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SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION

TESTIMONY REGARDING SCR 162/SR 88

**REQUESTING THE DEPARTMENT OF TAXATION TO REPORT THE FISCAL
IMPACT AND RATE OF USAGE BY TAXPAYERS OF VARIOUS TAX
CREDITS AND EXEMPTIONS UNDER CHAPTERS 235, 237, 239, AND 244D,
HAWAII REVISED STATUTES.**

*****WRITTEN TESTIMONY ONLY*****

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

DATE: MARCH 27, 2008

TIME: 1:15PM

ROOM: 224

The Department understands the importance of studying the fiscal impact and usage rates of various tax credits and exemptions throughout Title 14, Hawaii Revised Statutes.

However, without additional resources specifically provided to assist with this request, the Department is concerned that it may not be able to adequately comply with this request.



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The Twenty-Fourth Legislature, State of Hawaii
Hawaii State Senate
Committee on Economic Development and Taxation

Testimony by
Hawaii Government Employees Association
March 27, 2008

S.C.R. 162 – REQUESTING THE DEPARTMENT
OF TAXATION TO REPORT ON THE FISCAL
IMPACT AND RATE OF USAGE BY TAXPAYERS
OF VARIOUS TAX CREDITS AND EXEMPTIONS
UNDER CHAPTERS 235, 237, 239 AND 244D, HRS

The Hawaii Government Employees Association supports the purpose and intent of S.C.R. 162. The ability of government to make fiscally sound and effective spending decisions will be enhanced by requiring the evaluation of tax credits and exemptions.

Tax expenditures such as tax credits and exemptions are essentially government spending programs administered through the tax code. The primary difference between tax expenditures and regular government spending is that under the tax expenditure approach, the recipient pays less in taxes instead of the government sending out a check. In theory, it does not matter whether state government uses direct spending or a tax expenditure to achieve a policy goal. However, both options must compete with other government spending priorities in making important budget decisions.

Tax credits and exemptions are less visible than other types of public spending, which makes it harder to evaluate their effectiveness. Fiscal accountability necessitates a review of the fairness and efficiency of all tax credits and exemptions. An accurate and accountable state budget should reflect the true costs of tax expenditures and the Legislature should fund only those that are effective and efficient uses of limited tax dollars. Inefficient and ineffective tax expenditures should be eliminated.

Thank you for the opportunity to present testimony in support of S.C.R. 162.

Respectfully submitted,

Nora A. Nomura
Deputy Executive Director



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REALTORS®**
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March 27, 2008

The Honorable Carol Fukunaga, Chair

Senate Committee on Economic Development and Taxation

State Capitol, Room 224

Honolulu, Hawaii 96813

RE: S.C.R. 162 and S.R. 88, Requesting The Department Of Taxation To Report The Fiscal Impact And Rate Of Usage By Taxpayers Of Various Tax Credits And Exemptions Under Chapters 235, 237, 239, And 244d, Hawaii Revised Statutes.

Hearing Date: March 27, 2008 @ 1:15 p.m., Room 224

On behalf of our 10,000 members in Hawaii, the Hawaii Association of REALTORS® (HAR) offers the following comment on and proposed amendment to item (17) of S.C.R. 162 and S.R. 88, which requests a report on the fiscal impact and rate of usage of the General Excise Tax (“GET”) exemption for certified or approved housing projects under HRS §237-29.

We believe Smart Growth is our road map to sustaining and enhancing the quality of life in our communities and we believe that this bill aligns with our core principle of *providing housing opportunities*.

HAR has historically supported mechanisms to help increase the supply of low and moderate income affordable housing such as the Rental Housing Trust Fund Program which can help integrate the use of mixed-income and mixed-use projects, special purpose revenue bonds, low-interest loans, block grants, low-income housing tax credit programs and deferred loan programs to provide rental housing opportunities. **Rental Housing Trust Fund projects qualify for and benefit from the GET exemption under HRS §237-29.**

HAR is concerned that a mere tabulation of the Forms G-37, General Excise/Use Tax Exemption For Certified or Approved Housing Projects, issued could result in **an erroneous and major overstatement of the fiscal impact** of this exemption because these forms are typically issued to the general contractor and to subcontractors of a project for their full contract and subcontract amounts. If the projects were GET taxable projects, the general contractor would be entitled to a deduction for amounts paid to subcontractors under HRS §237-13(3)(B) in computing the amount of original contract that is ultimately subject to GET.

For example, if a general contractor for a certified or approved housing project has a \$10,000,000 contract of which \$8,000,000 is subcontracted, there will typically be one G-37 for \$10,000,000 and one or more G-37's for \$8,000,000. Applying a 4% GET to all of these G-37's would indicate a fiscal impact of \$720,000 (4% of \$18,000,000), but the true fiscal impact if this were a GET taxable project would only be \$400,000 (4% of the \$2,000,000 retained by the general contractor plus 4% of the \$8,000,000 paid to subcontractors) after applying the subcontract deduction under HRS §237-13(3)(B).



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HAR therefore respectfully requests that item (17) of S.C.R. 162 and S.R. 88 be amended to read as follows:

- (17) Section 237-29 (general excise tax; exemptions for certified or approved housing projects) after accounting for the effect of the subcontract deduction under section 237-13(3)(B);

HAR looks forward to working with our state lawmakers in building better communities by supporting quality growth, seeking sustainable economies and housing opportunities, embracing the cultural and environmental qualities we cherish, and protecting the rights of property owners.

Mahalo for the opportunity to testify.

Sincerely,

A handwritten signature in black ink, appearing to read "Craig K. Hirai".

Craig Hirai, Member
Subcommittee on Taxation and Finance
HAR Government Affairs Committee



HAWAII BANKERS ASSOCIATION

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Presentation to the Committee On Economic Development and Taxation

**Thursday, March 27, 2008
Conference Room 224**

To: The Honorable Carol Fukunaga, Chair
The Honorable Will Espero, Vice Chair
Members of the Senate Committee on Economic Development and Taxation

Re: Testimony in Support of SCR162 / SR88

My name is Stafford Kiguchi, Senior Vice President with Bank of Hawaii, testifying on behalf of the Hawaii Bankers Association and its member banks. Although we cannot speak to the resources of the Department of Taxation, HBA supports the concept of SCR162 / SR88. We agree with the intent of these resolutions to appropriately assess the effectiveness and efficiency of tax credits and exemptions. Properly applied, such credits and exemptions encourage economic activity and can have meaningful benefit to our state.

Thank you for the opportunity to testify.

Respectfully submitted,

Stafford Kiguchi
Bank of Hawaii
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**SCR 162/SR 88
REQUESTING THE DEPARTMENT OF TAXATION TO REPORT THE FISCAL
IMPACT AND RATE OF USAGE BY TAXPAYERS OF VARIOUS TAX CREDITS AND
EXEMPTIONS**

**KEN HIRAKI
DIRECTOR – GOVERNMENT AFFAIRS
HAWAIIAN TELCOM**

March 27, 2008

Chair Fukunaga, Vice Chair Espero and Members of the Economic Development and Taxation Committee:

I am Ken Hiraki, testifying on behalf of Hawaiian Telcom on SCR 162/SR 88. Hawaiian Telcom supports this measure.

The purpose of this measure is to request the Department of Taxation to examine the fiscal impact and usage by taxpayers of tax credits and exemptions set forth under Chapters 235, 237, 239 and 244D, Hawaii Revised Statutes. Hawaiian Telcom recognizes the importance of conducting periodic reviews of our state tax code as a necessary tool in assessing the efficiency and fairness of any tax credit or exemption.

Many tax credits and exemptions are used as strategic “carrots” to encourage businesses to increase investment in the state. These tax incentives have served as an important economic catalyst resulting in the local production of many new jobs, products, and services. Given the important role that tax credits and exemptions play on Hawaii’s economy, repeal of any tax credit or exemption must be approached very carefully. A thorough analysis by the Department of Taxation will help ensure that lawmakers are fully informed as to the financial and social consequences (both intended and unintended) that may occur as a result of any change to our state tax code.

Based on the aforementioned, we support the purpose and intent of SCR 162/SR
88.

Thank you for the opportunity to testify on this measure.

**SENATE COMMITTEE ON
ECONOMIC DEVELOPMENT AND TAXATION**

March 27, 2008

SCR 162/SR 88 Requesting the Department of Taxation to Report the Fiscal Impact and Rate of Usage by Taxpayers of Various Tax Credits and Exemptions Under Chapters 235, 237, 239, and 244D, Hawaii Revised Statutes

Chair Fukunaga and members of the Senate Committee on Economic Development and Taxation, I am Rick Tsujimura, representing State Farm Insurance Companies, a mutual company owned by its policyholders.

State Farm supports the intent of SCR 162/SR 88 and believe that a review of existing tax credits and exemptions under Chapters 235, 237, 239, and 244D, Hawaii Revised Statutes, is preferable to the House proposals, which would eliminate certain exemptions subject to a review for reinstatement of those exemptions. We believe that this resolution is the preferable approach.

Thank you for the opportunity to present this testimony.

**SENATE COMMITTEE ON
ECONOMIC DEVELOPMENT AND TAXATION**

March 27, 2008

SCR 162/SR 88 Requesting the Department of Taxation to Report the Fiscal Impact and Rate of Usage by Taxpayers of Various Tax Credits and Exemptions Under Chapters 235, 237, 239, and 244D, Hawaii Revised Statutes

Chair Fukunaga and members of the Senate Committee on Economic Development and Taxation, I am Rick Tsujimura, representing Marriott International, Inc. ("Marriott").

Marriott supports the intent of SCR 162/SR 88 and believes that a review of existing tax credits and exemptions under Chapters 235, 237, 239, and 244D, Hawaii Revised Statutes, is preferable to the House proposals, which would eliminate certain exemptions subject to a review for reinstatement of those exemptions. We believe that this resolution is the preferable approach.

Thank you for the opportunity to present this testimony.