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**HOUSE COMMITTEES ON TOURISM, CULTURE & INTERNATIONAL AFFAIRS
AND ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS
TESTIMONY REGARDING HB 2439
RELATING TO TAXATION**

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

DATE: FEBRUARY 8, 2010

TIME: 9:30AM

ROOM: 312

This measure provides a 10% refundable income tax credit for the construction or remodeling of a hotel or resort property.

The Department of Taxation (Department) supports this measure; however prefers the Administration measure HB 2559.

SUPPORT FOR TOURISM INDUSTRY—The Department supports the tourism industry and the importance of the economic activity this important industry brings to Hawaii. The Department acknowledges that having modern and newly renovated rooms are an important factor in maintaining the flow of tourists to this State.

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. The Administration measure also has a \$50 million aggregate cap in credits to allow for budget certainty.

The Department has concerns with this measure's inclusion of no cap, as well as it being a refundable credit. A refundable credit accelerates the impact to the general fund almost immediately. The Department prefers a nonrefundable credit, which spreads out the cost to the general fund over time.

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American Resort Development Association
c/o PMCI Hawaii 84 N. King Street Honolulu, HI 96817 (808) 536-5688

February 8, 2010

TO: House Tourism, Culture, & International Affairs Committee
Representative Joey Manahan, Chair
Representative James Kunane Tokioka, Vice Chair

House Economic Revitalization, Business, & Military Affairs Committee
Representative Angus L.K. McKelvey, Chair
Representative Isaac W. Choy, Vice Chair

FROM: Ed Thompson
ARDA-Hawaii

DATE: Monday, February 8, 2010
Conference Room 312
9:30 a.m.

RE: HB2439, Relating to Taxation

Chairs Manahan and McKelvey and Members of the Committees:

ARDA-Hawaii is the local chapter of the national timeshare trade association. Hawaii's timeshare industry currently accounts for ten percent of the State's lodging inventory with 7,700 timeshare units. Timeshare has had consistent occupancy rates, even during the current tough economic times. This has made our industry a vital partner and a diverse component of the visitor industry in Hawaii.

ARDA-Hawaii supports HB2439. This bill intends to help jump start Hawaii's construction industry and provide the needed stimulus to create jobs in the state by allowing a tax credit of ten per cent of the construction or renovation costs incurred during the taxable year for each qualified hotel facility located in Hawaii, provided that the construction or renovation costs are incurred before December 31, 2015. We ask the committee to support this measure.

Thank you very much for the opportunity to offer testimony.

TIMESHARE WITH ALOHA

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ANNOUNCEMENT



February 8, 2010

LATE TESTIMONY

To: Honorable Joey Manahan, Chair
House Committee on Tourism, Culture & International Affairs

Honorable Angus McKelvey, Chair
House Committee on Economic Revitalization, Business and Military Affairs

From: Keith Vieira, Senior Vice President of Operations
Starwood Hotels & Resorts-Hawaii & French Polynesia

RE: **HB 2439– Relating to Taxation – Support**
TCI/EBM Committee – February 8, 2010, Conference Room 312, 9:30 AM

Aloha Chair Manahan, Chair McKelvey and Committee Members,

My name is Keith Vieira, senior vice president of operations for Starwood Hotels & Resorts-Hawaii & French Polynesia. Thank you for the opportunity to speak in support of HB 2439, which would provide a tax credit for hotel renovations before December 31, 2015. We prefer this bill over the others due to the longer horizon it allows for construction to get started again.

It is no surprise that Hawaii's tourism industry is struggling to remain afloat while economic recovery gets underway. Since the downturn, our visitor arrivals are down significantly from previous years. This led many hotels to decrease room prices and to offer other incentives in order to remain competitive among other destination markets. In the meantime, our fixed costs have not diminished while the cost of doing business in the state significantly spiked. We are paying more in transient accommodations taxes, the cost of utilities continues to rise and we are paying some of the highest county property tax rates in the nation. We are doing the best we can, but the squeeze in added costs to our industry at this time is overly burdensome.

We know our inventory needs renovation and rejuvenating. On average our visitor facilities are more than 40 years old. Hawaii must continue to compete aggressively for the tourist dollar against other destination markets that have upgraded their inventories. That's why this improvement tax credit is a welcome relief to our beleaguered hospitality industry.

We believe this tax credit will stimulate additional construction resulting in a multiplying effect for the GET, personal income and corporate income taxes. However, we must consider that the rising costs in other areas such as proposed increases to the GET, the escalation of the TAT and higher county property taxes are all barriers for projects to get underway.

The improvement tax credit should be considered with a mix of other state and county incentives to stimulate construction, the creation of new jobs and the increase of operations for the state's travel and vacation industry.

For these reasons, we respectfully request that you pass this bill. Thank you for the opportunity to share our views on this matter.