SAH - Subcontractors Association of Hawaii

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

February 3, 2014

Testimony To: House Committee on Tourism
Representative Tom Brower, Chair

Presented By: Tim Lyons
President

Subject: H.B. 1594 – RELATING TO TAXATION.
H.B. 2170 – RELATING TO TAXATION
H.B. 2171 – RELATING TO TAXATION

Chair Brower and Members the Committee:

I am Tim Lyons, President of the Subcontractors Association of Hawaii. SAH is composed of nine separate and distinct subcontracting organizations including:

ELECTRICAL CONTRACTORS ASSOCIATION OF HAWAII
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

We support these bills.

Short and simple, our members are in need of work. Some say the economy is improving. Maybe. But, it certainly has not dwindled down to all sectors. Anything we can do to spur hotels to spend and remodel will help out hundreds of small contractors and their employees. This will benefit our members, as well as the economy.

Based on the above, we support this bill.

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, Hotel construction tax credit

BILL NUMBER: HB 2171

INTRODUCED BY: Brower, Awana, Hanohano, Ichiyama, Kobayashi, C. Lee, Luke, Mizuno, Nakashima, Saiki, Takai, Tokioka and 3 Democrats

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 nonfundable hotel construction tax credit for construction costs incurred before 12/31/19. The credit shall be ___% of the construction costs and shall not be applicable to costs of construction for which another income tax credit was claimed for the taxable year. Defines "construction costs" as those incurred after 12/31/14 but before 12/31/19, for plans, design, construction, and equipment related to construction of a new hotel facility located in the state. The total maximum allowed credits available to all taxpayers for construction costs incurred shall not exceed $___ in any taxable year. The credits over the aggregate annual limit of $_______ may be claimed against the taxpayer's income tax liability in subsequent years until exhausted. 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.

The tax credit shall not be available for tax years beginning after December 31, 2019.

In the case of a partnership, S corporation, estate or trust, the credit shall be based on qualified costs incurred by the entity with costs on which the credit is computed 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.

Defines "net income tax liability," "hotel facility" and "taxpayer" for purposes of the measure.

EFFECTIVE DATE: Tax years beginning after December 31, 2014

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 revert back to 4% on 7/1/03 and sunset on 12/31/05. This measure proposes a similar credit of 10% for new hotel construction costs incurred in a taxable year.

The original tax credit was promoted as 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 that 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 establish a hotel construction tax credit, no evaluation has been done to validate the effectiveness of these types of credits in spurring new hotel construction or substantial renovations of hotel resort properties. Some may argue that this credit is necessary for the hotel industry, but is it the role of government to subsidize private investments? While the credit might be viewed as critical to a taxpayer's project, how long must all other taxpayers suffer the heavy burden of taxation so that this subsidy can be extended to a few? 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.

More importantly, if the intent of this measure is to entice new hotel construction, then the sponsors do not understand what is happening to the nation's economy. In order to undertake large scale construction, either the developer or 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.

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 had amounted to more than $500,000 to that point and going forward, both the buyer and seller were 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 reluctant to make decisions in fear that they might make the wrong decision. The result is costly delays while construction work goes begging.

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.

Digested 1/31/14

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Tom Brower, Chair
and Members of the House Committee on Tourism

Date: Monday, February 3, 2014
Time: 9:30 A.M.
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 2171, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 2171 to support our State's tourism industry.

H.B. 2171 creates a nonrefundable income tax credit equal to an unspecified percentage of construction or renovation costs incurred for qualified hotel facilities. The Department offers the following technical comments for your consideration.

First, the Department is opposed to the inclusion of an aggregate cap on the total amount of tax credit. Administration of aggregate caps is a challenge for both the Department and for the taxpayers applying for the credit. Aggregate caps in the past have required manual processing of eligible taxpayer returns to ensure the cap is not exceeded. Additionally, the amount of credit available to each taxpayer is dependent on the number of taxpayers applying for the tax credit each year. The mechanism which allows the amounts over the aggregate cap to be carried forward in subsection (g) is likely to cause great confusion, like with the Act 221 High Technology Business Investment Tax Credit, in that there will likely be claims for proposed tax credit every year along with carry forwards of amounts which exceed the aggregate cap.

Second, the Department suggests that the definition of "Construction or renovation costs" in subsection (g) be amended to read:

"Construction or renovation cost" means any costs incurred [~~after December 31, 2013,~~] <u>during the taxable year</u> for plans, design, construction, and equipment related to new construction of, alterations to, or modifications to a qualified hotel facility."

This amendment ensures that calendar year taxpayers and fiscal year taxpayers are eligible for the tax credit for the same period of time.

Third, the Department notes that the requirement under subsection (a) that the taxpayer be subject to both Chapter 235 (Income Tax) and Chapter 237D (Transient Accommodations Tax) may restrict the tax credit to a smaller number of taxpayers than the Committee intends. Many hotels are large operations with multiple subsidiaries, and it is possible that the entity incurring construction or renovation costs is not the same entity that operates the hotel as a transient accommodation.

Lastly, the Committee may want to consider adding pre-certification requirements for claiming the tax credit which may be verified by a State agency that is capable of determining whether the proposed construction or renovation is in fact the type of activity the State wishes to incentivize.

Thank you for the opportunity to provide comments.

brower1-Luke

From:	mailinglist@capitol.hawaii.gov
Sent:	Saturday, February 01, 2014 6:12 PM
To:	TOUtestimony
Cc:	jbedient@gmail.com
Subject:	Submitted testimony for HB2171 on Feb 3, 2014 09:30AM

HB2171
Submitted on: 2/1/2014
Testimony for TOU on Feb 3, 2014 09:30AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
James Bedient	Individual	Oppose	No

Comments: I oppose this measure - fewer tax credits for special interests!

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov

HAWAI'I TOURISM AUTHORITY

Hawai'i Convention Center
1801 Kalākaua Avenue, Honolulu, Hawai'i 96815
kelepona tel 808 973 2255
kelepa'i fax 808 973 2253
kahua pa'a web hawaiitourismauthority.org

Neil Abercrombie
Governor

Mike McCartney
President and Chief Executive Officer

Testimony of
Mike McCartney
President and Chief Executive Officer
Hawai'i Tourism Authority
on
H.B. 2169
Relating to Tourism Stimulus Incentives.
H.B. 1594
Relating to Taxation
H.B. 2170
Relating to Taxation
H.B. 2171
Relating to Taxation

House Committee on Tourism
Monday, February 03, 2014
9:30 a.m.
Conference Room 312

The Hawai'i Tourism Authority (HTA) supports H.B. 2169, H.B. 1594, H.B. 2170, H.B. 2171, which propose tax credits for new and renovated hotel or resort projects.

The HTA is tasked with marketing and promoting Hawaii as a visitor destination, with the goal of increasing visitor spending. One of the keys to branding the Hawaii visitor industry product and increasing visitor spending is the improvement and enhancement of the tourism product, which includes the physical infrastructure. As such, the HTA supports the proposals in the listed bills, which provides the private sector with investment incentives to improve hotel facilities. How the incentives are to be implemented and the amount and duration of the incentives are a matter for the Legislature to determine.

Thank you for the opportunity to offer these comments.

OUTRIGGER
ENTERPRISES GROUP
Hospitality • Retail • Development

HOUSE OF REPRESENTATIVES
THE TWENTY-SIXTH LEGISLATURE
REGULAR SESSION OF 2012

COMMITTEE ON TOURISM
Representative Tom Brower, Chair

2/3/2014
Rm. 312, 9:30 AM

HB 2169, HB 1594, HB 2170 & HB 2171
Relating to Tourism & Taxation

Chair Brower and Members of this Committee, my name is Max Sword, here on behalf of Outrigger Hotels Hawaii, in support of HB 2169, HB 1594 & HB 2170.

The promotion of construction activity alone is very important to any economy—it is a significant component of overall economic activity especially in a small island state such as Hawaii. Investment in physical assets in the visitor industry, however, reaps even more benefits than straight construction alone—it provides the means by which future economic activity will take place. The visitor industry cannot be competitive without an attractive, up-to-date physical plan in the form of hotels and recreational facilities.

Construction of hotels brings more revenues back into the economy, and taxes, because the hotel/tourist industry continues to bring in revenues beyond construction. Such projects result in higher hotel occupancies, visitor-days, and room rates. It is estimated that 30% of room rates goes back to employee salaries. Both the GET and TAT is paid by the industry thru the 11+ percent assessed each hotel.

However, even with the number of jobs, taxes etc. that a hotel project will provide, the bottom line is that it is very hard to get financing to either rebuild or to build a new hotel facility in the financial marketplace today. Tax credit such as these being proposed, will help a hotel project in getting financing to either rebuild or to build a new hotel.

Mahalo for allowing me to testify.

2375 Kuhio Avenue, Honolulu, Hawaii 96815-2992 • Phone: 808-921-6600 • Fax: 808-921-6655

HAWAI'I LODGING & TOURISM
ASSOCIATION

Testimony of George Szigeti
President & CEO
HAWAIʻI LODGING & TOURISM ASSOCIATION
Committee on Tourism
Hearing on February 3, 2014, 9:30 A.M.
HB 1594, 2170, 2171 Relating to Taxation

Good Morning Chair Brower, Vice Chair Cachola and Members of the Committee. My name is George Szigeti and I am the President and CEO of the Hawaiʻi Lodging & Tourism Association.

The Hawaiʻi Lodging & Tourism Association is a statewide association of hotels, condominiums, timeshare companies, management firms, suppliers, and other related firms that benefit from and strengthen Hawai`i's visitor industry. Our membership includes over 150 lodging properties, representing over 48,000 rooms, and approximately 470 other Allied members. The lodging industry alone employs over 38,000 workers across the state of Hawai`i and generated over $5.7 billion in annual sales in 2012. As part of the broader visitor industry, we represent one of Hawai`i's largest industries and a critical sector of the economy.

On behalf of HLTA, permit me to offer this testimony regarding HB 1594, HB 2170, and HB 2171 Relating to Taxation. These bills each provide for an income tax credit for new construction, with HB 1594 designating the tax credit as 10% and also including renovation.

The Hawaiʻi Lodging & Tourism Association <u>supports</u> these measures because they provide incentives to encourage investment that would stimulate the revitalization of the state's inventory of aging hotel properties. Investing in our infrastructure is critical to our ability to compete against other destinations. Additionally, hotel construction and renovation would have the added benefit of generating construction and hospitality jobs throughout the state.

We believe the income tax credit of 10% on both hotel construction and renovation included in HB 1594 will provide the greater stimulus due to the inclusion of renovation costs. Renovating current structures is a key component to enhancing the lodging product in Hawaiʻi.

These measures can provide important incentives for new investment in our visitor industry and we urge their favorable consideration.

Thank you for this opportunity to testify.

Hawai`i Lodging & Tourism Association
2270 Kalakaua Avenue, Suite 1506, Honolulu, Hawaiʻi 96815 · Phone: (808) 923-0407 · Fax: (808) 924-3843
info@hawaiilodging.org · www.hawaiilodging.org

Maui Hotel & Lodging
ASSOCIATION

Testimony of
Lisa H. Paulson
Executive Director
Maui Hotel & Lodging Association
on
HB2171
.**Relating To Taxation**

COMMITTEE ON TOURISM
Monday, February 3, 2014, 9:30am
Room 312

Dear Chair Brower, Vice Chair Cachola and Members of the Committee,

The Maui Hotel & Lodging Association (MHLA) is the legislative arm of the visitor industry. Our membership includes over 150 property and allied business members in Maui County – all of whom have an interest in the visitor industry. Collectively, MHLA's membership employs over 20,000 local residents. The visitor industry is the economic driver for Maui County. We are the largest employer of residents on the Island - directly employing approximately 40% of all residents (indirectly, the percentage increases to 75%).

MHLA **supports** HB2171 which provides an income tax credit for costs incurred in new hotel construction.

This Bill would stimulate the revitalization many of the state's aging hotel properties. Investing in our infrastructure is critical to our ability to compete against other sun destinations, especially now when we are seeing a slight softening of our future bookings. Hotel construction and renovation would have the added benefit of generating construction and hospitability jobs throughout the state. Furthermore, new properties would generate additional tax revenues to support the State and Counties.

We urge you to support House Bill 2171 as it would provide an important incentive for new investment in our visitor industry.

Thank you for the opportunity to testify.

1727-B Wili Pa Loop • Wailuku, HI 96793 • 808/244-8625 • 808/244-3094 fax • info@mauihla.org