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JOSH GREEN M.D.
LIEUTENANT GOVERNOR



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DIRECTOR

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

**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, January 31, 2019
Time: 9:30 A.M.
Place: Conference Room 423, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 524, Relating to Fire Sprinklers

The Department of Taxation (Department) offers the following comments regarding H.B. 524 for the Committee's consideration.

H.B. 524 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 eligible automatic fire sprinkler or automatic fire sprinkler system that the taxpayer installs and places into service in any new detached residential one- or two-family dwelling unit during the taxable year;
- Sets the amount of the credit at twenty-five per cent of the actual costs of each sprinkler or sprinkler system, including installation costs;
- States 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;
- 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;
- Authorizes the Director of Taxation to require proof of the claim for the tax credit;
- Applies to taxable years beginning after December 31, 2019;
- Does not apply to taxable years beginning after December 31, 2025; and
- Will be repealed on June 30, 2026.

First, the Department notes that the measure does not define "fire sprinkler" or "fire sprinkler system," nor does it set a cap on the amount of the credit or limit the number of credits a taxpayer may take. The Department recommends defining the terms "fire sprinkler" and "fire sprinkler system," set a cap on the dollar amount of each credit, and limit the credit to one credit per tax map key number. These clarifications will help minimize taxpayer confusion, prevent improper claims and abuse of the credit, and avoid unexpected losses in revenue.

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.

Additionally, the Department notes that if a sprinkler system is installed with new construction, it may be difficult to isolate the sprinkler system costs that qualify for the credit. For example, sprinkler installation may have been done by a contractor in conjunction with general plumbing installation. It may thus be more feasible to provide this credit at a fixed amount per sprinkler system.

Furthermore, this credit would apply to both owner-occupied and rental units. Taxpayer/landlords who rent their units may already receive a tax deduction for the cost of tangible personal property used in their trade or business, and the Department suggests that such taxpayers be required to choose the benefit they desire: the credit or depreciation of the expense.

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

SECTION 4. This Act, upon its approval, shall apply to taxable years beginning after December 31, 2019, but not to taxable years beginning after December 31, 2025; provided that this Act shall be repealed on June 30, 2026.

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
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January 29, 2019

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) 524 Relating to Fire Sprinklers

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 524, which establishes a nonrefundable income tax credit of 25% 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 as few as 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 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 524.

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

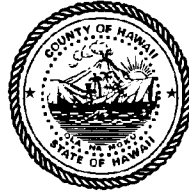
Sincerely,



MANUEL P. NEVES
Chair

MPN/LR:clc

Harry Kim
Mayor



Darren J. Rosario
Fire Chief

Lance S. Uchida
Deputy Fire Chief

LATE

County of Hawai'i
HAWAI'I FIRE DEPARTMENT
25 Aupuni Street • Suite 2501 • Hilo, Hawai'i 96720
(808) 932-2900 • Fax (808) 932-2928

January 30, 2019

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

RECEIVED
Date & Time
Jan 30, 2019, 5:00 pm

Dear Chair Brower:

Subject: H.B. 524, RELATING TO FIRE SPRINKLERS
Hearing Date: Thursday, January 31, 2019
Time/Place of Hearing: 9:30 a.m., Conference Room 423

Dear Chair Brower:

I am Darren J. Rosario, Member of the State Fire Council (SFC) and Fire Chief of the Hawai'i Fire Department of the County of Hawai'i (HCFD). The SFC and the HCFD support HB 524, which establishes a nonrefundable income tax credit of 25% 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. Research conducted by the National Institute of Standards and Technology has shown that home fires become deadly in as few as three minutes. 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.

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 HCFD. The SFC and the HCFD urge your committee's support on the passage of HB 524.



H.B. 524 Relating to Fire Sprinklers

January 30, 2019

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Please do not hesitate to call me at 932-2903 or darren.rosario@hawaiicounty.gov should you have any questions. Thank you for the opportunity to provide testimony in support of HB 524.

Respectfully,

A handwritten signature in black ink, appearing to read "Darren", with a horizontal line extending to the right.

DARREN J. ROSARIO
Fire Chief



**KAUA'I FIRE DEPARTMENT
THE COUNTY OF KAUA'I**

**DEREK S. K. KAWAKAMI, MAYOR
MICHAEL A. DAHILIG, MANAGING DIRECTOR**

**KILIPAKI VAUGHAN
DEPUTY FIRE CHIEF**

January 30, 2019

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

Aloha Chair Bower:

Subject: House Bill (HB) 524 Relating to Fire Sprinklers

I am Kilipaki Vaughan, Deputy Fire Chief of the Kauai Fire Department (KFD). The KFD supports HB 524, which establishes a nonrefundable income tax credit of 25% of the total cost of an automatic fire sprinkler system in any new detached one- or two-family residential 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 as few as 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.

KFD supports this original measure. KFD also supports Honolulu Fire Department's and State Fire Council's request to amend the bill to include owners of existing high-rise residential buildings, inclusive of it being mandatory.

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**KAUA'I FIRE DEPARTMENT
THE COUNTY OF KAUA'I**

**DEREK S. K. KAWAKAMI, MAYOR
MICHAEL A. DAHLIG, MANAGING DIRECTOR**

**KILIPAKI VAUGHAN
DEPUTY FIRE CHIEF**

The Honorable Tom Bower, Chair
Page 2

Implementation of several alternatives to reduce fire sprinkler costs will help make the installation of fire sprinklers reach an achievable outcome.

The mission of the Kauai Fire Department is to preserve and protect life, property, and the environment of Kauai County from all hazards and emergencies. Residential fire sprinklers help KFD to create a safer community through common-sense prevention measures like this. KFD appreciates this Legislature's proactive effort to provide cost savings to our all Hawaii residents who live in unsprinklered high-rise buildings.

KFD urges your committee's support on the passage of HB 524.

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

Ke aloha nui,

Kilipaki Vaughan
Deputy Fire Chief
Kauai Fire Department, County of Kauai

KV/dag





LATE

**TESTIMONY TO THE COMMITTEE ON HOUSING
State Capitol, Conference Room 423
415 South Beretania Street
9:30 AM**

January 31, 2019

RE: HB 524, RELATING TO FIRE SPRINKLERS

Chair Brower, Vice Chair Matayoshi, and 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 is opposed to H.B. 524 which proposes to establish a non-refundable income tax credit of 25% of the total costs, including installation costs, of an automatic fire suppression 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 homeowners who 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.

We are opposed to H.B. 524 as presently drafted, and appreciate 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 524

INTRODUCED BY: TOKIOKA, CREAGAN, DECOITE, HAR, KONG, NISHIMOTO, OKIMOTO, SAY, TAKAYAMA, YAMANE

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 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 structure used solely for residential purposes. The amount of the credit would be 25% of the actual cost of the system, including installation.

The credit is not refundable but may be carried forward until exhausted.

Provides 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.

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, 2019 and is repealed on June 30, 2026.

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 (g) 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 1/29/2019

HB-524

Submitted on: 1/30/2019 9:07:06 AM

Testimony for HSG on 1/31/2019 9:30:00 AM

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

Comments: