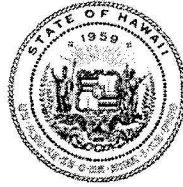


LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

LATE TESTIMONY

HOUSE COMMITTEE ON TRANSPORTATION

**TESTIMONY REGARDING HB 2744
RELATING TO MASS TRANSIT ROUTE ECONOMIC ZONES**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: JANUARY 28, 2008

TIME: 9:00AM

ROOM: 309

This legislation creates economic zones and provides a nonrefundable business tax credit that may be utilized against any net tax liability under Title 14, HRS, except the general excise tax.

The Department of Taxation **does not support the tax component of this legislation** because it is premature.

I. GEOGRAPHIC AREAS AROUND MASS TRANSIT ARE ECONOMICALLY PROSPEROUS BY VIRTUE OF THEIR LOCATION ALONE.

The Department defers to the Department of Business, Economic Development & Tourism on the economics of economic development zones in general; however questions the need for the tax benefit provided in this legislation. The concept of the current economic zone plan administered by DBEDT is to provide tax relief to encourage business to relocate to distressed areas. The Department understands that basic economic theory (if not history) suggests that businesses will locate around mass transit stops notwithstanding any government economic assistance. Simply, the Department does not see the need for tax incentives when logic suggests that businesses will flock to mass transit stops without any stimulus.

II. THE DEPARTMENT OBJECTS TO SUCH A BROAD CREDIT.

The Department also has concerns regarding a tax credit that can be used against "any" tax type under Title 14, HRS. Administration of a tax credit that may be offset against any tax type may prove difficult when the likelihood of businesses being attracted to these zones is great.

Furthermore, it is unclear how the tax credit is calculated. What is the tax credit a percentage of? Is it a percentage of gross receipts?