



STATE OF HAWAII
DEPARTMENT OF TAXATION
830 PUNCHBOWL STREET, ROOM 221
HONOLULU, HAWAII 96813
<http://tax.hawaii.gov/>
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

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

Date: Thursday, February 8, 2018
Time: 9:30 A.M.
Place: Conference Room 423, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 1782, Relating to Fire Protection.

The Department of Taxation (Department) appreciates the intent of H.B. 1782 and offers the following comments for your consideration.

H.B. 1782 establishes a new nonrefundable tax credit for owner-occupant taxpayers who install automatic fire sprinkler systems in certain residences. A summary of key provisions are as follows:

- Adds a new section to Hawaii Revised Statutes (HRS) chapter 235, creating a nonrefundable tax credit for every eligible automatic fire sprinkler system that is installed and placed in service during the taxable year in any new or existing residential occupancy, including one- and two-family dwellings and condominiums and apartments in a building used only for residential purposes;
- Sets the amount of the credit at thirty percent of the actual cost of the system, including installation costs, water costs, and permit fees;
- Clarifies that only owner-occupants of the dwelling or the purchaser installing the automatic sprinkler system will be entitled to a single tax credit;
- Limits the credit to one credit per tax map key number;
- Sets a cap of \$5,000 on the amount of the credit;
- States that the basis of eligible property for depreciation or accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of the credit allowable and claimed under this measure;
- Applies to taxable years beginning after December 31, 2017; and
- Will be repealed on June 30, 2028.

First, the Department notes that there appears to be contradictory language within the measure. Section 235-__ (a) states that any qualifying taxpayer who is an owner-occupant may claim this credit, but section 235__2(b)(1) states that “[o]nly the owner-occupant of the dwelling *or the purchaser installing the automatic sprinkler system*” will be entitled to a single tax credit (emphasis added). The Department suggests amending either provision for consistency.

Second, the Department respectfully requests that the new tax credit be made applicable to taxable years beginning after December 31, 2018. The Department is in the process of implementing individual income tax into its new computer system and additional time will allow the Department to properly implement new tax features such as credits.

Finally, Department suggests amending Section 4 of the measure so that the law is clear regarding the years that the tax credit is available. Incorporating the Department’s last two suggestions, Section 4 could be amended to read:

Section 4. This Act, upon its approval, shall apply to taxable years beginning after December 31, 2018, but not to taxable years beginning after December 31, 2028.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR

SHAN S. TSUTSUI
LIEUTENANT GOVERNOR



LEONARD HOSHIJO
ACTING DIRECTOR

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
830 PUNCHBOWL STREET, ROOM 321
HONOLULU, HAWAII 96813
www.labor.hawaii.gov
Phone: (808) 586-8844 / Fax: (808) 586-9099
Email: dliir.director@hawaii.gov

February 6, 2018

The Honorable Tom Brower, Chair
Committee on Housing
House of Representatives
State Capitol, Room 315
Honolulu, Hawaii 96813

Dear Chair Brower:

Subject: House Bill (HB) 1782 Relating to Fire Protection

I am Manuel P. Neves, Chair of the Hawaii State Fire Council (SFC) and Fire Chief of the Honolulu Fire Department (HFD). The SFC and the HFD support HB 1782, which establishes a refundable income tax credit of 30% of the total cost of an automatic fire suppression system in any residential occupancy, including one- or two-family dwellings, and condominiums and apartments in buildings used for residential purposes.

The Marco Polo condominium fire on July 14, 2017, highlights the dangers of fire in unsprinklered buildings. According to national and Hawaii fire data, fires in one- and two-family dwellings have the highest death rate of all occupancies. Automatic fire sprinkler systems have been proven to save lives and property and protect the environment. Death rates and property loss are substantially reduced when these systems are installed and properly maintained.

Concerns by condominium associations have brought to light the financial burden to property owners who want or may be required to retrofit automatic fire sprinklers. Retrofitting high-rise residential buildings and one- and two- family dwellings would be costly and would be assessed to the property owners. Low interest loans could reduce the financial impact. Having multiple methods to reduce the sprinkler costs will help make the installation of fire sprinklers reach an achievable outcome.

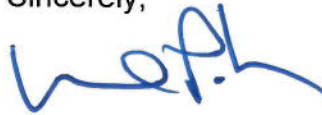
The Honorable Tom Brower, Chair
Page 2
February 6, 2018

Life, safety, and property protection is the top priority for the SFC and the HFD. The SFC sincerely appreciates the effort by the legislature to provide cost savings to residents who live in unsprinklered high-rise buildings and one- and two-family dwellings. The life-saving benefits of residential fire sprinklers will endure for future generations not only in high-rises, but in all sprinklered buildings.

The SFC and the HFD urge your committee's support on the passage of HB 1782.

Should you have questions, please contact SFC Administrative Specialist Lloyd Rogers at 723-7176 or lrogers@honolulu.gov.

Sincerely,



MANUEL P. NEVES
Chair

MPN/LR:clc

HB-1782

Submitted on: 2/6/2018 12:42:36 PM

Testimony for HSG on 2/8/2018 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Richard Emery	Associa	Support	No

Comments:

We support this bill.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit for Fire Sprinklers

BILL NUMBER: HB 1782; SB 2185 (Identical)

INTRODUCED BY: SB by KOUCHI by request; HB by SAIKI by request

EXECUTIVE SUMMARY: Establishes an income tax credit of 30% of the actual cost, including installation, water, and permit fees, of an automatic fire sprinkler system in any residential occupancy in a building used for residential purposes. Sunsets 6/30/2028. A direct appropriation would be preferable as it would provide some accountability for the taxpayer funds being utilized to support this effort. Meaning, we as taxpayers know what we're getting and we know how much we're paying for it.

SYNOPSIS: The amount of the credit would be 30% of the actual cost of the system, including installation, water meter, and permitting fees, provided that: (1) only the owner/occupant of the dwelling or the purchaser installing the automatic sprinkler system in a new one- or two-family dwelling used only for residential purposes shall be entitled to a single tax credit; (2) only one credit may be claimed per tax map key number; and (3) the amount of the credit taken shall not exceed \$5,000.

The basis of eligible property for depreciation purposes shall be reduced by the amount of credit allowable and claimed.

The credit is nonrefundable. Excess credit can be carried forward to future taxable years until exhausted.

Provides that all claims for this credit, including any amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed.

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2017 and is repealed on June 30, 2028.

STAFF COMMENTS: Lawmakers need to keep in mind two things. First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount. The second point to remember about tax credits is that they are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse?

If lawmakers want to subsidize the purchase of this type of equipment, then a direct appropriation would be more accountable and transparent.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation may be a far less costly method to accomplish the same thing.

Some technical concerns with the bill as it is now drafted:

Subsection (f) states that all of the provisions relating to assessments and refunds shall apply to the tax credit under this section. They do anyway. This subsection is not needed.

Subsection (g) relating to deadline for filing would normally contain the sentence, "Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit."

Digested 2/6/2018

HB-1782

Submitted on: 2/7/2018 8:52:33 AM

Testimony for HSG on 2/8/2018 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	OCC Legislative Priorities	Support	No

Comments:



2018 OFFICERS

PRESIDENT
DEAN Y. UCHIDA
SSFM INTERNATIONAL, INC.

PRESIDENT-ELECT
MARSHALL HICKOX
HOMEWORKS CONSTRUCTION, INC.

VICE PRESIDENT
DWIGHT MITSUNAGA
DM PACIFIC, INC.

SECRETARY
CHRIS CHEUNG
CC ENGINEERING & CONSTRUCTION, INC.

TREASURER
BRIAN MOORE
CENTRAL PACIFIC BANK

SPECIAL APPOINTEE-BUILDER
GREG THIELEN
COMPLETE CONSTRUCTION SERVICES CORP.

SPECIAL APPOINTEE-BUILDER
MARK KENNEDY
HASEKO CONSTRUCTION MANAGEMENT
GROUP, INC.

SPECIAL APPOINTEE-ASSOCIATE
CRAIG WASHOFKY
SERVCO HOME & APPLIANCE DISTRIBUTION

IMMEDIATE PAST PRESIDENT
EVAN FUJIMOTO
GRAHAM BUILDERS, INC.

CHIEF EXECUTIVE OFFICER
GLADYS MARRONE
BIA-HAWAII

2018 DIRECTORS

KAREN BERRY
TRADE PUBLISHING COMPANY

DARCY ENDO-OMOTO
HAWAIIAN ELECTRIC COMPANIES

MARK HERTEL
INTER-ISLAND SOLAR SUPPLY,
OAHU-MAUI-HAWAII-KAUAI

BRENTON LIU
DESIGN TRENDS CONSTRUCTION, INC.

SARAH LOVE
BAYS LUNG ROSE & HOLMA

BEAU NOBMANN
HPM BUILDING SUPPLY

GARY T. OKIMOTO
HONOLULU WOOD TREATING

JORDAN OKIMURA
BROOKFIELD HOMES HAWAII, LTD

JACKSON PARKER
D.R. HORTON, SCHULER DIVISION

ALAN TWU
HK CONSTRUCTION CORP.

DARYL TAKAMIYA
CASTLE & COOKE HOMES

PAUL D. SILEN
HAWAIIAN DREDGING
CONSTRUCTION CO. INC.

ADDRESS:
94-487 AKOKI STREET, SUITE 213
WAIPAHU, HAWAII 96797
P 808.847.4666

LATE

Testimony to the House Committee on Housing
Thursday, February 8, 2018
9:30 am
State Capitol, Room 423

RE: HB 1782 – Relating to Fire Protection and
HB 2523 – Relating to Fire Sprinklers

Chair Brower, Vice-Chair Nakamura, & members of the Committee:

My name is Gladys Quinto-Marrone, CEO of the Building Industry Association of Hawaii (BIA-Hawaii). Chartered in 1955, the Building Industry Association of Hawaii is a professional trade organization affiliated with the National Association of Home Builders, representing the building industry and its associates. BIA-Hawaii takes a leadership role in unifying and promoting the interests of the industry to enhance the quality of life for the people of Hawaii.

BIA-Hawaii submits the following comments on H.B. 1782 which proposes to establish an income tax credit of 30% of the actual cost, including installation, water, and permit fees, of an automatic fire sprinkler system in any residential occupancy in a building used for residential purposes. BIA-Hawaii also submits comments on H.B. 2523 which proposes to establish a refundable income tax credit of 25% of the total costs, including installation costs, of an automatic fire sprinkler or automatic fire sprinkler system in any new detached 1- or 2-family dwelling unit in a structure used only for residential purposes.

We understand the desire to provide financial assistance to condominium associations whose members would need to pay for the retrofit or installation of automatic fire sprinkler systems. Our concern is that the source of funding the loans should not come from any tax revenues (i.e. income taxes, real property taxes, GET, etc.) as these public funds would be used to fund one segment of the construction industry as opposed to the industry as a whole.

Thank you for the opportunity to express our views on this matter.

HB-1782

Submitted on: 2/5/2018 5:09:21 PM

Testimony for HSG on 2/8/2018 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez		Support	No

Comments: