

NEIL ABERCROMBIE  
GOVERNOR

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LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
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JOSHUA WISCH  
DEPUTY DIRECTOR

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. 1594, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 1594 to support our State's tourism industry and provides the following comments for the Committee's consideration.

H.B. 1594 creates a nonrefundable income tax credit equal to ten percent of construction or renovation costs incurred for qualified hotel facilities, provided the construction or renovation costs are incurred before December 31, 2019.

First, the Department suggests that subsection (a) be amended to provide the credit for fiscal year taxpayers for the same length of time that calendar year taxpayers would be eligible and to change the applicable date to January 1, 2015 because the current date has a retroactive application. If the purpose of this measure is to incentivize construction or renovation of hotels, retroactive application does not seem necessary. The Department offers the following amendment of the second paragraph of subsection (a):

The amount of the tax credit shall be ten per cent of the construction or renovation costs incurred during the taxable year for each qualified hotel facility located in Hawaii, and shall not include the construction or renovation costs for which another credit was claimed under this chapter for the taxable

~~year [; provided that the construction or renovation costs are incurred before December 31, 2019].~~ The credit shall be available for taxable years beginning on or after January 1, 2015 and not available for taxable years beginning after December 31, 2019.

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

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

Second, 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 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 credit which could 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.

# ***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.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Hotel construction and remodeling tax credit

BILL NUMBER: HB 1594

INTRODUCED BY: Souki by request

**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 nonrefundable hotel construction and renovation tax credit of the construction or renovation costs incurred before 12/31/19. The credit shall be 10% of the construction and renovation costs and shall not be applicable to costs of construction or improvements for which another income tax credit was claimed for the taxable year. Defines “construction or renovation costs” as those incurred after December 31, 2013 but before 12/31/19, for plans, design, construction, and equipment related to new construction, alterations, or modifications to a qualified hotel facility.

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, 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 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 “net income tax liability,” “qualified hotel facility” and “taxpayer” for purposes of the measure.

**EFFECTIVE DATE:** Tax years beginning after December 31, 2013

**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 hotel renovation 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 reestablish a hotel renovation tax credit, no evaluation has been done to validate the effectiveness of this credit in spurring substantial renovations of hotel resort properties. Some may argue that this credit is necessary to make their upcoming renovations pencil out, but is it 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, 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 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.

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

**Testimony of  
Gary Slovin / Mihoko Ito  
on behalf of  
Wyndham Vacation Ownership**

DATE: February 1, 2014

TO: Representative Tom Brower  
Chair, Committee on Tourism  
*Submitted Via [TOUTestimony@capitol.hawaii.gov](mailto:TOUTestimony@capitol.hawaii.gov)*

RE: **H.B. 1594 – Relating to Taxation**  
**Hearing Date: Monday, February 3, 2014 at 9:30 a.m.**  
**Conference Room: 312**

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Dear Chair Brower and Members of the Committee on Tourism,

We submit this testimony on behalf of Wyndham Vacation Ownership. Wyndham offers individual consumers and business-to-business customers a broad suite of hospitality products and services through its portfolio of world-renowned brands. Wyndham Vacation Ownership has substantial presence in Hawaii through its Wyndham Vacation Resorts and WorldMark by Wyndham brands.

Wyndham **supports H.B. 1594**, which provides an income tax credit for hotel construction and renovation, [including time share projects](#). The visitor industry is a very significant part of Hawaii's economy, which creates and supports many jobs for our State. Hawaii's hotel and resort infrastructure is aging, and traditional financing has not spurred necessary renovations and new construction. Providing this tax incentive will not only create new jobs, but will help create and maintain facilities that attract tourists and keep Hawaii's principal industry competitive in the global market.

For the above reasons, we support this measure and respectfully request that the Committee pass it for further consideration.

Thank you for the opportunity to submit testimony on this measure.

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Gary M. Slovin  
Mihoko E. Ito  
Tiffany N. Yajima  
Jennifer C. Taylor

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**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.







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.



**HAWAI'I LODGING & TOURISM**  
**A S S O C I A T I O N**

Testimony of George Szigeti  
President & CEO  
HAWAI'I 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 Hawai'i Lodging & Tourism Association.

The Hawai'i 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 Hawai'i Lodging & Tourism Association supports 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 Hawai'i.

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.



*Maui Hotel & Lodging*  
ASSOCIATION

Testimony of  
**Lisa H. Paulson**  
Executive Director  
Maui Hotel & Lodging Association  
on  
**HB1594**  
**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** HB1594 which creates a ten per cent tax credit for construction or renovation costs incurred on a qualified hotel facility before December 31, 2019.

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 hospitality 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 1594 as it would provide an important incentive for new investment in our visitor industry.

Thank you for the opportunity to testify.