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FREDERICK D. PABLO
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LATE TESTIMONY
RANDOLPH M. BALDWIN
DEPUTY DIRECTOR

To: The Honorable Jerry L. Chang, Chair
and members of the House Committee on Water, Land, and Ocean Resources

Date: Friday, February 10, 2012
Time: 9:45 A.M.
Place: Conference Room 325, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 2420, Relating to Historic Preservation

The Department of Taxation (Department) appreciates the intent of H. B. No. 2417, but has concerns about its ability to implement the bill due to the impact it will have on the Department's limited budget and staffing resources, if adopted.

H. B. 2420 establishes a revolving fund into which the legislature and counties will deposit appropriations, which will be used to fund income tax credits for taxpayers who substantially rehabilitate historic structures.

The Department notes that in Section 2 of the bill, subsection (a) bases the tax credit for an amount based on the projected qualified rehabilitation expenditures. Instead, the Department suggests that the proposed tax credit be based on the amount of actual expenses incurred in rehabilitation of the property. Additionally, a definition of "affordable housing" should be included.

In subsection (b), the Department suggests that for projects completed in phases, the tax credit should be claimed as each project phase is placed in service, making proration no longer necessary. Subsection (i) contains a provision setting an undesignated aggregate cap for tax credits claimed pursuant to this new section. The Department notes that tax credits with an aggregate cap are extremely difficult to administer and result in considerable uncertainty among taxpayers.

Subsection (k) of the measure, regarding recapture, should be revised to eliminate subsections (1) and (2) if actual costs are used to calculate the amount of the credit. Regarding subsection (3) of subsection (k), the measure should specify how long the residential units must qualify as "affordable housing" to avoid recapture.

Thank you for the opportunity to provide comments.

LATE TESTIMONY

HISTORIC HAWAII FOUNDATION

To: Rep. Jerry L. Chang, Chair
Rep. Sharon E. Har, Vice Chair
Committee on Water, Land & Ocean Resources

From: Kiersten Faulkner
Executive Director, Historic Hawai'i Foundation

Committee Date: Friday, February 10, 2012
9:45 a.m.
Conference Room 325

Subject: **HB 2420, Relating to Historic Structures**

On behalf of Historic Hawai'i Foundation (HHF), I am writing in support of HB 2420, Relating to Historic Structures.

HB 2420 would establish a tax credit for qualifying rehabilitation expenses of historic structures and would establish a revolving fund administered by the state historic preservation division to fund the tax credit.

Since 1974, Historic Hawai'i Foundation has been a statewide leader for historic preservation. HHF's 850 members and numerous additional supporters work to preserve Hawaii's unique architectural and cultural heritage and believe that historic preservation is an important element in the present and future quality of life, economic viability and environmental sustainability of the state.

Preservation tax credit programs have proven to be successful incentives for rehabilitating older structures and returning them to useful life. Preserving and using historic buildings are ways to enhance community character, provide an alternative to waste of embedded energy and building materials, provide an alternative to sprawl, encourage heritage tourism and generally spur economic development in older neighborhoods and commercial districts.

Historic preservation tax credits have been used at the federal level and by over half of the States. While the details of the programs vary state by state, they have been shown to be very effective for preservation, job creation, environmental sustainability and economic development, especially when coupled with the federal historic preservation tax credit.

In 2008 Historic Hawai'i Foundation released a white paper reviewing economic benefits realized by states that use a rehabilitation tax credit, and found that increased direct tax revenues offset tax

Historic Hawai'i Foundation

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Historic Hawai'i Foundation was established in 1974 to encourage the preservation of historic buildings, sites and communities on all the islands of Hawai'i. As the statewide leader for historic preservation, HHF works to preserve Hawai'i's unique architectural and cultural heritage and believes that historic preservation is an important element in the present and future quality of life, environmental sustainability and economic viability of the state.

credit expense. Through increased economic output, the state recoups its investment in rehabilitation tax credits through four sources: construction period taxes, real property taxes, post-construction sales and income taxes.

Historic Hawai'i Foundation's review found that in the 29 states that have a rehabilitation tax credit, all of them determined that the fiscal return was greater than the state's forgone taxes, often returning three to five times more revenue to the state in new taxes and significant new investment. The rehabilitation tax credit also was successful in creating new jobs, increasing loan demand and deposits in local financial institutions, enhancing property values and generating sales. In addition to these direct fiscal impacts, the tax credit also has proven benefits related to environmental sustainability, affordable housing, tourism and visitation, and neighborhood revitalization.

These tax credit programs help to return historic properties to tax rolls and generate employment and housing where they are needed most. State investments in tax credits can pay heavy dividends. For example, the Rhode Island historic preservation tax credit, passed in 2002, generated a total of \$795 million in economic activity from an investment by the state of \$145 million. A recent study, which was commissioned by Grow Smart Rhode Island, estimates that the state rehabilitation tax credit will add \$242 million to the tax base of local communities and to generate a present value basis of \$179 million in additional property tax revenue and \$42 million in sales and income tax revenue.

As an incentive for reinvestment in our neighborhoods and communities, the historic property tax credit program makes sense. As an economic development program, it also makes fiscal sense for the state.

Therefore, Historic Hawai'i Foundation supports HB2420.

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