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GOVERNOR

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HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 1307 RELATING TO TAXATION

WRITTEN TESTIMONY ONLY

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF TAXATION (OR DESIGNEE)
COMMITTEE: ERB
DATE: FEBRUARY 17, 2011
TIME: 9AM
POSITION: SUPPORT INTENT; CONCERN FOR COSTS

This measure provides a nonrefundable residential construction and remodeling tax credit. This measure also requires the Department to submit a report to the Legislature.

The Department of Taxation (Department) supports the intent of this measure; however has concerns regarding the revenue loss.

SUPPORT FOR JOBS AND THE CONSTRUCTION INDUSTRY—The Department supports the construction industry efforts to stimulate the economy. 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.

CONCERN FOR REVENUE COST—As with all measures, the Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. This bill will result in an indeterminate revenue impact because the credit amounts are blank.

From: Tina Desuacido [tina500@juno.com]
Sent: Tuesday, February 15, 2011 11:06 AM
To: ERBtestimony
Subject: Tax Foundation Testimony
Attachments: h1307-11.pdf

TRANSMISSION OF TESTIMONY

DATE: Tuesday, February 15, 2011

TO: House Committee on Economic Revitalization & Business

FROM: Tax Foundation of Hawaii

Total Pages 2

FOR: Rep. Angus McKelvey, Chair

Testifier: Lowell L. Kalapa, President - Tax Foundation of Hawaii

(Mr. Kalapa will not appear in person at the hearing.)

Date of Hearing - Thursday, February 17, 2011

Position: Comments

Time of Hearing - 9:00 am

HB 1307 - Relating to Taxation (2 pages)

Number of copies - 12

Thank you.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Residential construction and remodeling tax credit

BILL NUMBER: SB 654; HB 1307 (Identical)

INTRODUCED BY: SB by Baker; HB by Har, Aquino, Awana, Chang, Cullen, Hashem, Ichiyama, Ito, Manahan, McKelvey, Mizuno, B. Oshiro, Tokioka, Tsuji, Yamane, Yamashita & 2 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 ___% for 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.

Require the department of taxation to submit a report to the 2012 legislature that compares the impact on jobs and on the state budget that is produced by four separate tax credits for: (1) new construction to residential apartment units and houses; (2) renovations to residential apartment units and houses; (3) new construction to hotels and resorts; and (4) renovations to hotels and resorts.

This act shall be applicable to tax years beginning after 12/31/10 and ending prior to 1/1/14.

EFFECTIVE DATE: Tax years beginning after December 31, 2010

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 a similar credit with unspecified amounts.

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 halt 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.

In addition, it is doubtful that a tax credit of this magnitude will spur the construction of new housing as long as the credit markets remain frozen. Home buyers are reporting the slow pace of financing as financial institutions exercise increased caution in making home loans in the wake of the subprime debacle which brought the financial industry to its knees along with the national economy. While there is indeed demand for more housing, getting the financing to secure that home is proving to be a challenge. Until the credit markets thaw, financing a home purchase, let alone a new home purchase, will be challenging.

Finally, it should be noted that while the SB is numbered as 654, pages 3-5 are numbered 655.

Digested 2/8/11

BIA-HAWAII
BUILDING INDUSTRY ASSOCIATION

February 17, 2011

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


RE: HB "Relating to Taxation"

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

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 HB1307 "Relating to Taxation" that provides a temporary tax credit for residential construction and remodeling projects. Our construction industry was among the hardest hit by the economic downturn which started several years ago and we are still on the road to recovery. An incentive such as the temporary tax credit proposed in HB1307 will meaningfully assist current and prospective homeowners in making their decisions to buy or remodel their homes. The revenues to the state generated by the increased purchases of materials, increased employment of construction industry professionals and trades persons, and increased spending throughout our economy will more than compensate for the tax credit. We request passage of this bill.

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



Executive Vice President/CEO
BIA-Hawaii



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

Before the House Committee on Economic Revitalization & Business
Representative Angus L.K. McKelvey, Chair
Representative Isaac W. Choy, Vice Chair

HB1307 - RELATING TO TAXATION

Thursday, February 17, 2011
Conference Room 312
9:00 a.m.

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

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 **HB 1307 – Relating to Taxation - Provides a temporary tax credit for residential construction and remodeling projects. The bill also requires a report to the legislature comparing the impact on jobs and the state budget for various tax credit applications.** On February 15th, PRP provided testimony in support of SB 769 - Relating to Economic Recovery, 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:

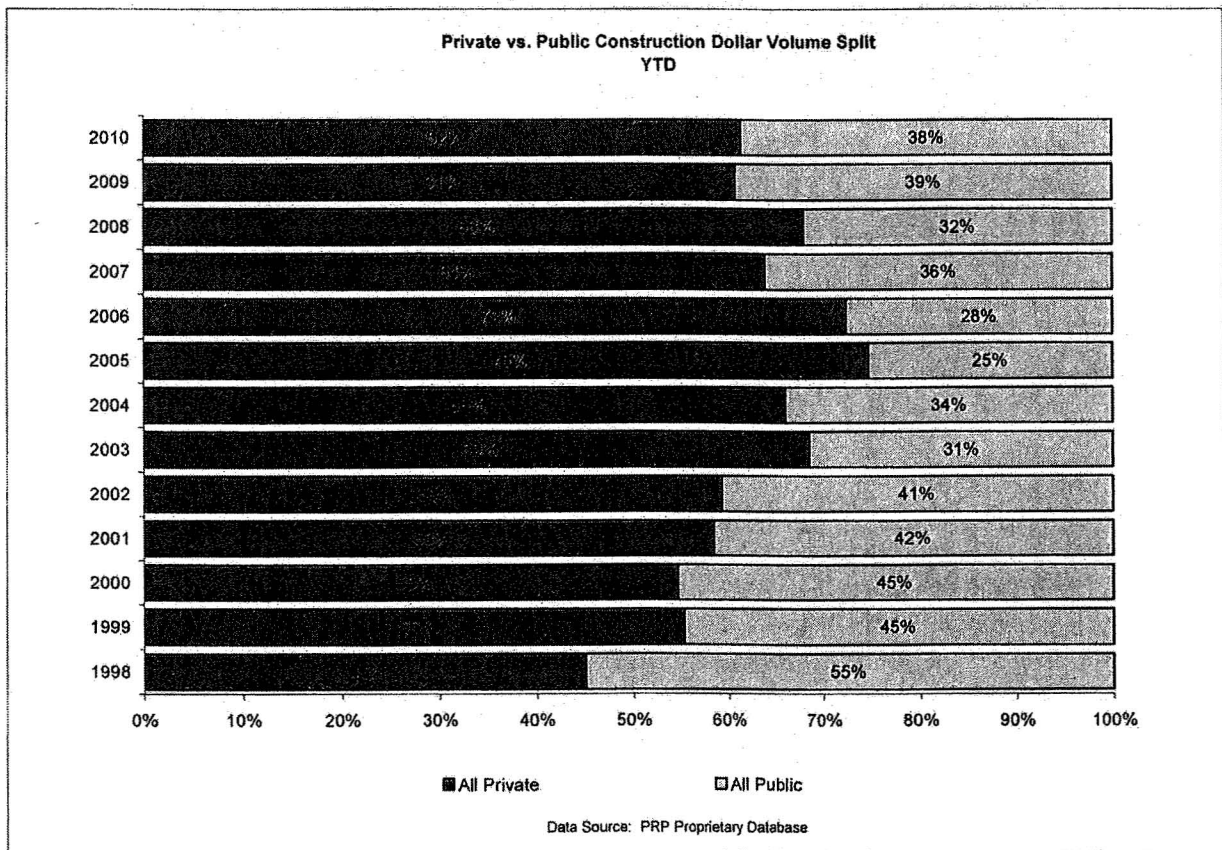
The effects of the September 11, 2001 terrorist attacks upon the U.S. had a devastating effect on Hawaii's economy. October, 2001 the legislature met in special session to approve emergency measures in response to the attacks. One response was the enactment of Act 10, Third Special Session Laws of Hawaii 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 2010 the annual volume was \$2.6B -- \$1.6 B (62%) in Private construction and \$1 B (38%) in Public construction. Since 2005, the private sector has declined from a 75% private/25% public split.

While the amount of public works has increased over the years to help support our industry, private construction – which makes up nearly two-thirds of the total volume – continues to be hampered by our current economic conditions. The increase in public works is not a large enough impact to subside the significant losses felt within the private sector.

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.



SAH - Subcontractors Association of Hawaii

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

Phone: (808) 537-5619 ★ Fax: (808) 533-2739

February 17, 2011

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

Presented By: Tim Lyons
President

Subject: H.B. 1307 – 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.