

TAXBILLSERVICE

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SUBJECT: INCOME, Residential construction and remodeling tax credit

BILL NUMBER: HB 2381, HD-1

INTRODUCED BY: House Committee on Economic Revitalization, Business & Military Affairs

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers who own residential real property to claim a residential construction and remodeling tax credit of 4% of the construction or renovation costs incurred during a taxable year; provided that the costs do not exceed \$ _____ in the aggregate for each residential unit and the costs are incurred before July 1, _____.

A husband and wife filing separately, or multiple owners of a property filing separately, may apportion the credit among themselves; provided the credit may be claimed only once for a single residential property. If a deduction is taken under IRC section 179 (with respect to election to expense depreciable business assets), no tax credit shall be allowed for that portion of the construction or remodeling cost for which the deduction is taken.

Credits in excess of tax liability shall be applied to tax liability in subsequent years until exhausted. Requires all claims for the credit to be filed before the end of the twelfth month following 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.

Defines "construction or remodeling cost" and "net income tax liability" for purposes of the measure.

EFFECTIVE DATE: July 1, 2112 applicable to tax years beginning after December 31, 2009

STAFF COMMENTS: The legislature by Act 10, Third Special Session of 2001, established a nonrefundable tax credit equal to 4% of residential construction and remodeling costs up to \$250,000 to spur private sector construction activity. Since the credit was scheduled to expire on July 1, 2002, the legislature by Act 174, SLH 2002, extended the credit to July 1, 2003. This measure proposes to resurrect a similar credit.

Although some may claim that the previous tax credit incentive "jump started" construction activity especially in the wake of 9/11, looking back, there is general agreement that the tax credit created artificial dislocations in the economy, creating demand that exceeded the industry's ability to respond, sending labor and material costs beyond reasonable limits. The result is that in the years following the termination of the credit, the cost of construction exceeded reason. As a result, when the credit crisis occurred, the cost of construction was so high that there was insufficient latitude in the availability of credit to meet the demand. Thus, construction activity came to a screeching that is now being experienced. Instead of the spike that the tax credit created, recovery in the construction industry should have been stimulated with public works projects that allowed government to take advantage of a skilled

workforce available at reasonable rates. It would have allowed recovery with moderation. As many homeowners rushed to take advantage of the last tax credit boom, they found that workers became scarce and the added cost was only mitigated by the tax credit. Thus, care should be exercised in jumping on this bandwagon again.

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. This would merely result in a subsidy by government and plunge the state further into the red financially. While the adoption of this measure may alleviate some of the costs to entice homeowners to renovate their homes, it comes at a price to the state who is asked to provide public services with what little resources are available. The state cannot afford the enactment of this measure which will put it further in debt.

Digested 2/17/10



HAWAII BUILDING AND CONSTRUCTION TRADES COUNCIL, AFL-CIO

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Operating Engineers Local 3

PETER GANABAN

Laborers' International Union of North
America Local 368

DOUGLAS FULP

International Association of
Heat & Frost Insulators
& Allied Workers Local 132

February 17, 2010

Honorable Representative Marcus R. Oshiro, Chair
Honorable Representative Marilyn B. Lee, Vice Chair
Members of the House Committee on Finance
Hawaii State Capital
415 South Beretania Street
Honolulu, HI 96813

RE: **IN SUPPORT OF HB 2381**
RELATING TO TAXATION.
Hearing: Thursday, Feb. 18, 2010, 2:00 p.m., Conf. Room 308

Dear Chair Oshiro, Vice Chair Lee and the House Committee on Finance:

For the record my name is Buzz Hong the Executive Director for the Hawaii Building & Construction Trades Council, AFL-CIO. Our Council is comprised of 16-construction unions and a membership of 26,000 statewide.

Our Council **SUPPORTS** the passage of HB 2381 that requires provides a temporary tax credit for residential construction and remodeling projects.

Thank you for the opportunity to submit this testimony in support of HB 2381.

Sincerely,

William "Buzz" Hong
Executive Director

WBH/dg

The Pacific Resource
PARTNERSHIP



Testimony of:
C. Mike Kido, External Affairs
The Pacific Resource Partnership

Before the Committee on Finance

Thursday, February 18, 2010
Conference Room 308
2:00 p.m.

Aloha Chair Oshiro, Vice Chair Lee, and members of the Committee on Finance:

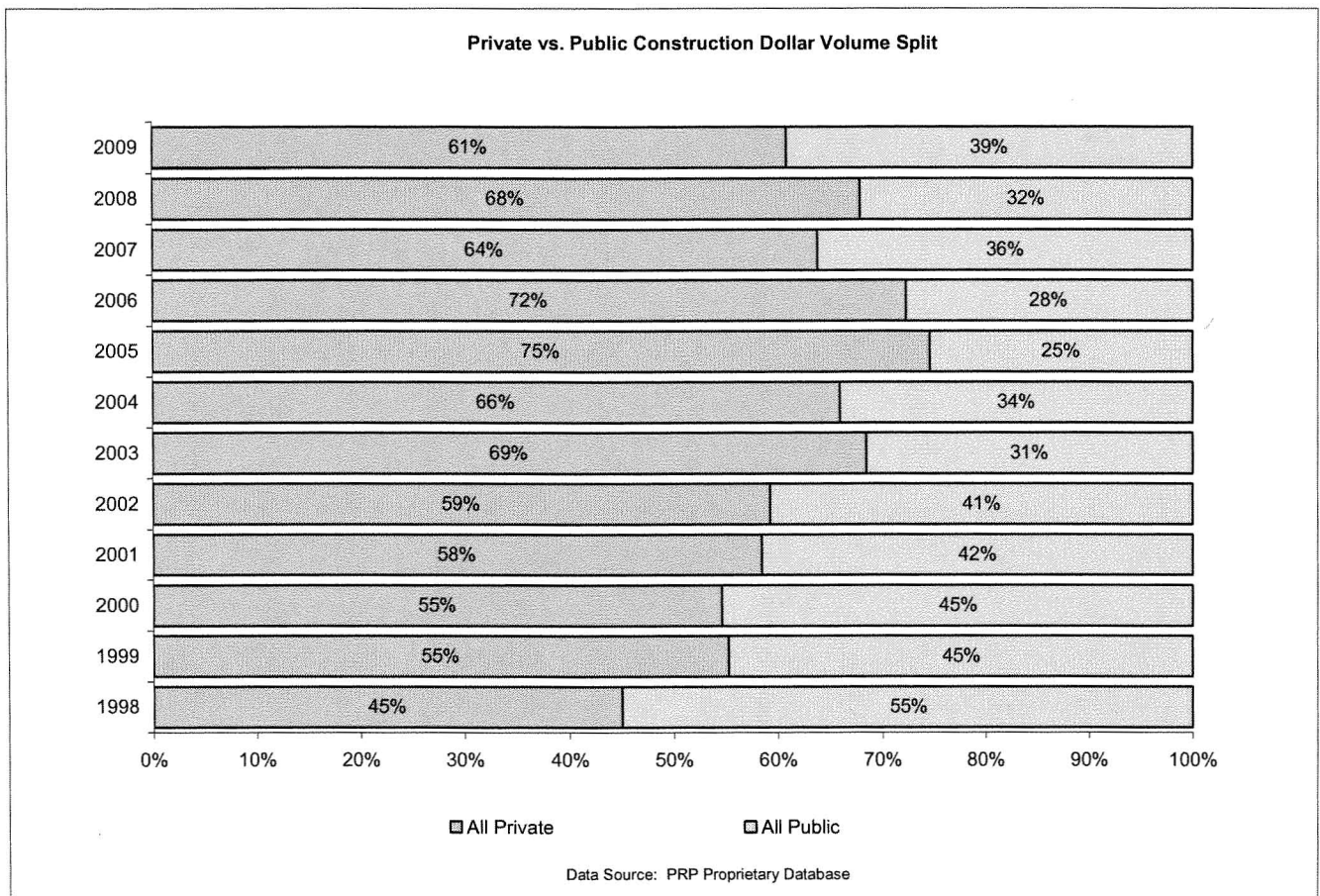
The Pacific Resource Partnership (PRP) is a joint partnership of the Hawaii Carpenters Union and their 240 signatory contractors. Our goal is to provide economic growth and jobs for our contractors and members of the Hawaii Carpenters Union.

PRP is in strong support of **HB2381 HD1 – Relating to Taxation - Provides a temporary tax credit for residential construction and remodeling projects. Effective July 1, 2012.** On February 8, PRP provided testimony in support of HB2349-Relating to Taxation, which was a Construction Industry Task Force bill, a Hotel/Timeshare Construction and Remodeling Tax Credit recommendation.

As stated in SCR132 Construction Industry Task Force report:

The effects of the September 11, 2001 terrorist attacks upon the U.S. had a devastating effect on Hawaii's economy. October, 2001 the legislature met in special session to approve emergency measures in response to the attacks. One response was the enactment of Act 10, Third Special Session Laws of Hawaii 2001, which increased the rate of the existing hotel construction and remodeling tax credit. Act 10 altered the tax credit from a 4% refundable tax credit to a 10% nonrefundable credit for costs incurred prior to July 1, 2003, to assist the tourism industry in its efforts to attract more visitors to Hawaii. Act 10 provided the stimulus needed to boost Hawaii's workforce and economy during the difficult economic times.

Hawaii needs a boost in the construction industry to help improve its economy. As the attached chart illustrates, the annual Private/Public construction dollar volume are divided. In 2009 the annual volume was \$2.4 B -- \$1.5 B (61%) in Private construction and \$940 M (39%) in Public construction. For the past several years, the private sector has declined from a 75% private/25% public split since 2005. So, although the private side has been in decline for a couple of years now and the public sector has been close to the only game in town, private construction still makes up nearly two-thirds of the construction industry -- a very significant chunk.



Hawaii is again facing hard times and we are in an economic recession. We need to create ways to stimulate the economy that will produce job creation and bolster Hawaii's faltering construction industry.

PRP respectfully asks that this legislative proposal be given full consideration in the course of your legislative deliberations.