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**TESTIMONY ON HOUSE BILL 798, HOUSE DRAFT 1, RELATING TO
TAXATION**

Senate Committee on Commerce and Consumer Protection

Hon. Rosalyn H. Baker, Chair

Hon. Brian T. Taniguchi, Vice Chair

**Tuesday, March 15, 2011, 9:00 AM
State Capitol, Conference Room 229**

Honorable Chair Baker and committee members:

I am Kris Coffield, legislative liaison for the Imua Alliance, a nonpartisan political advocacy organization that currently boasts over 60 local members. On behalf of our members, we offer this testimony in support of HB 798, HD1.

According to the most recent Council on Revenues projection, Hawaii is facing a crippling \$964 billion deficit, a figure that could easily top \$1 billion if estimates of damages and lost tourism revenue resulting from the recent earthquake near Japan and ensuing tsunami are correct. To compensate for these losses, the state must bolster its tax base in a manner consistent with the continued provision of social service programs that, quite literally, maintain impoverished residents' ability to meet their basic needs. While insurance groups, like the American Council of Life Insurers, and corporate shells, like the Tax Foundation of Hawaii, have disingenuously described the imposition of the general excise tax on third-party life settlement contracts as anti-business measure that will have a baleful effect on the bottom lines of small businesses and companies suffering the trauma of an employee death, they overlook the fact that a general excise tax is a gross receipts tax, which, unlike a sales tax, is levied homogeneously on the total gross revenues of a company, regardless of their source. Efforts to minimize prejudicial exemptions should be made within such a taxation scheme. Eliminating the current corporate insurance exemption will add \$675,000 to state coffers over the next five fiscal years, according to Department of Taxation predictions, a significant amount at a time when every penny counts. Granted, key man insurance is required for the extension commercial loans to small businesses by many banks, serving as a credit enhancement in case loss of integral

personnel related to the operation of a business to which a loan has been extended results in decreased profitability. Nonetheless, compensation derived from private bank-owned policies is, in effect, a receipt, securing the profitability of the bank. Attestations that levying the GET upon bank- or corporate-owned policies would cause, for example, a bank to elevate credit costs (or diminish credit extension) to comport with increased business premiums, during a credit crunch, as a guarantor of principal return in a low interest rate margin climate, amounts to nothing more than a cynical threat against small business. Are local banks, typically ranked among the best in the nation, so callous as to hold small business owners and, by extension, the state economy hostage during a time of crisis? One hopes not.

Under a tax system crafted to equalize all transactions, banks and corporations must justify the continuance their privileged status. Failing to do so, their exemptions should be revoked. If such exemptions are not corralled, lawmakers *will* be forced to raise the general excise tax by as much as a full percentage point, in a move that adversely impacts the finances of everyone doing business in Hawaii, companies and average citizens alike.

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

Sincerely,
Kris Coffield
Legislative Director
IMUAlliance