

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

JOINT HOUSE COMMITTEE ON HUMAN SERVICES & HOUSING AND HEALTH

TESTIMONY REGARDING HB 3008 RELATING TO QUALIFIED IMPROVEMENT TAX CREDIT

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 7, 2008

TIME: 8:45AM

ROOM: 329

The Department of Taxation (Department) provides comments on this legislation, which amends chapter 235 by adding a tax credit for qualified improvements to health centers.

I. TECHNICAL CONSIDERATION – AMOUNT OF CREDIT

Section 2 of the bill, subsection (d), describing how the credit is calculated, is unclear for two reasons. First, an amount of \$2,000,000 is included in both paragraphs (1) and (2). The amount of \$5,000,000 is included in both paragraphs (2) and (3). Second, it is unclear whether the percentage amounts associated with each paragraph apply fully to the entire amount of expenditure by the qualified health center, or whether the paragraphs are meant to create a graduated credit. For instance, according to the current language, an expenditure of \$1,999,999 would yield a credit of 25% of that amount, or \$499,999. An expenditure of \$3,000,000, according to the current language, would yield a credit of 15% of that amount, or \$450,000. Thus, higher expenditures can result in lower tax credits. If it is the intention of the legislature that the credit be graduated so that higher expenditures cannot result in lower tax credits, the language should be amended as follows:

(d) The amount of the qualified improvement tax credit shall be equal to:

(1) Twenty-five per cent of the qualified improvement costs incurred up to and including \$2,000,000; plus

(2) Fifteen per cent of amount of the qualified improvement costs greater than \$2,000,000, up to and including \$5,000,000; plus

(3) Ten per cent of the amount of qualified improvement costs greater than \$5,000,000.

II. TECHNICAL CONSIDERATION – SUPERFLUOUS LANGUAGE

Subsection (j)(3) of Section 2 of the bill is redundant. Rulemaking authority has already been granted by Section 231-3 and Section 235-2.5.

III. REVENUE IMPACT

Total revenue loss for a 10-year period would range from \$4.9 million to \$130.0 million.