Waianae Coast Comprehensive Health Center

TESTIMONY IN SUPPORT OF HB 3008:
RELATING TO QUALIFIED IMPROVEMENT TAX CREDIT

Submitted to: Committee on Human Services and Housing and Committee on Health

Hearing Date/Time: February 7, 2008/8:45 am

February 7, 2008

Submitted by: Richard P. Bettini, Chief Executive Officer
Waianae Coast Comprehensive Health Center
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The Waianae Coast Comprehensive Health Center strongly supports HB 3008 which would provide matching funds for development programs for healthcare infrastructure in Hawaii's federally designated medically underserved communities.

Community health centers are important safety net providers in Hawaii. The 14 community health centers in Hawaii face increasing demand for free and discounted medical, dental, behavioral health, pharmaceutical and other services. The proposed tax credit has been designed to provide incentives to low income communities to capitalize on existing private fundraising initiatives and seek non-State dollars to build new facilities; improve/meet health and safety codes; as well as improve health care technology. Under the concept, **the State would provide a small match to such fundraising only after such fundraising is completed.**

For Hawaii's low income communities, this match represents not only an incentive to initiate fundraising, it also is a vehicle by which volunteer community health center Boards can provide evidence to potential funding agencies that the State of Hawaii is participating in a given development project.

In addition to the key points above, the tax credit approach, which now has precedence in Hawaii, sets up a systematic approach to seeking State grant-in-aid for non-profit organizations. The process assures Hawaii of a high success rate for completion of projects, leverages State dollars, and limits total State exposure to project costs.

We urge your passage of HB 3008.

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L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Qualified improvement tax credit

BILL NUMBER: HB 3008

INTRODUCED BY: Shimabukuro

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow each taxpayer who operates a federally qualified health center to claim a credit which shall be deductible from the taxpayer's net income tax liability. To claim a qualified improvement tax credit, the taxpayer must incur qualified improvement costs that exceed $150,000 in the taxable year for which the credit is claimed provided that: (1) all qualified improvement costs including the first $150,000 shall be eligible for the qualified improvement credit; and (2) qualified improvement costs shall be reduced by the amount of state or county funding received during the year the credit is claimed.

The amount of the credit shall be 25% of the qualified improvement costs incurred up to $2 million; 15% of the qualified improvement costs incurred that total between $2 million and $5 million or 10% of the qualified improvement costs incurred that total $5 million or more.

The total tax credits claimed during the ten consecutive taxable years beginning after 12/31/08 and before 1/1/19 shall not exceed $_____ in the aggregate for each federally qualified health center.

No credit shall be allowed for the portion of the qualified improvement cost for which a deduction is taken under IRC section 179 (with respect to election to expense certain depreciable assets). The basis of eligible property for depreciation or ACRS purposes for state income taxes shall be reduced by the amount of the credit allowable and claimed.

The credit shall be claimed against net income tax liability for a taxable year with any credit in excess of tax liability refunded to the taxpayer provided such amount is over $1. Requires all claims for the credit to be filed before the end of the twelfth month following the close of the tax year. The director of taxation shall prepare forms as may be necessary to claim the credit and may adopt rules pursuant to chapter 91.

The credit shall be available for qualified improvement costs incurred during taxable years beginning after 12/31/08 and before 1/1/19.

Defines "federally qualified health center," "qualified equipment," "qualified facility" and "qualified improvement costs" for purposes of the measure.

EFFECTIVE DATE: Tax years beginning after December 31, 2008

STAFF COMMENTS: It appears the proposed measure allows owners of a federally qualified health facility to claim an income tax credit for a percentage of the qualified improvement costs made to that

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facility. A similar measure was approved in 2002 but was subsequently vetoed by the governor. The convoluted determination of how much of a credit could be claimed raised questions about what the credit is supposed to accomplish. If the intent of this measure is to subsidize the cost of the renovations or improvements to the health care facility, then it would seem more accountable for lawmakers to subject the project to the appropriation process. Depending on how many health care facilities would qualify (the veto message indicated that there were nine such facilities that would have qualified under that measure), the loss of revenues could be substantial given the aggregate limit per facility in that legislation was $9 million.

As the then governor noted in the veto message, the refundable aspect of this tax credit granted to nonprofit organizations who pay no income taxes in effect makes this proposal an in-lieu grant-in-aid. As noted in the veto message, the state constitution provides that grants of public money shall be made pursuant to standards of law which in this case is the appropriation process. Thus, the credit proposed in this measure seeks to circumvent the constitution and the standard set for the granting of public funds.

It should be remembered that the tax system is an inefficient means to accomplish this goal as the proposed measure would grant a credit regardless of a taxpayer's need for tax relief. Thus as a subsidy, a more efficient solution would be through a grant-in-aid or a direct appropriation to these organizations rather than an inefficient tax credit. Providing tax expenditures out the back door with the use of tax credits is hardly accountable nor transparent. And because of confidentiality issues, taxpayers will never know who received the credits and how effective they were in achieving the purported outcomes.

Finally, lawmakers should heed the words of the latest Tax Review Commission. Such credits beg for a cost benefit analysis before being enacted. What is the benefit to be realized by the public and will the dollar investment in the form of the credit produce benefits many times more than the amount of the credit? If not, then are there ways that a greater benefit can be realized other than the use of the tax credit?

Digested 2/06/08

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To: **House Committee on Human Services & Housing**
The Hon. Maile S. L. Shimabukuro, Chair
The Hon. Karl Rhoads, Vice Chair

House Committee on Health
The Hon. Josh Green, MD, Chair
The Hon. John Mizuno, Vice Chair

Testimony in Support of House Bill 3008
<u>Relating to Qualified Improvement Tax Credit</u>
Submitted by Beth Giesting, CEO
February 7, 2008, 8:45 a.m. agenda, Room 329

The Hawai'i Primary Care Association strongly endorses this measure.

Federally qualified health centers are an important element in Hawai'i's health care system. They are growing to meet more community needs and this requires that they build or expand facilities, obtain equipment, and upgrade technology systems. Community health centers focus their efforts on low-income and underserved groups; they operate on thin margins and depend heavily on federal and state funding to sustain their services. This puts them in a very difficult fund development situation in Hawai'i where land and building costs are very high. We believe the tax credit that would be created by this bill would provide a means for the State to provide predictable support for essential capital improvements for these health centers.

Thank you for the opportunity to support this bill.