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**STATE OF HAWAII
DEPARTMENT OF TAXATION**

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To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Friday, March 29, 2019
Time: 3:30 P.M.
Place: Conference Room 308, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 301, S.D. 1, H.D. 1, Relating to Taxation of Real Estate Investment Trusts

The Department of Taxation (Department) provides the following comments regarding S.B. 301, S.D. 1, H.D. 1, for your consideration.

S.B. 301, S.D. 1, H.D. 1, eliminates conformity to Internal Revenue Code section 857(b)(2)(B) and disallows the deduction for dividends paid by a Real Estate Investment Trust (REIT). The House Committee on Economic Development & Business amended the measure to require that ten percent of the net revenue generated by this measure be used by the Department of Business, Economic Development and Tourism to fund economic development in the State. The measure has a defective effective date of December 31, 2112, but would otherwise apply to taxable years beginning after December 31, 2019.

First, the Department notes that the new provision providing that 10% of the revenue generated from REITs is very ambiguous. If the intent is to earmark 10% of all income tax revenue paid by REITs this should be specified. Further, the provision as currently written does not seem to be sufficient to create an appropriation. The provision can be read to simply provide a method to calculate an amount that DBEDT must spend rather than providing the funds to spend. The Department suggests clarifying this provision.

Finally, the Department notes that while a REIT must report all of its income on a tax return, it is not mandatory to report all of its allowable deductions. This is because the dividends paid for the deduction alone would eliminate any tax liability. In other words, to properly estimate the potential revenue gain, we must also consider the other allowable deductions that can be used to offset tax liability, as well as behavioral responses due to tax planning.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Disallow REIT Deduction for Dividends Paid

BILL NUMBER: SB 301, HD-1

INTRODUCED BY: House Committee on Economic Development & Business

EXECUTIVE SUMMARY: This bill would disallow the dividends paid deduction that real estate investment trusts, or REITs, now enjoy. The numerous REITs who now own and manage Hawaii real estate would be taxed like any other corporation doing business in Hawaii.

SYNOPSIS: Amends HRS section 235-2.3(b) to provide that section 857(b)(2)(B) (with respect to the dividends paid deduction for real estate investment trusts) shall not be operative for Hawaii income tax purposes.

Amends HRS section 235-71(d) to provide that for tax years beginning after December 31, 2019, no deduction for dividends paid shall be allowed for REITs for Hawaii income tax purposes. Requires 10% of the revenues generated to be used by DBEDT to fund economic development in the State.

EFFECTIVE DATE: 12/31/2112. Applies to taxable years beginning after December 31, 2019.

STAFF COMMENTS: Currently under federal and state income tax law, a real estate investment trust (REIT) is allowed a dividend paid deduction, unlike most other corporations, resulting in that dividend being taxed once, to the recipient, rather than to the paying corporation. The proposed measure would make that section of the IRC inoperative for Hawaii income tax purposes for tax years beginning after 12/31/19, meaning that REITs would be subject to double taxation like other corporations.

All state income tax systems in the United States, including ours, have a set of rules that are used to figure out which state has the primary right to tax income. For example, most tax systems say that rent from real property is sourced at the location of the property, so if a couple in Florida rents out a property they own on Maui they can expect to pay our GET and our net income tax on that rent. These sourcing rules, which do vary by state but are relatively consistent across state lines, are there to assure consistent and fair treatment between states.

Sourcing rules, however, can yield strange results. Here, there is a Hawaii Supreme Court case saying that when real property is sold on the installment basis under an “agreement of sale,” where the seller remains on title until the price is paid (although the buyer can live in the house), then the interest on the deferred payments is Hawaii source income and is subject to our net income tax and our GET. There is also a Hawaii Tax Appeal Court case holding that when the seller instead finances the deal by taking a purchase money mortgage on the property, and does not remain on title, then the mortgage interest is sourced to the residence of the seller, who in that case did not live in Hawaii. In the second case the court applied the rule for income from

intangibles such as interest, royalties, and dividends, which says that income is sourced to the residence of the recipient unless you can connect it with some active business that the recipient is conducting somewhere else.

Real estate investment trusts (REITs) are source shifters. For income tax purposes, they take in rent income, which is sourced to the location of the property being rented. They don't pay income tax on that income as long as they distribute the money to their shareholders as dividends. The dividend income of their shareholders, on the other hand, is generally sourced to the residence of the shareholders. So, the income that the property states expected to tax is instead taxed in the states in which the shareholders live. And, to the extent that REIT shares are held by tax-exempt entities such as labor unions and retirement funds, passive income such as dividends may not be taxed at all. Source shifting is an issue specific to state taxation.

Apparently, the evil sought to be addressed by the bill is that (1) REITs are very visible in Hawaii, but do not get taxed because of the deduction allowed for dividends paid, while (2) many REIT owners who receive the dividend income are either (a) outside of Hawaii and don't get taxed either because they are outside of Hawaii, or (b) are exempt organizations that normally are not taxed on their dividend income. Normally we like to have our income tax law conform to the Internal Revenue Code to make it easier for people and companies to comply with it, but our legislature has departed from conformity when there's a good reason to do so (such as if it is costing us too much money). The issue is whether such a good reason exists here.

REITs do pay general excise and property taxes on rents received and property owned – as do the rest of us who are fortunate enough to have rental income or property to our name.

Recently, an issue has developed around REITs that own hotels. REITs cannot operate the hotels; rather, to be compliant with federal rules, they normally form a taxable REIT subsidiary (TRS), which is taxed as an ordinary corporation. The TRS takes in the income from the hotel operations, and then it pays rent to the REIT. That rent is of course taxable, and the hotel REITs have suggested that if this bill passes the hotel REITs will unwind their ownership structure and eliminate the extra level of GET on those rents. In our mind this threat is not credible. The hotel REITs established their holdings before 2018 and presumably found that it was financially beneficial to do so despite the extra level of GET. Since then, the Tax Cuts and Jobs Act drastically reduced the federal corporate income tax rate, from 35% to 21%, and thereby lessened the burden that had been placed on the TRS's. If it was beneficial to adopt a REIT/TRS structure to run a hotel before the Tax Cuts and Jobs Act and the Act slashed the federal corporate rate, it is hard to imagine that unwinding the structure would be financially justifiable.

Digested 3/27/2019

March 27, 2019

To: Rep. Sylvia Luke, Chair
Rep. Ty J.K. Cullen, Vice Chair
House Committee on Finance

From: Laura Nevitt, Director of Public Policy
Hawaii Children's Action Network

Re: **S.B. 301, SD1, HD1– RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS**
Hawaii State Capitol, Room 308 , March 29, 2019, 3:30 PM

HCAN is committed to improving lives and being a strong voice advocating for Hawai'i's children. We write in support of S.B. 301, SD1, HD1 which Disallows dividends paid deduction for real estate investment trusts. Provides ten percent allocation of revenue from REIT for use by DBEDT. Applies to taxable years beginning after 12/31/2019. (SB301 HD1)

REITs operating in Hawai'i need to pay their fair share of state taxes.

As part of our community, they need to do their part in supporting our community. REITs already receive generous federal tax exemptions and benefit from Hawai'i's low property tax. They can operate and thrive in Hawai'i while still being a responsible community member and paying their share of the taxes needed build a strong Hawai'i for everyone.

- REITs own approximately \$17 billion worth of Hawaii real estate and earn about \$1 billion in profits every year.
- Hawaii loses an estimated \$60 million in potential tax revenue every year due to the REITs tax loophole.
- The income generated by Hawaii REITs should be taxed so they help support the communities in which they operate.
- Every other individual and corporation doing business in Hawaii is subject to state income tax.
- If the REITs pay their fair share of taxes, then that can reduce the tax burden on the rest of us.
- Examples of REIT-owned properties across Hawaii include: International Marketplace, Pearlridge Shopping Center, Hilton Hawaiian Village, Ala Moana Center, most of Mapunapuna, and many more.
- As part of our community, REITs need to do their part in supporting our community.
- REITs already receive generous federal tax exemptions and benefit from Hawaii's low property tax.
- REITs can operate and thrive in Hawaii while still paying their share of the taxes needed build a strong Hawaii for everyone.
- REIT shareholders pay individual income tax on REIT dividends, but most shareholders of REITs operating in Hawaii are not Hawaii residents and do not pay Hawai'i state income taxes.

For these reasons, HCAN respectfully requests that the committee pass S.B. 301, SD1, HD1

HCAN is committed to building a unified voice advocating for Hawaii's children by improving their safety, health, and education.



200 North Vineyard Boulevard, B140
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March 27, 2019

House Committee on Finance
Friday, March 29, 2019, 3:30pm
Conference Room 308

SB301, SD1, HD1 – SUPPORT WITH AMENDMENTS

Aloha Committee Chair, Vice-Chair, and Members:

I am submitting testimony in my capacity as Executive Director of Hawaiian Community Assets (HCA), a nonprofit community development corporation, HUD-approved housing counseling agency, and community development financial institution, to **STONGLY SUPPORT SB301, SD1, HD1 with amendments.**

SB301 would require Real Estate Investment Trusts to pay their fair share, providing our State an estimated \$60 million annual revenue according the State Department of Business, Economic Development, and Tourism. These funds would stay in our State economy and assist us in making the necessary investments in affordable housing development so we can build the nearly 50,000 new units we need by 2025 for households earning \$75,000 annually or less.

Amendment: Require 25% of Revenue Generated for Affordable Housing

In in previous committee hearings, SB301 was amended to require ten percent of revenue generated form the tax on REITs to be used by the Department of Business, Economic Development, and Tourism to fund economic development in the State.

In light of our housing affordability crisis, in which our Hawaii renters and homeowners are the highest cost burdened in the nation, it is critical that we target the investment of our public dollars into the development of housing that will address this crisis. **We recommend the bill be amended to require that 25 percent of revenue generated from the tax on REITS to be placed into the Rental Housing Revolving Fund and the Affordable Homeownership Revolving Fund (should it be established).**

Help us generate the revenue we need to support housing affordability by simply asking REITs to pay their fair share of taxes – **pass SB301, SD1, HD1 with the suggested amendment.**

Mahalo for your time, leadership and consideration. Please contact me directly at 808.587.7653 or jeff@hawaiiancommunity.net should you have any questions or need additional information.

Sincerely

A handwritten signature in black ink that reads "Jeff Gilbreath". The signature is written in a cursive, flowing style.

Jeff Gilbreath
Executive Director



Testimony of Church of the Crossroads
Supporting SB 301 SD 1 HD 1 with an amendment
House Committee on Finance
March 29, 2019, at 3:30 p.m. in Conference Room 308 (Agenda #3)

The Church of the Crossroads was founded in 1922 and is Hawaii's first intentionally multicultural church.

Thank you for this opportunity to testify in support of the bill, with an amendment. For better or for worse, our country has adopted capitalism as its economic system. Business organizations compete among each other by creating competitive advantages that include, for example, lower pricing, better quality, and better service. Those businesses that compete successfully are able to survive and flourish.

The role of government is to create an infrastructure that supports business activity in general and to maintain a level playing field so that all businesses can compete fairly among each other.

The Hawaii State Legislature has passed legislation that conforms Hawaii tax law with the Internal Revenue Code to ease the administration of State taxes. In a number of cases, however, when the State would have been adversely affected, the Legislature made exceptions to the Internal Revenue Code.

The State adopted the federal REIT model in its entirety decades ago. By doing so, the State has, perhaps unintentionally, given a competitive advantage to REITs. They are corporations, but they do not pay a tax on their profits as other corporations do. Furthermore, corporate tax revenue funds much of the business infrastructure in Hawaii, so REITs get the benefit of that infrastructure, but they don't pay their fair share for it. For the sake of equity and fairness, REITs should be required to pay taxes on their profits as do other corporations.

One result of requiring REITs to pay the corporate tax is that the State would receive an estimated \$60 million in additional tax revenue. Those funds could be applied to reducing the enormous shortage of housing that is affordable to low- and middle-income individuals and families. Some efforts are being made to build affordable housing, but much greater efforts must be made because the need is so great and the cost to develop housing is so high.

Various ideas for financing affordable housing are contained in a study entitled, "The Housing Action Plan Final Report to the State Legislature," which was funded by the Legislature and issued in 2017. Among the financing ideas is the dedication of new tax revenue for affordable/workforce housing or infrastructure, with the funds kept separate from the general fund.

This bill should be amended to separate the new REIT tax revenue from the general fund and to dedicate it 100% to the creation of affordable housing in Hawaii. With that amendment, the Church of the Crossroads supports this bill. Thank you.



SIERRA CLUB OF HAWAI'I

MĀLAMA I KA HONUA. *Cherish the Earth.*

HOUSE COMMITTEE ON FINANCE

March 29, 2019 3:30 PM Room 308

In SUPPORT of SB 301 SD1 HD1: Relating to Taxation of Real Estate Investment Trusts

Aloha Chair Luke, Vice Chair Cullen, and members of the committee,

On behalf of our 20,000 members and supporters, the Sierra Club of Hawai'i, a member of the Common Good Coalition, supports passage of SB 301- which seeks to establish a fairer tax system in the state of Hawai'i by disallowing dividends paid deduction for real estate investment trusts.

Since 1968, the Sierra Club of Hawai'i has worked to help people explore, enjoy, and protect the unique natural environment of the Hawaiian Islands. We believe that the health of our environment will benefit from a fairer tax system, such as the taxation of Real Estate Investment Trusts. REITs are corporations that own income-producing real estate, like retail and hospitality-related establishments. Examples of REIT property include Ala Moana Shopping Center, Pearlridge Shopping Center, Hilton Hawaiian Village, the International Marketplace, and many others. There are 42 REITs operating in Hawai'i, with only 1 REIT having its main office in Hawai'i- meaning that almost all of these properties are owned by mainland-based corporations and shareholders.¹

As the law is currently written, all dividends paid out to REIT shareholders (at least 90% of REIT income) can be deducted from REIT income taxes. As a result, the state of Hawai'i is missing out on potential tax revenues of \$30-50 million annually from these corporations²- funds that could be used to protect our natural resources, build much needed affordable housing, fund our schools and social services, and repair public infrastructure in the face of climate change.

The Sierra Club recognizes that there is a nexus between the environment and economic justice issues. This bill will require REITs and their shareholders to pay their fair share of taxes, creating a more equitable system to the benefit of all of Hawai'i. Our tax system reinforces our income inequality; forcing more and more families to live paycheck-to-paycheck and make short-term decisions about their lives that usually impose a greater burden on the natural

¹ http://files.hawaii.gov/dbedt/economic/data_reports/REIT_Final_9.19.16.pdf

² <http://hiappleseed.org/wp-content/uploads/2016/12/RevenueGeneratingMeasuresOverview.pdf>

environment. We support tax fairness because we know that with a more balanced tax system, Hawai'i's residents, our communities, and our environment as a whole will prosper.

Thank you very much for this opportunity to provide testimony in **support of SB 301 SD1 HD1**.

Mahalo,

A handwritten signature in cursive script that reads "Jodi Malinoski".

Jodi Malinoski, Policy Advocate

Rep. Sylvia Luke, Chair,
Rep. Ty J.K. Cullen, Vice Chair
House Committee on Finance

Hearing Date: March 29, 2019, 3:30PM

RE: In Support of HB 475/SB 301
Relating to Taxation of Real Estate Investment Trusts

Dear Committee Members:

It is my belief that all businesses operating in Hawaii should pay income tax. There is \$18 billion of REIT property in Hawaii not paying income tax, up from \$10 billion ten years ago. While the REIT structure can be beneficial to small investors, it is a huge loophole for big investors. For example, the founder of Public Storage, Wayne Hughes, and his family own \$6 billion of Public Storage stock; Ala Moana Center is now owned by a Canadian firm. Do we need to be subsidizing rich people and Canadians? Is it so much to ask that REITs operating in Hawaii pay a 6.4% corporate income tax like other businesses?

Respectfully,

FERGUS & COMPANY
A Limited Liability Company



Michael J. Fergus
Manager

**Chair Luke
Vice Chair Cullen
House Committee on Finance**

**Friday, March 29, 2019
3:30 PM**

TESTIMONY IN SUPPORT OF SB301 SD1 HD1 RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

Aloha Chair Luke, Vice Chair Cullen, Members of the House Committee on Finance,

My name is Jun Shin. I am 19 years old, a member of Generation Z. I am a freshman at the University of Hawai'i at Mānoa in my third semester, and a member of the Faith Action for Community Equity (FACE). I am testifying in **support of SB301 SD1 HD1 relating to taxation of real estate investment trusts.**

This has become an issue that is very close to my heart. I live in the Ala Moana area currently, so I'm personally neighbors with the Ala Moana Center, one of the well known REIT-owned properties in Hawai'i that is constantly busy. However, I am also neighbors with houseless individuals, and have also seen their struggles up close while coming home from school. I want to be able to do something to help our fellow human beings who have just as much worth as everyone else and who are struggling. To me, this is a tale of two cities, two very stark contrasts in my community that needs fixing and it cannot be ignored.

Closing the REITs tax loophole and making them pay their fair share of taxes is a much needed reform and a great step in the right direction to begin to address this divide. REITs are a well-off part of our communities. They should be helping to support the communities that they are currently operating in, and be a good neighbor. With REITs having federal tax exemptions and benefiting from our low property tax, they are in a great position to pay their fair share in taxes while still being well off. It is a common understanding among residents that it is very hard to live here. With low wages, our workers are taking on several jobs and living paycheck to paycheck, close to seeking the streets for refuge while our young people are moving out. We need to continue to work together on creating a society that works for all of us.

By doing their part, REITs can still operate and thrive in Hawai'i while being a responsible community member. By paying their share of the taxes, they are helping to build a strong Hawai'i for everyone, revenue that would be able to go to critical needs. Please continue to help in making a Hawai'i that is livable for my generation and generations to come so that we can all have an opportunity to succeed, afford our basic needs, and have families of our own, staying here and giving back to the islands. For future generations, I ask you to please **support and pass SB301 SD1 HD1 out of your committee** and eliminate the corporate income tax exemption on dividends paid out by REITs.

Thank you for the opportunity to testify,

Jun Shin

1561 Kanunu St.

Cell: 808-255-6663

Email: junshinbusiness729@gmail.com

SB-301-HD-1

Submitted on: 3/27/2019 9:07:13 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
C. Kai Lucas	Faith Action	Support	No

Comments:

Aloha Chair Luke, Vice Chair Cullen, and members of the Committee:

Please pass SB 301 SD1 HD1 and close the loophole that exempts Real Estate Investment Trusts from paying state corporate income tax.

REITs operating in Hawai'i need to do their part in supporting our community by paying their fair share of state taxes.

Mahalo,

Kai Lucas



AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS		MAILING
ADDRESS			
John Bickel, President	Melodie Aduja	Stephen O'Harrow	P.O. Box 23404
Alan Burdick, Vice President	Guy Archer	Chuck Huxel	Honolulu
Marsha Schweitzer, Treasurer	Juliet Begley	Jan Lubin	Hawai'i
96823			
Dylan Armstrong, Secretary	Gloria Borland	Jenny Nomura	

March 28 , 2018

TO: Honorable Chair Luke & FIN Committee Members

RE: SB 301 SD1 HD1 RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

Support for hearing on March 29

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We support SB 301 SD1 HD1 as it would no longer allow the deduction for dividends paid for real estate investment trusts (REITS). REITs own about \$17 billion worth of Hawai'i real estate and earn profits of about \$1 billion every year, but they have a special tax status that exempts them from paying millions of dollars in corporate income tax. This bill would close the REITs tax loophole and make them pay their fair share of taxes.

Thank you for your favorable consideration.

Sincerely,

John Bickel President





Evelyn Hao
President

TO: Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair
Committee on Finance

Rev. Won-Seok Yuh
Vice President-
Clergy

FROM: Evelyn Aczon Hao, President of Faith Action for Community Equity

William Bekemeier
Vice President-
Laity

Friday, March 29, 2019

Support for SB 301, SD1 HD1 RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

Jon Davidann
Treasurer

Good afternoon, Chair Luke, Vice Chair Cullen and committee members.

Deanna Espinas
Secretary

I am Evelyn Aczon Hao, President of Faith Action for Community Equity.

Christy MacPherson
Executive
Director

Faith Action for Community Equity (formerly FACE) is a 23-year-old grassroots, interfaith organization that includes 18 congregations and temples, a union, health center, housing association and 3 advocacy organizations on Oahu. Faith Action is driven by a deep spiritual commitment to improve the quality of life for our members and all people of Hawaii. We strive to address issues of social justice at all levels of government.

Ashleigh Loa
Staff Organizer

Soo San Schake
Organizing
Assistant

Our hundreds of members are concerned about the need for improvements in public education, infrastructure, housing that the average resident can actually afford at 30-80% of the Area Median Income (AMI), and other things that the State of Hawaii desperately needs.

Our organization was not educated about REITs prior to this legislative session. However, when our members and others in the community heard of certain corporations not paying the same amount of income taxes as other corporations and knowing that our own members pay their income taxes, it upset us. The fact that over 99% of REITs shareholders live out of state and do not pay income taxes to Hawaii that could be used to pay for the aforementioned things we *need* for your constituents has created a groundswell of support for these bills. These are not "emotional arguments." These are realities. Faith Action sees this as an equity issue- plain and simple. Increased state revenue, or the lack thereof, affects ALL of us.

One of the arguments used by REITs is that repealing the DPD (dividends paid deduction) will dissuade companies from investing in Hawaii. We will take our chances. So far as we can tell, Hawaii remains a prime and valuable resource that companies desire as an opportunity for investment. When you invest in Hawaii, you hit the Pot of Gold.

REITs lobbyists continue to work very hard at giving out figures and claiming that passing the bill will not bring in much revenue. But if that's the case, why are they lobbying so hard against these bills? Because they are highly aware that they will need to pay their fair share of taxes to the State of Hawaii.

Thank you for this opportunity to testify.



SB 301, SD 1, HD 1, RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

MARCH 29, 2019 · HOUSE FINANCE COMMITTEE
CHAIR REP. SYLVIA LUKE

POSITION: Support.

RATIONALE: IMUAlliance supports SB 301, SD 1, HD 1, relating to taxation of real estate investment trusts, which disallows dividends paid deduction for real estate investment trusts and provides 10 percent allocation of revenue from REIT for use by DBEDT. A REIT, notably, is a corporation that owns income-producing real estate, like hotels and shopping malls, in which individuals may purchase shares to earn a portion of the income generated.

Under state taxation law, REITs are currently afforded an exemption from paying corporate income taxes on dividends paid to shareholders. REIT shareholders, however, pay federal and state income taxes on their earnings from the REIT in which they have invested. Unfortunately, since most shareholders of Hawai'i REITs don't live in the Aloha State, they pay income taxes in other locations. Thus, income generated by Hawai'i property is getting taxed elsewhere, sending sorely needed tax dollars for local schools, infrastructure, climate change mitigation, human and social services, and affordable housing outside of our shores.

Eliminating REIT dividend deductions will uplift Hawai'i's people. Over 30 REITs operate in Hawai'i, the most prominent of which is Alexander and Baldwin. Collectively, Hawai'i REITs own roughly \$17 billion worth of real estate and produce almost \$1 billion in dividend income exempt from the corporate income tax, amounting to over \$50 million in lost tax revenue—a number that will only increase over time, as real estate values continue to soar.

REIT Income Tax Petition

The undersigned have been informed about the facts and law resulting in neither Real Estate Investment Trusts ("REITs") nor their shareholders paying any income tax on the enormous amount of income they earn on their Hawaii real estate and want the Hawaii Legislature to revise our laws in the 2019 Session so that a withholding tax is imposed or the REIT dividends paid deduction is eliminated and REIT income is properly taxed in Hawaii where it is earned. It is not fair for these organizations to be utilizing so many Hawaii services and occupying prime Hawaii lands and paying no income taxes.

Signature → Address

Robbie Robinson

Amy Wake

Robert H. Stutz

Janet G. Fata

Joe Holt

Robina

Doreen Akamine

Luigi Rivas

Janice S. Kawaguchi

ALBERTO RIVAS

MARtha RIVAS

Margaret Nohara

Stacy Okamura

320 Hoo Street Hon 96821

98-434 Hoomailani St, Pearl City 96788

1776 Hoolahua St, P.C. 96782

1796 Hoolahua St, P.C. 96782

92-1112 Palahia St # C102 Pearl City, HI 96707

2222 Amokemoke St. Pearl City, HI 96782

46-373 Kumoa Ln Kaneohe 96744

2158 Anuhua St Pearl City HI 96782

94970 Lumiauau St A102 Waiipahu, HI 96797

94-970 Lumiauau St 96797

2464 Anuhua St P.C. 96782

2222 Amokemoke St; PC 96782

REIT Income Tax Petition

The undersigned have been informed about the facts and law resulting in neither Real Estate Investment Trusts ("REITs") nor their shareholders paying any income tax on the enormous amount of income they earn on their Hawaii real estate and want the Hawaii Legislature to revise our laws in the 2019 Session so that a withholding tax is imposed or the REIT dividends paid deduction is eliminated and REIT income is properly taxed in Hawaii where it is earned. It is not fair for these organizations to be utilizing so many Hawaii services and occupying prime Hawaii lands and paying no income taxes.

Signature

→ Address

Richard Jackson

92-1299 KIAMU ST KAPOLEI HI 96707

Jean Jackson

92-1299 KIAMU ST KAPOLEI 96707

Siroosi Shinn

92-1112 PAUHAHA ST #C102

Solomon Uhem


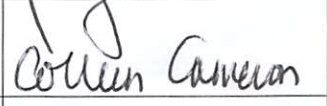


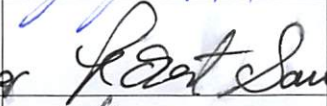




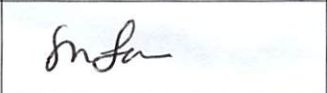
92-0001 108 KAPOLEI, HI 96707

22-81 Anapapa St Pearl City 96788

91-6221 Kapolei pkwy DR. 3rd Flr
96706

REIT Income Tax Petition

The undersigned have been informed about the facts and law resulting in Real Estate Investment Trusts ("REITs") not paying any income tax on the enormous amount of income they earn on their Hawaii real estate and want the Hawaii Legislature to revise our laws in the 2019 Session so that the REIT dividends paid deduction is eliminated and REIT income is properly taxed in Hawaii where it is earned. It is not fair for these organizations to be utilizing so many Hawaii services and occupying prime Hawaii lands while paying no income taxes.

Name	Signature	Address
Terry Hiller		1649 B Kewalo St, Honolulu, HI 96822
Colleen Cameron		3215 Ala Ilima St #808 Honolulu HI 96818
Monica Lujan		91-960 Iwikuamoo St. Unit 502 EWA Beach HI. 96706
Kyong O		PO Box 11386 Honolulu HI 96828
Robert Sawyer		1015 Green St #B-4
Raymond Viggayan		1888 Bishop St. # 2511
Ray Windrath		1551 Pukele Avenue/Honolulu HI 96816
SING FURBERG		2439 NALANIETA ST. # A2 Honolulu, HI 96819
DEAN MURAMOTO		2755 KAPIOLANI BLVD #17
Marie Laberge		1550 RYAN ST 96814

REIT Income Tax Petition

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Jan Yuen
Ken B. ...

Chase Sadii ...

Juan ... III

Richard Ryan

Cliff ...

Patricia Lee

MU

Chushiko Sakata

Juan ...

S. ...

Jean ...

...

Beatrice T. Kong

Colleen ...

1255 Nuuanu Ave. 3012 96817 apt.

1255 Nuuanu Ave 96817 apt 702

1255 Nuuanu Ave 96817

1255 Nuuanu Ave, 96817

47-101 Kamehameha 96744

555 Hanalei St., HI 96825

4754 Farmers Rd. 96816

133 Bates St Hon. 96817

133 Bates St. Hon, 96817

3 Woodland Ln BH ~~96817~~ 04609

133 Bates St. 96817

1255 Nuuanu Ave #402E

2626 Lilikoi St. Ho, HI 96817

2626 Lilikoi St NE 96817

1005 Manana Pl. Hon. HI 96817

414 Kekau Pl Hon 96817

REIT Income Tax Petition

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[Signature]
3516 Galvan Lane, Wahiawa HI
96786

Barbara J. Service 472 Keolu St #4
Honolulu 96816

[Signature] Jami Hitt
96821
Judith Murašige JUDITH MURASHIGE

Hannah Devin Hannah Devin
1234 Alexander St. Apt F1 Honolulu HI 96826

Ruth Yoshioka Ruth Yoshioka

887 Hind Iuka 96821
4883 Poala St, Hon. HI 96821

Kathleen Otani Kathleen Otani

340 Awini Pl., Hon. HI 96825

Mary Calantoc

55 S Judd St #2107, Hon. HI 96817

Arlene Koegler Arlene Koegler

2333 Kapiolani #1612 Hon. HI 96826

M Carolyn Kuahala

1646 Cook St. #202 Hon. 96822

Ken Reinke

928 Hokualea St, Hon 96825

ARRR PHILIPS

1170-1 Kaunailana Place 96817

[Signature]

45-536 Mahinui Rd., Kaneohe, HI 96744

[Signature] Mark D. Looper

Samie Lee 1344 Mamalu Street Hon HI 96817
Nicholas Seu " " "
Lindsey Seu " " "
McKenna Seu " " "

Betty Wakatsuki 98-312 Pono Kuwila Place 96701
" " "

Edna Jackson 1272 Alewa Drive "
Edna K. Robinson " " "

Eric Myers 336 N. Kuakini St. " "

Paul Reid 155 N. Beretania " "

Ther Ann 3363 Kaimuki Ave " "

Mun Maslin PO Box 4525 Kaneohe HI 96744

Helen Mashiro 15 Craigside Plaw, Apt 501 Hon 96817
Sylvia Hekeka 709 Kihapai St Kailua 96734

Lucy Metzger 1561 Kanunu St. #1608 Hon. 96814
Emilia Collins 707 Hausten St. Hon 96826

James P. 1471 Ihiloa Dr. Hon. 96821

Trilby Aki 1453 Kuikele St Hon 96819

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<u>NAME</u>	<u>ADDRESS</u>
<u>Calvin Foo Pham</u>	<u>721 W Belmont Ave Chicago, IL</u>
<u>Galen Fox</u>	<u>425 South St #1808 96813</u>
<u>Kathleen Triolo</u>	<u>1326 Center St. 96816</u>
<u>Bruce Anderson</u>	<u>941 B Prospect St. 96822</u>
<u>KELLY GARRET</u>	<u>1659 HOCHAM ST PC. 96782</u>
<u>Scott Shafer</u>	<u>2067 Kila Kila Dr. apt A Honolulu 96817</u>
<u> </u>	<u> </u>
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ELDON WEGNER

Clinty Maffra

Mario Avalle [Signature]

Whitney Kim [Signature]

WILLIAM BEKEMEIER

[Signature]

Mysral Medina

[Signature]

[Signature]

Rueck Chang

Piula Alailima

[Signature]

Onel Sig. Halapua

Leana Bonseura

Man Vignobro

Miriam Heidel

[Signature]

[Signature]

David Lee

Maatolyn Kuakula

John A. Heidel

Robert Stark

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Claire Geare

1212 Punahou St. #2601

Alana Busekuis Alana Busekuis

220 Ohana St. Kaula 96734

Ronny Lynn Ronny Lynn

2611 Ala Wai Blvd. #2106

Jui Tokusato

1612 Anapuni St apt B Hon. 96822

MARY TALON Mary Talon

80 Box 861592 WAIANA, HI 96786

Kimberly L. Craven

4921 Waa St Hon. HI 96821

William Caron

2054 9th Avenue, Hon, HI 96816

Jun Shin

1561 Kanunu St. 2106

Allison Sparks

3796 Siere Drive. 96804

Joel Raburn

44-291E Kaneohe Bay Dr Kaneohe HI 96741

J. J. O'Neil

2333 KAPIOLANI BLVD #2308, 96826

Gary S. Hoover

2425 Kincau St, Room 5, Ho, HI 96824

REIT Income Tax Petition

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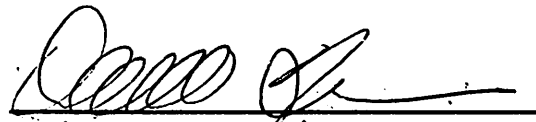
Ellen Godbey Carson
Wally Inglis

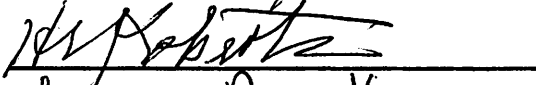
ELLEN GODBEY CARSON 1080 S. Beretania St,
APT GPH 2,
Hon 96814
WALLY INGLIS 2349 c Palolo Av.
Hon. HI 96816

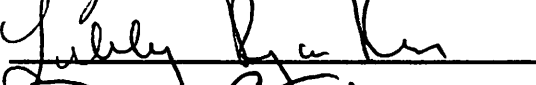
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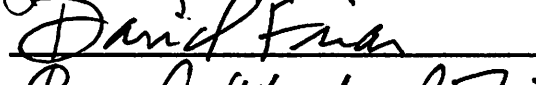
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Nicole R. [Signature]

Theodore M. Henderson

Noel H. Sutherland

Mario Nguyen

JENNIE AUSTIN

SGM K. Cruz

[Lined area for additional signatures]

REIT Income Tax Petition





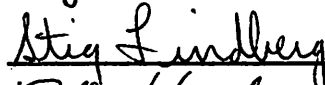
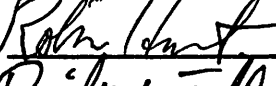
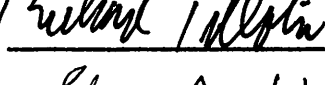
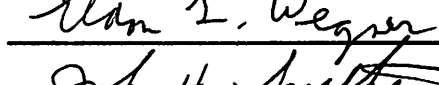
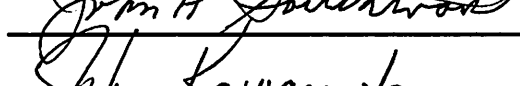
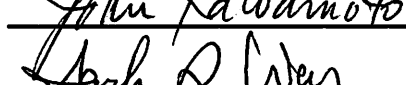
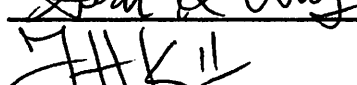
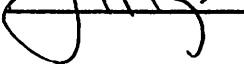
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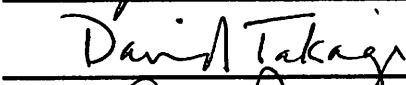
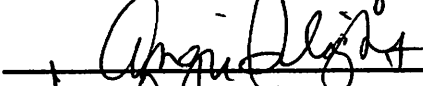
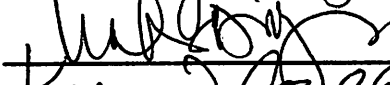




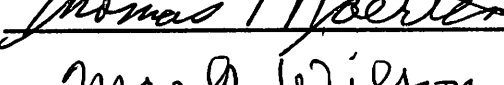
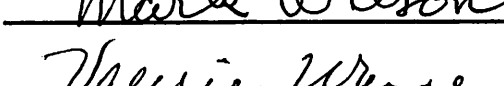
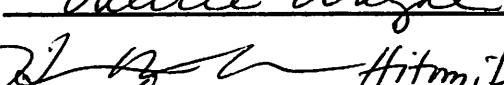
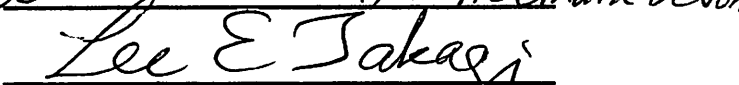

Clara B. Burrows
Chuck Burrows
Lane C. Hill
KAREN HOWELL
Kirsten B. Turner
Ayn Kimura
Ehio Kimura
MARKUS FAIGLE
James W. Kean
Carol Oka
Sharon Reed
Donal White
Mary Beth Reed

Mildred M. Miyashiro
Michael F. Yano
Ernest K. Harada
Donald L. Conner
Rat H. Do
Coral Prince Wilson
Annalee Adams
Linda Q. Green Linda Q. Green
Walter Tokopa Bannett
Rosaline K. Teixeira
Jean Coffman
Cheryl O. Ho

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 Dominic Chao
 Patricia Demello
 ELIZABETH NELSON
 CHARLES MARK RETAY
Margaret Ann Revick
 Stig Lindberg
 Robin Hart
 Richard Tullgren
 Alan L. Wegner
 John H. Southwood
 John Kawamoto
 Sarah Q. Way
 JHK

 J. Howell
 David Takagi
 Angie Light
 W. Brown
 K. Brown
 Kaye C. Kroehler
 Gillian Kroehler
 Sigrid B. Southwood
 Thomas Maerten
 Mark Wilson
 Valerie Wayne
 Hitmi Demura Debra
 Lee E. Sakagi

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<u>Name</u>	<u>Address</u>
<u>Lorraine Fay</u>	1037B Ilina Dr. Honolulu, HI 96817
<u>Nancy Kleber May Khuh</u>	1726 Bertram St Honolulu HI 96816
<u>Jane Raissie</u>	310 Ilimane St. Kailua HI 96734
<u>William Young</u>	1942 IWAHO PL HNL HI 96819
<u>[Signature]</u>	628 Ilieka St. 96734
<u>[Signature]</u>	2197 IOWA AVE 96816
<u>Carla S Allison Cushman</u>	1062 Ohiapan Place Honolulu 96825
<u>Hilke R. Fastenwood</u>	626 Coral St. #2309
<u>Lee Curran</u>	7122 Hawaii Ki Kono, HI 96813
<u>Mike Young</u>	3583-E Kaliki ST. 96819
<u>Catherine Graham</u>	1639 O'o Lane 96817
<u>Jel Rabenau</u>	44-291E Kaneohe Bay Dr, Kaneohe HI 96744
<u>Alison Jacobs</u>	3796 Sierra Drive 96816
<u>William Carver</u>	54 White Sands Pl. 96734

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Name	Address
<u>Laurel May Zerl</u>	46-262 Kalaua Pl Kaneohe
<u>Junko S. Davis</u>	1350 Alamaana Blvd, PH5 Honolulu 96814
<u>Charlotte B. Morgan</u>	94-291 Makapipipi Milulani 96789
<u>Paul Davis</u>	1617 Keoamoku St, #1101, 96822
<u>John M Compton</u>	
<u>J. Hendric + Nick Jones</u>	849 Hekeione St.
<u>David Friedman</u>	633 Ulumalu St. Hailua 96734
<u>Jon Schepers</u>	833 Alenua Kaula
<u>Leanne MacIntire</u>	47-644 MeleKula Rd #A Kaneohe HI 96744
<u>Alan Rowland</u>	1905 PUU KANEA PL, HONOLULU, HI, 96822
<u>Molly Rowland</u>	1905 Puu Kanea Pl. Honolulu, HI 96822
<u> </u>	
<u> </u>	
<u> </u>	

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<u>Name</u>	<u>Address</u>
<u>David Friedman</u>	633 Ulumalu St Kailua 96734
<u>Jean Schumacher</u>	" " " "
<u>Mary Mackay</u>	1617 Keeauwoku St Apt 1001, Honolulu 96822
<u>Sue Yamene Carpenter</u>	86012 Pokai Bay St Waianae, HI 96792
<u>Marie Anne</u>	45-638 Halekou Pl. Kaneohe HI
<u>Gianna Mayedo</u>	600 Ala Moana Blvd #4208 Honolulu HI 96813
<u>Laurel Mayzer</u>	46-262 Kalanua Pl Kaneohe
<u>Martina Queen</u>	1435 9th AVE Honolulu
<u>John McCombs</u>	P.O. Box 1066, Kaneohe
<u>Eileen Cain</u>	720 Mahi'ai St., Apt. E, Honolulu 96826
<u>Marilyn Bornhorst</u>	1434 Punahou # 723, 96822
<u>Dennis Fraue</u>	4250 B Keanu St. # 8 96816
<u>CAROL AMOS</u>	1634 MAKIKI ST #904 HONOLULU
<u>ALBERT FIZIOLD</u>	545 QUEEN AVE #196822
<u>CKEIT</u>	Honolulu, HI 96813

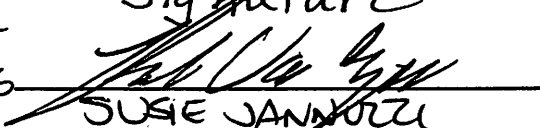

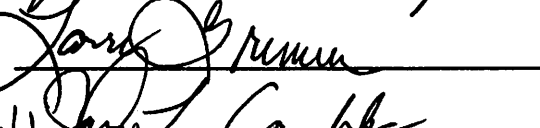
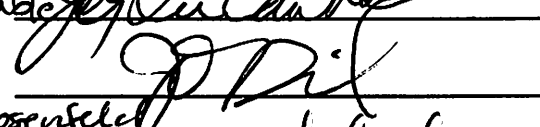

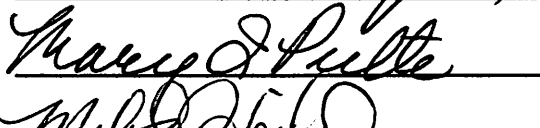
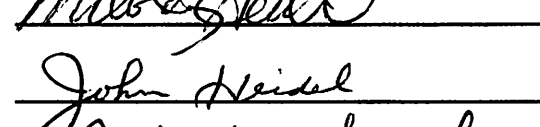
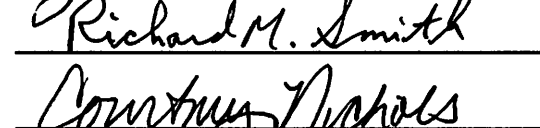
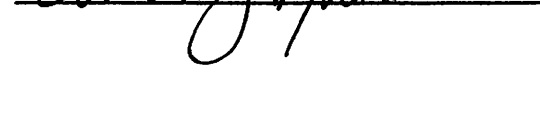

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Mildred Mchany 4359 Mahia St Hon 96821
Aileen Fujitani 6020 Etelape Pl Hon 96821
Wilma Tom 634 Ainapo St, Hon. 96825
Winifred Kumura 3828 Claudie St, Hon. 96816
Rae Thompson 5212 Makalona St Hon 96821
Meredith Yamamoto 695 Kalaripau St, Hon. HI 96825
John Thompson 5212 Makalona St, Hon. 96821
Kara Mark 5661 Haleolu St Hon 96821
Arlin Mark " " "
Ann Kakuni 11 Akilolo St Hon, HI 96821
Carole Wakamura 385 Haleloa Place Honolulu HI 96821
Jean McFosh 250 Kawaihae St, Home 96825
Arlin Mark 45-435 Kolu St, Honolulu HI 96821
Arlin Mark 380 Pan-o St Honolulu HI 96821
Kristen Mark 5669 Haleolu Street, Honolulu, HI 96821
Cory Vega " " "
Jaeman Lim 280 Panzo St. Honolulu, HI 96821
Matthew Hayakawa 5252 Kilanea Ave. Honolulu, HI 96816
Vickie Hayakawa 5252 Kilanea Avenue Hon 96816
Ann Nakamura 95-312 Alo Place Mililani HI 96789
Marta Kobayashi 7212 Kauraha, Honolulu 96825
Leona Kato 916 Lunalilo Am Rd Hon 96825
Jan J. Miyachi 6770 HAWAII KAI DR. #102
Stan Miyasato 7273 Nohi St., Hon. 96825
Elielio R T Cadavona 1720 Huna St #317 Hon. HI 96817-2466
Paul Ho 4389 Mahia St #220 Hon 96821
Karen Brown 1085 Kaluanui Rd. Honolulu, HI, 96825

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<u>Print name</u>	<u>Signature</u>	<u>Address</u>
Robin Van Eps	 SUSIE JANNOZZI	117 Kihapai Pl. Apt. 7 Kailua, 96734
ANI VAN EPS		85 W. Iikoki Pl. Kailua 96734
LARRY GRIMM		10989 KAMI, V HAWY, KAUNAKAKAI, ^{MOLOKAI} 96748
Joyle Cauble		357 N. Vengard #6201, Hawaii 96817
Charlene Rosenfeld		1505 Ulupai St Kailua HI 96734
R.W. SCHEUREN		533 Wilson St. Kailua 96734
MARY PIERRE		604 N. Kalakoo Ave " "
MEDDY HEIDEL		604 N KALAKOO AVE " "
John Heidel		45 090 Nanioku #503 ^{KAMOGHA} 96744
Courtney Nichols		1341 Manu Mele St Kailua 96734
	Richard M. Smith	1341 Manu Mele St., Kailua 96734
		1222 MANU MELE ST. " "
		1015 Aoloa Pl. #361 Kailua HI 96734

REIT Income Tax Petition

The undersigned have been informed about the facts and law resulting in neither Real Estate Investment Trusts ("REITs") nor their shareholders paying any income tax on the enormous amount of income they earn on their Hawaii real estate and want the Hawaii Legislature to revise our laws in the 2019 Session so that a withholding tax is imposed or the REIT dividends paid deduction is eliminated and REIT income is properly taxed in Hawaii where it is earned. It is not fair for these organizations to be utilizing so many Hawaii services and occupying prime Hawaii lands and paying no income taxes.

Stanford K.O. J

Dianne T. Stevens - Poai

Carl M. Mylani

Bob L. Am

Hora Obegasaki

Non-Serk Yuh

F Lee Smith

Francis M. DeBevoise

Walter W. Killough Jr.

Iris Jayekala

Ethel Serukaku

Ruth H. Cristo

James Joe

Patricia Joe

Nancy - ~~W.A.~~ W.A.

Malany Malaka

45-320 Kahiko St. Kaneohe

47-533 Pulea Rd #7684

47-748 Huikehu St. #598744

P.O. Box 113 96744

47-253 Waihee Rd., 96744

53-549 Kaneohe Hwy 96717

47-510 Lulani St., Kaneohe, HI 96744

47-510 Lulani St., Kaneohe, HI 96744

P.O. Box 6196 Kaneohe, HI 96744

47-538 Ahilama Rd Kaneohe HI 96744

47-708 Ahilama Rd. Kaneohe - 96744

45-621 Apiaapu St. Kaneohe

46-109 Konohe #3913 Kaneohe, HI 96744

244 Kalohelele Dr Konohe HI 96835

47-748 Hui Kolu St. #5, Kaneohe 96744

REIT Income Tax Petition

The undersigned have been informed about the facts and law resulting in neither Real Estate Investment Trusts ("REITs") nor their shareholders paying any income tax on the enormous amount of income they earn on their Hawaii real estate and want the Hawaii Legislature to revise our laws in the 2019 Session so that a withholding tax is imposed or the REIT dividends paid deduction is eliminated and REIT income is properly taxed in Hawaii where it is earned. It is not fair for these organizations to be utilizing so many Hawaii services and occupying prime Hawaii lands and paying no income taxes.

ANITA DIMAURO

May Oshitz

Jeanie Sotoda

Grenda Hou

Patricia Chang

Blonna Helber

Betty Ching

Ann Clark

2014 Malaka St 96822

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2751 Poole Rd 96813

1450 Young St, #2101, 96814

1 Kalekale Gardens #1410 968

3981 Lurline Dr Hon. 96846

5290 Kalamannok Hwy Hon 96821

2421 Insitu St. Apt 202 Honolulu

SB-301-HD-1

Submitted on: 3/27/2019 11:42:21 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Michael Golojuch Jr	LGBT Caucus of the Democratic Party of Hawaii	Support	Yes

Comments:

Aloha Representatives,

The LGBT Caucus of the Democratic Party of Hawaii is full support of SB 301 SD1 HD1.

Mahalo for the opportunity to testify.

Michael Golojuch, Jr.

Chair

LGBT Caucus of the Democratic Party of Hawaii

SB-301-HD-1

Submitted on: 3/28/2019 8:58:33 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
david gierlach	st elizabeth's church	Support	No

Comments:

I urge you to pass this legislation as a matter of fundamental fairness. All wage earners and companies doing business in Hawaii have a moral, ethical and (with the passage of this bill) legal obligation to pay State taxes where those persons or companies reside and reap the benefits from our infrastructure, police, fire and the general rule of law. These costs are sizable and we all have a duty to contribute. The current tax loophole that allows companies like A&B to escape paying its fair share toward the common weal is unfair and should be ended.

WRITTEN TESTIMONY OF

**DARA F. BERNSTEIN
SENIOR VICE PRESIDENT & TAX COUNSEL
NAREIT
IN OPPOSITION TO SB 301 SD 1 HD 1**

**BEFORE THE HAWAII HOUSE
COMMITTEE ON FINANCE**

**THE HONORABLE SYLVIA LUKE, CHAIR
THE HONORABLE TY J.K. CULLEN, VICE CHAIR**

HEARING ON SB 301 SD 1 HD 1

**MARCH 29, 2019
3:30 P.M.**

Thank you for the opportunity to submit this testimony on behalf of the Hawai'i members of Nareit. Nareit is the worldwide representative voice for real estate investment trusts—REITs—and publicly traded real estate companies with an interest in U.S. real estate and capital markets.

For the reasons discussed in more detail below, these REITs, which have substantial long-term investments in Hawai'i, strongly oppose, and ask you to hold, SB 301 SD 1 HD 1, legislation that would eliminate the REIT “dividends paid deduction” (DPD).

▪ **SB 301 SD 1 HD 1 Would Produce Less Revenue Than Current Law**

- **Department of Taxation’s (DoTax) public testimony estimates at best an incremental increase in revenue:** Enactment would raise, at best, approximately \$2.5 million the first year and \$10 million annually thereafter according to DoTax’s public testimony.¹
- **DoTax says actual revenue could be lower – even zero:** But actual revenue raised could be lower, a DoTax representative cautioned in public testimony.²
- **Loss of GET would more than offset any increase:** And, as described further below, the largest source of state revenue, the general excise tax (GET) ‘s reduction, particularly as the GET affects hotel REITs, could more than offset any revenue gains.
- **What about the larger amounts asserted by proponents?** DoTax testimony suggests proponents are relying on “incorrect” numbers in an earlier DBEDT study.³

The remainder of this testimony provides additional detail and information.

SB 301 SD 1 HD 1 Would Produce Less Revenue Than Current Law

According to the Department of Taxation, enactment would only raise an incremental amount of revenue; however, enactment could result in a potential \$6 million loss when factoring in lost General Excise Tax (GET) revenue. During deliberations following the Senate Ways and Means Committee Feb. 6, 2019 hearing on SB 301, Senate Ways and Means Committee Chair Dela Cruz noted that the Department of Taxation (DoTax) has estimated that, at best, SB 301 would raise about \$2.2 million the first year and \$10 million annually thereafter.⁴ In addition, during the Feb. 12, 2019 House Committee on Consumer Protection & Commerce hearing on the companion bill, to SB 301, HB 475, HD1, the DoTax representative confirmed the above estimate. However, he cautioned that the actual revenue could be lower due to taxpayers’ claiming additional deductions to which they were

¹ Note comments around 3:40:23 to 3:40:38 of the Feb. 12, 2019 video of the House Consumer Protection & Commerce hearing on the companion bill to SB 301 SD 1, HB 475 HD 1, available at [this link](#).

² Note comments around 3:41:02 to 3:41:41 of the Feb. 12, 2019 video of the House Consumer Protection & Commerce hearing on HB 475 HD 1 available at [this link](#).

³ Note comments around 3:40:40 to 3:40:56 of the Feb. 12, 2019 video of the House Consumer Protection & Commerce Committee hearing on HB 475 HD 1, available at [this link](#).

⁴ Note comments at 1:17:55 to 1:18:10 of the Feb. 6, 2019 video of the Senate Ways and Means Committee hearing on SB 301, available at [this link](#).

otherwise entitled.⁵ He also noted that the numbers in the 2016 Department of Business, Economic Development & Tourism study concerning REITs were similarly “incorrect.”⁶

Because of unique requirements applicable to REITs, essentially resulting in an additional level of GET, the State received more than \$16 million in annual GET in 2018 alone just from hotel REITs in Hawai‘i that non-REIT hotel owners wouldn’t owe. Federal law requires that REITs must earn most of their income from “rent” and similar real estate income. For this purpose, hotel room charges and other operating/service-related income are not “rent”. Unlike other owner-operators, REITs with operating properties like hotels, hospitals, parking garages, and theme parks must either lease those properties to a third party operator (like Marriott or Hilton) or with hotels and certain health care properties, to a fully taxable subsidiary in exchange for market-based rent. If leased to a taxable subsidiary, federal law requires the subsidiary to hire an independent operator. In Hawai‘i, the operator/subsidiary lease results in one level of REIT-specific GET revenue to the State, and the management fee results in yet another level of REIT-specific GET revenue to the State. (See attached diagram).

For example, Park Hotels & Resorts, Inc. leases its Hawai‘i hotels to a taxable subsidiary, and, in Hawai‘i, the taxable subsidiary hires Hilton to operate its hotels. Both the subsidiary rents and the operator fees have resulted in an **additional annual GET of approximately \$9.5 million** to Hawaii for each of 2017 and 2018 that the prior owner, Hilton, as a non-REIT hotel owner-operator, wasn’t paying before. When aggregated with other REIT hotel owners in Hawai‘i, this additional GET is estimated to **exceed \$16 million in 2018.**

And as a tax on gross receipts rather than a tax on net income, the GET makes up the majority of the State’s revenue, constituting a much larger percentage of the State’s budget (around 50%) than the corporate income tax (around 1-3%) and a much more stable source of State revenues than corporate income tax, which goes up and down according to the economy. (For example, see data from Council on State Revenues for [FY 2019 To FY 2025](#)). **SB 301 SD 1 HD 1’s enactment would seriously endanger this extremely valuable source of GET revenues to the State.** Not only that, enactment also would put at risk the revenues and jobs created by non-hotel REITs that invest in the State.

This additional GET does not even consider the tens of millions of dollars of GET revenues generated from construction, repairs, and tenant businesses, as well as personal income tax and transient accommodation taxes directly attributable to the billions of dollars invested by REITs over the past few years in the State to build, among other investments, student housing at UH Manoa or affordable rental housing, including Moanalua Hillside Apartments in Aiea. REITs also provide office space for small businesses that employ thousands of local residents. Medical facilities made possible by REITs, like Hale Pawa‘a, also ensure Hawai‘i physicians can deliver the highest quality care in state-of-the-art facilities.

Given the risk of losing up to \$16 million in GET annually, and the risk of lost jobs, it would not be prudent to enact SB 301 SD 1 HD 1.

⁵ See footnotes 1 and 2 above.

⁶ See footnote 3 above.

Unlike non-REIT property investors, REITs can't retain their earnings. Like other corporations, REITs are subject to the corporate income tax rules. However, if REITs meet specific requirements to ensure that they are widely-held, long-term investors in real estate, and they distribute at least 90% of their taxable income to shareholders, REITs can claim a dividends paid deduction (DPD). REITs can retain up to 10% of taxable income (for example, during a recession) but must pay corporate tax on what they retain. While REITs are subject to requirements that other businesses are not, SB 301 SD 1 HD 1 would enact a drastic policy change that would put Hawaii at odds with virtually all other states regarding the taxation of REIT income at the shareholder level only based on the state of shareholder residence.

Unlike other real estate businesses, REITs cannot be in the business of "flipping" properties. Any gain from a REIT's doing so is subject to a 100% tax. REITs are long-term neighbors in this community. The conflation of REITs with the activities in Kakaako suggests that the nature of REITs is not fully understood. REITs hold their investments for a very long time. These entities are not making a quick profit and leaving town; they are making long-term real investments back into the community and improving the State's retail, office, hotel, affordable rentals, and medical facilities.

Hawai'i taxes REIT shareholders on dividends from out-of-state sources. Many Hawai'i residents may not even realize that they benefit from REITs either through mutual funds or their pension or retirement accounts. [Nareit analysis of data](#) from 2016 Federal Reserve Board Survey of Consumer Finances (SCF), the Employment Benefit Research Institute data on 401(k) equity allocations (EBRI), Census population and household counts, and Morningstar Direct data, indicate that about 44% of Hawaii households own REIT stock directly and/or through mutual funds or certain retirement accounts (See attached chart comparing REIT ownership by Hawai'i households to that in other states.). There are more than 200 publicly traded REITs, and only about 30 REITs with Hawai'i properties. As a result, a significant portion of REIT ownership most likely relates to REITs with properties outside of Hawai'i.

For example, securities law filings show that Hawaii-based institutional investment managers own tens of millions of dollars' worth of REIT stock. The chilling effect of this measure --which would result in Hawai'i's REIT investment's being taxed differently from REIT investment virtually anywhere else-- would cause such local investors to consider avoiding investment in REITs with Hawai'i interests, resulting in less revenue for the state.

SB 301 SD 1 HD 1's Enactment Would Lose Jobs for Hawai'i Residents

SB 301 SD 1 HD 1 risks significant job loss. Enactment of SB 301 SD 1 HD 1 would potentially result in a reduction of millions of dollars of new REIT investment, a shift in property ownership to tax-exempt owners like pensions and endowments, and loss of revenue and the stability of hundreds of the jobs generated by REITs to the State. These existing and potential jobs belong to real people. Is it fair to risk significant job loss by enacting this proposal?

Enacting this proposal would signal Hawai'i's discouragement of long-term capital investment in the State. REITs provide sorely needed investment capital to Hawai'i. If this measure is passed it is very likely that potential REIT and non-REIT investors, fearing unexpected law changes post-

investment, would choose to deploy their capital elsewhere, Hawai'i would be on the outside looking in.

Hawai'i's significant economic growth over the past several years is, and we hope into the future, will be, a direct result of REIT investment. The popular new addition to Ala Moana Center was made possible by REIT funding. That project alone was estimated to have brought in more than \$146 million in state revenue in 2016. Since completion, the additional retail sales produced some estimated \$33 million in GET revenue for the state, along with 3,000 new jobs.

Hawai'i residents have benefitted from REIT investment, which made possible dining at the Cheesecake Factory at Ka Makana Ali'i or taking their family to Wet'n'Wild or going shopping at Pearlridge, more eating choices and better Waikiki parking opportunities with the re-development of the International Market Place, not to mention the financial benefits to the Queens Health System, which is the landowner.

These jobs and tax revenue would not be here without REIT funding. REIT investment continued during the recession we recently experienced. While regular investors shied away from re-development, REITs continued to build and improve their properties, providing a boost to the State's local economy through needed construction jobs and later retail jobs for the completed projects.

While REITs in Hawai'i have been good for the local economy, they have also supported a wide variety of non-profit organizations providing much-needed services throughout the state. For example, Washington Prime Group's Pearlridge Center has partnered with the Honolulu Chapter of the American Institute of Architects to support the "Canstruction" project. [Over the past 13 years](#), more than 377,042 pounds of food has been raised through this event to help feed the hungry in Hawai'i – providing more than 296,884 meals.

SB 301 SD 1 HD 1 Would Violate Core State Comity Principles

SB 301 SD 1 HD 1 would be contrary to federal income tax rules and the existing laws of virtually every other state with an income-based corporate tax system. Virtually every state with an income-based tax system, including Hawaii currently, allows REITs a deduction for dividends paid. (New Hampshire is the only state with income-based corporate tax that does not permit a DPD. New Hampshire has much less REIT investment than Hawai'i; see attached chart.) Additionally, Hawai'i currently taxes all REIT dividend income received by Hawaii resident shareholders, regardless of where the REIT's real estate is located or the REIT does business.

All other states that impose income taxes also tax the REIT income based on the location of the resident that receives the REIT dividends and not based on the location of the real estate. SB 301 SD 1 HD 1 would eliminate this comity of state taxation principles by unilaterally double taxing REITs (and their shareholders) that do business in Hawai'i. In past years, a number of states such as Idaho, Louisiana, New Jersey, North Carolina, and Rhode Island have examined, and then rejected, the disallowance of a widely-held REIT's DPD.

SB 301 SD 1 HD 1 Would Not Create Parity Between Partnerships/LLCs and REITs

If the legislature wanted to enact true tax conformity between REITs and partnerships, SB 301 SD 1 HD 1 should be broadened to impose on partnerships the same burdens that would apply to REITs, namely that partnerships/LLCs would be required to annually distribute all their earnings to investors and still be subject to an entity-level tax applied on those. Of course, any such effort presumably would be met with fierce resistance from the investment community.

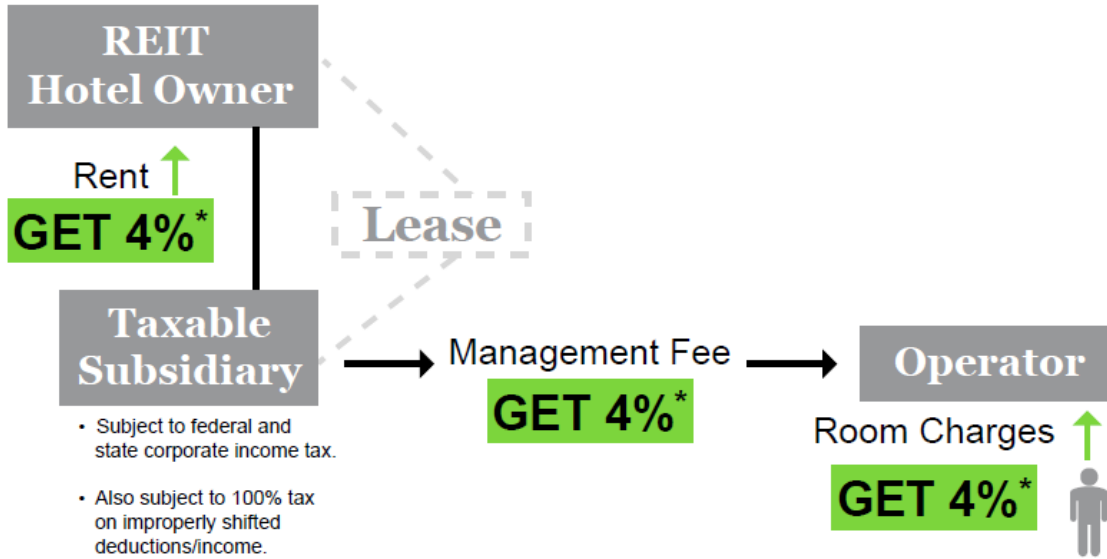
Please Do Not Enact SB 301 SD 1 HD 1

Considering the many problems with the provisions of this measure and the likelihood for real economic harm that could result if it were to pass, the Hawai'i members of Nareit respectfully ask that you hold this bill.

Attachments

REIT-Owned Hotels: Triple General Excise Tax (GET) to Hawai'i

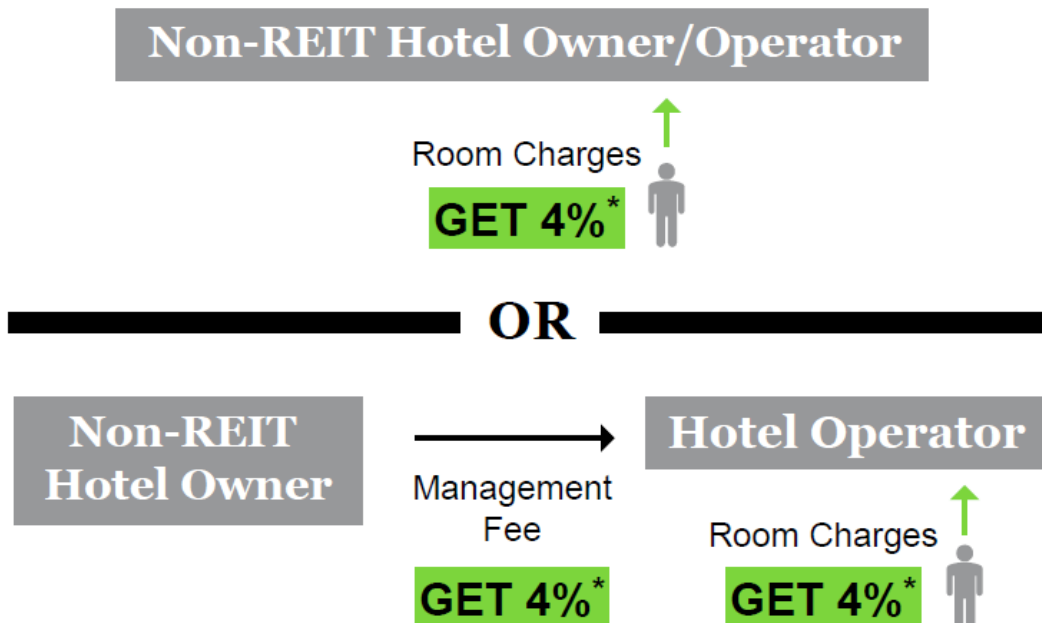
As a REIT, most income must come from "rents," or other passive real estate-related income. Hotel operating income does not qualify; thus hotel REITs must lease their hotels to a taxable company.



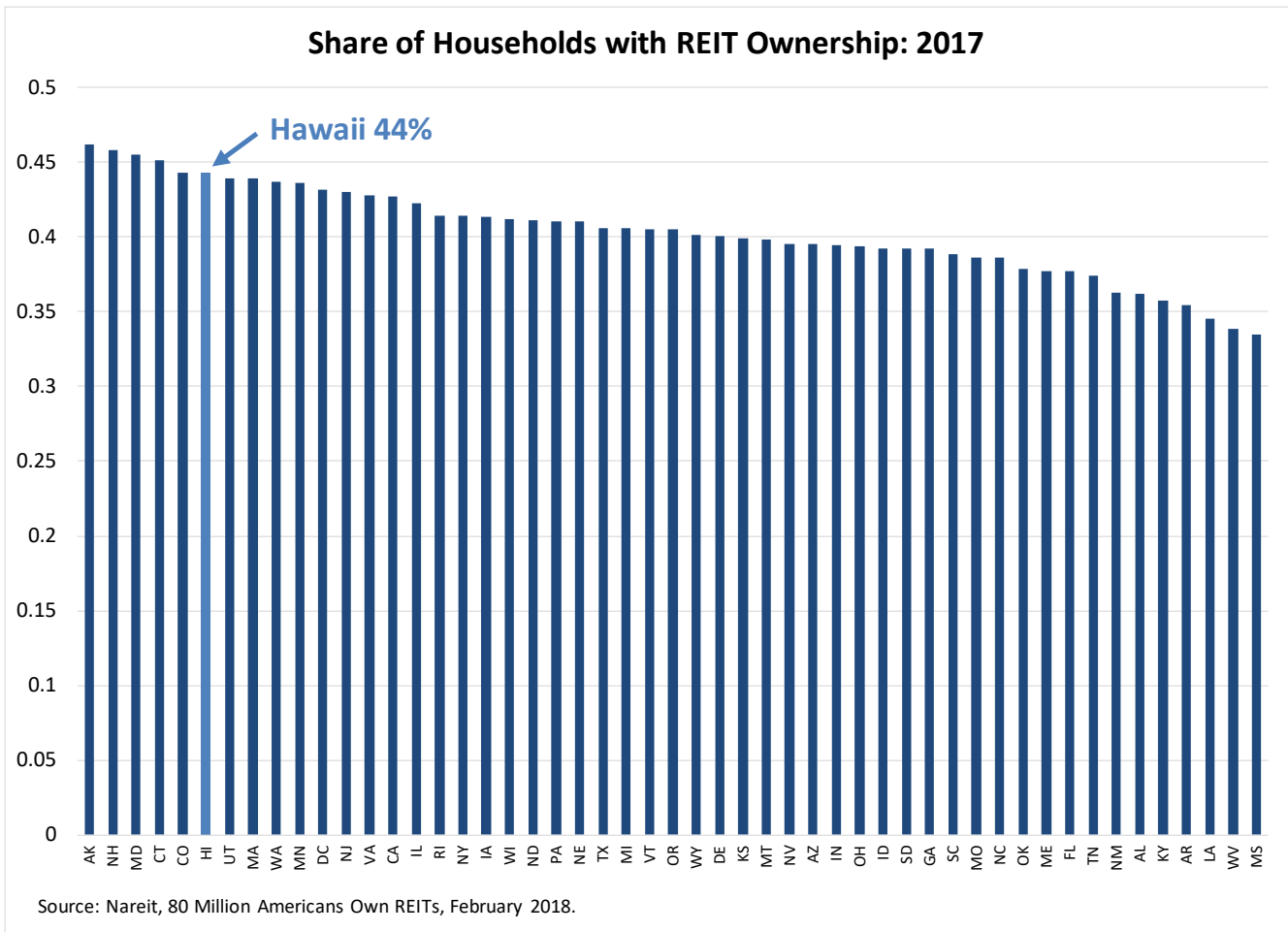
- If hotel REIT leases to a taxable subsidiary, the taxable subsidiary must hire an independent operator to manage the hotel.
- REIT-owned hotels pay GET to Hawai'i three times.
- Non-REIT owned hotels pay GET to Hawai'i only one or two times as seen in the following chart.

Non-REIT Owned Hotels: Single or Double GET to Hawai'i

Non-REIT hotel owners either can 1) own and operate hotels, or 2) own their hotels and hire an operator (e.g., Hilton, Marriott, or Hyatt, etc.) to manage their hotels.

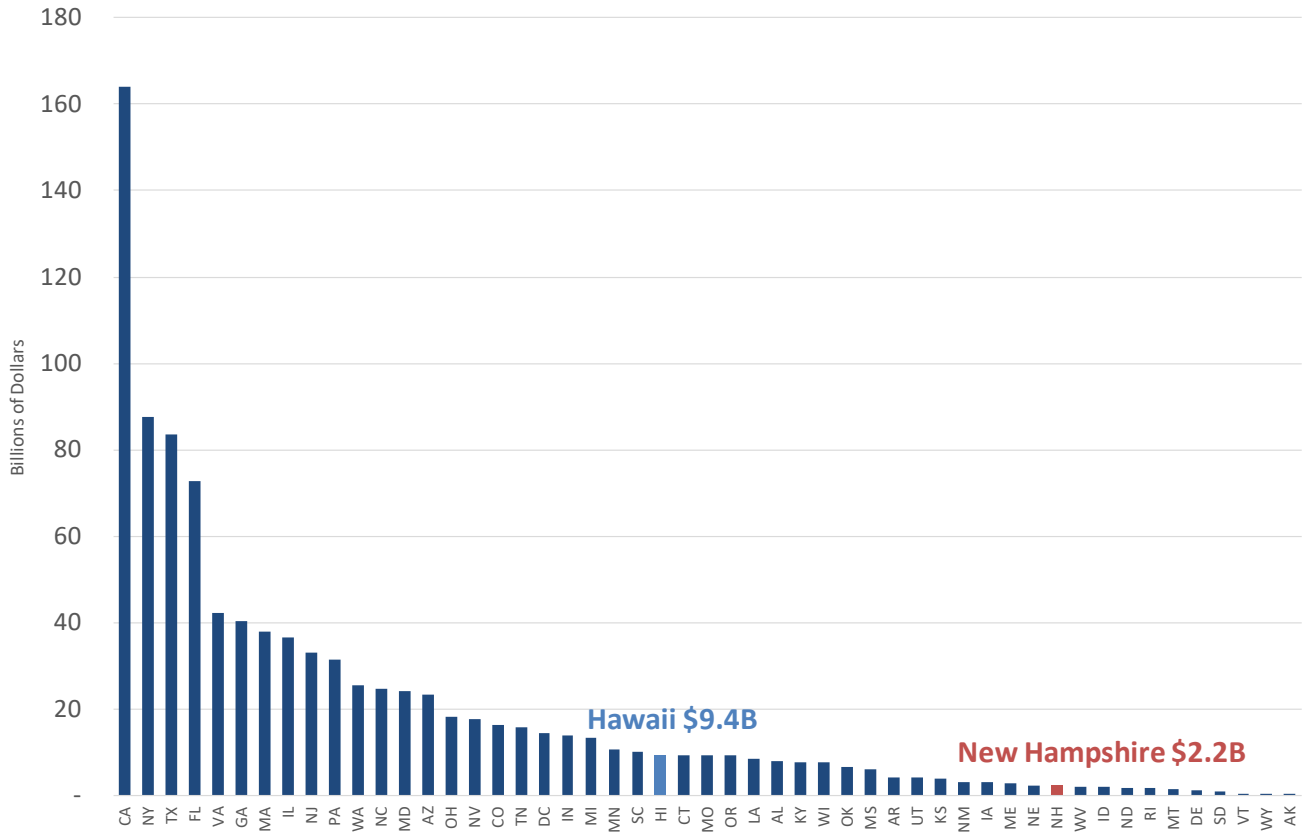


* Minimum



As shown in the above chart, [Nareit analysis of data](#) from 2016 Federal Reserve Board Survey of Consumer Finances (SCF), the Employment Benefit Research Institute data on 401(k) equity allocations (EBRI), Census population and household counts, and Morningstar Direct data, indicate that about 44% of Hawaii households own REIT stock directly and/or through mutual funds or certain retirement accounts.

REIT Property Ownership by State



Source: Nareit analysis of data from S&P Global Market Intelligence. 2017 data. Property value is historic cost.



HAWAII LABORERS-EMPLOYERS COOPERATION AND EDUCATION TRUST
650 Iwilei Road, Suite 285 · Honolulu, HI 96817 · Phone: 808-845-3238 · Fax: 808-845-8300 · URL: hilecet.org

March 28, 2019

**HAWAII STATE HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCE
Honorable Sylvia Luke, Chair
Honorable Ty J.K. Cullen, Vice Chair**

DATE: Friday, March 29, 2019
TIME: 3:30 PM
PLACE: Conference Room 308
State Capitol
415 South Beretania Street

RE: OPPOSED TO SB301 SD1 HD1 - RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

Aloha Chair Luke, Vice Chair Cullen, and members of the Committee on Finance:

The Hawaii Laborers-Employers Cooperation and Education Trust (LECET) is a labor-management partnership between the 5000+ members of the Hawaii Laborers' International Union of North America Local 368 and its 250+ unionized contractors. The Laborers' International Union of North America is the largest construction union in the United States with over 600,000 members.

Hawaii LECET OPPOSES SB301 SD1 HD1, which disallows a dividends-paid deduction for real estate investment trusts ("REITS"). This bill would negatively impact those that invest in real estate through REITS and subject them to a double taxation. Passage of SB301 SD1 HD1 will have the unintended consequence of curtailing development of affordable housing projects such as Moanalua Hillside and Kapolei Lofts, and large-scale development projects such as shopping centers like Kamakana Ali'i, potentially putting \$400 million in investment at risk. Hawaii LECET asks for your consideration and opposition to SB301 SD1 HD1.

With respect,

Hawaii Laborers-Employers Cooperation
and Education Trust

SB-301-HD-1

Submitted on: 3/28/2019 3:00:52 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Joyce Midori Charles	MoveOn.org Honolulu, Faith Action	Support	No

Comments:

Aloha,

I continue to support these bills on behalf of all Hawai'i residents who call this home and continue to pay our fair share of taxes.

Mahalo,

Joyce Charles



March 27, 2019

Representative Sylvia J. Luke, Chair
Representative Ty J.K. Cullen, Vice Chair
House Committee on Finance

Comments and Concerns in Strong Opposition to SB 301, SD1, HD1, Relating to Real Estate Investment Trusts (REITs); Disallows Dividends Paid Deduction; Provides ten percent allocation of revenue from REITs for use by DBEDT; Applies to taxable years beginning after 12.31.2019; Effective 12.31.2112.

Friday, March 29, 2019, 3:30 p.m., in Conference Room 308

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. LURF's mission is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

SB 301, SD1, HD1. The purpose of this bill is to amend subsection (b) of Section 235-2.3, Hawaii Revised Statutes, to deem Internal Revenue Code Section 857(b)(2) (with respect to the dividends paid deduction for real estate investment trusts) inoperative, thereby disallowing the dividend paid deduction for REITs. Should SB 301, SD1, HD1 be adopted, REITs will be taxed on their net income in Hawaii, while REIT shareholders will continue to be taxed on dividend income received, resulting in a double tax.

LURF's Position. LURF acknowledges the intent of this and prior, similar iterations of this measure given what may be perceived to be the potential for tax avoidance and abuse by foreign/mainland corporations and wealthy individuals through real estate ownership arrangements structured through REITs, however, stated justifications for this bill have not, to date, been proved or supported by any credible facts or evidence.

The State's Final Report on the Impact of REITs in Hawaii Has Failed to Validate the Alleged Purpose of and Need for this Proposed Legislation.

Given that an unwarranted change of a universal tax rule in place since 1960 could undoubtedly affect investments made by REITs in Hawaii, significantly reduce the availability of capital in this State, as well as result in other economic repercussions, the

Legislature determined in 2015 that it was necessary and prudent to require support for this type of measure prior to considering its passage. Thus, Act 239, Session Laws of Hawaii 2015, was passed which required the State Department of Business, Economic Development & Tourism (DBEDT) and the State Department of Taxation (DOTAX) to study the impact of REITs in Hawaii, and to present material facts and evidence which could show that such proposed legislation is in fact needed, and whether the State's economy will not be negatively affected because of taking the action proposed.

An interim report was released in December 2015 (the "Interim Report"),¹ followed by a final report issued in September 2016 (the "Final Report"),² however, even the Final Report is based on assumptions and estimates; relies on inconclusive results of surveys admittedly taken with a small sample size and low response rate; and is fraught with uncertainties, inconsistencies and weighting errors, making it unfeasible and ill-advised to rely upon for presenting any conclusive calculations or impacts.

Inquiries which critically must be, yet have not been proficiently or accurately addressed in the Final Report, include the amount of income the State would in fact receive as a result of the proposed legislation,³ especially given the likelihood that REIT investment in Hawaii will in turn decline (i.e., whether the proposed measure is fiscally reasonable and sound); and whether it would be possible to replace the billions of dollars in investments currently being made by REITs should they elect to do business elsewhere if this proposed legislation is passed.

Given the inadequacy, inaccuracy and unreliability of the tenuous findings contained in the Interim and Final Reports, as well as the complete failure of said Reports to come to any meaningful and valid conclusions required to be made pursuant to Act 239, it should be brought to this Committee's attention that another study on the economic impacts of REITs in Hawaii dated December 2015, was prepared by economic expert Paul H. Brewbaker, Ph.D., CBE for the National Association of Real Estate Investment Trusts (the "Brewbaker Study").⁴ The Brewbaker Study concludes that the repeal of the dividend paid deduction (DPD) for REITs in Hawaii would likely result in a net revenue loss to the State due to a number and combination of negative consequences which would be experienced by the local economy.

In view of the inconsistency between findings contained in the Final Report and the Brewbaker Study, LURF believes it would be irresponsible for this Committee to consider, let alone support SB 301, SD1, HD1 which may potentially stifle, if not reverse

¹ Department of Business, Economic Development & Tourism Research and Economic Analysis Division. *Real Estate Investment Trusts in Hawaii: Preliminary Data and Analysis - Interim Report*. December 2015.

² Department of Business, Economic Development & Tourism Research and Economic Analysis Division. *Real Estate Investment Trusts in Hawaii: Analysis and Survey Results*. September 2016.

³ LURF understands that even the State DOTAX does not know how much tax income the government might receive as a result of the proposed legislation.

⁴ Paul H. Brewbaker, Ph.D., CBE. *Economic Impacts of Real Estate Investment Trusts in Hawaii*. December 2015.

the current growth of the State's economy, in reliance solely upon the untenable findings of the Final Report and must respectfully urge this Committee to at the very least, conduct an independent investigation and analysis of all the available facts and information relating to the disallowance of the DPD, and the potential financial and economic consequences thereof, prior to making any decision on this bill.

In view of the inability of the Final Report to conclusively support the validity of this measure, LURF must oppose SB 301, SD1, HD1 based on the following reasons and considerations:

1. The “Double-Tax” Resulting from this Proposed Measure is Contrary to the Underlying Intent of REITs.

REITs are corporations or business trusts which were created by Congress in 1960 to allow small investors, including average, every day citizens, to invest in income-producing real estate. Pursuant to current federal and state income tax laws, REITs are allowed a DPD resulting in the dividend being taxed a single time, at the recipient level, and not to the paying entity. Most other corporations are subject to a double layer of taxation – on the income earned by the corporation and on the dividend income received by the recipient.

Proponents of this measure attempting to eliminate the DPD, however, appear to ignore that the deduction at issue comes at a price. REITs are granted the DPD for good reason - they are required under federal tax law to be widely held and to distribute at least 90% of their taxable income to shareholders,⁵ and must also comply with other requirements imposed to ensure their focus on real estate. In short, REITs earn the DPD as they must comply with asset, income, compliance and distribution requirements not imposed on other real estate companies.

According to the Brewbaker Study, repealing the DPD for REITs would subject Hawaii shareholders to double taxation and may reduce future construction and investment by REITs locally, thereby resulting in revenue loss to the State.⁶ Moreover, replacement investor groups may likely be tax-exempt institutions such as pension plans and foundations which would generate even less in taxes from their real estate investments.⁷

2. SB 301, SD1, HD1 is Contrary to the Tax Treatment of REITs Pursuant to Current Federal Income Tax Rules and Laws of Other States with an Income-Based Tax System.

SB 301, SD1, HD1 would enact serious policy change that would create disparity between current Hawaii, federal, and most other states' laws with respect to the taxation of REIT income.

⁵ The State of Hawaii thus benefits from taxes it collects on dividend distributions made to Hawaii residents.

⁶ *Brewbaker Study* at pp. 1, 32, 38.

⁷ *Id.*

The laws of practically every state with an income-based tax system now allow REITs a deduction for dividends paid to shareholders. Hawaii, as well as other states which impose income taxes currently tax REIT income just once on the shareholder level (not on the entity level), based on the residence of the shareholder that receives the REIT dividends and not on the location of the REIT or its projects.

By now proposing to double tax the REITs that do business in Hawaii as well as their shareholders, SB 301, SD1, HD1 would upset the uniformity of state taxation principles as applied between states. Other states which have similarly explored the possibility of such a double tax over the past years have rejected the disallowance of the DPD for widely held REITs.

3. Hawaii REITs Significantly Contribute to and Benefit the Local Economy.

Elimination of the DPD would result in a double taxation of income for Hawaii REITs which would certainly mitigate, if not extinguish interest and incentive in investing in Hawaii-based REITs, which currently contribute significantly to Hawaii's economy.

Results from the Final Report indicate that even as of September 2016, approximately 42 REITs operating in Hawaii reportedly held assets in the amount of an estimated \$7.8 billion at cost basis⁸, which has resulted in substantial economic activity in local industries including construction, retail, resort, healthcare and personal services, as well as employment for many Hawaii residents, and considerable tax revenues for the state and city governments. Such tax revenues include State General Excise Tax (GET) on rents and retail sale of goods, business income tax on profits made by tenants, income tax from employment of Hawaii residents, and millions of dollars in property taxes.

Proponents of this bill should be mindful that significant economic growth experienced in this State over the past years, and which is expected to continue in the future, is undoubtedly attributable in part to REIT investment in Hawaii. Outrigger Enterprises partnered with REIT American Assets Trust to successfully develop the Waikiki Beach Walk. General Growth' Properties' expansion and renovation of the Ala Moana Shopping Center, as well as its partnering with Honolulu-based, local companies (The MacNaughton Group, The Kobayashi Group and BlackSand Capital) to develop the Park Lane residential condominium project is another example. The capital invested in that project to construct additional retail space and luxury residences reportedly exceed \$1 billion, and the development will have created an estimated 11,600 full- and part-time jobs and over \$146 million of state revenue. Taubman Centers, Inc., another REIT, also partnered with CoastWood Capital Group, LLC to revitalize Waikiki through the redevelopment of the International Market Place at a cost of approximately \$400 million.

⁸ *Final Report* at pages 3, 15-16.

REIT projects have helped to support Hawaii's construction industry immensely⁹ by providing thousands of jobs, and continue to significantly contribute to the local economy through development of more affordable housing (more than 2,000 rental housing units for Hawaii's families, such as the Moanalua Hillside expansion of more affordable housing rentals), student housing near the University of Hawaii, health care facilities, offices, shopping centers (Ala Moana Center addition; Pearlridge Center renovations; Ka Makana Ali'i), and hotels.

Despite claims made by detractors, the multibillion-dollar investments and contributions to Hawaii's economy made by REITs may not be so easily generated through other means or resources. Attracting and obtaining in-state capital for large projects is very difficult. The State should also be concerned with the types of entities willing and able to invest in Hawaii and should be wary of private investors looking only to make quick gains when the market is booming. Because federal regulations preclude REITs from "flipping" properties, REITs are by law, long-term investors which help to stabilize commercial real estate prices, and which are also likely to become a part of the local community.

4. The Disallowance of the DPD Proposed by this Bill will Unfairly Affect REITs and the Small Investors Which Have Already Made Substantial Investments in Hawaii.

Disallowance of the DPD and resulting increased taxation of REITs is expected to reduce investment returns as well as dividend payments to shareholders, which will no doubt have a significant negative effect on future investment by REITs in Hawaii.

Proponents of this bill attempt to minimize the negative consequences of disallowing the DPD by claiming that very few Hawaii taxpayers invest in REITs with property in Hawaii, however, LURF understands that in 2014 over 9,000 Hawaii investors had investments in over 70 public, non-listed REITs and received almost \$30 million in distributions, and that tens of thousands more directly or indirectly own shares in stock exchange-listed REITs.

Supporters of this measure also ignore the fact that tax law changes proposed by SB 301, SD1, HD1 will unfairly impact those publicly traded REITs which have already made substantial investments in Hawaii and have contributed greatly to the State's economy in reliance on the DPD, which, as discussed above, is considered a fundamental principle of taxation applicable to REITs.

If passed, this measure would strongly discourage future investment by REITs in Hawaii, which would ultimately impact jobs, reduce tax revenue and result in significant consequences for the State's future economy.

⁹ In the past five years, REIT-related construction activity alone is estimated to have generated \$3 billion in Hawaii GDP.

Conclusion. LURF's position is that the findings of the Final Report which have not been updated or amended since issuance, have failed to credibly present any material facts or circumstances to prove that this proposed legislation is in fact necessary, or that the State's economy will significantly improve because of taking the action proposed. The intent and application of SB 301, SD1, HD1 thus arguably remain unreasonable, unwarranted, and exceedingly anti-business.

Act 239, SLH 2015 was specifically enacted by the State Legislature to validate the alleged purpose of disallowing the DPD. The results of the Final Report are thus considered vital to confirm the need for this type of measure. Therefore, based on the inability of said Report to convincingly and conclusively determine that the State's economy will be negatively impacted as a result of the action proposed, or that this proposed legislation is otherwise warranted, and given that an unjustifiable change of a universal tax rule in place since 1960 could significantly reduce the availability of capital in this State, as well as result in other negative economic repercussions, LURF must **strongly oppose SB 301, SD1, HD1**, and respectfully requests that this bill be **held in this Committee**.



Park Hotels & Resorts Inc.
Scott Winer, SVP Tax
1775 Tysons Boulevard
7th Floor
Tysons, VA 22102
+1 571 302 5757 Main

WRITTEN TESTIMONY OF

Scott D. Winer
Senior Vice President, Tax
Park Hotels & Resorts Inc.

IN OPPOSITION TO SB 301, SD 1
BEFORE THE HAWAII HOUSE OF REPRESENTATIVES
HEARING ON SB 301, SD 1
MARCH 29, 2019

On behalf of Park Hotels & Resorts Inc. (“PARK”), thank you for this opportunity to provide our testimony on SB 301, SD 1. PARK submits this testimony in **opposition** to SB 301, SD 1.

PARK is a publicly traded lodging real estate investment trust (“REIT”) (NYSE:PK) that owns 51 premium branded hotels and resorts globally. Included within PARK’s portfolio of hotels are (i) the Hilton Hawaiian Village Waikiki Beach Resort located along Oahu’s prestigious Waikiki Beach, and (ii) the Hilton Waikoloa Village located on the Kohala Coast of the Big Island of Hawaii. PARK strives to be the preeminent lodging REIT, focused on consistently delivering superior, risk adjusted returns for shareholders that invest in the hotel sector. PARK, like most REITs, has a long-term investment focus and is committed to creating sustainable value at its properties.

As you know, Congress enacted the REIT legislation in 1960 to allow individual investors the ability to own and benefit from professionally managed, institutional quality, income-producing real estate. As with all REITs, PARK must meet multiple stringent, complex and costly requirements in order to maintain its status as a REIT, including: organizational requirements, asset holding requirements, passive income generation requirements, and importantly REITs must distribute at least 90% of their taxable income annually. These stringent, complex and costly requirements do Not apply to non-REIT real estate owners.

One of these requirements, the passive income generation requirement, separates the federal tax rules for REITs and the rules applicable to non-REITs. Federal tax law dictates that a REIT must earn most of its income from “rents”, and income from operating a hotel is not “rents”. Thus, federal law requires that a lodging REIT lease its hotels to a third party or one or more fully taxable subsidiaries. If leased to a taxable subsidiary (which is the structure used by public REITs), the taxable subsidiary is required to hire an independent operator, like Hilton, to manage the hotel. The rents paid by the taxable subsidiary to the REIT hotel owner and the management fees paid to the independent operator are both subject to Hawaii GET. Thus, hotel REITs are subject to **triple GET taxation**. The over-whelming majority (approx..85%) of the additional GET is a direct result of federal law governing hotel REITs and would not be paid by a typical non-REIT hotel owner.

As described below, Park’s acquisition of the two Hawaii hotels resulted in approximately **\$9.5 million in additional GET being paid to the State of Hawaii annually**.

Further, as REITs are passive real estate companies, they cannot actively trade in real estate properties without being subject to a 100% tax on the gain. In addition, because of the taxable income distribution requirement, REITs are required to continuously access the debt and equity capital markets to obtain capital for maintenance, improvements and growth projects.

By meeting these stringent, costly and complex requirements REITs are allowed to claim a dividend paid deduction (“DPD”) essentially passing through their taxable income to shareholders. SB 301, SD 1 proposes to eliminate the DPD for all REITs operating in Hawaii, effective for taxable years beginning after December 31, 2019.

We believe **the DPD should not be eliminated**. The elimination of the DPD would be inconsistent with federal tax rules and the existing rules of virtually all other states with an income-based tax system and potentially harmful to Hawaii by eliminating the additional GET revenue that is directly attributable to the REIT structure.

We believe that our investment and the investments by other REITs in Hawaii are beneficial to the state and that eliminating the DPD would have the undesirable consequence of discouraging future investment by REITs in Hawaii. We believe the proposed legislation will not increase tax revenue for the state as the cost of doing business in Hawaii will diminish investment returns and result in less investment. Further, elimination of the DPD could result in foundations or pension funds replacing REIT ownership of real property. Foundations and pension funds generally are passive owners that pay no income taxes and do not make the same investments as REITs.

If hotels in Hawaii are held by non-REIT hotel owners, including C corporations and taxable subsidiaries of REITs, the additional GET revenue generated solely as a result of the REIT structure will disappear.

We believe the GET, which is a tax on gross receipts rather than a tax on net income, is a more reliable and steadier source of state revenues than Corporate income tax and SB 301's enactment would threaten this extremely valuable source of revenues to the State.

PARK's two landmark, oceanfront resorts cater to residents from Hawaii and the mainland, and international travelers. PARK's Hawaiian resorts provide significant economic benefit to the State of Hawaii. We have made extensive renovations in excess of ~\$228 million at Hilton Hawaiian Village and Hilton Waikoloa Village, over the last 5 years.

PARK's economic footprint benefits the State of Hawaii in many ways, including:

JOB: PARK's hotels directly employ more than 2,728 employees. The payroll and associated benefits for these direct employees is in excess of \$188,843,121 million annually.

CAPITAL MAINTENANCE: Over the next five years, PARK will likely spend almost \$200 million at Hilton Hawaiian Village and Waikoloa Village on capital maintenance projects.

CAPITAL DEVELOPMENT / IMPROVEMENTS. Given the long-term nature of our investment, PARK is currently analyzing significant development opportunities that will require meaningful capital investment at both resorts. These capital investments which are at various stages of feasibility / underwriting would be **hundreds of millions** of dollars.

HAWAII TAXES GENERATED / PAID BY PARK:

- General Excise and Use Tax - Operations. The tax revenues generated from our operations totaled \$25,238,236 in 2018.
- General Excise Tax – Rent / Management Agreement. As described above as a REIT, unlike other real estate owners, PARK must use a lease structure. As a result, we are required to pay General Excise Tax on the rent paid between our related companies. Effectively a double taxation of the same revenue. This additional GET paid by PARK was \$8,068,335 in 2018 and the additional GET paid by PARK on the management fees paid to our independent operator was \$1,400,294 in 2018.
- Property taxes. Property taxes at PARK's two resorts totaled \$18,378,954 in 2018.

CHARITABLE ENDEAVORS BY PARK and ITS ASSOCIATES in HAWAII:

- PARK associates spend thousands of hours annually volunteering for local events and charities.
- PARK and its associates provide cash and in-kind charitable contributions more than \$600,000 annually.

We believe that PARK's REIT structure and hotel ownership benefits the State of Hawaii and Kama'aina tremendously in a variety of economic and charitable ways.

If adopted, this controversial legislation would (i) put Hawaii at a competitive disadvantage for REIT investment, (ii) penalize Hawaii citizens, including the Hawaii Employer-Union Health Benefits Trust Fund beneficiaries, who invest in REITs by reducing their investment returns, (iii) discourage REITs from investing in Hawaii, (iv) require PARK to reassess the level of future capital invested in Hawaii and our Hawaiian assets, and (v) require Park to address our form of ownership and operation in Hawaii, including implementing one or more appropriate tax planning technique or strategy. Further, this legislation would have a chilling effect on the positive economic and charitable impact PARK provides through its REIT ownership and capital investment in Hawaii.

We thank you again for this opportunity to provide testimony against SB 301, SD 1 and sincerely hope you consider our **strong opposition** to this proposed legislation.

Respectfully submitted,

Scott Winer
Senior Vice President, Tax



March 27, 2019

Rep. Sylvia Luke, Chair
Rep. Ty J.K. Cullen, Vice Chair
House Committee on Finance

Re: Testimony **Opposing** SB 301, SD1, HD1, Relating to the Taxation of Real Estate Investment Trusts; disallows dividends paid deduction for real estate investment trusts.

Dear Chair Luke, Vice Chair Cullen, and Committee Members:

On behalf of Extra Space Storage Inc. (“Extra Space”), thank you for this opportunity to provide our testimony on SB 301, SD1, HD1. Extra Space submits this testimony in **opposition** to this bill.

Extra Space is a publicly traded real estate investment trust (“REIT”) that is the second largest owner and operator of self-storage facilities in the United States. Extra Space owns and/or operates 1,647 self-storage properties in 39 states, which comprise approximately 1.2 million units and approximately 125.7 million square feet of rental storage space. Extra Space owns nine facilities in Hawaii and operates an additional seven self-storage facilities in Hawaii.

REITs produce substantial economic benefits to the State of Hawaii in the form of jobs, general excise tax, and real property taxes. In 2018, Extra Space paid the state more than \$1.1 million of general excise tax and almost \$1.3 million of real estate taxes.

The bill seeks to eliminate the dividends paid deduction (“DPD”) for all REITs operating in Hawaii. One of the many requirements a REIT must satisfy in order to maintain its REIT status is to distribute annually all of its taxable income to their shareholders. The shareholders then report and pay state and federal tax on those dividends. This allows for a single level of taxation at the shareholder level. In this respect, REITs are most comparable to other “pass-through” entities such as S corporations, LLCs, or partnerships, which are not separately subject to entity level income tax in Hawaii.

Enactment of this bill will result in negative consequences to the real estate industry in Hawaii. The bill will impose double taxation on REIT shareholders. This is inconsistent to the accepted federal and state tax treatment of REITs. No other state (other than New Hampshire) disallows the dividends paid deduction. This tax will put REITs at a disadvantage in relation to other “pass-through” entities that hold real estate.



This tax will essentially be passed on to Hawaii residents and businesses in the form of higher rental rates as REITs must now look for ways to offset this increased tax liability. This tax will also discourage future investment by REITs in Hawaii as it will now be more costly to operate in Hawaii as compared to other states.

For the foregoing reasons, Extra Space **opposes** SB 301 SD1, HD1 and asks the committee to not move forward on this or any similar bill.

Thank you for your consideration of our testimony.

Sincerely,

A handwritten signature in black ink, appearing to read "Gwyn McNeal".

Gwyn McNeal
Executive Vice President, Chief Legal Officer

March 29, 2019

The Honorable Sylvia Luke, Chair

House Committee on Finance
State Capitol, Room 308
Honolulu, Hawaii 96813

RE: S.B. 301, SD1, HD1, Relating to Taxation of Real Estate Investment Trusts

HEARING: Friday, March 29, 2019, at 3:30 p.m.

Aloha Chair Luke, Vice Chair Cullen, and Members of the Committee:

I am Ken Hiraki Government Affairs Director, submitting written testimony on behalf of the Hawai'i Association of REALTORS® (“HAR”), the voice of real estate in Hawai'i, and its over 9,500 members. HAR **opposes** S.B. 301, SD1, HD1, which disallows the dividends paid deduction for Real Estate Investment Trusts (“REIT.”) Additionally, 10% of the revenue will be used to fund the Department of Business, Economic Development and Tourism.

In 1960, the United States Congress created REITs to allow all individuals, and not just the wealthy, the opportunity to invest in large-scale diversified portfolios of income producing real estate.

REITs are tied to all aspects of the economy, and have a major economic impact on our state and encompasses a full range of real estate, including:

- Affordable Housing: Waena Apartments and The Lofts at Kapolei
- Student Housing: Hale Mahana Student Housing
- Healthcare Facilities: Hilo Medical Center, Kapiolani and Pali Momi Medical Center
- Retail: Prince Kuhio Plaza, Whaler's Village and Ka Makana Ali'i

REITs bring in investment to help build thriving communities where residents can live, work and play. REITs not only provide a boost to our economy through construction of these projects, but create real job opportunities.

Under this measure, it proposes to remove the income tax deduction for dividends from a REIT, thereby creating a double taxation of income. HAR has concerns that this will become a disincentive to invest in Hawai'i, which would negatively impact the economy.

Mahalo for the opportunity to testify.



March 29, 2019

Honorable Sylvia Luke, Chair
Honorable Ty J.K. Cullen, Vice Chair
Committee on Finance
State Capitol
415 South Beretania Street Room 308
Honolulu, Hawaii 96813

Re: Written Testimony to S.B. 301 SD1 HD1, Relating to Taxation of Real Estate Investment Trusts

Dear Chair Luke, Vice-Chair Cullen, and Committee Members:

My name is Pamela Wilson, and I am the General Manager of Hawaii Real Estate for American Assets Trust (AAT). I am a life-long resident of our Islands. I have worked for American Assets Trust for the past fourteen years and have witnessed the positive impact that they have had on our communities. American Assets Trust is a New York Stock Exchange-listed Real Estate Investment Trust (REIT) engaged in acquiring, improving, developing and managing premier retail, office and residential properties primarily in Hawaii, Southern California, Northern California, Oregon, and Washington State.

S.B. 301 SD1 HD1 seeks to eliminate the dividends paid deduction (or DPD) for all REITs operating in Hawaii.

REITs allow ordinary Americans to invest in real estate. As with all REITs, and unlike other non-REIT property owners, we must satisfy many strict and expensive requirements in order to maintain our REIT status. One of the requirements is to distribute annually all of our taxable income to shareholders in order for all of our earnings to be taxed at the shareholder level. Another requirement is to own properties for the long-term, rather than to develop and sell properties. This bill would penalize not only the REITs themselves, but also Hawaii residents and pension funds who invest in REITs owning Hawaii real estate.

Like most REITs, American Assets Trust is a long-term property investor. AAT owns four properties in Hawaii: The Shops at 2150 Kalakaua; Waikēle Center; Waikiki Beach Walk and the Embassy Suites-Waikiki Beach Walk. We are committed to creating sustainable value at our properties. We have helped to nurture local businesses that provide jobs, increase business activity, and contribute to the state's economy (through generation of additional payroll, general excise, property taxes and income taxes earned by residents employed at these properties). We play a valuable role in support of the local communities. Additionally, the growth in tourism over the last decade is in part a result of the long term capital allocation by REITs to create high quality, world class retail and resort destinations that tourists enjoy and are drawn back to time and time again.

Notably, the REIT business model does not depend on "flipping" properties but on providing sustainable returns to our investors from distributions of current earnings and modest capital appreciation of our stock. Thus, we are incentivized (assuming state law regarding REITs does not change) to continue making additional investments in Hawaii at these properties.

Written Testimony regarding SB Bill 301 SD1 HD1,
March 29, 2019
Page 2

As a REIT that invests in multiple states, a double taxation would make Hawaii less attractive and encourage the placement of investments in other states that do permit the Dividend Paid Deduction (DPD). SB 301 SD1 HD1 would make Hawaii only one of two states that would subject REITs to corporate income taxation, upsetting the uniformity of state taxation principles between all states except New Hampshire, which has about a fourth of REIT investment compared with Hawaii.

I ask that you consider the very real financial contributions and community benefits that REITs bring to our State. I ask that you not be swayed by emotionally based exaggerations of lost revenue. Please hold SB 301 SD1 HD1. Thank you for the opportunity to submit this testimony.

Sincerely,

Pamela R. Wilson

Pamela R. Wilson
General Manager, Hawaii Real Estate
American Assets Trust

March 28, 2019

Hearing Date: March 29, 2019

Time: 3:30 P.M.

Place: Conference Room 308

The Honorable Sylvia Luke, Chair

The Honorable Ty J.K. Cullen, Vice Chair

Committee on Finance

Re: Testimony *Opposing* Repeal of the REIT Dividends Paid Deduction – SB 301 SD1 HD1

Dear Chair Luke, Vice Chair Cullen, and Members of the Committee on Finance:

My name is Lily Yan Hughes and I am the Senior Vice President, Chief Legal Officer and Corporate Secretary of Public Storage. As I have previously testified for other hearings about this and similar bills, Public Storage is *strongly opposed* to SB 301 SD1 HD1 (and related bills such as HB 475).

Public Storage and Hawaii. Public Storage is a real estate investment trust that is the largest owner and operator of self-storage facilities in the United States, with almost 162 million rentable square feet of real estate in 38 states. In the United States we have approximately 2,425 facilities and 1.4 million tenants. We own and operate 11 facilities in Hawaii, 7 of which Public Storage developed, with that construction activity contributing directly to the state's economy. In 2018, the ongoing operation of Public Storage's Hawaii properties generated more than \$30 million of gross revenue and we paid the state about \$1.4 million of general excise tax. For the 2018/2019 fiscal year, we will pay almost \$2.25 million of real estate taxes in Hawaii.

Because we are taxed as a real estate investment trust (REIT), Public Storage is effectively required to distribute all taxable income to our shareholders. The shareholders then report and pay state and federal tax on those dividends. Hawaii benefits from the REIT tax structure because Hawaii shareholders are taxed on *all* of the distributed income they receive from REITs. So, Hawaii shareholders of Public Storage pay Hawaii tax on the full amount of our dividends, not just the very limited portion of those dividends attributable to the 11 properties we have in the state (compared to 2,425 properties across the nation).¹

Proposed Repeal of the Hawaii DPD. The bill would eliminate the “dividends paid deduction” (DPD) for Hawaii income tax purposes for REITs. The DPD is a central feature of the taxation of REITs. REITs get the deduction because they are effectively required to distribute their income to their shareholders, who are currently taxable on those dividends. The income distribution requirement that REITs face makes “pass-through” taxation (*i.e.*, no entity level tax) even more appropriate for REITs than it is with other pass-through entities such as S

¹ We are confident that investors in Hawaii directly and indirectly hold significant PSA shares, but we cannot specifically identify our shareholders in Hawaii. Our common stock is traded publicly on the New York Stock Exchange under the symbol PSA. Publicly traded companies typically cannot specifically identify their shareholders, as most publicly traded stock is held by depositaries in street name. Nareit analysis suggests that about 44% of Hawaii households own REIT stock directly and/or through mutual funds or retirements accounts.

corporations, LLCs or partnerships. Hawaii accords those other entities pass-through treatment even though they are not required to distribute their income to their owners.

Simply a Tax Increase, Causing Double Taxation. The bill would impose new taxes on REITs operating in Hawaii (but not other pass-through entities). Those taxes would be an added cost of doing business in the state, and REITs would be expected to pass the cost along to Hawaii residents using the REITs' properties. The bill also will double tax REIT shareholders, but not owners of other pass-through entities.

Chasing REITs Away, Adverse Ripple Effects. While apparently motivated by a misguided effort to raise added tax revenue, the bill can be expected to have the opposite effect. Although proponents of the bill have offered completely unsupported estimates of annual tax collections of \$60 million or more, Hawaii's Department of Taxation has been reported to say that the bill only would produce collections of about \$2.2 million in its first year with perhaps \$10 million in subsequent years (and that does not take into account Hawaii's possible loss of significant general excise tax collections from hotel REITs that may restructure their operations, or losses of tax due to other structuring that might take place as REITs try to adjust to any new tax). Most importantly, such an anti-business tax would strongly incentivize REITs to reduce or avoid future investment in, and possibly redirect investments away from, Hawaii. That could be expected to have adverse long term effects on the Hawaii economy and the state's tax collections. An economic study prepared for Nareit by Paul H. Brewbaker, PhD., CBE in December 2015 suggested that by repealing the DPD, Hawaii could lose more revenue from foregone economic activity than might be gained in taxes payable by REITs. Another important consideration for maintaining REIT investment is that REITs are structured to hold investments for the long term and become lasting members of the community (not "flipping" properties for quick profits).

Breaking the Mold; Inconsistent with Federal and Other State Treatment. Enactment of SB 301 SD1 HD1 or a similar measure would make REITs separately taxable in Hawaii, imposing a double tax regime that is completely contrary to the accepted federal and state tax treatment of REITs. No state that imposes income tax upon REITs (other than New Hampshire) denies the dividends paid deduction as proposed by SB 301 SD1 HD1. Indeed, over the past decade or so, a number of states (*e.g.*, Idaho, Louisiana, New Jersey, North Carolina, and Rhode Island) have examined, and then rejected, legislation that would have disallowed a widely-held REIT's dividends paid deduction in those states.

Strong Recommendation: Do NOT Move this Bill Forward. As when Hawaii's legislature considered similar proposals in recent years, Hawaii should decline to enact this bill, so that the DPD for widely-held REITs will continue. We respectfully request that you do *not* move forward SB 301 SD1 HD1 or any similar bill.

Sincerely,



Lily Yan Hughes
Senior Vice President, Chief Legal Officer
& Corporate Secretary of Public Storage
lhughes@publicstorage.com
818.244.8080, extension 1537



March 28, 2019

The Honorable Sylvia Luke, Chair
The Honorable. Ty J.K. Cullen, Vice Chair
House Committee on Consumer Protection & Commerce
State Capitol
415 South Beretania Street
Honolulu, HI 96813

RE: SB 301 SD 1 HD 1/Hearing on March 29, 2019

Dear Chair Luke, Vice Chair Cullen and Members of the Committee:

On behalf of Simon Property Group (Simon), thank you for the opportunity to submit this testimony in strong opposition to SB 301 SD 1 HD 1. Simon is a publicly traded real estate investment trust (REIT). We own, develop and manage premier shopping, dining, entertainment and mixed-use destinations, including Waikēle Premium Outlets in Waipahu. As of December 31, 2017, we owned or held an interest in 207 income-producing properties in the United States, which consisted of 107 malls, 68 Premium Outlets, a number of other retail properties in 37 states and Puerto Rico. We also own a number of overseas properties.

SB 301 SD 1 HD 1 would eliminate the REIT dividends paid deduction (DPD), contrary to federal law and the laws of virtually every state with a corporate income tax.

Modeled after mutual funds, Congress created REITs in 1960 to provide a way for ordinary Americans to combine their capital in order to invest in professionally-managed, income producing real estate with a single level of taxation. In the past, such investment was generally limited to wealthy investors through partnerships. Unlike other real estate owners, as a REIT, we must meet strict asset, income, and operational tests to ensure that we are a widely-held, real estate-focused company. Unlike other real estate owners, but like mutual funds, we can't retain our earnings. We must distribute at least 90% of our taxable income to shareholders. If we satisfy this distribution requirement as well as the other REIT rules, we are entitled to claim a DPD. We must pay corporate tax on an income we retain.

Like other REITs, we invest for the long-term. We have owned the Waikēle Premium Outlets since 2004. Since we've owned this property, we have invested over \$95 million to improve the



property. This investment has improved the property's value, allowing it to generate about \$1.4 million annually in property taxes and \$1.5 million annually in general excise taxes.

As a publicly traded REIT that invests in multiple states and throughout the world, we must consider the local business climate as a factor in terms of where to invest, and to continue to invest, capital. Enactment of this bill would lead to double taxation of our shareholders and would make Hawaii a less attractive place to invest, not just for Simon, but for other investors who may view its enactment as meant to discourage future investment, thereby jeopardizing jobs and future revenues in the State. Investments in virtually all other states would not be subject to this second level of tax, so SB 301 SD 1 HD 1 would make it more likely that we would invest outside of Hawaii. Please consider the important contributions that REITs have made in Hawaii. We respectfully ask that you hold SB 301 SD 1 HD 1.

Thank you again for the opportunity to submit this testimony.

Sincerely,

Desiree A. Mosiman

Manager

Waikēle Premium Outlets



March 28, 2019

Honorable Sylvia Luke, Chair
Honorable Ty J.K. Cullen, Vice Chair
Committee on Finance
State Capitol (conference room 308)
415 South Beretania Street
Honolulu, Hawaii 96813

Re: **Testimony in Opposition to Senate Bill No. 301, SD1, HD1 relating to real estate investment trusts**

Dear Chair Luke, Vice-Chair Cullen and Committee Members:

On behalf of Taubman Centers, thank you for the opportunity to provide our testimony in **opposition** to Senate Bill No. 301, SD1, HD1, which is being heard by the Committee on Finance on March 29, 2019 at 3:30 pm. Senate Bill No. 301, SD1, HD1 would disallow the dividend paid deduction for real estate investment trusts ("REITs").

REITs are responsible for a significant amount of economic activity in Hawaii and SB No. 301, SD1, HD1 that increases state income taxation of REITs would be a policy change that could discourage future investment by REITs in Hawaii, stifling the availability of capital and putting Hawaii at a competitive disadvantage versus virtually every other state when trying to attract capital for investment. Because investments by REITs generate so much economic activity and create so many local jobs in the State, disallowing the deduction for dividends paid could not only hurt workers in Hawaii, over the long run, it ultimately may result in less tax revenue for the State as its makes Hawaii unattractive for investment by REITs resulting in less economic activity.

Taubman Centers alone invested over \$475 million for the redevelopment of International Market Place. Our shopping center pays annually over \$1.7 million in general excise tax and over \$3.7 million in property taxes. To date we have paid in total over \$1.5 million in local conveyance taxes. During the development of the center it resulted in employment of an estimated 1,000 construction jobs and after opening it created an estimated 1,600 permanent jobs (including employment by tenants). This generated both general excise tax revenues from construction work and individual income tax revenues from both the construction and permanent jobs. Please see page three for the economic benefits in Hawaii created by the REIT industry as a whole.

Taubman Centers in Hawaii

Taubman Centers is a publicly owned REIT engaged in the ownership, operation, management, development and leasing of 26 regional, super-regional and outlet shopping centers in the U.S. and Asia. We completed construction to redevelop International Market Place in Waikiki, Honolulu in August of 2016 for a total cost of over \$475 million. The construction began in 2014 with Queen Emma Land Company and our partner Coastwood Capital Group. The shopping center offers 86 retailers and 8 restaurants. It is designed to celebrate the rich history of the site and honor Queen Emma's legacy, while adding vitality and appeal to Waikiki for tourists and kama'āina alike. We are very excited about the center and are proud to be a part of the community.

REIT Tax Treatment

We are organized, owned and operated in a manner to qualify as a REIT under the Internal Revenue Code for federal income tax purposes. A REIT is a conduit vehicle designed to allow many small investors to participate in real estate development and ownership. REITs are also owned by institutions comprised of state and local pension funds and 401K individual retirement plans. Some of the requirements to qualify as a REIT include (1) ownership by at least 100 shareholders, (2) a prohibition on being closely held and controlled by limiting ownership by five or fewer persons to no more than a 50% interest in the REIT, (3) meeting certain asset and income tests to ensure we are primarily invested in real estate and operate it for rental purposes as a long term investor, and (4) paying out all of our taxable income as cash dividends to our shareholders which is not required by most other entity forms such as partnerships, LLCs and other corporations. Failure to meet these requirements results in losing our REIT tax status or in some circumstances harsh penalties like a prohibited transaction tax for not holding property as a long term investor in a rental real estate business. For meeting these stringent tests, Taubman Centers, like all REITs, is entitled to a deduction for dividends paid to our shareholders to reduce our taxable income. It is this deduction afforded in the federal tax law and permitted by virtually all other states that Senate Bill No. 301, SD1, HD1 would eliminate and disallow for Hawaii corporate income taxation.

Because of the forced dividend requirement to distribute all of its taxable income, a REIT's taxable income is effectively taxed at the shareholder level by the state taxing the shareholder's dividend income in their state of residence. This allows for a single level of taxation at the shareholder level and no double taxation (i.e., it prevents taxation at both the entity level and again at the shareholder level) and is consistent with the treatment of investors in mutual funds that are

treated as regulated investment companies for tax purposes. For REITs, state income taxation based on the shareholder's residence is the uniform tax treatment in virtually all states that impose an income based tax system. This results in state income taxation by Hawaii on dividends received by Hawaii residents who are shareholders in REITs that may own property and operations outside of the State.¹

REIT Economic Benefits in Hawaii

Approximately 80 REITs have invested in commercial real estate in Hawaii and are responsible for significant economic activity in the construction industry, resort industry, restaurant and retail industry, office and industrial leasing and others.² Taubman alone invested over \$475 million for the redevelopment of International Market Place. In addition, it will continue to require investment to fund significant capital expenditures on a recurring annual basis to maintain the property to our standards and provide the highest quality shopping destination for our shoppers and tenants.

Such business activity generates substantial economic benefit for Hawaii, including providing jobs, as well as significant tax revenues for the State government. The tax revenues include substantial general excise taxes on rents from tenants, on the sale of goods and services at retail by the tenants, and on construction activities. For local governments the business activity generates property and conveyance taxes.

In year 2015 REITs were associated with more than 11,700 jobs representing labor earnings of nearly \$500 million and \$95 million in tax revenue in Hawaii. And in the past five years REIT funded construction activity is estimated to have generated \$3 billion in Hawaii GDP.³

¹ More than 9,300 individual investors in Hawaii receive \$30 million in dividend each year
Brewbaker, P.H., Ph.D., CBE. (2015, December). *Economic Impacts of Real Estate Investment Trusts in Hawaii*
(Prepared for the National Association of Real Estate Investment Trusts® (NAREIT))

² Brewbaker, P.H., Ph.D., CBE. (2015, December). *Economic Impacts of Real Estate Investment Trusts in Hawaii*
(Prepared for the National Association of Real Estate Investment Trusts® (NAREIT))

³ *ibid*

Hawaii residents own an estimated \$2.5 billion in real estate equity through REITs, mutual funds and exchange traded funds that distribute more than \$105 million in REIT dividends annually. Approximately 9,300 individual investors in Hawaii receive \$30 million each year in REIT distributions.⁴ Senate Bill No. 301, SD1, HD1 resulting in double taxation to REIT profits (once at the REIT level and again at the shareholder level) will affect after tax return on investment of Hawaii residents.

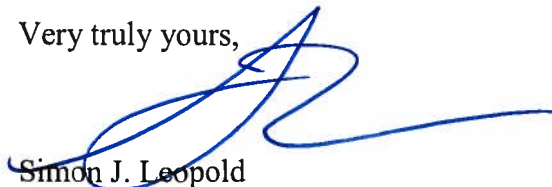
For more information about REITs in Hawaii please visit www.thereitwayhawaii.com.

As previously mentioned, such a policy change in state taxation of REITs could discourage future investment by REITs in Hawaii, stifling the availability of capital and putting Hawaii at a competitive disadvantage versus virtually every other state when trying to attract capital for investment. Because investments by REITs generate so much economic activity and create so many local jobs in the State, disallowing the deduction for dividends paid could not only hurt workers in Hawaii, over the long run, it ultimately may result in less tax revenue for the State as its makes Hawaii unattractive for investment by REITs resulting in less economic activity.

For the foregoing reasons, we respectfully ask the Committee on Finance to hold Senate Bill 301, SD1, HD1.

Thank you for your consideration of our testimony.

Very truly yours,



Simon J. Leopold
Executive Vice President, Chief Financial
Officer and Treasurer
Taubman Centers, Inc

⁴ ibid



OPSEU Pension Trust

Fiducie du régime de
retraite du SEFPO

March 28, 2019

The Honorable Sylvia Luke, Chair and Committee Members
Committee on Finance
Hawaii State Capitol, Rm. 308
Honolulu,
HI 96813

Dear Chair Luke and Committee Members:

RE: SB 301 SD1 HD1 Relating to Taxation of Real Estate Investment Trusts

My name is Andrew Alcock, Director, Real Estate Investments, OPTrust, testifying in strong opposition to SB 301 SD1 HD1 Relating to Taxation of Real Estate Investment Trusts. OPTrust is one of Canada's largest pension funds, with net assets of over \$20 billion CAD. The trust administers a defined benefit plan with almost 92,000 members and retirees.

OPTrust partnered with DeBartolo Development ("DeBartolo") to develop the Ka Makana Ali'i center in Kapolei. DeBartolo's vision and partnership with the Department of Hawaiian Home Lands ("DHHL") were important factors in OPTrust's decision to invest in Hawaii. One of the deciding factors in OPTrust making its investment in Ka Makana Ali'i, was the sound investment policies of both the State of Hawaii and its partnership with private developers like DeBartolo. OPTrust invests across the globe. Many of those investments are made through REIT structures, which provide a dividend exemption by law. By way of example, there is only one State in the United States of America (New Hampshire) which does not permit the REIT dividend deduction. The ability to invest in Ka Makana Ali'i through a REIT structure was paramount to OPTrust's decision to invest in Hawaii.

REIT's provide a way to finance projects that local investors or the State of Hawaii would not be able to provide. Disallowing the dividends paid deduction for REIT's will result in the double taxation on REIT income and will place Hawaii at a disadvantage compared to others states when it comes to attracting investor capital. Disallowing the deduction would prevent numerous investors from investing in the State of Hawaii, resulting in far fewer development projects and less low-income housing. Should SD 301 SD1 HD1 be passed, it would no longer be efficient for OPTrust to make investments in the State of Hawaii, including Phase 2 of the Ka Makana Ali'i project. As a result, OPTrust would be forced to direct its invest capital elsewhere. Unfortunately, we also understand and recognize that any changes in the law will have a very undesirable effect on DHHL.

{00367631.3}

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We urge you to strongly oppose SB301 SD1 HD1, so that projects such as Ka Makana Ali'i can continue to be built and enhance Hawaii's economic growth.

Thank you for this opportunity to testify.

Yours truly,

A handwritten signature in black ink, appearing to read "A. Alcock", with a long horizontal flourish extending to the right.

Andrew Alcock
OPTrust



ALEXANDER & BALDWIN
PARTNERS FOR HAWAII

**SB 301 HD1
RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS**

**PAUL T. OSHIRO
DIRECTOR – GOVERNMENT AFFAIRS
ALEXANDER & BALDWIN, INC.**

MARCH 29, 2019

Chair Luke and Members of the House Committee on Finance:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin (A&B) on SB 301 HD1, “A BILL FOR AN ACT RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS.” We respectfully oppose this bill.

While A&B has always been a Hawaii-based company, in 2012, A&B made a strategic decision to migrate its mainland investments back to Hawaii. Since then, A&B has sold all of its mainland properties and has reinvested the proceeds back in Hawaii—acquiring properties including the Kailua Town commercial center, Manoa Marketplace, Waianae Mall, Laulani Village (Ewa Beach), Puunene Shopping Center (Maui), and Hokulei Village (Kauai). In 2017, A&B then made the decision to convert to a real estate investment trust (REIT) to better support our Hawaii-focused strategy and increase our ability to invest in Hawaii, in an increasingly competitive environment. A REIT structure enables A&B to attract new investors to its stock, giving us capital to invest in our Hawaii-focused strategy, and puts us in a better position to compete with large, out-of-state investors, with greater sources of capital, for the acquisition of Hawaii properties, thus keeping them in locally-owned hands, with a management team that lives here and is

committed to Hawaii. Furthermore, REITs are structured to be long-term holders of real estate, thus complementary to A&B's goal of being Partners for Hawaii, with a long-term presence in our communities.

Real estate investment trusts were established by Congress in 1960 to enable all sizes of investors to invest in real estate. REITs generally own, operate, and finance income-producing commercial real estate such as shopping malls, hotels, self-storage facilities, theme parks, and apartment, office, and industrial buildings. Unlike other corporations, REITs must meet several restrictive regulatory requirements which includes a requirement under Federal Law to distribute at least 90% of its taxable income to its shareholders as dividends. At present, all states except for one (New Hampshire) allow REITs to pass through the dividends to its shareholders without the imposition of a corporate tax, as the individual shareholders will pay the tax on these dividends in their home state of residence.

The purpose of this bill is to repeal the dividend paid deduction for real estate investment trusts. Repeal of the dividend paid deduction will result in the double taxation of shareholder dividends for REIT properties situated in Hawaii. The passage of this bill will essentially result in Hawaii REITs distributing, as mandated by Federal Law, at least 90% of their taxable income to shareholders however, unlike the other states, the REIT will pay Hawaii corporate income tax prior to making the dividend distribution to its shareholders, thus reducing the amount of dividends shareholders will receive. In addition, shareholders of Hawaii REIT properties will also be responsible to pay income tax in their home state on the distributed dividends—a second tax on the same profits.

Greater Overall Impact On Hawaii Focused REITs

It is envisioned that the repeal of the dividend paid deduction in Hawaii will have a greater overall impact on locally focused REITs that have a large percentage of their commercial holdings in Hawaii --such as A&B--as opposed to out of state entities that only have a few holdings in Hawaii and a number of properties in other states. If Hawaii becomes only the second state (along with New Hampshire) to double tax mandatory REIT dividends to shareholders, investors may prefer investing in non-Hawaii focused entities rather than investing in a REIT focused in one of only two states which double taxes dividends which must be paid to shareholders. Hawaii focused REITs such as A&B will be at a competitive disadvantage in attracting additional investors to support continued investment in Hawaii based properties.

Overall Impact On Hawaii's Economy

Today, every state except for New Hampshire that imposes a corporate net income tax allows the dividend paid deduction for REITs. Should the dividend paid deduction be repealed in Hawaii, REITs may be compelled to relocate their operations elsewhere or lessen their business activity in Hawaii. When combined with the direct reduction in general excise and income taxes from diminished REIT related construction, fewer jobs, and the reduction in business and individual income taxes because of the direct and indirect impacts of lower REIT related activity, the impact that this bill will have on State tax revenues is very unclear as this bill will likely have a significant negative impact to the state's overall economy.

REITs provide a much-needed source of outside capital for Hawaii. Very few individual investors and a fairly small number of corporate players in Hawaii have capital market access equivalent to what is enabled by REITs. REITs are not limited to raising capital from one geographical area or from one type of investor, but generally seek investments from around the world. A REIT's ability to access and raise capital with equity offerings in the public markets to make these types of real estate investments in Hawaii and other states make it a unique investment vehicle and a major advantage over privately held real estate with a limited amount of investors.

In addition, if the DPD is repealed in Hawaii, REITs operating in Hawaii will likely pursue options to minimize their tax liability via tax deductions, tax credits, and other tax adjustments. Coupled with the likely reduction in general excise and income taxes mentioned before, the anticipated increase in State tax revenue as a result of the DPD repeal is very unclear, and may not meet initial projections.

Based on the aforementioned, we respectfully request that this bill be held in Committee. Thank you for the opportunity to testify.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Friday, March 29, 2019 at 3:30 P.M.
Conference Room 308, State Capitol**

RE: SB 301 SD1 HD1, RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

Chair Luke, Vice Chair Cullen, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **does not support** SB 301 SD1 HD1, which disallows dividends paid deduction for real estate investment trusts and applies to taxable years beginning after December 31, 2019. This bill would also provide a ten percent allocation of revenue from real estate investment trusts for use by DBEDT.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

This legislation would make Hawaii only the second state to break with federal tax laws that allow real estate investment trusts, or REITs, to take corporate tax deductions for the dividends they pay to shareholders. By law, REITs must distribute at least 90 percent of their income to shareholders and are required to pay corporate tax on any income not distributed.

Hawaii businesses already pay many taxes, and this bill represents yet another tax increase on our business community. REITs invest in many important local projects that would not be able to secure funding otherwise. For example, before American Assets Trust became a partner in the Waikiki Beach Walk, the property owner was not able to secure funding locally.

Additionally, REITs are also long-term property owners. They do not flip properties, which keeps our commercial real estate prices down and adds stability to the market. An increase in taxes on these companies, who owns the commercial space, would likely be passed down to the hundreds of businesses that hold leases in their buildings. As a result, these businesses would have to pass the increased cost of operating onto their customers. In other words, this measure could have a ripple effect that affects not just REITs, but also their tenants and consumers.



Chamber *of* Commerce HAWAII

The Voice of Business

Finally, like any business, REITs are going to be making their decisions based on where it will be able to generate the best return on investment. By increasing the costs to doing business in Hawaii, and diminishing the return on investment, REITs are going to look to other states to fund future projects.

In consideration of these concerns, we respectfully urge you to defer SB 301 SD1 HD1. Thank you for the opportunity to testify.



March 28, 2019

Hearing Date: March 29, 2019
Time: 3:30 p.m.
Place: State Capitol, Conference Room 308

Rep. Sylvia Luke, Chair
Rep. Ty J.K. Cullen, Vice Chair
Committee on Finance
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Testimony in Opposition to Senate Bill No. 301, SD 1, HD1 (HSCR 1597)

Dear Chair Luke, Vice-Chair Cullen and Committee Members:

The intent of this Senate Bill 301 to disallow the dividends paid deduction will subject REIT investment in Hawaii to double taxation, contrary to the taxation of REITs nationwide. We cannot support this measure, as we believe this is not the appropriate legislative path to take with respect to REITs. We are Francis Cofran, the Senior General Manager of Ala Moana Center, the largest retail center in the state of Hawaii, and Jared Chupaila, EVP, Chief Operating Officer of Brookfield Properties, an owner of Ala Moana Center.

Brookfield Property REIT (formerly GGP) is an affiliate of Brookfield Asset Management. Brookfield Properties' retail group has an extensive portfolio of mall properties encompassing 161 locations across 42 U.S. states. Brookfield Properties strives to provide premier quality and optimal outcomes for our tenants, business partners and the communities in which we do business. Brookfield Properties continues GGP's legacy of being a part of the economic fabric of Hawaii for more than 30 years (since 1987) – managing, owning and reinvesting in its Hawaii real estate assets as part of a long-term commitment that provides economic stability, growth, and jobs through all economic cycles.

Brookfield Properties operates the Prince Kuhio Plaza in Hilo and Whalers Village in Lahaina, in addition to Ala Moana Center. Ala Moana and Whalers Village are iconic visitor attractions that help sustain Hawaii's important tourism industry. In addition to their important role in tourism, all three centers directly benefit the state and local economy through the Hawaii general excise tax.

ALA MOANA CENTER

1450 Ala Moana Blvd, Suite 1290, Honolulu, HI, 96814

T +1 808 946 2811 F +1 808 955 2193 BrookfieldPropertiesRetail.com

Our properties are also key gathering places for our local communities. Ala Moana Center is home to more than 350 stores and restaurants – and has long been one of Hawaii’s most frequented destinations for shopping, dining and entertainment. As we embark on our 60th year as the community’s premier gathering place, we are proud to offer everything from office space to services such as Satellite City Hall, dry cleaning, and postal services; more than 100 food and beverage destinations, from full-service restaurants to quick-service food courts; discount tenants like Ross and Old Navy; health clubs; grocery and drug stores; luxury tenants; and the anchor department stores. Over the years, we have introduced many first-to-market retailers. More than 190 companies and service providers (doctors, dentists, attorneys, and more) occupy our two Ala Moana office towers. Of these tenants, approximately 80 percent are locally owned and cater mostly to residents.

Efficient REIT capital allows us to continually reinvest in and enhance the customer experience. We are supportive and proud of the activities that take place at the new Center Stage, our sponsorship of the Fourth of July fireworks celebration and our enhancements at Whaler’s Village. Efficient REIT capital also allows us to implement infrastructure and other improvements which bear fruit in projects such as Foodland Farms at Ala Moana Center, and the new Lanai food court, which opened last year.

If Hawaii enacts this legislation, it will be out of step with all other states with respect to the dividends paid deduction for REITs (with the exception of New Hampshire, where we believe REIT investment has been inhibited). To deviate from the national legislative norm is not good policy.

The deduction for dividends paid by REITs results in a single level of taxation at the shareholder level which is consistent with how limited liability companies, Subchapter S corporations and partnerships that own real estate are taxed. Changing this would put REITs at a disadvantage in relation to these other forms of doing business.

REITs produce substantial economic benefits to the State of Hawaii in the form of jobs, general excise tax, income tax from persons working or engaging in business at REIT properties, and real property taxes. Brookfield’s three Hawaii properties annually pay more than \$32 million in real property and general excise taxes – metrics that clearly demonstrate that REITs are investing in the economic well-being of the state and its residents.

From 2012 to 2016, Brookfield Property REIT invested almost \$1 billion in capital to construct additional retail square footage and residential condominiums based on the existing Hawaii tax regime. During the construction period, we estimated economic activity of 11,600 full- and part-time jobs and over \$146 million of state revenue including indirect community benefits. Post-construction, the additional retail will produce an incremental \$33 million of state revenue and 3,000 jobs annually.

Enactment of this bill will lessen the attractiveness of investing in Hawaii relative to the rest of the United States and could lead REITs to reconsider future expansion activities in Hawaii.

ALA MOANA CENTER

1450 Ala Moana Blvd, Suite 1290, Honolulu, HI, 96814

T +1 808 946 2811 F +1 808 955 2193 BrookfieldPropertiesRetail.com

In September 2016, a Department of Business, Economic Development & Tourism ("DBEDT") study on REITs in Hawaii noted that revenue estimates from disallowing the dividends paid deduction did not account for changes in behavior, including the likelihood of reduced future REIT investment, if there are additional impediments to REIT or shareholder returns. The Department of Taxation in recent hearings has told legislators this is not a large income source. Proponents of this measure are not addressing the very real likelihood of revenue loss to the State resulting from either possible restructuring to minimize GET or future reduced REIT investment.

Please do not allow the perception of a revenue increase override the long-term economic benefits that REIT investment under the existing tax regime brings to the state of Hawaii and its residents. For the foregoing reasons, we respectfully oppose Senate Bill No. 301, SD1, HD1 and urge you to not let it move forward. Thank you for your consideration.

Sincerely,

Francis Cofran
Senior General Manager

A handwritten signature in black ink, appearing to read "J. Chupaila".

Jared Chupaila
EVP, Chief Operating Officer



Douglas Emmett Management, LLC
1299 Ocean Avenue, Suite 1000, Santa Monica, California 90401
Telephone 310.255.7700

March 27, 2019

Representative Sylvia Luke, Chair
Representative Ty Cullen, Vice Chair
House Committee on Finance

RE: SB 301 SD1 HD1 Relating to Taxation of Real Estate Investment Trusts – In Opposition
Friday, March 29, 2019; 3:30 PM; Conference room 308; Agenda #3

Aloha Chair Luke, Vice Chair Cullen and Members of the Committee:

On behalf of Douglas Emmett, Inc. (“Douglas Emmett”), we appreciate this opportunity to present testimony expressing concerns on SB 301 SD1 HD1, which disallows a dividends-paid deduction for real estate investment trusts (“REITs”).

Douglas Emmett has been investing in Oahu for over fifteen years. We currently own approximately 1,800 workforce rental apartment units and have almost completed new construction of 475 workforce rental units at the Moanalua Hillside Apartments. We also own three large office properties in downtown Honolulu, including Bishop Square, Bishop Place and Harbor Court.

On February 12th, we announced plans to invest between \$80 million and \$100 million to convert our 1132 Bishop Street office tower to approximately 500 workforce apartment units. The first units should come online in 2020 with rents targeted to serve local families in the 80% to 120% Average Median Income range. We are proceeding on the conversion to workforce housing without the benefit of any taxpayer subsidies such as real estate tax or excise tax forbearance. In addition to meeting the critical need for workforce housing, the project will provide construction jobs, generate excise taxes of approximately \$4 million to \$5 million on the investment and produce additional annual excise taxes of hundreds of thousands of dollars.

Douglas Emmett has been an active member of the local communities, most recently sponsoring the Prince Lot Hula Festival, which is organized by the Moanalua Gardens Foundation, and Bishop Museum’s Annual Dinner. We are also large regular donors to the Boys & Girls Club of Hawai’i, and were one of the largest donors to The Shelter (First Assembly’s initiative to provide transitional housing to homeless people that looks like igloos). Our CEO, an active environmentalist, also co-founded Waiwai Ola Waterkeepers Hawai’ian Islands.

SB 301 SD1 HD1 will unfairly negatively impact those that invest in real estate through REITs, including Hawai’i residents and Hawai’i pension funds, because they will be subject to double

Representative Sylvia Luke, Chair
Representative Ty Cullen, Vice Chair
House Committee on Finance
March 27, 2019
Page 2

taxation (the REIT will pay tax on its income and then the individual will pay tax again on his or her distributions from the REIT).

With the exception of corporations, most companies and partnerships are subject to a single tax. Historically, real estate was held in one of these single tax entities and was owned by a small number of wealthy individuals. Larger properties were owned by tax exempt entities.

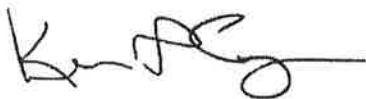
REITs were introduced to create a single tax structure for individuals to invest in real estate in order to “level the playing field” for small investors. Anyone can now buy a share of Douglas Emmett and own a “piece” of the REIT’s buildings. Those individuals are treated similarly to other institutional investors and wealthy individuals who invest through partnerships and limited liability companies (which do not subject them to “double tax”).

Although the dividends are deducted at the REIT level to avoid double taxation, REITs – just like any other property owner in Hawai’i – are required to pay all other taxes associated with their real estate holdings, including real property taxes, occupancy taxes, and general excise taxes.

By imposing a double tax on REITs, Hawai’i will be at a competitive disadvantage compared to other states for one of the best sources of capital to build workforce housing and improve our communities. Over time, REITs would likely cease making new investments into Hawai’i. New jobs would not be created. Additional excise taxes and real property taxes would not be generated. The real estate would transfer back to single tax entities that are dominated by tax exempt entities with large sums to make direct investments, such as endowments, foundations and pension funds. These investors pay no state income tax.

As a stakeholder in Hawai’i, Douglas Emmett believes SB 301 SD1 HD1 will eliminate an important source of capital that generates substantial local economic activity. Inasmuch as SB 301 SD1 HD1 appears to be outside of the best interest of the residents of Hawai’i and the objectives of the State to encourage the investment into, and growth of, Hawai’i’s economy, we respectfully ask that you defer SB 301 SD1 HD1.

Respectfully,



Kevin Crummy
Chief Investment Officer



Michele Aronson
Senior Vice President

Testimony of
Christopher Delaunay, Government Relations Manager
Pacific Resource Partnership

House Committee on Finance
The Honorable Sylvia Luke, Chair
The Honorable Ty J.K. Cullen, Vice Chair

SB 301 SD1, HD1—Relating to Taxation of Real Estate Investment Trusts

Friday, March 29, 2019
3:30 P.M.
Conference Room 308

Aloha Chair Luke, Vice Chair Cullen, and Members of the Committee:

Pacific Resource Partnership (PRP) respectfully **opposes** SB 301, SD1, HD1 Relating to Taxation of Real Estate Investment Trusts, which would disallow the dividends paid deduction (DPD) for REITs.

REITs invest in long-term projects that help communities grow, which includes workforce rental housing, medical facilities, shopping centers and commercial buildings, which serve the public for generations.

These REIT projects directly impact Hawaii's construction industry, which relies on the jobs REITs create when they purchase, develop and maintain their properties. REITs have access to global capital markets, which provides them with funding to support investment in Hawaii. This is especially important when the state's economy is in a recession. Because REITs invest continuously, even during recessions, this has kept thousands of Hawaii construction workers employed and local contractors in business during slow economic times. For example, the REIT-funded expansion of Ala Moana Center alone created an estimated 11,600 construction jobs.

Repealing the DPD could halt REIT investment on new construction and/or renovation work. Companies, including REITs, re-think their business plans when taxes increase. They may shift investment to other states that bring a better return on their money. That means REITs would spend less money to improve and maintain Hawaii properties as world-class destinations, which means less money being funneled into Hawaii's construction and travel industries.

Hawaii has been fortunate that REIT investment has brought capital into the state to move projects forward that otherwise have lagged for many years, such as Waikiki Beach Walk. If this proposed legislation were to pass, it would strongly discourage future investment by REITs in these kinds of projects in Hawaii.

This would ultimately affect employment, reduce tax revenue and have very significant consequences for future development. For the reasons mentioned above, we respectfully request that you hold SB301, SD1, HD1. Thank you for the opportunity to submit written testimony on this important issue.





March 11, 2018

Rep Sylvia Luke, Chair, House Committee on Finance
Senator Donovan Dela Cruz
Senator Gilbert Keith-Agaran
Senate Committee on Ways and Means

Re: Support for SB 301 & HB475, Relating to Taxation of Real Estate Investment Trusts

Dear Senators Luke, Dela Cruz, Agaran and Members of the Committees:

As a long time business person and taxpayer concerned about Hawaii's economy and long-term community development, I strongly support SB 301, Relating to Taxation of Real Estate Investment Trusts.

These bills correct a glaring loophole in our state income tax law that allow mainland companies operating profitably as REITs in Hawaii to take their profits out of our state without paying income tax like the rest of us. This results in a loss of \$30 to \$60 million annually to the state. These funds are desperately needed to support the costs of education, social services, and other state commitments, which continue to struggle. These REITs use and benefit from Hawaii's roads, infrastructure, social services, labor force and other benefits paid for by taxpayers, yet they contribute nothing via income tax to help pay for it.

There is more REIT-owned property in Hawaii per capita than any other state in the nation. And with our attractive real estate market, this will only increase in the future to further deplete our tax base. Ala Moana Shopping Center, Pearlridge Shopping Center, Hilton Hawaiian Village, International Marketplace, plus hundreds of other properties owned by mainland companies operate here without paying any income tax. This loophole must be closed so that REITs are taxed the same way as other real estate investors.

These bills are about basic fairness: These REITs use our taxpayer funded facilities, but don't pay income tax like the rest of us. That hurts Hawaii residents and voters.

For these reasons, I urge the committee to pass SB 301 related to the taxation of REITs. Thank you for the opportunity to testify.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry Gilbert".

Larry Gilbert
Manager, Kairos Energy Capital LLC



Rep Roy Takumi, Chair, Consumer Protection and Commerce
Rep Angus McKelvey, Chair, Economic Development & Business
Rep Sylvia Luke, Chair, House Committee on Finance
Sen Donovan Dela Cruz, Chair, Ways And Means

March 11, 2019

**SUBJ: Support for HB 475 and SB301
Relating to Taxation of Real Estate Investment Trusts**

Dear Lawmakers:

As a business person concerned about Hawaii's economy and long-term community development, I strongly support HB 475 and SB301, Relating to Taxation of Real Estate Investment Trusts.

These bills correct a glaring loophole in our state income tax law that allow mainland corporations operating profitably as REITs in Hawaii to take the net income out of our state without paying income tax like the rest of us. **In fact, my firm pays over \$500,000 per year in ground rent to such a mainland-based REIT and it is frustrating to know that they give nothing back to this community!** Overall, this loophole results in a loss of \$30 to \$60 million annually to the state. These funds are desperately needed to shore up our poor fiscal position (38th of 50 States according to the Mercatus Center); with unfunded pension and health care liabilities of some \$44 Billion.

There is more REIT-owned property in Hawaii per capita than any other state in the nation. And with our attractive real estate market, this will only increase in the future to further deplete our tax base. Ala Moana Shopping Center, Pearlridge Shopping Center, Hilton Hawaiian Village, International Marketplace, plus hundreds of other properties owned by mainland companies operate here without paying any income tax. This loophole must be closed so that REITs are taxed the same way as other real estate investors.

For these reasons, I urge the committee to pass this bill related to the taxation of REITs. Thank you for the opportunity to testify.

Very Sincerely,

Bob Dewitz
Chairman

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Rep. Roy Takumi, Chair, House Committee on Consumer Protection & Commerce
Rep. Angus McKelvey, Chair, House Committee on Economic Development & Business
Rep. Sylvia Luke, Chair, House Committee on Finance
Sen. Donovan Dela Cruz, Chair, Senate Committee on Ways and Means

Support for HB 475 and SB 301, Relating to Taxation of Real Estate Investment Trusts

Dear Committee Members:

I write on behalf of all our hard-working employees who are not real estate investors, but just middle-income residents of Hawaii who have always paid out a large share of our earnings for various taxes. Believe me, there are no loopholes to reduce our tax bills and every year we pay our fair share of them.

The State needs more money for public education, services for our growing elderly population, aid for the homeless, and endless other projects. Why is it that middle class taxpayers always seem to be asked to bear the financial burden? The costs of raising and educating our children, maintaining a home and caring for our parents are already overwhelming. We have no way to save for retirement and are worried we may never pay off the large mortgages we carry into our 60's and 70's. These challenging times call for creative measures.

H.B. 475 merits continued action. It could be a new source of millions of dollars of income annually to the state, in perpetuity. And it would make revenues generated in Hawaii stay in Hawaii instead of going to other states.

On behalf of all the tax-burdened, working class people in Hawaii, please pass H.B. 475. Let's ask everyone to pay their fair share to support this special community.

Sincerely,



Vivian Shiroma
Vice President

TO

Rep Roy Takumi, Chair, Consumer Protection and Commerce
Rep Angus McKelvey, Chair, Economic Development & Business
Rep Sylvia Luke, Chair, House Committee on Finance
Sen Donovan Dela Cruz, Chair, Ways And Means
RE HB475 AND SB301

From

Ben Walin
Commercial Properties of Maui LLC

Monday March 11, 2019

Support for H.B. No. 475 and SB 301 Relating to Taxation of Real Estate Investment Trusts

As a business person concerned about Hawaii's economy and long-term community development, I strongly support H.B. No. 475 and SB301 Relating to Taxation of Real Estate Investment Trusts.

These bills correct a glaring loophole in our state income tax law that allow mainland corporations operating profitably as REITs in Hawaii to take the net income out of our state without paying income tax like the rest of us. This results in a loss of \$30 to \$60 million annually to the state. These funds are desperately needed to support the costs of education, social services, and other state commitments, which continue to struggle.

There is more REIT-owned property in Hawaii per capita than any other state in the nation. And with our attractive real estate market, this will only increase in the future to further deplete our tax base. Ala Moana Shopping Center, Pearlridge Shopping Center, Hilton Hawaiian Village, International Marketplace, plus hundreds of other properties owned by mainland companies operate here without paying any income tax. This loophole must be closed so that REITs are taxed the same way as other real estate investors.

For these reasons, I urge the committees to pass H.B 475 and SB 301 related to the taxation of REITs. Thank you for the opportunity to testify.

Thank you,



C E & S Corp.

94-460 Uke'e Street

Waipahu, HI 96797

Phone (808) 676-7566 Fax (808) 676-7599

March 11, 2019

Rep. Roy Takumi, Chair, Consumer Protection and Commerce
Rep. Angus McKelvey, Chair, Economic Development & Business
Rep. Sylvia Luke, Chair, House Committee on Finance
Sen. Donovan Dela Cruz, Chair, Ways and Means

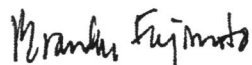
RE: HB475 and SB 301

Dear Legislators,

As a Hawaii resident I believe all businesses in Hawaii should pay state income taxes. I've learned that certain mainland companies known real estate investment trusts currently exploit a loophole to avoid paying income tax in Hawaii, costing our state millions of dollars in tax revenue every year.

I support the efforts of HB475 and SB 301 requiring real estate investment trust companies to pay income tax to support our state.

Mahalo,



President, C E & S Corp.

MRC WEST INC

125 Merchant Street Suite 200
Honolulu, HI 96813

March 28, 2019

Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair
House Committee on Finance

Re: Support for HB 475/SB 301, Relating to Taxation of Real Estate Investment Trusts
Hearing Scheduled for Friday, March 29, 2019 at 3:30 PM

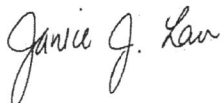
As a business person concerned about Hawaii's economy and long-term community development, I strongly support SB 301, Relating to Taxation of Real Estate Investment Trusts.

This bill corrects a loophole in our state income tax law that allow mainland corporations operating profitably as REITs in Hawaii to take the net income out of our state without paying income tax like the rest of us. This results in a loss of \$30 to \$60 million annually to the state. These funds are desperately needed to support the costs of education, social services, and other state commitments, which continue to struggle.

There is more REIT-owned property in Hawaii per capita than any other state in the nation. And with our attractive real estate market, this will only increase in the future to further deplete our tax base. Ala Moana Shopping Center, Pearlridge Shopping Center, Hilton Hawaiian Village, International Marketplace, plus hundreds of other properties owned by mainland companies operate here without paying any income tax. This loophole must be closed so that REITs are taxed the same way as other real estate investors.

For these reasons, I urge the committee to pass HB 475 related to the taxation of REITs. Thank you for the opportunity to testify.

Thank you,



Janice J. Lau
Vice President

IMPERIAL ASSOCIATES, LTD

3737 Manoa Road • Honolulu, Hawaii 96822 • Phone: (808) 946-2966 • FAX: (808) 943-3140

Representative Roy Takumi, Chair, House Committee on Consumer Protection and Commerce
Representative Angus McKelvey, Chair, House Committee on Economic Development & Business
Representative Sylvia Luke, Chair, House Committee on Finance
Senator Donovan Dela Cruz, Chair, Senate Committee on Ways And Means

RE: TESTIMONY IN SUPPORT OF HOUSE BILL HB475 HD1 AND SB301 SD1 - RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

Dear Honorable Chair Takumi, Chair McKelvey, Chair Luke, Chair Dela Cruz:

As a business person concerned about Hawaii's economy and long-term community development, I strongly support House Bill HB475 HD1 and Senate Bill SB301 SD1, Relating to Taxation of Real Estate Investment Trusts.

These bills corrects a glaring loophole in our state income tax law that allow mainland corporations operating profitably as REITs in Hawaii to take the net income out of our state without paying income tax like the rest of us. This results in a loss of \$30 to \$60 million annually to the state. These funds are desperately needed to support the costs of education, social services, and other state commitments, which continue to struggle.

There is more REIT-owned property in Hawaii per capita than any other state in the nation. And with our attractive real estate market, this will only increase in the future to further deplete our tax base. Ala Moana Shopping Center, Pearlridge Shopping Center, Hilton Hawaiian Village, International Marketplace, plus hundreds of other properties owned by mainland companies operate here without paying any income tax. This loophole must be closed so that REITs are taxed the same way as other real estate investors.

For these reasons, I urge the committee to pass House Bill HB475 HD1 and Senate Bill SB301 SD1 related to the taxation of REITs.

Mahalo,



Darryl P. Wong
3737 Manoa Road
Honolulu, Hawaii 96822

TRADEWIND
CAPITAL GROUP

Franklin M. Tokioka
Chairman
Emeritus

March 11, 2019

TO: Representative Roy Takumi, Chair, Consumer Protection and Commerce
Representative Angus McKelvey, Chair, Economic Development & Business
Representative Sylvia Luke, Chair, House Committee on Finance
Senator Donovan Dela Cruz, Chair, Ways and Means

FROM: Franklin M. Tokioka

RE: HB475 AND SB301

I strongly support HB475 and SB301 which will eliminate the tax deductibility of dividends for Real Estate Investment Trusts (REITs). A loophole in our state income tax law that came from the '60's allows mainland corporations to take the net income that they earn in Hawaii out of state, tax free. These corporations, which own and operate the major shopping centers in Hawaii, most of the Class A office buildings downtown, major industrial tracts like Mapunapuna, and many of the hotels in Waikiki and on the neighbor islands, are called Real Estate Investment Trusts (REITs). They pay no Hawaii corporate income tax.

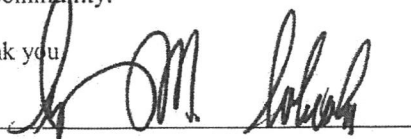
The vast majority of REIT shareholders live on the mainland and they pay taxes on their REIT dividends in the mainland states where they reside. So other states are receiving the tax revenue earned in Hawaii even while our residents and local businesses foot the bill for the infrastructure, emergency and social services required to support the commercial properties owned by these REITs.

REITs companies are earning over an estimated \$1 billion every year in Hawaii, but they pay zero income tax. That is a loss of many millions of dollars annually in taxes for Hawaii.

There is more REIT-owned property in Hawaii per capita than any other state in the nation, and by a wide margin. The REITs argue that if we tax them and make them pay their fair share of taxes, they will no longer invest here. That is simply not true. The state of New Hampshire has taxed REITs for years and still has more REIT-owned property per capita than the median U.S. state. All we are asking is that they pay 6.4% of the income earned in Hawaii to the state to support our community like the rest of us do.

There is no reason why any investor in Hawaii should be operating tax-free when our state is struggling to pay for our children's education, services for our elderly, and to deliver promised benefits to its retirees. REITs don't pay sufficient taxes to support Hawaii's infrastructure and don't support our local charities in a meaningful way, then they ship our money out of state, tax free. There are plenty of local, mainland, and foreign tax-paying real estate investors here. We should level the playing field and tax REITs the same way as other real estate investors. We need to protect our tax base for the benefit of our community.

Thank you





49 South Hotel Street, Room 314 | Honolulu, HI 96813
www.lwv-hawaii.com | 808.531.7448 | voters@lwv-hawaii.com

COMMITTEE ON FINANCE

FRIDAY, 3/29/19, 3:30 PM, Room 308
SB301 SB1 HD1, RELATING TO REAL ESTATE INVESTMENT TRUSTS
TESTIMONY

Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair LUKE, Vice-Chair CULLEN, and Committee Members:

The League of Women Voters of Hawaii **supports SB301 SD1 HD1** that provides for taxation of profits of REITs investing in Hawaii real estate without deducting dividends paid to shareholders, and allots 10% of funds generated to the state through this tax to DBEDT.

The League of Women Voters supports an equitable tax system that provides adequate and flexible funding of government programs, that is progressive overall and that relies primarily on a broad-based income tax.

In regards to SB301 SD1 HD1:

Our State government has many urgent needs for funding (for example the unfunded liabilities for public employees retirement benefits; affordable housing on all islands; protection of state lands and parks; replacing fossil fuels with renewable energy quickly; moving infrastructure away from rising seas; etc.)

The existing tax base does not provide adequate funds for all or even most of these urgent needs.

Taxing REIT profits from Hawaii real estate investments without deducting dividends would provide additional funds.

Investors in REITs are obviously not our poorest residents, so such taxes would make the state tax system more progressive.

Please support SB301 SD1 HD1.

Thank you for the opportunity to submit testimony.



Marshall W. Hung - Former Developer for Honolulu
215 N. King Street, Suite 1000, Honolulu, HI 96817
W: 808.526.2027 ext. 6 F: 808.526-2066

To: Rep Roy Takumi, Chair, Consumer Protection and Commerce
Rep Angus McKelvey, Chair, Economic Development & Business
Rep Sylvia Luke, Chair, House Committee on Finance
Sen Donovan Dela Cruz, Chair, Ways And Means

Re: RE HB475 AND SB301 in March, 2019

Dear Legislators,

As a Hawaii resident I believe all businesses in Hawaii should pay state income taxes. I've learned that certain mainland companies known real estate investment trusts currently exploit a loophole to avoid paying income tax in Hawaii, costing our state millions of dollars in tax revenue every year.

I support the efforts of HB475 and SB301 requiring real estate investment trust companies to pay income tax to support our state. Mahalo.

Sincerely yours,

Marshall Hung, former real estate developer

SB-301-HD-1

Submitted on: 3/28/2019 8:19:04 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Sylvia Ching	Individual	Support	No

Comments:

SB-301-HD-1

Submitted on: 3/28/2019 2:10:53 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Whitney Lee Kim	Individual	Support	No

Comments:

Dear Chairwoman Luke, Vice Chairman Cullen, and other members of the Committee:

Aloha! Please pass SB 301 SD1 HD1 and close the loophole that exempts REITs from paying state corporate income tax.

REITs already get a generous federal tax break and benefit from Hawai'i's low property tax. They can operate and thrive in Hawai'i while paying state income tax, as every other Hawai'i corporation does.

REITs operating in Hawai'i need to do their part in supporting our community by paying their fair share of state taxes.

Mahalo for this opportunity to provide testimony in support of SB 301 SD1 HD1.

SB-301-HD-1

Submitted on: 3/28/2019 1:53:23 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Nicole Chatterson	Individual	Support	No

Comments:

SB-301-HD-1

Submitted on: 3/28/2019 2:00:33 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Soo San Schake	Individual	Support	No

Comments:

Dear Chairwoman Luke, Vice Chariman Cullen, and other members of the committee,

Please pass SB 301 to close the tax loophole that exempts REITs from paying state corporate income taxes.

As a UH student and long time Hawaii resident I support this bill because I believe all corporations oeprating in Hawaii and earning profits here should pay their fair share of taxes. These increased tax revenues would benefit the local community and help local residents to have a higher quality of life.

I also strongly support this bill because:

- These increased tax revenues could be used towards improving Hawaii's infrastructures, healthcare systems, public education, and housing crisis.
- 99% of REIT shareholders do not live in Hawaii, so it is not fair taxable income is leaving our state to be taxed elsewhere.
- Since we are a small state with a limited economy and tax revenues, I think that the REIT tax exemption hurts our state and puts Hawaii in a disadvantage
- Real estate property in Hawaii is extremely profitable, valuable and will continue to increase in value. Eliminating the REIT DPD is not likely to cause REIT owned properties to stop investing in Hawaii, nor would it prevent future REITs or other corporations from wanting to invest here in the future.
- All other corporations also have to pay GET tax, provide jobs, and pay their fair share of income taxes so REITs do not contribute more than other corporations.
- The DPD only makes up a small percentage of REIT's tax breaks. Adding this tax will not cause them to go out of business or lay off employees.
- Passing this bill will not cause REITs to stop contrsuction projects. The majority of contruction projects in Hawaii are not supported by REITs. REITs mainly purchase and manage existing real estate properties, not build new ones.
- All other businesses in Hawaii pay the same amount of taxes (property and GET) while also providing jobs. These companies do all this while also paying corporate income taxes, so it is unfair to these companies as well as to small local owned businesses that REITs are exempt.
- The state of New Hampshire already successfully implemented a similar policy to tax the income of REITs without any negative economic impact.

- If this bill does not get passed, it is likely that more and more corporations in Hawaii will continue to change to become a REIT, which will result in even larger decreased tax revenue for the state.
- Every person and corporation generating income in Hawaii should pay income taxes that are reinvested back into ensuring the future of our state.

For these reasons I strong support this bill. Thank you for this opportunity to testify.

TO: HOUSE COMMITTEE ON FINANCE

Rep. Sylvia Luke, Chair
Rep. Ty J.K. Cullen, Vice-Chair

FROM: Eldon L. Wegner, Ph.D.
Professor Emeritus in Sociology, UH-Manoa

SUBJECT: SB 301 SD 1 HD1 Relating to Taxation of Real Estate Trusts

HEARING: Friday March 29, 2019, 3:30 pm,
Conference Room 308, Hawaii State Capitol

POSITION: Support with suggested amendments. Currently, REITS allow individuals to avoid paying Hawaii state taxes on the profits from business transactions in the state of Hawaii. This bill would end this unfair practice by closing that loophole. However, we suggest an amendment that the additional revenue be channeled into affordable housing and programs to end homelessness.

RATIONALE:

I am offering my testimony as an individual. I am a Professor Emeritus in Sociology, UH-Manoa. I belong to Faith Action and Church of the Crossroads. This bill is a priority for both of these organizations in the current legislative session..

Real Estate Investment Trusts (REITs) are corporations that use a loophole to avoid the Hawaii corporate tax. **We should not give away potential state revenue to wealthy individuals and then make the claim that the state can't afford to solve our pressing housing problems.**

We need solutions to our affordable housing crisis now!

REITs own income-producing property in Hawaii such as Ala Moana Center, the Hilton Hawaiian Village Resort, as well as office buildings and many other shopping centers and hotels. Together, they own property with an estimated total value of \$18 billion that earns an estimated \$1 billion in profits annually. If Hawaii's corporate tax were applied to REITs, an estimated \$60 million in tax revenue would be generated.

Meanwhile, Hawaii faces an enormous shortage of housing that is affordable to low- and middle-income individuals and families. New housing is being built, but most of it is priced for the high-income strata. Some efforts are being made to build affordable housing for low- and middle-income levels, but much greater efforts must be made because the need is so great and the cost of housing is so high.

Various ideas to fund affordable housing are contained in an action plan for workforce/affordable housing that was funded by the Legislature and issued in 2017. Those ideas include dedicating new tax revenue for affordable/workforce housing or infrastructure, with the funds kept separate from the general fund. (Housing Action Plan Final Report to the State Legislature, 2017, p. xii)

The revenue generated by this bill could easily be dedicated to funding affordable housing and programs for the houseless. The bill should be amended to separate the new tax revenue from the general fund and direct it to the creation of affordable housing in Hawaii.

Thanks you for the opportunity for me to submit testimony.

SB-301-HD-1

Submitted on: 3/28/2019 12:50:39 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Wally Inglis	Individual	Support	No

Comments:

RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

I support the intent of HB 475 which would provide added revenue by closing a loophole in Hawaii corporate tax law. However, most of the revenue should be put toward increasing the supply of badly-needed low and middle income housing.

I urge you to find a way this spring to get some tax revenue via taxing REITs operating in Hawaii. REIT corporate income should be taxed before the profits are distributed to the individual investors. Hawaii-based REITs reportedly worth \$18 billion generate an estimated \$1 billion in profits every year, and Hawaii currently cannot collect income tax revenue for the mostly non-resident investors in REITs here. Estimates for the potential revenue vary, but something is better than nothing.

A tax break for REITS was created by Congress almost 60 years ago to provide middle class people an opportunity to invest in large real estate properties by pooling their money. But over the years REITs have become mostly a tax shelter for high income Americans. At the same time, the ground has shifted regarding housing. The need for not only low-income but affordable middle income housing has greatly increased. I remember many American cities built low-income public housing projects for several decades after World War, and private developers built many affordable middle income subdivisions with small, expandable houses.

Our Hawaii income tax loophole was created when Hawaii, and apparently all the states, chose to follow federal income tax law with respect to Real Estate Investment Trusts (REITs). Unlike dividends from stocks I own, REITs issue dividends to shareholders from the income the companies produce, and unlike other companies, so far they do not pay federal or Hawaii state corporate income tax.

I know that historically we have needed to bring in some outside capital to keep up with visitor industry competition since our resident population is relatively small. Realistically Hawaii must compete with other states, and foreign countries, for investment in real estate. However, according to Forbes magazine, a number of states are looking into taxing REIT corporate income. Since REIT taxation is beginning to be in play in other states, the risk of loss of attraction for outside investment, a reasonable concern for our state, would be reduced.

Instead of putting all the new revenue into the general fund, a substantial part of the new tax revenue be directed to expanding access to affordable/ workforce housing and associated infrastructure, as recommended in the "Housing Action Final Report to the State Legislature", funded in 2017. The percentage designated for housing could be revisited by law, perhaps every 4 years.

Janet Gillmar
3035 La-i Road, Honolulu, Hawaii

SB-301-HD-1

Submitted on: 3/28/2019 10:50:33 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Rev. Samuel L Domingo	Individual	Support	No

Comments:

Dear Chairwoman Luke, Vice Chairman Cullen, and other members of the Committee:

Aloha! Please pass SB 301 SD1 HD1 and close the loophole that exempts REITs from paying state corporate income tax.

REITs already get a generous federal tax break and benefit from Hawai'i's low property tax. They can operate and thrive in Hawai'i while paying state income tax, as every other Hawai'i corporation does.

REITs operating in Hawai'i need to do their part in supporting our community by paying their fair share of state taxes.

Mahalo for this opportunity to provide testimony in support of SB 301 SD1 HD1.

SB-301-HD-1

Submitted on: 3/28/2019 9:40:52 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Brandon W Duran	Individual	Support	No

Comments:

Dear Chairwoman Luke, Vice Chairman Cullen, and other members of the Committee:

Aloha! Please pass SB 301 SD1 HD1 and close the loophole that exempts REITs from paying state corporate income tax.

REITs already get a generous federal tax break and benefit from Hawai'i's low property tax. They can operate and thrive in Hawai'i while paying state income tax, as every other Hawai'i corporation does.

REITs operating in Hawai'i need to do their part in supporting our community by paying their fair share of state taxes.

Mahalo for this opportunity to provide testimony in support of SB 301 SD1 HD1.

SB-301-HD-1

Submitted on: 3/28/2019 9:51:26 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Ellen Godbey Carson	Individual	Support	No

Comments:

I support this bill subject to one amendment noted below.

REITs own major income-producing property in Hawaii such as Ala Moana Center, the Hilton Hawaiian Village Resort, as well as office buildings and many other shopping centers and hotels. Together, they own property with an estimated total value of \$18 billion that earns an estimated \$1 billion in profits annually. Yet very few of their shareholders live in Hawaii, which means that virtually no corporate tax is paid for REITS in Hawaii, causing major erosion of our tax base. This bill can help address the unfairness of this tax situation and help spread tax burdens more fairly in our state.

Meanwhile, Hawaii faces an enormous shortage of housing that is affordable to low- and middle-income individuals and families. New housing is being built, but most of it is priced for the high-income strata. Some efforts are being made to build affordable housing for low- and middle-income levels, but much greater efforts must be made because the need is so great and the cost of housing is so high.

Various ideas to fund affordable housing are contained in "Housing Action Plan Final Report to the State Legislature," which was funded by the Legislature and issued in 2017. One of those ideas is dedicating new tax revenue for affordable/workforce housing or infrastructure, with the funds kept separate from the general fund. I urge this bill should be amended to separate the REIT tax revenues from the general fund and to dedicate it to developing affordable housing.

SB-301-HD-1

Submitted on: 3/28/2019 8:19:28 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Steven Costa	Individual	Support	No

Comments:

Testimony in supporting SB 301 with an amendment
House Committee on Finance
March 29, 2019 at 3:30pm in Conference Room 308

My name is Rev. David Turner, and I am the pastor of The Church of the Crossroads, Hawaii's first intentionally multi-cultural church, founded in 1923. We have 200 members residing all over Oahu and have, as a congregation, unanimously adopted a position of supporting taxation of REITs as a revenue source for affordable housing. Both our church and myself are also very involved in Faith Action an inter-faith organization advocating for justice and community equity here in Hawaii.

Faith Action is also in support SB 301. Real Estate Investment Trusts (REITs) are corporations that use a loophole to avoid the Hawaii corporate tax. That loophole should be closed, and the new tax revenue that is generated should be dedicated to increase the supply of affordable housing.

REITs own income-producing property in Hawaii such as Ala Moana Center, the Hilton Hawaiian Village Resort, as well as office buildings and many other shopping centers and hotels. Together, they own property with an estimated total value of \$18 billion that earns an estimated \$1 billion in profits annually. If Hawaii's corporate tax were applied to REITs, an estimated \$60 million in tax revenue would be generated.

Meanwhile, Hawaii faces an enormous shortage of housing that is affordable to low- and middle-income individuals and families. New housing is being built, but most of it is priced for the high-income strata. Some efforts are being made to build affordable housing for low- and middle-income levels, but much greater efforts must be made because the need is so great and the cost of housing is so high.

Various ideas to fund affordable housing are contained in "Housing Action Plan Final Report to the State Legislature," which was funded by the Legislature and issued in 2017. One of those ideas is dedicating new tax revenue for affordable/workforce housing or infrastructure, with the funds kept separate from the general fund.

The bill should be amended to separate the REIT tax revenues from the general fund and to dedicate it to developing affordable housing. With that amendment, I support the bill.

Thank you for this opportunity to testify in support of SB 301.

SB-301-HD-1

Submitted on: 3/28/2019 7:08:02 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Margaret ANN Renick	Individual	Support	No

Comments:

I strongly urge you to support this bill that will enable fair and equitable tax collection in Hawaii.

McCully Works

40 Kamehameha Ave.

Hilo, Hi. 96720

Support SB 301, HD1

March 27, 2019

Committee on Finance

Chair Sylvia Luke

Vice Chair Ty Cullen

Aloha Chair Luke,

As a small businessman and investor in properties I fully support this bill. It is reasonable that all economic properties that were entitled or zoned by the state and the counties should participate in the same tax regime. Currently the Dividend Paid Deduction (DPD) gives a competitive advantage to one particular type of ownership (REITS) and a significant amount of property has been quickly shuffled into this category, to the disadvantage of all the citizens of this state. An obvious consequence of this up to (estimated) 6.5% advantage is the inflationary driver it creates on pricing; REITS can pay more for a property than Hawaii based investors with this comparative tax advantage. Consequently REITS have increased more than 150% in our state since the DBEDT 2014 estimate of \$7.8b of REIT assets.

Small real estate investors can't compete with these sophisticated financial structures that are increasingly creatures of the tax code. It should be noted that these vehicles for investment were a particular beneficiary of the 2018 Federal Tax Cuts bill (TCJA, 2018) which reduced REIT tax exposure by 20%, including from foreign investors. Hawaii's small real estate investors who purchase and operate properties were placed at a further disadvantage by this same TCJA thru the limits placed on mortgage interest deduction as well as the cap on itemized local taxes.

REIT ownership regimes have quickly come to dominate the local market in improved properties. While they may initiate improvements or expansions they are primarily passive investors more so than active developers. With an increase in out of state ownership there is a further disconnect between who

owns our lands and who collects “rent” from our lands. These off-shore REIT’s reap far more than they sow....

All of our citizens suffer since more and more of our most valuable properties generate fewer taxes to support the state budget. It is fair and reasonable for REIT's to pay taxes on the dividends they return to their investors. It is also reasonable to set aside a portion of the tax proceeds to fund economic development in our state, as proposed in the HD1 version of this bill.

A basic principal in equitable taxation is that if it is earned here it should be paid here. I fully support this policy and hope you will pass this bill and it will be quickly enacted to the benefit of Hawaii.

Mahalo,

Jim McCully
www.mccullyworks.com

SB-301-HD-1

Submitted on: 3/27/2019 2:26:04 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Marion McHenry	Individual	Support	No

Comments:

This is an important bill. I strongly support this bill.

SB-301-HD-1

Submitted on: 3/27/2019 4:18:35 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
William Caron	Individual	Support	No

Comments:

Aloha Chair Luke,

I strongly support legislation such as SB301 to close the REIT loophole in Hawai'i and require these multi-billion dollar landed corporations to pay their fair share of taxes to the state in which their land holdings exist. They have a responsibility to the people and the land from which they derive their significant profits to provide tax revenue to maintain the environment and support the struggling families that call Hawai'i home.

At the same time, passage of this bill should not be treated as an exchange for the passage of another bill, written specifically to bail out one particular REIT, Alexander & Baldwin. I am referring to HB1326, which would extend permits for companies to divert public water for profit, but which would only actually matter to Alexander & Baldwin, which needs to the permit to sidestep a 2016 court ruling. As was clearly outlined in March 27's *Civil Beat* op-ed, HB1326 is tantamount to aiding and abetting corporate theft of public trust resources.

Support of SB301 should come from a place of good-faith reform to provide badly needed revenue to the State of Hawai'i, specifically for low-income housing. It should not come from a place of quid pro quo to give A&B a bailout potentially worth billions of dollars over the subsequent years at the expense of people and the environment.

The time of corporate oligarchy and Big 5 plantation-style politics must come to an end, and you have the power to make it so. I urge you to pass SB301 while pulling all support for HB1326.

Mahalo

SB-301-HD-1

Submitted on: 3/27/2019 9:22:13 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Kathy Jaycox	Individual	Support	No

Comments:

Thank you for this opportunity to provide testimony in support of SB 301 SD1 HD1.

SB-301-HD-1

Submitted on: 3/28/2019 11:53:18 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Claire Gearen	Individual	Support	Yes

Comments:

Aloha Chair Sylvia Luke, Vice-chair Ty J.K. Cullen, and members of the House Committee on Finance:

My name is Claire Gearen, and I write in strong support of Senate Bill 301 SD 1 HD1 Relating to Taxation of Real Estate Investment Trusts.

Please pass Senate Bill 301 SD 1 HD1 and close the loophole that exempts REITs from paying state corporate income tax.

As an educator in the public schools, I have a clear stake in legislators' work to maintain an adequate revenue stream while operating within the state biennial budget. Not only is my salary directly tied to the legislators' appropriations, my students' educational experience is affected by the amount available in the weighted student formula. I still teach students who experienced Furlough Fridays and am just recovering financially from those pay cuts. My conditions in the classroom have improved in recent years as I acquire the resources I need to teach.

However, the public more widely has an interest in closing the Real Estate Investment Trust (REIT) tax loophole. With approximately \$17 billion in REIT entities in the islands, this bill could generate sizable additional revenue for our state. We currently have more REIT owned property per capita than any other state. With increases in asset value of approximately 43% in just five years, REITs are unlikely to divest upon losing the dividend deduction. REITs already benefit from our low property taxes. We are foregoing revenue that is measurable on the level of the individual resident of Hawai'i.

All corporations should pay their fair share of taxes, without a business advantage given only to REITs. We do not want to encourage an economy in which REITs proliferate and do not pay state taxes.

Thank you for the opportunity to testify.

Sincerely,
Claire Gearen

SB-301-HD-1

Submitted on: 3/27/2019 10:13:05 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Alana Busekrus	Individual	Support	No

Comments:

SB-301-HD-1

Submitted on: 3/27/2019 6:33:29 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
noel kent	Individual	Support	Yes

Comments:

It is common knowledge that Hawai'i has one of the worst housing crises in the United States. Given the fact that the conventional housing market is incapable of resolving it in any manner, our underfunded state government is going to be called upon to provide major resources for affordable housing. So the fact that highly profitable REITS are escaping taxation through a legal loophole-costing our state an estimated sixty million dollars in annual revenues, is absolutely irrational. Of course, one of our state's leading economic problems is the outflow of monies from tourism and other sectors, funds rwhich should be kept here to invest in our citizens and develop our economy. So we badly need those escaping REIT dollars in state funded programs like affordable housing. Please pass SB301. Thank you. Noel Kent

SB-301-HD-1

Submitted on: 3/27/2019 5:57:18 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Elizabeth Winternitz	Individual	Support	No

Comments:

Dear Chairwoman Luke, Vice Chairman Cullen, and other members of the Committee:

Aloha! Please pass SB 301 SD1 HD1 and close the loophole that exempts REITs from paying state corporate income tax.

REITs already get a generous federal tax break and benefit from Hawai'i's low property tax. They can operate and thrive in Hawai'i while paying state income tax, as every other Hawai'i corporation does.

REITs operating in Hawai'i need to do their part in supporting our community by paying their fair share of state taxes.

Mahalo for this opportunity to provide testimony in support of SB 301 SD1 HD1.

Sincerely,

Elizabeth Winternitz

SB-301-HD-1

Submitted on: 3/28/2019 3:31:27 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Lani Rae Suiso Garcia	Individual	Support	No

Comments:

Gentlemen:

I strongly support SB 301 SD 1 HD1 for the following reasons:

Affordable housing in the state of Hawaii, as a value, far exceeds a corporation's right to pay less than its fair share;

Hawaii loses many of it's local citizens, who are forced to leave their chosen homes, for other destinations because the cost of housing in Hawaii is exorbitant;

Corporations are not human beings..

Corporations are accountable to shareholders, who may or may not require housing in the state of Hawaii;

Even if those shareholders required housing in Hawaii, those individuals, i.e. the shareholders, constitute fewer people than citizens of Hawaii in need of housing;

Corporations are accountable to a few;

The legislature is accountable to the entire state of Hawaii, not those who are privileged, and monied enough to invest as shareholders in corporations which are REIT rich.

For the above reasons, on behalf of the keiki o ka aina of Hawaii, I strongly, strongly support HB 301.

SB-301-HD-1

Submitted on: 3/28/2019 3:41:38 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Winifred Ching	Individual	Support	No

Comments:

Dear Chairwoman Luke:

I am a Hawaii State taxpayer. **I gladly pay my taxes because I know that my taxes stay in Hawaii.** A few months ago I heard about REITs. They own more than 17 billion dollars in real estate in Hawaii and make over millions of dollars in profit!. However they are exempt from paying corporate taxes. They pass on benefits to their shareholders. I learned that most of their shareholders live outside of Hawaii. When I learned about this situation, I was mad. That is not fair! I willing pay my fair share of taxes on my merge retirement income. Those that make money in Hawaii should pay their fair share as well. **Money made in Hawaii should be taxed in Hawaii for the benefit of Hawaiian residents.**

I support this bill.

PETER SAVIO
(808) 951-8976
1451 S. King Street, Suite 504
Honolulu, Hawaii 96814-2509

COMMITTEE OF FINANCE

Rep. Sylvia Luke, Chair
Rep. Ty J. K. Cullen, Vice Chair

Rep. Stacelynn K. M. Eli	Rep. Nadine K. Nakamura
Rep. Cedric Asuega Gates	Rep. Scott Y. Nishimoto
Rep. Troy N. Hashimoto	Rep. Chris Todd
Rep. Daniel Holt	Rep. Tina Wildberger
Rep. Lisa Kitagawa	Rep. Kyle T. Yamashita
Rep. Bertrand Kobayashi	Rep. Bob McDermott
Rep. Scot Z. Matayoshi	

March 29, 2019

RE: Finance Committee Hearing on SB301 SD1 HD1 (REITs)

Hearing: Friday, March 29, 2019, 3:30 p.m.; Room 308

Location: Hawaii State Capitol, 415 South Beretania Street

1. REITs say taxing them will stop them from investing in Hawaii.
 - Not true. Our market is too strong and too unique for them not to be in Hawaii.
2. REITs say taxing them will cause loss of job.
 - Not true. Buildings will get built by the REITs or the investors that compete with them to invest in Hawaii.
3. REITs say we are implementing a new tax.
 - Not true. We are asking their exemption be taken away and they pay their fair share of the taxes like everyone else.
5. REITs say the exemption is good and only one state has opted out.
 - Not really true. Like most states, Hawaii adopted federal tax law as our own tax law for simplicity sake. We did not agree with or accept the concept that the exemption was good for the state. This tax exemption is not good for states because they run the risk of losing tax revenues to other states. Hawaii is one of the states that lose revenues.

RE: Finance Committee Hearing on SB301 SD1 HD1 (REITs)

Friday, March 29, 2019

Page 2

6. REITs say the taxes gained are only \$2- to \$10-million. Another state study estimated \$30-million. The amount is not the main issue. It will be more taxes than the state gets now. It will make all corporations, REITs included equal. It will give other tax paying investment companies the ability to compete with REITs.

7. REITs say that we could lose tax revenues because some REITs pay a sales tax.

- Not sure that this is true or make sense. It applies to hotel REITs which must set up a separate company to operate the business, but if all REITs only pay taxes of \$2- to \$10-million? Then why would a few REITs be willing to pay \$12-million in sales taxes. The benefit to REITs must be greater than what they are showing.

This also tells you that REITs are not that concerned with state taxes, but more concerned with the federal taxes which are a much bigger number. The exemption to pay state taxes is the frosting on the cake. The real savings is the federal taxes.

8. The REITs have their list of problems they say will be created by voiding their tax exemption.

- I do not believe them. Their best argument would be to show the mistake New Hampshire made by repealing the REIT tax exemption by showing us how New Hampshire's real estate market collapsed, jobs were lost, unemployment increased. REITs stopped investing in the state and New Hampshire out of desperation, realized they made a mistake and had to repeal the change to tax REITs.

The truth is none of the above happened to New Hampshire. The REITs do not want to give up its competitive advantage. You should pass the bill and have REITs pay the same taxes all Hawaii companies do.

Remember New Hampshire's tax is 8.2%. Hawaii is 6.5%. Hawaii has a lower tax rate so the REITs should be happy.

Rep Roy Takumi, Chair, Consumer Protection and Commerce
Rep Angus McKelvey, Chair, Economic Development & Business
Rep Sylvia Luke, Chair Committee on Finance
Sen Donovan Dela Cru, Chari, Ways and Means

Monday, March 11, 2019

RE: Support for HB 475 and SB 301
Relating to Taxation of Real Estate Investment Trusts

Dear Representatives and Senator:

As a business person concerned about Hawaii's economy and long-term community development, I strongly support H.B. No. 475 and SB 301, relating to taxation of Real Estate Investment Trusts.

This bill corrects a glaring loophole in our state income tax law that allow mainland corporations operating profitably as REITs in Hawaii to take the net income out of our state without paying income tax like the rest of us. This results in a loss of \$30 to \$60 million annually to the state. These funds are desperately needed to support the costs of education, social services, and other state commitments, which continue to struggle.

There is more REIT-owned property in Hawaii per capita than any other state in the nation. And with our attractive real estate market, this will only increase in the future to further deplete our tax base. Ala Moana Shopping Center, Pearlridge Shopping Center, Hilton Hawaiian Village, International Marketplace, plus hundreds of other properties owned by mainland companies operate here without paying any income tax. This loophole must be closed so that REITs are taxed the same way as other real estate investors.

For these reasons, I urge the committees to pass HB475 and SB301 related to the taxation of REITs. Thank you for the opportunity to testify.

Thank you,

Francis U. Imada

Francis U. Imada, CPA, CFP

Janice J. Lau

**3735C DIAMOND HEAD ROAD
HONOLULU, HAWAII 96816**

Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair
Committee on Finance

Friday, March 29, 2019

Support for S.B. 301, Relating to Taxation of Real Estate Investment Trusts

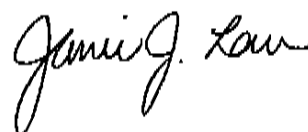
As a business person concerned about Hawaii's economy and long-term community development, I strongly support S.B. No. 301, Relating to Taxation of Real Estate Investment Trusts.

These bills correct a glaring loophole in our state income tax law that allow mainland corporations operating profitably as REITs in Hawaii to take the net income out of our state without paying income tax like the rest of us. This results in a loss of \$30 to \$60 million annually to the state. These funds are desperately needed to support the costs of education, social services, and other state commitments, which continue to struggle.

There is more REIT-owned property in Hawaii per capita than any other state in the nation. And with our attractive real estate market, this will only increase in the future to further deplete our tax base. Ala Moana Shopping Center, Pearlridge Shopping Center, Hilton Hawaiian Village, International Marketplace, plus hundreds of other properties owned by mainland companies operate here without paying any income tax. This loophole must be closed so that REITs are taxed the same way as other real estate investors.

For these reasons, I urge the committee to pass S.B 301 related to the taxation of REITs. Thank you for the opportunity to testify.

Aloha,



Janice J. Lau

Hawai'i Construction Alliance



P.O. Box 179441
Honolulu, HI 96817
(808) 220-8892

March 19, 2019

The Honorable Sylvia Luke, Chair
The Honorable Ty Cullen, Vice Chair
and members
House Committee on Finance
415 South Beretania Street
Honolulu, Hawai'i 96813

**RE: OPPOSITION for SB301 SD1 HD1, RELATING TO TAXATION OF REAL
ESTATE INVESTMENT TRUSTS**

Dear Chair Luke, Vice-Chair Cullen, and members:

The Hawai'i Construction Alliance is comprised of the Hawai'i Regional Council of Carpenters; the Laborers' International Union of North America, Local 368; the Operative Plasterers' and Cement Masons' Union, Local 630; International Union of Bricklayers & Allied Craftworkers, Local 1; and the Operating Engineers, Local Union No. 3. Together, the member unions of the Hawai'i Construction Alliance represent 15,000 working men and women in the basic crafts of Hawai'i's construction industry.

We are deeply concerned about what would happen if Hawaii becomes only the second state to break from the federal tax code and repeal the deduction real estate investment trusts receive on the dividends paid to their shareholders. These REIT shareholders include thousands of Hawaii residents who would see their pensions and future incomes diminished by this legislation.

Many of the members of this committee may not know that some of our member unions are seeing a drastic reduction in work hours. In some unions, the reduction is as much as 25 percent. The benches are filling up with unemployed workers. We are also seeing members falling off our membership lists. That means these men and women, fathers and mothers, who belong to our unions are no longer collecting unemployment. Their unemployment benefits have run out, and they no longer can afford to pay membership dues.

This measure proposes to increase the tax burden on REITs, which already pay many millions in property tax and millions more in GE tax. This additional taxation will make it difficult for REITs to continue investing in new projects and make improvements to their existing properties.

I would like to tell you something about REIT investment. REITs invest in Hawaii when the economy is soft or in recession. And because they invest continuously, even during recessions, projects like the expansion of Ala Moana Center and the redevelopment of the International Market Place, as well as numerous other projects, it was possible for thousands of workers to remain employed during a slow period for Hawaii's construction industry.

This bill basically targets the construction industry and all the jobs REITs provide to our members. It's also important for you to know that most of our members are a paycheck away from homelessness, so anything that would restrict the ability of REITs to finance projects or any barriers to more economic investment would deal a heavy blow to many working people and their families.

Last session when another bill was introduced to raise taxes on REITs by taking away the deductions on funds distributed to shareholders, I was told by that some investments in projects and expansions to existing REIT properties, were put on hold pending the Legislature's decision on that bill. And right now, there are projects that have been put on hold because investors are seeing signs of a contraction in the economy.

For all these reasons, we are deeply concerned about this bill and its impact on our industry, even as we see storm clouds forming over our economy. Scaring people away from funding projects in Hawaii is the last thing we need now as an industry and a state. I urge you to hold this bill for the sake of Hawaii's working families.

Therefore, we strongly ask for your committee's favorable action on SB301 SD1 HD1.

Mahalo,

A handwritten signature in black ink, appearing to read "Nathaniel Kinney". The signature is fluid and cursive, with a large, stylized initial "N" and "K".

Nathaniel Kinney
Executive Director
Hawai'i Construction Alliance
execdir@hawaiiconstructionalliance.org

LATE

SB-301-HD-1

Submitted on: 3/28/2019 7:32:06 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Mary Lacques	Individual	Support	No

Comments:

Real Estate Investment Trust's can operate and thrive in Hawai'i while still paying their share of the taxes needed build a strong Hawaii for everyone.

Please pass SB301 to ensure that REITs pay their fair share.

LATE

SB-301-HD-1

Submitted on: 3/28/2019 9:40:48 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Ashleigh Loa	Individual	Support	No

Comments:

LATE

SB-301-HD-1

Submitted on: 3/28/2019 10:00:02 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Jennifer Milholen	Individual	Support	No

Comments:

The Thirtieth Legislature
Regular Session of 2019

THE HOUSE
Committee on Finance
Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair
State Capitol, Conference Room 308
Friday, March 29, 2019; 3:30 p.m.



**STATEMENT OF THE ILWU LOCAL 142 ON S.B. 301, S.D.1, H.D.1
RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS**

The ILWU Local 142 **supports** S.B. 301, S.D.1, H.D.1, which disallows dividends paid deduction for real estate investment trusts. Provides ten percent allocation of revenue from REIT for use by DBEDT and applies to taxable years beginning after 12/31/2019.

The State is losing out on millions of dollars in taxes because the tax deduction for dividends paid by Real Estate Investment Trusts. REITs are able to avoid paying state taxes as long as they distribute 90% of their taxable income to shareholders, who then pay taxes only in their home states. Most of the REITs with real estate holdings in Hawaii have shareholders/investors who do not live in Hawaii. Since REITs themselves currently enjoy a deduction for dividends paid, and most shareholders are not Hawaii taxpayers, the State receives virtually NO taxes from real estate activity of REITs in Hawaii.

The State can certainly use another revenue source. Requiring REITs to pay income taxes would be one means of generating revenues to support the services and programs needed to address a myriad of issues facing our residents—including public education, early childhood education, homelessness and affordable rental housing, access to quality health care, and support for the elderly and disabled as well as their caregivers.

Those who oppose repealing the deduction argue that REIT investment will dry up. We think this is most unlikely. Real estate in Hawaii is highly profitable. Investors would be foolish to pull out of Hawaii simply because of taxes they must pay. Paying taxes should be considered a cost of doing business. Everyone should pay their fair share of taxes to benefit the entire community. In fact, if this bill is not passed, more corporations with real estate holdings may seek to convert into Real Estate Investment Trusts in order to avoid paying taxes. If that happens, the State could potentially lose even more tax revenue.

The ILWU Local 142 urges passage of S.B. 301, S.D1, H.D.1. Thank you for the opportunity to offer testimony on this measure.

LATE

SB-301-HD-1

Submitted on: 3/28/2019 11:58:51 PM
Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Barbara L. George	Individual	Support	No

Comments:

SUPPORT! Hawaii citizens need tax fairness, which includes state taxation of Real Estate Investment Trusts.

LATE

SB-301-HD-1

Submitted on: 3/29/2019 6:35:59 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Deanna Espinas	Faith Action for Community Equity	Support	No

Comments:

LATE

SB-301-HD-1

Submitted on: 3/29/2019 8:55:47 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Lori	Individual	Support	No

Comments:

STRONG SUPPORT.



LIUNA!

LATE

**TESTIMONY OF RYAN K. KOBAYASHI
GOVERNMENT AND COMMUNITY RELATIONS DIRECTOR
HAWAII LABORERS UNION LOCAL 368**

PETER A. GANABAN
*Business Manager/
Secretary-Treasurer*

ALFONSO OLIVER
President

JOBY NORTH II
Vice President

TONI FIGUEROA
Recording Secretary

JAMES DRUMGOLD JR.
Executive Board

ORLANDO PAESTE
Executive Board

JOSEPH YAW
Executive Board

MARTIN ARANAYDO
Auditor

RUSSELL NAPIHA'A
Auditor

MARK TRAVALINO
Auditor

ALFRED HUFANA JR.
Sergeant-At-Arms

LIUNA Local 368
1617 Palama Street
Honolulu, HI 96817
Phone: (808) 841-5877
Fax: (808) 847-7829
www.local368.org

COMMITTEE ON FINANCE

NOTICE OF HEARING

DATE: Friday, March 29, 2019
TIME: 3:30 p.m.
PLACE: Room 308

**TESTIMONY IN OPPOSITION TO SB301 SD1 HD1 RELATING TO THE TAXATION OF
REAL ESTATE INVESTMENT TRUSTS**

**ALOHA COMMITTEE CHAIR LUKE, VICE-CHAIR CULLEN, AND COMMITTEE
MEMBERS,**

My name is Ryan K. Kobayashi, Government and Community Relations Director for the Hawaii Laborers Union, Local 368. The Hawaii Laborers Union is made up of over 5000 working and retired members across the State of Hawaii. We are **OPPOSED to HB301 SD1 HD1 Relating to the Taxation of Real Estate Investment Trusts.**

While it may appear that at present the construction industry is "healthy" and many of our members our working, the reality is that total man hours have been gradually decreasing over the past two quarters. We are deeply concerned that the current financial slowdown will ultimately lead to a slowdown in the overall economy and an impending recession, and the negative impacts this could have on our membership. As a result of the most recent recession, many of our members have still not recovered from those impacts although they may be presently working. Bankruptcy, foreclosure and divorce were a very real fact of life for many our members during that recession.

This measure (SB301) proposes to increase the tax burden on REITs, which already pay many millions in property tax and millions more in GE tax. This additional taxation will make it difficult for REITs to continue investing in new projects and make improvements to their existing properties.

REITs invest in Hawaii when the economy is **soft or in recession**, and because of the continuous investment projects like the expansion of Ala Moana Center and the redevelopment of the International Market Place, as well as numerous other projects, it made it possible for many of our members to remain employed during a slow period for Hawaii's construction industry.

We believe that a departure from the federal tax code by repealing the deduction real estate investment trusts receive on the dividends paid to their shareholders could either

Feel the Power

halt or stall REIT investment on new construction and or renovation work in our State. Any cessation or stalling of investment activity by REITs in our State would negatively impact Hawaii's construction industry and ultimately our members **both working and retired** who depend on REIT investments to provide work, fair wages, good benefits, and pensions for themselves and their families.

In conclusion, the Hawaii Laborers' Union is **OPPOSED** to **SB301 SD1 HD1**, and we respectfully request that your committee **defer** this bill.

1065 Ahua Street
Honolulu, HI 96819
Phone: 808-833-1681 FAX: 839-4167
Email: info@gcahawaii.org
Website: www.gcahawaii.org



GCA of Hawaii

GENERAL CONTRACTORS ASSOCIATION OF HAWAII

Quality People. Quality Projects.

Uploaded via Capitol Website

TO: HONORABLE REP. SYLVIA LUKE, CHAIR, REP. TY J.K. CULLEN, VICE CHAIR,
AND MEMBERS OF THE HOUSE COMMITTEE ON FINANCE

SUBJECT: TESTIMONY IN OPPOSITION TO SB301SD1 HD1: RELATING TO
TAXATION OF REAL ESTATE INVESTMENT TRUSTS.

Hearing
DATE: Friday, March 29, 2019
TIME: 3:30 P.M.
PLACE: Conference Room 308
Hawaii State Capitol

LATE

Dear Rep. Sylvia Luke, Chair, Rep. Ty J.K. Cullen, Vice Chair, and members of the House Committee on Finance:

The General Contractors Association of Hawaii (GCA) is an organization comprised of over five hundred general contractors, subcontractors, and construction related firms. The GCA was established in 1932 and is the largest construction association in the State of Hawaii. The mission is to represent its members in all matters related to the construction industry, while improving the quality of construction and protecting the public interest. We appreciate the opportunity to share our opposition to SB301 SD1 HD1 which disallows the dividends paid deduction for Real Estate Investment Trusts (REIT).

A REIT is a conduit designed to allow many small investors to participate in real estate development and ownership. They are also often owned by institutions comprised of state and local pension funds and 401K individual retirement plans. Some of the requirements to qualify as a REIT include (1) ownership by at least 100 shareholders, (2) a prohibition on being closely held and controlled by limiting ownership by five or fewer persons to no more than a 50% interest in the REIT, (3) meeting certain asset and income tests to ensure they primarily invested in real estate and operate it for rental purposes as a long term investor, and (4) paying out all taxable income as cash dividends to shareholders which is not required by most other entity forms such as partnerships, LLCs and other c-corporations.

For meeting these stringent requirements, REITs are currently entitled to a deduction for dividends paid to shareholders to reduce taxable income. It is this deduction, the Dividends Paid Deduction (DPD), afforded in the federal tax law that SB301 SD1 HD1 would eliminate and disallow for Hawaii corporate income taxation.

We are deeply concerned that should the DPD be eliminated for REITs that future investment in Hawaii will be discouraged, that access to global capital markets restricted and thus have a direct negative impact on the local construction industry. Local developers rely on the value REITs bring in when they purchase, develop and maintain their properties and the elimination of the deduction may halt REIT investment in new construction and/or renovation work resulting in a lack of employment for construction workers throughout the state.

GCA opposes SB301 SD1 HD1. Thank you for the opportunity to share our opposition.

LATE

SB-301-HD-1

Submitted on: 3/29/2019 9:40:45 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Mary	Individual	Support	No

Comments:

I strongly support SB301 to tax Hawaii REITs fairly. Hawaii people should be the beneficiaries of business success in Hawaii. The current loopholes in the REIT tax system shift that benefit away from those who live here.

Mary Spadaro



Pono Hawai'i Initiative

LATE

Josh Frost - President • Kau'i Pratt-Aquino - Secretary • Patrick Shea - Treasurer
Kristin Hamada • Nelson Ho • Summer Starr

Thursday, March 28, 2019

Testifying in strong support with amendments

Aloha, Chair and Committee members

The Pono Hawai'i Initiative (PHI) **STONGLY SUPPORTS** SB301, SD1, HD1 **with amendments.**

SB301 requires Real Estate Investment Trusts to pay their fair share.

According to the State Department of Business, Economic Development, and Tourism this would translate to providing an estimated \$60 million annual revenue to the State of Hawaii.

This is an issue of tax fairness on many levels. This revenue that is currently being lost, belongs in Hawaii and because it originates via high-end development and real estate activity, there is a natural nexus supporting the utilization of the funds gained, on the providing of affordable housing for low income working people.

The amendments we are supporting are those proposed by Hawaiian Community Assets:

Amendment: Require 25% of Revenue Generated for Affordable Housing

In light of our housing affordability crisis, in which our Hawaii renters and homeowners are the highest cost burdened in the nation, it is critical that we target the investment of our public dollars into the development of housing that will address this crisis. We recommend the bill be amended to require that 25 percent of revenue generated from the tax on REITS to be placed into the Rental Housing Revolving Fund and the Affordable Homeownership Revolving Fund (should it be established).

Mahalo for the opportunity to testify,

Gary Hooser
Executive Director
Pono Hawai'i Initiative

LATE

SB-301-HD-1

Submitted on: 3/29/2019 10:11:49 AM
Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Bruce Anderson	Individual	Support	No

Comments:

LATE

PETER SAVIO
(808) 951-8976
1451 S. King Street, Suite 504
Honolulu, Hawaii 96814-2509

COMMITTEE OF FINANCE

Rep. Sylvia Luke, Chair
Rep. Ty J. K. Cullen, Vice Chair

Rep. Stacelynn K. M. Eli	Rep. Nadine K. Nakamura
Rep. Cedric Asuega Gates	Rep. Scott Y. Nishimoto
Rep. Troy N. Hashimoto	Rep. Chris Todd
Rep. Daniel Holt	Rep. Tina Wildberger
Rep. Lisa Kitagawa	Rep. Kyle T. Yamashita
Rep. Bertrand Kobayashi	Rep. Bob McDermott
Rep. Scot Z. Matayoshi	

March 29, 2019

RE: Finance Committee Hearing on SB301 SD1 HD1 (REITs)

Hearing: Friday, March 29, 2019, 3:30 p.m.; Room 308

Location: Hawaii State Capitol, 415 South Beretania Street

1. REITs say taxing them will stop them from investing in Hawaii.
 - Not true. Our market is too strong and too unique for them not to be in Hawaii.
2. REITs say taxing them will cause loss of job.
 - Not true. Buildings will get built by the REITs or the investors that compete with them to invest in Hawaii.
3. REITs say we are implementing a new tax.
 - Not true. We are asking their exemption be taken away and they pay their fair share of the taxes like everyone else.
5. REITs say the exemption is good and only one state has opted out.
 - Not really true. Like most states, Hawaii adopted federal tax law as our own tax law for simplicity sake. We did not agree with or accept the concept that the exemption was good for the state. This tax exemption is not good for states because they run the risk of losing tax revenues to other states. Hawaii is one of the states that lose revenues.

RE: Finance Committee Hearing on SB301 SD1 HD1 (REITs)

Friday, March 29, 2019

Page 2

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7. REITs say that we could lose tax revenues because some REITs pay a sales tax.

- Not sure that this is true or make sense. It applies to hotel REITs which must set up a separate company to operate the business, but if all REITs only pay taxes of \$2- to \$10-million? Then why would a few REITs be willing to pay \$12-million in sales taxes. The benefit to REITs must be greater than what they are showing.

This also tells you that REITs are not that concerned with state taxes, but more concerned with the federal taxes which are a much bigger number. The exemption to pay state taxes is the frosting on the cake. The real savings is the federal taxes.

8. The REITs have their list of problems they say will be created by voiding their tax exemption.

- I do not believe them. Their best argument would be to show the mistake New Hampshire made by repealing the REIT tax exemption by showing us how New Hampshire's real estate market collapsed, jobs were lost, unemployment increased. REITs stopped investing in the state and New Hampshire out of desperation, realized they made a mistake and had to repeal the change to tax REITs.

The truth is none of the above happened to New Hampshire. The REITs do not want to give up its competitive advantage. You should pass the bill and have REITs pay the same taxes all Hawaii companies do.

Remember New Hampshire's tax is 8.2%. Hawaii is 6.5%. Hawaii has a lower tax rate so the REITs should be happy.