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 Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Wednesday, February 6, 2019
Time: 10:00 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

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

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

S.B. 475 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 is effective upon approval and applies to taxable years beginning after December 31, 2019.

First, 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 will 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.

Second, the Department notes that it always prefers conformity with the Internal Revenue Code (IRC) where possible, as it provides clear guidance to both the Department and to taxpayers; the Internal Revenue Service has issued substantial guidance in the form of rules and regulations, and there are many court decisions regarding the various sections of the IRC. Conformity greatly minimizes the burden on the Department and taxpayers, thereby assisting compliance with Hawaii's tax law.

Thank you for the opportunity to provide comments.

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Disallow REIT Deduction for Dividends Paid

BILL NUMBER: SB 301; HB 475 (Identical)

INTRODUCED BY: BROWER, HOLT, MORIKAWA, OHNO, QUINLAN, Takayama

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: Taxable years beginning after December 31, 2019.

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

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

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

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

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

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

Digested 2/1/2019

Church of the Crossroads
United Church of Christ

Testimony of Church of the Crossroads
Supporting SB 301 with an amendment
Senate Committee on Ways and Means
February 6, 2019 at 10:00 a.m. in Conference Room 211

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. 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, it is estimated that somewhere in the neighborhood of $60 million in tax revenue would be generated.

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 finance affordable housing are contained in a study entitled, "Housing Action Plan Final Report to the State Legislature," which 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. The bill can easily be amended to separate the REIT tax revenue from the general fund and direct it to the creation of affordable housing in Hawaii.

With this amendment, the Church of the Crossroads supports the bill and urges the committee to pass it.

LEAGUE OF
WOMEN VOTERS®

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

COMMITTEE ON WAYS AND MEANS

WEDNESDAY, 2/6/19, 10 am, Room 211
SB301, RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUST
TESTIMONY
Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair DELA CRUZ, Vice-Chair KEITH-AGARAN and Committee Members:

The League of Women Voters of Hawaii **supports SB301** 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:

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.

Thank you for the opportunity to submit testimony.

SB-301
Submitted on: 2/3/2019 10:12:00 PM
Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Joseph Kohn MD	Testifying for We Are One, Inc. - www.WeAreOne.cc - WAO	Support	No

Comments:

Tax the rich and they will still be rich.

Dear Chairman Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee:

REITs operating in Hawaiʻi 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 Hawaiʻi's low property tax. They can operate and thrive in Hawaiʻi while still being a responsible community member and paying their share of the taxes needed build a strong Hawaiʻi for everyone.

Please pass SB 301 and eliminate the corporate income tax exemption on dividends paid out by REITs.

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

www.WeAreOne.cc

Hawaii Foodservice Alliance LLC, 2720 Waiwai Loop, Honolulu, HI 96819
Tel: 808.839.2004 ~ Fax: 808.839.2033 ~ HFA@HFAHawaii.com

February 6, 2019

TO: Senator Donovan Dela Cruz
Senator Gilbert Keith-Agaran
Senate Committee on Ways and Means

FROM: Chad Buck
CEO
Hawaii Foodservice Alliance LLC

RE: **Support for SB 301**, Relating to Taxation of Real Estate Investment Trusts

I strongly support 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.

Chad Buck
Hawaii Foodservice Alliance LLC

SB-301
Submitted on: 2/3/2019 9:31:22 PM
Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Scott Foster	Testifying for Hawaii Advocates For Consumer Rights	Support	No

Comments:

Please pass this important bill which will finally capture a significent amount of tax money now leaving the state.

Mahalo!

Scott Foster, Communications Director, Hawaii Advocates For Consumer Rights

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

February 6, 2019

The Honorable Donovan Dela Cruz, Chair
Senate Committee on Ways and Means
State Capitol, Room 211
Honolulu, Hawaii 96813

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

HEARING: Wednesday February 6, 2019, at 10:00 a.m.

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran, 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** H.B. 301, 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 and negatively impact the economy through these investments in real estate.

Mahalo for the opportunity to testify.

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EQUAL HOUSING OPPORTUNITY

Taubman

February 5, 2019

Honorable Donovan M. Dela Cruz, Chair
Honorable Gilbert S.C. Keith-Agaran, Vice Chair
Committee on Ways and Means
State Capitol (conference room 211)
415 South Beretania Street
Honolulu, Hawaii 96813

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

Dear Chair Dela Cruz, Vice-Chair Keith-Agaran and Committee Members:

On behalf of Taubman Centers, thank you for the opportunity to provide our testimony in opposition to Senate Bill No. 301, which is being heard by the Committee on Ways and Means on February 6, 2019 at 10 am. Senate Bill 301 would disallow the dividend paid deduction for real estate investment trusts ("REITs").

Taubman Centers in Hawaii

Taubman Centers is a publicly owned real estate investment trust 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 90 retailers and 10 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. They 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 c-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 301 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]

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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* http://thereitwayhawaii.com/wp-content/uploads/2016/02/REITs-in-Hawaii-final-December-2015.pdf (Prepared for the National Association of Real Estate Investment Trusts® (NAREIT)

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]

Taubman Centers' International Market Place shopping center is expected to pay in this current year over $1 million in general excise tax and over $3 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 over an estimated 1,000 construction jobs and after opening is expected to create 2,500 permanent jobs (including employment by tenants), which generate both general excise tax revenues from construction work and individual income tax revenues from both the construction and permanent jobs.

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

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[2] Brewbaker, P.H., Ph.D., CBE. (2015, December). *Economic Impacts of Real Estate Investment Trusts in Hawaii* http://thereitwayhawaii.com/wp-content/uploads/2016/02/REITs-in-Hawaii-final-December-2015.pdf (Prepared for the National Association of Real Estate Investment Trusts® (NAREIT)
[3] ibid

REIT distributions.[4] Senate Bill No. 301 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.

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 Ways and Means to hold Senate Bill 301.

Thank you for your consideration of our testimony.

Very truly yours,

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

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

T 248.258.6800
www.taubman.com

[4] ibid

February 5, 2019

Hearing Date: February 6, 2019
Time: 10:00 A.M.
Place: Conference Room 211

The Honorable Donovan M. Dela Cruz, Chair
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair
Senate Committee on Ways and Means

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

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee on Ways and Means:

My name is Lily Yan Hughes and I am the Senior Vice President, Chief Legal Officer and Corporate Secretary of Public Storage. We are ***strongly opposed*** to SB 301 (and related bills such as HB 475). The bill would eliminate the "dividends paid deduction" (DPD) for Hawaii income tax purposes for real estate investment trusts (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.

Enactment of SB 301 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. Imposing an added 6.4% tax on REITs operating in Hawaii predictably would lead REITs to redirect investments away from the state.

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 11 facilities in Hawaii. In 2018, those 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 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]

The bill offers no explanation or justification for the proposed DPD repeal. It may be motivated by a misguided effort to raise added tax revenue. If so, the bill may well have the opposite effect. Such an anti-business tax would strongly incentivize REITs to reduce or avoid

[1] We are confident that investors in Hawaii directly and indirectly hold significant PSA shares, but we cannot specifically identify our Hawaiian shareholders. 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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publicstorage.com

future investment in, and possibly redirect investments away from, the state. This could be expected to have adverse long term effects on the Hawaii economy and the state's tax collections.

Similar bills in prior years have presented two spurious "fairness" points to try to justify a repeal of the REIT DPD in Hawaii: (1) asserting that repeal would somehow level the playing field between REITs and other corporations/entities that are subject to Hawaii's taxes (in fact, REITs are treated differently for tax purposes and not subject to federal or state corporate level tax for good reasons; REITs, unlike regular corporations, are required to distribute their income and are subject to significant operating restrictions governing their income and assets); and (2) a suggestion that because REIT shareholders in other states do not pay Hawaii taxes on the dividends they receive, Hawaii taxpayers somehow are subsidizing the shareholders in other states (there is no subsidy for shareholders in other states; note that Hawaii REIT shareholders do not pay taxes to other states for REIT dividends attributable to properties in other states; and in the case of Public Storage, the great bulk of our dividends are attributable to properties in other states).

Also, a key fairness issue supports continuing the DPD. If Hawaii breaks from the national REIT template and repeals the DPD, it would subject shareholders in Hawaii to double taxation on income that REITs earn in the state (Public Storage would pay tax to Hawaii on its Hawaii earnings, and our Hawaii shareholders would pay tax to Hawaii again when those earnings are included in their dividends); shareholders virtually everywhere else would only be subject to a single level of state income tax.

We note too that no state that imposes income tax upon REITs (other than New Hampshire) denies the dividends paid deduction as proposed by SB 301. 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 DPD in those states.

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 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

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 S.B. 301

BEFORE THE HAWAII SENATE

COMMITTEE ON WAYS AND MEANS

Senator Donovan M. Dela Cruz, Chair

Senator Gilbert S.C. Keith-Agaran, Vice Chair

HEARING ON S.B. 301

FEBRUARY 6, 2019

On behalf of Park Hotels & Resorts Inc. ("PARK"), thank you for this opportunity to provide our testimony on S.B. 301. PARK submits this testimony in **opposition** to S.B. 301. PARK is a publicly traded lodging real estate investment trust ("REIT") (NYSE:PK) that owns 53 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.

The passive income generation requirements separate 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. 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 from Hilton 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. S.B. 301 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.

Additionally, 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. We believe the proposed legislation will not increase tax revenue for the state as the cost of doing business in Hawaii will diminish investment returns and result in less investment. Further, elimination of the DPD could result in foundations or pension funds replacing REIT ownership of real property. Foundations and pension funds generally are passive owners that pay no income taxes and do not make the same investments as REITs. If hotels in Hawaii are held by non-REIT hotel owner-operators, including taxable subsidiaries of REITs, the additional GET revenue generated solely as a result of the REIT structure will disappear.

We believe the GET, which is a tax on gross receipts rather than a tax on net income, is a more reliable and steadier source of state revenues than Corporate income tax and S.B. 675'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 2,728 employees. The payroll and associated benefits for these direct employees is in excess of $188,843,121 million annually.

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

CAPITAL IMPROVEMENTS. Given the long-term nature of our investment, PARK is currently analyzing meaningful capital investment at both resorts. These investments are sizeable and at various stages of feasibility / underwriting.

TAXES GENERATED BY PARK in HAWAII:

- Payroll Taxes. Payroll taxes on employee wages totaled $10,069,127 in 2018.
- General Excise and Use Tax - Operations. The tax revenues generated from our operations totaled $25,238,236 in 2018.
- General Excise Tax – Rent / Management Agreement. As described above as a REIT, unlike other real estate owners, PARK must use a lease structure. As a result, we are required to pay General Excise Tax on the rent paid between our related companies. Effectively a double taxation of the same revenue. This additional GET was $8,068,335 in 2018 and the additional GET paid on the management fees paid to our independent operator was $1,400,294 in 2018.
- Property taxes. Property taxes at PARK's two resorts totaled $18,378,954 in 2018.

CHARITABLE ENDEAVORS BY PARK and ITS ASSOCIATES in HAWAII:

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

We believe that PARK's REIT structure and hotels benefit the State of Hawaii and its residents 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 who invest in REITs by reducing their returns, (iii) discourage REITs from investing in Hawaii, and (iv) require PARK to reassess the level of its investment or reinvestment, and form of operation, in Hawaii. Further, this legislation would have a chilling effect on the motivation of PARK to improve its Hawaii assets and grow their positive economic and charitable impact through additional capital investment.

We thank you again for this opportunity to provide testimony against S.B. 301 and sincerely hope you consider our **strong opposition** to this proposed legislation.

Respectfully submitted,

Scott Winer
Senior Vice President, Tax

WRITTEN TESTIMONY OF

JEFFREY S. CLARK
SVP-TAX & JV ACCOUNTING
HOST HOTELS & RESORTS, INC.
IN OPPOSITION TO S.B. 301

BEFORE THE HAWAII SENATE
COMMITTEE ON WAYS & MEANS

THE HONORABLE DONOVAN DELA CRUZ, CHAIR
THE HONORABLE GILBERT S.C. KEITH-AGARAN, VICE CHAIR

HEARING ON S.B. 301

FEB. 5, 2019

Thank you for the opportunity to submit this testimony in opposition to S.B. 301 on behalf of Host Hotels & Resorts, Inc. (Host). Host is the largest lodging real estate investment trust (REIT) and one of the largest owners of luxury and upper-upscale hotels. The Company is headquartered in Bethesda, Maryland and is traded on the New York Stock Exchange. Host owns approximately 90 hotels throughout the US, Canada and Brazil, including three in Hawaii. Host strongly opposes, and asks you to hold, S.B. 301.

Host agrees with the discussion points included in Nareit's testimony in opposition to S.B. 301 regarding how the legislation would lose revenue on a net basis and how the bill would cause REITs to invest more in other states since they do not have such anti-REIT provisions.

In addition, Host would like to emphasize that the federal tax law requirements of a hotel REIT like Host leads to the doubling or tripling of the general excise tax (GET) as compared with non-REIT hotel owners.

REITs are subject to federal tax law requirements that do not apply to other types of property owners. As relevant here, at least 75% of a REIT's annual gross income must consist of "rents". Hotel room charges are not considered as"rents". As a result, federal tax law requires hotel REITs to:

- Lease their hotels to a third party or to a fully taxable subsidiary, and
- If leased to a taxable subsidiary, the subsidiary must hire an independent operator to manage the hotel.

Again, these requirements do not apply to non-REIT hotel owners.

Hawaii imposes GET on not only the room charges and other hotel operating income earned by the hotel, but also on the rent received from the taxable subsidiary and on the management fee paid to the operator. Again, this additional GET is not imposed on a non-REIT hotel owner. As a result, GET is imposed on at least three levels of income of a hotel REIT: the room charges and other operating income, the rent received from the taxable subsidiary, and the management fee paid to the hotel operator.

For example, Host leases its three Hawaiʻi hotels, the Fairmont Kea Lani on Maui, the Hyatt Regency Maui Resort & Spa, and the Hyatt Place Waikiki Beach to a fully taxable subsidiary, and the taxable subsidiary hired independent operators (Fairmont and Hyatt) to operate its hotels. Both the subsidiary rents and the operator fees have resulted in an **additional annual GET of approximately $5-$6 million** to Hawaii for each of 2017 and 2018 that would not have been assessed if the same entity was the owner and the operator. Because the GET is a gross receipts, rather than a net income, tax, it is a much more reliable source of revenues for the State. It also is a much greater source of revenues to the State than the corporate income tax. S.B. 301's enactment immediately would risk elimination of this extremely valuable source of GET revenues to the State.

Because of these unique requirements applicable to hotel REITs, the State received more than $16 million of GET in 2018 alone from hotel REITs in Hawaiʻi that non-REIT hotel owners do not incur. Yet the proponents of S.B. 301 claim that we operate tax-free in Hawaii!

Why operate this way if it results in more aggregate tax than a non-REIT hotel owner-operator? Because owning and operating the hotels require different expertise and separating the hotel ownership from the hotel operations creates more value both for the investors in the REIT and the investors in the hotel operator. As an additional benefit, it also creates million of dollars of revenues to, and many jobs, in, this State. It's a win-win situation, all of which immediately could be jeopardized by the enactment of S.B. 301. Accordingly, Host respectfully asks the Committee to hold S.B. 301.

ALA MOANA
HAWAII'S CENTER

February 5, 2019

Hearing Date: February 6, 2019
Time: 10:00 a.m.
Place: Hawaii State Capitol, Conference Room 211

Sen. Donovan M. Dela Cruz, Chair
Sen. Gilbert S.C. Keith-Agaran, Vice Chair
Senate Committee on Ways and Means
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Testimony in Opposition to Senate Bill No. 301

Dear Chairman Dela Cruz, Vice-Chairman Keith-Agaran and Committee Members:

Thank you for the opportunity to provide written testimony on Senate Bill No. 301. The intent of the Bill is to disallow the dividends paid deduction, thereby subjecting REIT investment in Hawaii to double taxation contrary to the taxation of REITs nationwide. As we have previously testified, we are not in support of these types of measures and 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.

GGP has now become Brookfield Property REIT and is an affiliate of Brookfield Asset Management. Brookfield Properties' retail group, which encompasses the former GGP portfolio as well as other retail properties within the Brookfield group, has an extensive portfolio of mall properties encompassing 161 locations across 42 U.S. states. Brookfield Properties assures 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 three major retail shopping centers in Hawaii – the Prince Kuhio Plaza in Hilo, Whalers Village in Lahaina, and the Ala Moana Center in Honolulu. The latter two 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

These centers are also key gathering places for our local communities. Efficient REIT capital allows us to constantly reinvest in and enhance the customer experience. For example, we are very supportive and proud of the activities that take place at the new Center Stage at Ala Moana Center, our sponsorship of the Fourth of July firework celebration, our enhancements at Whaler's Village, and our ability to introduce to Hawaii residents, retailers and retail concepts which are on the cutting edge and brand new to the State of Hawaii. Efficient REIT capital also allows us to make 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.

In prior-year legislative sessions, we have testified in opposition to attempts to eliminate the deduction for dividends paid by REITs. That testimony has focused on the following points:

- 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).
- 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. The three 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.
- During 2012-2016, Brookfield Property REIT invested almost $1 billion in capital to construct additional retail square footage and residential condominiums based on the existing Hawaiian 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.
- Future expansion plans could be reconsidered if the attractiveness of investing in Hawaii relative to the rest of the United States is diminished through the enactment of this bill.

In September 2016, the Department of Business, Economic Development & Tourism ("DBEDT") released its final study on REITs in Hawaii. The report specifically notes that the estimates do not take into account changes in behavior, including the likelihood of reduced future REIT investment, if there are additional impediments to REIT or shareholder returns. Similarly, the report does not address the revenue loss to the State resulting from 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 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

ALEXANDER & BALDWIN

PARTNERS FOR HAWAI'I

SB 301
RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

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

FEBRUARY 6, 2019

Chair Dela Cruz and Members of the Senate Committee on Ways & Means:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin (A&B) on SB 301, "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. 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, RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

FEBRUARY 6, 2019 · SENATE WAYS AND MEANS COMMITTEE · CHAIR SEN. DONOVAN M. DELA CRUZ

POSITION: Support.

RATIONALE: IMUAlliance supports SB 301, 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.

February 5, 2019

Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Members of the Senate Committee on Ways and Means

RE: **SB 301 – RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS**
Hearing date – February 6, 2019 at 10:00 am

Aloha Chairs Dela Cruz, Vice Chair Keith-Agaran and members of the committee,

Thank you for allowing NAIOP Hawaii to submit testimony in **OPPOSITION** to SB 301 – 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.

Our members have first-hand knowledge of how real estate investment can positively impact our communities and drive our state's economy. Over the past few years, REIT investment has resulted in several billion dollars of construction activity, which created thousands of local jobs, both construction and permanent, and helped our community recover from the severe economic downtown that occurred during the mid-2000s.

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 would disallow the dividends paid deduction for real estate investment trusts (REITs).

SB 301 will impact Hawaii individuals and businesses, because the REITs will be subject to double taxation. By law, REITs are required to distribute at least 90% of their taxable income to their shareholders. In many cases, they distribute 100%. REIT shareholders pay taxes on the dividends received; SB 301 would constitute a double tax.

In addition, because of regulatory restrictions, REITs are required to hold their assets for a long time. This means that REITs make long term investments which provide additional stability to Hawaii's economy and real estate markets.

Hawaii is among the most heavily taxed states in the entire country which stifles economic growth. If Hawaii eliminates the dividends paid deduction, it would create additional barriers to do business in our state, which would then impact the level of interest in future investment in Hawaii and put jobs and revenues at risk.

. Accordingly, we respectfully urge you to defer SB 301.

Mahalo for your consideration,

Scott Settle, Director
NAIOP Hawaii

UNITE HERE! LOCAL 5 HAWAII
Eric W. Gill, Financial Secretary-Treasurer Gemma G. Weinstein, President Godfrey Maeshiro, Senior Vice-President

LATE

February 5, 2019

Ways and Means Committee, Hawaii State Senate

Re: Testimony in support of SB301 regarding REIT taxation

Aloha Chair Dela Cruz and members of the Committee:

UNITE HERE Local 5 represents over 11,000 workers in the hotel, food service, and health care industries statewide. We stand in **full support of SB301**. REITs do a significant amount of business in Hawaii. Because of a loophole in state income tax law, Hawaii loses tens of millions of dollars every year in potential tax income. This money could support the infrastructure those same companies rely on to do business. It could be used to support any number of the programs our state relies on. The tax exemption REITs currently enjoy is not defensible. The excuse that REITs are already burdened by having to pay most of their profits as dividends to shareholders was a condition of their creation. If REITs claim that taxation would discourage them from doing business in Hawaii, the large amount of valuable real estate they already hold can be purchased by investors who do pay taxes. Either way, the state benefits. We urge the legislature to look at human need before corporate desire. Please pass this bill.

Thank you.

1516 South King Street, Honolulu Hawaii 96826-1912 • 808-941-2141 • www.unitehere5.org

SB-301
Submitted on: 2/3/2019 1:11:41 PM
Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Greg and Pat Farstrup	Individual	Support	No

Comments:

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, it is estimated that somewhere in the neighborhood of $60 million in tax revenue would be generated. I support this bill to make REITs pay full state corporate tax on this income.

However, the increased tax proceeds should not just go into the General Fund. 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. Just hoping that private developers will ever generate the required/middle income housing is unrealistic, public housing is necessary. I lived in Singapore for a number of years and their public housing approach is an excellent model.

The bill should be amended to separate the REIT tax revenue from the general fund and direct it to the creation of affordable housing in Hawaii.

Bruce Anderson
941 B Prospect Street
Honolulu,HI 96822

SB-301
Submitted on: 2/2/2019 5:31:49 PM
Testimony for WAM on 2/6/2019 10:00:00 AM

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

Comments:

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, it is estimated that somewhere in the neighborhood of $60 million in tax revenue would be generated.

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.

1. ideas to finance affordable housing are contained in a study entitled, "Housing Action Plan Final Report to the State Legislature," which 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.

The bill should be amended to separate the REIT tax revenue from the general fund and direct it to the creation of affordable housing in Hawaii.

Testimony of Ellen Godbey Carson
Supporting SB301 and SB675 with an amendment
February 6, 2019, Conference Room 211

I am writing in SUPPORT of SB301 and SB675, with request for one amendment noted below. Real Estate Investment Trusts (REITs)(or their shareholders) should pay taxes in Hawaii for their profits earned off Hawaii properties. The loophole in our laws that has failed to tax REITS in the past has led to a large erosion in our tax base, since REITs own major commercial properties in Hawaii that are essentially going untaxed here. That loophole should be closed. **These bills should be amended to to dedicate 100% of its tax revenues to the creation of affordable housing in Hawaii.** With that amendment, I would be in full support of this bill.

REITs own many large income-producing properties 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. Those revenues are lost for every year we fail to tax REITs.

Meanwhile, profitable activities of REITs and other large landholders increase the price of property for everyone in Hawaii. Hawaii now 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. Devoting 100% of the tax revenues from REITs would provide a sustainable source of major funding for Hawaii's critical needs for affordable housing

Thank you.

Ellen Godbey Carson
1080 S. Beretania Street
Honolulu, HI 96814

Senator Donovan Dela Cruz
Senator Gilbert Keith-Agaran
Senate Committee on Ways and Means

Wednesday, February 6, 2019

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

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

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

Thank you,

Gerald Yamada

SB-301
Submitted on: 2/4/2019 9:25:56 AM
Testimony for WAM on 2/6/2019 10:00:00 AM

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

Comments:

Please pass this bill to close the REIT loophole

AMEND the bill to separate REIT tax revenue fro the general fund and direct it to the creatio of affordable housing for HAWAII

Mahalo,

Ann Renick

SB-301
Submitted on: 2/4/2019 9:59:29 AM
Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Concetta DiLeo	Individual	Support	No

Comments:

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, it is estimated that somewhere in the neighborhood of $60 million in tax revenue would be generated.

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 finance affordable housing are contained in a study entitled, "Housing Action Plan Final Report to the State Legislature," which 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.

The bill should be amended to separate the REIT tax revenue from the general fund and direct it to the creation of affordable housing in Hawaii.

Senator Donovan Dela Cruz
Senator Gilbert Keith Agaran
Ways & Means Committee

Wednesday, February 6, 2019

Testimony in Support of SB301: Relating to Taxation of Real Estate Investment Trusts

As a lifelong resident of Hawaii, it is very concerning to continue to hear that our State does not have the funding to improve on necessary services for the public. Our public schools, health care services, retirement benefits, and road conditions among others continue to suffer due often times to a lack of adequate funding. As a result, I strongly support SB301, Relating to Taxation of Real Estate Investment Trusts, as this will immediately and significantly increase the amount of tax revenue received by our State.

It is unfair that the mainland owners of the major shopping centers, hotels, and office buildings in Hawaii are permitted to profit from our local and visitor trade without paying any income tax to our State. It is only logical that REITs should be required to contribute to the costs of the infrastructure, emergency, and social services that support their properties, the same way our local businesses and Hawaii residents are. SB301 would address this issue by closing the REIT income tax loophole in order to keep more revenues in Hawaii for the benefit of our local community and all of the people that call our beautiful island State home.

We need to close the current REIT tax loophole and protect our tax base. Please support and pass SB 301. Thank you.

Sincerely,

Ryan Matsumoto
3438 Niolopua Dr.
Honolulu, Hawaii 96817

SB-301
Submitted on: 2/4/2019 10:30:46 AM
Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Catherine Susan Graham	Testifying for Faith Action/Housing Now Coalition	Support	Yes

Comments:

Feb 4, 2019

Testifying in favor of SB 301

Aloha Chair Dela Cruz and Committee Members,

I am the co-chair of the Housing Now! Coalition of Fatih Action for Community Equity. Our name says it all, we are a group of 18 Faith Institutions and several other community groups who work for Community Equity. Fairness. The social good of all the residents of Hawaii, especially those who do not have a voice.

We whole-heartedly support SB 301 and SB 675, bills that would require REITS to pay income tax to the state of Hawaii. Given that a huge portion of our state real estate is owned by REITS and 99.5% of their shareholders live out of state (or even out of the country), Hawaii is not receiving any income tax based on the current law. We estimate that the State is losing up to $60 million a year in revenue due to this tax loophole.

I am a low-income 40 year resident of this state. I have seen Hawaii be developed with beautiful shopping centers, hotels and condos. It was just recently that I learned that we, as a state, are getting ripped off because the owners of these properties do not pay income tax to our state.

Loopholes do not benefit the hard working residents of our state. With housing shortages and tons of homeless people living on the streets, I can foresee a very good use of the potential income that this bill would help provide.

I understand that REIT owners, (mostly large developers and resort owners) are against this bill. Of course, they are. They are naturally not in favor of any measures that will negatively effect their bottom line. But it is time for the legislators of our state, who are elected by the residents of our state, to stand up to big money and really consider the welfare of our island home. These investors and REIT owners don't live here, they just make their profits here. We are being stolen once again.

It is time to protect our island assets and residents.

Please pass this bill.

Mahalo,

Catherine Graham, co-chair

Housing Now Coalition of Faith Action for Community Equity

Catgraham48@gmai.com

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

February 1, 2019

Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Senate Committee on Ways and Means

Comments and Concerns in Strong Opposition to SB 301, Relating to Real Estate Investment Trusts (REITs); Disallows Dividends Paid Deduction for REITs.

Wednesday, February 6, 2019, 10:00 a.m., in Conference Room 211

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. 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 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 which may potentially stifle, if not reverse the current growth of the State's economy, in reliance solely upon the untenable findings of the Final Report, and must respectfully urge this Committee to at the very least, conduct an

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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.

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 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 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 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.

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

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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.*

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 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 will 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.

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

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

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

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 (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 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.

<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 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**, and respectfully requests that this bill be **held in this Committee.**

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

Support for SB301 RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

Good morning, Rep. DelaCruz, Vice-Chair Vice-Chair Keith-Agaran, 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, housing association, Wahiawa Health 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.

We whole-heartedly support Senate Bill 301.

We see this bill as a step in the right direction toward economic justice and thus social justice. Every working citizen, every Mom and Pop store, every company in Hawaii must pay taxes which support our economy. But REITS are exempt from this responsibility. The 40+ REITs corporations in Hawaii have real estate properties valued at an estimated $18 billion. The income from those properties earn profits totaling an estimated
$1 billion.

This we know: REITs *must* pay their fair share, pure and simple. Our members and others in the community are first shocked upon learning about REITs and then agitated enough to spread the word to friends and relatives and pass out petitions. We definitely have a groundswell building.

For over 20 years, Faith Action has been diligent in making affordable housing a reality for all Hawaii's residents. Making this happen is more than complicated; it requires creativity, persistence, and money.

Faith Action's legislative initiative aims to get more resources/money for truly affordable housing in Hawaii. REITs is one obvious source.

Making housing affordable so that all Hawaii residents can begin to create a home for themselves and their children is a moral responsibility for all who have the power to help make it so.

It is a moral responsibility because affordability leads to stability. Stabiliity leads to community. Community leads to a place that can truly be called "home" where all who live there can hope, contribute, and thrive.

We ask you to pass SB301. Thank you for this opportunity.

Evelyn Aczon Hao
President
Faith Action for Community Equity

February 7, 2018

Senator Donovan Dela Cruz
Senator Gilbert Keith-Agaran
Senate Committee on Ways and Means

Re: Support for SB 301, Relating to Taxation of Real Estate Investment Trusts
Hearing: February 6, 2019, 10:00am

Dear Senators Dela Cruz, Agaran and Members of the Committee:

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 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. 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

WAIKELE

An American Assets Trust Property

February 6, 2019

Honorable Donavan M. Dela Cruz, Chair
Honorable Gilbert S.C. Keith-Agaran, Vice Chair
Hawaii Senate Committee on Ways & Means
State Capitol
415 South Beretania Street Room 211
Honolulu, Hawaii 96813

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

Dear Chair Dela Cruz, Vice-Chair Keith-Agaran, 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 seeks to disallow 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 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, Senate Bill 301 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 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. Thank you for the opportunity to submit this testimony.

Sincerely,

Pamela R. Wilson

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

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

SENATE COMMITTEE ON WAYS AND MEANS

February 6, 2019 10:00 AM Room 211

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

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Aloha Chair Dela Cruz, Vice Chair Keith-Agaran, 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, Hawaiʻi’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.**

Mahalo,

Jodi Malinoski

Jodi Malinoski, Policy Advocate

HAWAI'I
AMERICANS FOR DEMOCRATIC ACTION

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Alan Burdick, Vice President	Guy Archer	Chuck Huxel	Doug Pyle	Honolulu
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Dylan Armstrong, Secretary	Gloria Borland	Jenny Nomura		

Feb. 4 , 2018

TO: Honorable Chair Dela Cruz & WAM Committee Members

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

Support for hearing on Feb 6

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

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

Thank you for your favorable consideration.

Sincerely,

John Bickel President

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Senate Committee on Ways and Means

Hawai`i Alliance for Progressive Action Supports SB 301

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and members of the committee,

On behalf of Hawai`i Alliance for Progressive Action (HAPA) we submit this testimony in strong support of SB 301, which disallows dividends paid deduction for real estate investment trusts.

HAPA is a statewide environmental, social and economic justice organization and engages over 10,000 local residents annually through our work.

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

As part of the community, REIT-owned properties across Hawai`i, such as the International Marketplace, Pearlridge Shopping Center, Hilton Hawaiian Village and Ala Moana Center should also be paying their fair share to support the community.

The income generated by Hawaii REITs should be taxed so they help support the communities in which they operate.

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.

The following additional points support the need for SB 301:

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.

Every other individual and corporation doing business in Hawaii is subject to state income tax and the exemptions do not serve the community.

If the REITs pay their fair share of taxes, then that can reduce the tax burden on Hawaiian residents.

REITs already receive generous federal tax exemptions and also benefit from Hawaii's low property tax rates so the exemptions seem excessive.

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 Hawaiʻi state income taxes.

REITs can operate and thrive in Hawai\`i while still paying their share of the taxes needed build a strong Hawaii for everyone. Please pass SB 301 and eliminate the corporate income tax exemption on dividends paid out by REITs.

Thank you for your consideration! We strongly urge you to support SB 301.

Respectfully,

Anne Frederick, Executive Director
Hawai\`i Alliance for Progressive Action (H.A.P.A.)

The Hawaiʻi 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 ʻaina (environment) and people ahead of corporate profit.

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

TO: Senate Committee on Ways & Means
Senator Donovan Dela Cruz
Senator Gilbert Keith-Agaran

RE: Testimony in Support of the Taxation of Real Estate Investment Trusts in Hawaii SB-301
Hearing: Wednesday, February 6, 2019, 10:00 a.m.; Room 211
Location: Hawaii State Capitol, 415 S. Beretania Street

The REITs say it is not fair that it is double taxation, but that really is not true all of Hawaii's registered corporations have double taxation. The question is why are the REITs mostly large mainland corporations the only companies that don't pay taxes just like every other local company? It is not fair REITs should pay taxes like all other Hawaii companies do. THE QUESTON IS WHY DO REITS PAY NO TAXES IN HAWAII?

The REITs say they bring management skills and capital that help Hawaii. This is also not true. They do bring capital and good management, but so do many other companies, large investors, retirement funds, insurance companies, sovereign funds, foreign investors all do the same thing, but they also pay taxes. THE REA QUESTION IS WHY ARE THE REITS TAX FREE?

The REITs say they pay property taxes and sales taxes. This is not true. Their tenants leasing the space pay the taxes. The cost is added to the goods and service sold and Hawaii residents pay for it. THE QUESTION IS WHY DO REITS PAY NO TAXES IN HAWAII?

The REITs say they create jobs. Again, not true. Anyone who owns property will create jobs. THE QUESTION IS OF ALL THE POSSITBLE BUYERS, BOTH PRIVATE AND CORPORATION THAT WOULD CREATE JOBS, WHY ARE REITS THE ONLY ONE THAT DO NOT PAY STATE TAXES?

The REITs will refer to a department of taxation study that says the REITs could reduce the taxes they would have to pay by using other tax structure to justify REITs being tax free. This is not a true argument. If it was accurate why not agree to be like other companies and avoid taxes in conventional ways. It is unlikely that a REIT cold remain tax free as now allowed by their tax loophole. THE QUESTION IS NOT HOW MUCH TAXES ARE PAID, BUT WHY DO REITS PAY NO TAXES IN HAWAII?

Even if the tax revenue was less than the $60-million estimate having a level playing field, having all tax payers treated the same way would justify plugging the REIT loophole. If capital gain taxes on the sale of the assets are included, the “tax revenue” loss could go from $60-million to $120-million per year. THE QUESTION IS WHY ARE REITS ALLOWED TO AVOID STATE TAXES?

The REITs say that the present system is fair and no other states but one has challenged it because it is fair. This again is not true. One state has challenged it and REITs still buy in that state. Many states do not have state taxes. For many states, it may not be as big of an issue due to number of REIT owned properties. Hawaii has a very high percentage of REIT owned properties. Hawaii a strong unique real estate market and REITs will invest in Hawaii even if the law is changed. THE QUESTION IS STILL WHY DO REITS PAY NO TAXES IN HAWAII?

The answer to the question is “WHY DO REITS PAY NO TAXES? is quite simple. Hawaii adopted the federal tax code as our state code as did most states. In the federal code is a sentence that says REITs are to be tax free. It is that simple as to how the REITs became tax free in Hawaii. For the federal government, they get just as much tax revenue or even more since federal taxes are paid by stockholders on REIT distribution.

The state of Hawaii and its residents are the big losers. Taxes that should be paid in Hawaii are now paid in the state where the stockholder lives. The local tax payers make up for the loss by paying higher local taxes. Please pass this bill, tax the REITS and require they pay their fair share just like all Hawaii companies.

I support SB-301 over SB-675. SB-675 is more complex and more likely to take a year or two to become effective. SB-675 is more likely to be challenged. I would suggest we pass SB-301, start collecting the taxes immediately and then in later years look at SB-675/

I strongly support 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.

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SB-301
Submitted on: 2/4/2019 3:39:27 PM
Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Richard Tillotson	Individual	Support	No

Comments:

Aloha,

While generally in support of this measure, I believe it should be amended.

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, it is estimated that somewhere in the neighborhood of $60 million in tax revenue would be generated.

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.

1. ideas to finance affordable housing are contained in a study entitled, "Housing Action Plan Final Report to the State Legislature," which 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.

The bill should be amended to separate the REIT tax revenue from the general fund and direct it to the creation of affordable housing in Hawaii.

Mahalo for considering my testimony.

SB-301
Submitted on: 2/5/2019 9:28:45 AM
Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Jennifer Mather	Individual	Comments	No

Comments:

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee:

I believe REITs should pay their share of taxes.

Mahalo,

Jen Mather

WRITTEN TESTIMONY OF

DARA F. BERNSTEIN
SENIOR VICE PRESIDENT & TAX COUNSEL
NAREIT
IN OPPOSITION TO S.B. 301

BEFORE THE HAWAII SENATE
COMMITTEE ON WAYS AND MEANS

THE HONORABLE DONOVAN M. DELA CRUZ, CHAIR
THE HONORABLE GILBERT S.C. KEITH-AGARAN, VICE CHAIR

HEARING ON S.B. 301

FEB. 6, 2019

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, S.B. 301, 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, S.B. 301 would: 1) produce less net tax revenues (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, S.B. 301 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. Of course, this solution could be expected to be met with fierce opposition by the investment community.

S.B.301 Would Produce Less Revenue Than Current Law

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

For example, Park Hotels & Resorts, Inc. leases its Hawaii hotels to a taxable subsidiary, and, in Hawai‘i, the taxable subsidiary hires Hilton to operate its hotels. Both the subsidiary rents and the operator fees have resulted in an **additional annual GET of approximately $9.5 million** to Hawaii for each of 2017 and 2018 that the prior owner, Hilton, as a non-REIT hotel owner-operator, wasn’t paying before. When aggregated with other REIT hotel owners in Hawaii, 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 (more than 50%) than the corporate income tax (around 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). **S.B. 301’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 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.

Unlike non-REIT property investors, REITs can't keep their money. Instead, REITs must distribute their taxable income. In exchange for distributing all of their income – and for meeting other asset, income and operational tests, REITs can claim a 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, S.B. 301 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.

In addition, several local investment firms which manage investments for their clients hold millions of dollars in REIT stocks. 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 avoid investment in REITs with Hawaiʻi interests if Hawaiʻi REIT investment is taxed differently from REIT investment virtually anywhere else, resulting in less revenue for the state.

S.B. 301's Enactment Would Lose Jobs for Hawai'i Residents

S.B. 301 risks significant job loss. Enactment of S.B. 301 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. While it may be easy to argue that no jobs will be lost by the onerous burdens and double taxation proposed by S.B .301, 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.

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

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

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

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

S.B. 301 Would Violate Core State Comity Principles

S.B. 301 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. Additionally, Hawaii 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. S.B. 301 would eliminate this comity of state taxation principles by unilaterally double taxing REITs (and their shareholders) that do business in Hawaii. 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.

S.B. 301 Would Not Create Parity Between Partnerships/LLCs and REITs

If the legislature wanted to enact true tax conformity between REITs and partnerships, S.B. 301 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 be subject to an entity-level tax applied to those earnings even though the earnings would be distributed to investors. Of course, any such effort would be met with fierce resistance from the investment community.

Please Do Not Enact S.B. 301

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.

February 5, 2019

Re: S.B. 301

Senator Donovan Dela Cruz
Ways and Means Committee
The Senate
State of Hawai‘i

Dear Senator Dela Cruz 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 S.B. 301 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 S. B. 301 or S.B. 675, whichever bill you choose, but 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

Expert Testimony

Matthew L. Friedman, PhD

Date	Personal Testimony of:	Personal Expert Testimony Presented to the Hawaii State Legislature Related to SB301 & Concerning the Taxation of REIT Profits
February 4, 2019	Matthew L. Friedman, PhD	

This document summarizes my strong support for S.B. No. 301:

As a research economist and Hawaii parent, I am deeply concerned about Hawaii's long-term economic development. As such, I strongly support S.B. No. 301, Relating to Taxation of Real Estate Investment Trusts. REITs are very active in Hawaii, in fact the state ranks top in the nation in terms of per capita REIT investment. With significant real property holdings and headquartered almost exclusively outside the state, these firms earn excess profits at the expense of the local business community.

This bill is an opportunity to reform an inefficient law that favors wealthy mainland interests over local businesses. Closing the DPD loophole and taxing REITs the same as other local firms is fair, equitable, and prudent. For years the DPD has been unfairly shrinking certain firms' corporate tax liability by tens of millions of dollars annually for no clear purpose or benefit. Eliminating it will, without question, have a strictly positive impact on state corporate income tax receipts while simultaneously bolstering the competitiveness of local real estate firms competing against larger mainland interests.

<u>S.B. No. 301 would raise between $30 to $60 million annually in additional tax revenue for the state. These funds are desperately needed to support the costs of education, social services, and other state commitments, which continue to be vastly underfunded.</u>

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. Eliminating the DPD loophole will restore fairness to the tax system and increase revenues, allowing the state to better invest in programs and infrastructure that will benefit the entire state – not just wealthy foreigners.

For these reasons, I urge the committee to pass S.B No. 301 related to the taxation of REITs.

Thank you for the opportunity to testify.

Matthew L. Friedman, PhD

To: Senate Committee on Ways and Means
From: Mark Wilson
Email: mkw@hawaiiantel.net

Date of hearing: Wednesday, February 6, 2019
Location: Conference room 211

Subject: Support for SB 301 -- Relating to Taxation of Real Estate Investment Trusts
Will be attending the hearing: Yes

Dear Chairman Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee:

My name is Mark Wilson. I'm a retired professor of English at the University of Hawaii and a member of Church of the Crossroads and Faith Action for Community Equity.. I believe that 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.

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

Black Development Corporation

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

Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Committee on Ways and Means

Hearing Date: Wednesday, February 6, 2019

Support for S.B. 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.

S.B. 301 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 S.B. 301. Let's ask everyone to pay their fair share to support this special community.

Sincerely,

Vivian Shiroma
Vice President

Testifier name

Eric Schanger
Will Caron
Deanna Espinas
Alana Busekrus
Ida Peric
Soo San Schake
Cheryl Ho
Shannon Rudolph
Cameron Ahia
Colleen Medeiros
Mele Nelson
Royce Okamura
Andrea Brower
Rev. Samuel Domingo
Jun Shin
Juliet Begley
Wally Inglis
Randy Gonce
Johnathan Boyne
Ben Shafer
Diane Martinson
Javier Mendez
Millicent Cox
Kermit Reineman
Cindy Aban
Daborah Mader
Carla Allison
Chris Jansen
Jeff Gilbreath
Paola Groves
Shannon Li
Glenda Tucker
Marilyn Mick
Scott Shafer
Olaf Tollefsen
Noelani Ahia
Elif Beall

To: Senate Committee on Ways and Means
From: Deborah Mader
Email: mader4maui@gmail.com

Date of hearing: Wednesday, February 6, 2019
Location: Conference room 211

Subject: Support for SB 301 -- Relating to Taxation of Real Estate Investment Trusts Will be attending the hearing: No

Dear Chairman Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee:

REITs operating in Hawaiʻi 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 Hawaiʻi's low property tax. They can operate and thrive in Hawaiʻi while still being a responsible community member and paying their share of the taxes needed build a strong Hawaiʻi for everyone.

Please pass SB 301 and eliminate the corporate income tax exemption on dividends paid out by REITs.

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

Testifier name
Anne Oliver
Ben Walin
Bob Dewitz
Chad P. Love
Francis U. Imada
Greg Sheehan
Jacob Fergus
Steve Gold

Francis U. Imada, CPA, CFP
1073 Maunawili Road
Kailua, Hawaii 967234
(808) 497-6053: fimada@hawaii.rr.com

Senator Donovan Dela Cruz
Senator Gilbert Keith-Agaran
Senate Committee on Ways and Means

Wednesday, February 6, 2019

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

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

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

Thank you,

Francis U. Imada

Francis U. Imada, CPA, CFP

Testifier name
Azad Tirgardoon
Brandon Fujimoto
Marshall Hung
Rochelle N. Ito

Ways & Means Committee
Senators Dela Cruz and Keith-Agaran
RE: SB301 Hearing
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 SB301 requiring real estate investment trust companies to pay income tax to support our state.

Mahalo,

Azad Tirgarzoon
92-1224 umena street
Kapolei Hi 96707
phone #808-255-9111

Douglas Emmett

LATE

February 5, 2019

Senator Donovan Dela Cruz, Chair
Senator Gilbert Keith-Agaran, Vice Chair
Senate Committee on Ways and Means

RE: SB 301 Relating to Taxation of Real Estate Investment Trusts – In Opposition
Wednesday, February 6, 2019; 10:00 AM; Conference room 211

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran 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, 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 construction of 475 new 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.

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 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. Presumably, over time, 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 will eliminate an important source of capital that generates substantial local economic activity. Inasmuch as SB 301 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.

Respectfully,

Kevin Crummy
Chief Investment Officer

Michele Aronson
Senior Vice President

LATE

February 5, 2019

Donovan M. Dela Cruz, Chair
Gilbert S.C. Keith-Agaran, Vice Chair
Senate Committee on Ways and Means
415 S Beretania St
Honolulu, HI 96813

Re: Testimony in Opposition to Senate Bill No. 301

Dear Senators:

Thank you for the opportunity to weigh in on a matter that is important to the investment and real estate markets and community of the State of Hawaii. Kobayashi Group, The MacNaughton Group, and BlackSand Capital are Hawaii-based organizations that are distinguished by their integrity, innovation, flexibility, and intimate knowledge of and connection to Hawaii. It is with this experience of where we live and work that we provide this testimony.

Fundamentally, to disallow the dividends paid deduction would have the effect of subjecting investments made through real estate investment trusts ("REITs") to two layers of taxation--one at the level of the REIT and another tax on the income of the shareholders of those REITs. Not only is this inconsistent with the treatment of REITs at the federal level and virtually every other state, but it would put REIT investors at a competitive disadvantage to investors holding their real estate interests through any of the other "flow-through" entities including limited partnerships, limited liability companies and S-corporations.

Notable is the large number of individual investors that invest through REITs to accomplish diversification across their real estate portfolios—to treat these investors differently than others investing through the aforementioned entities would be unfair.

Furthermore, the investments held through REITs provide innumerable shopping, tourism, hospitality and job opportunities within our State and help support our community's economy and the livelihood of its residents. We believe the change proposed in Senate Bill No. 301 would cause a meaningful reduction in the amount of investment that REITs have made and may make in the future in our community, which could detrimentally impact the State and its residents.

For the foregoing reasons we urge you to oppose Senate Bill No. 301.

Sincerely,

Bert A. Kobayashi, Jr.
Co-Founder & Partner,
Kobayashi Group

Ian W. MacNaughton
Chief Executive Officer & Managing Partner,
The MacNaughton Group

Bert A. Kobayashi, Jr.
Co-Founder & Managing Partner,
BlackSand Capital

Ian W. MacNaughton
Co-Founder & Managing Partner,
BlackSand Capital

LATE

Testimony in supporting SB301 with an amendment
House Committee on Economic Development and Business
February 6, 2019 at 9:00 in Conference Room 211

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 SB301

Thank you for this opportunity to testify in support of SB301. 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 100% 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 finance 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)

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

Mahalo for your time and dedication.

Aloha, Rev. David Turner
Church of the Crossroads – 1212 Univeristy Ave. / Honolulu, HI 96826

LATE

SB-301
Submitted on: 2/5/2019 10:54:55 AM
Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Korynn Grenert	Individual	Support	No

Comments:

LATE

SB-301
Submitted on: 2/5/2019 2:49:06 PM
Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Marilyn Mick	Individual	Support	No

Comments:

LATE

SB-301
Submitted on: 2/5/2019 8:46:10 PM
Testimony for WAM on 2/6/2019 10:00:00 AM

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

Comments:

LATE

SB-301
Submitted on: 2/5/2019 9:53:14 PM
Testimony for WAM on 2/6/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Raelyn Reyno Yeomans	Individual	Support	No

Comments:

Support!

LATE

Testimony Before the Senate Committee on Ways and Means <u>Supporting</u> SB 301, Taxation of REITS, with an Amendment
Directing the Funds to Affordable Housing

Galen Fox, February 6, 2019

Chair Dela Cruz, Committee Members:

REITs are corporations that use a loophole to avoid the Hawaii corporate tax. Please close that loophole, and please direct the new tax revenue toward increasing Hawaii's affordable housing supply.

REITs own income-producing property with an estimated total value of $18 billion, yielding $1 billion in profits annually. Applying Hawaii's corporate tax to REITs would bring in $60 million in new tax revenue.

Hawaii faces an enormous shortage of housing that hits especially hard residents making less than 80% of area median income (AMI). The State Special Action Team, informally led by developer Stanford Carr, last year estimated at 44,000 units the housing need for those earning 80% AMI and below.

By amending SB 301 to separate REIT tax revenue from the general fund, and re-directing it toward lower income housing, your committee could have a major impact on Hawaii's affordable housing supply.

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

LATE

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
Supporting SB 301 -- Relating to Taxation of Real Estate Investment Trusts
Senate Committee on Ways and Means
Scheduled for hearing on Wednesday, February 6, 2019, 10:00AM, in conference room 221

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee:

Thank you for the opportunity to testify in STRONG SUPPORT of **SB 301**, which would eliminate the corporate tax exemption for REITs. Right now, income produced on Hawaiʻi REIT property is escaping Hawaiʻi income tax. Typically, individuals and corporations in Hawaiʻi that generate income off Hawaiʻi real estate are paying state income tax. REITs should be no exception. Eliminating the exemption would generate an estimated $60 million in tax revenue to fund the infrastructure, projects and programs our that community, and even REITs themselves, depend on.

A Real Estate Investment Trust or "REIT," is a corporation that owns income-producing real estate, like hotels and shopping malls. Like a mutual fund for real estate, people can purchase shares in a REIT to get a portion of the income it generates. REIT's have been granted a special tax status that exempts them from paying corporate income tax on the dividends paid to its shareholders.

REITs suggest that the exemption is appropriate because REIT shareholders pay income tax. However, while REITs own approximately $17 billion worth of real estate in Hawaiʻi—more than any other state on a per capita basis—we have relatively few residents who are REIT shareholders, ranking 40th in the nation for the number of REIT shareholders as a percentage of the populations. That means that a lot of REIT money is going out of our state, and only a little is remaining in. An estimated $1 billion in profits created in Hawaiʻi on Hawaiʻi REIT property is escaping Hawaiʻi income tax.

REITs can still operate and thrive in Hawaiʻi, even if required to pay their share of taxes needed to build a strong Hawaiʻi for everyone. If the Hawaiʻi state corporate income tax exemption were eliminated, REITs would still receive generous federal tax exemptions, and they would continue to benefit from Hawaiʻi's extraordinarily low property tax rate. SB 301 would ensure that REITs start paying their fair share of Hawaiʻi income taxes to help support the communities in which they operate.

Mahalo for your consideration of this testimony.

LATE

REIT Income Tax Petition

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

Winifred K.O. [illegible]	45-320 Kahiko St. Kaneohe
Dianne T. Stevens-Poai	
Carl M. [illegible]	47-533 Pulama Rd [illegible]
[illegible]	47-748 Huikelu St. #5 96744
Flora Obzgarski	P.O. Box 113 96744
Won-Sek Yuh	47-283 Waihee Rd., 96744
[illegible]	53-549 Kamehameha Hwy 96717
Frances M. Wielenga	47-510 Lulani St., Kaneohe, HI 96744
Walter W. Killough Jr.	47-510 Lulani St., Kaneohe, HI 96744
[illegible]	P.O. Box 6146 Kaneohe, Hi. 96744
Ethel Sentenko	47-538 Ahilama Rd Kaneohe HI 96744
Ruth H. [illegible]	47-708 Ahilama Rd. Kaneohe - 96744
Frances Goo	45-621 Apuapu St. Kaneohe
Patricia A. [illegible]	46-109 Konohiki #3913 Kaneohe, HI 96744.
Neepe - ~~[illegible]~~ W.A.	244 Hanahapiai St Honolulu HI 96817
Malany Malakea	47-748 Hui Kelu St. #5, Kaneohe 96744

REIT Income Tax Petition

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Jan Yuen	1255 Nuuanu Ave. 3012 96817 apt.
[illegible]	1255 Nuuanu Ave 96817 apt 1702
Chase Saiʻi	1255 nuuanu ave 96817
[illegible] III	1255 Nuuanu Ave, 96817
Richard Buyer	47-101 Kamehameha 96744
[illegible]	555 Hahaione St., HH 96825
Patricia Gee	4754 Farmers Rd. 96816
[illegible]	133 Bates St Hon. 96817
Chiehiko Takata	133 Bates St Hon 96817
Julie Omu	3 Woodland Ln BH 04609
S. [illegible]	133 Bates St. 96817
Jean M [illegible]	1255 Nuuanu Ave #402E
[illegible]	2626 Liliha St Hon, HI 96817
[illegible]	2626 Liliha St HI 96817
Beatrice T. Kong	1005 Nanamua Pl. Hon. Hi 96817
Colleen Leigo	414 Kekau Pl Hon 96817

REIT Income Tax Petition

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Barbara J. Service	472 Keonu St. #4 Honolulu 96816
Hannah Devin	3516 Galvan Lane, Wahiawa HI 96786
Jami Hitt	1234 Alexander St. Apt F1 Honolulu HI 96826
Judith Murashige JUDITH MURASHIGE 96821	887 Hind Iuka 96821
Ruth Yoshioka Ruth Yoshioka	4883 Poola St., Hon. HI 96821
Kathleen Otani Kathleen Otani	340 Awini Pl., Hon, HI 96825
Mary Calantoc	55 S Judd St #2107, Hon. HI 96817
Arlene Koegler Arlene Koegler	2333 Kapiolani #1612 Hon., HI 96826
M Carolyn Kuahulu	1646 Clark St. #202 Hon. 96822
Levi Reinke	928 Hoolaau St, Hon 96815
Arne Phillips	[illegible] 96826
Lei Wallace	1170-1 Kaumailuna Place 96817
Mark D. Looper	45-536 Mahinui Rd., Kaneohe, HI 96744

Laurie [illegible]	1344 Mamalu Street Hon HI 96817
Nicholas Seu	" "
Lindsey Seu	" "
McKenna Seu	" "
Betty Wakatsuki	98-312 Ponokuwila Place 96701
Edna Jackson	"
El Dora K. Robertson	1272 Alewa Drive "
Evie Myers	336 N. Kuakini St. " "
Paul Reid	155 N Beretania " "
[illegible]	3363 Kaimuki Ave " "
[illegible]	PO Box [illegible] Camelo HI 96744
Helen Mashino	15 Craigside Place, Apt 501 Hon 96817
Sylvia Hekekia	709 Lihapai St Kailua 96734
[illegible]	1561 Kanunu St. #1608 Hon. 96814
Emilia Collins	707 Hausten ST. Hn 96826
[illegible]	1471 Ihiloa Rd. Hn. 96821
[illegible] aki	1453 Kukele St Hon 96819

<u>REIT Income Tax Petition</u>

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NAME	ADDRESS
Calvin Foo Pham	721 W Belmont Ave Chicago, IL
Galen Fox	425 South St #1806 96813
Kathleen Triolo	1326 Center St, 96816
Bruce Anderson	941 B Prospect St. 96822
Kelly Garrett	1659 Hoohai St PC 96782
Scott Shafer	2067 Kilakila Dr. apt A Honolulu 96817

<u>REIT Income Tax Petition</u>

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ELDON WEGNER

Mario Avalle

Whitney Kim

WILLIAM BEKEMEIER

Myrna C. Medina

Piula Alailima

Marian Heidel

David Lyer

M Carolyn Kualalua

John F. Heidel

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D. Neal MacPherson
David Rivers
Carolyn Eaton
Jami Kagesa
[illegible]
[illegible]
[illegible]
[illegible]
Mary E Wei[illegible]
Linda L. Rick
K.M. Jayce[illegible]
[illegible]
[illegible]
[illegible]

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Claire Gecewa	1212 Punahou St. #2601
Alana Buseknus Alana Busekrus	220 Ohana St. Kailua 96734
Ronny Lynn RONNY LYNN	2611 Ala Wai Blvd. #2106
Joli Tokusato	1612 Anapuni St apt B Hon. 96822
MARY TALON - Mary Talon	PO Box 861592 WAHIAWA, HI 96786
Dorothy L. Craven	4921 Waa St Hon. Hi 96821
William Caron	2054 9th Avenue, Hon, HI 96816
Jun Shin	1561 Kanunu St. 2106
Allison Jacobs	3796 Sierra Drive. 96806
Jeff Raburn	44-291E Kaneohe Bay Dr, Kaneohe 96744
	2333 KAPIOLANI BLVD #2308 96826
Gary S. Hoover	1415 Kinau St, Room 5, Hon, HI 96814

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Signature	Printed name and address
Ellen Godbey Carson	ELLEN GODBEY CARSON 1080 S. Beretania St, Apt GPH 2, Hon 96814
Wally Inglis	WALLY INGLIS 2349 C Palolo Av Hon. HI 96816

REIT Income Tax Petition

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[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

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Nicole R S

Theodore M. Henderson

Noel H. Sutherland

Marv Nguyen

Rene Austin

S. Clay

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Clara B. Burrows
Chuck Burrows
[illegible]
KAREN HOWELL
Kirsten B. Turner
[illegible]
[illegible] KIMURA
MARKUS FAIGLE [illegible]
[illegible]
Carol [illegible]
[illegible]
Daniel [illegible]
Mary [illegible] Reese

Mildred M. Miyashiro
[illegible]
Michael I. Yano
Ernest K. Harada
Donald L. [illegible]
[illegible]
Coral Prince Wilson
[illegible]
Linda Q Green Linda Q. Green
Walter Lokepa [illegible]
Rosaline K Teixeira
Jean Coffman
Cheryl O. Ho

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[illegible] Dominic Chow

[illegible] Patricia Denello

[illegible] ELIZABETH NELSON

Charles Mark Ratay CHARLES MARK RATAY

Margaret Ann Renizk

Stig Lindberg Stig Lindberg

Robin Hart Robin Hart

[illegible]

[illegible]

John H Southworth

John Kawamoto

[illegible]

[illegible]

[illegible]

David Takagi

[illegible]

[illegible]

[illegible]

Kaye A. Koehler

[illegible]

Sigrid B. Southworth

Thomas Moerten

Mark Wilson

Valerie Wegner

[illegible] Hitomi Deman Devon

Lee E Takagi

REIT Income Tax Petition

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Name	Address
Lorraine Fay	1037B Ilima Dr. Honolulu, HI 96817
Nancy Kleiber [signature]	1706 Bertram St Honolulu HI 96816
Jane Raissle	310 Ilimano St. Kailua HI 96734
[signature]	1942 Iwaho Pl. Hnl HI 96819
[signature]	626 Ilikai St. 96734
	2197 10th Ave 96816
Carla S Allison [signature]	1062 Oilipuu Place Honolulu 96825
Hilkka R. Easterwood	626 Coral St. #2309 Hono, HI 96813
Lee Curran	7122 Hawaii Kai DR #8 96825
Mike Young	3583-E Kalihi St. 96819
Catherine Graham	1639 O'o Lane 96817
Jill Rabiner	44-211E Kaneohe Bay Dr, Kaneohe, HI 96744
Allison Jacobs	3796 Sierra Drive 96816
William Carvie	54 White Sands Pl - 96734

REIT Income Tax Petition

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Name	Address
Laurel May Zen	46-262 Kalaua Pl Kaneohe
Junko S. Davis	1350 Ala Moana Blvd, PH5 Honolulu 96814
Charlotte B. Morgan	94-291 Makapipipi Mililani 96789
Paul Davis	1617 Keeaumoku St, #1101, 96822
John M Compton	
J. Hendrie + Nick Jones	849 Hahaione St.
David Friedman	633 Ulumalu St. Kailua 96734
[illegible]	633 Ulumalu Kailua
Jeanne MacIntire	47-644 MeleKula Rd #A Kaneohe HI 96744
Alan Rowland	1905 PUU NANEA PL, HONOLULU HI, 96822
Molly Rowland	1905 Puu Nanea Pl. Honolulu HI 96822

REIT Income Tax Petition

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Name	Address
David Friedman	633 Ulumalu St Kailua 96734
Jan Schumacher	" " " " "
Mary MacKay	1617 Keeaumoku St Apt 1001, Honolulu 96822
Sue Yamane-Carpenter	86 012 Pokai Bay St Waianae, HI 96792
Marie Anne	45-638 Halekou Pl. Kaneohe HI
Aimee Mayeda	600 Ala Moana Blvd #4208 Honolulu HI 96813
Laurel Mayzeri	46-262 Kalaua Pl Kaneohe
Martina Queenath	1435 9th AVE Honolulu
John McComyth	P.O. Box 1066, Kaneohe
Eileen Cain	720 Mahi'ai St., Apt. E, Honolulu 96826
Marilyn Bornhorst	1434 Punahou #723, 96822
Dennis Krauz	4050B Koanu St. #8 96816
CAROL AMOS	1634 MAKIKI ST #904 HONOLULU HI 96822
ALBERT FRIZZIOLA CKET	545 QUEEN #602 Honolulu, HI 96813

REIT Income Tax Petition

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Mildred M Chang 4384 Malia St Hon 96821
Aileen Fujitani 6020 Elelupe St. Hon 96821
Wilma Tom 634 Ainapo St, Hon. 96825
Winifred Kumura 3828 Claudine St, Hon 96816
Rita Thompson 5212 Makalena St Hon 96821
Mildred Yamamoto 895 Kalanipuu St. Hon. HI 96825
John Thompson 5212 Makalena St., Hon. 96821
Kara Mark 5661 Haleola St Hon 96821
[illegible] Mark " " " "
[illegible] KaKuni 11 Akilolo St Hon, Hi 96821
Carole Wakazuru 385 Haleloa Place Honolulu HI 96821
Jean McIntosh 250 Kawaihae St. Hon 96825
[illegible] 45-435 Lolii St Kaneohe 96744
[illegible] 280 Panio St Honolulu Hi 96821
Kristen Mark-Vega 5669 Haleola Street, Honolulu, HI. 96821
(Cory Vega) " " "
Jaeman Lim 280 Panio St. Honolulu, HI 96821
Matthew Hayakawa 5252 Kilauea Ave. Honolulu, HI, 96816
Vickie Hayakawa 5252 Kilauea Avenue Hon 96816
[illegible] 95-319 Alo Place Mililani HI 96789
Martha Kobayashi 7212 Kuahaka, Honolulu 96825
Leona Kato 916 Lunalilo Hm Rd Hon 96825
[illegible] Miyasato 6770 Hawaii Kai Dr #102
Stan Miyasato 7273 Nohili St., Hon. 96825
Elpidio RT Cadavona 1720 Huna St #317 Hon. Hi 96817-2466
[illegible] Ito 4389 Malia St #20 Hon 96821
Karen Thompson 1085 Kaluanui Rd. Honolulu, HI, 96825

REIT Income Tax Petition

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print name	Signature	Address
Robin Van Eps	[signature]	717 Kihapai Pl. Apt. 7 Kailua, 96734
SUSIE JANNUZZI	[signature]	85 Wilikoki Pl. Kailua 96734
ANI VAN EPS	[signature]	10989 Kam. V Hwy, KAUNAKAKAI, Molokai, 96748
LARRY GRIMM	Larry Grimm	357 N. Vineyard #6-201, Hawaii 96817
JoyLee Caubble	[signature]	150T Ulupai St Kailua HI 96734
	[signature]	533 Ululoa St. Kailua 96734
Charlene Hosenfeld	[signature]	604 N. Kalaheo Ave " "
R.W. SCHEURENBRAND	[signature]	604 N KALAHEO AVE "
MARY PIETTE	Mary J Piette	45 090 Namoku #503 Kaneohe 96744
MELODY HEIDEL	[signature]	1341 Manu Mele St Kailua 96734
John Heidel	John Heidel	1341 Manu Mele St., Kailua 96734
	Richard M. Smith	1222 MANU MELE St. " "
Courtney Nichols	Courtney Nichols	1015 Aoloa Pl. #361 Kailua HI 96734

REIT Income Tax Petition

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

print name Signature	Address
[illegible]	PO Box 1915, Kailua 96734
[illegible]	1063 Koohoo Pl. Kailua
Laurie Baron [illegible]	44-392 Olina st #1 Kaneohe HI 96744

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Keith Zeilinger [signature]	598 Uluhaku St, Kailua 96734
Clarence Lyman [signature]	1039 Kahili' Pl. Kailua, 96734
Louise South	47-657 Hui Ulili' Kaneohe 96744