DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LIEUTENANT GOVERNOR

LINDA CHU TAKAYAMA
DIRECTOR

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
830 PUNCHBOWL STREET, ROOM 221
HONOLULU, HAWAII 96813
http://tax.hawaii.gov/
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

To: The Honorable Angus L.K. McKelvey, Chair
and Members of the House Committee on Economic Development & Business

Date: Wednesday, March 13, 2019
Time: 10:00 A.M.
Place: Conference Room 309, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 301 S.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, for your consideration.

S.B. 301, S.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 measure has a defective effective date of July 1, 2050, but would otherwise apply to taxable years beginning after December 31, 2019.

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.

Testimony of Church of the Crossroads
Supporting SB 301 SD 1
Senate Committee on Economic Development & Business
10:00 a.m. on March 13, 2019 in Conference Room 309

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 some 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.

LAND USE RESEARCH
FOUNDATION OF HAWAII
1100 Alakea Street, Suite 408
Honolulu, Hawaii 96813
(808) 521-4717
www.lurf.org

March 7, 2019

Representative Angus L.K. McKelvey, Chair
Representative Lisa Kitagawa, Vice Chair
House Committee on Economic Development & Business

Comments and Concerns in Strong Opposition to SB 301, SD1, Relating to Real Estate Investment Trusts (REITs); Disallows Dividends Paid Deduction for REITs; Applies to taxable years beginning after 12.31.2019; Effective 07.01.50.

Wednesday, March 13, 2019, 10:00 a.m., in Conference Room 309

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. 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 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, PhD., 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 which may potentially stifle, if not reverse the current growth of the State's economy, in reliance solely upon the untenable findings of

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[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 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 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 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 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.

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[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 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 basis[8], 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.

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[8] *Final Report* at pages 3, 15-16.

REIT projects have helped to support Hawaii's construction industry immensely[9] 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 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.

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

<u>Conclusion</u>. 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 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**, and respectfully requests that this bill be **held in this Committee.**

Hawaiʻi Association of REALTORS®
808-733-7060
808-737-4977
1259 Aʻala Street, Suite 300
Honolulu, HI 96817

March 13, 2019

The Honorable Angus McKelvey, Chair
House Committee on Economic Development & Business
State Capitol, Room 309
Honolulu, Hawaii 96813

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

HEARING: Wednesday, March 13, 2019, at 10:00 a.m.

Aloha Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee:

I am Ken Hiraki Government Affairs Director, submitting written testimony on behalf of the Hawaiʻi Association of REALTORS® ("HAR"), the voice of real estate in Hawaiʻi, and its over 9,500 members. HAR **opposes** S.B. 301, SD1, which disallows the dividends paid deduction for Real Estate Investment Trusts ("REIT.")

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 Aliʻi

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 Hawaiʻi, which would negatively impact the economy.

Mahalo for the opportunity to testify.

REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and subscribe to its strict Code of Ethics.

EQUAL HOUSING OPPORTUNITY

Testimony in supporting SB 301 with an amendment
House Committee on Economic Development and Business
March 13, 2019 at 10:00am in Conference Room 309

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.

Evelyn Hao
President

Rev. Won-Seok Yuh
Vice President-Clergy

William Bekemeier
Vice President-Laity

Jon Davidann
Treasurer

Deanna Espinas
Secretary

Christy MacPherson
Executive Director

Soo San Schake
Organizing Assistant

TO: Representative Angus L.K McKelvey, Chair
Representative Lisa Kitagawa
Committee on Economic Development & Business

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

Wednesday, March 13, 2019

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

Good morning, Chair McKelvey, Vice-Chair Kitagawa and committee members.

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

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.

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 has created a groundswell of support for these bills. 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.

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, HD 1

BEFORE THE HAWAII HOUSE OF REPRESENTATIVES

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

REP. ANGUS L.K. MCKELVEY, CHAIR
REP. LISA KITAGAWA, VICE CHAIR

HEARING ON SB 301, HD 1

MARCH 13, 2019

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

PARK is a publicly traded lodging real estate investment trust ("REIT") (NYSE:PK) that owns 52 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, HD 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.

<u>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.</u>

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:

> JOBS: PARK's hotels directly employ more than <u>2,728</u> employees. The payroll and associated benefits for these direct employees is in excess of <u>$188,843,121 million annually</u>.
>
> 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 <u>**hundreds of millions**</u> of dollars**.**
>
> HAWAII TAXES GENERATED / PAID BY PARK:
> - General Excise and Use Tax - Operations. The tax revenues generated from our operations totaled <u>$25,238,236</u> 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 <u>$8,068,335</u> in 2018 and the additional GET paid by PARK on the management fees paid to our independent operator was <u>$1,400,294</u> in 2018.
> - Property taxes. Property taxes at PARK's two resorts totaled <u>$18,378,954</u> 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, HD 1 and sincerely hope you consider our **strong opposition** to this proposed legislation.

Respectfully submitted,

Scott Winer
Senior Vice President, Tax

SB-301-SD-1
Submitted on: 3/11/2019 6:54:42 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

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.

Mahalo for the opportunity to testify.

Michael Golojuch, Jr.
Chair
LGBT Caucus of the Democratic Party of Hawaii

March 10 2019

To: Rep. Angus L.K. McKelvey, Chair
Rep. Lisa Kitagawa, Vice Chair
House Committee on Economic Development and Business

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

Re: **S.B. 301, SD1– RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS Hawaii State Capitol, Room 309 , March 13, 2019, 10:00 AM**

HCAN is committed to improving lives and being a strong voice advocating for Hawai'i's children. We write in support of S.B. 301which disallows dividends paid deduction for real estate investment trusts. Applies to taxable years beginning after 12/31/2019. Effective 7/1/2050. (SD1)

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

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
Honolulu, HI 96817
Ph: 808-587-7886
Toll Free: 1-866-400-1116
www.hawaiiancommunity.net

March 11, 2019

House Committee on Economic Development & Business
Wednesday, March 13, 2019, 10am
Conference Room 309

SB301, SD1 – Relating to Taxation of Real Estate Investment Trusts

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.**

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.

Help us generate the revenue we need to support housing affordability – pass SB301.

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

Jeff Gilbreath
Executive Director

NORDIC PCL CONSTRUCTION, INC.
1099 Alakea Street, Suite 1600, Honolulu, HI 96813
Telephone: 808-541-9101 ♦ Fax: 808-541-9108 ♦ www.nordicpcl.com

March 12, 2019

Representative Angus McKelvey, Chair
Representative Lisa Kitagawa, Vice Chair
House Committee on Economic Development

Re: SB 301 SD 1 Relating to Taxation of Real Estate Investment Trusts

Aloha Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee:

My name is Glen Kaneshige. I am president of Nordic PCL Construction, Inc., and I am submitting my testimony in opposition to SB 301, SD 1. Nordic PCL Construction was founded in Honolulu in 1938 and celebrated its 80th anniversary in 2018. Over the past eight decades of our tenure as a kama'aina general building contractor, our company has been fortunate to build several iconic projects in Hawaii, including the Hawaii Convention Center and the James Campbell Building in Kapolei. Our portfolio of projects includes healthcare projects for Queen's Medical Center, Hawaii Pacific Health, and Kaiser Permanente. We are currently completing the 42-story Ke Kilohana condomium for the Howard Hughes Corporation that will provide affordable housing for many local families.

REITs create jobs for us in the construction industry. Some of the larger projects in our portfolio have been for REITs. In 2014, we completed the 12-story Hyatt Residence Club at the Hyatt Kaanapali Beach on Maui for Host Hotels & Resorts, Inc. Not long thereafter in 2016, we completed the 800,000 square foot Ka Makana Ali'I Regional Mall on a 67-acre site ground leased by the Department of Hawaiian Home Lands to the developer,Kapolei Hawaii Property Company, LLC (KHPC), a joint venture owned in part by DeBartolo Development and OP Trust. Host Hotels and KHPC are REITs and both projects generated over $100M of revenues to Hawaii and over 500 construction jobs for the local workforce were created for each. Hawaii needs outside investors who commit capital for the long-term rather than speculation, which drives up property prices.

SB 301, SD1 would disallow the dividends paid deduction for REITs and make Hawaii less attractive for future investment by REITs like KHPC and Host Hotels, which also owns the Andaz Maui at Wailea Resort; Fairmont Kea Lani, Maui; and Hyatt Place Waikiki Beach. These long-term investments result in stable operations and maintenance jobs for locals. But if the deduction is repealed, REITs may begin to dispose of Hawaii properties and stop future investments in the islands. We should be concerned that future developments in Hawaii will be stalled by the increase in costs that reduces investment returns as a result of the passage of SB 301, SD1. Their future investments would go instead to projects in the 48 other states that do not impose a tax on the dividends distributed to shareholders.

If this bill passes, REIT will redirect their investments away from Hawaii to other states that will afford a higher return for their shareholders and developments like the Hyatt Residence Club and Ka Makana Ali'I may never be built as a consequence.

With consideration to the forgoing, we respectfully urge you to defer SB 301, SD1.

Mahalo for the opportunity to testify on this measure.

Glen Kaneshige
President

OPTrust

OPSEU Pension Trust

Fiducie du régime de retraite du SEFPO

March 11, 2019

The Honorable Angus McKelvey, Chair and Committee Members
Committee on Economic Development & Business
Hawaii State Capitol, Rm. 309
Honolulu, HI 96813

Dear Chair McKelvey and Committee Members:

RE: SB 301 SD1 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 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 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.

1 Adelaide Street East
Suite 1200
Toronto, ON M5C 3A7

Tel: (416) 681-6161
(Toronto calling area)

1-800-906-7738
(Toll-free in Canada)

Fax: (416) 681-6175

www.optrust.com

We urge you to strongly oppose SB 301 SD1, 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,

Andrew Alcock
OPTrust

SIERRA CLUB OF HAWAIʻI
MĀLAMA I KA HONUA. *Cherish the Earth.*

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS

March 13, 2019 10:00 AM Room 309

In SUPPORT of SB 301 SD 1: Relating to Taxation of Real Estate Investment Trusts

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Aloha Chair McKelvey, Vice Chair Kitagawa, and members of the committee,

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

Since 1968, the Sierra Club of Hawaiʻi 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, and therefore support this bill.

Real Estate Investment Trusts 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 Hawaiʻi, with only 1 REIT having its main office in Hawaiʻi- 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 Hawaiʻi is missing out on potential tax revenues of $30-50 million annually from these corporations[2]- 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 Hawaiʻi. Our tax system reinforces our income inequality; forcing more and more families to live paycheck-to-paycheck and make

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[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

short-term decisions about their lives that usually impose a greater burden on the natural 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 SD 1.**

Mahalo,

Jodi Malinoski

Jodi Malinoski, Policy Advocate

SUBJECT: INCOME, Disallow REIT Deduction for Dividends Paid

BILL NUMBER: SB 301, SD-1

INTRODUCED BY: Senate Committee on Ways & Means

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.

EFFECTIVE DATE: July 1, 2050.

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, to do that; the TRS then 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 beneficial.

Digested 3/8/2019

The Thirtieth Legislature
Regular Session of 2019

THE HOUSE
Committee on Economic Development and Business
Representative Angus L.K. McKelvey, Chair
Representative Lisa Kitagawa, Vice Chair
State Capitol, Conference Room 309
Wednesday, March 13, 2019; 10:00 a.m.

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

The ILWU Local 142 **supports** S.B. 301, S.D.1, which disallows dividends paid deduction for real estate investment trusts 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 urges passage of S.B. 301, S.D.1. Thank you for the opportunity to offer testimony on this measure.

ALA MOANA
HAWAII'S CENTER

March 11, 2019

Hearing Date: March 13, 2019
Time: 10:00 a.m.
Place: State Capitol, Conference Room 309

Rep. Angus L.K. McKelvey, Chair
Rep. Lisa Kitagawa, Vice Chair
Committee on Economic Development & Business
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Testimony in Opposition to Senate Bill No. 301, SD 1 (SSCR 669)

Dear Chairman McKelvey, Vice-Chairwoman Kitagawa 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.

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, as well as companion House Bill No. 475, HD1, 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 and urge you to not let it move forward. Thank you for your consideration.

Sincerely,

Francis Cofran
Senior General Manager

Jared Chupaila
EVP, Chief Operating Officer

ALA MOANA CENTER
1450 Ala Moana Blvd, Suite 1290, Honolulu, HI, 96814
T +1 808 946 2811 F +1 808 955 2193 BrookfieldPropertiesRetail.com

HAWAI'I ALLIANCE for PROGRESSIVE ACTION

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House Committee on Economic Development & Business

Hawai'i Alliance for Progressive Action
SUPPORTS SB 301 SD1

Aloha Chair McKelvey, Vice Chair Kitagawa & Members of the Committee,

On behalf of the Hawai'i Alliance for Progressive Action (HAPA) I strongly urge you to SUPPORT SB 301 SD1. HAPA is a statewide environmental, social and economic justice organization that engages over 10,000 local residents throughout Hawai`i annually.

REITs have been granted a special tax status that exempts them from paying corporate income tax on the dividends paid to its shareholders—at least 90 percent of the income REITs generate. REITs are able to avoid paying millions of dollars in federal and state corporate income tax as a result of the exemption.

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.

Although REIT shareholders pay individual income tax on REIT dividends they receive, those shareholders often do not live in Hawai‘i and don’t pay their income taxes here. While Hawai‘i has more land value tied up in REITs than any other state in the nation, relatively few Hawai‘i residents own shares in REITs—we rank 40th in the nation for the number of REIT shareholders as a percentage of the population. As a result, not only is income produced on Hawai‘i property leaving the state; the income that is getting funneled out of the state is not getting taxed here either.

Even if the Hawai‘i REITs tax loophole were closed, REITs would still receive the more valuable federal tax break they currently have, and they would continue to benefit from Hawai‘i’s extraordinarily low property tax rate.

REITs can operate and thrive in Hawaii while still paying their share of the taxes needed build a strong Hawaii for everyone. SB 301 would ensure that REITs pay their fair share.

Mahalo for your consideration.

Respectfully,

Anne Frederick,
Executive Director

The Hawai‘i Alliance for Progressive Action (HAPA) is a public non-profit organization under Section 501(c)(3) of the Internal Revenue Code. HAPA’s mission is to catalyze community empowerment and systemic change towards valuing ‘aina (environment) and people ahead of corporate profit.

WAIKELE

An American Assets Trust Property

March 12, 2019

Honorable Angus L.K. McKelvey, Chair
Honorable Lisa Kitagawa, Vice Chair
Committee on Economic Development & Business
State Capitol
415 South Beretania Street Room 309
Honolulu, Hawaii 96813

Re: Written Testimony to House Bill No. 301 SD1, Relating to Taxation of Real Estate Investment Trusts

Dear Chair McKelvey, Vice-Chair Kitagawa, 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 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; Waikele 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.

94-849 Lumiania Street Suite 100 Waipahu, Hawaii 96797
Telephone: 808 671-7977 Facsimile: 808 678-8170
Email: pwilson@americanassets.com

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 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.

Furthermore, SB 301 SD1 proposes an unworkable system. Unlike an S corporation, a publicly traded REIT is not limited to 100 shareholders who can be easily identified. In fact, many such REITs have millions of shares outstanding, with approximately 99 percent held in "street name" by a central securities depository on behalf of the ultimate owners. It is and would be impossible for a given REIT to provide the name, address and federal identifying information required under Senate Bill 301 SD1 with respect to all of these shares. And the way in which capital markets operate, with thousands of shareholders entering and leaving the market in a single day or an hour, further compounds an already impossible challenge.

I ask that you consider the very real financial contributions and community benefits that REITs bring to our State. I ask that you consider how burdensome this new legislation as proposed would be and how difficult compliance would be. Please hold Bill 301 SD1. Thank you for the opportunity to submit this testimony.

Sincerely,

Pamela R Wilson

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

94-849 Lumiania Street Suite 100 Waipahu, Hawaii 96797
Telephone: 808 671-7977 Facsimile: 808 678-8170
Email: pwilson@americanassets.com

Public Storage

March 11, 2019

Hearing Date: March 13, 2019
Time: 10:00 A.M.
Place: Conference Room 309

The Honorable Angus L.K. McKelvey, Chair
The Honorable Lisa Kitagawa, Vice Chair
Committee on Economic Development & Business

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

Dear Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee on Economic Development & Business:

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 the hearings about this and similar bills, Public Storage is ***strongly opposed*** to SB 301 SD1 (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. Our shareholders in Hawaii are taxable by the state 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 about 2,425 properties across the nation), so the state benefits from the REIT regime because Hawaii shareholders are taxed on all of the distributed income.[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. In this respect, REITs are most comparable to other "pass-through" entities such as S corporations, LLCs or partnerships, which also are not separately subject to entity level income tax in Hawaii (instead, a single level of tax applies at the level of the beneficial owners).

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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.

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Simply a Tax Increase, Causing Double Taxation. The bill would impose new taxes on REITs operating in Hawaii. It will impose double taxation on REIT shareholders, in contrast to the single level of tax applied to other pass-through type entities, such as partnerships, LLCs, and S corporations. REITs are not comparable to regular C corporations that are subject to local taxes because REITs are required to distribute their income and are subject to significant operating restrictions governing their income and assets. The taxes are paid by REIT shareholders on the dividends they receive.

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. Most importantly, such an anti-business tax would strongly incentivize REITs to reduce or avoid future investment in, and possibly redirect investments away from, the state. 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.

Breaking the Mold; Inconsistent with Federal and Other State Treatment. Enactment of SB 301 SD1 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. 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 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

cc: Department of Taxation
Department of Business, Economic Development & Tourism

SB-301-SD-1
Submitted on: 3/11/2019 9:02:01 PM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Brett Kulbis	Honolulu County Republican Party	Oppose	No

Comments:

The Honolulu County Republcan Party OPPOSES this bill.

REITs bring in investment into Hawaii 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.

This measure proposes to remove the income tax deduction for dividends from a REIT, this will become a disincentive to invest in Hawaiʻi and negatively impact the economy through these investments in real estate. 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 this will make Hawaii unattractive for investments and investors.

Taubman

March 12, 2019

Honorable Angus L.K. McKelvey, Chair
Honorable Lisa Kitagawa, Vice Chair
Committee on Economic Development & Business
State Capitol (conference room 309)
415 South Beretania Street
Honolulu, Hawaii 96813

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

Dear Chair McKelvey, Vice-Chair Kitagawa 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, which is being heard by the Committee on Economic Development & Business on March 13, 2019 at 10:00 am. Senate Bill No. 301 SD1 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 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 kamaʻāina 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 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]

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[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 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.

Thank you for your consideration of our testimony.

Very truly yours,

Robert S. Taubman
Chairman, President and Chief Executive Officer
Taubman Centers, Inc

[4] ibid

200 East Long Lake Road
Suite 300
Bloomfield Hills, Michigan
48304-2324

T 248.258.6800
www.taubman.com

WRITTEN TESTIMONY OF

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

BEFORE THE HAWAII HOUSE
COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS

THE HONORABLE ANGUS L.K. McKELVEY, CHAIR
THE HONORABLE LISA KITAGAWA, VICE CHAIR

HEARING ON SB 301 SD 1

MARCH 13, 2019
10:00 A.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. These REITs, which have substantial long-term investments in Hawai‘i, strongly oppose, and ask you to hold, SB 301 SD 1, legislation that would eliminate the “dividends paid deduction” (DPD) for all widely-held REITs contrary to federal income tax rules and the existing laws of virtually every other state with an income-based tax system, for the reasons discussed below.

In summary, SB 301 SD 1 would: 1) produce less net tax revenue (taking into account the GET as the predominant source of revenue in Hawai’i) than current law; 2) cause capital markets to invest less in the State, which in turn would create fewer jobs over the long-term; and, 3) violate core comity principles in relationship to other states and their citizens. Further, if the legislature wanted to enact true tax conformity between REITs and partnerships/LLCs, SB 301 SD 1 should be broadened to impose on partnerships/LLCs the same burdens that would apply to REITs, namely that partnerships/LLCs would be required to annually distribute all their earnings to investors, and an entity-level tax would be applied to the partnership/LLC’s earnings.

SB 301 SD 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 million the first year and $10 million annually thereafter.[1]. In addition, during the Feb. 12, 2019 House Committee on Consumer Protection & Commerce hearing on SB 301 SD 1, 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 otherwise entitled.[2] He also noted that the numbers in the 2016 Department of Business, Economic Development & Tourism study concerning REITs were similarly “incorrect.”[3]

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,

[1] Note comments at 1:17:55 to 1:18:10 of the Feb. 6, 2019 hearing video available at this link.
[2] Note comments at 3:40:23 to 3:41:33 of the Feb. 12, 2019 hearing video available at this link.
[3] Note comments at 3:40:53 of the Feb. 12, 2019 hearing video available at this link.

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 Hawaiʻi hotels to a taxable subsidiary, and, in Hawaiʻi, 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 Hawaiʻi, 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'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 Pawaʻa, also ensure Hawaiʻi 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.

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 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 Hawaiʻi 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 Hawaiʻi properties. As a result, a significant portion of REIT ownership most likely relates to REITs with properties outside of Hawaiʻi.

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 Hawaiʻi'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 Hawaiʻi interests, resulting in less revenue for the state.

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

SB 301 SD 1 risks significant job loss. Enactment of SB 301 SD 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 Hawaiʻi's discouragement of long-term capital investment in the State. REITs provide sorely needed investment capital to Hawaiʻi. 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, Hawaiʻi would be on the outside looking in.

Hawaiʻi'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.

Hawaiʻi 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 redevelopment, 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 Hawaiʻi 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 Hawaiʻi – providing more than 296,884 meals.

SB 301 SD 1 Would Violate Core State Comity Principles

SB 301 SD 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 Hawaiʻi; see attached chart.) Additionally, Hawaiʻi 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 would eliminate this comity of state taxation principles by unilaterally double taxing REITs (and their shareholders) that do business in Hawaiʻi. 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 Would Not Create Parity Between Partnerships/LLCs and REITs

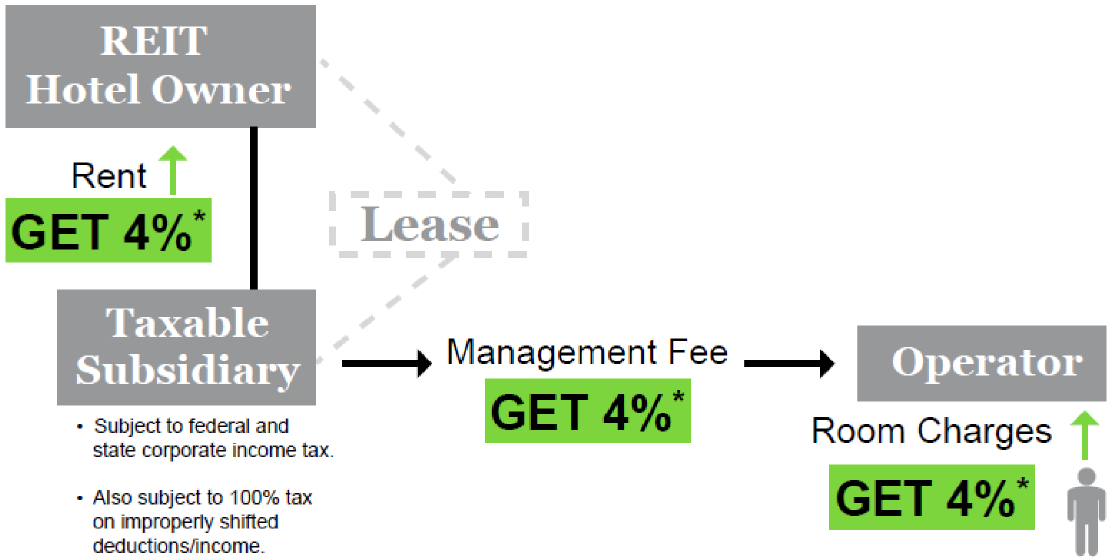
If the legislature wanted to enact true tax conformity between REITs and partnerships, SB 301 SD 1 should be broadened to impose on partnerships the same burdens that would apply to REITs, namely that partnerships/LLCs would be required to annually distribute all their earnings to investors and still 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

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 Hawaiʻi members of Nareit respectfully ask that you hold this bill.

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

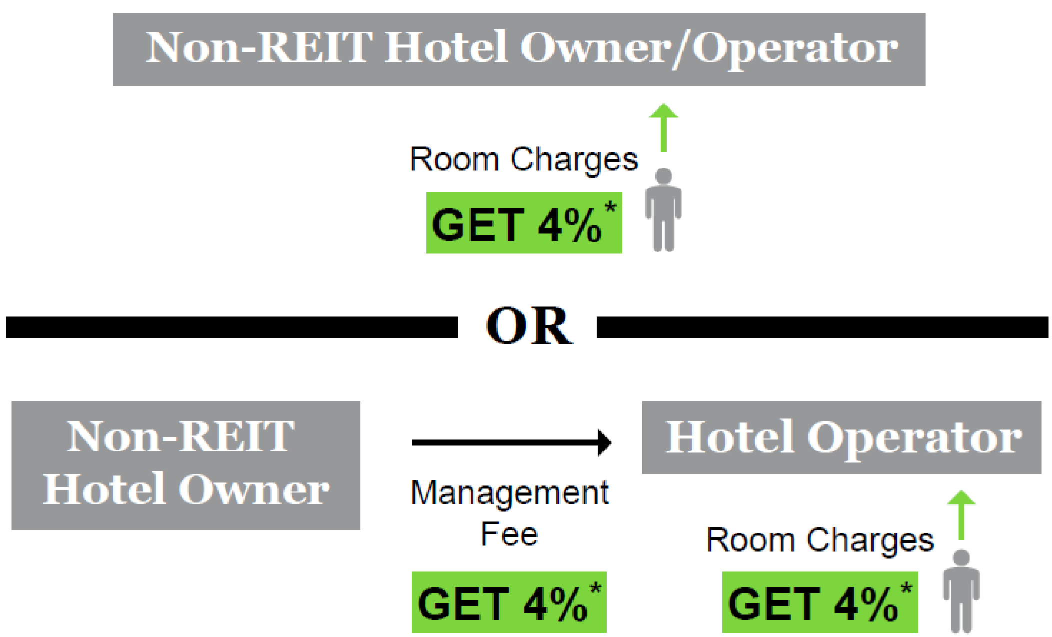
As a REIT, most income must come from "rents," or other passive real estate-related income.
Hotel operating income does not qualify; thus hotel REITs must lease their hotels to a taxable company.



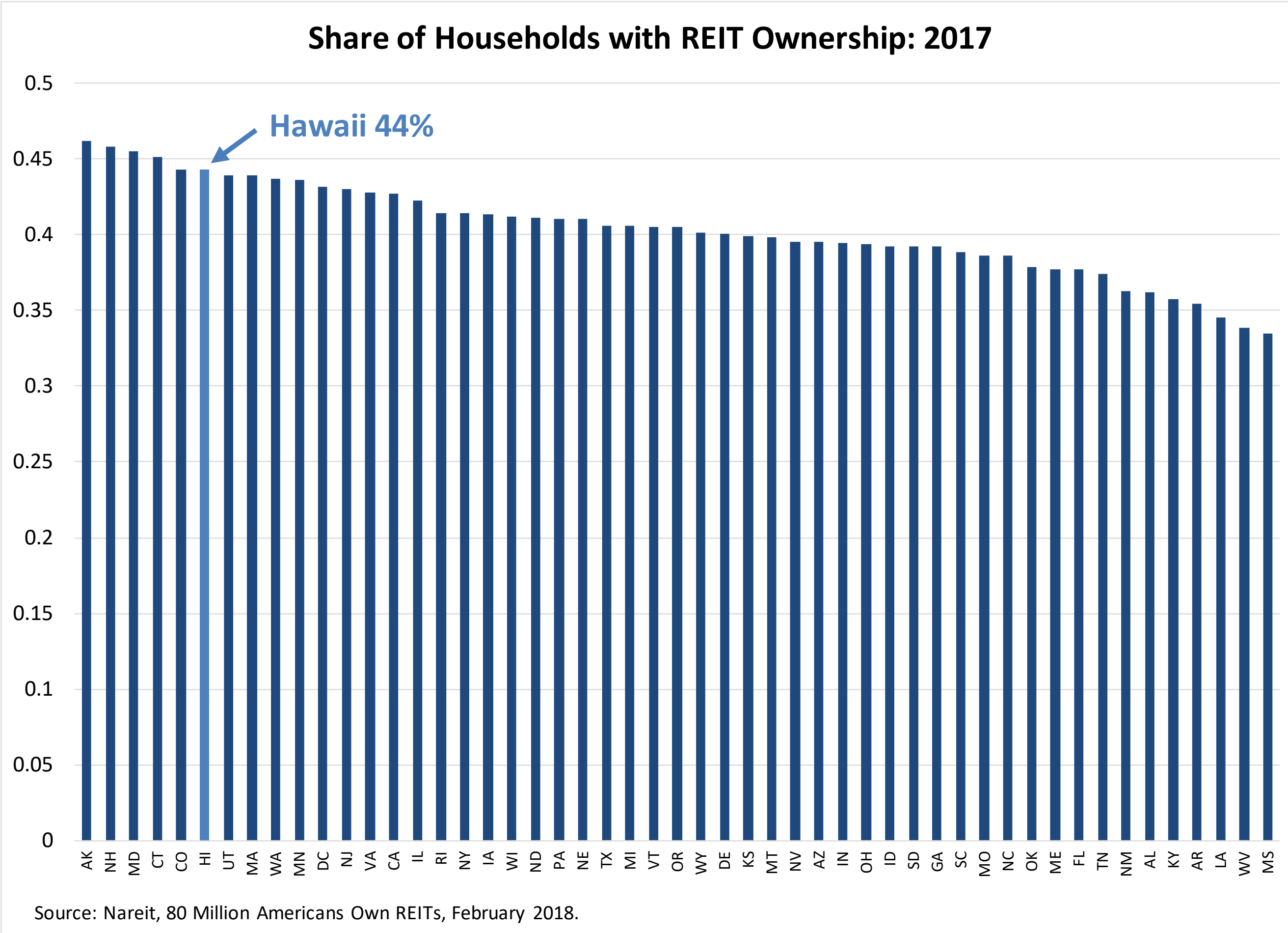
- If hotel REIT leases to a taxable subsidiary, the taxable subsidiary must hire an independent operator to manage the hotel.
- REIT-owned hotels pay GET to Hawai'i **three** times.
- Non-REIT owned hotels pay GET to Hawai'i only **one** or **two** times as seen in the following chart.

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

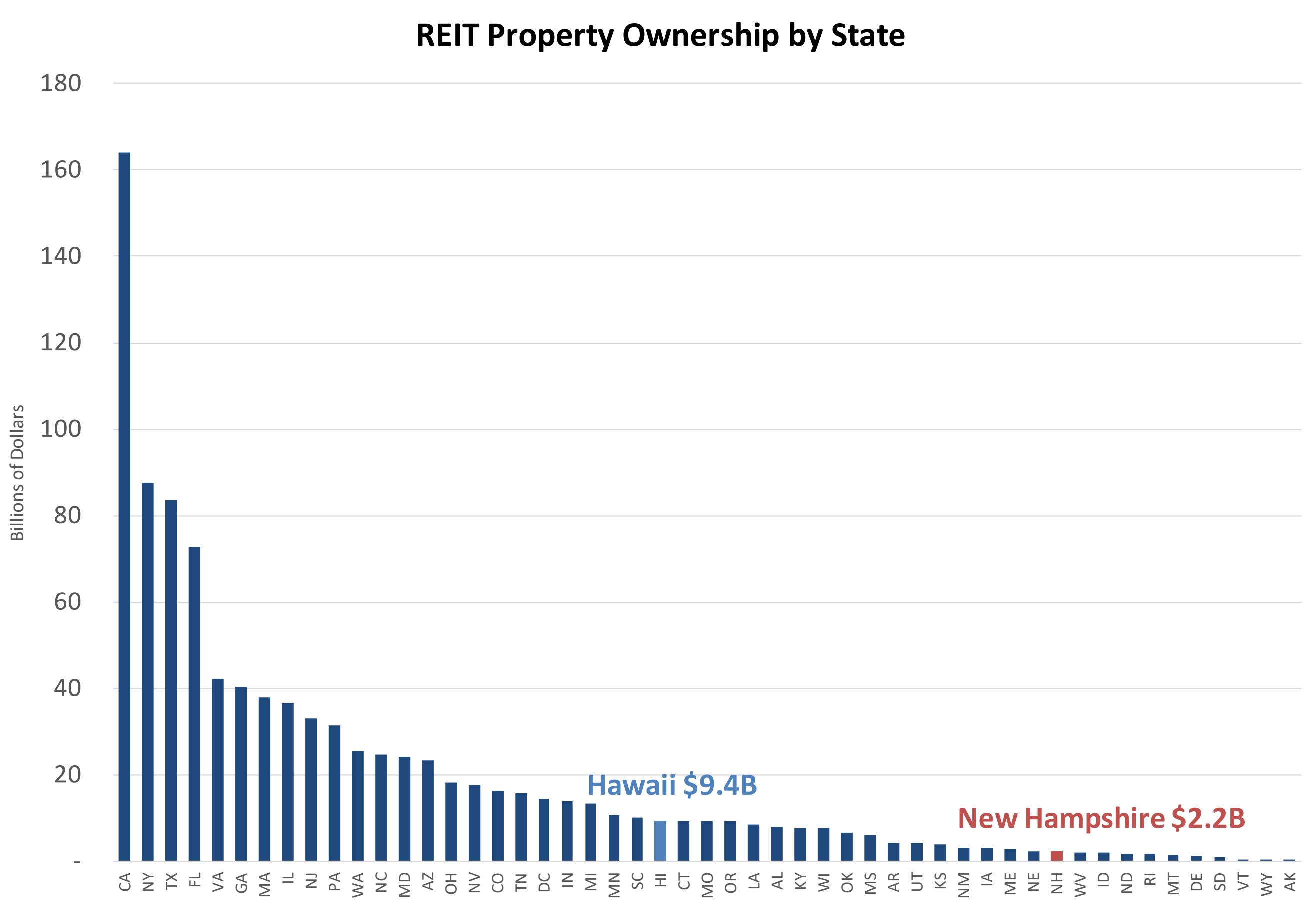
Non-REIT hotel owners either can 1) own and operate hotels, or 2) own their hotels and hire an operator (e.g., Hilton, Marriott, or Hyatt, etc.) to manage their hotels.



* 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.



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

ICSC

March 11, 2019

Representative Angus L.K. McKelvey, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the House Committee on Economic
Development & Business
Thirtieth Legislature
Regular Session of 2019

Re: SB 301, SD1 – RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS
Hearing date – March 13, 2019 at 10:00 am

Dear Chair McKelvey, Vice Chair Kitagawa and members of the committee,

Thank you for the opportunity to submit a letter **OPPOSING** SB 301, SD1. I am the Hawaii State Chairman for the International Council of Shopping Centers (ICSC). On behalf of our 200+ members in the Retail Real Estate Community we oppose HB 475 for a number of reasons which I have outlined below.

The Shopping Center industry has a huge impact on the economy of Hawaii: we employee 123,700 people with estimated wages of $2.8 billion and an annual sales tax contribution of $812.5 million. We thoroughly understand taxation and their impact on Real Estate Investment Trusts (REITs). Over the past few years, REIT investment has resulted in several billion dollars of construction activity, creating thousands of local jobs, both construction and permanent, and helping our community maintain a strong economy. REITs have continued to contribute to our community by investing in affordable housing, retail, healthcare, office buildings and other commercial projects that will serve our community and local families for decades to come.

HB 475 would disallow the dividends paid deduction for REITs. Hawaii is already among the most heavily taxed states in the entire country which stifles economic growth, and HB 475 would make Hawaii one of only two states to disallow the dividends paid deduction. This change would create additional barriers to do business in our state and would negatively impact the level of interest in future investment in Hawaii and put jobs and revenues at risk.

Simply put, the bill will not produce the additional tax revenue assumed, but instead will increase even further the cost of doing business in this state. Accordingly, we respectfully urge you to defer HB 475. Thank you for your consideration.

Sincerely,

Helene Sam Shenkus
Hawaii State Director

International Council of Shopping Centers
555 12th Street, N.W., Suite 660, Washington, DC 20004
+1 202 626 1400 • Fax: +1 202 626 1418 • www.icsc.org

NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
HAWAII CHAPTER

March 12, 2019

Representative Angus L.K. McKelvey, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the House Committee on Economic
Development & Business
Thirtieth Legislature
Regular Session of 2019

RE: **SB 301, SD1 – RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS**
Hearing date – March 13, 2019 at 10:00 am

Aloha Chair McKelvey, Vice Chair Kitagawa and members of the committee,

Thank you for allowing NAIOP Hawaii to submit testimony in **OPPOSITION** to SB 301, SD1 – Relating to Taxation of Real Estate Investment Trusts. NAIOP Hawaii is the Hawaii chapter of the nation's leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders and other professionals.

Over the past few years, REIT investment has resulted in several billion dollars of construction activity, creating thousands of local jobs, both construction and permanent, and helping our community maintain a strong economy.

REITs have continued to contribute to our community by investing in affordable housing, retail, healthcare, office buildings and other commercial projects that will serve our community and local families for decades to come.

SB 301, SD1 would disallow the dividends paid deduction for REITs. Hawaii is already among the most heavily taxed states in the entire country which stifles economic growth, and SB 301, SD1 would make Hawaii one of only two states to disallow the dividends paid deduction. This change would create additional barriers to do business in our state and would negatively impact the level of interest in future investment in Hawaii and put jobs and revenues at risk.

Simply put, the bill will not provide the tax benefit assumed, but increase even further, the cost of doing business in this state. Accordingly, we respectfully urge you to defer SB 301, SD1.

Mahalo for your consideration,

Daniel Cody, Director
NAIOP Hawaii

Douglas Emmett

March 8, 2019

Representative Angus McKelvey, Chair
Representative Lisa Kitagawa, Vice Chair
House Committee on Economic Development & Business

RE: SB 301 SD1 Relating to Taxation of Real Estate Investment Trusts – In Opposition
Wednesday, March 13, 2019; 10:00 AM; Conference room 309

Aloha Chair McKelvey, Vice Chair Kitagawa 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, 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 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 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 will eliminate an important source of capital that generates substantial local economic activity. Inasmuch as SB 301 SD1 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.

Respectfully,

Kevin Crummy	Michele Aronson
Chief Investment Officer	Senior Vice President

SB-301-SD-1
Submitted on: 3/12/2019 9:16:06 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

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

Comments:

Chair McKelvey and Committee Members:

I offer this testimony in stong support of this measure that will make Real Estate Investment Trusts pay their fair share of corporated taxes to the Stae of Hawaii.

i urge that you pass out this bill which will bring needed revenue to deal with critical issues--not the least of which is the great need for affordable housing.

Aloha,

Wally Inglis

Palolo Valley

Chamber of Commerce HAWAII
The Voice of Business

Testimony to the House Committee on Economic Development and Business
Wednesday, March 13, 2019 at 10:00 A.M.
Conference Room 309, State Capitol

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

Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **does not support** SB 301 SD1, which disallows dividends paid deduction for real estate investment trusts and applies to taxable years beginning after December 31, 2019.

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.

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, HD 1. Thank you for the opportunity to testify.

ALEXANDER & BALDWIN

PARTNERS FOR HAWAI'I

SB 301 SD1
RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

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

MARCH 13, 2019

Chair McKelvey and Members of the House Committee on Economic Development & Business:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin (A&B) on SB 301 SD1, "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.

SB-301-SD-1
Submitted on: 3/12/2019 9:30:30 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Janice Lau	MRC West Inc	Support	No

Comments:

AMERICAN ELECTRIC
Trusted since 1946

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

Bob Dewitz
Chairman

American Electric
info@AmericanElectric.com
www.AmericanElectric.com

Oahu Location
799 Kahelu Ave.
Mililani, HI 96789
T: 808.848.0751
F: 808.842.7980

Maui Location
360 East Uahi Way
Wailuku, HI 96793
T: 808.986.0818
F: 808.986.0819

Kauai Location
1865 Haleukana St #A
Lihue, HI 96766
T: 808.245.3727
F: 808.245.1606

Hilo Location
221 Makaala St.
Hilo, HI 96720
T: 808.769.0999
F: 808.333.5327

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.

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

1132 Bishop Street, Suite 2450 ▪ Honolulu, Hawaii 96813 ▪ Phone (808) 564-8183 ▪ Fax (808) 275-8183

KAIROS ENERGY CAPITAL

March 11, 2018

Rep Roy Takumi, Chair, Consumer Protection and Commerce
Rep Angus McKelvey, Chair, Economic Development & Business

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

Dear Reps. Takumi, McKelvey 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,

Larry Gilbert
Manager, Kairos Energy Capital LLC

Kairos Energy Capital, Inc.
Office: 1200 Queen Emma Street, Suite 1808 | Honolulu, Hawaii 96813 | Phone: (808) 457-1600
Mailing: 9450 SW Gemini Dr. PMB 91977 | Beaverton, OR 97008
KairosEnergyCapital.com

Fergus & Company
A LIMITED LIABILITY COMPANY

Rep. Angus McKelvey, Chair,
Rep. Lisa Kitagawa, Vice Chair
House Committee on Economic Development & Business

Hearing Date: March 13, 2019, 10AM

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

125 Merchant Street, Suite 200, Honolulu, Hawaii • Tel (808) 545-1700 • Fax (808) 545-1788

BLACK DEVELOPMENT CORPORATION

125 MERCHANT STREET, SUITE 200
HONOLULU, HAWAII 96813
TELEPHONE (808) 545-1700
FAX (808) 545-1788

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

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

MARCH 13, 2019 · HOUSE ECONOMIC DEVELOPMENT AND BUSINESS COMMITTEE · CHAIR REP. ANGUS L.K. MCKELVEY

POSITION: Support.

RATIONALE: IMUAlliance supports SB 301, SD 1, relating to taxation of real estate investment trusts, which disallows the dividends paid deduction for real estate investment trusts. 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.

TO: **HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS**
Rep. Angus L.K. McKelvey
Rep. Lisa Kitagawa, Vice-Chair

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

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

HEARING: **Wednesday March 13**, 2019, 10:00 am,
Conference Room 309, 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-SD-1
Submitted on: 3/9/2019 11:39:49 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

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-SD-1
Submitted on: 3/9/2019 5:07:07 PM
Testimony for EDB on 3/13/2019 10:00:00 AM

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

Comments:

Dear Chairman McKelvey, Vice Chairwoman Kitagawa, and other members of the Committee:

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

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

REITs operating in Hawaiʻi 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.

Chair McKelvey
Vice Chair Kitagawa
House Committee on Economic Development & Business

Wednesday, March 13, 2019
10:00 AM

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

Aloha Chair McKelvey, Vice Chair Kitagawa, Members of the House Committee on Economic Development & Business,

My name is Jun Shin. I am 19 years old, a member of Generation Z. I am a freshman at the University of Hawaiʻi 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 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 Hawaiʻi 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.

By doing their part, REITs can operate and thrive in Hawaiʻi while still being a responsible community member. By paying their share of the taxes, they are helping to build a strong Hawaiʻi for everyone, revenue that would be able to go to critical needs that have been addressed by previous testifiers, which includes affordable housing programs and our education system. Please continue to help in making a Hawaiʻi 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. For future generations, I ask you to please **support** and **pass SB301 SD1 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-SD-1
Submitted on: 3/10/2019 12:09:36 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Robert H Stiver	Individual	Support	No

Comments:

Dear Chairman McKelvey, Vice Chairwoman Kitagawa, and other members of the Committee:

Aloha! I ask that you vote to pass SB 301 SD1 and thus close the loophole that exempts REITs from paying state corporate income tax.

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

REITs operating in Hawaiʻi 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.

SB-301-SD-1
Submitted on: 3/11/2019 8:32:59 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Tracey Clay-Whitehurst	Individual	Oppose	No

Comments:

SB-301-SD-1
Submitted on: 3/11/2019 9:48:56 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Dr Marion Ceruti	Individual	Oppose	No

Comments:

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, this will become a disincentive to invest in Hawaiʻi and negatively impact the economy through these investments in real estate. 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. Vote NO on SB 301.

SB-301-SD-1
Submitted on: 3/11/2019 10:01:27 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

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

Comments:

I support SB 301 SD1

SB-301-SD-1
Submitted on: 3/11/2019 10:37:31 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Valerie Wayne	Individual	Support	No

Comments:

Aoha legislators,

My name is Valerie Wayne, and I support SB 301 with an amenment to dedicating the resulting tax revenue to developing more affordable housing. As you may know by now, 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 your work,

Valerie Wayne

SB-301-SD-1
Submitted on: 3/11/2019 11:01:11 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Mark K.Wilson III	Individual	Support	No

Comments:

My name is Mark Wilson, and as a concerned citizen and a member of Faith Action I urge you to support SB 301. The loophole that REITs use to avoid the Hawaii corporate tax needs to be closed to generate an estimated $60 million in tax revenue. In addition, the REIT tax revenue should be separated from the general fund and applied to the much needed creation of affordable housing in Hawaii.

Mark Wilson

SB-301-SD-1
Submitted on: 3/11/2019 11:35:14 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Natalie Landis	Individual	Support	No

Comments:

Aloha Chair, Vice Chair, and Committee members,

My name is Natalie Landis, I am an organizer intern at Faith Action for Community Equity, as well as a social work student at UH Manoa. I am testifying in strong support of this bill.

Simply put, REITs are profiting off of doing business in Hawaii. Therefore, they should be required to pay taxes on their earnings back to the state of Hawaii just like everybody else.

This comes down to an issue of not only fairness, but EQUITY. “Community Equity” is in our organization’s name, and it is essentially the principle of providing assistance to those who need it most.

It is no secret that the state of Hawaii is in dire need of truly affordable housing. By getting rid of REITs’ tax loophole, you are being presented with an opportunity to use that money to do some tangible good for Hawaii's residents (residents who should be your main concern as public officials- rather than companies and shareholders, many of whom are not hawaii residents themselves).

On behalf of Faith Action, we urge you to do the right thing, by taxing REITs and putting that money toward affordable housing.

Thank you for your time.

Natalie Landis

SB-301-SD-1
Submitted on: 3/11/2019 6:33:09 PM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Annie AuHoon	Individual	Support	No

Comments:

Please Support this bill, that would raise an estimated $60 million in annual revenue by requiring Real Estate Investment Trusts pay their fair share of taxes. These funds could assist the State in investing in the development and preservation of housing that is affordable for household earning $75,000 annually or less.

Mahalo Nui, Annie Au Hoon

12 March 2019

Dear Chairman McKelvey, Vice Chairwoman Kitagawa, and other members of the Committee:

Aloha! Please pass SB 301 SD1 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.

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

Sincerely,

Clementina D. Ceria-Ulep
211 Hoomalu Street
Pearl City, HI 96782

SB-301-SD-1
Submitted on: 3/11/2019 10:29:12 PM
Testimony for EDB on 3/13/2019 10:00:00 AM

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

Comments:

Dear Chairman McKelvey, Vice Chairwoman Kitagawa, and other members of the Committee:

Aloha! Please pass SB 301 SD1 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,

Whitney Kim

SB-301-SD-1
Submitted on: 3/11/2019 11:11:32 PM
Testimony for EDB on 3/13/2019 10:00:00 AM

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

Comments:

SB-301-SD-1
Submitted on: 3/12/2019 5:40:33 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Claire Gearen	Individual	Support	No

Comments:

Dear Chair Angus L.K. McKelvey, Vice-chair Lisa Kitagawa and Members of the House Committee on Economic Development & Business:

Thank you for your public service.

My name is Claire Gearen, and I write in strong support of Senate Bill 301 SD1 Relating to Taxation of Real Estate Investment Trusts.

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. We are foregoing revenue that is measurable on the level of the individual resident of Hawaiâ€›i.

All corporations should pay their fair share of taxes, without a business advantage given only to REITs. Please close the REIT tax loophole.

Thank you for hearing this measure,

Claire Gearen

SB-301-SD-1
Submitted on: 3/12/2019 7:57:15 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Lawrence S Franco	Individual	Support	No

Comments:

This is an issue of equity. Individual taxpayers are requested to pay more and more in taxes while REIT corporations pay no taxes on their income. This is not pono and need to be corrected. We have limited income becuase of our population size and need this money to take care of the human needs of our people. Thank you for your action to tax REIT income.

SB-301-SD-1
Submitted on: 3/12/2019 8:53:52 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

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

Comments:

Dear Chairman McKelvey, Vice Chairwoman Kitagawa, and other members of the Committee:

Aloha! Thank you for your discerning and compassionate leadership. Please pass SB 301 SD1 and close the loophole that exempts REITs from paying state corporate income tax.

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

REITs operating in Hawaiʻi 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.

March 12, 2019

Re: SB301, SD1 (in favor)

Chairman Angus McKelvey
Economic Development and Business Committee
The House of Representatives
State of Hawai‘i

Dear Representative McKelvey and Members of the Committee,

I am a retired United Church of Christ clergyperson who has lived in Hawai‘i for over 40 years. I am writing in support of SB301 SD1 relating to the taxation of REITs.

I have only two arguments to make in support of the bill:

1. Profits generated from Real Estate Investment Trusts on property held in Hawai‘i should be taxed by the State of Hawai‘i and the taxes generated should be directed to the State of Hawai‘i.

2. Since it is real estate that is taxed, and given the desperate need for affordable housing in Hawai‘i, the taxes generated should be designated for the Rental Income Housing Fund. This provision should be added as an amendment to the bill.

Please vote affirmatively for SB301 SD1. The bottom line is that fairness dictates that profits from investment property in Hawai‘i should by taxed by the State of Hawai‘i to benefit the people of Hawai‘i.

Yours truly,

The Rev. D. Neal MacPherson

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

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-SD-1
Submitted on: 3/12/2019 9:51:29 AM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Tani Kagesa	Individual	Support	Yes

Comments:

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

Monday, March 11, 2019

TO: HONORABLE REP. ANGUS L.K. MCKELVEY, CHAIR, REP. LISA KITAGAWA, VICE CHAIR & MEMBERS OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS:

SUBJECT: TESTIMONY IN OPPOSITION TO SB301: RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS.

LATE

Hearing
DATE: Wednesday, March 13, 2019
TIME: 10:00 a.m.
PLACE: Conference Room 309
Hawaii State Capitol

Dear, Rep. Angus L.K. McKelvey, Chair, Rep. Lisa Kitagawa, Vice Chair and the members of the House Committee on Economic Development & Business:

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 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 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. Thank you for the opportunity to share our opposition.

LATE

SB-301-SD-1
Submitted on: 3/12/2019 12:19:58 PM
Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Shannon Rudolph	Individual	Support	No

Comments:

Support

LATE

LiUNA!

LABORERS' INTERNATIONAL UNION of North America
HONOR · STRENGTH · JUSTICE

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

COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS

NOTICE OF HEARING

DATE: Wednesday, March 13, 2019
TIME: 10:00 a.m.
PLACE: Room 309

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

ALOHA COMMITTEE CHAIR MCKELVEY, VICE-CHAIR KITAGAWA,

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 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 halt or stall REIT investment on new construction and or renovation work in our State.

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

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**, and we respectfully request that your committee **defer** this bill.

Hawaiʻi
Construction
Alliance

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

LATE

March 13, 2019

The Honorable Angus McKelvey, Chair
The Honorable Lisa Kitagawa, Vice Chair
and members
House Committee on Economic Development & Business
415 South Beretania Street
Honolulu, Hawaiʻi 96813

RE: OPPOSTION for SB301 SD1, RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

Dear Chair McKelvey, Vice Chair Kitagawa, and members:

The Hawaiʻi Construction Alliance is comprised of the Hawaiʻi 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 Hawaiʻi Construction Alliance represent 15,000 working men and women in the basic crafts of Hawaiʻi'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.

Mahalo,

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

LATE

Testimony of
Christopher Delaunay, Government Relations Manager
Pacific Resource Partnership

House Committee on Economic Development & Business
The Honorable Angus L.K. McKelvey, Chair
The Honorable Lisa Kitagawa, Vice Chair

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

Wednesday, March 13, 2019
10:00 A.M.
Conference Room 309

Aloha Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee:

Pacific Resource Partnership (PRP) respectfully **opposes** SB 301, SD1, 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.

Thank you for the opportunity to submit written testimony on this important issue.

LATE

SB-301-SD-1
Submitted on: 3/12/2019 4:24:15 PM
Testimony for EDB on 3/13/2019 10:00:00 AM

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

Comments:

From: Paola Rodelas <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 2:57 PM
To: EDBtestimony
Cc: paolarodelas@gmail.com
Subject: Support SB301 SD1

LATE

From: Paola Rodelas <paolarodelas@gmail.com>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,
Paola Rodelas
Kalihi Valley resident

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

kitagawa2 - Richard

From: Joli Tokusato <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 3:05 PM
To: EDBtestimony
Cc: jolitokusato@gmail.com
Subject: Support SB301 SD1

LATE

From: Joli Tokusato <jolitokusato@gmail.com>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,
Joli Tokusato

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

kitagawa2 - Richard

From: Jessica Hardway <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 3:13 PM
To: EDBtestimony
Cc: jhardway@5.unitehere.org
Subject: Support SB301 SD1

LATE

From: Jessica Hardway <jhardway@5.unitehere.org>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,
Jessica Hardway

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

kitagawa2 - Richard

LATE

From:	Marshall Cacalda <wordpress@aikeahawaii.org>
Sent:	Tuesday, March 12, 2019 3:21 PM
To:	EDBtestimony
Cc:	mcacalda@5.unitehere.org
Subject:	Support SB301 SD1

From: Marshall Cacalda <mcacalda@5.unitehere.org>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

kitagawa2 - Richard

From: Marsha Bruhn <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 3:27 PM
To: EDBtestimony
Cc: mbruhn@5.unitehere.org
Subject: Support SB301 SD1

LATE

From: Marsha Bruhn <mbruhn@5.unitehere.org>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii’s working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

From: Lisa Grandinetti <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 3:31 PM
To: EDBtestimony
Cc: lgrandinetti@5.unitehere.org
Subject: Support SB301 SD1

LATE

From: Lisa Grandinetti <lgrandinetti@5.unitehere.org>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

kitagawa2 - Richard

From: chris abe <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 3:35 PM
To: EDBtestimony
Cc: chrisabe54@gmail.com
Subject: I Support Taxation of REITsSB301 SD1

LATE

From: chris abe <chrisabe54@gmail.com>
Subject: I Support Taxation of REITsSB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

If the REITS don't want to pay their fair share of taxes when they profit off our aina they can get the hell off our island.

Sincerely,

Chris A.

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

kitagawa2 - Richard

From: Brett Jones <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 3:37 PM
To: EDBtestimony
Cc: bjhoops1@gmail.com
Subject: Support SB301 SD1

LATE

From: Brett Jones <bjhoops1@gmail.com>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

From: Benjamin Sadoski <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 3:40 PM
To: EDBtestimony
Cc: bsadoski@5.unitehere.org
Subject: Support SB301 SD1

LATE

From: Benjamin Sadoski <bsadoski@5.unitehere.org>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

From: Faustino Molina <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 3:42 PM
To: EDBtestimony
Cc: paupaumolina1226@gmail.com
Subject: Support SB301 SD1

LATE

From: Faustino Molina <paupaumolina1226@gmail.com>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,
Faustino M.

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

From: Britney Ta'amu-Miyashiro <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 3:45 PM
To: EDBtestimony
Cc: britkm59@gmail.com
Subject: Support SB301 SD1

LATE

From: Britney Ta'amu-Miyashiro <britkm59@gmail.com>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

kitagawa2 - Richard

From:	Cindy Aban <wordpress@aikeahawaii.org>
Sent:	Tuesday, March 12, 2019 5:46 PM
To:	EDBtestimony
Cc:	caban54@gmail.com
Subject:	Support SB301 SD1

LATE

From: Cindy Aban <caban54@gmail.com>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,
Cindy Aban
Medical Assistant
Unite Here Local 5 member
Waipahu

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

From: Nenita Cabanilla <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 5:47 PM
To: EDBtestimony
Cc: caban54@gmail.com
Subject: Support SB301 SD1

LATE

From: Nenita Cabanilla <caban54@gmail.com>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,
Nenita Cabanilla
Self Employed
Home Owner
Waipahu

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

kitagawa2 - Richard

From: Morgan Evans <wordpress@aikeahawaii.org>
Sent: Tuesday, March 12, 2019 6:08 PM
To: EDBtestimony
Cc: mevans@5.unitehere.org
Subject: Support SB301 SD1

LATE

From: Morgan Evans <mevans@5.unitehere.org>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

LEAGUE OF WOMEN VOTERS®

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

LATE

COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS

WEDNESDAY, 3/13/19, 10 AM, Room 309
SB301 SD1, RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS
Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair McKelvey, Vice-Chair Kitagawa and Committee Members:

The League of Women Voters of Hawaii **supports SB301 SD1** that provides for taxation of profits of REITs investing in Hawaii real estate without deducting dividends paid to shareholders**.**

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:

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.

Thank you for the opportunity to submit testimony.

kitagawa2 - Richard

From:	Nick Chagnon <wordpress@aikeahawaii.org>
Sent:	Tuesday, March 12, 2019 7:56 PM
To:	EDBtestimony
Cc:	nsurfecoast@gmail.com
Subject:	Support SB301 SD1

LATE

From: Nick Chagnon <nsurfecoast@gmail.com>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

kitagawa2 - Richard

LATE

From:	Bryant de Venecia <wordpress@aikeahawaii.org>
Sent:	Wednesday, March 13, 2019 10:08 AM
To:	EDBtestimony
Cc:	de2021@hawaii.edu
Subject:	Support SB301 SD1

From: Bryant de Venecia <de2021@hawaii.edu>
Subject: Support SB301 SD1

Message Body:
Aloha, Chair McKelvey and Committee Members:

I strongly support SB 301 SD1 (REITs taxation bill). REITs (Real Estate Investment Trusts) do a significant amount of business in Hawaii: REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year. Because of a loophole in state income tax law, Hawaii loses an estimated $60 million in potential tax revenue every year. This money could be used to support a number of different things that would benefit Hawaii's working families, like affordable housing and more.

I urge you to support this bill and move it forward.

Sincerely,

--
This e-mail was sent from a contact form on AiKea Hawaii (http://www.aikeahawaii.org)

LATE

March13, 2019

Dear Chairman McKelvey, Vice Chairwoman Kitagawa, and other members of the Committee:

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

My name is Winifred Ching, a Hawaii tax payer. Last month, February, property taxes were due. I may be one of the few people who happily write out my check and pay my fair share of taxes. I am happy to do this because I know my money **STAYS IN HAWAII!** I few weeks ago I found out about Real Estate Investment Trusts. I learned that these REITs in Hawaii are worth about 17 billions of dollars and make millions of dollars in profit that they pass on to their share holders. And they are exempt from paying corporate taxes in Hawaii. Then I learned that most of these shareholders do not live in Hawaii. So they do not have to pay any taxes to Hawaii. That made me MAD! I am an individual that pay excise taxes, property taxes and income taxes on my retirement modest income.

Those that make money in Hawaii should pay their fair share. **MONEY MADE IN HAWAII SHOULD STAY IN HAWAII.** I cannot believe that asking these real estate investment companies to pay their fair share would cause the State of Hawaii to lose money; that they would lose investors. There will be others who gladly invest in our beautiful state. 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.

I am in support of this Bill.

Winifred Ching
808 692-6638
Wingin322@yahoo.com

LATE

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

March 13, 2019

RE: <u>Economic Development & Business Committee Hearing on SB301, SD1 (REITs)</u>
Hearing: Wednesday, March 13, 2019, 10:00 a.m.; Room 309
Location: Hawaii State Capitol, 415 South Beretania Street

1. The REITs say that the changes in the tax code will only generate a few million dollars not the $30- to $60-million we are estimating.

   They say that they can use other methods to avoid and reduce tax liability. The question is, why are they fighting so hard to keep an exemption that they admit they don't need? It is because they are not telling us the truth.

2. The REITs say that the change in the tax code would result in loss of construction jobs. If the change to the code on a billion dollars income only generates $2- to $10-million a year it is insignificant and should have no impact on jobs or our economy. The REITs are not telling the truth. The REITs should only be paying their fair share of our State taxes like all Hawaii corporations.

   REITs pay no taxes so they can afford to pay a higher price for an asset. They will deny it, but why do REITs own so much real estate in Hawaii and all of the all alternative investors own little or no major assets in Hawaii?

   The REITs have an unfair advantage. A healthy economy would have many different corporate owners competing for our investment real estate assets.

   The REITs can pay more and then can raise rents to merchants that raise prices to the consumers and Hawaii tax payers have to make up taxes REITs do not pay, but also pays higher prices at the shopping centers, hotels and rental buildings..

   Local merchants are usually forced out because the rents are too high.

3. The REITs say they have affordable housing developers that will be taxed if the law is changed.

I am one of Hawaii's largest affordable housing developers, much larger than any REIT in terms of number of units. I am also more likely to do projects in the 20% to 80% of median where they do the 80% to 140% of median.

I pay taxes and the REITs don't. It is not fair. I pay taxes and can still compete. REITs pay no taxes. It is not fair.

4. The mainland owners will accept all of our incentives to build rental housing. They will ask for waiving the 4% GET tax. They will ask city to waive property taxes. What they don't tell you is they then rent the units to tenants at 80% of median, but not to local families, but to the military. Their income falls in the 80% range but they also get an additional housing allowance. So a lot of the supposedly affordable housing at 80% is really an illusion and nothing more than barracks for the military. All the concessions are just extra profits being stolen from Hawaii tax payers. The REITs are not our friends. They are companies making money and paying no taxes.

The story can go on and on. The point is:

- REITs don't help Hawaii, they cost us
- REITs are not about out people and our needs, but are about profits at all costs
- REITs are not telling the truth, they are protecting a tax advantage at the expense of our local tax payers
- REITs should be treated like Hawaii based companies and pay State taxes