

LINDA LINGLE  
GOVERNOR

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DIRECTOR OF TAXATION

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**HOUSE COMMITTEE ON FINANCE  
TESTIMONY REGARDING SB 2578 SD 1  
RELATING TO TAXATION**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: MARCH 29, 2010**

**TIME: 6PM**

**ROOM: 308**

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This measure establishes a refundable residential housing income tax credit for qualified taxpayers who purchase a qualified principal residence on or after April 1, 2010, and before January 1, 2012. The credit is equal to a blank % of the purchase price up to a maximum of a blank amount and is payable in two equal installments in the two taxable years following the purchase.

The Department of Taxation (Department) **opposes** this measure because it is **outside the budget priorities this legislative session**.

Notwithstanding the merit of this measure, the Department cannot support the tax impacts in this measure because these tax breaks are not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

The Department simply cannot support this tax incentive given the other competing priorities for general fund revenues.

In addition, the Department has the following specific comments on this measure:

1. The stated credit is a percent of the purchase price of the residence, excluding land acquisition costs and escrow closing costs. Since land costs are not generally separately stated in a sales agreement, the Department envisions that taxpayers will attempt to limit the portion of the purchase price allocable to the land so as to maximize the amount of credit. The Department anticipates time consuming audits and litigation over the fair value of the land in any sales contract subject to the credit.
2. The measure provides for income limitations based on adjusted gross income. Although it

appears that the intent was to use federal adjusted gross income for measuring income qualification, the measure does not specifically so provide and the default would thereby be Hawaii adjusted gross income. It should be noted that social security benefits and many pension payments are not subject to Hawaii income tax and is therefore excluded from Hawaii adjusted gross income. The end result would be that some taxpayers may be eligible for the credit if Hawaii adjusted gross income is used but would not be if federal adjusted gross income were used.

This measure will result in an indeterminate budget impact because the amounts are unspecified.

Testimony of C. Mike Kido  
External Affairs  
The Pacific Resource Partnership

House Committee on Finance  
Representative Marcus Oshiro, Chair  
Representative Marilyn Lee, Vice Chair

SB 2578, SD1 – TAXATION  
Monday, March 29, 2010  
6:00 pm  
Conference Room 308

Chair Oshiro, Vice Chair Lee and Members of the House Committee on Finance:

My name is C. Mike Kido, External Affairs of the Pacific Resource Partnership (PRP), a labor-management consortium representing over 240 signatory contractors and the Hawaii Carpenters Union.

PRP supports SB 2578, SD1 – Relating to Taxation, which establishes a refundable Hawaii residential housing income tax credit for qualified taxpayers who purchase a qualified principal residence on or after 4/1/2010, and before 1/1/2012, that is payable to the qualified taxpayer in two equal installments over the immediately following two taxable years.

Large construction projects can have a profound effect on stimulating Hawaii's economy. The expiration of the federal government's first-time homebuyer income tax credit and income tax credit for qualified homebuyers could hamper momentum that large construction projects generate, which may hamper complete recovery of the construction industry in the State of Hawaii.

Currently, 50.5% union carpenters statewide are unemployed. Providing financial incentives to homebuyers would be helpful in creating jobs for those in the construction industry and help reduce our crippling housing market.

Thank you for the opportunity to share our views with you and we respectfully ask for your support on SB 2578, SD1 – Relating to Taxation.

THE GENTRY COMPANIES



March 29, 2010

The Honorable Marcus Oshiro, Chair, and Members  
House Finance Committee  
State House of Representatives  
State Capitol, Room 306  
Honolulu, HI 96813

**RE: TESTIMONY IN SUPPORT OF S.B. 2578, S.D. 1**

Dear Chair Oshiro and Members:

I am Debbie Luning, testifying on behalf of Gentry Homes, Ltd. in support of S.B. 2578, S.D. 1. The purpose of this measure is to establish a refundable Hawaii residential housing income tax credit to qualified taxpayers who purchase and close a newly constructed principal residence during certain specified timeframes.

We believe that providing a financial incentive to homebuyers could make a significant difference in stimulating the development and sale of new homes over the next couple of years. A tax credit would also help to further stimulate the construction industry, as well as the great number of other businesses that are directly or indirectly associated with the development and sale of new homes, thereby giving a boost to Hawaii's overall economy.

We have found that the Federal tax credit program has been a huge motivator for those purchasing new Gentry homes at the Tides and Latitudes, which base prices range from the high \$300,000s to the high \$500,000s. The Federal program is timely and simple, and the incentives are substantial. All of these elements must be intact for a local tax incentive to be as effective. We encourage you to consider these factors when amending S.B. 2578, and urge your support of a State tax credit for new home purchases.

Mahalo for the opportunity to testify.

Sincerely,

GENTRY HOMES, LTD.

  
Debra M. A. Luning  
Director of Governmental Affairs and  
Community Relations