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HOUSE COMMITTEE ON TOURISM & CULTURE

TESTIMONY REGARDING HB 2985
RELATING TO TAXATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 4, 2008
TIME: 9:00AM
ROOM: 325

This legislation provides for an income tax credit equal to 15% of the costs of hotel renovations between 2014 and 2019.

Previously, the law allowed for a credit for the renovation costs incurred by a qualified hotel facility through December 31, 2005. This credit was allowed at rates of 10% and 4%, depending upon the taxable year. At that time, "qualified hotel facility" included a hotel-condo and time-share facility or project.

The Department of Taxation has **strong concerns** with this measure; offers comments, and provides the revenue estimate.

I. SUPPORT FOR THE TOURISM INDUSTRY, GENERALLY

The Department supports the tourism industry and the importance of the economic activity this important industry brings to Hawaii. The Department acknowledges that having modern and newly renovated rooms are an important factor in maintaining the flow of tourists to this State.

II. FISCAL PRIORITY OF SUBSIDIZING THIS INDUSTRY QUESTIONABLE

The Department's primary concern relates to the fiscal priority of subsidizing the hotel industry at this time. The hotel industry is comprised of highly capable entities that have capitalized on a booming tourism industry over the past few years to improve several facilities throughout the State. Though there is evidence suggesting tourism is stabilizing, the Department requests that the Committee strictly evaluate the fiscal priority of subsidizing this industry.

III. THE MEASURE MAY CAUSE HOTEL FACILITIES TO DEFER RENOVATIONS

Because the credit as set forth in this measure applies only to costs incurred beginning in calendar year 2014 through calendar year 2019, hotels may opt to defer needed renovations until such time the costs become eligible for the credit. This would be counter-productive to insuring modern and updated hotel rooms being available for the tourism industry. The Department also raises other timing issues with the bill since "renovation" is defined to include costs incurred after December 31, 2007 and subsection (h) seems to prohibit double-dipping with Chapter 235D, which expired on December 31, 2005.

IV. THE LEGISLATION IS PREMATURE AT THIS TIME

The Department believes that the current legislation is premature at this time. The state of the economy in 2013 and beyond can only be the subject of conjecture and educated guesses. Whether a hotel renovation tax credit is appropriate at that time is better suited for later Legislatures, with more current information as to the status of the construction industry, the tourism industry, and the economic health of the State as a whole.

V. REVENUE ESTIMATE

The Department points out that the most recent data from the prior hotel renovation credit is 2005 data where the State spent $15.3 million to subsidize this industry. Using the 2005 data and projecting forward to the years provided in this bill, this legislation will result in the following revenue losses:

- FY2015 (loss): $73.7 million.
- FY2016 (loss): $75.7 million.
- FY2017 (loss): $77.8 million.

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MARSHA WIENERT
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Statement of
MARSHA WIENERT
Tourism Liaison
Department of Business, Economic Development & Tourism
before the
HOUSE COMMITTEE ON TOURISM & CULTURE
Monday, February 4, 2008
9:00 a.m.
State Capitol, Conference Room 325

in consideration of
HB 2985
RELATING TO TAXATION.

Chair Yamane and Members of the House Committee on Tourism & Culture.

The Department of Business, Economic Development and Tourism appreciates the overall concept of HB 2985, however, we are concerned about the cost implications generated by this proposal.

Therefore, we must oppose this bill, as it will adversely impact our already limited resources and impact the priorities outlined in the Administration's Executive Supplemental Budget.

Thank you for the opportunity to comment on HB 2985.

Hawaii Tourism Authority

LINDA LINGLE
Governor

REX D. JOHNSON
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Testimony of
Rex Johnson
President and Chief Executive Officer
Hawaii Tourism Authority
on
H.B. 2985
Relating to Taxation

House Committee on Tourism and Culture
Monday, February 4, 2008
9:00 a.m.
Conference Room 325

The Hawaii Tourism Authority (HTA) supports H.B. 2985, which proposes a tax credit for the renovation of hotel facilities.

The HTA is tasked with marketing and promoting Hawaii as a visitor destination, with the goal of increasing visitor spending. One of the keys to branding the Hawaii visitor industry product and increasing visitor spending is the improvement and enhancement of the tourism product, which includes the physical infrastructure. As such, the HTA supports H.B. 2985 which provides a tax credit of 15 percent of the costs of renovation of a hotel facility. The credit will be an incentive for the private sector to improve hotel facilities for visitors.

Thank you for the opportunity to provide these comments.

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TESTIMONY OF MURRAY TOWILL
PRESIDENT
HAWAI'I HOTEL & LODGING ASSOCIATION

February 4, 2008

RE: HB 2985 Relating to Taxation

Good morning Chairman Yamane and members of the House Committee on Tourism & Culture. I am Murray Towill, President of the Hawai`i Hotel & Lodging Association.

The Hawai`i Hotel & Lodging Association is a statewide association of hotels, condominiums, timeshare companies, management firms, suppliers, and other related firms and individuals. Our membership includes over 170 hotels representing over 47,300 rooms. Our hotel members range from the 2,523 rooms of the Hilton Hawaiian Village to the 4 rooms of the Bougainvillea Bed & Breakfast on the Big Island.

The Hawai`i Hotel & Lodging Association supports the intent of HB 2785 Relating to Taxation. This bill would provide a future tax credit for the renovations of hotels.

One of the advantages of a hotel renovation tax credit is that it would help to offset the financial incentive of converting hotels to timeshares or condominium developments. In recent years conversions of this type have made great economic sense due to consumer demand and the ability to obtain a more immediate return for developers and investors. The net effect of this incentive would be to help maintain the hotel room inventory.

One of the limitations of this bill is that the tax credit does not take effect until 2014. We would be concerned that this measure might encourage owners to delay investment to a time closer to the availability of the tax credit.

Given the state's current fiscal challenges, we understand the idea of delaying the credits effective date until 2014. An alternative might be to hold this measure and revisit the topic once the State's fiscal picture improves or there is more clarity in financial markets.

Again, mahalo for this opportunity to testify.