

**Testimony of Thomas J. Smyth, CEcD
Before the
House Committee on Health
Wednesday, February 6, 2008
10:30 am Room 329**

**on
HB2914 Relating to Skilled Nursing Facilities**

Chair Green, Vice Chair Mizuno, and Members of the Committee:

I support the intent and purpose of HB 2914 that adds skilled nursing facilities to the list of businesses eligible to participate in the Hawaii Enterprise Zone Partnership.

I recently retired from the Department of Business, Economic Development & Tourism but my testimony today as an individual is based on over 20 years experience managing the Hawaii Enterprise Zone Partnership.

EZ eligibility includes those types of businesses that the Legislature has determined are important to stimulate by offering time-limited tax incentives. Skilled nursing facilities certainly are an important segment of the overall health care industry and thus it would be would be appropriate to provide these benefits.

I have two concerns with HB2914 as introduced:

- 1. If a business is located outside an EZ as provided in Section 1 of the bill, it is not possible to determine whether the business is “new”, that is starting up after the EZ they are in was designated by the Governor; or “existing,” meaning that they were already in that location when the EZ was designated. This determination is very significant because “new” businesses need only grow their workforce by 10% in the first year after EZ enrollment, while “existing” businesses must grow by 10% each of the seven years of EZ participation, more than doubling their workforce.**
- 2. There is also an issue of fairness to other types of businesses that are EZ eligible and who have taken the step of moving into an EZ, that by definition is intended to revitalize areas with higher unemployment or lower family incomes. If some businesses can get the same tax benefits without being in these areas of need, there would not be the tax equity that we expect from our taxation system.**

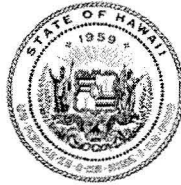
The existing Enterprise Zones include all of Molokai, Lanai and effectively Kauai. They include almost all of Maui Island and the Big Island. It is on Oahu where these concerns would be most evident. East Honolulu

from Waikiki and Kaimuki to Hawaii Kai do not have EZ designation, nor do the Kailua and Kaneohe areas. It does not seem fair to use this program, which has helped lower income areas, as the vehicle to help skilled nursing facilities. I would suggest that SNF simply be given a GET exemption and income tax credits wherever they are located. The length of time and need to grow their workforce would have to be determined as a matter of tax policy.

Thank you for the opportunity to provide testimony.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



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LATE
Testimony

HOUSE COMMITTEE ON HEALTH

TESTIMONY REGARDING HB 2914 RELATING TO SKILLED NURSING FACILITIES

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 6, 2008
TIME: 10:30AM
ROOM: 329

This measure seeks to allow Skilled Nursing Facilities, as defined, to qualify for the tax benefits provided by the Enterprise Zone program administered by the Department of Business, Economic Development & Tourism.

The Department of Taxation (Department) takes **no position** on this measure, provides technical comments, and cites the revenue impact of this legislation. **The Department defers to the Department of Business, Economic Development & Tourism on the necessity of including these facilities within the current zones as a matter of policy.**

ENTERPRISE ZONES, GENERALLY

Currently, the administration of Enterprise Zones to encourage economic development in distressed areas of the State has proven an effective partnership between the State and private enterprise. Given the current healthcare crises where a lack of healthcare talent exists in certain specialties, this legislation could prove useful.

However, the Department questions the mechanics of this legislation because it defeats the purpose of "zones" when a Skilled Nursing Facility may be located outside of a zone. The Department suggests setting forth new tax incentives for these facilities if that is the goal because simply extending Enterprise Zone incentives to Skilled Nursing Facilities located outside a zone seems unnecessary and confusing. "Deeming" a business within a zone, when in fact it is not, ultimately defeats the purpose of economic "zoning," which is to target business development based upon geography.

EFFECTIVE DATE

Because this bill applies to tax incentives applicable to both the income tax law and the general excise tax law, the effective date should be amended to apply to a taxable year and to gross receipts received after a certain date. For example, this bill should be amended to read: "This bill shall take effect on upon approval; provided that section 1 shall apply to taxable years beginning and gross proceeds received after December 31, 2008;"

REVENUE IMPACT

This bill will result in the following revenue loss—

- \$10.2 million in year one;
- \$5.8 million in year two;
- \$5.6 million in year three.