HB 1307,
HD1

EDT

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
FAX NO: (808) 587-1584

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 1307, HD 1 RELATING TO TAXATION

TESTIFIER:	**FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR DESIGNEE)**
COMMITTEE:	**EDT**
DATE:	**MARCH 21, 2011**
TIME:	**1:15PM**
POSITION:	**SUPPORT INTENT**

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.

SUPPORT FOR JOBS AND THE CONSTRUCTION INDUSTRY—The Department supports the construction industry and 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.

SUPPORT SUNSET—The Department also supports the bill's 2014 sunset. It is the Department's understanding that the bill's reporting requirement was inserted due to lack of understanding over whether past examples of this tax credit were ultimately worth their fiscal cost in terms of actual impact on the construction industry. The Department supports the bill's combination of an early sunset with the reporting requirement. It will give the legislature the opportunity to revisit this credit in a few years, armed with the necessary data to determine its worth to the State. However, the Department suggests the Department of Business, Economic Development and Tourism or the Department of Labor and Industrial Relations also participate in the report concerning the impact on jobs.

REVENUE IMPACT – The revenue impact of this bill is indeterminate due to the blank amount for the cap on costs eligible for the credit per taxpayer. However, in 2001, when the Legislature provided a nonrefundable tax credit equal to 4% of home construction costs up to a maximum of $250,000 of costs incurred between January 1, 2001 and June 30, 2003, the following revenue impact occurred (note unused credits could be carried forward until exhausted):

Tax Year	No. of Returns	Credit Amount
2001	8,718	$11.3 million
2002	17,481	$13.5 million
2003	12,726	$13.1 million
2004	12,726	$5.1 million
2005	867	$7.9 million
2006	519	$1.8 million

1065 Ahua Street
Honolulu, HI 96819
Phone: 808-833-1681 FAX: 839-4167
Email: info@gcahawaii.org
Website: www.gcahawaii.org

GCA of Hawaii
GENERAL CONTRACTORS ASSOCIATION OF HAWAII
Quality People. Quality Projects.

March 21, 2011

TO: THE HONORABLE SENATOR CAROL FUKUNAGA, CHAIR AND MEMBERS OF THE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

SUBJECT: H.B.1307, HD1 RELATING TO TAXATION.

AMENDED NOTICE OF HEARING

DATE: Monday, March 21, 2011
TIME: 1:15 p.m.
PLACE: Conference Room 016

Dear Chair Fukunaga and Members of the Committee:

The General Contractors Association (GCA), an organization comprised of over five hundred and eighty (580) general contractors, subcontractors, and construction related firms, **supports** H.B.1307, HD1 Relating To Taxation

H.B. 1307, HD1 provides a temporary tax credit for residential construction and remodeling projects of not more than four (4) per cent.

Under the HD1 of the bill, the owner is required to use a licensed contractor to obtain the credit which should help our industry and Hawaii's economy.

In this period of high unemployment and economic stagnation in Hawaii's construction industry, the proposed tax credit will provide additional stimulus to spur additional residential construction and remodeling that may not otherwise be undertaken.

The GCA believes that any vehicle to stimulate Hawaii's economy and provide additional jobs will be helpful in this time of slow growth.

The GCA **supports** the passage of H.B. 1307, HD1 and recommends its passage.

Thank your for the opportunity to comment on this measure.

SAH - Subcontractors Association of Hawaii

*1188 Bishop St., Ste. 1003**Honolulu, Hawaii 96813-2938*
Phone: (808) 537-5619 ✦ Fax: (808) 533-2739

March 21, 2011

Testimony To: Senate Committee on Economic Development and Technology
Senator Carol Fukunaga, Chair

Presented By: Tim Lyons
President

Subject: H.B. 1307, HD 1 – RELATING TO TAXATION

Chair Fukunaga 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.

We suggest you retain the amendment to 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.

Hawai‘i Association of REALTORS®
www.hawaiirealtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

March 21, 2011

The Honorable Carol Fukunaga, Chair
Senate Committee on Economic Development and Technology
State Capitol, Room 016
Honolulu, Hawaii 96813

RE: H.B. 1307, H.D. 1, Relating to Taxation

HEARING: Monday, March 21, 2011 at 1:15 p.m.

Aloha Chair Fukunaga, Vice Chair Wakai, 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 8,500 members. HAR **supports** H.B. 1307, H.D. 1, which provides for a temporary tax credit on residential construction and remodeling projects.

This measure provides for the availability of a tax credit deduction for Hawai‘i taxpayers, limited to four percent of the residential construction or remodeling costs paid by the taxpayer. Also, this important tax credit includes expenses incurred for the plans, design, construction, and equipment that are permanently affixed to the building or structure related to new construction, alterations, or modifications to a residential apartment unit or home.

HAR believes that this measure will not only help stimulate pockets of the real estate industry, but allow homeowners to make improvements to their homes thereby adding value.

Mahalo for the opportunity to testify.

L E G I S L A T I V E

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: HB 1307, HD-1

INTRODUCED BY: House Committee on Economic Revitalization and Business

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% 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.

Requires 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: July 1, 2112

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 of 4%.

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 the 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.

More recently, with the disasters in Japan and the impact they have had not only on the Nikkei market but on global markets as well, this is certainly not the time to undertake a substantial subsidy program without a clear understanding of how it will affect the state economy in the face of the uncertainty of the national and global economy. Care should be exercise in the expenditure of the state resources given the unknowns that lie ahead.

Digested 3/16/11

From:	mailinglist@capitol.hawaii.gov
To:	EDTTestimony
Cc:	swartzg001@hawaii.rr.com
Subject:	Testimony for HB1307 on 3/21/2011 1:15:00 PM
Date:	Wednesday, March 16, 2011 1:48:16 AM

Testimony for EDT 3/21/2011 1:15:00 PM HB1307

Conference room: 016
Testifier position: oppose
Testifier will be present: No
Submitted by: gregory swartz
Organization: Individual
Address:
Phone:
E-mail: swartzg001@hawaii.rr.com
Submitted on: 3/16/2011

Comments:
This legislation should be deferred until the economy recovers. While some people may have money to construct new homes and do remodeling, the rest of us are struggling to keep our homes.