



STATE OF HAWAII
DEPARTMENT OF TAXATION
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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. 2523, Relating to Fire Sprinklers

The Department of Taxation (Department) appreciates the intent of H.B. 2523 and offers the following comments for your consideration.

H.B. 2523 establishes a new refundable tax credit for 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 refundable tax credit for every eligible automatic fire sprinkler or sprinkler system that is installed and placed in service during the taxable year in any new detached one or two-family dwelling unit that is in a structure used only for residential purposes;
- Sets the amount of the credit at twenty-five percent of the actual costs of the system, including installation costs;
- Authorizes the Director to require proof of the claim for the tax credit and to adopt rules pursuant to 91 to effectuate the purposes of the measure;
- Applies to taxable years beginning after December 31, 2017; and
- Will be repealed on June 30, 2025.

First, the Department notes the tax credit in this measure is refundable. As a general matter, the Department prefers nonrefundable credits because refundable credits create a higher potential for improper claims and abuse. The Department therefore recommends that this credit be made non-refundable.

Second, the Department notes that the phrase “any new detached one- or two-family dwelling unit” is not defined. If the intent of the measure is to allow the credit for newly constructed dwelling units, the Department suggests specifying this with a construction completion date. For example, the credit could be made applicable to automatic fire sprinkler

systems which are installed and placed in service in a one or two-family dwelling unit that have not been previously occupied by any resident.

Third, 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.

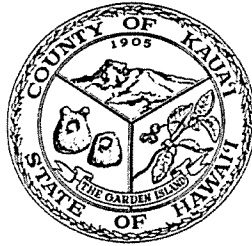
Finally, Department suggests amending Section 4 of the measure so that the law is clear regarding the years that the tax credit is available. Incorporating the Department's last two suggestions, Section 4 could be amended to read:

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, 2024.

Thank you for the opportunity to provide comments.

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February 7, 2018

TESTIMONY OF DEREK S.K. KAWAKAMI
COUNCILMEMBER, KAUAI COUNTY COUNCIL
ON
HB 2523, RELATING TO FIRE SPRINKLERS
House Committee on Housing
Thursday, February 8, 2018
9:30 a.m.
Conference Room 423

Dear Chair Brower and Members of the Committee:

Thank you for this opportunity to provide testimony in strong support of HB 2523, Relating to Fire Sprinklers. My testimony is submitted as Vice President of the Hawai'i State Association of Counties, and in my individual capacity as a member of the Kaua'i County Council and Chair of the Council's Economic Development & Intergovernmental Relations Committee.

HB 2423, Relating to Fire Sprinklers, is similar to measures included in both the 2018 Hawai'i State Association of Counties Legislative Package and the 2018 County of Kaua'i Legislative Package. This measure will provide an incentive to promote the installation of automatic fire suppression systems in new one- and two-family dwellings in the State. This added protection will provide that extra second needed for everyone, especially the frail, elderly, and young children, to escape being engulfed by flames.

For the reasons stated above, I urge the House Committee on Housing to support this measure. Should you have any questions, please feel free to contact me or Council Services Staff at (808) 241-4188.

Sincerely,

DEREK S.K. KAWAKAMI
Councilmember, Kaua'i County Council

AMK:mn

HB-2523

Submitted on: 2/7/2018 8:53:26 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:



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

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**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.

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 2523

INTRODUCED BY: TOKIOKA, NAKAMURA



EXECUTIVE SUMMARY: Establishes an income tax credit of 25% of the actual cost, including installation, 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: Adds a new section to chapter 235, HRS, to establish the credit. The amount of the credit would be 25% of the actual cost of the system, including installation.

The credit is refundable.

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, 2025.

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:

Re: HB 2523
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Subsection (e) 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 (f) 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 2/8/2018