Hotel Tax Credit Important For All Hawaii

This week, two committees in the State House of Representatives approved a bill, HB 998, that would extend the state tax credit for hotel construction and renovations, which is set to expire in July. The bill would also increase the tax credit from the current 4 percent to 8 percent until 2009, when it would revert to 4 percent until the new expiration date of July 2012.

This bill is obviously of great importance to Outrigger and OHANA hotels, particularly in light of our company’s just-started $460 million Waikiki Beach Walk project. However, with Hawaii’s economy so closely linked to the ups and downs of the visitor industry, a tax credit for hotel construction and renovation will beneficially impact and stimulate growth, jobs, and opportunity on all islands.

There has been a disturbing trend recently, as hotels have been converted into condominium buildings for long-term occupancy, timeshare, or residential use. With the lower level of service expected in a condominium, timeshare, or apartment building, jobs have been lost. The front desk is staffed with fewer clerks – no clerks in an apartment building. There may not be a bell department. The requirement for housekeepers can be much smaller, since fewer condominium and timeshare units request daily service, for which there is usually an additional charge. Food and beverage facilities may be closed or scaled back. Very few people are needed in the area of sales, marketing, reservations, and rooms control. The list goes on and on through every department of a traditional hotel.

Tax collections are also reduced in conversions. Residential apartments pay only general excise tax (GET), timeshares pay only transient accommodations tax (better known as the hotel room tax or TAT), while not all resort condos pay the full amount of GET and TAT. Full-service hotels, in contrast, pay GET and TAT 100 percent of the time. At the county level, when hotels are converted to apartments, property tax revenue – the mainstay of county government – is reduced, because residential buildings are taxed at a lower rate.

However, there is a more fundamental underlying policy question that needs to be answered by both the Legislature and the administration. Keeping in mind the differences in each of these different types of accommodations, what do they want the future of the tourism industry to look like?

Do they want more resort condos or timeshares? Do they want more hotels? Or do they want a well-balanced mix?

The reduction of full-service hotel rooms in Waikiki has consequences in another area—Conventioneers. With fewer hotel rooms in Waikiki, it is getting more and more difficult to find enough accommodations for meetings, conventions, and incentive groups that want to come to Hawaii. The success of the Hawaii Convention Center is directly tied to the number of first-class hotel rooms available for attendees.

If the policy question is answered in favor of retaining full-service hotels, then hopefully, the bills now before the Legislature to extend and increase the tax credit for new hotel construction and renovations will, if passed, help reverse the trend of hotel conversions. They will encourage the renewal and upgrading of older hotels and the construction of new hotels to provide more jobs for the people of Hawaii and more tax revenue for our state and county governments.

It makes sense to me, and I hope the members of our Legislature will agree.