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**HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, BUSINESS &  
MILITARY AFFAIRS  
TESTIMONY REGARDING HB 2381  
RELATING TO TAXATION**

**\*\*\*WRITTEN TESTIMONY ONLY\*\*\***

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**  
**DATE: JANUARY 28, 2010**  
**TIME: 9:30AM**  
**ROOM: 312**

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This measure provides a 4% nonrefundable income tax credit for residential construction or remodeling projects.

The Department of Taxation (Department) **prefers the Administration measure HB 2559.**

**SUPPORT FOR JOBS AND THE CONSTRUCTION INDUSTRY**—The Department strongly supports efforts to stimulate the economy through incentives. This measure targets tax incentives at the construction industry, which is a large segment of Hawaii's economy. With many construction workers and suppliers impacted by the economic downturn, this measure will encourage taxpayers to invest in their homes and put people back to work.

**PREFER ADMINISTRATION MEASURE**—The Department prefers HB 2559, which provides for a 10% nonrefundable credit for construction or remodeling of hotel properties. This measure provides an additional incentive above and beyond a mere return of general excise taxes. HB 2559 also applies to commercial properties, which may be in a better position to deploy capital in the current economy than individual homeowners. The Administration measure is also immediate and has a 2012 end-date. The \$50 million aggregate cap in credits also allows for budget certainty.

**TIGHT DEFINITIONS**—The Department suggests ensuring clear definitions of what is/is not entitled to the credit. To ensure that abuse is limited, a review of what should qualify should be considered by the Committee.

**REVENUE LOSS**—This measure will result in a revenue loss of an indeterminate amount because the caps are blank.

# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, Residential construction and remodeling tax credit

**BILL NUMBER:** SB 2605; HB 2381 (Identical)

**INTRODUCED BY:** SB by Baker; HB by Har, Aquino, Chang, Hanohano, Herkes, Ito, Karamatsu, Manahan, McKelvey, Takumi, Tsuji, Yamane and 9 Democrats

**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:** 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 1/27/10



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January 26, 2010

**The Honorable Angus L.K. McKelvey, Chair**  
House Committee on Economic Revitalization, Business, & Military Affairs  
State Capitol, Room 312  
Honolulu, Hawaii 96813

**RE: H.B. 2381 Relating to Taxation**

**HEARING: Thursday, January 28, 2010 at 9:30 a.m.**

Aloha Chair McKelvey, Vice Chair Choy and Members of the Committee:

I am Myoung Oh, Government Affairs Director, here to testify on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its 8,800 members in Hawai'i. HAR **supports** H.B. 2381, which provides for a temporary tax credit for residential construction and remodeling projects.

This measure provides for the availability of a tax credit deduction for Hawai'i taxpayers, for up to 4% of the residential construction or remodeling costs paid by the taxpayer. The tax credit allows deductions for expenses incurred for plans, design, construction, and permanently affixed equipment related to the new construction, alterations, or modifications of a residential apartment unit or home.

HAR believes that this measure will allow homeowners to make improvements to their homes thereby adding value, and also will help stimulate the real estate industry. Also, the tax credit appears to cover a homeowner's renewable energy projects, thereby promoting energy efficiency, and cost savings.

HAR looks forward to working with our state lawmakers in building better communities by supporting quality growth, seeking sustainable economies and housing opportunities, embracing the cultural and environmental qualities we cherish, and protecting the rights of property owners.

Mahalo for the opportunity to testify.

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**BIA-HAWAII**  
**BUILDING INDUSTRY ASSOCIATION**

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94-487 Akoki Street  
Waipahu, Hawaii 96797

January 28, 2010

Representative Angus McKelvey, Chair  
Committee on Economic Revitalization, Business  
and Military Affairs  
State Capitol, Room 312  
Honolulu, Hawaii 96813

RE: HB 2381 "Relating to Taxation"

Chair McKelvey and Members of the Committee on Economic Revitalization, Business and Military Affairs:

I am Karen Nakamura, Executive Vice President and Chief Executive Officer of the Building Industry Association of Hawaii (BIA-Hawaii). Chartered in 1955, the Building Industry Association of Hawaii is a professional trade organization affiliated with the National Association of Home Builders, representing the building industry and its associates. BIA-Hawaii takes a leadership role in unifying and promoting the interests of the industry to enhance the quality of life for the people of Hawaii.

BIA-Hawaii strongly supports the passage of HB2381 "Relating to Taxation" that provides a temporary tax credit for residential construction and remodeling projects. This bill will meaningfully assist current and prospective homeowners in making their decisions to buy or remodel their homes. While this bill may not be the total solution to getting our industry on the road to recovery, it is a great start. All segments of the construction industry would benefit from the passage of this bill.

We request passage of this bill.

Thank you for the opportunity to share our views with you.

*Karen I. Nakamura*

Executive Vice President/CEO

BIA-Hawaii

# ***SAH - Subcontractors Association of Hawaii***

***1188 Bishop St., Ste. 1003\*\*Honolulu, Hawaii 96813-2938***

***Phone: (808) 537-5619 ✦ Fax: (808) 533-2739***

January 28, 2010

Testimony To: House Committee on Economic Revitalization, Business, & Military Affairs  
Representative Angus L.K. McKelvey, Chair

Presented By: Tim Lyons  
President

Subject: H.B 2381 – RELATING TO TAXATION

Chair McKelvey and Members of the Committee:

I am Tim Lyons, President of the Subcontractors Association of Hawaii and we support this bill.

The Subcontractors Association of Hawaii is composed of the following nine separate and distinct subcontracting organizations which include:

HAWAII FLOORING ASSOCIATION

ROOFING CONTRACTORS ASSOCIATION OF HAWAII

HAWAII WALL AND CEILING INDUSTRIES ASSOCIATION

TILE CONTRACTORS PROMOTIONAL PROGRAM

PLUMBING AND MECHANICAL CONTRACTORS ASSOCIATION OF HAWAII

SHEETMETAL CONTRACTORS ASSOCIATION OF HAWAII

PAINTING AND DECORATING CONTRACTORS ASSOCIATION

PACIFIC INSULATION CONTRACTORS ASSOCIATION

ELECTRICAL CONTRACTORS ASSOCIATION OF HAWAII

We support this bill.

We support this bill because we know that taxpayers are particularly excited anytime they can get a tax credit instead of paying the government; they are taking a credit for themselves. We all know that this kind of credit will help spur economic activity and employment.

Our only suggestion for an amendment is that you include in the bill a proviso that the taxpayer for residential construction and remodeling must have used a licensed contractor as specified under Chapter 444 HRS. We don't think it would be proper to reward taxpayers that use illegal, unlicensed contractors to get their tax credit. Additionally, since licensed contractors must show a tax clearance in order to prove that they paid all their taxes, we think it is particularly appropriate that the tax credit should only apply if homeowners use licensed contractors.

Based on the above and with that amendment, we support this bill and thank you for your consideration.