

Honolulu, Hawaii

March 20, 2008

RE: S.B. No. 2829
S.D. 2
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Sir:

Your Committee on Economic Development & Business Concerns,
to which was referred S.B. No. 2829, S.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this bill is to allow Hawaii to participate in the National Streamlined Sales Tax Project which is designed to develop and implement a sales and use tax system that radically simplifies sales and use taxes imposed by participating states.

Prior to the hearing on this measure your Committee made available on the Legislature's website a proposed H.D. I that replaces the substance of this bill with provisions that on December 31, 2008, repeal all state tax credits and exemptions except for those pertaining to the individual income tax.

A concerned individual supported the proposed H.D. 1. Testimony in opposition to the proposed bill was submitted by Hawaii Housing Finance and Development Corporation; Department of Business, Economic Development, and Tourism; Hawaii County Office of Housing and Community Development; Kauai County Housing Agency; Hawaiian Telcom; Kapolei Property Development, LLC; Hawaii Science & Technology Council; Hawaii Aquaculture Association; PacificCap; Hawaii Association of REALTORS; Taro Dream, Inc.; NetEnterprise, Inc.; Island News Technologies, LLC; Kukuipahu Energy, LLC; Referentia Systems; Pacific Lightnet; Hawaii Renewable Energy

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Alliance; Makai Ocean Engineering, Inc.; Ocean Engineering & Energy Systems; Innovasc, LLC; Carbon Diversion, Inc.; Hawaii Biotech, Inc.; Hawaii Institute for Molecular Sciences; Pukoa Scientific; Ocean Network, LLC; Hawaii Film and Entertainment Board; Oceanic Institute; Central Pacific Bank; KMH, LLP; State Farm; American Council of Life Insurers; Waimana; Integrated Coffee Technologies, Inc.; Ventura Technology; Sennet Capital; Navatek, Ltd.; Aloha Island, Inc; Kobayashi Development Group, LLC; Home Baked Entertainment; Honua Technologies; Marine Minerals Technology Center Associates; ProVision Technologies, Inc.; Blazing Sun Hawaii, Inc.; Maui Angels; EAH Housing; MailMining, LLP; IATSE Local 665; Curtis Consultng, LLC; ThinkTech Hawaii; BC&G International; Archinoetics, LLC; Edutainment Resources, Inc.; PacifiCap Management, Inc.; H2 Technologies, Inc.; 3rd Green, Inc.; Oceanit; Farnsworth Consulting; Hawaii Angels; Cardax Pharmaceuticals; Johnson, Butler & Company; Decision Research Corporation; Island Planet One Productions; Hawaii Venture Capital Association; Oceantek, Inc.; HOCOR Cardiovascular Technologies, LLC; Global Education Trust; HARK, Inc.; Hawaii Film Partners; Neptune Technologies, Inc.; Applied Marine Solutions; Ambient Micro, LLC; SYNCADD Systems, Inc.; Hawaii Solar Energy Association; SunEdison; Hawaiian Electric Company, Inc.; Maui Electric Company; Hawaii Electric Light Company, Inc.; Hawaii Bankers Association; Ecogenix,; Catholic Charities Hawaii; Kokekula Records & Publishing; Palm Records; Aumakua Records; Strategic Transitions Research, Inc.; Dowling Company, Inc.; Kinetic Films/Kinetic Productions; Birds of Paradise Recording Co., Inc.; Carbon Diversion, Inc.; KAI Hawaii, Inc.; For Pineapple Pictures, LLC; and numerous concerned individuals. The Department of Taxation (DOTAX), Tax Foundation of Hawaii, and Maui Economic Development Board, Inc., offered comments.

Your Committee finds that more information is needed to allow the Legislature to determine whether these tax credits and exemptions serve their intended purposes and should be continued. Your Committee has amended this bill by replacing its substance with that of H.B. No. 2942, H.D. 1, which:

- (1) Sets a group of tax credits and exemptions for repeal on December 31, 2010, another group for repeal on December 31, 2011, and a third group for repeal on December 31, 2012;
- (2) Requires DOTAX to evaluate the tax credits and exemptions in groups, by their repeal dates, and submit reports to the 2010, 2011, and 2012 Legislatures on



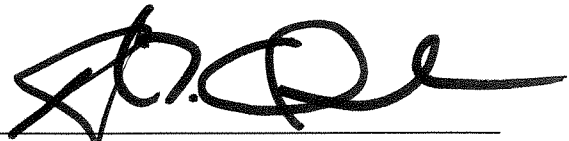
whether these credits should be continued, modified, or permitted to expire;

- (3) Provides that the report also contain suggestions for modifying and improving credits and exemptions, including those not recommended to be continued;
- (4) Requires certain credits and exemptions to be evaluated by the Department of Human Services (DHS) instead of DOTAX, and that DHS' reports are to be included in DOTAX's reports;
- (5) Appropriates funds for an economist, research statistician, and administrative rules specialist to assist DOTAX in performing its duties under this bill; and
- (6) Establishes a penalty for persons who cannot show a reasonable basis for a claimed tax refund or credit that exceeds the amount allowed by law.

Your Committee has amended these provisions to push the due date of the reports back by one year, with the first report due in 2009, to provide approximately two years between the time the reports are submitted to the Legislature and the time the credits and exemptions are set for repeal. Technical, nonsubstantive amendments were also made for clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Economic Development & Business Concerns that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2829, S.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2829, S.D. 2, H.D. 1, and be referred to the Committee on Finance.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development & Business
Concerns,



KYLE T. YAMASHITA, Chair



Record of Votes of the Committee on Economic Development & Business Concerns

Bill/Resolution No.: SB2829 SD2	Committee Referral: EDB, FIN	Date: 3/18/08		
<input type="checkbox"/> The committee is reconsidering its previous decision on the measure.				
The recommendation is to: <input type="checkbox"/> Pass, unamended (as is) <input checked="" type="checkbox"/> Pass, with amendments (HD) <input type="checkbox"/> Hold <input type="checkbox"/> Pass short form bill with HD to recommit for future public hearing (recommit)				
EDB Members	Ayes	Ayes (WR)	Nays	Excused
1. YAMASHITA, Kyle T. (C)	✓			
2. WAKAI, Glenn (VC)	✓			
3. BERG, Lyla B., Ph.D.				✓
4. BROWER, Tom		✓		
5. CHANG, Jerry L.	✓			
6. HANOHANO, Faye P.	✓			
7. HERKES, Robert N.				✓
8. MANAHAN, Joey	✓			
9. TSUJI, Clift	✓			
10. YAMANE, Ryan I.		✓		
11. CHING, Corinne W.L.				✓
12. MARUMOTO, Barbara C.		✓		
TOTAL (12)	6	3	0	3
The recommendation is: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted If joint referral, _____ did not support recommendation. committee acronym(s)				
Vice Chair's or designee's signature: _____				
Distribution: Original (White) – Committee Duplicate (Yellow) – Chief Clerk's Office				