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GOVERNOR

JAMES R. AIONA, JR.
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SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION

TESTIMONY REGARDING SB 2561
RELATING TO TAXATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 12, 2008
TIME: 1:30PM
ROOM: 224

This legislation establishes a tax credit for the rehabilitation of historic structures equal to 25% of the projected rehabilitation expenditures or 30% of the projected rehabilitation expenditures if at least 20% of the units are rental units that qualify as affordable housing or if at least 10% of the units are individual home ownership units that qualify as affordable housing.

The Department of Taxation **opposes** this measure due to the unworkable nature of the credit.

I. STRONG SUPPORT FOR PRESERVATION OF HISTORIC BUILDINGS

The Department strongly supports preserving historic buildings and notes that federal and city and county tax incentive exist for historic structures. However, the Department opposes this legislation because the provisions as drafted are unworkable.

II. CONFUSING MEASURE OF THE CREDIT

This legislation sets the credit as a percentage of "projected qualified rehabilitation expenditures". "Qualified rehabilitation expenditures" is defined in part as "any costs incurred for the physical construction involved in the rehabilitation of a historic structure for mixed residential and nonresidential uses where at least thirty per cent of the total square footage of the rehabilitation is placed into service for residential use". The credit is also taken in the year that the historic structure is placed in service. However, since these are existing structures, it is possible for a structure to be continuously in service, especially if the renovation is completed in stages. The use of the term "projected" presumably means that all of the costs anticipated for physical construction are to be included in the credit, irregardless of whether they are ever actually incurred. The Department is concerned that this provision will allow claimants to zealously overstate the "projected" costs so that a large amount of credit can be obtained. Since this is a refundable credit, the taxpayer can, in the early years of a project, obtain a large up-front credit even though the actual work to be performed is years in the future or never completed.

III. INADEQUATE RECAPTURE PROVISIONS

The measure provides for a recapture of the credit only if the taxpayer fails to provide information to the review board prior to the last day of the taxable year following the close of the taxpayer's taxable year in which qualified costs were expended. It does not provide for any recapture of the credit previously claimed in the event the projected costs do not materialize or if the rehabilitation does not proceed according to previously approved plans, or (in the case of the 30 percent credit), less than 20% of the units are rental units that qualify as affordable housing or less than 10% of the units are individual home ownership units that qualify as affordable housing. In addition, no minimum amount of time is specified for these units to remain affordable.

IV. UNWORKABLE CREDIT CAP

The measure provides for an aggregate annual cap for the credit of $50,000,000 per year. The Department will be unable to insure that this cap will not be exceeded. The Department would recommend that the review board be required to monitor the projected credit, since all rehabilitation plans must be submitted for its review and approval.

V. REVENUE ESTIMATE

This legislation will result in a revenue loss of up $735,000 (loss) in FY2009 and annually thereafter. There are an estimated 186 residences and 108 other buildings on the National and State Register of Historic Places. For purposes of the revenue impact, it is assumed that (5%) of residences and other buildings are renovated each year at an average cost of $200,000.

LINDA LINGLE
GOVERNOR OF HAWAII

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TESTIMONY OF THE CHAIRPERSON
OF THE BOARD OF LAND AND NATURAL RESOURCES

on Senate Bill 2561 – RELATING TO TAXATION

BEFORE THE SENATE COMMITTEE
ON
ECONOMIC DEVELOPMENT AND TAXATION

February 12, 2008

Senate Bill 2561 establishes a tax credit for the rehabilitation of historic structures. The Department of Land and Natural Resources (Department) appreciates the intent of this measure to provide an incentive to owners to rehabilitate their properties to preserve the historical and aesthetic uniqueness for the enjoyment of future generations, but defers to the Department of Taxation on its feasibility, application, and fiscal implications.

Historic preservation tax incentives have proven to be an invaluable tool in revitalizing communities and in preserving the historic places that give cities, towns, and rural areas their special character. Rehabilitation of historic buildings attracts new private investment to the historic core of cities and towns, and is crucial to the long-term economic health of many communities. Enhanced property values generated by tax credit programs have increased revenues for local and state government through increased property value, business activity, and income taxes.

The Federal Government offers a historic preservation tax incentive to taxpayers who rehabilitate historic buildings by offering a twenty per cent credit of the cost of rehabilitation. The historic preservation tax credit is not extended however, to individuals of owner-occupied homes.

Approximately half of all states have adopted laws that establish a state tax credit. Some states have established a cap on the total tax credit available in any given year, while others have established caps for each rehabilitation project. The latter cap has favored small homeowners, and has not been as effective in encouraging rehabilitation of large commercial projects.

Enactment of this legislation would require the Department of Taxation to prepare forms to claim the credit, ascertain the validity of the claim for credit, and could entail rulemaking. As such, the Department defers to the Department of Taxation on the feasibility, application, and fiscal implications of Senate Bill 2561.

HISTORIC
HAWAI'I
FOUNDATION

VIA EMAIL: **testimony@capitol.hawaii.gov**

To: Senator Carol Fukunaga, Chair
Senator Will Espero, Vice-Chair
Committee on Economic Development and Taxation

From: Kiersten Faulkner
Executive Director, Historic Hawai'i Foundation

Committee Date: Tuesday, February 12, 2008
1:30 pm
Conference Room 224

Subject: **Support of SB2561**
Relating to Taxation

I am writing on behalf of Historic Hawai'i Foundation (HHF) to support SB 2561. Since 1974, Historic Hawai'i Foundation has been a statewide leader for historic preservation. HHF works to preserve Hawai'i's unique architectural and cultural heritage and believes that historic preservation is an important element in the present and future quality of life and economic viability of the state.

Historic Hawai'i Foundation supports SB 2561, which provides for a tax credit for rehabilitation of historic properties. Preservation tax credit programs have proved to be successful incentives for rehabilitating older structures and returning them to useful life. Preserving and using our historic buildings are ways to enhance community character, provide an alternative to sprawl, create jobs, provide affordably housing, encourage heritage tourism and generally spur economic development in older neighborhoods and commercial districts.

Tax credit programs have been used at the federal level and by over half of the states. While the details of the programs vary state by state, they have been shown to be very effective, especially when coupled with the 20% federal historic tax credit. Historic Hawai'i Foundation recently released a study into the economic benefits realized by states that use a rehabilitation tax credit and found that increased direct tax revenues offset tax credit expense. Through increased economic output, the state recoups its investment in rehabilitation tax credits through four sources: construction period taxes, real property taxes, post-construction sales and income taxes.

Historic Hawai'i Foundation's study found that in the 29 states that have a rehabilitation tax credit, all of them determined that the fiscal return was greater than the state's forgone taxes, often returning three to five times more revenue to the state in new taxes and significant new investment. The rehabilitation tax credit also was successful in creating new jobs, increasing loan demand and deposits in local financial institutions, enhancing property values and generating sales. In addition to these direct fiscal impacts, the tax credit also has proven benefits related to environmental sustainability, affordable housing, tourism and visitation, and neighborhood revitalization.

These tax credit programs help to return historic properties to tax rolls and generate employment and housing where they are needed most. State investments in tax credits can pay heavy dividends. For example, the Rhode Island historic preservation tax credit, passed in 2002, generated a total of $795 million in economic activity from an investment by the state of $145 million. The recent study, which was commissioned by Grow Smart Rhode Island, estimates that the state rehabilitation tax credit will add $242 million to the tax base of local communities and to generate a present value basis of $179 million in additional property tax revenue and $42 million in sales and income tax revenue.

As an incentive for reinvestment in our neighborhoods and communities, the historic property tax credit program makes sense. As an economic development program, it also makes fiscal sense for the state. Therefore, Historic Hawai'i Foundation urges the Legislature to support SB 2561.

Very truly yours,

Kiersten Faulkner
Executive Director

Enc. "The Economic Benefits of State Historic Preservation Tax Credits" by Wendy Wichman, Preservation Associates, for Historic Hawai'i Foundation. Honolulu, HI: January 15, 2008.

THE ECONOMIC BENEFITS OF STATE HISTORIC PRESERVATION INVESTMENT TAX CREDITS 2007

Prepared For:

The Historic Hawaii Foundation
680 Iwilei Road, Suite 690
Honolulu, Hawaii 96817

By:

Wendy Wichman
Preservation Associates
Honolulu, Hawaii

January 15, 2008

The Economic Benefits of State Historic Preservation Investment Tax Credits

Introduction

Economic studies show that historic preservation has had an enormous positive impact on local economies in states across the country. Like other economic development programs, historic preservation: **Increases the tax base, increases loan demand and deposits in local financial institutions, enhances property values, generates additional sales of goods and services, and---most importantly—creates jobs.**[1] As a long range economic development strategy, it is a superior economic catalyst compared to other investments, including new construction, because rehabilitation has a greater economic impact on the local economy in terms of jobs created, increase in household income, and demand created on other industries.[2] Rehabilitation is superior to new construction because it offers a smart strategy for sustainable growth that recycles increasingly scarce natural resources and materials, reduces the need for new, imported raw materials, reduces construction waste going to landfills, conserves energy, and re-uses the existing cultural and physical heritage of a community to create the needed jobs of tomorrow.

Rehabilitation Creates More Jobs than New Construction

Rehabilitation projects are labor intensive and produce more new jobs than new construction. In North Carolina, over a twenty year period, the federal rehabilitation tax credit program created 732 private-sector, <u>income-producing</u> historic rehabilitation projects representing $325 million in private investment; had these been new construction projects, they would have offered 1800 fewer jobs and $26,000,000 less in household income.[3] Rehabilitation projects have a dramatic impact on the local economy because they are significantly more labor intensive than new construction. New construction expenditures generally are divided equally between labor and materials. Historic rehabilitation projects, on the other hand, spend between 60 and 70 percent of the total cost on labor.[4] According to economist, Donovan Rypkema, "The dollars spent renovating an historic building are largely paid as wages to skilled trades people, including carpenters, plumbers, and electricians—each of whom in turns spends his or her paycheck in the local community. The value of economic development is the creation of jobs, and the value of historic preservation is the creation of well-paying local jobs..."[5]

Dollar for dollar, historic preservation is one of the highest job-generating economic development options available. According to Rypkema, "In Michigan, $1 million in building rehabilitation creates 12 more jobs than does manufacturing $1 million worth of cars. In West Virginia, $1 million of rehabilitation creates 20 more jobs than mining $1 million worth of coal. In Oklahoma $1 million of rehabilitation creates 29 more jobs than pumping $1 million worth of oil. In Oregon $1 million of rehabilitation creates 22 more jobs than cutting $1 million worth of timber. In Pennsylvania $1 million of rehabilitation creates 12 more jobs than processing $1 million worth of steel. In California $1 million of rehabilitation creates 5 more jobs than manufacturing $1 million worth of electronic equipment.[6] When North Carolina passed its state-level rehabilitation tax credit program in 1997, giving historic homeowners a 30% state tax credit, an economic study supported the measure and predicted the state tax credit program would produce over 25,000 jobs, $500 million in household incomes, and a total economic impact on the North Carolina economy of over $1.5 billion.[7]

In Rhode Island, from 2002 to 2005, a $1.5 billion investment in rehabilitation projects (30% for income-producing properties and 20% for owner-occupied residential properties) produced total direct construction employment of approximately 17,725 jobs earning $677.54 million in wages, and an indirect employment impact estimated at approximately 8,436 jobs worth $277.52 million in wages.[8]

In Maryland, rehabilitation projects returned 1,050 historic buildings to productive use between 1978 and 1999 and stimulated $501,545,102 in private investment, producing 8,197 construction jobs; 7,752 jobs created elsewhere in the economy; and an increase of $381,826,286 in the Maryland household sector of the economy.[9]

In Missouri, the economic impact of historic preservation, which contributes more than $1 billion annually to the gross state product, has resulted in 28,000 jobs. Between 1998 and 2001, a $74 million tax credit program generated 6,871 jobs; $121 million in income; $282 million in gross state product; $60 million in total taxes (including $25 million in Missouri state and local taxes) and $249 million in in-state wealth.[10] By demolishing these buildings and using them as parking lots, they would have added little economic value to the local economy. As rehabilitation projects, the buildings have become active employers who paid wages and taxes from the construction stage of the project to the present completed hotel or office building.

Increased Direct Tax Revenues Offset Tax Credit Expense

Each $1 million in state tax credits leverages approximately $5.35 million in total economic output, increasing a government's tax base.[11] Through increased economic output, the state recoups its investment in rehabilitation tax credits through four sources: **construction period taxes, real property taxes, plus post-construction sales and income taxes.** The 2007 Rhode Island study on the rehabilitation tax credit program used the IMPLAN input-output economic model to estimate economic and fiscal impacts.[12] For projects completed between 2005 and 2007, Rhode Island spent $160 million on tax credits. An analysis of the public revenues generated by these completed projects shows that almost one-quarter (24.3%) of this expense had already been offset before it was incurred, through collection of construction period taxes totaling $39,019,507 million. In addition, the state received income and sales tax revenues paid by new wage earners and resident households—an incremental revenue stream with an estimated value of 18.3% of the state's tax credit investment. The increased value of local assessable bases, estimated at approximately $267.6 million and assuming a commercial tax rate of 1.94%, generated an annual increase in real estate tax collections estimated at $5.19 million, with a present value revenue stream of $103.80 million. The authors of the fiscal impact analysis believe this estimate is very low due to the conservative approaches used to calculate value and effective tax rates.[13] In addition, these numbers do not include new residents and employees resulting from the rehabilitation project who would contribute net new income and sales tax revenues. In summary, it appears that Rhode Island recouped almost 50% of its tax credit expense through direct forms of revenue returns.

Other states report that tax revenues off-set the expense of tax credits. Missouri claims to have recouped the cost of its tax credits in additional payroll taxes alone. Moreover, from 1998 to 2001, Missouri's $74 million rehabilitation tax credit program (which leveraged $295 million in private investment in historic rehabilitation) produced $283 million in gross state product, $60 million in taxes, including $25 million in state and local tax revenue, 6,871 jobs, and $121 million in additional income. The study on economic and fiscal impacts of Missouri's tax credit program concluded that, "when the economic activity and the ensuing tax payments fostered by the historic preservation tax credit program are considered, there is little net cost to Missouri taxpayers."[14]

Property tax revenues increase as property values rise through the investment of capital into an area and improvements to a neighborhood. In Mobile, Alabama, a study of 170 historic buildings within a 21-block area showed that rehabilitation activity increased property tax revenues by 582% over a 15 year period, from 1974 to 1989 through appreciated property values.[15] A Michigan study in 2004-5 showed that property values in a designated commercial local historic district grew about 385% over a thirty year period, in contrast to just 72% in non-designated area.

Rehabilitation Tax Credit Program Benefits the Economy

The value of the tax credit program as an economic engine has been recognized by over half the states that have passed rehabilitation tax credit legislation to promote the reuse of historic buildings.[16] In Michigan, every $1 of credit issued benefited the economy an additional $11.43 in economic impacts.[17] Tax credits produced $249 million in income for Missouri residents and a gain of $292 million in in-state wealth, with total tax revenues of $70 million, including $30 million in state and local tax revenues.[18] State tax credit programs also produce an increase in federal tax credit investment in the state. Rhode Island attracted less than $10 million in federal historic tax credit investment during the 5 year period preceding enactment (1996-2001); but more than $78 million in federal credits have been awarded in the 5 years since (2002-2007).[19]

Reports that studied the fiscal impacts of historic preservation in North Carolina, Georgia, Maryland, Kentucky, New Jersey, New York, Missouri, Colorado, Indiana, Michigan, all conclude that rehabilitation tax credits have an overwhelmingly positive economic impact. In Michigan, more than $819 million was privately invested in state and federal rehabilitation tax credit projects between 1971 and 2001, which created more than 22,250 jobs and a total economic impact of $1.7 billion.[20]

Rehabilitation Revitalizes Neighborhoods

One of the tax credit program's greatest benefits is that it stimulates private development interests. During the first five years of the Rhode Island Historic Tax Credit Program, the state experienced more investment in historic rehabilitation than in the previous twenty five years combined. Scott Wolf, executive director of Grow Smart Rhode Island, called the rehabilitation tax credit the "single best economic development and neighborhood revitalization tool the state has seen in decades."[21] A recent Ohio news release estimated that the $120 million tax credit program is expected to produce $147 million private investment.[22] Ohio issued tax credit awards to eleven recipients, who will invest a combined total of $147 million in rehabilitation projects. The Selle Gear Co (Akron) was given an $801,813 credit for an investment worth $3.7 million. The Sunshine Coak Co Bldg (Cleveland) was given a credit for $1.6 million on a $7.5 million investment. The largest project, William Taylor, Dept Store (Cleveland), was given a credit of $16,404,438 million for an investment of $55.9 million.[23]

Tax Credits Offer Smart Sustainable Development

"At the most elemental level economics and preservation are fundamentally about the same thing—saving scarce resources."[24] Rehabilitation is superior to new construction for economic reasons discussed in the section on jobs, but also because it offers a smart strategy for sustainable growth that recycles increasingly scarce natural resources and materials, conserves energy, and re-uses the existing cultural and physical structure of a community to create the jobs of tomorrow. Environmental sustainability is smart economic policy for our island state. We have limited natural resources, the threat of global warming, and an increasingly fragile natural environment. Smart, sustainable development that encourages the reuse of older buildings has been a recent focus at the national level too. In December 2007, Richard Moe, president of the National Trust for Historic Preservation (NTHP) stated that "over the past ten years, historic tax-credit incentives have sparked the rehab of more than 217 million square feet of commercial and residential space—and saved enough energy to heat and cool every home in the six New England states for a full year... [And that] similar incentives ...will help private homeowners to use green technology in maintaining and renovating their homes.[25] Re-using existing structures also reduces the need for new, imported raw materials and reduces construction waste going to landfills, which are critically full. It does not require new infrastructure systems, such as roads, water, sewer, and it conserves land and reduces sprawl. In Missouri, $485,318,415 in tax credits were issued since1998 producing an investment of $2,357,650,759 billion in rehabilitating Missouri's oldest communities.[26]

Tax Credits Increase Affordable Housing

A tax credit program to boost the reuse of older buildings also increases affordable housing. Proposed federal legislation, *Community Restoration and Revitalization Act* (S.584/H.1043), which is under consideration by the 2008 House Ways and Means Committee, has portions relating to a rehabilitation tax credit that are being looked at as part of a large affordable housing package. With respect to the state tax credit program, the Rhode Island Economic Policy Council found that **89% of the increased employment and housing generated by the tax credit for the period 2002 to 2006 took place in census tracts where household incomes are below the statewide median, and rehabilitation projects are estimated to provide more than 750 subsidized housing units over the next twenty years.**[27] The Grow Smart Rhode Island study concluded that rehabilitation tax credits are helping the state's housing affordability crisis because **three fourths** of the projects involve rental housing (totaling 6,739 units among the 277 projects analyzed, with 761 designated as subsidized affordable units). Tax credits provide non-profit developers with a tool in assembling the financing necessary to create affordable housing, while they also make for-profit developers consider both market-rate and affordable units in urban neighborhoods.[28]

Tax Credits Support Environmental Clean-up

The rehabilitation tax credit program can stimulate environmental clean-up by providing the necessary financial support to clean up contamination found on many of the historic sites being recycled into use. Based on data from the Rhode Island DEM and the RI Historical Preservation and Heritage Commission, 65% of the total investment in completed and planned projects is going into contaminated sites that are being cleaned up.[29] Grow Smart Rhode Island reports that the state's tax credit program is projected to generate nearly $2.5 billion in economic activity over the next twenty years that is predicted to result in the cleanup of dozens of environmentally contaminated sites, often known as brownfields.

Tax Credits Improve Historic Resources that Attract Heritage Tourism and the Film Industry

Successful heritage tourism destinations require planning and partnerships among many groups, such as tourism, natural resources, and preservation organizations. The NTHP lists the benefits of cultural heritage tourism as the creation of jobs, increased tax revenues, diversification of the local economy, opportunities for partnerships, attracting visitors interested in history and preservation, increasing historic attraction revenues, preserving local traditions and culture, generating local investment in historic resources, building community pride in heritage, increasing awareness of the site or area's significance. A 2002 study by the Travel Industry Association of America reported that heritage and cultural tourists consistently stay in a place longer and spend more money than other types of travelers. Heritage tourists in Colorado spent $1.5 billion in direct expenditures in 2003, which generated an additional $1.9 billion in indirect economic impacts. Heritage spending generated an estimated $1 billion in total earnings by Colorado workers and nearly 61,000 jobs.[30]

In Michigan, a study reported that 66% of ALL Midwestern tourists visited a historic place or museum—and historic downtowns ***are*** historic places.[31] One historic site, Castle Farms, built by a Sears Roebuck & Co. executive, was rehabilitated and reopened in May 2006 and expects to host 50,000 Heritage Tourists before the year is over. In Missouri, tourism is one of the State's top three revenue producers. With just the heritage portion of their travel, tourists spend $660 million a year, which translates into economic benefits equaling 20,077 jobs, $325 million in income, $574 million in gross state product, $79 million in state and local taxes and annual in-state wealth creation of $506 million.[32] Protecting, preserving and promoting historic resources creates many opportunities for visitors to learn and appreciate a place, and also a way for towns and communities to introduce outside dollars into an area.

Like heritage tourists, filmmakers often choose their locations for the unique historic resources a place offers. In North Carolina, for example, 360 films have been shot on location since 1980 with a direct expenditure estimated at $4.6 billion. This has created jobs and businesses to support the thriving film industry. North Carolina attributes its success (it has led the nation in film industry growth and development recently), to its comfortable year-round climate and locations such as beaches, wilderness, the foliage, and the variety of period buildings.[33] Hawaii also offers beautiful and cultural locations, except for a smaller inventory of "period" buildings, which have become a scarce resource here. The State should embrace a program like the rehabilitation tax credits to protect and perpetuate the disappearing cultural and physical structures we enjoy.

Conclusion

The majority of tax credit projects involve rental housing, with an increasing focus on commercial or mixed-use. A state's investment in tax credits is leveraged with private financing and equity investments, as well as historic tax credits. State tax credits also lead to significant federal investment. Investment in rehabilitation projects generates construction employment, and indirect employment, both of which represents jobs and wages. A state's tax credit expense is recouped directly, to some extent, from four sources: construction period taxes, real property taxes, plus post-construction sales and income taxes.. A state also receives increased income and sales tax revenues paid by new wage earners and resident households. The Rhode Island report concluded that, cash flows of the tax credit projects support values which are only 50%-60% of project cost and that, without the tax credit program, these rehabilitation projects would simply not happen because they would not meet the threshold requirement of a fair return on the developer's equity investment. The tax credit program returns properties to the tax rolls and generates employment and housing where opportunities have been limited. The state's tax credit investment produces substantial private investment in areas where, otherwise, it would not occur, and in every state this investment has only produced overall economic gain.[34]

[1] *The Impact of Historic Preservation on the North Carolina Economy*, Donovan Rypkema, Preservation North Carolina, 1997

[2] *The Economics of Historic Preservation: A Community Leader's Guide,* Donovan Rypkema, National Trust for Historic Preservation, 1998, 2002, 2005

[3] *The Impact of Historic Preservation on the North Carolina Economy*, Donovan Rypkema, Preservation North Carolina, 1997

[4] *The Economics of Historic Preservation: A Community Leader's Guide,* Donovan Rypkema, National Trust for Historic Preservation, 1998, 2002, 2005

[5] *The Value of Historic Preservation in Maryland,* by Donovan Rypkema for Preservation Maryland, 1999

[6] *The Economics of Historic Preservation: A Community Leader's Guide,* Donovan Rypkema, National Trust for Historic Preservation, 1998, 2002, 2005

[7] *The Impact of Historic Preservation on the North Carolina Economy*, Donovan Rypkema, Preservation North Carolina, 1997

[8] *Rhode Island Historic Preservation Investment Tax Credit, Economic & Fiscal Impact Analysis 2007,* Prepared for Grow Smart Rhode Island by Lipman Frizzell & Mitchell, September 7, 2007

[9] *The Value of Historic Preservation in Maryland,* by Donovan Rypkema for Preservation Maryland, 1999

[10] *Economic Impacts of Historic Preservation In Missouri,*by Center for Urban Policy Research at Rutgers University for Missouri Downtown Association and Missouri Department of Natural Resources, Outreach and Assistance Center, State Historic Preservation Office, 2002

[11] *Rhode Island Historic Preservation Investment Tax Credit, Economic & Fiscal Impact Analysis 2007,* Prepared for Grow Smart Rhode Island by Lipman Frizzell & Mitchell, September 7, 2007

[12] According to the authors of the Rhode Island study, the IMPLAN Input-Output Models examine the relationships between businesses and households by using multipliers to estimate the changes in economic activity occurring in a State due to the introduction of a new economic activity. The actual impact of a source of spending on an economy is greater than the simple total of the spending being measured because as this money is spent, it becomes the income for other businesses or households, which in turn, spend this money on other purchases creating successive cycles of earnings and spending. Multipliers estimate the total impact of these successive cycles.

[13]*Rhode Island Historic Preservation Investment Tax Credit, Economic & Fiscal Impact Analysis 2007,* Prepared for Grow Smart Rhode Island by Lipman Frizzell & Mitchell, September 7, 2007

[14]*Economic Impacts of Historic Preservation In Missouri,* by the Center for Urban Policy Research at Rutgers University for the Missouri Downtown Association and Missouri Department of Natural Resources, Outreach and Assistance Center, State Historic Preservation Office, 2002

[15] *Case Study: Economic Benefits*, prepared by Junior League of Mobile, Inc. and Mark McDonald, director, Mobile Historic Development Commission.

[16] *State Tax Credits for Historic Preservation: A State-by-State Summary*, National Trust for Historic Preservation, 2007

[17] *The Economic Impacts of Historic Preservation in Michigan,* Michigan Historic Preservation Network, November 2006

[18] *Economic Impacts of Historic Preservation In Missouri,*by Center for Urban Policy Research at Rutgers University for Missouri Downtown Association and Missouri Department of Natural Resources, Outreach and Assistance Center, State Historic Preservation Office, 2002

[19]*Rhode Island Historic Preservation Investment Tax Credit, Economic & Fiscal Impact Analysis 2007,* Prepared for Grow Smart Rhode Island by Lipman Frizzell & Mitchell, September 7, 2007

[20]*The Economic Impacts of Historic Preservation in Michigan,* Michigan Historic Preservation Network, November 2006

[21]*Updated Studies Confirm Historic Tax Credit's Multiple Benefits, September 17, 2007,* GrowSmartRI website www.growsmartri.com

[22] *Ohio Department of Development Announces Historic Preservation Tax Credit Awards,* News Release dtd. November 15, 2007, Department Website: www.odod.ohio.gov/newsroom/2007PR/releases/1833.asp

[23] *Ohio Department of Development Announces Historic Preservation Tax Credit Awards,* News Release dtd. November 15, 2007, Department Website: www.odod.ohio.gov/newsroom/2007PR/releases/1833.asp

[24] *The Economics of Historic Preservation: A Community Leader's Guide,* Donovan Rypkema, National Trust for Historic Preservation, 1998, 2002, 2005

[25] *Sustainable Stewardship: Historic Preservation's Essential Role in Fighting Climate Change*, Richard Moe, President, National Trust for Historic

Preservation, On the Occasion of Receiving the Vincent Scully Prize, December 13, 2007

[26] *State Tax Credits for Historic Preservation: A State-by-State Summary,* National Trust for Historic Preservation, 2007

[27] *Updated Studies Confirm Historic Tax Credit's Multiple Benefits, September 17, 2007,* GrowSmartRI website www.growsmartri.com

[28] *Rhode Island Historic Preservation Investment Tax Credit, Economic & Fiscal Impact Analysis 2007,* Prepared for Grow Smart Rhode Island by Lipman Frizzell & Mitchell, September 7, 2007

[29] *Rhode Island Historic Preservation Investment Tax Credit, Economic & Fiscal Impact Analysis 2007,* Prepared for Grow Smart Rhode Island by Lipman Frizzell & Mitchell, September 7, 2007

[30]*The Economic Benefits of Historic Preservation in Colorado 2005 Update,* Prepared for the Colorado Historical Foundation by Clarion Associates, July 2005

[31] *The Economic Impacts of Historic Preservation in Michigan,* Michigan Historic Preservation Network, November 2006

[32]*Economic Impacts of Historic Preservation In Missouri,*by Center for Urban Policy Research at Rutgers University for Missouri Downtown Association and Missouri Department of Natural Resources, Outreach and Assistance Center, State Historic Preservation Office, 2002

[33]*The Impact of Historic Preservation on the North Carolina Economy*, Donovan Rypkema, Preservation North Carolina, 1997

[34] *Rhode Island Historic Preservation Investment Tax Credit, Economic & Fiscal Impact Analysis 2007,* Prepared for Grow Smart Rhode Island by Lipman Frizzell & Mitchell, September 7, 2007

Rhode Island Historic Preservation Investment Tax Credit, Economic & Fiscal Impact Analysis 2007, Prepared for Grow Smart Rhode Island by Lipman Frizzell & Mitchell, September 7, 2007

State Tax Credits for Historic Preservation: A State-by-State Summary, National Trust for Historic Preservation, 2007

Sustainable Stewardship: Historic Preservation's Essential Role in Fighting Climate Change, Richard Moe, President, National Trust for Historic Preservation, On the Occasion of Receiving the Vincent Scully Prize, December 13, 2007

The Economic Benefits of Historic Preservation in Colorado 2005 Update, Prepared for the Colorado Historical Foundation by Clarion Associates, July 2005

The Economic Impacts of Historic Preservation in Michigan, Michigan Historic Preservation Network, November 2006

The Economics of Historic Preservation: A Community Leader's Guide, Donovan Rypkema, National Trust for Historic Preservation, 1998, 2002, 2005

The Impact of Historic Preservation on the North Carolina Economy, Donovan Rypkema, Preservation North Carolina, 1997

The Value of Historic Preservation in Maryland, by Donovan Rypkema for Preservation Maryland, 1999

Updated Studies Confirm Historic Tax Credit's Multiple Benefits, September 17, 2007, GrowSmartRI website www.growsmartri.com.

By the end of 2007, over half the States had passed a law to create a credit against state taxes as incentive for the rehabilitation of historic buildings. Most programs have 1) criteria for which builidings qualify for the credit; 2) standards for rehabilitation; 3) a method for calculating the value of the credit, reflected as a percentage of the value expended on that portion of the work that is approved as a certified rehabiliation; 3) a minimum or threshhold required to be invested; 4) a mechanism for adminstering the program, usually the SHPD or in some cases the state dept of revenue. The following summary is based on the National Trust for Historic Preservation's publication, *State Tax Credits for Historic Preservation A State By State Summary*, August 2007.

State (those not listed do not offer tax credits)	Program details
COLORADO Study: The Economic Benefits of Historic Preservation in Colorado, 2005 Update) Colorado Historical Society 303-866-3395 http://www.coloradohistory-oahp.org/programareas/itc/taxcredits.htm	20% Commercial and Homeowner; can be coupled with Federal 20% for commercial. $50,000 cap per project per year; no annual statewide cap. Minimum investment is $5000. Carry forward 10 years. Since it began in 1999, 440 projects approved. Average credit is $10,000 to $13000
CONNECTICUT Connecticut Historical Commission 860-566-3005 www.chc.state.ct.us http://www.cultureandtourism.org/cct/taxonomy/taxonomy.asp?DLN=43543&cctNav=|43543|	25% for commercial or industrial buildings rehabbed for *residential use.* 25% credit for mixed residential and nonresidential uses where at least 33% of total square footage of rehab is for residential use. 5% add-on credit for inclusion of affordable housing.30% for owner-occupied residential, including apartments up to 4 units; properties must be on the National and/or State Register AND located in a targeted area. $2.7 million per project cap and $15 million annual statewide cap for commercial or industrial buildings for residential use; $30,000 per dwelling and $3 million annual statewide cap for owner-occupied structures; $50 million over 3 years aggregate program cap and $5 million per project cap for new mixed use credit. Minimum is 25% of assessed building value prior to rehab for commercial; $25,000 for owner-occupied structures. Freely transferable either by direct sale or disproportionate allocation among partners of a syndication partnership; alternatively, credit for rehab of commercial or industrial structures for residential use can be carried forward 4 years for owner-occupied structures. Mixed-use credit can be carried forward 5 years and
DELAWARE Division of Historical and Cultural Affairs, Preservation Section 302-736-7400 www.history.delaware.gov/preservation/taxcredit.shtml	20% for income-producing properties; additional 10% credit for rental projects that qualify as low-income housing; 30% for owner-occupied residential; additional 10% for rental and owner-occupied projects that qualify as low-income housing.$20,000 per homeowner; no income-producing property cap; $5 million annual statewide cap. No minimum investment. Transferred, sold, or assigned to anyone with Delaware income tax or franchise tax liability; carry forward 10 years. Credit to be claimed in annual progress-based installments with phased projects. 41 projects approved since it began in 2001.
GEORGIA Georgia Historic Preservation Division 404-656-2840 www.dnr.state.ga.us/dnr/histpres	20% credit for eligible income-producing properties.10% credit for owner-occupied properties in non-target area; 15% in target area. $5000 per project; no annual statewide cap. No minimum investment. Carry forward 10 years.

INDIANA Indiana Department of Natural Resources 317-232-1646 http://www.state.in.us/dnr/historic/incentives.html	20% credit for commercial, rental housing, barns, and farm buildings that are on the State Register; 20% credit for commercial, rental housing, barns, and farm buildings that are on the State Register; 20% for owner-occupied residential.$100,000 of tax credits per project for commercial, rental housing, barns, and farm buildings; no per project cap for owner-occupied; $450,000 annual allocation for commercial etc; $250,000 for owner-occupied. Minimum investment is $10,000 over 2 years for commercial, rental housing, barns, and farm buildings; $10,000 for owner-occupied. Carry forward 15 years for commercial, rental housing, barns and farm buildings. 179 commercial projects approved since the program began in 1994. Approximately 60 residential projects approved since the program began in 2002.
IOWA State Historical Society of Iowa Historic Preservation and Cultural and Entertainment District Tax Credit Program 515-281-4137 http://www.iowahistory.org/preservation/financial_assistance/state_tax_credit/ia_state_tax_credit.html	25% credit for eligible commercial properties; mixed use properties; and barns built before 1937; 25% credit for income-producing, non-income producing residential properties and barns built before 1937. $10 million annual statewide cap in 2008, $15 million in 2009, and $20 million in 2010 and each year thereafter; no per project cap. For commercial, costs must equal at least 50% of the assessed value of the property, excluding the land, prior to rehab. For residential or barns, the costs must equal at least $25,000 or 25% of the assessed value of the property, excluding the land, prior to rehab. For mixed-use properties, the cost shall not exceed $100,000 per residential unit. Credits are transferable. Full refunds permitted for credits that exceed tax liability; or in lieu of a refund may be credited to tax liability for the following year.
KANSAS Kansas State Historical Society 785-272-8681 http://www.kshs.org/resource/statetax.htm	25% credit for qualified expenses incurred during a qualified rehab project for any property listed on the National or State Register; 25% credit for qualified expenses incurred during a qualified rehab project for any property listed on the National or State Register. No cap. Minimum investment is $5000 on quailified expenditures. Freely transferrable; carry forward 10 years. 500 projects since program began in Sept 2001, resulting in $68 million invested in the rehab of historic properties in Kansas.
KENTUCKY Kentucky Heritage Council 502-564-7005 http://www.heritage.ky.gov	20% credit for non-residential properties; 30% credit for owner-occupied residential properties. $3 million annual statewide cap for total program; for owner-occupied residential, total credit can not exceed $60,000; $400,000 per project cap for all other properties. Minimum investment is $20,000 for owner-occupied; $20,000 or the adjusted basis, whichever is greater, for all other properties. Freely transferrable. 43 projects in first year of the program; $17,272,802.95 (million) in private investment since program began.
LOUISIANA Louisiana Department of Culture, Recreation & Tourism 225-342-8160 http://www.crt.state.la.us/hp/taxincentives.htm	25% credit for income-producing properties in downtown development district; 25% credit for owner-occupied residentia and owner-occupied mixed-use qualified properties. Commercial credit is capped at $5 million per taxpayer (or entity) for any number of structures rehabbed in a particular Downtown Development District. Residential credit is capped at $25,000 per project for owner-occupied; $1 million statewide annually. For commercial credit, minimum investment of $10,000 in qualifying expenditures; for residential credit, minimum of $20,000 in qualifying expeditures. Commercial credit may be carried forward for 5 years and is transferable. Residential credit must be taken in five equal installments and is non-transferable. New program on Jan 1, 2006.
MAINE Maine Historic Preservation Commission 207-287-2132 http://www.maine.gov/mhpc	20% credit for income producing properties that qualify for the federal tax credit by being on or eligible for the National Register. No annual statewide cap. Minimum investment is $100,000 per year, per taxpayer. Credits are usable by owner or lessee. Compliance period is 5 years with pro rata recapture

MARYLAND Study: The Value of Historic Preservation in Maryland by Donovan Rypkema; Maryland Historical Trust 410-514-7628 http://www.marylandhistoricaltrust.net/taxcr.html	20% credit for commercial properties; 20% credit for owner-occupied properties. Cap on commercial credits is $3 million per project; Budget $30 million for 2007, 2008; legis not required to appropriate funds for commercial. Cap on owner-occupied prop is $50,000 in credits per project; no annual statewide cap. Minimum investment is $5000 for homeowners and rehab cost must exceed the adjusted basis of the property for commercial applicants. Credits are fully refundable. Competitive award process for commercial credits requires preference for geographical distribution; no competitive award process for owner-occupied structures. Non Profits are also eligible. 500 commercial and 2500 residential projects approved since the tax credit program began in 1997.
MASSACHUSETTS Massachusetts Historical Commission 617-727-8470 http://www.sec.state.ma.us/mhc/mhctax/taxidx.htm	20% credit for eligible income-producing properties older than 50 years. Cap $50 million annual statewide; no per project cap. No minimum investment. Credits can be carried forward 5 years. Program began in 2003. In 2006, cap rose and program was extended to 2010.
MICHIGAN Study: The Economic Impacts of Historic Preservation in Michigan, by Michigan Historic Preservation Network, November 2006; Michigan Historical Center 517-373-1630 http://www.michigan.gov/hpcredit	25% credit for historic commercial buildings; reduces to 5% when federal 20% credit is claimed for commercial properties; 25% credit for owner-occupied residential buildings. Must be National, State, or local designated property. No caps. Minimum investment is 10% of the State Equalized Value (SEV) of the property. Credits can be carried forward 10 years. Recapture period is 5 years. 600 projects approved since 1999; average 75 to 80 per year.
MISSISSIPPI Division of Historic Preservation, Mississippi Department of Archives and History 601-576-6940 http://www.mdah.state.ms.us/hpres/prestaxincent.html	25% credit for commercial property; 25% credit for owner-occupied residences. No caps.Minimum investment is 50% of total basis for commercial properties; $5000 for owner-occupied residences. Credits can be carried forward 10 years. New program effective 2006.
MISSOURI Study: Economic Impacts of Historic Preservation in Missouri, by Missouri Dept of Natural Resources, 2002; The State of Missouri's Environment 2007 by Missouri Dept of Natural Resources; Missouri Historic Preservation Program 573-751-7858 www.dnr.mo.gov/shpo http://www.dnr.mo.gov/shpo/TaxCrdts.ht	25% credit for commercial properties listed on the National Register or in a certified historic district; 25% credit for owner-occupied properties listed on the National Register or in a certified historic district. No caps. Costs must exceed 50% of adjusted basis of structure. Credits can be carried back 3 years and forward 10 years. Since the program began in 1998, 905 projects were approved receiving $485,318,415 in credits based on $1,941,799,354 allowable rehab costs and stimulating $2,357,650,759 (billion) investment in Missouri's older communities.
MONTANA Montana State Historic Office 406-444-7715 www.his.state.mt.us	5% automatic credit if property qualifies for the 20% federal credit. No caps. Requires that applicant meet the requirements for the federal program. Credits can be carried forward 7 years.

NEW MEXICO New Mexico Historic Preservation Division: 505-827-6320 http://www.nmhistoricpreservation.org/ PROGRAMS/creditsloans_taxcredits.html	50% of rehab costs for all properties listed in the State Register of Cultural Properties; 50% of rehab costs for all properties listed in the State Register of Cultural Properties. $25000 per project not located in Arts and Cultural District; 5000 per project cap in the Arts and Cultural District; no annual statewide cap. No minimum investment. Credits can carry forward 4 years. Also applies to stabilization and protection of archaeological sites listed in the State Register. 580 projects approved since program began in 1984
NEW YORK NYS Historic Preservation Office 518-237-8643 http://nysparks.state.ny.us/shpo/	State credit equal to 30% of the federal credit value (6% of rehab cost) for commercial properties that receive the federal credit; 20% state credit for owner-occupied residences listed on the State or National Register and located in federally-recognized distressed census tracts. $100,000 per commercial project; $25,000 per homeowner project. No annual aggregate statewide caps. Commercial projects are same as federal; homeowner are $5000. No transferability. Unlimited carry-forward for both commercial and homeowner. New program effective 2007.
NORTH CAROLINA Study:The Impact of Historic Preservation on the North Carolina Economy by Preservation North Carolina, 1998; North Carolina State Historic Preservation Office 919-733-4763 http://www.hpo.dcr.state.nc.us/tchome.htm	20% credit for income producing properties owners; and 30-40% credit for income-producing and non-income producing historic industrial properties; 30% for historic homeowners. No caps.$25,000 for homeowners.No transferability. Unlimited carry-forward for both commercial and homeowner. State credits must be taken in equal installments over 5 years. 20% commercial can be combined with federal 20%. 412 commercial and 762 residential projects approved since program began in 1998. New credit for historic industrial buildings effective in 2006.
NORTH DAKOTA State Historical Society of North Dakota 701-328-2666 http://www.state.nd.us/hist/RehabCredits.htm	25% credit for preservation and renovation of eligible property that is part of a Renaissance Zone Project; 25% credit for preservation and renovation of eligible property that is part of a Renaissance Zone Project. $250,000 per project; no annual statewide cap. No minimum investment. Credits can carry forward 5 years.
OHIO Ohio Historic Preservation Office 614-298-2000 www.ohiohistory.org/resource/histpres	25% of qualified rehabilitation expenditures for approved projects can receive state credit. Credit is fully refundable. No aggregate annual cap, but program is limited to 100 projects per year for two years and a cost-benefit analysis by the State before approval. Cannot be transferred and must be taken by the owner. $120 million program, authorized for a two year period beginning July 2007.
OKLAHOMA Oklahoma State Historic Preservation Office 405-521-6249 www.okhistory.org/shpo/shpom.htm	20% credit for any commercial certified rehab that meets the federal requirements for the federal rehab credit; 20% credit for any residential certified rehab that meets the federal requirements for the federal rehab credit. No caps. Freely transferrable for 5 years; credit may carry forward for 10 years. Does not apply to owner-occupied houses. Program began in 2005.

RHODE ISLAND Study: Rhode Island Historic Preservation Investment Tax Credit Economic and Fiscal Impact Analysis 2007; Rhode Island Historical Preservation & Heritage Commission 401-222-2678 http://www.preservation.ri.gov/credits/	30% credit for income-producing projects; 20% credit for owner-occupied residential properties; State Register properties qualify. $2,000 per year cap for owner-occupied; no per project cap for income-producing projects; no annual aggregate statewide cap. Minimum investment must exceed 50% of adjusted basis of structure for income producing projects; $2,000 for owner-occupied residential. Income-producing properties, credits are freely transferrable and can be carried forward 10 years; unused credits for owner-occupied residential can be carried forward as long as the property is maintained. Interior and exterior rehab qualifies for income-producing properties; only exterior rehab qualifies for owner-occupied residential properties.
SOUTH CAROLINA South Carolina State Historic Preservation Office 803-896-6100 http://www.state.sc.us/scdah/hpfinancialinc.htm	10% credit for income-producing properties that also receive the federal rehab tax credit; 25% credit for owner-occupied residential properties. No caps. Banks are eligible for the credit and allow partnerships to allocate credits among the partners. Taxpayer allowed one credit per structure per 10 year period. Credit must be taken in five equal installments.
UTAH Utah State Historical Society 801-533-3500 http://history.utah.gov/historic_preservation /financial_assistance/index.html	20% for residential properties-both owner-occupied and non-owner-occupied. No caps.
VERMONT Vermont Division for Historic Preservation 802-828-3211 www.historicvermont.org or http://www.historicvermont.org/financial/credits.html	10% additional credit for projects approved for the federal 20% tax credit. Eligible projects must be located within a designated "downtown" or "village center." $50,000 per project for 10% credit projects; $1.5 million annual statewide. Credits can carry forward 10 years; in lieu of a tax credit, the state will issue a bank credit certificate which may be sold to the bank for cash or other terms. Since program began in 1993, 750 residential projects have been approved representing $65 million investment in rehabilitation and 1750 housing units rehabbed.
VIRGINIA Virginia Department of Historic Resources 804-367-2323 http://www.dhr.virginia.gov/tax_credits/tax_credit.htm	25% credit for certified, historic, income-producing buildings; 25% credit for certified, historic, income-producing buildings. No caps. Credits can carry over 10 years; state credit may be syndicated through partnership arrangement. 1300 projects approved since program began in 1997
WEST VIRGINIA West Virginia Historic Preservation Office 304-558-0220 http://www.wvculture.org/shpo/tcresoverview.html	10% credit for income-producing structures eligible for the federal rehab tax credit; 20% credit for private residential structures listed on the National Register. No caps. Homeowner's credit can carry forward 5 years and/or may be transferred.95 commercial projects approved since program began in 1990. Approx 29 residential projects since 2000.
WISCONSIN Wisconsin Historical Society 608-264-6490 http://www.wisconsinhistory.org/hp/architecture/index.asp	5% credit that can be coupled with federal 20% available for commercial properties; 25% credit for owner-occupied residential properties. $10,000 per project for owner-occupied, no per project for commercial, no annual statewide. Owner-occupied credit not transferable; extendable for 5 years. 640 commercial projects approved since program began in 1978; Approx 2000 residential projects approved since program began in 1992.

DISTRICT OF COLUMBIA District of Columbia Historic Preservation Division 202-741-5248 Planning.dc.gov/planning/site/default.asp	A grant for historic housing rehabilitation expenses, valued at 35% of applicable D.C. income taxes is available for homeowners within specific districts.
Federal Rehabilitation Tax Credit Study: Federal Tax Incentives for Rehabilitating Historic Buildings Annual Report for Fiscal Year 2006)	20% for income-producing prop that are listed in or contributing to historic districts on the National Register of Historic Places (40,017 contributing resources were added in 2006 and 20% of these qualify as income-producing). In 2006, 1,253 projects were approved. Tax credits cost Federal gov $817 million, but leveraged $4.08 billion in private investment; a 5:1 ration of private investment to federal tax credits.

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, Historic preservation tax credit

BILL NUMBER: SB 2561

INTRODUCED BY: Kokubun, Hooser, Tokuda and 1 Democrat

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a tax credit for the qualified rehabilitation expenses incurred to rehabilitate a historic structure for mixed residential and nonresidential uses in the state.

For each review plan accepted by the Hawaii historic places review board, the credit shall be 25% of the projected qualified rehabilitation expenditures; or (2) 30% of the projected qualified rehabilitation plans if: (a) at least 20% of the units are rental units and qualify as affordable housing; or (b) at least 10% of the units are individual home ownership units and qualify as affordable housing.

The tax credit shall be available in the tax year in which the substantially rehabilitated historic structure is placed in service provided the tax credit shall be prorated for projects completed in phases.

Requires the Hawaii historic places review board to develop standards and criteria for the approval of certified historic structures for which the credit is sought. Requires the owner to notify the review board upon completion of the structure and submit documentation and certification of the costs incurred in rehabilitating the historic structure. The review board shall review the rehabilitation and verify its compliance with the rehabilitation plan.

Delineates how the credit is to be computed in the case of a partnership, S corporation, estate or trust. Stipulates that if a deduction is taken under section 179 of the IRC, no tax credit shall be allowed for the qualifying costs for which the deduction is taken.

Tax credits in excess of a taxpayer's income tax liability shall be refunded provided such amounts are over $1. Requires all claims for the credit to be filed on or before the twelfth month following the close of the taxable year for which the credit is claimed. Directs the director of taxation to prepare the necessary forms, require the furnishing of information to validate a claim for the credit and adopt rules pursuant to HRS chapter 91.

Limits the aggregate amount of tax credits that may be claimed for qualified rehabilitation projects to $50 million per year. Directs the review board, in consultation with the department of taxation, to determine the types of information necessary to enable a quantitative and qualitative assessment of the outcomes of the tax credit to be determined. Requires the submission of a statement to the review board by the last day of the taxable year following the close of a tax year in which the qualified expenditures were expended. Failure to file the required statement shall result in the recapture of such credits. The statement submitted shall be a public document.

SB 2561 - Continued

Requires the review board, in consultation with the department of taxation, to submit a report annually evaluating the effectiveness of the tax credit.

Defines "rehabilitation plan," "review board," "qualified rehabilitation expenditures" and "substantial rehabilitation" for purposes of the measure.

EFFECTIVE DATE: Tax years beginning after December 31, 2007

STAFF COMMENTS: This measure proposes an incentive in the form of an income tax credit to encourage taxpayers to rehabilitate historic properties for mixed residential and nonresidential use in the state. While it appears that the credits are proposed on a prospective basis - that is, it would provide tax credits to the taxpayer based on the projected qualified rehabilitation expenditures prior to the rehabilitation of the historic property, the tax credits would only be available in the tax year the historic structure is placed in service.

Utilizing the tax system to accomplish social goals, such as this measure addresses, sets poor tax policy and cannot be justified. Note well, that the legislature is surrendering its oversight as to what will qualify for the tax credit to the Hawaii historic places review board, leaving the door wide open to whatever the board decides as guidelines to qualify as a historic structure.

To the extent that this measure would grant preferential tax treatment because of circumstances unrelated to the imposition of the tax, the burden of the tax would be shifted to other taxpayers on an inequitable basis. If this measure is enacted, it would result in a public subsidy of costs incurred for historic preservation by a private taxpayer.

Again, tax credits are designed to alleviate some unusual burden of taxes such as the food excise tax credit which is designed to alleviate the general excise tax burden on essentials purchased by those in lower income categories. In the case of the proposed tax credit for historic preservation, there is no indication of a need for financial help, in fact in order to claim the tax credit the taxpayer has to make the expenditures first before the credit can be claimed. And if those expenditures are of any substance, the taxpayer probably already has the ability to make those expenditures. At the county level where there are complete exemptions of such sites from the real property tax, a wealthy resident living a multimillion dollar valued historic home pays absolutely no real property taxes but benefits from the multitude of city services.

If it is the intent of the legislature is to encourage and assist such rehabilitation of historic sites, then an appropriation of public funds subject to legislative review would be more appropriate.

Digested 2/11/08