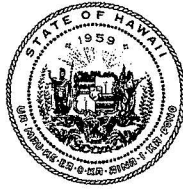


LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

STANLEY SHIRAKI
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

**HOUSE COMMITTEE ON FINANCE
TESTIMONY REGARDING HB 2877 PROPOSED HD 1
RELATING TO TAXATION**

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

DATE: FEBRUARY 17, 2010

TIME: 4:30PM

ROOM: 308

This proposed house draft 1 of this bill temporarily suspends the general excise tax exemption for certain transactions and imposes tax at the rate of one-half percent from July 1, 2010 until June 30, 2015. Examples of certain transactions that would be subject to the one-half percent rate under this bill are payments to foster parents; dividends and interest received by employee benefit plans; and sales of tangible personal property to the United States and state-chartered credit unions.

The Department of Taxation (Department) **is concerned about the repeal of exemptions from the general excise tax** and imposition of tax at the one-half percent rate.

I. EVALUATING HAWAII'S NUMEROUS SPECIAL GENERAL EXCISE TAX EXEMPTIONS IS IMPORTANT

The Department of Taxation (Department) believes it is necessary to ensure that GET exemptions are effective in promoting the various social and economic goals they were originally designed to promote. However, the Department expresses concern regarding a repeal as contemplated by this legislation.

As a general consideration, GET exemption repeals contemplated by this legislation should be handled cautiously. This is a particularly serious responsibility, since these tax provisions will completely disappear without a sound basis for legislative intervention. The Department points out that all of these exemptions were important at some point and served some purpose.

The current bill contains a number of items that are listed as exemptions from the GET that probably do not merit repeal. These exemptions are necessary for the GET to have a sensible

structure that minimizes economic distortions – they are not exceptions from a uniform and consistently administered excise tax.

II. REVENUE ESTIMATE

The revenue impact for this measure is an increase to the general fund of approximately \$58.7 million for fiscal year 2011, \$60.3 million for fiscal year 2012, \$62.4 million for fiscal year 2013, \$65 million for fiscal year 2014, and \$67.8 million for fiscal year 2015.

The Twenty-Fifth Legislature
Regular Session of 2010

HOUSE OF REPRESENTATIVES
Committee on Finance
Rep. Marcus R. Oshiro, Chair
Rep. Marilyn B. Lee, Vice Chair

State Capitol, Conference Room 308
Wednesday, February 17, 2010; 4:30 p.m.

**STATEMENT OF THE ILWU LOCAL 142 ON H.B. 2877, PROPOSED HD1
RELATING TO TAXATION**

The ILWU Local 142 supports the concept embodied in H.B. 2877, proposed HD1, which temporarily suspends the exemption for certain amounts of gross income or proceeds from the general excise tax and requires the payment of a tax at a one-half percent rate, which takes effect 7/1/2010 and is repealed on 6/30/2015.

The ILWU fully recognizes the Legislature's dilemma in meeting the budget shortfall that now exceeds \$1 billion. Finding funds to keep the State solvent will require either cutting services, which will be disastrous, as we have already experienced with employee furloughs and layoffs, or finding new sources of revenue. H.B. 2878 and 2877, proposed HD1 both offer vehicles to generate revenue, but H.B. 2877, proposed HD1, seeks to mitigate the impact to many nonprofit organizations by reducing the tax to one-half percent for amounts received by certain individuals and organizations.

However, we note that the exemption for amounts received by a labor organization for real property leased to another labor organization or trust fund is *not* included in H.B. 2877, proposed HD1. If this bill and H.B. 2878 are considered, we request that real property leases by labor organizations to other labor organizations be included in H.B. 2877 and taxed at the one-half percent rate.

The ILWU Local 142 (Local) and the ILWU Memorial Association (M.A.) are tax-exempt labor organizations under Section 501(c)5 of the Internal Revenue Code. Under its Articles of Incorporation, the purpose of the M.A. is: "... to promote the labor organizational and educational efforts of the ILWU Local 142." The M.A. leases property to the Local to further that purpose. As such, lease rent is provided by one related entity to another to promote the Local's mission by providing it with offices from which to operate.

Furthermore, *we vigorously oppose any effort to tax union dues.* We believe that dues paid by union members do not constitute a business transaction but are, in fact, provided to the organization by members who are an integral part of the organization. Dues are *not* paid for services rendered but in recognition of the member's support for the organization and should not be considered taxable income.

Understanding the State's budget crisis, the ILWU offers these comments on H.B. 2877, proposed HD1. In addition, the ILWU supports a small increase (one percent) in the General Excise Tax with a sunset in three years. We believe a temporary increase in the GET is far better than taking away exemptions that nonprofit organizations rely on for their survival. Thank you for the opportunity to testify.



American Resort Development Association
c/o PMCI Hawaii 84 N. King Street Honolulu, HI 96817 (808) 536-5688

February 17, 2010

TO: House Finance Committee
Representative Marcus Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

FROM: Ed Thompson
ARDA-Hawaii

DATE: Wednesday, February 17, 2010
Conference Room 308
4:30 p.m.

RE: HB 2877, RELATING TO TAXATION (Proposed HD1)

Chair Oshiro and Members of the Committee:

ARDA-Hawaii is the local chapter of the national timeshare trade association. Hawaii's timeshare industry currently accounts for ten percent of the State's lodging inventory with 7,700 timeshare units. Timeshare has had consistent occupancy rates, even during the current tough economic times. This has made our industry a vital partner and a diverse component of the visitor industry in Hawaii.

ARDA-Hawaii opposes HB2877 if the intent is to suspend the exemption and impose a one-half percent tax on amounts received by managers, submanagers, or boards of directors of condominium property regime owner, nonprofit homeowner, or nonprofit community associations as described under section 237-24.3(3). We also oppose this measure if the same is applied to hotel operators or suboperators and disbursed for employee compensation and benefits as described under section 237-24.3(7).

We would instead support SB2643, SD1, which repeals the sunset date for the exemption and clarifies that the aggregate cap on the exemption applies to the amount of tax exempted.

Thank you for allowing me to provide testimony on this matter.



Hawaii Credit Union League

Your Partner For Success

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Email: info@hcul.org



Testimony to the House Committee on Finance
Wednesday, February 17, 2010 at 4:30 pm

Testimony in opposition to HB 2877 (proposed HD1), Relating to Taxation

To: The Honorable Marcus Oshiro, Chair
The Honorable Marilyn Lee, Vice-Chair
Members of the Committee on Finance

My name is Stefanie Sakamoto and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 90 Hawaii credit unions, representing approximately 810,000 credit union members across the state. We oppose HB 2877 (proposed HD1), Relating to Taxation.

This bill would temporarily suspend the general tax exemption on gross proceeds received from the sale of tangible personal property to the United States and state-chartered credit unions, levying the tax at the rate of ½%.

Aside from being instrumentalities of the federal government, recognized by being included in the same statutory section providing a general excise tax exemption for purchases of tangible personal property by the federal government, we seek to retain this exemption for the purchase of tangible personal property by credit unions for several reasons:

- Credit unions are not-for-profit, member-owned financial cooperatives with the sole purpose of serving member needs, particularly members of modest means.
- The cost of any tax paid by a credit union is a cost paid by that credit union's member-owners.
- Unlike for-profit financial institutions that are able to access capital from external sources (issuing common or preferred stock for instance), a credit union can add to (strengthen) its capital only by retention of net income.
- As a consequence of only deriving capital from its members, any impairment on a credit union's net income will reduce the ability of a credit union to grow capital needed for safe and sound operations, especially in this troubled economy.

Thank you for the opportunity to testify.

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 16, 2010 6:33 PM
To: FINTestimony
Cc: bill@ejlounge.com
Subject: Testimony for HB2877 on 2/17/2010 4:30:00 PM

Testimony for FIN 2/17/2010 4:30:00 PM HB2877

Conference room: 308
Testifier position: support
Testifier will be present: No
Submitted by: Bill Comerford
Organization: Hawaii Bar Owners Association
Address: 10 Marin Lane Honolulu, HI
Phone: 808-223-3997
E-mail: bill@ejlounge.com
Submitted on: 2/16/2010

Comments:

We approve of this measure and suggest that some of those funds go to economic support of the Bar Industry and those who sell tobacco products as they have been harmed the most by these settlements.

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 17, 2010 9:08 AM
To: FINTestimony
Cc: dsmatsunaga@hawaii.rr.com
Subject: Testimony for HB2877 on 2/17/2010 4:30:00 PM

Testimony for FIN 2/17/2010 4:30:00 PM HB2877

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: Doris Segal Matsunaga
Organization: Individual
Address: 98-897 D Kaonohi St Aiea, HI
Phone: 487-3439
E-mail: dsmatsunaga@hawaii.rr.com
Submitted on: 2/17/2010

Comments:

Please look at the overall economic and social impact of this measure. We cannot raise state's funds by shifting the burden to private non-profits who will then cut staff and services -- the "state" (all of us) will then pay for more people on unemployment, using ER services, CPS, police, courts, etc.