

LATE

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

SENATE COMMITTEE ON TRANSPORTATION & INTERNATIONAL AFFAIRS

**TESTIMONY REGARDING SB 2496
RELATING TO TAXATION**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: JANUARY 28, 2008
TIME: 2:45PM
ROOM: 224

This bill proposes to amend the general excise tax exemption at section 237-24.9, HRS, by expanding the general excise tax exemption for aircraft service and maintenance facilities to include aircraft training facilities as well

The Department of Taxation (Department) provides comments.

I. THE DEPARTMENT RAISES THE FOLLOWING TECHNICAL ISSUES.

The Department raises technical flaws for this Committee's consideration.

AMBIGUITY IN FIRST SUBSECTION – In its current format it is unclear if the subsection grants a general excise tax exemption to merely amounts received from the operation of an aircraft training facility or to the amounts received from the construction of an aircraft training facility as well. The new subsection should read:

This chapter shall not apply to amounts received from the servicing and maintenance of aircraft or from the construction of an aircraft service and maintenance facility, or to amounts received from the operation or construction of an aircraft training facility.

DEFINITION OF "AIRCRAFT TRAINING FACILITY" – It is unclear whether the definition is intended to require that all three listed items be included in order for a facility to qualify as an "aircraft training facility." If the intent is to allow all of these items to qualify, then a facility which includes high technology simulator training and general aviation training equipment, but does not include dormitories would not qualify for this exemption. If, on the other hand, it is intended that the definition be interpreted to mean that a facility that includes any one of the three requirements meets the definition, then numerous currently existing flight schools could potentially qualify for this exemption.

II. REVENUE IMPACT.

Annual revenue loss is estimated at \$400,000 for FY 2009; \$1.2 million for FY 2010; and \$400,000 for FY 2011. This estimate assumes that the intent of the legislation is that a facility to qualify must include high tech simulators, general aviation training equipment, AND dormitories.