

STAND. COM. REP. NO.

172

Honolulu, Hawaii

Feb 10 , 2011

RE: H.B. No. 123
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Sixth State Legislature
Regular Session of 2011
State of Hawaii

Sir:

Your Committees on Transportation and Economic Revitalization
& Business, to which was referred H.B. No. 123 entitled:

"A BILL FOR AN ACT RELATING TO INTRA-STATE AVIATION,"

beg leave to report as follows:

The purpose of this bill is to assist the airline industry by exempting from general excise and use taxes amounts received from the sale or use of aviation fuel admitted into a foreign-trade zone (FTZ) and purchased by a common carrier for consumption or use in air transportation between two points in the State.

Hawaiian Airlines testified in support of the intent of this bill. The Department of Taxation and Tax Foundation of Hawaii submitted comments.

The airline industry, particularly the interisland airline industry, has seen difficult economic times over the last several years. Only recently have some airlines begun to realize economic gains. One of the major cost drivers of the aviation industry is the volatility of the aviation fuel market, with high fuel costs continuing to take their toll on the industry.

Currently, aviation fuel sold from an FTZ for use by airlines traveling out of the State are exempt from general excise and use taxes as it is considered a product of interstate commerce. However, the same fuel sold from an FTZ, but used by interisland air carriers, is not exempt. This is due, in part, to

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difficulties and differences in interpretation of what constitutes "interstate air transportation" and whether interisland flights fall within the definition of this term.

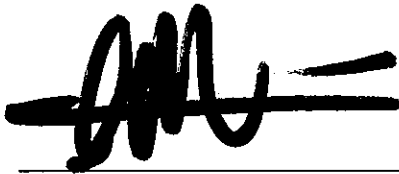
Since a healthy interisland airline industry is vital to the State's economy and Hawaii's interisland airlines continue to face financial difficulties, it would appear to be in the State's best interest to reduce the financial burden on Hawaii's interisland air carriers. Providing assistance to this industry will have a profound economic impact on this vital service.

Your Committees have amended this bill by:

- (1) Removing the purpose section due to possible inaccuracies in language contained within that section; and
- (2) Making technical, nonsubstantive amendments for clarity, consistency, and style.

As affirmed by the records of votes of the members of your Committees on Transportation and Economic Revitalization & Business that are attached to this report, your Committees are in accord with the intent and purpose of H.B. No. 123, as amended herein, and recommend that it pass Second Reading in the form attached hereto as H.B. No. 123, H.D. 1, and be referred to the Committee on Finance.

Respectfully submitted on behalf of the members of the Committees on Transportation and Economic Revitalization & Business,



ANGUS L.K. MCKELVEY, Chair



JOSEPH M. SOUKI, Chair



