the Department estimated the revenue loss on this item alone would be between \$1,000,000 and \$2,000,000. However, it is unclear whether the revenue loss was calculated on an annual basis.

Your Committee then asked the Department if installation, such as for large computer systems, would be included with the actual cost of the equipment in the capital goods credit. The



Department responded that an assumption might be made that installation would be twenty-five per cent of the cost, raising the total revenue impact to \$1,250,000 to \$2,500,000, but providing no further information.

Your Committee believes that installation costs may be included under federal law, and finds this warrants further discussion as additional information is received.

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. 216 and recommends that it pass Second Reading 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



