

L E G I S L A T I V E

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SUBJECT: GENERAL EXCISE, Exempt aircraft training facility

BILL NUMBER: SB 2496

INTRODUCED BY: Hanabusa, Espero, Fukunaga

BRIEF SUMMARY: Amends HRS section 237-24.9 to exempt from the general excise tax amounts received by an "aircraft training facility" in the state.

Defines "aircraft training facility" as a facility for aircraft training that includes high technology simulator training, general aviation training, and dormitories for at least 200 students.

EFFECTIVE DATE: July 1, 2008

STAFF COMMENTS: The legislature by Act 107, SLH 1997, granted an exemption for the construction of an aircraft service and maintenance facility in the state. An exemption from the use tax was granted for the importation of materials used to construct the facility as well as tools and parts imported and used in aircraft maintenance. Finally, all aircraft maintenance activity was exempted from the 4% tax.

This measure proposes to extend a similar general excise tax exemption to an aircraft training facility. While it would appear that this proposal is being submitted to complement the aircraft maintenance facility, the question that should be raised is why the narrow focus of this measure? Undoubtedly the measure has been drafted to provide preferential tax treatment for a particular organization or has hopes that if the tax exemption is offered, someone will come. Certainly the argument will be made that why shouldn't this tax incentive be adopted? Is there is no one here that is already providing such a service and if someone comes, all the better as it will create new economic activity.

What is interesting to note is that the exemption is extended only to those facilities that have a combination of a high technology simulator, general aviation training equipment and dormitories that will house at least 200 students. Obviously this measure is proposed with a specific taxpayer in mind. In all fairness what should concern lawmakers is the impact that granting exemptions based on these specific requirements will do to all other taxpayers who currently provide aircraft training in the state who, because they could not meet the specific qualifications, will continue to pay the general excise tax on revenues from their aircraft training services. So lawmakers need to ask who is being taken care of and where is there a demonstrated need or uniqueness that merits such an exemption. It should be remembered that such exemptions erode the tax base causing the tax burden to be shifted to all other taxpayers including those in competition with the favored facility or taxpayer.

What is unfortunate is that so much time and energy are being placed on such targeted tax incentives in hopes that something will happen while businesses in Hawaii continue to labor under draconian tax and regulatory constraints. Given that this proposal violates good tax policy where fairness and equity are key cornerstones to good tax policy, this measure cannot be justified.

Digested 1/25/08