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Testimony of the Department of Commerce and Consumer Affairs

**Before the
House Committee on Housing
Tuesday, February 5, 2019
9:30 a.m.
State Capitol, Conference Room 423**

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

Chair Brower 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 (WRD). 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 WRD described in this bill. Additionally, for homes that are built to current building code requirements incorporating WRD, 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.

DAVID Y. IGE
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To: The Honorable Tom Brower, Chair
and Members of the House Committee on Housing

Date: Tuesday, February 5, 2019

Time: 9:30 A.M.

Place: Conference Room 423, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 799, Relating to Taxation

The Department of Taxation (Department) provides the following comments regarding H.B. 799 for your consideration. H.B. 799 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 measure is effective on July 1, 2019 and applies to taxable years beginning after December 31, 2019.

The Department notes that "costs incurred" is not defined for purposes of this section. To avoid taxpayer confusions and improper claims, the Department suggests the following definition be added under subsection (g):

"Costs incurred" means amounts related to the wind resistive devices under subsection (a), 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 credit is claimed under this chapter.

The Department also 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

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Wind Resistive Device Tax Credit

BILL NUMBER: HB 799

INTRODUCED BY: MATAYOSHI, BROWER, ELI, GATES, HASHIMOTO, KITAGAWA, C. LEE, TAKAYAMA, TOKIOKA

EXECUTIVE SUMMARY: Establishes a nonrefundable tax credit for 35% 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 35% 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.

EFFECTIVE DATE: July 1, 2019; 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.

Re: HB 799
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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 2/1/2019

HB-799

Submitted on: 2/4/2019 9:10:00 AM

Testimony for HSG on 2/5/2019 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Gerald Peters	Individual	Support	No

Comments:

Testimony of Gerald Peters- Fixit Fridays Home Improvement Live on The Mike Buck Show, & Pres/Gen Mgr of HPS Services, Inc. & HPS Const Services, Ltd.

COMMITTEE ON HOUSING

Rep. Tom Brower, Chair

Rep. Scot Z. Matayoshi, Vice Chair

NOTICE OF HEARING

DATE: Tuesday, February 5, 2019

TIME: 9:30 a.m.

Conference Room 423

PLACE: State Capitol

415 South Beretania Street

Honorable Chair Brower, Vice Chair Matayoshi and Committee Members:

I am Content Producer and Co-Host –680 live, one hour, news shows about the home improvement industry: Fixit Fridays Home Improvement on The Mike Buck Show, Salem Communications, KHNR AM 690 (12 years); President/Gen Mgr HPS Construction Services, Ltd./HPS Services, Inc. I am testifying in **strong support**.

This bill will serve the public interest in a greatly needed manner to inform and incentivize homeowners to take action on their own.

Tens of thousands of homeowners, particularly Kamaaina in now paid off single wall houses, for which there are now specifically designed retrofit strengthening devices (hurricane clips) available, have dropped hurricane insurance coverage.

Additionally, most homeowners with hurricane insurance coverage do not realize their out of pocket deductible before a single claims dollar is paid is up from \$500 or \$1000 pre Hurricane Iniki to now an onerous 2% or approximately \$8,000 to \$15,000.

With the help of this tax credit, the net cost to harden any pre 1991 house in Hawaii will drop to approximately \$1000-\$1500.

Thank you for getting the State in line with 14 other mainland states whose legislatures have mandated that insurers and states provide public information and incentives. For example, State Farm provides incentives in Florida and other states, BUT NOT IN HAWAII. Thus they are in effect guaranteeing higher claims and thus higher future premiums, and also making homeowners of post 1991 code houses carry the burden of our older, weaker houses vulnerability and likely damage---plus increasing the likelihood of casualties due to uninformed occupants thinking they can "ride out the storm in place".

Mahalo for your approval of this very worthwhile bill -- it will be a huge success.

HB-799

Submitted on: 2/5/2019 7:20:01 AM

Testimony for HSG on 2/5/2019 9:30:00 AM

LATE

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: