

STATE OF HAWAII
DEPARTMENT OF DEFENSE

TESTIMONY ON SENATE BILL 2514
A BILL RELATING TO TAX CREDITS

PRESENTATION TO THE
COMMITTEE ON INTERGOVERNMENTAL AND MILITARY AFFAIRS

BY

MAJOR GENERAL ROBERT G. F. LEE
DIRECTOR OF CIVIL DEFENSE

February 1, 2008

Chair Inouye and Committee Members:

I am Major General Bob Lee, Director of Civil Defense, State Department of Defense. I am providing written testimony on Senate Bill 2514.

A bill to provide tax relief to residents who were affected by the December 2007 wind storm and flood disaster should be considered not only for the residents of upcountry Maui but also for residents in other areas that were severely impacted. These areas include residents and businesses along the Waianae coast and windward communities on Oahu.

We defer to the Department of Taxation for further comment and recommendations.

Thank you for the opportunity to provide written testimony on this measure.



LINDA LINGLE
GOVERNOR

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LT. GOVERNOR



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LATE TESTIMONY

SENATE COMMITTEE ON INTERGOVERNMENTAL & MILITARY AFFAIRS

**TESTIMONY REGARDING SB 2514
RELATING TO TAX CREDITS**

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

DATE: FEBRUAR 1, 2008

TIME: 1:15PM

ROOM: 229

The purpose of this bill is to provide a one-time nonrefundable income tax credit for taxpayers who have unreimbursed losses as a result of the December 2007 flooding on Maui.

The Department of Taxation (Department) **has no position** on this measure.

The Department **offers the following technical comments:**

- **NOT AVAILABLE FOR LOSS, ONLY COSTS**—The Department raises the issue that the credit, as drafted, characterizes the credit for "losses" for what are specified as costs. The Department suggests changing the term "losses" to read "costs."
- **SENATORIAL DISTRICT**—The Department understands that this bill applies to the 6th Senatorial District, as provided in part (b) of Section 1. However, under part (a) of Section 1, no specific legislative district is identified. The bill should be amended to include the 6th "Senatorial" district.

This legislation will result in an indeterminate revenue loss.



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SUBJECT: MISCELLANEOUS, Relief for flood and wind storm damage

BILL NUMBER: SB 2514; HB 2857 (Similar)

INTRODUCED BY: SB by English, Chun Oakland, Hooser, Menor, Tokuda, Tsutsui and 9 Democrats;
HB by Yamashita

BRIEF SUMMARY: Allows taxpayers in the upcountry Maui area and other areas in the sixth senatorial district/12th representative district to claim a one-time tax credit of ____% of the losses incurred by the taxpayer for repairs, insurance, rental, or other expenses or costs related to the damage caused to the taxpayer's real or personal property by flood and wind storm damage in December of 2007 provided: (1) the expenses or costs are not reimbursable by insurance proceeds or disaster relief payments; (2) the tax credit shall not exceed \$___ per taxpayer; and (3) no refund or payment of the credit shall be made for amounts under \$1.

Credits in excess of a taxpayer's income tax liability may be applied to subsequent income tax liability until exhausted. Delineates provisions for the distribution and share of the credit in the case of a partnership, S corporation, estate, trust or association of apartment owners. Disallows the credit if a deduction is taken pursuant to section 179 of the IRC (with respect to election to expense certain depreciable businesses assets). The basis of eligible property for depreciation or accelerated cost recovery system purposes for state income tax purposes shall be reduced by the amount of the credit allowed and claimed, otherwise the taxpayer shall treat the amount of the credit as a taxable income item for the taxable year in which it is properly recognized under the accounting method used to compute taxable income.

Claims for the credit, including any amended claims, must be filed on or before the end of 12/31/08. The director of taxation: (1) shall determine the applicability of this act with respect to the boundaries and locations of flood and wind storm damage in December of 2007 in the upcountry Maui area and other affected areas in the sixth senatorial/12th representative district; (2) shall prepare the forms necessary to claim the credit; (3) may require proof of the claim for the credit; and (4) may adopt rules pursuant to HRS chapter 91.

EFFECTIVE DATE: Tax years beginning after December 31, 2007

STAFF COMMENTS: These measures would grant a one-time tax credit to victims of the upcountry Maui area and other areas of the sixth senatorial/12th representative district that sustained flood and wind storm damage. If the intent is to compensate flood and wind victims for some of their unreimbursed expenses due to the casualty, consideration should be given to appropriating the funds and administering the aid based on the need for reimbursement and allow each and every occurrence to be judged on its merits and the need for assistance. Given that the intent of this proposal is to provide financial assistance payments for flood and wind damage, using the tax system in this manner is a poor and inefficient means of accomplishing that goal.

Digested 2/01/08

