

Honolulu, Hawaii

MAR 24 2006

RE: H.B. No. 1026  
H.D. 1  
S.D. 1

Honorable Robert Bunda  
President of the Senate  
Twenty-Third State Legislature  
Regular Session of 2006  
State of Hawaii

Sir:

Your Committee on Tourism, to which was referred H.B.  
No. 1026, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to amend the definition of "fair market value" under the transient accommodations tax by replacing the one-half percent reference with an unspecified percent of gross maintenance fees.

Your Committee received testimony in support of this measure from the Hawaii Government Employees Association and ILWU Local 142. Testimony in opposition was received from the Department of Taxation; Hilton Grand Vacations Club; Hawai'i Hotel & Lodging Association; Starwood Vacation Ownership; Maui Sunset Timeshare Association; Kona Coast Resort; Cendant Corporation; Fairfield Resorts; RCI; ARDA-Hawaii; Marriott International, Inc.; and over 1,400 individuals. Comments were received from the Tax Foundation of Hawaii.

Your Committee finds that time share owners are essentially fractional owners of fee simple property. Your Committee believes that time share owners are treated unfairly in the tax laws. Time share owners are subject to triple taxes via the general excise tax, the real property tax, and the transient accommodations tax, whereas condominium owners are not subject to the general excise tax or the transient accommodations tax.



In some cases, owners of time shares pay both the transient accommodations tax on a percentage of the maintenance fee and on the rental proceeds of the unit. This amounts to double taxation on essentially the same subject.

Your Committee understands that some time share units are also used as rental vacation units. These time share units should be subject to the transient accommodations tax on the rental proceeds.

Your Committee has amended this measure by deleting its contents and inserting provisions to:

- (1) Repeal the transient accommodations tax on resort time share vacation interests;
- (2) Imposing the transient accommodations tax on the rental proceeds derived from time share units when used as transient accommodations; and
- (3) Changing the effective date to July 1, 2006.

As affirmed by the record of votes of the members of your Committee on Tourism that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1026, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1026, H.D. 1, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on  
behalf of the members of the  
Committee on Tourism,



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DONNA MERCADO KIM, Chair



