

HB
502

A BILL FOR AN ACT

RELATING TO FIRE PROTECTION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that automatic fire
2 sprinkler systems have a proven record of significantly reducing
3 loss of life, injury, and property damage caused by fires. The
4 legislature also finds that eight out of ten deaths caused by
5 fire occur in the home. Only the sprinkler head closest to the
6 fire will activate and eighty-five per cent of fires are
7 contained by the operation of just one sprinkler. Today's newer
8 homes pose inherent fire hazards that not only affect occupants,
9 but also firefighters. This is due to the following:

10 (1) Engineered lumber is now used as a composite joist or
11 beam as part of today's modern, lightweight
12 construction material. Compared with traditional wood
13 materials in older homes, lightweight construction
14 assemblies collapse in six minutes versus eighteen
15 minutes for wood;

16 (2) Modern furnishings burn quicker and hotter than
17 traditional legacy furnishings. These place not only



1 occupants, but fire fighters in extreme peril when a
2 fire occurs in a home without sprinklers; and

3 (3) Open plan designs contribute to rapid fire spread.

4 Higher ceiling heights and open plan designs with less
5 compartmentalization provide larger volumes of oxygen
6 to promote fire spread.

7 California, Maryland, and the District of Columbia require
8 residential sprinklers in all new one- and two-family dwellings.
9 Approximately eighteen states do not require sprinklers, but
10 allow local jurisdictions to require them. Communities that
11 have adopted a residential sprinkler requirement in new one- and
12 two-family dwellings have not seen any decrease in the
13 residential construction or the sale of new homes, and the
14 economies of scale reduce costs. However, residential fire
15 sprinklers in one- and two-family dwellings are rare in Hawaii.
16 One reason for the lack of residential fire sprinklers is the
17 cost. The legislature finds that an incentive is needed to
18 encourage the installation of fire sprinklers in new homes.

19 The purpose of this Act is to provide an incentive to
20 owner/occupants to install an automatic fire sprinkler system in
21 any new one- or two-family dwelling of a building that is used



1 only for residential purposes, by establishing a tax credit for
2 a percentage of the actual cost of the system, including
3 installation, water meter, and permitting fees.

4 SECTION 2. Chapter 235, Hawaii Revised Statutes, is
5 amended by adding a new section to be appropriately designated
6 and to read as follows:

7 "§235- Tax credit to promote the installation of fire
8 sprinklers in residences. (a) Any qualifying taxpayer who owns
9 and occupies a dwelling unit and files an individual income tax
10 return for a taxable year may claim an income tax credit under
11 this section against the Hawaii state individual net income tax.

12 (b) The tax credit may be claimed for an eligible
13 automatic fire sprinkler system that is installed and placed in
14 service by the taxpayer during the taxable year in any one- or
15 two-family dwelling unit in a building that is used only for
16 residential purposes. For each automatic sprinkler system, the
17 tax credit that may be claimed shall be no more than thirty per
18 cent of the actual cost of the system, including installation,
19 water meter, and permitting fees; provided that:

20 (1) Only the owner/occupant of the dwelling or the
21 purchaser installing the automatic sprinkler system in



1 a new one- or two-family dwelling used only for
2 residential purposes shall be entitled to a single tax
3 credit;

4 (2) Only one credit may be claimed per tax map key number;
5 and

6 (3) The amount of the credit taken shall not exceed
7 \$10,000.

8 (c) The basis of eligible property for depreciation or
9 accelerated cost recovery system purposes for state income taxes
10 shall be reduced by the amount of credit allowable and claimed.
11 No deduction shall be allowed for that portion of otherwise
12 deductible qualified costs for which a credit is claimed under
13 this section.

14 (d) If the tax credit claimed by the taxpayer under this
15 section exceeds the amount of the income tax payments due from
16 the taxpayer, the excess of credit over payments due shall be
17 used as a credit against the taxpayer's income tax liability in
18 subsequent years until exhausted.

19 (e) The director of taxation shall prepare forms that may
20 be necessary to claim a credit under this section, may require



1 proof of the claim for the tax credit, and may adopt rules
2 pursuant to chapter 91 necessary to carry out this section.

3 (f) All of the provisions relating to assessments and
4 refunds under this chapter and under section 231-23(c)(1) shall
5 apply to the tax credit under this section.

6 (g) Claims for the tax credit under this section,
7 including any amended claims, shall be filed on or before the
8 end of the twelfth month following the taxable year for which
9 the credit may be claimed.

10 (h) If the State or a county requires an automatic fire
11 sprinkler system to be installed, no claim for a tax credit for
12 the automatic sprinkler shall be allowed for the dwelling for
13 which an automatic fire sprinkler system is required."

14 SECTION 3. New statutory material is underscored.

15 SECTION 4. This Act shall take effect upon its approval
16 and shall:

17 (1) Apply to taxable years beginning after December 31,
18 2018; and



1 (2) Be repealed on June 30, 2029.

2

INTRODUCED BY: _____



By Request

JAN 18 2019



H.B. NO. 502

Report Title:

State Fire Council Package; Fire Protection; Fire Sprinklers;
Tax Credit

Description:

Establishes a tax credit of 30% of the actual cost, including installation, water meter, and permitting fees, of an automatic fire sprinkler system in any one- and two-family dwelling in a structure used only for residential purposes. Sunsets 6/30/2029.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.





**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 Roy M. Takumi, Chair
and Members of the House Committee on Consumer Protection & Commerce

Date: Tuesday, February 5, 2019
Time: 2:00 P.M.
Place: Conference Room 329, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 502, Relating to Fire Protection

The Department of Taxation (Department) appreciates the intent of H.B. 502 and offers the following comments for the Committee's consideration.

H.B. 502 establishes a new nonrefundable 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 nonrefundable tax credit for every automatic fire sprinkler system that the taxpayer installs and places into service in any one- or two-family dwelling unit in a residential building during the taxable year;
- Sets the amount of the credit at thirty per cent of the actual cost of the sprinkler system, including installation, water meter, and permitting fees;
- Restricts entitlement of a single tax credit to only the owner/occupant of the dwelling or the purchaser installing the automatic sprinkler system;
- Limits the credit to one per tax map key number;
- Caps the amount of the credit at \$10,000;
- For depreciation and accelerated cost recovery system purposes on state income taxes, reduces the basis of eligible property by the amount of credit allowable and claimed, and disallows deductions for that portion of otherwise deductible qualified costs for which a credit is claimed;
- Creates a carryforward where a credit that exceeds the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted;
- Disallows claims for the credit if the State or a county requires an automatic fire sprinkler system to be installed; and
- Effective upon approval and applies to taxable years beginning after December 31, 2018.

First, the Department notes that there appears to be an internal inconsistency between Sections 1 and 2 of the measure. Section 1 states that the purpose of the bill is to incentivize owner/occupants to install an automatic fire sprinkler system in any new one- or two-family dwelling in a residential building, but the language in Section 2, subsections (b) and (b)(1) would allow the owner/occupant *or* "the purchaser installing the automatic sprinkler system" to claim the credit for "*any* one- or two-family dwelling unit" in a residential building (emphasis added). The Department suggests that these inconsistencies be clarified.

Second, if a sprinkler system is installed with new construction, it may be difficult to isolate the sprinkler system costs that qualify for this credit. It may be more feasible to provide this credit at a fixed amount per sprinkler system. Since the credit is limited to one credit per tax map key number, providing the credit per system should not create the same issues as the renewable energy technologies income tax credit did.

Third, the Department requests clarification on Section 2, subsection (c), which states:

The basis of eligible property for depreciation or accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of credit allowable and claimed. No deduction shall be allowed for that portion of otherwise deductible qualified costs for which a credit is claimed under this section.

It is not clear whether the basis for depreciation is reduced only by the amount of the credit claimed (which is what the first statement says) or if it is reduced by all costs used in calculating the credit (which is what the second statement says). Furthermore, it is unclear when depreciation would be allowable in the first place. If the intent of the credit is to only allow owner/occupants to claim the credit, then subsection (c) may not be necessary as depreciation deductions are not allowed for personal use property. Accordingly, the Department suggests clarification of this subsection.

Fourth, the Department notes that the measure contains no provision for apportionment of the credit when a fire sprinkler system is jointly purchased and installed by multiple owner/occupants or purchaser/installers. The Department recommends amending the measure to state that multiple owners of a single sprinkler or sprinkler system shall be entitled to a single tax credit, apportioned between the owners in proportion to their contribution to the cost of the sprinkler/system.

Fifth, the Department notes that the language in Section 2, subsection (h) is ambiguous and it is unclear whether a county's decision to require an automatic fire system to be installed would disallow claims for the credit only for taxpayers in that specific county, or if it would disallow claims for the credit for taxpayers throughout the entire State. The timing of this provision also needs to be clarified. If a taxpayer installs a sprinkler system and the State or county later in that year requires sprinkler systems would the taxpayer be disqualified from claiming the credit? The Department suggests making this provision applicable to the taxable year following the year that the State or county mandates sprinkler systems.

Finally, the Department respectfully requests that the new tax credit be made applicable to taxable years beginning after December 31, 2019. This will allow the Department sufficient time to make the necessary form and computer system changes.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR

JOSH GREEN
LIEUTENANT GOVERNOR



LEONARD HOSHIJO
DIRECTOR

LOIS IYOMASA
DEPUTY 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: dlir.director@hawaii.gov

February 1, 2019

The Honorable Roy Takumi, Chair
Committee on Consumer Protection
and Commerce
House of Representatives
State Capitol, Room 320
Honolulu, Hawaii 96813

Dear Chair Takumi:

Subject: House Bill (HB) 502 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 502, which establishes a nonrefundable income tax credit of 30% of the total cost of an automatic fire sprinkler system in any new detached one- or two-family dwelling unit.

According to the National Fire Protection Association's latest U.S. data, 92% of civilian fire deaths resulted from home structure fires. Few fatal home fires involve installed features of homes and usually involve the actions and errors of the occupants combined with the flaws and vulnerabilities of products brought into the home. Research conducted by the National Institute of Standards and Technology has shown that home fires become deadly in up to three minutes. New and old homes alike are filled with these newer contents and furnishings, which provide less of a margin for success for smoke alarms and add to the need for fire sprinklers. Modern lightweight home construction products, especially wood truss roof systems and wood joists, can rapidly fail under fire conditions, which is an extreme risk to fire fighters responding to a fire. Automatic fire sprinkler systems have proven to be a solution to saving lives and property from fire. Death rates and property loss are significantly reduced when these systems are installed and properly maintained.

The Honorable Roy Takumi, Chair
Page 2
February 1, 2019

The following is a comparison of fires in the City and County of Honolulu from 2006-2015:

Statistics from Fires in the City and County of Honolulu 2006-2015		
	Nonsprinklered Structures	Sprinklered Structures
Fatalities	23	1
Injuries	135	9
Dollar Loss	\$154,978,453	\$6,161,469

The recent fire at the Marco Polo condominium on July 14, 2017, highlights the dangers of fire in unsprinklered residential buildings. 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.

We respectfully request that the bill be amended to include owners of existing high-rise residential buildings, inclusive of it being mandatory. Implementation of several alternatives to reduce fire sprinkler costs will help make the installation of fire sprinklers reach an achievable outcome.

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 our residents who live in unsprinklered high-rise buildings. 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 502.

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

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 502; SB 155 (Identical)

INTRODUCED BY: HB by SAIKI by request; SB by KOUCHI by request (State Fire Council)

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 6/30/2026. 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. Any qualifying taxpayer who owns and occupies a dwelling unit and files an individual income tax return for a taxable year may claim the credit against Hawaii individual income tax. The credit applies to an automatic fire sprinkler or automatic fire sprinkler system that the taxpayer installs and places in service during the taxable year in any new detached one- or two-family dwelling unit in a building that is used solely for residential purposes. The amount of the credit would be 25% 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 \$10,000. If the installation of the sprinkler is mandated by State or county law, then no credit shall be allowed.

The basis of eligible property for depreciation or accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of credit allowable and claimed. No deduction shall be allowed for that portion of otherwise deductible qualified costs for which the credit is claimed.

The credit is not refundable but may be carried forward 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: Taxable years beginning after December 31, 2018. Repeals on June 30, 2029.

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 now drafted:

- Subsection (b) flush language and paragraph (b)(1) need to be made consistent. If, for example, there is a single-family unit in a condominium complex with commercial tenants on the ground floor, the language in (b)(1) would indicate that the unit is eligible but the language in (b) would disqualify the unit because the building is not used only for residential purposes.
- Subsection (b)(1) needs language to accommodate multiple occupants or multiple owners. If the unit is occupied by two families each owning 50% of the unit, it is unclear who, if anyone, would be entitled to the credit. The Committee may wish to consider language in HB 524 to the effect that multiple owners of a single sprinkler system are entitled to only one credit, which shall be apportioned between the owners in proportion to their contribution to the system's cost.
- Subsection (f) states that all provisions relating to assessments and refunds shall apply to the tax credit under this section. They do anyway. This subsection is not needed.

Digested 1/31/2019



O`ahu County Committee on Legislative Priorities

COMMITTEE ON CONSUMER PROTECTION & COMMERCE

Rep. Roy M. Takumi, Luna Ho`omaluku/Chair

Rep. Linda Ichiyama, Hope Luna Ho`omaluku/Vice Chair

La/DATE: Tuesday, February 5, 2019

Hola/TIME: 2:00 p.m.

Wahi/PLACE: Conference Room 329, State Capitol

RE: HB 502 Relating to Fire Protection

To the Honorable Roy M. Takumi, Chair; the Honorable Linda Ichiyama, Vice Chair; and Members of the Committee on Consumer Protection & Commerce:

The O`ahu County Committee on Legislative Priorities (OCCLP) of the Democratic Party of Hawai`i (DPH) hereby submits its testimony in **SUPPORT of HB 502 relating to Fire Protection.**

HB 502 establishes a tax credit of 30% of the actual cost, including installation, water meter, and permitting fees, of an automatic fire sprinkler system in any one- and two-family dwelling in a structure used only for residential purposes. HB 502 sunsets 6/30/2029.

DPH believes that it must take a number of proactive steps so that all people – regardless of location, income or history – have the opportunity to live full, healthy lives. Democrats will fight for increased investments and coordination in public health to better address emerging threats as well as persistent needs around our State. *Democratic Party of Hawai`i Platform (2018), p. 15, ln. 32-50.*

DPH demands the protection of the people of Hawai`i and their property against natural and man-made disasters. . . . This includes investment in early warning systems, emergency management and response systems, and adequate emergency sheltering. *Democratic Party of Hawai`i Platform (2018), p. 20, ln. 28-32*

For the foregoing reasons, i.e. to support investments in early warning systems, emergency management and response systems, and adequate emergency sheltering, OCCLP supports HB 502 and urges its passage out of the Committee on Commerce and Consumer Affairs.

Mahalo nui loa
Me ka `oia`i`o

/s/ Melodie Aduja

Melodie Aduja
Chair, O`ahu County Committee on Legislative Priorities of the Democratic Party of
Hawai`i
Ph. (808) 258-8889
Email: legislativepriorities@gmail.com

HB-502

Submitted on: 1/31/2019 9:53:50 PM

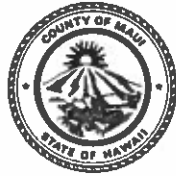
Testimony for CPC on 2/5/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Dale	Individual	Support	No

Comments:

Excellent bill. Yes, please pass this. It may oneday save lives, perhaps friends and family.

MICHAEL P. VICTORINO
MAYOR



DAVID THYNE
FIRE CHIEF

BRADFORD VENTURA
DEPUTY FIRE CHIEF

COUNTY OF MAUI
DEPARTMENT OF FIRE & PUBLIC SAFETY

200 DAIRY ROAD
KAHULUI, HI 96732
PHONE: (808) 270-7561
FAX: (808) 270-7919

February 4, 2019

The Honorable Roy Takumi, Chair
Committee on Consumer Protection
and Commerce
State Capitol, Room 231
Honolulu, HI 96813

Dear Chair Takumi:

Subject: House Bill (HB) 502 Relating to Fire Protection

I am David C. Thyne, member of the Hawaii State Fire Council (SFC) and Fire Chief of the Maui Fire Department (MFD). The SFC and the MFD support HB 502, which establishes a nonrefundable income tax credit of 30% of the total cost of an automatic fire sprinkler system in any new detached one- or two-family dwelling unit.

According to the National Fire Protection Association's latest U.S. data, 92% of civilian fire deaths resulted from home structure fires. Few fatal home fires involve installed features of homes and usually involve the actions and errors of the occupants combined with the flaws and vulnerabilities of products brought into the home. Research conducted by the National Institute of Standards and Technology has shown that home fires become deadly in up to three minutes. New and old homes alike are filled with these newer contents and furnishings, which provide less of a margin for success for smoke alarms and add to the need for fire sprinklers. Modern lightweight home construction products, especially wood truss roof systems and wood joists, can rapidly fail under fire conditions, which is an extreme risk to fire fighters responding to a fire. Automatic fire sprinkler systems have proven to be a solution to saving lives and property from fire. Death rates and property loss are significantly reduced when these systems are installed and properly maintained.

The Honorable Roy Takumi, Chair

Page 2

February 4, 2019

The following is a comparison of fires in the City and County of Honolulu from 2006-2015:

Statistics from Fires in the City and County of Honolulu 2006-2015		
	Nonsprinklered Structures	Sprinklered Structures
Fatalities	23	1
Injuries	135	9
Dollar Loss	\$154,978,453	\$6,161,469

The recent fire at the Marco Polo condominium on July 14, 2017, highlights the dangers of fire in unsprinklered residential buildings. 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.

We respectfully request that the bill be amended to include owners of existing high-rise residential buildings, inclusive of it being mandatory. Implementation of several alternatives to reduce fire sprinkler costs will help make the installation of fire sprinklers reach an achievable outcome.

Life, safety, and property protection is the top priority for the SFC and the MFD. The SFC sincerely appreciates the effort by the legislature to provide cost savings to our residents who live in unsprinklered high-rise buildings. 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 MFD urge your committee's support on the passage of HB 502.

Should you have questions, please contact SFC Administrative Specialist Lloyd Rogers at (808) 723-7176 or lrogers@honolulu.gov.

Sincerely,



DAVID C. THYNE
Fire Chief

DCT/LR:clc