SB2968

Measure Title:	RELATING TO TOURISM STIMULUS INITIATIVES.
Report Title:	Income Tax Credit; Hotel Construction and Renovation
Description:	Provides an income tax credit for hotel construction and renovation for taxable years beginning on January 1, 2015, and ending on December 31, 2020.
Companion:	
Package:	None
Current Referral:	TSM, WAM
Introducer(s):	KAHELE, Solomon

Sort by Date		Status Text
1/23/2014	S	Introduced.
1/23/2014	S	Passed First Reading.
1/23/2014	S	Referred to TSM, WAM.
1/24/2014	S	The committee(s) on TSM has scheduled a public hearing on 01-29-14 3:00PM in conference room 229.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
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STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Gilbert Kahele, Chair
and Members of the Senate Committee on Tourism

Date: Wednesday, January 29, 2014
Time: 3:00 p.m.
Place: Conference Room 229, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 2968, Relating to Tourism Stimulus Initiatives

The Department of Taxation (Department) appreciates the intent of S.B. 2968 to support our State's tourism industry.

S.B. 2968 creates a nonrefundable income tax credit equal to 10% of construction or renovation costs incurred for qualified hotel facilities, provided the construction or renovation costs are incurred before July 1, 2019. The Department offers the following technical comments for your consideration.

First, the Department suggests that the period during which the credit is available be clarified. The purpose clause, subsection (b) which states that costs must be incurred before July 1, 2019, and subsection (i) are not consistent. The Department suggests the following amendments to provide clarification:

The Department suggests that the last paragraph of Section 1 be amended to read:

> The purpose of this Act is to provide an income tax credit for hotel construction and renovation for taxable years beginning on or after January 1, 2015, and [~~ending on~~] on or before December 31, [~~2020~~] 2019.

The Department suggests that subsection (b) be amended in order to provide the credit for fiscal year taxpayers for the same number of taxable years that calendar year taxpayers would be eligible for as follows:

> (b) The amount of the credit shall be equal to ten per cent of the construction or renovation costs incurred by the taxpayer 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 shall be incurred before July 1, 2019~~].

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

> "Construction or renovation costs" means any costs incurred [~~after June 30, 2014, and before July 1, 2019,~~] <u>during the taxable year</u> for plans, design, construction, and equipment related to new construction, alternations, or modifications to a qualified hotel facility.

The Department also suggests amending subsection (i) to read:

> (i) The tax credit allowed under this section shall [~~not~~] apply to taxable years beginning <u>on or</u> after [~~December 31, 2020~~] January 1, 2015 <u>and not apply to taxable years beginning after December 31, 2019</u>.

Second, the Department notes that subsection (a)'s requirement 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 precertification requirements for claiming the credit which may be verified by a State agency with the capability 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.

HAWAIʻI TOURISM AUTHORITY

Hawaiʻi Convention Center
1801 Kalākaua Avenue, Honolulu, Hawaiʻi 96815
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Neil Abercrombie
Governor

Mike McCartney
President and Chief Executive Officer

Testimony of
Mike McCartney
President and Chief Executive Officer
Hawaiʻi Tourism Authority
on
S.B. 2968
Relating to Taxation

Senate Committee on Tourism
Wednesday, January 29, 2014
3:00 p.m.
Conference Room 229

The Hawaiʻi Tourism Authority (HTA) supports S.B. 2968, which proposes a 10 percent tax credit for construction and renovation costs of qualified hotel facilities incurred after June 30, 2014 and before July 1, 2019.

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 S.B. 2968, which provides the private sector with investment incentives to improve hotel facilities.

Thank you for the opportunity to offer these comments.

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 and renovation tax credit

BILL NUMBER: SB 2968

INTRODUCED BY: Kahele and 1 Democrat

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 7/1/19. 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 June 30, 2014, but before July 1, 2019, 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, 2020.

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: Upon approval

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. 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 the business community how it should be run.

Digested 1/28/14

Senator Gilbert Kahele, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Members of the Senate Committee on Tourism
Twenty-Seventh Legislature
Regular Session, 2014

Re: S.B. 2968
Hearing on January 29, 2014, 3:00 p.m.
Conference Room 213

Dear Chair, Vice-Chair and Members of the Committee:

My name is Howard Nusbaum and I am the President and CEO of the American Resort Development Association (ARDA). ARDA works in partnership with its local chapter, ARDA-Hawaii.

ARDA supports S.B. 2968.

Tourism is Hawaii's principal industry, with visitor expenditures estimated to be over $15,000,000,000 in 2013, representing approximately twenty per cent of Hawaii's economy. Tourists stay at hotels, resorts, and timeshare resorts where they enjoy shopping, recreational activities, and attendance at attractions and sporting events which significantly contributes to Hawaii's economy, workforce, and tax base.

ARDA believes that Hawaii is uniquely positioned to further leverage the valuable economic development resource the hotel, resort, and timeshare industries provide through favorable tax policies such as those proposed in S.B. 2968.

By way of example, promising trends in consumer demand for timeshare should serve as a powerful economic development resource for island destinations such as Hawaii which are competing globally in the tourism marketplace. Not only is timeshare one of the fastest growing segments of the lodging industry, it has become an essential component of financing many of Hawaii based mixed use hospitality development projects.

Thank you for your consideration of this legislation.

Very Truly Yours,

Howard Nusbaum

Testimony of
Jason Gamel
on behalf of
Wyndham Vacation Ownership

DATE: January 28, 2014

TO: Senator Gilbert Kahele
Chair, Committee On Tourism
Submitted Via TSMtestimony@capitol.hawaii.gov

RE: **S.B. 2968 – Relating to Tourism Stimulus Initiatives**
Hearing Date: Wednesday January 29, 2014 at 3:00 p.m.
Conference Room: 229

Dear Chair Kahele and Members of the Committee on Tourism,

I am Jason Gamel, SVP-Legal, testifying 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 S.B. 2968,** which provides an income tax credit for hotel construction and renovation. 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.

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

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Hilton Grand Vacations Club

Written Testimony in Support of:

SB 2968 "RELATING TO TOURISM STIMULUS INITIATIVES."

Wednesday, January 29, 2014
3:00 p.m.
Conference Room 229 -- State Capitol

Aloha, Chair Kahele, Vice Chair Keith-Agaran, and Members of the Senate Committee on Tourism, I am Bryan Klum, Executive Vice President of Hilton Grand Vacations, Asia-Pacific Region.

Hilton Grand Vacations and our over 1,000 local employees strongly support this measure, which provides an income tax exemption for hotel and resort, including timeshare, construction and renovation.

Timeshare has been and continues to be a good product for the State of Hawaii. In fact, the timeshare sector has and continues to outpace the State's overall visitor industry by two key measures: annual occupancy rates and investment in new construction. Consistent and resilient occupancy rates of timeshare properties continue to help stabilize hotel occupancy levels and mitigate negative economic impacts during periods of uncertainty. This translates to thousands of jobs for Hawaii residents and millions of dollars of tax revenue annually.

While Hawaii continues to attract its share of visitors, we are all too well aware that to continue to be a leading resort destination depends on our ability to regenerate ourselves and offer a quality experience to our visitors, which includes the physical infrastructure. SB 2968 provides the private sector with investment incentives to develop new and improve existing visitor properties throughout the State.

Thank you for the opportunity to submit these comments.

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Testimony of George Szigeti
President & CEO
HAWAI'I LODGING & TOURISM ASSOCIATION
Committee on Tourism
Hearing on January 29, 2014, 3:00 p.m.
Senate Bill 2968 Relating to Tourism Stimulus Initiatives

Dear Chair Kahele, Vice Chair Keith-Agaran and Members of the Committee,

My name is George Szigeti and I am the President and CEO of the Hawai'i Lodging & Tourism Association (HLTA). HLTA 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 – which employees 1/6 of all workers and 1/5 of those in the private sector, and generated $14.4 billion in visitor spending in 2012 – 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 Senate Bill 2968, which would provide an income tax credit for hotel construction and renovation for taxable years beginning on January 1, 2015, and ending on December 31, 2020.

The Hawai'i Lodging & Tourism Association **supports** this measure, which we believe could 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 because it enables us to keep our lodging properties fresh and appealing, which in turn creates new reasons for visitors to choose Hawai'i as their destination of choice. Additionally, hotel construction and renovation would have the added benefit of generating construction and hospitability jobs throughout the state.

Senate Bill 2968 can provide an important incentive for new investment in our visitor industry and we urge its favorable consideration.

Thank you for this opportunity to testify.

Hawai`i Lodging & Tourism Association
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Maui Hotel & Lodging
ASSOCIATION

Testimony of
Lisa H. Paulson
Executive Director
Maui Hotel & Lodging Association
on
SB2968
Relating To Tourism Stimulus Initiatives

COMMITTEE ON TOURISM
Wednesday, January 28, 2014, 3:00pm
Room 229

Dear Chair Kahele, Vice Chair Keith-Agaran 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** SB2968 which provides an income tax credit for hotel construction and renovation for taxable years beginning on January 1, 2015, and ending on December 31, 2020.

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. Furthermore, hotel construction and renovation would have the added benefit of generating construction and hospitability jobs throughout the state. New properties would have the added benefit of generating additional taxes to support the State and Counties.

We urge you to support Senate Bill 2968 as it would provide an important incentive for new investment in our visitor industry.

Thank you for the opportunity to testify.

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