

SB 654

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

February 10, 2011

The Honorable David Y. Ige, Chair
Senate Ways and Means
State Capitol, Room 211
Honolulu, Hawaii 96813

RE: S.B. 654 Relating to Taxation

HEARING: Thursday, February 10, 2011 at 9:00 a.m.

Aloha Chair Ige, Vice Chair Kidani, 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** S.B. 654, 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 a certain percentage 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 the real estate industry but allow homeowners to make improvements to their homes thereby adding value.

Mahalo for the opportunity to testify.



SAH - Subcontractors Association of Hawaii

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

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

February 10, 2011

Testimony To: Senate Committee on Ways and Means
Senator David Y. Ige, Chair

Presented By: Tim Lyons
President

Subject: S.B. 654 – RELATING TO TAXATION

Chair Ige 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.



100 Kahelu Avenue
Mililani, Hawai'i 96789-3997
P.O. Box 898900
Mililani, Hawai'i 96789-8900
O'ahu: (808) 548-4811 • Fax (808) 548-2980
Lana'i: (808) 565-3000 • Fax (808) 565-3312

Harry A. Saunders
President

Fax Submittal: 586-6659
Email Submittal: WAMTestimony@Capitol.hawaii.gov

Testimony by **Harry Saunders**
President, Castle & Cooke Hawai'i
February 9, 2011

Before the Senate Committee on WAYS AND MEANS

February 10, 2011
9:00 a.m.
Room 211

In Support of SB 654
RELATING TO TAXATION

Chair Ige, Vice Chair Kidani and Members of the Senate Ways and Means Committee.

I am Harry Saunders, President of Castle & Cooke Hawai'i. We support SB 654 because it addresses one of the critical areas indentified by the Construction Industry Task Force.

As a member of the Construction Industry Task Force, established by Senate Concurrent Resolution No. 132, S.D. 1 (2009), we were directed to determine the direct contributions of the construction industry to the local economy as well as its impact on related industries, such as tourism and housing. We were also tasked with developing and proposing state actions that would promote overall economic growth, create jobs and accelerate construction and its associated positive impacts on the economy.

Based on its findings, the task force developed recommendations and proposed actions to address a number of issues, which was presented in a report to the 2010 Legislature. SB 654 addresses the issue identified by the task force as follows:

Tax Incentives: To combat current economic conditions, the task force's Tax & Incentives committee, headed by Ray Kamikawa, a partner at Chun Kerr Dodd Beaman & Wong, made several recommendations to establish or increase tax credits to encourage continued development and increase resources available to developers, including:

- Creating a 10-percent refundable hotel/timeshare construction and remodeling tax credit, to encourage developers to continue with the planning and construction of millions of dollars worth of hotel and timeshare projects that are currently stalled or stopped;
- Monetizing the state low-income tax credit by permitting the exchange of unused tax credits for an interest-free loan from the Hawai'i Housing Finance Development Corporation; and
- Introducing a new construction income tax credit for qualified homebuyers equal to two percent of a home's purchase price or \$6,000, whichever is lower. This will work to stimulate construction activity, particularly in the residential sector.

In response to the current economic climate, we ask for your consideration and support of SB 654 as it will help to generate an immediate impact on our state's delicate economy by creating jobs to build homes for Hawai'i Families. SB 654 will bring action and positive change to spur our economy. It is our understanding that the payroll for new jobs will more than offset the tax credit.

On behalf of Castle & Cooke, I respectfully request your support for SB 654. Mahalo for your consideration of our testimony. If you have questions, please feel free to contact us:

Harry Saunders, President
Castle & Cooke Hawai'i
aktsukamoto@castlecooke.com
548-4884

Richard Mirikitani, Senior Vice President and Counsel
Castle & Cooke Hawai'i
rmirikitani@castlecooke.com
548-4890

Bruce Barrett, Executive Vice President
Castle & Cooke Hawai'i
barrett@castlecooke.com
548-3746

Carleton Ching, Vice President – Community and Government Relations
Castle & Cooke Hawai'i
cching@castlecooke.com
548-3793