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To: The Honorable David Y. Ige, Chair
and Members of the Senate Committee on Ways and Means

Date: Thursday, February 23, 2012
Time: 9:00 a.m.
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 2977, S.D. 1, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of S.B. 2977, S.D. 1 and provides the following comments for your consideration.

S.B. 2977, S.D. 1 adds a new section to Chapter 243, Hawaii Revised Statutes (HRS), which creates an income tax credit for the amount of fuel taxes an interisland airplane carrier pays to a distributor.

The Department still has concerns about the ability to administer this measure. First, income tax credits should be placed in Chapter 235, HRS, the chapter covering income taxes; Chapter 243, HRS, covers the imposition of taxes on the fuel distributor only.

Second, Chapter 243, HRS, places the fuel tax liability on the **registered distributor**, not the end user such as an interisland airplane carrier. If the measure is intended to provide income tax relief for interisland airplane carriers for fuel costs, the interisland airplane carrier would need documentation from the distributor detailing the amount of fuel tax that the distributor passed on to the carrier. The Department also notes that providing an income tax credit to the interisland carrier to reimburse them for fuel tax costs is providing them a double benefit – the fuel costs are already likely being deducted from the interisland airplane carrier's income as a related business expense.

Thank you for the opportunity to provide comments.

TESTIMONY OF ANN BOTTICELLI ON BEHALF OF HAWAIIAN AIRLINES
RE: SB 2977, SD1, RELATING TO TAXATION
THURSDAY, FEBRUARY 23, 2012

Aloha Chairman Ige, Vice Chairwoman Kidani and members of the Senate Committee on Ways and Means,

Mahalo for the opportunity to testify in **opposition** to S.B. 2977, SD1, which provides a subsidy in the form of a fuel tax credit to any interisland air carrier that "owns or operates one or more turbo propeller airplanes to transport or convey baggage, passengers, or good between the islands of the state for a fee."

The stated intent of this legislation is to "provide needed competition in the interisland aviation market by setting lower fares. Any reduction in costs to these carriers would enable the carriers to keep the fare low, which benefits interisland travelers."

The two lowest fares offered on Hawaiian Airlines, excluding federal taxes, government-mandated segment fees and security fees, are $68.84 and $76.28 for travel between Honolulu-Maui and Honolulu-Kaua'i. The lowest fares between Honolulu and Hawai'i Island, excluding taxes and government-mandated fees, are $74.42 and $83.72. Every day, 67% of our interisland passenger travel on those two lowest fares.

In addition, data filed with the U.S. Department of Transportation indicates that Hawai'i's average interisland fare of $70 is far lower than U.S. Mainland routes of similar distance, including Kethickan-Sitka, Alaska (average fare $149) Key West to Ft. Lauderdale, Florida (average fare $117) and Washington, D.C. to New York City (average fare $225).

It is unclear that providing subsidies pad by the general taxpayer will lower fares any further. However, if the state Legislature determines that interisland air travel requires subsidies paid by the general taxpayer, then the most equitable way to accomplish this goal is to provide subsidies by route, rather than by type of aircraft.

Thank you again for the opportunity to testify.