

STAND. COM. REP. NO.

242

Honolulu, Hawaii

FEB 16 2011

RE: S.B. No. 831
S.D. 1

Honorable Shan S. Tsutsui
President of the Senate
Twenty-Sixth State Legislature
Regular Session of 2011
State of Hawaii

Sir:

Your Committee on Economic Development and Technology, to which was referred S.B. No. 831 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose and intent of this measure is to establish a New Markets Tax Credit for a taxpayer that holds a qualified equity investment on a credit allowance date, and to exempt the New Markets Tax Credit from the requirements of Section 704(b)(2) of the Internal Revenue Code.

Your Committee received testimony in support of this measure from Enterprise Honolulu; Chun, Kerr, Dodd, Beaman & Wong; United Fund Advisors; and one individual. Your Committee received comments on this measure from the Department of Taxation, High Technology Development Corporation, and Tax Foundation of Hawaii.

Your Committee finds that New Markets Tax Credits attract private-sector capital investment to low-income areas in the United States to help finance community development projects, stimulate economic growth, and create jobs. The tax credit is equal to thirty-nine percent of the qualified equity investment, claimed over seven years, and nonrefundable. Corporations, nonprofit organizations, and others can create community development entities and apply for these tax credits.

Your Committee further finds that the federal New Markets Tax Credit was established by Congress in 2000 as part of the

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Community Renewal Tax Relief Act to stimulate investment in low-income communities. These tax credits have financed a wide range of activities in distressed urban and rural communities, including alternative energy companies, charter schools, health care facilities, child care providers, supermarkets, manufacturers, processors, distributors, and business incubators. In addition, every dollar of New Markets Tax Credit investment can be leveraged into multiple expenditures through bank loans in conjunction with equity investments.

In testimony before your Committee, Enterprise Honolulu stated that in May 2010, Enterprise Honolulu and American Savings Bank established a new entity Punawai O Pu'uhonua as a community development entity in order to apply for an allocation of \$125,000,000 of federal New Markets Tax Credits for Hawaii, and a response is expected by late February of this year.

Hawaii's low-income communities have suffered disproportionately in the current economic downturn, and your Committee is supportive of this revitalization effort. Your Committee has amended this measure by:

- (1) Restricting community development entity investments to low-income communities in Hawaii;
- (2) Deleting the ability to claim the state New Markets Tax Credit independent of the federal New Markets Tax Credit; and
- (3) Adding franchise taxes under chapter 241, Hawaii Revised Statutes, and insurance premium taxes under chapter 431, Hawaii Revised Statutes, as eligible for the credit.

As affirmed by the record of votes of the members of your Committee on Economic Development and Technology that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 831, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 831, S.D. 1, and be referred to the Committee on Ways and Means.



Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Technology,

Carol Fukunaga

CAROL FUKUNAGA, Chair



