

STAND. COM. REP. NO.

113

Honolulu, Hawaii

FEB 09 2007

RE: S.B. No. 708
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. 708 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION, "

begs leave to report as follows:

The purpose of this measure is to create a tax credit for the rehabilitation of historic properties, and to authorize the transfer of the credits by a nonprofit taxpayer.

Testimony in support of this measure was received from Historic Hawai'i Foundation, Haleiwa Main Street, the Society for Hawaiian Archaeology, and three individuals. The Department of Taxation and the Department of Land and Natural Resources submitted comments. The Department of Taxation also opposed the transfer of tax credit language contained in the measure.

Your Committee finds that similar tax credits are in use at the federal level and by over half of the states. While details vary from state to state, they have proven effective, particularly when used with the twenty per cent federal historic tax credit.

Your Committee further finds that a considerable community revitalization benefit could accrue from nonprofits being able to transfer credits. However, it may be prudent to start with a smaller-scaled approach and assess the results before authorizing transfer credits for nonprofits.



Accordingly, it is the intent of your Committee to support a tax credit for the rehabilitation of historic properties; provided that the credit shall be one hundred per cent recaptured under certain conditions.

Your Committee has amended this measure by:

- (1) Deleting all references to nonprofits and the transfer of credits;
- (2) Clarifying that the amount of the tax credit shall be twenty-five per cent of the excess of qualified expenditures over \$10,000;
- (3) Deleting provisions that would have required the Director of Taxation to provide an opinion on whether the planned improvements were qualified;
- (4) Adding new language regarding the conditions when a credit may or may not be one hundred per cent recaptured;
- (5) Making the tax credit applicable to taxable years after December 31, 2007; and
- (6) Making technical amendments for the purpose of clarity.

Your Committee received a fiscal impact statement from the Department of Taxation that this measure, as introduced, would result in a revenue loss to the State of \$16,800,000 per year. Their methodology is as follows:

There are approximately six hundred properties on the historic register. However, the bill allows new properties to be designated as historical properties for purposes of the credit and is being advertised as a means of promoting urban renewal in some old districts. For purposes of the revenue estimate, it was assumed that fifteen per cent of the properties take advantage of the credit per year, that the average of the renovations is \$150,000, and that as many as three thousand properties may be, or may become eligible. The revenue cost is therefore estimated to be $3,000 \times 0.15 \times \$150,000 \times 0.25 = \$16,800,000$ per year.

The amended draft of this measure now reflects the two departments' concurrence on this historic preservation credit.



Your Committee therefore notes that the Department of Taxation's fiscal impact analysis can be offset by restricting the scope of the credit.

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. 708, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 708, 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 708</i>	<i>EDT, WAM</i>	<i>2/7/07</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	✓			
TOTAL	<i>3</i>			<i>2</i>
Recommendation:				
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
<i>Will Espino</i>				
Distribution:				
Original	Yellow	Pink		
File with Committee Report	Clerk's Office	Drafting Agency		

*Only one measure per Record of Votes