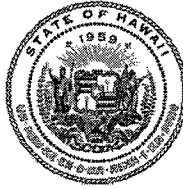


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LATE

SENATE COMMITTEE ON HUMAN SERVICES & PUBLIC HOUSING

**TESTIMONY REGARDING HB 3008 HD 2
RELATING TO QUALIFIED IMPROVEMENT TAX CREDIT**

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

DATE: MARCH 13, 2008

TIME: 1:15PM

ROOM: 016

This legislation amends chapter 235 by adding a tax credit for qualified improvements to health centers.

The House Committees on Human Services & Housing and Health amended the bill by removing an unnecessary rulemaking provision pursuant to the Department's request.

The House Committee on Finance amended the measure to include comments by the Department of Taxation.

The Department of Taxation has concerns with this legislation.

The Department understands the need for facility and technology improvements to Hawaii hospitals.

NOT FACTORED INTO EXECUTIVE BUDGET—This bill is not within the Executive Budget and has not been factored into its tax relief priorities.

NONPROFITS DO NOT QUALIFY FOR TAX CREDITS—Importantly, the Department points out language in the bill that suggests Hawaii's federally qualified facilities are nonprofit organizations. These nonprofit entities are ordinarily disqualified from claiming tax credits under Chapter 235 because these entities do not have taxable income and are exempt from tax. There is some doubt as to whether a nonprofit would be able to qualify for the credit under this bill with the current provisions.

REVENUE IMPACT—Annual average loss is about \$7.0 million.



LATE

**TESTIMONY IN SUPPORT OF HB 3008 HD 2:
RELATING TO QUALIFIED IMPROVEMENT TAX CREDIT**



Submitted by: Richard P. Bettini, Chief Executive Officer and James Chen, Chief Financial

The Waianae Coast Comprehensive Health Center strongly supports **HB 3008 HD 2**, with the amendments described below. The direct, refundable tax credit proposed in this bill would provide much needed capital improvement funds for community health centers. Such tax credit would stimulate private fundraising initiatives on the part of the health centers as they would have to first incur a significant amount of the qualified improvement costs through private funds. Improvement and expansion of health center facilities would increase their capacities to serve Hawaii's federally designated medically underserved communities.

Federally qualified health centers ("FQHCs" or community health centers) are important safety net providers in Hawaii. The 13 FQHCs 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 to seek non-State dollars to build new facilities; improve/meet health and safety codes; as well as improve health care technology.

Amendment 1:

Current: Section 2.

(a) There shall be allowed to each taxpayer who operates a federally qualified health center a qualified improvement tax credit that shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the year in which the credit is properly claimed.

Proposed Amendment: Section 2. (add the bolded section below)

(a) There shall be allowed to each taxpayer who operates a federally qualified health center a qualified improvement tax credit that shall be deductible from the taxpayer's net income tax liability, if any, **or, in the case of the taxpayer being an exempt organization, a direct tax credit**, imposed by this chapter for the year in which the credit is properly claimed.

Amendment 2:

Current: Section 2

(f) If the amount of the tax credit claimed in any year exceeds the total of the federally qualified health center's net income tax liability for that taxable year, the excess of credit over liability shall be refunded to **the taxpayer** for the federally qualified health center; provided that no refunds or payment on account of the tax credit allowed by this section shall be made for amounts less than \$1.

Proposed Amendment: Section 2 (delete "the taxpayer" as bolded above)

Amendment 3:

Current: Section 2, (j), last paragraph

"Qualified improvement costs" means the costs, including costs for plans, design, construction, or equipment permanently affixed to a building or structure, related to new construction, alteration, or modification of a qualified facility and purchases of qualified equipment."

Proposed Amendment: Section 2, (j) (add the bolded section below)

“Qualified improvement costs” means the costs, including costs for plans, design, construction, or equipment permanently affixed to a building or structure, related to new construction, alteration, or modification of a qualified facility and purchases of qualified equipment. “Taxpayer” for purposes of this bill means an entity qualifying as a federally qualified health center.”

For public accountability and transparency, without any exception, all federally qualified health centers are tax-exempt entities. As such they are required to file an annual tax return with the federal Internal Revenue Services (Form 990), which would report the amount of tax credits claimed, if any, by a qualifying FQHC for the taxable year immediately preceding the reporting year.

We urge your passage of HB 3008 HD 1 with the amendment stated above.

Mahalo for considering these important amendments and this extremely important bill.