



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Statement of

RICHARD C. LIM
Director

Department of Business, Economic Development & Tourism

before the

**HOUSE COMMITTEE ON
ECONOMIC DEVELOPMENT & BUSINESS**

Tuesday, February 11, 2014
9:00 a.m.

State Capitol, Conference Room 312

in consideration of

HB 2614
RELATING TO TAXATION.

Chair Tsuji, Vice Chair Ward, and members of the Committee. The Department of Business, Economic Development and Tourism supports the intent of this bill to promote the development of spacecraft launching capability in Hawaii by providing a general excise tax exemption for funds received for the design, engineering, labor, and/or material costs associated with the construction, reconstruction, or improvement of space launch facilities statewide.

The department concurs that Hawaii's unique mid-Pacific, near equatorial location, residential technical expertise, and collaboration with space-faring nations around the Asia-Pacific region uniquely qualify our State to serve as a cost-effective and globally competitive launch site for commercial spacecraft, and that such operations would help expand Hawaii's role as a major contributor to and beneficiary of global space enterprise. We also concur that space launch operations in Hawaii would not only afford pioneering research and development opportunities for our State's university and commercial sectors, but also expand our visitor industry by enabling space tourism from the islands.

In accord with Act 101, 2012 HRS, our State is currently conducting the environmental assessment studies required to apply for a commercial spaceport operator's license from the

Federal Aviation Administration, which will enable “spaceplanes” (horizontal launch and land vehicles) to operate out of Hawaii airports. This legislation would provide a timely incentive for overseas companies to invest the private capital required to help build out the infrastructure (e.g., spacecraft hangers, processing facilities) required to accommodate such operations.

We support this bill provided that its passage does not replace or adversely impact priorities indicated in our Executive Budget. The Department of Business, Economic Development and Tourism defers to the Department of Taxation on the revenue impacts of this measure.

Thank you for the opportunity to testify on this bill.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

To: The Honorable Clift Tsuji, Chair
and Members of the House Committee on Economic Development and Business

Date: Tuesday, February 11, 2014
Time: 9:00 A.M.
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 2614, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 2614, and provides the following information and comments for your consideration.

H.B. 2614 provides an exemption to the General Excise Tax (GET) and Use Tax for amounts received from the construction of a space launch facility in the State.

The Department notes that many types of transactions may be involved in the construction of a space launch facility; it can reasonably be anticipated that such construction would at least involve substantial sales of tangible personal property, as well as the sale of services related to construction. The wording of the exemption contained in H.B. 2614 is very broad, and a reading of the exemption does not indicate precisely what types of transactions the exemption will apply to or who may claim the exemption. The Department suggests amendments to clarify which parties (i.e., contractors, architects) are entitled to claim the exemption, as well as the types of transactions this measure is intended to cover.

The Department further notes that an exemption already exists at Hawaii Revised Statutes section 237-26, for certain contracts with the United States; therefore, on its face, it seems that the projects contemplated under this measure may already be exempt. As a reminder, the broadness of this exemption has already created numerous enforcement problems for the Department. Creating another broad exemption, such as the one proposed in this measure, could yield similar results.

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, USE, Exempt space launch facility

BILL NUMBER: HB 2614

INTRODUCED BY: Ward, Brower, Creagan, Hanohano and 2 Democrats and 2 Republicans

BRIEF SUMMARY: Adds a new section to HRS chapter 237 to exempt from the general excise tax the amounts received from the construction of a space launch facility in the state. Defines “construction of a space launch facility,” “space flight” and “space launch facility” for purposes of the measure.

Adds a new section to HRS chapter 238 to provide that the use tax shall not be applicable to the use of material, parts, or tools imported or purchased by a person licensed under HRS chapter 237 that are used for the construction of a space launch facility.

EFFECTIVE DATE: July 1, 2014

STAFF COMMENTS: It appears that the general excise tax exemption proposed in the measure is to encourage the development of spacecraft launching capability. It should be remembered that the use of the tax system for such purposes is an inefficient means to accomplish such goals. Exemptions from the excise and use tax recognize that the imposition of the tax would impose an unusual burden or would otherwise cause the taxpayer to do business in an inefficient manner just to circumvent the tax. Exemptions are also granted because the entity is a nonprofit or if the tax imposed would have a severe economic impact on the state’s economy. The proposed exemption meets none of these criteria. Instead, it just seems to be pandering to the fad industry of the day.

If the legislature deems this cause worthy of support in this manner, it should consider either a direct appropriation, which comes with an ascertainable cost as opposed to being a blank check. If a tax exemption must be used, the criteria for qualification should be tightly drawn, or perhaps a certification process should be used, to prevent unintended qualification. For example: the bill now defines a “space launch facility” as “a facility designed to facilitate space flight. This includes commercial space launch sites and facilities the principal purpose of which is to manufacture, fabricate, assemble, or process equipment that facilitates the renovation, rehabilitation, or reconstruction of commercial space launch sites.” So a shop that assembled laptop computers would be assembling equipment that facilitates the renovation of commercial space launch sites because people who renovate space launch sites would need laptop computers to keep track of their accounting records. Therefore, the shop would be a space launch facility?

Digested 2/10/14



T:808-935-2180

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W:HIEDB.org Hawaii Innovation Center at Hilo 117 Keawe St. Suite 107, Hilo, HI 96720-2811

James Takamine, Chair
Hawaii Community Federal Credit Union

Michael Kaleikini, Secretary
PGV/ORMAT

David Honma, Treasurer
First Hawaiian Bank

Greg Chun, PhD, Immediate Past Chair
Awa Kele LLC

Roberta Chu, Director
Bank of Hawaii

LeeAnn Crabbe, Director
Queen Liliuokalani Trust

Nahua Guilloz, Director
Parker Ranch

Richard Ha, Director
Hamakua Springs Country Farms

Richard Henderson, Director
Realty Investment Co., Ltd.

Jay Ignacio, Director
HELCO

Ashley Kierkiewicz, Director
Hastings & Pleadwell

Marvin Min, Director
Hawaii Gas

Barry Taniguchi, Director
KTA Super Stores

Bill Walter, Director
W.H. Shipman, Ltd.

Elisa Yadao, Director
HMSA

Jacqui Hoover, COO
Executive Director

**Regarding House Bill No. 2614, Relating to Taxation
Hawai`i House of Representatives
Committee on Economic Development and Business
Tuesday, 11 February 2014 at 9:00 am
Hawai`i State Capitol, 415 South Beretania Street, Conference Room 312**

Submitted On Line

10 February 2014 [7:00 a.m.]

Aloha Chair Tsuji, Vice Chair Ward, and Honorable EDB Committee Members:

Hawai`i Island Economic Development Board (HIEDB) is a member-based, private, non-profit 501(c)(3) corporation registered in the State of Hawai`i since 1984 committed to strengthening and diversifying Hawai`i Island's economy. With over one hundred members and allies, HIEDB specializes in and has earned a proven track record of implementing economic development projects built on a foundation of strong and comprehensive public outreach, education and collaboration.

Already a world-renowned center for astronomy, Hawai`i Island provides the optimal geographic location for establishing advanced aerospace research and development which is viewed as a very strong emerging technology, education, commercial, and economic sector for our island and state.

Development of space launch facilities on Hawai`i Island capable of supporting private commercial and government, as well as, scientific and academic operations, will move Hawai`i into position as a leader in the emerging and economically lucrative commercial space transportation sector. In addition to directly producing new, diversified economic activities, jobs, and support service activities, space launch facilities can precipitate transformational changes leading to economic growth and opportunities that enhance tourism, as well as, both public and private research and technology sectors.

Mahalo for this opportunity to speak and urge passage of [HB2614](#), and support a general excise tax exemption for amounts received "from the construction of a space launch facility in the State."



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Mahalo for this opportunity to speak and urge passage of [HB2614](#), and support a general excise tax exemption for amounts received "from the construction of a space launch facility in the State."

International Ventures Associates

February 10, 2014

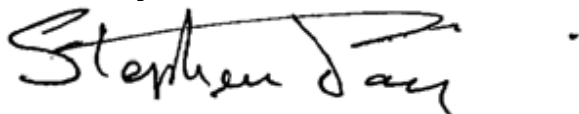
To: Members of the 27th Hawaii State Legislature

Ref: HB2614 Relating to Taxation

As a member of the Hawaii Aerospace Advisory Committee (HAAC), and former chairman of the Japan/U.S Science, Technology & Space Applications Program (JUSTSAP), this is to add my strong support on behalf of the intent of this bill to promote the development of spacecraft launching capability in Hawaii by providing a general excise tax exemption for funds received for the design, engineering, labor, and/or material costs associated with the construction, reconstruction, or improvement of space launch facilities statewide.

Passage of this bill has the potential to make the great State of Hawaii highly competitive with other States, such as New Mexico - which is also developing a major launch capability for domestic and international customers. Hawaii's mid-Pacific, near equatorial location will give your state a highly competitive advantage in this industry, due to lower costs associated with launching.

Sincerely,

A handwritten signature in black ink that reads "Stephen Day". The signature is written in a cursive, slightly slanted style.

Stephen M. D. Day
President
International Ventures Associates

IVA, 5333 Potomac Avenue, Suite 100, Washington, DC 20016

George R. Ariyoshi
999 Bishop Street, 23rd Floor
Honolulu, HI 96813

February 10, 2014

TESTIMONY IN SUPPORT OF HB2614 - RELATING TO TAXATION

Dear Members of the 27th State Legislature,

I strongly support the intent of this bill to provide funding to promote the development of spacecraft launching capability in Hawaii by providing a general excise tax exemption for funds received to support the design, engineering, labor and/or material costs associated with the construction, reconstruction, or improvement of space launch facilities in the islands.

Hawaii's strategic mid-Pacific, near equatorial location, state-of-the-art communications and remote sensing infrastructure, residential technical expertise, and business partnerships throughout Asia and the Pacific uniquely enable our State to serve as a cost-effective and globally competitive launch site for commercial spacecraft. Commercial space launches from Hawaii would also expand Hawaii's role as a major contributor to and beneficiary of global space enterprise - enabling pioneering research and development opportunities for both local universities and private industry, as well as enhancing our visitor industry by bringing space tourism to the islands.


Our State (in accord with Act 101, 2012 HRS) is currently conducting the environmental assessment studies required to apply for a commercial spaceport operator's license from the Federal Aviation Administration, which in turn will enable "spaceplanes" (vehicles that will launch and land horizontally on runways) to operate out of Hawaii airports. This bill would provide a timely incentive for overseas companies to invest the private capital required to help build out the infrastructure (e.g., spacecraft hangers, processing facilities) required to accommodate such operations.

As such, I would urge you pass HB2614 with the requested funding allocation, and would be happy to address any questions you may have concerning this recommendation.

I can be reached by e-mail at kyahiku@wik.com , by phone at (808) 544-6765 or by fax at (808) 544-8398.

Thank you for the opportunity to testify on this bill.

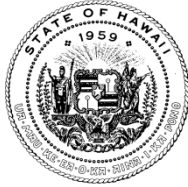
Aloha,



George R. Ariyoshi

GRA:khy

NEIL ABERCROMBIE
GOVERNOR



Testimony of
GLENN M. OKIMOTO
DIRECTOR

Deputy Directors
FORD N. FUCHIGAMI
RANDY GRUNE
AUDREY HIDANO
JADINE URASAKI

IN REPLY REFER TO:

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

February 11, 2014
9:00 a.m.
State Capitol, Room 312

H.B. 2614
RELATING TO TAXATION

House Committee on Economic Development and Business

The Department of Transportation **supports** this bill which encourages the development of a space launch capability in the State through a General Excise Tax exemption.

Thank you for the opportunity to provide testimony.