STATE OF HAWAII 1959

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE

Monday, March 31, 2008
4:30 P.M.
State Capitol, Conference Room 308

in consideration of
SB 2157 SD1 HD1
RELATING TO HEALTH

Chair Oshiro, Vice-Chair Lee and Committee members:

The Department of Business, Economic Development and Tourism (DBEDT) supports the intent of SB 2157 SD 1 HD1, which establishes and appropriates funds for the Hawaii Health Corps Program and would like to provide comments. This program will provide student loan repayment and physician and dentist stipends, and make business tax credit and general excise tax exemption available to physicians and dentists who practice in Enterprise Zones (EZ).

There have been many good ideas introduced this legislative session that support the State's economic development goals, and we note that no appropriation is associated with this bill.

DBEDT recognizes that in certain rural areas of Hawaii, residents are increasingly unable to obtain timely and appropriate health care. We defer to the Department of

Health to comment on the merits and effectiveness of the Hawaii Health Corps program to address this complex problem.

Part 4 of the bill seeks to include physicians and dentists as qualified businesses in the Enterprise Zone Program. The primary EZ benefits include 1) income tax credits, 2) GET exemption on eligible revenues, and 3) GET exemption on construction. Although these benefits seem significant, a doctor may only receive the income tax credits if they are making profits. If they are not, or do not owe any income taxes, they may not get any EZ benefit. A second benefit is GET exemption on eligible revenues. This would apply to the customer's bills, as customers would not be charged the GET. The doctor does not receive any direct savings. Regarding the GET exemption on construction - this incentive is designed to encourage establishment and expansion. If there is no or minimal construction costs involved, the benefits from the GET will be minimal to none. Thus, the EZ program's impact in attracting physicians to shortage areas may be minimal.

We would like to request one change, *not requiring these facilities to increase their staff* during their participation in the EZ Program *conflicts with the job creation purpose* as stated in HRS §209E-1. By adding **(a) (1) (3) and (b)(1)(3) on page 21 line 7** ensures that tax payer monies are being spent towards economic growth and expansion. The change would read as follows, "(1) The business either meets the requirements of subsection (a) (1), (2), and **(3)** or (b) (1), (2), and **(3)**; and..."

Furthermore, there may be revenue losses resulting from existing medical practices operating in the zones becoming eligible for tax exemptions. We defer to the Department of Taxation to ascertain the revenue impact of this proposal.

Thank you for the opportunity to offer these comments.