

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
FAX NO: (808) 587-1584

FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

HOUSE COMMITTEE ON FINANCE

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING SB 754, SD1, PROPOSED HD1 RELATING TO TAXATION

TESTIFIER: FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR
DESIGNEE)
COMMITTEE: FIN
DATE: APRIL 4, 2011
TIME: 2:00PM
POSITION: SUPPORT

This measure temporarily suspends the exemptions for certain persons and certain amounts of gross income or proceeds from the general excise and use tax, and requires the payment of the tax at graduating rates ranging over time from 2% to 4%.

The Department of Taxation (Department) supports the examination of exemptions to see if they are still needed. However, the Department suggests that the exemptions be suspended temporarily for two years to address the current revenue shortfall. Using the data gathered as a result of this bill, the Department and the Legislature could better analyze which general excise tax exemptions are no longer necessary and could be eliminated permanently at the end of the two-year suspension period. Any permanent structured changes should be delayed until a more informed analysis is conducted.

In addition, the Department suggests imposing the tax at 4% rather than phasing in the tax at different rates for ease of administration. By phasing in the 4% rate, the Department will be required to revise the forms and update the computer system every year instead of just once. It may take the Department up to 12 months to implement the phasing in at 2%, then at 3%, and finally at 4% rate.

To account for potential behavioral changes due to the repeal of certain exemptions, the Department adjusted its estimate for the potential revenue gain from eliminating certain exemptions. Estimated revenue gain from this measure is as follows:

- \$80.8 million for FY 2012
- \$138.8 million for FY 2013
- \$190.6 million for FY 2014

- \$196.3 million for FY 2015.

Estimated revenue gain from applying a 4% rate beginning July 1, 2011 is as follows:

- \$161.7 million for FY 2012
- \$185.1 million for FY 2013
- \$190.6 million for FY 2014
- \$196.3 million for FY 2015.

SB 754 S.D.1 PROPOSED H.D.1 (April 4, 2011) (Categorized)			FY2006	FY2011	FY2012	FY2013	FY2014	FY2015
Line No.	HRS Section	Description of Exemption or Special Provision	GET at 4%	GET at 4%	GET at 2%	GET at 3%	GET at 4%	GET at 4%
ECONOMIC POLICY								
21	209E-09	Enterprise Zone sales (GET exemption for certain sales of eligible companies operating in Enterprise zones.) 1/	5,000	5,400	2,781	4,297	5,901	6,078
22	209E-11	Enterprise Zone construction (GET exemption for gross receipts from construction of eligible facilities within an Enterprise zone.) 1/	3,000,000	3,240,000	1,668,600	2,577,987	3,540,435	3,646,649
2	237-13(3)(C)	Federal cost-plus contractors' exemption for materials, plant and equipment (Federal cost-plus contractors can deduct the amount received under federal contracts for reimbursements of cost of materials, plant and equipment that the contractor purchased from a (GET) licensed taxpayer.)**	3,472,113	3,749,882	1,931,189	2,983,688	4,097,598	4,220,526
6	237-24(14)	GET exemption for amounts received by a producer of sugarcane from the manufacturer.	322,000	347,760	179,096	276,704	380,007	391,407
7	237-24.3(1)	GET exemption for amounts received for loading, transportation, and unloading agricultural commodities shipped for a producer on one island	2,252,734	2,432,952	1,252,970	1,935,839	2,658,553	2,738,309
8	237-24.3(2)	GET exemption for gross receipts from sales of liquor, cigarettes, tobacco products, and food to common carriers engaged in interstate or foreign commerce, whether by air or sea. **	5,053,388	5,457,659	2,810,695	4,342,523	5,963,732	6,142,644
9-11	237-24.3(4)	GET exemptin for amounts received from loading or unloading ships, tugboat services (including piloting services and towing services), certain transport of pilots or other government officials to ships, use of mooring services and running mooring lines.	2,443,303	2,638,767	1,358,965	2,099,601	2,883,452	2,969,956
13	237-24.3(12)	GET exemption for gross receipts from rental or leasing of aircraft or aircraft engines used for interstate transport**	17,476,298	18,874,401	9,720,317	15,017,889	20,624,568	21,243,305
14	237-24.5	GET exemption for certain amounts received by an exchange, including transaction fees, membership dues, service fees, and listing fees.	0	0	0	0	0	0
15	237-24.7(10)	GET exemption for amounts received as grants under section 206M-15 (high technology loans and grants from the State or federal government).	5,609	6,058	3,120	4,820	6,620	6,818
16	237-24.9	GET exemption for amounts received for aircraft service and maintenance or for construction of an aircraft maintenance facility .	7,210,000	7,786,800	4,010,202	6,195,762	8,508,847	8,764,112
18	237-27.5	GET exemption for construction of, or income from the operation of, an air pollution control facility.	399,169	431,102	222,018	343,017	471,077	485,209
19	237-28.1	GET exemption for gross receipts from shipbuilding and ship repair business.	2,184,000	2,358,720	1,214,741	1,876,775	2,577,437	2,654,760
20	237-29.8	GET exemption for gross receipts from operating a call center by a telecommunications business.	50,518	54,560	28,098	43,412	59,619	61,408

SB 754 S.D.1 PROPOSED H.D.1 (April 4, 2011) (Categorized)			FY2006	FY2011	FY2012	FY2013	FY2014	FY2015
Line No.	HRS Section	Description of Exemption or Special Provision	GET at 4%	GET at 4%	GET at 2%	GET at 3%	GET at 4%	GET at 4%
Sec 3, 1-3	238-1	Exemption from Use Tax for leasing and renting of aircraft used in interstate air transportation; for use of oceangoing vessels for transportation within the State as a public utility; use of a vessel constructed under section 189-25, HRS, prior to July 1, 1969.	5,676,892	6,131,043	3,157,487	4,878,318	6,699,557	6,900,543
Sec 3, 4-6	238-3(g),(h),(k)	Exemption from Use Tax for use or sale of liquor, cigarettes or tobacco products imported for resale to a common carrier. Use of property, services or contracting subject to HRS sections 237-26 (the scientific contracts GET exemption) or 237-29 (the GET exemption for certified housing projects); or for the use of a pollution control facility.**	897,237	969,016	499,043	771,022	1,058,870	1,090,636
Total Economic Policy			50,448,261	54,484,122	28,059,323	43,351,654	59,536,272	61,322,360
SOCIAL POLICY								
5	237-16.8	GET exemption for certain convention, conference and trade show fees paid to non-profit organizations.	2,441,795	2,637,139	1,358,126	2,098,305	2,881,673	2,968,123
12	237-24.3(10)	GET exemption for amounts received by a labor organization for real property leases to a labor organization.	7,155	7,728	3,980	6,149	8,444	8,698
Total Social Policy			2,448,950	2,644,866	1,362,106	2,104,454	2,890,117	2,976,820
ANTI-PYRAMIDING								
1	237-13(3)(B)	Subcontractors' deduction (A primary contractor can deduct amounts paid to subcontractors from gross receipts to calculate the amount subject to GET. This deduction is in lieu of treating the sales of the subcontractors as wholesale sales.)*	59,900,000	64,692,000	33,316,380	51,473,807	70,690,695	72,811,416
3	237-13(6)(D)	Home service providers acting as service carriers (Mobile telecommunications services offered by one company to another for calls that originate or end outside of the State.)	2,000,000	2,160,000	1,112,400	1,718,658	2,360,290	2,431,099
4	237-16.5	The sublease deduction essentially allows the wholesale rate of GET to apply when a taxpayer leases property from another taxpayer and sublets the property.	46,473,468	50,191,345	25,848,543	39,935,999	54,845,438	56,490,801
17	237-27	GET exemption for sales by a petroleum refiner to another refiner. (The exemption is in lieu of wholesale GET treatment of the refiner's sales.)	237,110	256,079	131,881	203,755	279,824	288,219
Total Social Policy			108,610,578	117,299,424	60,409,203	93,332,219	128,176,248	132,021,535
Total GET, All Provisions			\$161,507,790	\$174,428,413	\$89,830,633	\$138,788,327	\$190,602,636	\$196,320,715
Adjustment for prior contract exception (reduce receipts by 10% for first year)					\$80,847,569			

Notes:

*Discounted by 50% to account for potential behavioral changes.

**Discounted by 25% to account for potential behavioral changes.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, USE, Suspend exemptions; impose tax

BILL NUMBER: SB 754, Proposed HD-1

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Amends HRS chapter 237 to suspend the following general excise tax exemptions between January 1, 2012 and June 30, 2015:

- 237-13(3)(B) - amounts deducted from the gross income received by contractors;
- 237-13(3)© - reimbursements received by federal cost-plus contractors for the costs of purchased materials, plant, and equipment;
- 237-13(6)(D) - gross receipts of telecommunications home service providers acting as service carriers for other home service providers;
- 237-16.5 - amounts deducted from the gross income of real property lessees because of receipt from sublessees;
- 237-16.8 - gross income received by nonprofit organizations from conventions, conferences, trade shows, or display spaces;
- 237-24(14) - amounts received by sugarcane producers;
- 237-24.3(1) - amounts received from the loading, transportation, and unloading of agricultural commodities shipped interisland;
- 237-24.3(2) - amounts received from the sale of intoxicating liquor, cigarettes and tobacco products, and agricultural, meat, or fish products to person or common carriers engaged in interstate commerce;
- 237-24.3(4)(A) - amounts received or accrued from the loading or unloading of cargo;
- 237-24.3(4)(B) - amounts received or accrued from tugboat and towage services;
- 237-24.3(4)© - amounts received or accrued from the transportation of pilots or government officials and other maritime related services;
- 237-24.3(10) - amounts received by labor organizations for real property leases;
- 237-24.3(12) - amounts received as rent for aircraft or aircraft engines used for interstate air transportation;
- 237-24.5 - amounts received by stock exchanges and exchange members;
- 237-24.7(10) - amounts received as high technology development grants;
- 237-24.9 - amounts received from the servicing and maintenance of aircraft and maintenance facilities;
- 237-25(a)(1) - gross proceeds from the sale of intoxicating liquor to the United States;
- 237-25(a)(2) - tobacco products and cigarettes to the United States;
- 237-25(a)(3) - Other tangible personal property to the United States (including any agency, instrumentality, or federal credit union thereof, but not including national banks) and any state-chartered credit union;
- 237-27 - amounts received by petroleum product refiners from other refiners for further refining of petroleum products;
- 237-27.5 - gross proceeds received from the construction, reconstruction, erection, operation,

SB 754, Proposed HD-1 - Continued

use, maintenance of furnishing of air pollution facilities that do not have valid certificates of exemption on July 1, 2011;
237-28.1 - gross proceeds received from shipbuilding and ship repairs;
237-29.8 - amounts received by telecommunications common carriers from call center operators for interstate or foreign telecommunications services;
209E-11 - gross proceeds received by qualified businesses in enterprise zones that do not have valid certificates of qualifications from DBEDT on January 1, 2012; and
209E-11 - gross proceeds received by licensed contractors for construction performed for businesses in an enterprise zone or businesses who have been approved by DBEDT to enroll in the enterprise zone program.

Provides for the imposition of a tax of 2% on the previously exempt gross income or gross proceeds of sale between January 1, 2012 and December 31, 2012; 3% between January 1, 2013 and December 31, 2013; and 4% between January 1, 2014 to June 30, 2015. Defines "previously exempt gross income or gross proceeds of sale" for purposes of the measure.

No county surcharge shall be levied, assessed, or collected on any previously exempt gross income or gross proceeds of sale that is subject to taxation by this measure. This section shall not be applicable to gross income or gross proceeds from binding written contracts entered into prior to July 1, 2011 that do not permit the passing on of increased rates of tax. Also provides that the tax not be applicable to any gross income or gross proceeds of sale that cannot be legally taxed under the U.S. Constitution.

Requires the director of taxation from January 1, 2012 to require the information reporting on all exclusions or exemptions of all amounts, persons, or transactions under this chapter except for: (1) amounts received that are exempt under HRS section 237-24(1) through (7); and (2) any other amounts, persons, or transactions as determined by the director in the best interest of tax administration and made by official pronouncement.

Amends HRS chapter 238 to suspend the following general excise tax exemptions between January 1, 2012 and June 30, 2015:

- 238-1(6) - the leasing or renting of aircraft or keeping of aircraft solely for leasing or renting for commercial transportation of passengers and goods or the acquisition or importation of aircraft or aircraft engines by a lessee or renter engaged in interstate air transportation;
- 238-1(7) - the use of oceangoing vehicles for passenger or passenger and goods transportation from one point to another within the state as a public utility;
- 238-1(8) - the use of material, parts, or tools imported or purchased by a person licensed under HRS chapter 237 which are used for aircraft service and maintenance or the construction of an aircraft service and maintenance facility;
- 238-3(g) - the use or sale of intoxicating liquor and cigarette and tobacco products imported into the state and sold to any person or common carrier in interstate commerce, whether ocean-going or air, for consumption out-of-state by the person, crew, or passengers on the shipper's vessels or airplanes;
- 238-3(h) - the use of any vessel constructed under HRS section 189-25 prior to July 1, 1969;
- 238-3(k) - the use of any air pollution control facility subject to HRS section 237-27.

Provides for the imposition of a tax of 2% on the previously exempt value of property, services, or contracting between January 1, 2012 and December 31, 2012; 3% between January 1, 2013 and

December 31, 2013; and 4% between January 1, 2014 to June 30, 2015. Defines "previously exempt value of property, services, or contracting" for purposes of the measure.

No county surcharge shall be levied, assessed, or collected on any previously exempt value of property, services, or contracting that is subject to taxation by this measure. This section shall not be applicable to the value of property, services, or contracting from binding written contracts entered into prior to July 1, 2011 that do not permit the passing on of increased rates of tax. Also provides that the tax not be applicable to any gross income or gross proceeds of sale that cannot be legally taxed under the U.S. Constitution.

If so determined, requires the director of taxation to: (1) exempt or exclude the property, services, or contracting or the use of the property, services, or contracting, from the tax; or (2) apportion the gross value of services or contracting sold to customers within the state by persons engaged in business both within and without the state to determine the value of that portion of the services or contracting that is subject to taxation under HRS chapter 237 for the purposes of section 237-21.

Requires the director of taxation, from January 1, 2012 to require information reporting on all exclusions or exemptions of all amounts, persons, or transactions under the use tax, except for any amounts, persons, or transactions as determined by the director in the best interest of tax administration and made by official pronouncement.

The director of taxation may establish additional requirements, procedures, and forms pursuant to rules adopted under HRS chapter 91 to effectuate this section.

The department of taxation shall have the authority to postpone the payment of any tax imposed under this act until the deadline to file the annual general excise or use tax returns, as applicable, without regard to any extension.

Sections of this act suspending certain exemptions of HRS section 237-24, shall not be affected by the repeal and re-enactment of that section on December 31, 2013, pursuant to Act 70, SLH 2009. Sections of this act suspending certain exemptions of HRS sections 237-24.3 and 237-24.7, shall not be affected by the repeal and re-enactment of those sections on December 31, 2014, pursuant to Act 91, SLH 2010.

This act shall be repealed on June 30, 2015.

EFFECTIVE DATE: July 1, 2011

STAFF COMMENTS: This measure proposes to suspend the selected general excise and use tax exemptions and provides that the amount of the exempt income shall be taxed at the rate of 2.0%, 3.0% and 4% temporarily between 1/1/12 and 6/30/15. Earlier versions of this bill would have imposed a tacit 1% rate on these currently exempt transactions.

It should be remembered that many of the exemptions exist because if the general excise or use tax were imposed on these entities or transactions it would impose an undue burden or cause businesses to structure transactions in an inefficient manner. There are those exemptions that exist because to tax the transaction would be a violation of superior law or may be deemed unconstitutional. Other deductions, exclusions and exemptions exist because they help to reduce the pyramiding effect of the general excise tax. It should be remembered that any imposition of tax will not only result in the increase in the cost of

doing business in Hawaii, but may create inequitable taxing situations that were addressed by the specific general excise tax exemption. For example, the exemption of the sale of intoxicating liquor, cigarettes and tobacco products, and agricultural, meat, or fish products to persons or common carriers engaged in interstate commerce will, no doubt, make locally made or sold products uncompetitive with stock that the carrier may have acquired from another jurisdiction where no tax is imposed. The result would be the loss of sales to local providers of such goods and, therefore, the loss of jobs associated with those sales.

This measure would also suspend the leasing and subleasing deduction which was enacted to prevent the pyramiding of the tax which impacts small businesses who usually sublease their business space from a lessor of real property. This will drive the cost up for small businesses, making some businesses either raise prices to an uncompetitive level or to close their doors and go out of business.

For example, gross income received as a result of stevedoring activities, the loading and unloading of ships or aircraft, that is currently exempt would be subject to the proposed general excise tax rate. While it will generate much needed revenue for the state, the added cost represented by the new tax would ripple through the entire economy as nearly 96% of everything residents consume comes over the docks. In other cases, imposing the new tax would constitute double taxation as would be the case on telecommunications home service providers who collect charges for another home service provider in another state where that same amount is subject to the other state's tax. In the case of goods and services sold for consumption outside the state, taxing those goods or services would not only violate interstate commerce, but it would also subject those goods or services to double taxation, being taxed first by Hawaii and then by the other state where the consumer lives or works. Then, as noted above, there are those exemptions that are obsolete where the activity no longer exists such as payments to independent sugar growers or gross income of petroleum refiners of which there are none technically in the state as the existing petroleum refiners are located within the foreign trade zone.

While this measure is proposed to extract additional revenues to address the state's fiscal crisis, it should be remembered that the adoption of measures like this that temporarily propose a "tax increase" on certain transactions, will not be effective unless government expenditures are also curtailed. Elimination of many of these exemptions or exclusions would come at a bad time as the state's economy struggles to come back from the devastation of economic recession. Adding to the cost of doing business and living in Hawaii may just stall economic recovery, prolonging the downturn in state revenues. Some have characterized these exemptions as "special interest" legislation; however, given that suspension of many of these exemptions would increase the cost of living and doing business in Hawaii, this measure should be of interest to all taxpayers.

If there is any special interest legislation, it is the numerous targeted business tax credits which have literally given away billions of dollars to "special interests" at the expense of all taxpayers. Perhaps those who benefited from these windfalls should be asked to repatriate some of those tax dollars rather than asking all taxpayers to bail the state out of a financial situation that was in part created because of these credits. None of those beneficiaries are being asked to close the budget gap with a tax increase like that proposed in this bill.

As Hawaii families have tightened their collective belts during these difficult times, so should federal state, and county governments. Before adding additional burdens to Hawaii's overburden taxpayers, both businesses and individuals, state policymakers need to put all programs and services on the table and decide which are really "core" services and which are "nice but not necessary to have" and then

rearrange the allocation of resources so that it is only the "core" services that are funded. With many programs now funded through special funds, lawmakers do not have that opportunity to set priorities. Eliminating the general excise exclusions and exemptions for temporary gain may have a more dire consequence in the long run.

Finally, if in fact Hawaii taxpayers are being asked to foot this tax increase, an increase that will cut into their household budgets, possibly eliminate jobs, and put some out of business, lawmakers should assure that none of the proceeds of this tax increase be utilized to fund collective bargaining increases. This measure or any across the board increase either in the general excise tax or the net income tax makes those increases very large targets for mediators to award substantial wage and salary increases. This would certainly be unfair to taxpayers who might lose their jobs or have to take pay reductions because of the tax increase created by the suspension of many of these exemptions.

That said, this measure underscores the depth and breadth of the financial crisis that the state faces. The point to be made here is that unless elected officials rein in the size and cost of running government in Hawaii, such desperate measures, as this bill represents, may have to be adopted and in doing so will destroy the economic base of the state. This is not a compromise situation but an either or situation, either expenditures are right-sized or the state's economy is put out of business. While lawmakers may believe that their only alternative is to raise more revenues, doing so behind the curtain of businesses by suspending these exemptions is being less than honest with the taxpaying public as the cost of these revenue enhancements will be hidden from the public at large who instead will blame the businesses who must recover the cost of the additional tax in the shelf price of their goods and services.

Digested 4/3/11

TO : COMMITTEE FINANCE
Representative Marcus Oshiro, Chair

FROM: Eldon L. Wegner, Ph.D.
POLICY ADVISORY BOARD FOR ELDER AFFAIRS (PABEA)

HEARING: 2:00 pm Monday, April 4, 2011
Conference Room 308, Hawaii State Capitol

SUBJECT: SB 754 SD2 Proposed HD 1 Relating to Taxation

POSITION: The Policy Advisory Board for Elder Affairs **supports the Proposed HD1**
SB 754 SD1 Proposed HD1 which would temporarily eliminate exemptions
for the payment of GE tax for certain industries and businesses.

RATIONALE:

The Policy Board for Elder Affairs has a statutory obligation to advocate on behalf of the senior citizens of Hawaii. While we advise the Executive Office on Aging, we do not speak on behalf of the Executive Office of Aging.

- In order to generate sufficient income for the state to restore important services and to assure sustainability into the future, the state cannot afford to overlook current inequities/privileges in the tax system. Meeting the current budget crisis and creating future sustainability are possible if everyone would contribute their fair share.
- The proposed HD 1 would at least temporarily suspend the GE tax exemptions for among the most profitable businesses and industries in the state. These entities can afford to pay taxes like all other businesses and individuals in the state.
- We believe that opposing arguments are merely self-serving. The small additional costs can be absorbed by these entities in multiple ways.
- It is necessary that we have a realistic approach to the revenues which the state requires to meet the expectations our community – and that means increasing the revenues to a sufficient level and to do so by spreading the costs so that everyone pays their fair share.



Representative Marcus Oshiro, Chair
Representative Marilyn Lee, Vice Chair
Committee on Finance

HEARING Monday, April 04, 2011
2:00 PM
Conference Room 308
State Capitol, Honolulu, Hawaii 96813

RE: **SB754, SD1, Proposed HD1, Relating to Taxation**

Representative Oshiro, Representative Lee, and Members of the Committee:

Retail Merchants of Hawaii (RMH) is a not-for-profit trade organization representing 200 members and over 2,000 storefronts, and is committed to the support of the retail industry and business in general in Hawaii.

RMH opposes SB754, SD1, Proposed HD1, which suspends temporarily the exemption for certain persons and certain amounts of gross income or proceeds from the general excise and use tax and requires the payment of the tax at escalating rates and is effective from July 1, 2011 through June 30, 2015.

Specific to RMH is **Section 2, (5)**, which addresses the value or gross income received by non-profit organizations from certain conventions, conferences, trade shows or display spaces.

In fiscal year 2009, retail revenues in the state of Hawaii declined by \$1.9 billion dollars from the previous year. General Excise Tax reports from the Department of Taxation through September indicate an increase of about \$600 million; however, the recovery is still tenuous. Because the financial support for RMH, not unlike that of other not-for-profit organizations, is inextricably interwoven with the performance of the retail industry, we have experienced significant losses in revenue. Like all businesses, we've reduced expenses as deeply as possible without jeopardizing the level of service to the retail industry as required by our not-for-profit mission and objectives. Our conferences afford opportunities fulfill our directives and generate much needed revenue.

From a broad economic perspective, SB754, SD1, Proposed HD1, if enacted, will increase expenses, not only for the targeted businesses, but at every level in the marketplace, and will have far reaching negative consequences for Hawaii's still very fragile economy. Planned expansion will be cancelled; more jobs will be lost.

According to "Hawaii Labor Market Dynamics," a report from DLIR dated July 2010, page 10: "The largest over-the-year job loss was in the trade, transportation and utilities industry." Next were construction, hospitality and business services. Total jobs lost – 24, 050. Interestingly enough, over the same period, job gains were reported in health service and government. Further job losses in the private sector are not acceptable.

We urge you to hold SB754, SD1, Proposed HD1. Thank you for your consideration and for the opportunity to testify on this measure.

Carol Pregill, President

RETAIL MERCHANTS OF HAWAII
1240 Ala Moana Boulevard, Suite 215
Honolulu, HI 96814
ph: 808-592-4200 / fax: 808-592-4202



822 Bishop Street
Honolulu, Hawaii 96813
P.O. Box 3440
Honolulu, HI 96801-3440
www.alexanderbaldwin.com
Tel (808) 525-6611
Fax (808) 525-6652

**SB 754 HD1 (PROPOSED)
RELATING TO TAXATION**

**PAUL T. OSHIRO
MANAGER – GOVERNMENT RELATIONS
ALEXANDER & BALDWIN, INC.**

APRIL 4, 2011

Chair Marcus Oshiro and Members of the House Committee on Finance:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin, Inc. (A&B) on SB 754 HD1 (PROPOSED), "A BILL FOR AN ACT RELATING TO TAXATION."

A&B acknowledges and understands the fiscal challenges that the Legislature and the State are faced with and the need to identify and implement appropriate measures to balance the State Budget. We also understand that this bill is one of the more significant revenue generating proposals under consideration. In that we have previously shared comments with you on the temporary suspension of the general excise tax exemption for the loading and unloading of cargo in prior testimony on a similar bill, we wanted to focus our testimony on another issue relating to this bill.

This bill suspends, until June 30, 2015, various general excise and use tax exemptions and implements a graduated assessment rate on these items and services. The imposition of the general excise tax on these presently exempt items and services also includes the assessment of the general excise tax on inter-company services that are provided between a company and its wholly owned subsidiary. We understand that companies may have been internally organized or structured with wholly owned subsidiaries to realize inherent operating, accounting, and other business efficiencies.

We believe that inter-company charges between a company and its wholly owned subsidiary should be regarded as though the inter-company charges are made within divisions of a single company. In that inter-company transactions between a company and its wholly owned subsidiary have no external economic effect, we also believe that amounts received or charged between these wholly owned entities should not be subject to the general excise tax.

Should the proposed HD1 version of this bill be passed out of your Committee, we would sincerely appreciate your consideration during Conference Committee deliberations to incorporate an amendment to Section 2, 237-A of this bill to exclude from its applicability, services furnished to a company by its wholly owned subsidiary. We have attached proposed amended language for your consideration (proposed amendments highlighted):

§237-A Temporary suspension of exemption of certain amounts; levy of tax. (a) Notwithstanding any other law to the contrary, the exemption of the following amounts from taxation under this chapter shall be suspended from January 1, 2012, through June 30, 2015:

- (1) Amounts deducted from the gross income received by contractors as described under section 237-13(3)(B);
- (2) Reimbursements received by federal cost-plus contractors for the costs of purchased materials, plant, and equipment as described under section 237-13(3)(C);
- (3) Gross receipts of home service providers acting as service carriers providing mobile telecommunications services to other home service providers as described under section 237-13(6)(D);
- (4) Amounts deducted from the gross income of real property lessees because of receipt from sublessees as described under section 237-16.5;
- (5) The value or gross income received by nonprofit organizations from certain conventions, conferences, trade shows, or display spaces as described under section 237-16.8;

- (6) Amounts received by sugarcane producers as described under section 237-24(14);
- (7) Amounts received from the loading, transportation, and unloading of agricultural commodities shipped interisland as described under section 237-24.3(1);
- (8) Amounts received from the sale of intoxicating liquor, cigarettes and tobacco products, and agricultural, meat, or fish products to persons or common carriers engaged in interstate or foreign commerce as described under section 237-24.3(2);
- (9) Amounts received or accrued from the loading or unloading of cargo as described under section 237-24.3(4)(A);
- (10) Amounts received or accrued from tugboat and towage services as described under section 237-24.3(4)(B);
- (11) Amounts received or accrued from the transportation of pilots or government officials and other maritime-related services as described under section 237-24.3(4)(C);
- (12) Amounts received by labor organizations for real property leases as described under section 237-24.3(10);
- (13) Amounts received as rent for aircraft or aircraft engines used for interstate air transportation as described under section 237-24.3(12);
- (14) Amounts received by exchanges and exchange members as described under section 237-24.5;
- (15) Amounts received as high technology research and development grants under section 206M-15 as described under section 237-24.7(10);
- (16) Amounts received from the servicing and maintenance of aircraft or construction of aircraft service and maintenance facilities as described under section 237-24.9;
- (17) Gross proceeds from the sale of the following:
 - (A) Intoxicating liquor to the United States (including any agency or instrumentality of the United States that is wholly owned or otherwise so constituted as to be immune from the levy of a tax under chapter 238 or 244D, but not including national banks) or any organization to which the sale is permitted by the proviso of "Class 3" of section 281-31 that is located on any Army, Navy, or Air Force reservation as described under section 237-25(a)(1);
 - (B) Tobacco products and cigarettes to the United States (including any agency or instrumentality

thereof that is wholly owned or otherwise so constituted as to be immune from the levy of tax under chapter 238 or 245, but not including national banks) as described under section 237-25(a)(2); and

- (C) "Other tangible personal property" to the United States (including any agency, instrumentality, or federal credit union thereof, but not including national banks) and any state-chartered credit union as described under section 237-25(a)(3);
- (18) Amounts received by petroleum product refiners from other refiners for further refining of petroleum products as described under section 237-27;
- (19) Gross proceeds received from the construction, reconstruction, erection, operation, use, maintenance, or furnishing of air pollution control facilities, as described under section 237-27.5, that do not have valid certificates of exemption on January 1, 2012;
- (20) Gross proceeds received from shipbuilding and ship repairs as described under section 237-28.1;
- (21) Amounts received by telecommunications common carriers from call center operators for interstate or foreign telecommunications services as described under section 237-29.8;
- (22) Gross proceeds received by qualified businesses in enterprise zones, as described under section 209E-11, that do not have valid certificates of qualification from the department of business, economic development, and tourism on January 1, 2012; and
- (23) Gross proceeds received by contractors licensed under chapter 444 for construction within enterprise zones performed for qualified businesses within the enterprise zones or businesses approved by the department of business, economic development, and tourism to enroll into the enterprise zone program, as described under section 209E-11.

(b) Except as otherwise provided under subsection (f), ~~(g)~~ (g), or (h) there is levied, assessed, and collected annually against a person receiving or deriving previously exempt gross income or gross proceeds of sale, a tax at the rate of:

- (1) Two per cent on the previously exempt gross income or gross proceeds of sale received or derived by the person from January 1, 2012, to December 31, 2012;

- (2) Three per cent on the previously exempt gross income or gross proceeds of sale received or derived by the person from January 1, 2013, to December 31, 2013; and
- (3) Four per cent on the previously exempt gross income or gross proceeds of sale received or derived by the person from January 1, 2014, to June 30, 2015.

(c) As used in this section, "previously exempt gross income or gross proceeds of sale" means the amount of the gross income or gross proceeds of sale, the exemption for which is suspended under subsection (a). The term also includes the value received by a nonprofit organization from conventions, conferences, trade show exhibits, and display spaces, the exemption for which is suspended under subsection (a)(5).

(d) The person, against whom the tax is levied and assessed under this section, shall be responsible for payment of the tax to the director of taxation.

(e) Notwithstanding section 237-8.6, no county surcharge shall be levied, assessed, or collected on any previously exempt gross income or gross proceeds of sale that is subject to taxation under subsection (b).

(f) This section shall not apply to gross income or gross proceeds from binding written contracts entered into prior to July 1, 2011, that do not permit the passing on of increased rates of taxes.

(g) This section shall not apply to gross income or gross proceeds from services furnished to a company by its wholly owned subsidiary.

~~[(g)]~~ (h) The tax imposed under subsection (b) shall not apply to any gross income or gross proceeds of sale that cannot legally be so taxed under the Constitution or laws of the United States, but only so long as, and only to the extent to which the State is without power to impose the tax.

To the extent that any exemption, exclusion, or apportionment is necessary to comply with the preceding sentence, the director of taxation shall:

- (1) Exempt or exclude the gross income or gross proceeds of sale from the tax under subsection (b); or
- (2) Apportion the gross income or gross proceeds of sale derived within the State by persons engaged in business both within and without the State to determine the gross income or gross proceeds of sale

that is subject to taxation under this chapter for the purposes of section 237-21.

~~[(h)]~~ (i) This chapter shall apply to the payment, collection, enforcement, and appeal of the tax levied under this section.

The director of taxation may establish additional requirements, procedures, and forms pursuant to rules adopted under chapter 91, to effectuate this section.

Thank you for the opportunity to testify.

GOODSILL ANDERSON QUINN & STIFEL

A LIMITED LIABILITY LAW PARTNERSHIP LLP

ALII PLACE, SUITE 1800 • 1099 ALAKEA STREET
HONOLULU, HAWAII 96813

MAIL ADDRESS: P.O. BOX 3196
HONOLULU, HAWAII 96801

TELEPHONE (808) 547-5600 • FAX (808) 547-5880
info@goodsill.com • www.goodsill.com

GOVERNMENT RELATIONS TEAM:
GARY M. SLOVIN
ANNE T. HORIUCHI
MIHOKO E. ITO
CHRISTINA ZAHARA NOH
CHRISTINE OGAWA KARAMATSU

INTERNET:
gslovin@goodsill.com
ahoriuchi@goodsill.com
meito@goodsill.com
cnoh@goodsill.com
ckaramatsu@goodsill.com

TO: Representative Marcus R. Oshiro
Chair, Committee on Finance
Hawaii State Capitol, Room 306
Via Facsimile: 586-6001

FROM: Gary M. Slovin

DATE: April 3, 2011

RE: S.B. 754, S.D. 1, Proposed H.D. 1 – Relating to Taxation
Hearing: Monday, April 4, 2011 at 2:00 p.m., Agenda #1

Dear Chair Oshiro and Members of the Committee on Finance:

I am Gary Slovin, submitting comments on behalf of PVT Land Company, the owner and operator of the PVT Construction and Demolition Landfill (“PVT”) in Nanakuli. PVT owns and operates Oahu’s only landfill for the disposal of construction and demolition debris.

PVT respectfully **opposes** S.B. 754, S.D. 1, Proposed H.D. 1, insofar as it temporarily suspends exemptions for: 1) amounts received by qualified businesses and contractors as part of enterprise zones and 2) amounts received by contractors.

PVT supports companies like Honua, who will take construction and demolition waste feedstock from PVT and generate renewable energy for Hawaiian Electric Company. Our understanding is that Honua’s project would be immediately harmed and placed in jeopardy by suspending exemptions relating to enterprise zone benefits. This would also undermine PVT’s plans to focus on recycling and renewable energy, including the hiring of additional employees for this purpose. Ultimately, by imposing a tax on companies like Honua who should be encouraged, this bill will increase the cost of waste reduction, recycling and renewable energy facilities.

PVT is also concerned that eliminating the exemption for contractors will further harm the construction industry, at a time when tremendous impact has already been felt from the economic downturn. This will raise the cost of all construction projects, such as rail,

GOODSILL ANDERSON QUINN & STEEL
A LIMITED LIABILITY LAW PARTNERSHIP LLP

April 3, 2011
Page 2

transit-oriented development, shipyard maintenance, as well as commercial and residential building and renovation. It would directly impede the critically important recovery of Oahu's construction industry.

For the above reasons, PVT opposes the suspension and taxing of these exemptions, and respectfully requests that they be removed.

Thank you very much for the opportunity to testify on S.B. 754, S.D. 1, Proposed H.D. 1.



Page 1 of 3

Ship Repair Association of Hawaii

P.O. BOX 29001, Honolulu HI 96820
Ph# (808) 848-6211 Fax (808)848-6279

4 April 2011

The Honorable Representative Marcus Oshiro, Chair
The Honorable Representative Marilyn Lee, Vice Chair
House Finance Committee

Hawaii State Capitol, Room 306
415 South Beretania Street
Honolulu, HI 96813

TESTIMONY TO THE HOUSE FINANCE COMMITTEE
MONDAY, APRIL 4, 2011
2:00 P.M.
Conference Room 308
Hawaii State Capitol
Agenda #1

Re: SB 754 SD1, PROPOSED HD1

Dear Chair Oshiro, Vice Chair Lee and Members of the Committee:

On behalf of the Ship Repair Association of Hawaii (SRAH), I am submitting this written testimony in response to Senate Bill 754 SD1, Proposed HD1. The SRAH strongly opposes the suspension of the General Excise Tax (GET) exemption proposed by Section 2 (a) (20) and the imposition of tax proposed by Section 2 (b), pertaining to;

...Gross proceeds received from shipbuilding and ship repairs as described under section 237- 28.1;

The ship repair industry in Hawaii has been fighting to maintain our industrial base since the mid 1990s. Owing to a number of unique economic factors that exist in Hawaii, our industry struggles to keep Hawaii's military and commercial home ported vessels in the State for ship modernization and repair requirements. Hawaii is the only Island State in the Union. We have a unique, encapsulated economy which restricts our ability to import the material and resources necessary to maintain our industry.

Because of our encapsulated economy and the resultant costs of having to ship all material needed from the mainland, along with the necessity to provide an appropriate and livable wage to our skilled island workforce, the Hawaii ship repair industry is, and has been, at a significant cost competitive disadvantage with mainland and foreign repair

Page 2 of 3

entities for years. Compounding the matter are the challenges of fluctuating workflows in the marine industry and the difficulties of recruiting, training and retaining the skilled workforce necessary to perform marine repairs.

It is worthy to note that the U.S. Navy is pressed through intense necessity, to reduce ship repair costs for work conducted on U.S. Navy ships, including those home ported in Pearl Harbor. To that end, the Navy instituted the Multi-Ship Multi-Option (MSMO) contracting concept to consolidate commercially contracted Pearl Harbor surface ship repairs under central (prime contractor) management, with a principal goal of improving the cost effectiveness of ship maintenance.

As a near term example of the undermining effect removing the GET exemption and imposing a tax would have on our industry in Hawaii: SRAH and MSMO contractors are working to maintain the Navy's commitment to conduct Navy Aegis Cruiser (CG) and Guided Missile Destroyer (DDG) modernizations and upgrades here in Pearl Harbor over the next 10 years. The first such conversion is in progress now aboard USS CHOSIN in Pearl Harbor Naval Shipyard. If the Navy were required to pay GET on these projects, the added costs to the Navy would constitute a substantial element on the side of the ledger in favor of relocating these maintenance availabilities – and other significant Navy ship repair availabilities planned to take place - to the West Coast of the U.S.

Hawaii based Coast Guard vessels are similarly pressed, and have already opted to conduct a number of scheduled maintenance availabilities on the West Coast in recent years, predicated on cost differential. Our association continues to take cost-limiting measures to remain in the running to service Coast Guard, U.S. Army and other government marine vessels here in Hawaii.. Imposing GET on our ship repairs would further exacerbate the challenges we face, resulting in further lost work and lost revenue for our industry and this State.

Similarly, with respect to commercial operators, we see the effects of this cost analysis on large repair projects where commercial operators are not as impacted by the politics of their decisions. As it stands, we have seen these operators take their vessels to the mainland or to foreign competitors. Imposing a GET on ship repair will further exacerbate this dilemma.


Our ship repair businesses are significantly engaged in critical industrial services to our community, including electric motor and generator repairs and service; welding and metal manufacturing and repairs; ventilation and air conditioning, among others. Imposing a GET on the ship repair portions of our businesses would critically impact them in an already difficult economy, constituting a very real threat to a unique component of our community's fragile industrial base.

The employees and families of our Ship Repair Association of Hawaii constitute a significant industrial benefit to our community, with sound skills, technology and employment, good wages and a positive input to the State's tax base. Their jobs and the taxes they pay – as well as the substantial taxes our companies pay on the non-ship repair

revenues of our businesses - would all be imperiled by imposing GET on ship repair in Hawaii.

Representing the SRAH, we ask you to delete existing Shipbuilding and Ship Repair GET exemptions from the range of exemptions proposed for suspension and tax imposition by this bill.

Respectfully yours,



Iain S. Wood, President
Ship Repair Association of Hawaii

Encl:

- (1) Additional Detail: Projected Financial Impact of Imposing GET on Hawaii Ship Repair Industry
- (2) Simplified Representation: Projected Financial Impact of Imposing GET on Hawaii Ship Repair Industry

Member Firms

AMSBE, LLC Anipco Gasplus American Industrial Insulation Anuwati & Associates Arise Waco South Africa
 BAC Hawaii Shipyards C. E. S. Services Dresser Rand Hawaii Marine Cleaning Honolulu Marine, LLC
 HSI-Electric Boat HSI Mechanical, Inc. International Paint JMA, LLC JCI Metal Products Jo-Kell, Inc.
 Kratos Defense & Security Solutions Marisco, Ltd. MSC Technologies Oceanengineering
 Pacific Shipyards International Phoenix International Potter Electric, Inc. Propulsion Control Engineering
 C.E.D. Systems ThyssenKrupp Salway, Inc. UTS Maritime Services



Ship Repair Association of Hawaii

P.O. BOX 29001, Honolulu HI 96820

ENCLOSURE (1) TO TESTIMONY TO THE HOUSE FINANCE COMMITTEE
MONDAY, APRIL 4, 2011
2:00 P.M.
Conference Room 308
Hawaii State Capitol
Agenda #1

Re: SB 754 SD1, PROPOSED HD1

This enclosure to testimony on behalf of the Ship Repair Association of Hawaii (SRAH), opposing Senate Bill 754 SD 1, provides additional detail regarding projected impacts in Hawaii, should GET exemptions currently pertaining to our industry be removed or suspended for any length of time. The exemption pertaining to our industry, excerpted from the SB 754 SD1 draft:

...Gross proceeds received from shipbuilding and ship repairs as described under section 237-28.1;

The broad, disabling effects of imposing GET on ship repair work and the compounding impacts to our industry, Hawaii's residents and Hawaii's industrial base were provided in our basic testimony submitted to the Committee. Additional detail follows.

The bulk of our industry's revenues in ship repair are realized providing maintenance and repair services to U.S. Navy surface ships at Pearl Harbor Naval Shipyard, through a contract vehicle designated a Multi-Ship Multi-Option (MSMO) contract. Under that contract, BAE Hawaii Shipyards, Inc. is the prime contractor to the Navy, to maintain three Aegis Cruisers (CG), six Aegis Destroyers (DDG) and two Fast Frigates (FFG) home ported in Pearl Harbor. Our remaining SRAH companies sub-contract to BAE to perform the required maintenance, with total revenues of approximately \$100M annually.

Over the next decade, nine of the Pearl Harbor ships (3 CGs and 6 DDGs) are slated for major equipment upgrades or Aegis Modernizations – significant maintenance and installation periods set aside to completely overhaul and improve the ships' capabilities, renewing their viability in the Pacific Fleet through the first half of the 21st century. The first Aegis Modernization is in progress at Pearl Harbor – USS CHOSIN (CG 65), slated for completion this summer, realizing revenue to our industry of approximately \$60M.

For the eight remaining Cruiser/Destroyer Modernization projects for Hawaii-based ships, a Navy study has determined potential total savings of \$150M stand to be realized by conducting the projects in San Diego, due to recognized cost differentials associated

with doing the work in Pearl Harbor. Our GET exemption partially alleviated those differentials and helped to convince the Navy it was a reasonable expenditure, to perform the USS CHOSIN modernization project in Hawaii. Removal of our exemption could have the opposite effect on subsequent considerations. With a 4% GET imposed on the revenue, the \$150M cost differential total would rise an additional 13%, to \$170M.

Despite many readily apparent benefits to performing the eight remaining (roughly six-month duration) projects in their own home port, ongoing fiscal constraints keenly pressure the Navy to consider relocating those projects to the mainland to cut costs, removing their presence and their revenues from Hawaii altogether. Loss of those projects would precipitously reduce our annual revenues for the next eight successive years, beginning in 2013 – to less than half their present value (to about \$40M of a now annual \$100M). This sustained, substantial and unrecoverable loss of revenue would irreparably harm our industry and our State.

The Ship Repair Industry in Hawaii:

- Employs approximately 750 local, technically trained, well compensated, tax paying Hawaii residents.
- Employs an additional 1800 local residents who provide sub-contracting and vendor services, materials and supplies to our industry.

Quantitative impacts of loss of the Aegis Conversions are projected to include:

- Ship Repair Revenues: Loss of \$60M (of \$100M) annually.
- Ship Repair Jobs: Loss of 275 of 750 ship repair jobs in Hawaii.
 - Ship Repair Wages: Resultant from job loss – \$21M, ship repair wages
- Ship Repair Material Purchases: \$12M annually (due 60% lower volume, ship repairs)

Hawaii State GET Lost: \$564K annually (GET presently paid on matl)

Total loss to State (Income Tax + GET on Material): \$2.664M annually

Further note, a 50% (or greater) drop in ship repair revenues would be expected to generate a 50% drop in corporate profits, with a commensurate 50% drop in corporate income tax paid to the State of Hawaii by our industry.

We (SRAH) were asked to quantify if feasible, how much the State realizes in benefit from each dollar of tax revenue it forgoes by allowing our GET exemption. Using the projected losses of revenue that would be inflicted by imposing GET on the ship repair industry (by the loss of Pearl Harbor's Aegis Modernization projects):

- If the State were to leave the GET exemption pertaining to ship repair in place, State revenues are projected to remain relatively stable, as they stand today.
- If the State were to impose GET on ship repair:
 - GET on the \$40M projected to remain at Pearl Harbor, for surface ship repairs would yield \$1.6M annually at a 4% GET rate.

- Concurrent tax loss (projected above): \$2.664M annually
- Net effect to State of Hawaii: \$1.064M annual loss
- Net Return on Investment by maintaining GET exemption for ship repair:
 - $$\frac{\text{Tax revenues currently realized}}{\text{GET revenues projected if exemption removed}} = \frac{\$2.66\text{M}}{\$1.6\text{M}} = 1.66$$

Summarized: The State is estimated to realize \$1.66 return on each dollar forgone in potential, unrealized GET revenue (revenue which could be collected if the ship repair exemption were removed and replaced with a 4% GET – the highest GET percentage proposed in HB 799 draft).

The quantified impacts presented above take into account only the portion of Hawaii's ship repair business represented by Navy surface ship repairs at Pearl Harbor under the MSMO contract. Additional impacts resulting from anticipated loss of other government, as well as commercial, marine repair projects would be additive.

Impacts to our employees' jobs and the concurrent effects to the State's income tax base are represented only at the first, direct level of impact. The compounding effects on our employees, our sub-contractors and vendors and their families – and the resultant adverse impacts to the State's tax revenues and spending burdens (support programs) – are not included.

Finally, the magnitude of the impact to our industry would likely be such that some of our companies could no longer sustain sufficient revenue to remain in business. Reduction or loss of our skilled workforce in this island economy could be irreversible. This would be especially harmful to Hawaii's industrial fabric, considering that most of our work is performed by skilled tradesmen and degreed engineers, cultivated very deliberately and not readily conjured up when needed. Loss of our industry's businesses would severely impact our State's fragile industrial base, impairing Hawaii's self-sufficiency and forcing us to rely on mainland or foreign capabilities to service basic needs. For an island state, to be deprived of our self-enabling ship repair industry and its related capabilities would have the effect of stranding us in the middle of the Pacific Ocean.

For perspective, it might be instructive to examine the basis upon which the GET exemption for shipbuilding and ship repair was established by the State of Hawaii:

Our exemption dates from the late 1960s, when the Navy was sending ships for repair to mainland U.S. shipyards, because it was cheaper to send them there - despite the costs in both fuel and time - than it was to have the repairs performed in Hawaii, where the prevailing wages and the additional excise tax substantially increased the Navy's cost. While nothing could be done about wages, the legislature was asked to eliminate the cost of the GET on ship repairs to federally owned vessels. The result was Act 204 of the 1971 session. The attached committee report from the State of Hawaii House and Senate Journals from 1971 explained the rationale for SB 1040:

"This exemption will enable the shipbuilding and ship repair businesses in the State to compete on an even basis with those businesses operated in other states which do not have to pay a general excise tax on their activities. The exemption should result in an expansion of the State's economy through the servicing of shipping and provide a chance to build a new industry which will create new and different tax bases."

That strategy has been crucial to developing our industry's employment, technical capabilities and tax revenues in our State – growing from a barely existent industry in 1971 (less than \$5M total sales revenues), to a \$40M concern in 2000, to over \$100M today. Even so, our industry remains hard pressed to compete against off-island competition, and in some sectors (Coast Guard vessels, commercial marine...) we are barely holding steady or in fact, losing substantial work to the competition. It is imperative that the GET exemption afforded our industry remain in place, to continue to help level the playing field, to a degree sufficient to allow us to remain at least viable in a highly competitive global market.

We appreciate the support provided by members of the Committee who have taken the time and effort to examine these complexities.

We respectfully urge you to maintain the exemption presently in place, regarding GET as it pertains to shipbuilding and ship repairs in the State of Hawaii. As was remarked during a March 23 hearing before the Senate Economic Development and Technology Committee, "... all exemptions are not equal."

Member Firms

- AMSEC LLC
- Arakis Gaspio
- American Industrial Insurance
- Anawali & Associates
- Arise Waco Scaffoldin
- BAE Hawaii Shipyards
- C & S Services
- Dresser-Rand
- Hawaii Marine Cleaning
- Honolulu Marine, LLC
- HSI-Electric Boat
- HSI Mechanical, Inc.
- International Paint
- IMIA, LLC
- ICI Metal Products
- Is-Kelly, Inc
- Kratos Defense & Security Solutions
- Marburo, Ltd.
- NSC Technologies
- Oceanering
- Pacific Shipyards International
- Phoenix International
- Potter Electric, Inc
- Propulsion Control Engineering
- Q.E.D. Systems
- ThyssenKrupp Sulway, Inc
- UTS Maritime Services



Ship Repair Association of Hawaii

P.O. BOX 29001, Honolulu HI 96820

ENCLOSURE (2) TO TESTIMONY TO THE HOUSE FINANCE COMMITTEE
MONDAY, APRIL 4, 2011

2:00 P.M.

Conference Room 308

Hawaii State Capitol

Agenda #1

Re: SB 754 SD1, PROPOSED HD1

This enclosure to testimony on behalf of the Ship Repair Association of Hawaii (SRAH), opposing Senate Bill 754 SD 1, summarizes enclosure (1), detail regarding projected impacts in Hawaii, should GET exemptions currently pertaining to our industry be removed or suspended for any length of time.

The Ship Repair Industry in Hawaii:

- Employs approximately **750** local, technically trained, well compensated, tax paying Hawaii residents.
- Employs an additional **1800** local residents who provide sub-contracting and vendor services, materials and supplies to our industry.

Navy Ship Repair at Pearl Harbor Naval Shipyard, to 3 Aegis Cruisers (CG), 6 Aegis Destroyers (DDG) and 2 Frigates (FFG) – Multi-Ship Multi-Option (MSMO) contract:

- **\$100M** annual revenue
- 9 Aegis CG/DDG Modernization projects
 - First in progress, 2011 (USS CHOSIN) - **\$60M** (60% of annual revenue)
 - Remaining 8, one per year, commencing 2013 - **\$60M each**
- Navy estimated cost differential, to perform 8 remaining Aegis projects at mainland U.S. shipyards in lieu of Hawaii: **\$150M** (savings to Navy)
 - With 4% GET imposed on ship repair in Hawaii: **\$170M** (13% greater)

Impact of Hawaii losing 8 remaining CG/DDG Modernization projects:

- MSMO annual revenue: **Reduced from \$100M to \$40M, eight successive years**
- **Loss of 275 of 750 jobs, SRAH employees**
 - Loss of annual wages: \$21M
 - Resultant loss, income tax to State of Hawaii: **\$2.1M annual loss**
 - Reduction in Ship Repair material purchases (60% lower volume): \$12M
 - Loss, GET on mat'l (currently paid to State): **\$564K annual loss**
 - Total loss to State (Income Tax + Material GET) = **\$2.664M annually**

Projected GET (Navy ship repairs at Pearl Harbor): $4\% \times \$40M = \$1.6M$ annually
Net to State (by imposing GET, Ship Repair): $\$1.6M - \$2.664M = \underline{\$1.064M}$ annual loss

Return on Investment (by imposing GET, Ship Repair): $\frac{\$1.6M}{\$2.664M} = 0.6$

Return on Investment (by maintaining Ship Repair GET exemption): $\frac{\$2.664M}{\$1.6M} = 1.66$

Caveats:

- Projected impacts are only for portion of Hawaii ship repair business from Navy ship repairs at Pearl Harbor – impacts from other ship repairs would be additive.
 - Coast Guard and merchant vessel repairs already being lost to off-island competitors – imposing GET would exacerbate.
- Impacts to employees' jobs and income tax loss represent only first level of impact -- compounding effects on employees' families, sub-contractors, vendors – and corresponding effects on income tax and support programs not included.
- Broad impacts to SRAH businesses not represented – irreparable damage to island state's industrial base and self-sufficiency.

Member Firms

AMSC LLC Algas Group American Industrial Insulation Anawalt & Associates Arise Wire scaffolding
 BAE Hawaii Shipyards C & S Services Dresser Rand Hawaii Marine Cleaning Honolulu Marine, LLC
 HSI Electric Boat HSI Mechanical, Inc. International Paint IMIA, LLC JCI Metal Products Jo Kell, Inc
 Kratos Defense & Security Solutions Marisco, Ltd. NSC Technologies Oceanairing
 Pacific Shipyards International Phoenix International Rotor Electric, Inc Propulsion Control engineering
 Q.E.D. Systems ThyssenKrupp Solway, Inc UTS Maritime Services

**TESTIMONY OF KEONI WAGNER ON BEHALF OF HAWAIIAN AIRLINES IN
OPPOSITION TO S.B. NO. 754, SD1, PROPOSED HD 1, RELATING TO TAXATION**

Monday, April 4, 2011

To: Chair Marcus Oshiro and Members of the House Finance Committee:

My name is Keoni Wagner and I am the Vice President for Public Affairs for Hawaiian Airlines presenting this testimony on behalf of Hawaiian Airlines in opposition to S.B. No. 754, SD1, Proposed HD 1.

Hawaiian Airlines understands the severity of the budget problem and the difficulty of finding solutions to balance the state budget with the severe economic situation facing the state. At the same time, we believe Sections 2 and 3 of this bill will undermine the state's economic recovery and effectively put Hawaii companies at a disadvantage to competitors based elsewhere.

Hawaiian Airlines is the only carrier serving Hawaii from the mainland that is entirely focused on our home state and the only carrier whose economic well being is tied directly to that of Hawaii. The company is reinvesting profits in expansion and is actively pursuing a growth strategy that is aimed at adding service and new routes to bring more visitors to Hawaii. We are increasing service to Tokyo and Osaka in Japan and to Korea. This growth is providing significant increases in tourism and tax revenues to the state. Last year, the HTA estimated that our Haneda flight alone would boost visitor spending in Hawaii by more than \$130 million.

The company has committed to investing in a fleet of new long range aircraft to fulfill its vision to become an even larger contributor to Hawaii tourism. We have taken possession of three new aircraft since Spring 2010, with two more arriving this year and additional aircraft scheduled for delivery in future years.

Hawaiian is the only airline which employs large numbers of individuals in the state. We have hired more than 600 employees over the past two years and plan to hire 250 more in the next few months.

The current exemptions that exist in the law are part of the foundations upon which this growth at Hawaiian has been planned. Elimination of any of the current tax exemptions affecting airlines will disproportionately injure local airlines, such as Hawaiian, and will deepen the competitive disadvantage we already face. Carriers not based in Hawaii have little exposure to state taxes compared to Hawaiian, so the impact on Hawaiian is much larger. We would ask whether it is good policy to pass legislation that as a matter of design actively disadvantages Hawaii-based companies over companies in the same industry that are based in other states.

There is a belief that, with the exemptions covered by this measure in place, Hawaii based airlines don't pay their fair share. Nothing could be further from the truth. Commercial aviation is among the highest-taxed industries in the country. The rate of taxes and fees paid to government on each ticket has increased two thirds in the last ten years and now stands in excess of 20%. Adding GET to our aviation related expenditures doesn't remove a subsidy from Hawaiian, it would instead deepen the unfair tax burden that we already carry today.

Hawaiian currently pays the state approximately \$50 million annually in taxes and fees – \$5.2 million of that in GET this year – and our employees also contribute more than \$9 million in state taxes. The taxes and fees we pay to the State have more than doubled in the last five years and are set to increase further in 2011. Replacement of the current tax exemptions with a 2%, 3%, and 4% tax would raise Hawaiian's existing tax burden by up to \$12 million in 2012 and this amount would multiply in successive years as we bring additional new aircraft into

Hawaii. The total increased tax burden on our company would be up to \$73 million over four years. Hawaiian is not able to absorb cost increases of this magnitude.

While 2010 was a positive year for Hawaiian, the risk factors this year are far greater.

For example:

- a. Oil prices have been steadily increasing and recently hit a two-year high. Our fuel costs are projected to be 50 percent higher this year than in 2010.
- b. Labor costs are higher with new contracts in effect
- c. Other government fees and taxes are increasing
- d. Aircraft maintenance costs are projected to be higher
- e. Investments in opening new routes and markets
- f. Uncertainty about Japan visitor traffic

Hawaiian is already facing substantial financial pressures with high fuel prices and the prospect of diminished revenues on some routes that have already required increased costs to be passed along in the form of higher fares on mainland and international routes. Loss of these exemptions will require further fare increases across our system and/or other remedies, such as reductions in service and workforce. Accordingly, we urge the Committee to defer this bill.

Thank you for the opportunity to comment on this measure.



46-063 Emepela Pl. #U101 Kaneohe, HI 96744 · (808) 679-7454 · Kris Coffield · Co-founder/Legislative Director

TESTIMONY ON SENATE BILL 754, SENATE DRAFT 1, HOUSE DRAFT 1, RELATING TO TAXATION

House Committee on Finance
Hon. Marcus R. Oshiro, Chair
Hon. Marilyn B. Lee, Vice Chair

Monday, April 4, 2011, 2:00 PM
State Capitol, Conference Room 308

Honorable Chair Oshiro and committee members:

I am Kris Coffield, representing the IMU Alliance, a nonpartisan political advocacy organization that currently boasts over 60 local members. On behalf of our members, we offer this testimony in strong support of SB 754, SD1, HD1, relating to taxation, with suggestions for amendments.

Under a gross receipts tax system, exemptions are supposed to be limited in order to equalize the fiscal playing field for all businesses. That precept has not been followed as rigorously in Hawaii as it should have been, however, with lost revenue from general excise tax exemptions spiraling into the hundreds of millions of dollars. A classic example of GET exemption profligacy is the exclusion granted to Hawaiian Airlines, which receives an exemption on gross receipts from the rental or leasing of aircraft or aircraft engines, and on the amounts received for service and maintenance. Originally, these exemptions were implemented, in 2001, to bolster Hawaiian Airlines' competitive advantage with regard to interisland travel, specifically by making the purchase of quieter, more efficient engines more affordable. Continuation of these exemptions will cost the state approximately \$73 million through 2015, though, according to the company's own estimates, at a time when Hawaiian Airlines has obtained a veritable monopoly over local air travel and now bills itself as an international carrier. Lifting the exemptions outlined in this bill at a graduated rate of 2, 3, and 4 percent over the next few years is expected to generate nearly \$729.5 million between FY2012 and FY2015—including \$219.7 million over the coming biennium—in revenue that the state simply cannot afford to sacrifice during a time of crisis, especially if basic services are to be sustained.

That said, the IMU Alliance requests the removal of §237-A(a)(19), which repeals the GET exemption for air pollution control facilities, like the City and County of Honolulu's H-Power plant, that do not have valid certificates of exemption on January 1, 2012. Today, H-Power is the chief waste disposal system for Honolulu, an operation that will be heightened when the installation of a new boiler is completed, in 2012. Moreover, H-Power serves two functions: 1) Relieving the amount of waste added to an already packed and, as evidenced by this year's wastewater discharge, potentially unstable

Waimanalo Gulch Landfill, and 2) providing energy to the Hawaiian Electric Company through the recycling of municipal solid waste. For these reasons, the procedures undertaken at the H-Power plant are generally considered air pollution control measures and are, thus, subject to a general excise and use tax exemption. As city officials have argued at previous hearings, repeal of this exemption was not figured into existing contracts with Covanta Energy for ongoing upgrades at the plant and, additionally, would encumber future improvements to the plant's own air pollution control facility, currently consisting of semi-dry flue gas scrubbers injecting lime, fabric filter baghouses, five-field Electro-Static Precipitators, and a continuous emissions monitoring (CEM) system. Roughly 2,000 tons of refuse are processed into fuel each day at the plant, with an additional 600 tons of garbage that cannot be turned into fuel processed each week. Because expansion of these efforts is crucial to the city's ability to maintain efficient waste processing infrastructure, we, again, urge the committee to amend this draft by deleting §237-A(a)(19), as well as the accompanying provision of §238-A(a)(6). Retracting these items will cause little injury to the proposal's goal of stemming the state's budget shortfall, causing a cumulative loss of only \$1,294,258 in revenue generation from FY2012-FY2015, or \$396,857 for the biennium, according to Department of Taxation figures.

Mahalo for the opportunity to testify in strong support of this bill.

Sincerely,
Kris Coffield
Legislative Director
IMUAlliance

**SB754, SD1 HD1 PROPOSED
RELATING TO TAXATION**

**MAR LABRADOR
CHAIR
HAWAII HARBORS USERS GROUP**

APRIL 4, 2011

Gary North
Executive Director

Mar Labrador
Horizon-Lines, LLC
Board Chairman

Vic Angoco
Matson Navigation Company, Inc.
Board Vice Chair

Douglas Won
Sause Bros., Inc.
Board Vice Chair

Glenn Hong
Young Brothers, Ltd./Hawaiian Tug
and Barge
Secretary/Treasurer

Sandi Weir
NCL America, Inc.

Richard Maxwell
Aloha Cargo Transport,
Division of Northland Services, Inc.

Mike Caswell
Pasha Hawaii Transport Lines

Maig Kennedy
McCabe, Hamilton & Renny Co., Ltd.

Philip MacDougall
Hawaii Stevedores, Inc.

Lance Tanaka
Tesoro Hawaii Corporation

Stephanie Ackerman
The Gas Company

Eric Yoshizawa
Ameron Hawaii

Nate Lopez
Hawaiian Cement

Scott Vuillemot
American Marine

Robert Alm
Hawaiian Electric Company, Inc.

Steve Kelly
Kapolei Property Development

Captain Steve Baker
Hawaii Pilots
Associate Member

Kim Beasley
Clean Islands Council
Associate Member

Chair Marcus Oshiro, Vice Chair Marilyn Lee, and Members of the
House Committee on Finance:

I am Mar Labrador, testifying on behalf of the Hawaii
Harbors Users Group (HHUG), on SB 754 SD1 HD1 PROPOSED,
"A BILL FOR AN ACT RELATING TO TAXATION."

The Hawaii Harbor Users Group (HHUG) is a non-profit
maritime transportation industry group comprised of the following
key harbor users: Matson Navigation Company, Horizon Lines,
LLC, Young Brothers/Hawaii Tug & Barge, Norwegian Cruse Line,
Sause Brothers Inc., Aloha Cargo Transport (ACT), Pasha Hawaii
Transport Lines, Hawaii Stevedores, McCabe Hamilton & Renny
Stevedores, Hawaiian Electric Company, Tesoro Hawaii
Corporation, The Gas Company, Ameron Hawaii, Hawaiian
Cement, American Marine, Kapolei Property Development, the
Hawaii Pilots Association, and Clean Islands Council.

This bill suspends, from January 1, 2012 to June 30, 2015, various general excise and use tax exemptions and implements a tax on these items and services. While HHUG recognizes the need for the State of Hawaii to obtain additional income, the removal of the exemptions in the maritime area will markedly impact the cost of goods in the state.

HHUG is very concerned about the suspension of the exemptions for amounts received or accrued from the loading or unloading of cargo (stevedoring services) in Section 2, subsection (a) (9); from tugboat and towage services in Section 2, subsection (a) (10); and from the transportation of pilots or governmental officials and other maritime-related services in Section 2, subsection (a) (11). Because of the complicated array of providers of maritime goods and services, the impact of the removal of these exemptions would be compounded.

The bill similarly proposes to suspend the exemptions that currently exist for amounts received from the loading, transportation and unloading of agricultural commodities shipped interisland in Section 2, subsection (a) (7). The impact of the suspension of these exemptions may be compounded by multiple instances of taxation and, in addition, this new tax burden would be disproportionately borne by groups, i.e., neighbor island farmers and residents that may already face the most difficult climbs out of the present recession.

The bill also proposes to suspend the exemption that applies to the gross proceeds arising from shipbuilding and ship repairs in Section 2, subsection (a) (20). The suspension of this exemption would increase the cost

of obtaining these services in Hawaii, which could result in a decrease in the demand for such work to be performed in Hawaii.

With these additional taxes, tariffs would increase and as a result the cost of all goods purchased by consumers would increase to cover this expense. With approximately 98% of Hawaii's imported goods passing through our harbors including commercial goods, motor vehicles, construction materials, and fuel, we anticipate that this bill will result in a significant increase in cost to Hawaii's residents and businesses. If this bill proceeds, HHUG urges that the bill be amended to preserve the current exemptions in the maritime area for stevedoring services; tugboat and towage services; pilot transportation; loading, transportation and unloading of agricultural commodities; and shipbuilding and ship repair services.

Thank you for this opportunity to testify.

AMERICAN FRATERNAL ALLIANCE
TESTIMONY IN OPPOSITION TO SB 754, SD 1, PROPOSED HD 1,
RELATING TO TAXATION

April 4, 2011

Via e mail: fintestimony@capitol.hawaii.gov
Honorable Representative Marcus R. Oshiro, Chair
Committee on Economic Development and Technology
State Senate
Hawaii State Capital, Conference Room 308
415 S. Beretania Street
Honolulu, Hawaii 96813

Re: SB 754, SD 1,
Proposed HD 1,
Relating to Taxation

Dear Chair Oshiro and Members of the Committee:

Thank you for the opportunity to testify in opposition to SB 754, SD 1, Proposed HD 1, Relating to Taxation.

Our firm represents the American Fraternal Alliance ("Fraternal Alliance"), a national association whose 71 member societies operating in the United States provide financial security to nearly 10 million Americans and their families through life insurance and related products. Fraternal benefit societies utilize the proceeds from the sale of these products to make direct financial contributions to hundreds of charitable organizations across the country and, more importantly, to orchestrate and support their individual members' community volunteer work. In 2009, Fraternal Alliance members volunteered nearly 91 million hours (valued at \$1.9 billion) to community service projects and made \$400 million in direct financial contributions to support charitable, patriotic, educational, and religious activities.

Section 2 of SB 754, SD 1, Proposed HD 1, would amend Chapter 237, relating to the State's General Excise Tax, to include a new section which would "require information reporting on all exclusions or exemptions of amounts, persons, or transactions" subject to that Chapter. Excluded are certain stated exemptions, including proceeds or payments made under a life or disability income policy or annuity contract, and "any other amounts, persons, or transactions as determined by the director to be in the best interest of tax administration and made by official pronouncement."

Honorable Representative Marcus R. Oshiro, Chair
Committee on Finance
State House of Representatives
Re: SB 754, SD 1, Proposed HD 1, Relating to Taxation
April 4, 2011
Page 2

While the purpose for the Department's collection of information is not stated in the bill, the presumed purpose is to enable the Legislature to determine whether the current exclusions and exemptions from the State's General Excise Tax should be continued, amended or repealed.

The Fraternal Alliance objects to SB 754, SD 1, Proposed HD 1.

What information the Department shall require businesses and others to report is not stated in the bill. Thus, there is a potential that the required reporting of information may be burdensome and costly.

Moreover, the collection of information to confirm whether each and every exclusion and exemption provided under current law should be continued (other than the 7 exemptions stated in the bill) is an unnecessary and wasteful expenditure of State funds. This exercise should not encompass those exclusions and exemptions that are known to be achieving their intended objectives and are consistent with public policy.

Currently, all revenues received by a fraternal benefit society are exempt from the State's general excise tax. If this exemption were repealed it would greatly reduce a society's ability to provide the kinds and level of services and programs to their members and the members of their communities in which they live.

Four Fraternal Alliance members -- Thrivent Financial for Lutherans, Woodmen of the World, The Independent Order of Foresters, and Knights of Columbus -- have active volunteer networks in Hawaii. Combined, these societies have over 9,000 members in the state and lend their financial and volunteer support to a variety of causes and organizations. The following are just a few examples of how our members have helped individuals and partnered with other organizations in Hawaii:

- In Lihue, Thrivent members spent over 3,000 hours preparing and serving lunch on a weekly basis as part of an ongoing relationship with the Kokua Kitchen Community Outreach. Thrivent donated \$4,936 to cover meal costs.
- The Independent Order of Foresters proudly supported HUGS, a respite organization for parents of medically fragile children. Over 75 families enjoyed Lunch with Santa, ice skating, and a variety of holiday activities designed for the special needs of HUGS families.
- The Knights of Columbus support a number of programs that provide food to the needy in Hawaii. For example, Knights councils on Maui raise

Honorable Representative Marcus R. Oshiro, Chair
Committee on Finance
State House of Representatives
Re: SB 754, SD 1, Proposed HD 1, Relating to Taxation
April 4, 2011
Page 3

thousands of dollars each year for Hale Kaukau, which feeds 200-300 homeless families as well as the homebound and disabled. Every three weeks, Council 7156 on Oahu collects 2,000 pounds of food at the Navy Exchange and distributes it to food banks on the island. Councils also provide financial support for Hawaii's Catholic schools, as well as scholarships for children who attend them. Overall, Knights contributed more than 86,000 to charitable causes last year. Overall, Hawaii Knights contributed over \$86,000 to charitable causes in the state last year.

- For the past five years, Woodmen of the World members have provided over 3,000 meals, thousands of dollars in funding, and hundreds of hours in service to the homeless through partnerships with the River Life Mission in China Town and Lanakila Meals on Wheels.

No State in the union taxes fraternal benefit societies. Fraternal have been recognized as tax-exempt non-profit entities by the federal government and all 50 states for more than a century. In 2009, members of Hawaii's fraternal benefit societies contributed more than 85,000 hours of volunteer service valued at over \$1.7 million and made direct financial contributions of over \$400,000 to schools, charities, and community service organizations in this State.

Our estimates indicate that the state would generate less than \$380,000 in new tax revenues by applying the 4 percent general excise tax to fraternal benefit societies. These revenues would have a negligible impact on the state budget.

Taxing fraternal would be inconsistent with good public policy. Taxing fraternal would greatly threaten their ability to provide the volunteer service and direct financial aid they contribute to fill gaps in the social safety net and help people in Hawaii enhance their lives and their communities. Volunteering is the key to fraternalism – fraternal don't just donate money, they do the work. The economic equation simply does not add up. The people of Hawaii and the state government receive far more benefit from the fraternal tax exemption than they would if societies were subject to the general excise tax.


For the foregoing reasons, the Fraternal Alliance strongly opposes SB 754, SD 1, Proposed HD 1, and requests that fraternal benefit societies be removed from the bill.

Honorable Representative Marcus R. Oshiro, Chair
Committee on Finance
State House of Representatives
Re: SB 754, SD 1, Proposed HD 1, Relating to Taxation
April 4, 2011
Page 4

Again, thank you for the opportunity to testify in opposition to SB 754, SD 1,
Proposed HD 1.

Sincerely yours,

CHAR HAMILTON
CAMPBELL & YOSHIDA
Attorneys At Law, A Law Corporation

By: 

Oren T. Chikamoto
737 Bishop Street, Suite 2100
Honolulu, Hawaii 96813
Telephone: (808) 524-3800
Facsimile: (808) 523-1714

THRIVENT FINANCIAL FOR LUTHERANS, WOODMEN OF THE WORLD, THE
INDEPENDENT ORDER OF FORESTERS AND KNIGHTS OF COLUMBUS

TESTIMONY IN OPPOSITION TO SB 754, SD 1, PROPOSED HD 1,
RELATING TO TAXATION

April 4, 2011

Honorable Representative Marcus R. Oshiro, Chair
Committee on Finance
State House of Representatives
Hawaii State Capital, Conference Room 308
415 S. Beretania Street
Honolulu, Hawaii 96813

Re: SB 754, SD 1,
Proposed HD 1,
Relating to Taxation

Dear Chair Oshiro and Members of the Committee:

Thank you for the opportunity to testify in opposition to SB 754, SD 1, Proposed HD 1, Relating to Taxation.

Section 2 of SB 754, SD 1, Proposed HD 1, would amend Chapter 237, relating to the State's General Excise Tax, to include a new section which would "require information reporting on all exclusions or exemptions of amounts, persons, or transactions" subject to that Chapter.

While the purpose for the Department's collection of information is not stated in the bill, the presumed purpose is to enable the Legislature to determine whether the current exclusions and exemptions from the State's General Excise Tax should be continued, amended or repealed.

The proposed collection of information to confirm whether each and every exclusion and exemption provided under current law should be continued (other than the 7 exemptions stated in the bill) is an unnecessary and wasteful expenditure of State funds. This exercise should not encompass those exclusions and exemptions that are known to be achieving their intended objectives and are consistent with public policy.

Currently, all revenues received by a fraternal benefit society are exempt from the State's general excise tax. If this exemption were repealed it would greatly reduce a society's ability to provide the kinds and level of services and programs to their members and the members of their communities in which they live.

No State in the union taxes fraternal benefit societies. Fraternal have been recognized as tax-exempt non-profit entities by the federal government and all 50 states for more than a century. Fraternal have a long tradition of supporting communities through financial

contributions and volunteer service. In 2009 alone, Fraternal Alliance members volunteered nearly 91 million hours (valued at \$1.9 billion) to community service projects and made \$400 million in direct financial contributions to support charitable, patriotic, educational, and religious activities.

The undersigned, American Fraternal Alliance, represents 71 fraternal benefit societies across the United States.

Four Fraternal Alliance members – Thrivent Financial for Lutherans, Woodmen of the World, The Independent Order of Foresters, and Knights of Columbus – have active volunteer networks in Hawaii. Combined, these societies have over 9,000 members in the state. In 2009, members of Hawaii's fraternal benefit societies contributed more than 85,000 hours of volunteer service valued at over \$1.7 million and made direct financial contributions of over \$400,000 to schools, charities, and community service organizations in this State, and lend their financial and volunteer support to a variety of causes and organizations.

Taxing fraternal would be inconsistent with good public policy. Taxing fraternal would greatly threaten their ability to provide the volunteer service and direct financial aid they contribute to fill gaps in the social safety net and help people in Hawaii enhance their lives and their communities.

On behalf of Thrivent Financial for Lutherans, Woodmen of the World, The Independent Order of Foresters, and Knights of Columbus, we urge you to consider the value these fraternal volunteers and funds provide to Hawaii's communities. Submitted for your consideration is representative testimony from the leaders of the Knights of Columbus and Thrivent Financial for Lutherans which they submitted to the House Finance Committee in opposition to HB 1270, a bill very similar to SB 754, SD 1, Proposed HD 1. Their testimony attests to the work their societies have and will continue to do in Hawaii.

Fraternal don't just write checks – our members are engaged in your communities, enrich the fabric of society, and get things done. We look forward to continuing to serve Hawaii communities for years to come.

Sincerely,

Joseph J. Annotti
President & CEO
American Fraternal Alliance
On behalf of Thrivent Financial for Lutherans,
Woodmen of the World, The Independent Order of
Foresters, and Knights of Columbus
1301 W 22nd St Ste 700
Oak Brook, IL 60523



Thrivent Financial for Lutherans

625 Fourth Ave. S., Minneapolis MN 55415-1665

Bradford L. Hewitt
President and
Chief Executive Officer

Direct: 612-844-4417
Toll-free: 800-847-4836, ext. 34417
Fax: 612-844-4337
brad.hewitt@thrivent.com

February 24, 2011

The Honorable Marcus R. Oshiro, Chair
Committee on Finance
House of Representatives
Hawaii State Capitol, Conference Room 308
415 S. Beretania Street
Honolulu, Hawaii 96813

RE: House Bill 1270 & Taxation of Fraternal Benefit Societies

Dear Chair Oshiro and Members of the Committee:

I am writing to make you aware of the unintended consequences of House Bill 1270, with the hope that you will work to preserve the ability of Thrivent Financial for Lutherans members in Hawaii to continue to protect their financial security and make a positive difference in their communities.

Thrivent's unique not-for-profit mission unites deep concerns for the well being of our members and their communities in ways few organizations can. Thrivent was created more than 100 years ago by Lutherans who banded together to help each other when economic hardships struck. Today, we enable our more than 2,000 Hawaii members to continue to live that commitment to their families and neighbors.

What our members accomplish in the community is important, and so is how they accomplish it. Thrivent members nationwide are organized in local chapters, and through our grassroots chapter in Hawaii, our members are able to identify and meet local needs in ways only those who live there can. As you can see in the attached table, our Hawaii members are making a difference for important causes and helping to address unmet needs. From 2008 through 2010, Thrivent members in Hawaii have reported dedicating more than 44,000 volunteer hours to help raise or contribute more than \$300,000 for local not-for-profit organizations and schools.

For generations, every state and the federal government has recognized the important role fraternal benefit societies play in communities by supporting tax exemptions that provide the funding needed to operate our grassroots chapter network and programs. I urge the members of the committee to ensure that Hawaii continues to protect the resources that support our members' efforts in your state. The revenue gained by taxing fraternal would not replace the financial contributions our members make to Hawaii's communities.

The Honorable Marcus R. Oshiro, Chair

Page 2

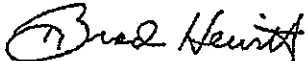
February 24, 2011

Moreover, state programs cannot replace the grassroots chapter structure that enables our members to stand up, take a stake in what is happening around them and commit volunteer time to better their communities.

And finally, financial security in their own lives helps our members help the community. The provisions of House Bill 1270 that would impose new taxes on life insurance and disability income benefits would negatively impact our members much the same way customers of commercial life insurers would be affected. The American Council of Life Insurers and others will argue persuasively on behalf of all life insurance policy holders in Hawaii, and I hope you will conclude that taxing individuals who are doing the right thing to protect their financial security is not good public policy.

Thank you for taking the time to consider my concerns, and for the personal sacrifices you make to take on the enormous challenge of public service during such difficult budgetary times. I respectfully request that you defeat or amend House Bill 1270 to protect fraternal benefit societies, our members and their community service activities in Hawaii.

Sincerely,



Brad L. Hewitt

February 24, 2011

The Honorable Marcus Oshiro
Chair, House Finance Committee
Hawaii State Capitol, Rm. 306
415 South Beretania Street
Honolulu, Hawaii 96813

Re: HB 1270

Dear Chairman Oshiro:

On behalf of the Knights of Columbus, I would like to express our strong opposition to HB 1270, which would eliminate a wide variety of tax exemptions affecting many charitable, educational and other groups in Hawaii. Two of its provisions would adversely impact fraternal benefit societies, including ours, and our members.

One provision of HB 1270 would repeal the tax exemption for fraternal benefit societies, diminishing our ability to support the many charitable activities that lie at the heart of our service to the communities in which we live. The other would impose taxes on the proceeds from life insurance policies as well as annuities and disability policies, a step that is without precedent anywhere in the United States. Obviously, this provision would also affect many outside the fraternal system as well as our own members, but it is particularly troubling to us because providing such protection was a central reason that fraternal societies were formed in the 19th Century. It was a classic instance of civil society stepping in to meet an urgent societal need without relying on government to meet that need. We continue to do so, on a non-profit basis, to this day, benefiting our individual members and society at large. The degree to which society benefits from our activity has been well-documented in a 2010 study by Georgetown University Professor Phillip Swagel, *Economic and Societal Impacts of Fraternal Benefit Societies* (http://www.kofc.org/un/en/news/releases/detail/gtown_whitepaper.html).

Repealing the general excise tax exemption granted to fraternal benefit societies such as the Knights of Columbus would raise very little new revenue and would serve only to reduce the much-needed volunteer and charitable work that benefits the citizens of Hawaii. The value of what we are able to accomplish through our tax exemption far exceeds the small amount of revenue that would be gained.

I would also like to point out that the section in HB 1270 directing the Hawaii Department of Taxation to conduct a study of whether these exemptions might be modified or continued contains no provision under which those who stand to lose their tax exempt status are entitled to present the case for continued exemption. Only the views of "technical experts" and various governmental agencies are to be solicited. Surely those directly affected by the bill should have an opportunity to be heard.

The Knights of Columbus was formed in Connecticut in 1882 to provide mutual aid and assistance to our members and their families, as well as to provide charitable assistance to the sick, disabled and needy. We promote both social and intellectual fellowship among our members and their families and engage in educational, religious and community-based charitable works. The Knights of Columbus has grown from a few members in a single council in Connecticut in 1882 to more than 1.8 million members in over 14,000 councils throughout the United States, Canada, the Philippines, Mexico, Poland, the Dominican Republic, Puerto Rico,

Panama, the Bahamas, the Virgin Islands, Cuba, Guatemala, Guam and the Northern Mariana Islands.

The 1,600 members of the Knights of Columbus in Hawaii belong to 23 local councils, and last year they donated 69,000 hours of their time to volunteer service in their communities. They also donated more than \$86,000 to charity.

During the year ended December 31, 2009 our total contributions to charity at all levels reached \$151,105,867 – exceeding the previous year's total by \$1 million dollars. This figure includes \$34,627,896 donated by the Knights of Columbus headquarters and \$116,477,971 in charitable donations by state and local councils. The survey also shows that the reported number of volunteer hours by members of the Knights of Columbus for charitable causes was 69,251,926. During the past decade, the Knights of Columbus has donated a total of nearly \$1.367 billion to charity, and provided nearly 639 million hours of volunteer service in support of charitable causes. Further details concerning the charitable activities of the Knights of Columbus can be found on our website at www.kofc.org. See also the *2010 Annual Report of the Supreme Knight* (http://www.kofc.org/un/en/resources/communications/report_2010.pdf).

We believe that HB 1270 would adversely affect vital elements of civil society while raising very little tax revenue and exacting a high societal cost. We ask that you reject the bill.

Sincerely,

Carl A. Anderson
Supreme Knight



April 3, 2011

Via Facsimile: 586-6001

Representative Marcus R. Oshiro
Chair, Committee on Finance
Hawaii State Capitol, Room 306

Re: S.B. 754, S.D. 1, Proposed H.D. 1 – Relating to Taxation
Hearing: Monday, April 4, 2011 at 3:00 p.m., Agenda #1

Dear Chair Oshiro and Members of the Committee on Finance:

I am Gary Slovin, submitting this testimony on behalf of Air Transport Association (“ATA”), the nation’s oldest and largest airline trade association. ATA members include all of the major U.S. passenger and cargo airlines,¹ which together carry more than 90% of domestic passenger and cargo traffic. ATA’s fundamental purpose is to foster a business and regulatory environment that ensures safe and secure air transportation and enables U.S. airlines to flourish, stimulating economic growth locally, nationally and internationally. ATA has also been committed to being a partner with the State of Hawaii, and its members have contributed several hundred million investment dollars into airport modernization for the State.

ATA **strongly opposes** Sections 2 and 3 of S.B. 754, S.D. 1, Proposed H.D. 1 insofar as they suspend the following general excise and use tax exemptions:

- Amounts received as rent for aircraft or aircraft engines used for interstate air transportation as described under section 237-24.3(12) and section 238-1; and

¹ ATA’s Airline Members include the following: ABX Air, Inc., AirTran Airways, Alaska Airlines Inc., American Airlines, Inc., ASTAR Air Cargo Inc., Atlas Air, Inc., Continental Airlines, Inc., Delta Air Lines, Inc., Evergreen International Airlines, Inc., Federal Express Corporation, Hawaiian Airlines, JetBlue Airways Corp., Southwest Airlines Co., United Airlines, Inc., UPS Airlines, US Airways, Inc.

- Amounts received from the servicing and maintenance of aircraft or construction of aircraft service and maintenance facilities as described under section 237-24.9 and section 238-1.

The aviation industry is vital to Hawaii, and any cost increases can significantly impact airlines decisions on service to its customers as well as the overall economy.

With respect to the GET exemption for maintenance facilities, airlines have a choice as to where they establish maintenance facilities. They elect to locate their maintenance facilities or use outside providers in states where there is favorable tax treatment. Currently, two major carriers have maintenance facilities located in Hawaii – Continental Airlines and Hawaiian Airlines. Increasing the costs on these existing maintenance facilities by removing the GET exemption and imposing a tax on the facilities would increase costs. Ultimately, this could cause a relocation of the facilities to other states where tax treatment is more favorable. This would result in the potential loss of several hundred jobs and a significant amount of tax revenue to the state.

Regarding aircraft leases, airlines do not pay excise or use taxes on aircraft or aircraft leases in any other state. This provision would have a significant impact on carriers that hold aircraft leases in Hawaii, particularly the local carriers. There may also be questions as to whether taxing aircraft used in interstate transportation would raise constitutionality concerns based upon the Commerce Clause of the U.S. Constitution.

The above exemptions serve an important purpose for the industry, and allow a vital part of the airline industry to remain in Hawaii. Eliminating these exemptions would have a very significant financial impact on the industry as a whole, and in particular on local carriers, including Hawaiian Airlines. While ATA understands that the State is faced with very difficult budget decisions, ATA believes that this proposal could have serious economic consequences both for the airline industry and the State.

We therefore oppose the suspension of these sections, and respectfully request that they be removed from the bill. Thank you very much for the opportunity to submit testimony.



Honua Power
renewable energy

SEVEN WATERFRONT PLAZA, 500 ALA MOANA BOULEVARD SUITE 7-220, HONOLULU, HAWAII 96813 TEL. (808) 550-2877 FAX (808) 523-3122

April 3, 2011

VIA WEBSITE - <http://www.capitol.hawaii.gov/emailtestimony/>

Chair Marcus R. Oshiro
Vice Chair Marilyn B. Lee
House Committee on Finance
Hawaii State Capitol, Conf. Rm. 308
Honolulu, Hawaii 96813

Re: S.B. 754, S.D. 1, Proposed H.D. 1, Relating to Taxation
Hearing on Monday, April 4, 2011 at 2:00 p.m., Agenda #1

Dear Chair Oshiro and Vice Chair Lee:

Honua Power, LLC ("Honua") is a renewable energy developer based in Hawaii. We hereby submit this letter in OPPOSITION to S.B. 754, S.D.1, Proposed H.D. 1, Relating to Taxation. This bill unjustifiably "suspends temporarily the exemptions" for Qualified Businesses in Enterprise Zones, as described under section 209E-11" including the "[g]ross proceeds received by contractors licensed under chapter 444 for construction within enterprise zones performed for Qualified Businesses within the Enterprise Zones or businesses approved by the department of business, economic development, and tourism to enroll into the enterprise zone program, as described under HRS Section 209E-11." In addition, the bill repeals the exemption for air pollution control facilities under HRS Section 237-27.5. We are strongly opposed to any suspension of the excise tax exemption for qualified businesses, construction work performed for those businesses, or for pollution control facilities.

Honua will produce approximately 12 MW net of non-fossil fuel renewable electrical energy that will be supplied to the residents of Oahu. This renewable energy will reduce oil consumption by 177,000 barrels, light 12,000 homes, and count toward the state of Hawaii's renewable portfolio standard goals of 15% renewable energy generation by 2015 and 40% of new renewable energy generation by 2040. This activity will not only prevent such valuable energy resources from taking up scarce landfill space indefinitely, thereby stabilizing the tipping fees and discouraging illegal landfills, but it will also relieve all of us from purchasing fossil-fuel-derived energy from foreign sources and delink the price of that energy from the price of oil forever.

Honua has executed a 20 year Power Purchase Agreement ("PPA") with Hawaiian Electric Company setting forth fixed pricing for renewable electrical power received from Honua's facility. This agreement has already been approved by the state of Hawaii Public Utilities Commission and the energy provided under the agreement has been held by the PUC, as a matter of law, to meet the definition of "renewable electrical energy" or "renewable energy" as defined under Hawaii Revised Statutes Section 269-91, so as to be counted toward the renewable portfolio standards for Hawaii.

However, there is no mechanism under the PPA by which our company may raise the price for power charged to HECO, and, thereby, pass on to the ratepayers specific increases in the cost to produce the renewable electrical energy delivered by Honua. Therefore, the application of this repeal of the general excise tax exemption for qualified businesses, contractors doing work for Qualified Businesses in Enterprise Zones, and the exemption for pollution control facilities, will add millions of dollars of capital expense to our project budget and adversely affect our company's ability to obtain project financing

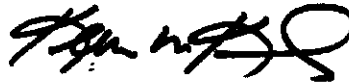
Marcus R. Oshiro
Vice Chair Marilyn B. Lee
House Committee on Finance
April 3, 2011
Page Two

because it will erode our ability to meet the debt service coverage ratios ("DSCR") required by lenders.

It is very difficult for projects like ours to receive project finance funding necessary to construct the facility in the first place. "The project is too small, Hawaii is too remote and the project finance credit market is too tight." Nevertheless, Honua has already succeeded in qualifying the project for financing and we are preparing to close on that financing with this legislative session. However, given the DSCR required by project finance lenders in the current marketplace that could very well change with this amendment. The imposition of the general excise tax on activities relating to our project will have the effect of raising the cost to produce renewable energy without any corresponding way for our company to recover that cost by increasing revenue. Any additional cost to a project like ours, at this time, will have the effect of quashing the successful completion of the project even though it is otherwise financeable.

The repeal of these tax exemptions comes at a time when we all desperately need renewable energy to succeed for our state. Any change to the existing exemption regime would confound the development of renewable energy resources in our state at an incredibly vulnerable and critical time for the struggling industry. We can think of no better reasons to keep Chapter 237 intact in its present form. For these reasons, Honua Power opposes this bill.

Very truly yours,



Kevin Kondo
Managing Partner
Honua Power, LLC



April 3, 2011

Chair Marcus Oshiro
Committee on Finance
Hawaii State House of Representatives
State Capitol, Room 308
Honolulu, HI 96813

RE: SB 754, SD 1, Proposed HD 1, Relating to Taxation

Dear Chair Oshiro and members of the House FIN Committee:

The Hawai'i Alliance of Nonprofit Organizations is a statewide, sector-wide professional association for nonprofits. HANO member nonprofits provide essential services to every community in the state. Our mission is to unite and strengthen the nonprofit sector as a collective force to improve the quality of life in Hawai'i.

We have some concerns about the HD 1 version of this bill which will temporarily remove the tax exemption on the gross income from conferences, conventions, trade exhibits and display areas that charitable groups organize. We echo the testimony being submitted by the Hawai'i State Bar Association that requests clarification on the intent of that language as it relates to HRS 237-16.8, which makes reference to income from "exhibits or display spaces AT conventions, conferences or tradeshow."

In our informal polling of some nonprofits regarding the impact of this proposal, we learned that only a few in our sector would be detrimentally impacted, largely those that are professional associations like HANO that put on annual conferences to convene their members. Also impacted are those organizations that hold educational conferences to share information with their constituency. For some, the tax might result in several thousands of dollars in upfront costs. Smaller organizations will most certainly not be able to bear this additional cost. Organizations would likely have to recoup this expense by raising their event fees and passing the expense on to their attendees, making the event less attractive to attend.

Taxation on gross receipts presents a scenario where a nonprofit organization may hold a large convening, bring in revenue, but also incur heavy expenses to match, such that there is no net profit on the event. In this case, the nonprofit will still be required to pay the tax on the total revenue, running the organization into further deficit.

We understand the challenge you face to identify revenue sources to balance the budget, and wonder whether this initiative will yield significant revenue. Will it be enough to justify the

HANO Testimony
SB 754, SD 1, Proposed HD 1
House Finance Committee hearing
Monday, April 4, 2011
Page Two

increased overhead and financial burden for nonprofit organizations and increased policing that will be required of the Department of Taxation?

Finally, we understand there is a perception that everyone must share in the burden of the state deficit, and nonprofits should not be immune. While we are willing to assist, we worry that even the slightest form of taxation erodes the very exemptions that fundamentally and historically define our sector of community and public service. We reiterate that we are a partner to the state. Taxation of any sort hinders our ability to deliver on state goals and objectives.

Thank you for the opportunity to provide comment.

Lisa Maruyama
President and CEO

AIRLINES COMMITTEE OF HAWAII



Honolulu International Airport
300 Rodgers Blvd., #62
Honolulu, Hawaii 96819-1832
Phone (808) 838-0011
Fax (808) 838-0231

April 4, 2011

Honorable Marcus Oshiro, Chair
Honorable Marilyn Lee, Vice Chair
House Committee on Finance

RE: SB 754 SD2 (Proposed HD1) – Relating to Taxation - Oppose
FIN Committee Agenda # 1 – Conference Room 308, 2 PM

Aloha Chair Oshiro, Vice Chair Lee and Members of the Committee:

The Airlines Committee of Hawaii* (ACH), which is made up of 21 signatory air carriers that underwrite the State Airport System strongly opposes the Proposed HD1 to SB 754 SD2, Relating to Taxation.

Specifically, we oppose the suspension of exemptions covered under the following provisions in Section 2 and 3 of the Proposed House Draft which would temporarily repeal and levy a graduated increase on GET from 2% to 4% from January 1, 2012 through June 30, 2015:

- Amounts received as rent for aircraft or aircraft engines used for interstate air transportation; and
- Amounts received from the servicing and maintenance of aircrafts or construction of aircraft service and maintenance facilities.

We respectfully object to this change for the following reasons:

1. There are public benefits for providing incentives for the servicing and maintenance of aircrafts or construction of aircraft service and maintenance facilities. For example in 1997, Continental Airlines began looking for a base between Guam, Saipan and Honolulu to build a \$25 million aircraft maintenance facility. Then Governor Cayetano's administration backed Continental's plans because it would create about 110 high-paying aviation mechanics jobs and some 400 jobs in the construction of the facility. Continental chose Hawaii because of the tax incentives it received to build this facility which has a 30-year lease at Honolulu International Airport. Airlines can easily choose to base their aircraft maintenance in another state where there is no tax. With these exemptions, income and taxes generated through these jobs and these tax revenues stay in the state.

2. Removing these exemptions will adversely affect on Hawaii-based carriers the most because most airlines operations are based out of state. For example,

Hawaiian Airlines operates an aircraft maintenance facility which provides more than 300 jobs. The company is also investing in new long-range fleet to expand tourism in the state. These exemptions were intended to help level the playing field for carriers locally based in Hawaii.

3. There are federal issues involved that could prohibit or limit the state's ability to tax the leasing of aircraft or aircraft engines used for interstate commerce.

4. Most importantly, these exemptions provide a significant number of high-skilled, high-paying unionized jobs in Hawaii. Having two aircraft maintenance facilities operating in Honolulu provides more than 400 aviation mechanic and aircraft maintenance jobs. These jobs further stimulate the economy by generating more revenues for the GET, State Income Tax, county property taxes and so forth.

For these reasons, we respectfully urge your committee to keep these critical tax exemptions in place. As always, we are grateful for the opportunity to provide input on this matter.

Sincerely,

Lori Peters
ACH Co-chair

Blaine Miyasato
ACH Co-chair

**ACH members are Air Canada, Air New Zealand, Air Pacific, Alaska Airlines, All Nippon Airways, American Airlines, China Airlines, Continental Airlines, Continental Micronesia, Delta Air Lines, Federal Express, go! Mokulele, Hawaiian Airlines, Japan Airlines, Korean Air, Philippine Airlines, Qantas Airways, United Airlines, United Parcel Service, US Airways, and Westjet.*

SMCA *Sheet Metal Contractors Association*

905 Umi Street, Suite 305, Honolulu, HI 96819-2377, Ph (808) 845-9393, Fax (808) 845-9395 email: info@smcahi.com
NEAL K. ARITA
Executive Director

TESTIMONY TO THE HOUSE FINANCE COMMITTEE

MONDAY, APRIL 4, 2011

2:00 P.M.

Conference Room 308

Hawaii State Capitol

Agenda #1

Re: SB 754 SD1, PROPOSED HD1

Dear Chair Oshiro, Vice Chair Lee and members of the Committee:

The Sheet Metal Contractors Association consists of twenty six (26) member contractors.

As the SB754 SD1, HD1 is proposed, we stand **OPPOSED** to this bill.

Please know that we opposed this same language in the HB799, which was deferred. The tax added to consumers will not provide for economic growth in our hurting economy. It is possible that unforeseen consequences may include consumers circumventing the established processes to gain financial benefits.

Again, we ask that you support our stand to **OPPOSE** this bill.

Sincerely,

Neal Arita
Executive Director
Sheet Metal Contractors Association



April 4, 2011

House Finance Committee
The Honorable Marcus R. Oshiro, Chair
The Honorable Marilyn B. Lee, Vice Chair

RE: SB 754 SD1 HD1 Relating to Taxation
HEARING: Monday, April 4, 2011 at 2 p.m.

Chair Oshiro, Vice Chair Lee and Committee Members;

The Hawaii State Bar Association (the HSBA) requests that the proposed language of H.B.754 S.D. 1 H.D.1 be modified to track the language of H.R.S. S237-16.8 to avoid inconsistent interpretations and possible confusion.

Specifically, in the second paragraph of Section 1 and in subsection (5) on Page 2, this bill should be amended to track exactly the language of H.R.S. 237-16.8 to which the bill refers. This would clarify that the exemption is repealed on income from "exhibits or display spaces at conventions, conferences or tradeshow," as is specifically provided in H.R.S. 237-16.8.

The current version reads: "The value or gross income received by nonprofit organizations from **certain convention, conference or tradeshow exhibits or display spaces** as described under section 237-16.8" This language is inconsistent with the language in HRS 237-16.8 which contains a more narrow exemption.

Thank you for your attention.

Louise K.Y. Ing
President

Lyn Flanigan
Executive Director

OFFICERS

Louise K.Y. Ing, President
Carol K. Muraoka, President-Elect
Craig P. Wagnild, Vice-President
Ronette M. Kawakami, Secretary
Robert Carson Godbey, Treasurer

DIRECTORS

Nadine Y. Ando
Steven J.T. Chow
Vladimir Devens
Rhonda L. Griswold
Robert D. Harris
William A. Harrison
Geraldine N. Hasegawa (East Hawaii)
Carol S. Kitaoka (West Hawaii)
Derek R. Kobayashi
Christine A. Kubota
Gregory K. Markham
Gerald S. Matsunaga (Kauai)
Timothy P. McNulty (Maui)
Suzanne T. Terada
Calvin E. Young

YLD PRESIDENT

Levi K.K. Hookano

IMMEDIATE PAST PRESIDENT

Hugh R. Jones

HSBA/ABA DELEGATE

James A. Kawachika

EXECUTIVE DIRECTOR

Lyn Flanigan

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Monday, April 04, 2011 4:42 AM
To: FINTestimony
Cc: fmoore@hsimechanical.com
Subject: Testimony for SB754 on 4/4/2011 2:00:00 PM

Testimony for FIN 4/4/2011 2:00:00 PM SB754

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: Fred Moore
Organization: HSI Mechanical, Inc.
Address:
Phone:
E-mail: fmoore@hsimechanical.com
Submitted on: 4/4/2011

Comments:
The Honorable Representative Marcus Oshiro, Chair
The Honorable Representative Marilyn Lee, Vice Chair
House Finance Committee

Hawaii State Capitol, Room 306
415 South Beretania Street
Honolulu, HI 96813

TESTIMONY TO THE HOUSE FINANCE COMMITTEE MONDAY, APRIL 4, 2011 2:00 P.M.
Conference Room 308
Hawaii State Capitol
Agenda #1

Re: SB 754 SD1, PROPOSED HD1

Senator Oshiro,
HSI Mechanical, Inc. is a Hawaii Small Business and Senate Bill 754 will ultimately put end our business with an estimated increase in GET tax of \$1.2 million annually. Please do not pass this bill. With Aloha, Fred Moore, President

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Monday, April 04, 2011 10:10 AM
To: FINTestimony
Cc: gs-msm@hawaii.rr.com
Subject: Testimony for SB754 on 4/4/2011 2:00:00 PM

Testimony for FIN 4/4/2011 2:00:00 PM SB754

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: Garner Shimizu
Organization: Master Sheet Metal, Inc.
Address:
Phone:
E-mail: gs-msm@hawaii.rr.com
Submitted on: 4/4/2011

Comments:
TESTIMONY TO THE HOUSE FINANCE COMMITTEE MONDAY, APRIL 4, 2011 2:00 P.M.
Conference Room 308
Hawaii State Capitol
Agenda #1

Re: SB 754 SD1, PROPOSED HD1

Dear Chair Oshiro, Vice Chair Lee and members of the Committee:

Thank you for hearing our testimony related to the potential repeal of the GET exemption and the impact that decision would have our State's construction industry and overall business climate.

This bill promotes a negative business climate and energy, which will significantly slow down business/economic activity, resulting in more unemployment, possibly kill some businesses, and definitely prevent new business entry and growth. The current setup is not an "exemption" but a correct application of the GET to prevent inaccurate double charging of the GET.

Please contact me should you require any additional information or clarification.

Thank you sincerely for your time and consideration,

Garner Shimizu
Vice President
Master Sheet Metal, Inc.