

STAND. COM. REP. NO. 363

Honolulu, Hawaii

FEB 15 2007

RE: S.B. No. 1034
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred S.B. No. 1034 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to exempt common carriers from the general excise and use taxes for fuel sold from a foreign trade zone to common carriers for use in intrastate transportation.

Testimony in support of this measure was received from the Department of Business, Economic Development, and Tourism; The Chamber of Commerce of Hawaii; Hawaii Fueling Facilities Corporation; International Association of Machinists and Aerospace Workers; Transport Workers Union; Hawaiian Airlines; Airline Pilots Association; Aloha Airlines; Aloha Airlines Pilots' Union; and March of Dimes. The Department of Taxation and the Tax Foundation of Hawaii submitted comments.

Your Committee finds that fuel costs have increased dramatically in recent years and have become one of the biggest operating costs of the air transportation industry. As both Hawaii residents and visitors alike depend heavily on the air transportation system, support for the local air transportation industry is critical to the Hawaii economy.



Your Committee received a revenue impact statement from the Department of Taxation (Department) that the measure would result in a revenue loss of \$12,800,000 annually.

In their methodology, the Department stated that in calendar year 2006, there were 108,000,000 gallons of fuel sold to airlines on Oahu subject to the general excise and use taxes. This amount would presumably be eligible for the exemption. However, an additional 104,000,000 gallons sold on neighbor islands were subject to the tax, and some of this might represent fuel sold to inter-island airlines that would be purchased on Oahu if the legislation passes. Using a price of \$2 per gallon, a low estimate would be 108,000,000 gallons X \$2 per gallon X 0.04 = \$8.6 million; whereas a high estimate would be 212,000,000 (108,000,000 gallons + 104,000,000 gallons) X \$2 per gallon X 0.04 = \$17,000,000. Using a midpoint in this range yields a revenue estimate of about \$12,800,000.

Your Committee also notes that the revenue impact from this bill has not been taken into consideration in the Administration's General Fund Financial Plan.

It is the intent of your Committee to support the provisions of this measure.

Your Committee has amended the measure by referencing the amendments made by this measure to section 212-8, Hawaii Revised Statutes (HRS), in two additional chapters:

- (1) Section 237-24.75, HRS, relating to additional exemptions from the general excise tax; and
- (2) Section 238-3, HRS, relating to exemptions from the use tax.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 1034, as amended herein, and recommends that it be referred to the Committee on Ways and Means, in the form attached hereto as S.B. No. 1034, S.D. 1.



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



CAROL FUKUNAGA, Chair



