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HAWAII



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LAND
STATE PARKS

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

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**Testimony of
SUZANNE D. CASE
Chairperson**

**Before the Senate Committee on
WAYS AND MEANS**

**Friday, April 5, 2019
10:15 AM
State Capitol, Conference Room 211**

**In consideration of
HOUSE BILL 1533, HOUSE DRAFT 1, SENATE DRAFT 1
RELATING TO HISTORIC PRESERVATION**

House Bill 1533 House Draft 1,, Senate Draft 1 proposes to amend Chapter 235 Hawaii Revised Statutes (HRS), creating a tax credit for certified rehabilitation of certified historic buildings. **The Department of Land and Natural Resources (Department) supports this measure.**

Tax incentives for rehabilitation of historic buildings have been proven to be enormously effective in preserving important buildings, ensuring their continuing economic viability, revitalizing communities, especially historic downtowns, preserving community character, and promoting heritage tourism. The Department believes that tax credit programs such as this can make an important contribution to the comprehensive state historic preservation program established by Chapter 6E, HRS.

In its 2018 report on the federal historic tax credit program, the National Park Service (NPS) prepared in collaboration with Rutgers University, notes that NPS certified 1,035 completed historic rehabilitation projects. The report documents \$6.5 billion in rehabilitation investment during federal fiscal year 2017 (the last year for which figures are available), helped create 106,900 jobs, and \$6.2 billion of gross domestic product.

If this measure is enacted, Hawaii will join the 38 states that already provide tax credits for the rehabilitation of historic structures. The nature of each state program is different, so it is difficult to extract information from them that could be directly useful in evaluating the effect of the program proposed in this measure. All states report that their programs are successful both in giving new life and continuing utility to significant historic structures, leveraging private

investment at between \$4 and \$5 per tax credit dollar, contributing significant positive economic impact to affected communities.... At between 4 and 9 years, depending on the state and the level of the credit, generating revenue to the state exceeding the decrease in revenue due to the tax credit. Since the credit is paid out after the project is completed, the revenue payback begins from taxes on wages, goods, and services, before the credit is claimed.

Thank you for the opportunity to comment on this matter.



**STATE OF HAWAII
DEPARTMENT OF TAXATION**

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To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Friday, April 5, 2019
Time: 10:15 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 1533, H.D. 1, S.D. 1, Relating to Historic Preservation

The Department of Taxation (Department) offers the following comments regarding H.B. 1533, H.D. 1, S.D. 1 for the Committee's consideration.

H.B. 1533, H.D. 1, S.D. 1 establishes a new nonrefundable tax credit for taxpayers who rehabilitate historic structures pursuant to a rehabilitation plan certified by the Department of Land and Natural Resources' State Historic Preservation Division (SHPD). 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 qualified expenses incurred as part of rehabilitation of a historic structure certified by the SHPD;
- Sets the amount of the credit at 25% of the qualified expenses or 30% if certain criteria related to affordable housing are met;
- Allows unused credit to be carried forward until exhausted, or for ten years, whichever is earlier.
- Requires the SHPD to develop rules for the approval of rehabilitation plans;
- Requires owners of certified historic structures to notify the SHPD when the rehabilitation has been completed and requires the SHPD to review the rehabilitation and verify that it has been completed in accordance with the approved rehabilitation plan;
- Creates an unspecified aggregate cap on the total amount of credits that may be claimed for qualified rehabilitation projects;
- Requires SHPD, in consultation with the Department, to determine the information necessary to enable a quantitative and qualitative assessment of the outcomes of the tax credit to be determined.

- Requires taxpayers to submit a written, certified statement to the SHPD containing their qualified rehabilitation expenses and any other information the SHPD or the Department may require;
- Specifies that all information submitted in the statement to SHPD by taxpayers claiming the credit is public information.
- Provides for recapture of the tax credit if the projected expenditures do not materialize, the rehabilitation plans do not proceed in a timely manner or in accordance with the approved plan, or the amount of affordable units differs from the projected amount;
- Requires the SHPD, in consultation with the Department, submit an annual report to the Legislature;
- Authorizes the Director of Taxation to require proof of the claim for the tax credit; and
- Has an effective date of January 1, 2020.

The Department notes that this measure is substantially similar to S.B. 1394, S.D. 2, a measure that the Senate amended in numerous ways at the Department's recommendation. The Department appreciates the consideration of its testimony and notes that it can administer this measure as drafted.

However, the Department respectfully requests this measure's effective date be made no earlier than taxable years beginning after December 31, 2019 rather than January 1, 2020. Unlike other Hawaii taxes which are filed and paid on a periodic basis, such as general excise tax, income tax is filed and paid on an annual basis. Thus, amendments to income tax law should be made effective by taxable year.

Thank you for the opportunity to provide comments.

HISTORIC HAWAII FOUNDATION

TO: Rep. Sylvia Luke, Chair
Rep. Ty J.K. Cullen, Vice Chair
Committee on Finance

FROM: Kiersten Faulkner, Executive Director
Historic Hawaii Foundation

Committee: Friday, April 5, 2019
10:15 a.m.
Conference Room 211

RE: **HB 1533 HD1 SD1, Relating to Historic Preservation**

On behalf of Historic Hawaii Foundation, I am writing in **support for HB 1533 HD1 SD1**. The bill would establish a historic preservation tax credit for qualified construction expenses incurred in rehabilitation of historic structures.

Preserving and appropriately using historic buildings are ways to enhance community character, provide affordable housing, provide an alternative to sprawl, create jobs, encourage heritage tourism, and generally spur economic development in older neighborhoods and commercial districts. Historic preservation tax credit programs have proved to be successful incentives for rehabilitating older structures and returning them to useful life.

The bill would provide this important incentive to developers, property owners and financial institutions involved in preserving historic buildings and providing affordable housing.

Tax credit programs for rehabilitation of historic properties have been used at the federal level and by 38 other States that have adopted laws creating credits against state taxes to provide incentives for the appropriate rehabilitation of historic buildings. While the details of the programs vary state by state, preservation tax credits have universally been shown to be effective, especially when coupled with the federal historic tax credit available to income-producing historic properties.

National studies have found that historic rehabilitation tax credits spurred economic development and increased direct tax revenues that offset the tax credit expense. Through increased economic output, the government recovers its investment in rehabilitation tax credits through four sources: construction period taxes, real property taxes, post-construction sales and excise or sales taxes.

Most programs include the following basic elements:

- criteria establishing which structures qualify for the credit;
- standards to ensure that the rehabilitation preserves the historic and architectural character of the building;
- a method for calculating the value of the credit awarded, reflected as a percentage of the amount expended on that portion of the rehabilitation work that is approved as certified rehabilitation;
- a minimum amount, or threshold, required to be invested in the rehabilitation; and
- a mechanism for administering the program, generally involving the state historic preservation office and the state department of taxation.

This bill includes all of these elements.

Many of the states that provide a historic preservation tax credit have conducted economic impact studies to determine the fiscal effect. All of them determined that the fiscal return was greater than the state's forgone taxes, often returning three to five times more revenue to the state in new taxes and significant new investment. The rehabilitation tax credit also was successful in creating new jobs, increasing loan demand and deposits in local financial institutions, enhancing property values and generating sales. In addition to these direct fiscal impacts, the tax credit also has proven benefits related to environmental sustainability, affordable housing, tourism and visitation, and neighborhood revitalization.

Since 1974, Historic Hawai'i Foundation has been a statewide leader for historic preservation. Its members and supporters work to preserve Hawaii's unique architectural and cultural heritage and believe that historic preservation is an important element in the present and future quality of life, economic viability and environmental sustainability of the state.

Therefore, Historic Hawai'i Foundation supports HB 1533 HD1 SD1.

LATE



April 4, 2019

Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Senate Committee on Ways and Means

Comments in Strong Support of HB 1533, HD1, SD1 Relating to Historic Preservation (Establishes a historic preservation income tax credit. Appropriates funds for one temporary position to assist with the establishment and administration of the historic preservation income tax credit program.)

WAM D/M: Friday, April 5, 2019 at 2:00 p.m. in Conf. Rm. 308

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers, resort operators and utility companies. LURF's mission is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

LURF strongly supports HB1533, HD1, SD1.

HB 1533, HD1, SD1. This bill establishes a historic preservation income tax credit, and appropriates funds for one temporary position to assist with the establishment and administration of the historic preservation income tax credit program.

Tax credit programs to encourage historic preservation have proven to be successful incentives for rehabilitating historic structures and returning them to useful life. Logical changes to existing laws such as this historic preservation tax credit proposed by this bill are therefore significant, necessary and should be welcomed as a method to assist with the preservation of historic structures. This seemingly small tax credit measure has the potential to result in substantial and positive impacts on the preservation of historic structures, as well as supporting the local construction industry and advancing the State's economy and general welfare.

For these reasons, LURF is in **strong support of HB 1533, HD1, SD1**, and respectfully urges your favorable consideration.

Thank you for the opportunity to provide comments relating to this measure.