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**Testimony of the Department of Commerce and Consumer Affairs**

**Before the  
House Committee on Finance  
Tuesday, February 26, 2019  
12:30 p.m.  
State Capitol, Conference Room 308**

**On the following measure:  
H.B. 799, H.D. 1, RELATING TO TAXATION**

Chair Luke and Members of the Committee:

My name is Colin Hayashida, and I am the Insurance Commissioner of the Department of Commerce and Consumer Affairs' (Department) Insurance Division. The Department offers comments on this bill.

The purposes of this bill are to: (1) establish a wind resistive device tax credit for the purchase and installation of wind resistive devices in a non-condominium residential dwelling; and (2) require the Insurance Commissioner to develop and determine the requirements for the wind resistive devices and to certify claims for the tax credit.

Currently, most homeowner insurance companies offering hurricane programs already offer premium credits for homes that have been retrofitted to include Wind Resistive Devices (WRDs). Typical premium credits offered by hurricane insurance companies are around 10% credit for roof-to-wall connections, 10-12% for wall-to-foundation connections, and 15-18% for opening protection. The premium credit varies

depending on the building construction type and is typically provided on an annual basis and not as a one-time credit.

After Hurricane Iwa (1982) and Hurricane Iniki (1992), the counties' building codes mandated roof-to-foundation load path requirements. Homes built in the State after 1995 should incorporate the WRDs described in this bill. Additionally, for homes that are built to current building code requirements incorporating WRDs, hurricane insurance companies typically build these discounts into their rates instead of providing a separate discount.

A similar WRD installation program was enacted from 2006 to 2008 that reimbursed homeowners 35% of the cost for hurricane retrofits, up to \$2,100. Approximately 430 homes were retrofitted and received the grant subsidy at that time. If the Committee is seeking to provide these types of additional subsidies for homeowners, the Department is willing to work with the Legislature to discuss these options.

Thank you for the opportunity to testify on this bill.

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To: The Honorable Sylvia Luke, Chair  
and Members of the House Committee on Finance

Date: Tuesday, February 26, 2019  
Time: 12:30 P.M.  
Place: Conference Room 308, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 799, H.D. 1, Relating to Taxation

The Department of Taxation (Department) provides the following comments regarding H.B. 799, H.D. 1, for your consideration.

H.B. 799, H.D. 1, creates a nonrefundable income tax credit for taxpayers who install wind resistive devices used for non-condominium residential dwellings. It also requires the Insurance Commissioner to develop and determine the requirements for the wind resistive devices and to certify claims for the tax credit. The House Committee on Housing adopted the Department's recommendation to define "costs incurred", changed the amount of the credit to an unspecified percentage of costs incurred, and defected the effective date to January 1, 2050. It would otherwise apply to taxable years beginning after December 31, 2019.

The Department notes that the credit is available for both new construction and for existing construction. The Department queries whether it should simply be mandated for new construction without having the credit applicable.

Thank you for the opportunity to provide comments.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: INCOME, Wind Resistive Device Tax Credit

BILL NUMBER: HB 799, HD-1

INTRODUCED BY: House Committee on Housing

EXECUTIVE SUMMARY: Establishes a nonrefundable tax credit for \_\_\_% of the costs incurred during the taxable year for purchasing and installing wind resistive devices. The adoption of this credit would provide tax relief to taxpayers regardless of their need for tax relief. It also would shift the burden of paying for government to the rest of us.

SYNOPSIS: Adds a new section to HRS chapter 235 to allow a credit of \_\_\_% of the costs incurred during the taxable year for purchasing and installing wind resistive devices in a non-condominium residential dwelling owned by the taxpayer and located in the State.

The Insurance Commissioner is tasked with receiving expense reports, providing for inspection of any wind resistive device installation, and certifying claims for the credit.

Tax credits that exceed the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91. Requires claims for the credit, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

Defines "costs incurred" as amounts related to the wind resistive devices, including accessories and installation, but does not include the cost of consumer incentive premiums unrelated to the operation of the devices or offered together with the sale of the devices and costs for which another income tax credit is claimed.

Defines "wind resistive devices" as devices and techniques, as identified and determined by the Insurance Commissioner, that increase a building's or structure's resistance to damage from wind forces.

EFFECTIVE DATE: July 1, 2050; the credit applies to taxable years beginning after December 31, 2019.

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. Hawaii Energy, for example, administers rebate programs for consumers who purchase energy efficient appliances and devices. The amounts of the rebates are tracked and easily totaled for relevant reporting periods.

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.

Digested 2/25/2019

**HB-799-HD-1**

Submitted on: 2/25/2019 12:22:49 PM

Testimony for FIN on 2/26/2019 12:30:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Melodie Aduja	O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments: