

ACT 174

S.B. NO. 2831

A Bill for an Act Relating to an Extension of the Residential Construction and Remodeling Income Tax Credit.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. Act 10 of the Third Special Session of 2001 (Act 10), in part, enacted a new nonrefundable four per cent residential construction and remodeling income tax credit (credit). The credit enacted by Act 10 is applicable to a taxpayer who incurs construction or remodeling costs up to \$250,000 per unit before July 1, 2002, for residential real property in taxable years beginning after December 31, 2000, but not to taxable years beginning after December 31, 2003.

The purpose of this Act is to further stimulate economic activity in the residential construction industry by extending the credit for construction or remodeling costs incurred before July 1, 2003, and to provide further clarification of the costs for which the credit may be claimed.

SECTION 2. Act 10, Third Special Session Laws of Hawaii 2001, is amended by amending section 1 to amend section 235- , Hawaii Revised Statutes, as follows:

(1) By amending subsection (a) to read as follows:

“(a) There shall be allowed to each taxpayer[;] who is the owner, developer, or lessee of residential real property, subject to the taxes imposed by this chapter, a residential construction and remodeling tax credit that shall be deductible from the taxpayer’s net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed. The amount of the tax credit claimed under this section by the taxpayer in all years for which the credit is available shall be limited to four per cent of the residential construction or remodeling costs incurred[;] during the taxable year for which the credit is claimed; provided that the costs shall not exceed \$250,000 in the aggregate for each residential unit; and that the costs are incurred before July 1, [2002.] 2003.

In the case of a partnership, S corporation, estate, trust, or association of apartment owners, the tax credit allowable is for construction or remodeling costs incurred by the entity for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined pursuant to section 235-110.7(a).

If a deduction is taken under section 179 (with respect to election to expense depreciable business assets) of the Internal Revenue Code, no tax credit shall be allowed for that portion of the construction or remodeling cost for which the deduction is taken.

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. In the alternative, the taxpayer shall treat the amount of the credit allowable and claimed as a taxable income item for the taxable year in which it is properly recognized under the method of accounting used to compute taxable income.”

(2) By amending the definition of “construction or remodeling cost” in subsection (g) to read as follows:

““Construction or remodeling cost” means any costs incurred after December 31, 2000, for plans, design, construction, and equipment that is permanently affixed to the building or structure related to new construction, alterations, or modifications to a residential [real property:] apartment unit or house, and shall not include any costs for which another credit was claimed under this chapter.”

SECTION 3. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 4. This Act, upon its approval, shall apply to taxable years beginning after December 31, 2001.

(Approved June 21, 2002.)