SB 769

Hawai'i Tourism Authority

NEIL ABERCROMBIE
Governor

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Testimony of
Mike McCartney
President and Chief Executive Officer
Hawai'i Tourism Authority
on
S.B. 769, S.D. 1
Relating to Economic Recovery

Senate Committee on Ways and Means
Friday, February 25, 2011
9:00 a.m.
Conference Room 211

The Hawaii Tourism Authority (HTA) supports S.B. 769, S.D.1, which proposes an income tax credit for hotel and resort property construction and renovation.

The HTA supports measures that provide the private sector with investment incentives to improve visitor facilities including hotel and resort facilities throughout the state. This measure would provide incentives for the owners of qualified hotel facilities to revitalize Hawaii's visitor product, and create new jobs in Hawaii's construction industry.

The HTA is guided by its Hawai'i Tourism Strategic Plan: 2005-2015, which identifies nine strategic initiatives needed to implement a shared vision of a sustainable visitor industry. The Tourism Product Development initiative includes the following direction, "develop new, and rejuvenate existing physical elements of the tourism product by supporting those who undertake such efforts through tax incentives, land use and planning policies…and other like programs." As such, the HTA supports these efforts that share a similar direction.

Thank you for the opportunity to testify on this measure.

L E G I S L A T I V E

TAXBILLSERVICE

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SUBJECT: INCOME, Hotel construction and remodeling tax credit

BILL NUMBER: SB 769, SD-1

INTRODUCED BY: Senate Committee on Tourism

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers subject to HRS chapter 235 and HRS chapter 237D to claim a refundable hotel construction and remodeling tax credit of the construction or renovation costs incurred before 12/31/15. The credit shall be ___% of the construction and renovation costs between $___ million and $__ million in the aggregate; or ___% of the construction or renovation costs over $___ million to a maximum of $____ million in the aggregate. The credit shall not be applicable to costs of construction or improvements for which another income tax credit was claimed for the taxable year. Establishes a total annual cap of tax credits of $____ million.

The tax credit shall be available for tax years beginning after December 31, 2010 and shall not be available for tax years beginning after December 31, 2014.

In the case of a partnership, S corporation, estate or trust, association of apartment owners of a qualified hotel facility, time share owners' association, or any developer of a time share project, the credit shall be based on qualified costs incurred by the entity with costs on which the credit is computed is determined at the entity level. To qualify for the credit, the taxpayer shall be in compliance with all applicable federal, state, and county statutes, rules, and regulations. 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 such qualified costs for which the deduction was taken. The basis of eligible property for depreciation or accelerated cost recovery system purposes shall be reduced by the amount of credit allowable and claimed.

Credits in excess of a taxpayer's income tax liability shall be applied to subsequent tax liability. Claims for the credit, including any amended claims, must be filed on or before the end of the twelfth month following the close of the taxable year.

Defines "construction or renovation cost," "net income tax liability," "qualified hotel facility," "qualified resort area," and "taxpayer" for purposes of the measure.

EFFECTIVE DATE: July 1, 2050; applicable to tax years beginning after December 31, 2010

STAFF COMMENTS: The legislature by Act 195, SLH 2000, enacted a hotel construction and renovation tax credit of 4% for hotel renovations effective for tax years beginning after 12/31/98 but before 12/31/02. Act 10 of the Third Special Session of 2001 increased the hotel renovation tax credit to 10% for construction costs incurred before 7/1/03. Act 10 also provided that the credit shall revert back to 4% on 7/1/03 and sunset on 12/31/05. This measure proposes a similar credit for hotel renovation costs incurred in a taxable year.

The original tax credit was promoted on the argument that the tax credit would be an incentive for hotels to refurbish their properties in order to remain competitive with other destinations around the world. The credit amount was set at 4% to seemingly offset the 4% general excise tax. When 9/11 hit, the momentum of the crisis fostered support for an increase in the credit to 10% to supposedly keep projects which were already in progress going. However, the governor objected and threatened to veto the sweetened credit. The legislature compromised and provided that the 10% credit would be nonrefundable.

While this measure proposes to reestablish a hotel renovation tax credit, it should be noted that no evaluation has been done to validate the effectiveness of this credit in spurring substantial renovations of hotel resort properties. While some may argue that this credit is necessary to make their upcoming renovations pencil out, one must ask whether or not it is the role of government to subsidize private investments. While the credit might be viewed as critical to a taxpayer's project or to the continued renovation of the resort plant, one must ask how long must all other taxpayers suffer the heavy burden of taxation so that this subsidy can be extended to a few?

It would be a very different picture if those who are asking for the subsidy would be willing to forgo other public services or make recommendations on how government can rein in spending, but that is not the case. Now, more than ever, lawmakers need to recognize that they need to set priorities for what precious few dollars taxpayers can part with to run state and local government. One must ask how lawmakers can provide subsidies like these while they raised the general excise tax on all other taxpayers to pay for a transit system in Honolulu? Taking care of a few taxpayers at the expense of all other taxpayers is certainly a cavalier attitude.

More importantly, if the intent of this measure is to entice hotel owners to undertake major renovations, then the sponsors do not understand what is happening to the nation's economy. In order to undertake large scale construction or renovations, either the hotel owner has to be cash rich or else have access to the credit markets. As the nation now knows, the credit markets froze beginning in late 2007 and hit a crisis at the end of 2008. The phenomenon was a major reason for the demise of Aloha Airlines and ATA which were highly dependent on credit lines to meet on-going expenditures. When the credit markets froze, there was no way to secure cash advances to meet current liabilities and the two airlines, along with thousands of other businesses, had to shut their doors.

Despite herculean efforts to thaw those credit markets and to cajole corporations that are still sitting on over a trillion dollars worth of cash to loosen up and spend that money, all has been for naught as there are still jitters about how firm a recovery is being had. Given that fact, it is doubtful that any hotel owner will undertake new renovation projects, in fact, some who had such projects underway have pulled back or completely shut down those projects for the time being. Thus, the sponsors of this and similar proposals may find this incentive useless in this environment.

That said, much to the credit of the Senate Committee on Tourism, it has called for an assessment of what hotel projects are already in the pipeline of planning, development, and financing that could take advantage of this incentive. If there is no indication that any of those projects will be able to secure the necessary credit, then a measure such as this would tie up resources that could be more effectively allocated to other core services.

Instead of subsidizing construction in order to get construction workers off the bench, government can assist in a number of other ways. For private projects, the permitting and planning process can be accelerated. One developer recently reported that it had taken two years to subdivide two parcels into seven house lots in rural Oahu at which time the planning and permitting department deferred approval citing eight issues to be addressed regarding subdivision approval. The interest on the seller has amounted to more than $500,000 to this point and going forward, both the buyer and seller are shelling out more than $27,000 a month for interest alone, not to mention the other planning and engineering costs. These are costs that could be mitigated if permitting officials would just work with developers and owners in streamlining these requirements. Apparently officials are reticent to make decisions in fear that they might make the wrong decision. The result is costly delays while construction work goes begging.

In the public arena, both the state and counties need to take advantage of this window of opportunity of readily available labor and exceptionally low interest rates to undertake a massive capital improvement program. As economists on the Council on Revenues noted recently, when adjusted for inflation, the amount of public construction projects in the state is at its lowest level since statehood. Apparently the current administration has been apprised of this and has now submitted an ambitious plan to undertake a massive CIP program. Because of the length of the lead time needed to issue the debt and do the planning and engineering, it would be most beneficial if the administration implemented those projects which have already been approved and/or for which debt has already been issued by accelerating the implementation of those projects.

Thus, rather than tinkering with the economy, lawmakers should rein back the role of government, or in other words, get out of the way and let the market lead the way to recovery. If nothing else, this measure demonstrates that lawmakers do not understand what makes the economy run and how businesses make their decisions. It is certainly sad that groups of people who have little, if any, business experience are attempting to tell business how it should be run.

Digested 2/23/11

The Pacific Resource
PARTNERSHIP

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

Committee on Ways and Means
Senator David Y. Ige, Chair
Senator Michelle Kidani, Vice Chair

SB 769 – RELATING TO ECONOMIC RECOVERY
Friday, February 25, 2011
9:00 AM
Conference Room 211

Chair Ige, Vice Chair Kidani and Members of the Committee on Ways and Means:

My name is C. Mike Kido, External Affairs of the Pacific Resource Partnership (PRP), a labor-management consortium representing over 240 signatory contractors and the Hawaii Carpenters Union.

PRP supports SB 769 – Relating to Economic Recovery which provides a seven to ten percent tax credit for construction and renovations costs on hotel property incurred after December 31, 2010, through December 31, 2016.

The tax credit for construction and renovation costs by hotel property owners is needed to grow our economy and tax base out of the deepest recession in our history. While the visitor industry must revitalize its facilities to compete in the world market, this Bill will actively support the economic recovery of Hawaii by helping the visitor industry in creating and renovating projects in tourist destination areas and to provide much needed employment opportunities. This Bill will help put construction workers back to work which in turn increase tax revenues and reduce dependence on social service spending.

With our economy in recession, stimulus and other initiatives are greatly needed to counteract the negative impact on our state. A hotel construction and remodeling tax credit can provide excellent means to boost Hawaii's tourism and construction industries.

Thank you for allowing us to comment and we respectfully ask for your favorable consideration on SB 769 – Relating to Economic Recovery.

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