

Honolulu, Hawaii

FEB 14 , 2020

RE: H.B. No. 2605  
H.D. 1

Honorable Scott K. Saiki  
Speaker, House of Representatives  
Thirtieth State Legislature  
Regular Session of 2020  
State of Hawaii

Sir:

Your Committee on Economic Development & Business, to which was referred H.B. No. 2605 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS,"

begs leave to report as follows:

The purpose of this measure is to disallow dividends paid deductions for real estate investment trusts for taxable years beginning after December 31, 2020, until December 31, 2023.

Your Committee received testimony in support of this measure from Hawaii Advocates for Consumer Rights, Faith Action for Community Equity, Hawaii Appleseed Center for Law & Economic Justice, IMUAlliance, ILWU Local 142, and twenty individuals. Your Committee received testimony in opposition to this measure from Public Storage; Host Hotels & Resorts, Inc.; Simon Property Group; Taubman Centers; NAIOP Hawaii; Sunstone Hotel Investors; Park Hotels & Resorts, Inc.; OPTrust; Nareit Hawaii; RMR Group LLC; Ala Moana Center; RLJ Lodging Trust; Alexander & Baldwin; Extra Space Storage Inc.; Chamber of Commerce Hawaii; Land Use Research Foundation of Hawaii; Pacific Resource Partnership; Hawaii Operating Engineers Industry Stabilization Fund; Maui Chamber of Commerce; and one individual. Your Committee received comments on this measure from the Department of Taxation; Department of Business, Economic Development, and Tourism; Church



of the Crossroads; Tax Foundation of Hawaii; and Douglas Emmett, Inc.

Your Committee finds that real estate investment trusts in Hawaii own real estate assets of about \$17 billion, generating an annual income of \$1 billion, which, if taxed at the current corporate rate assessed on all other corporations, would generate Hawaii taxes of \$65 million per year. Your Committee finds that the aforementioned number is disputable because it may not accurately reflect the potential number of real estate investment trusts that may be taxable under this measure and as such, your Committee respectfully asks your Committee on Finance to examine this issue with the Department of Taxation. Your Committee further finds that while real estate investment trusts own more real estate in Hawaii per capita than in any other state, it ranks fortieth in the nation for the number of real estate investment trust shareholders as a percentage of the population, resulting in many real estate investment trusts and their shareholders paying a mere fraction of the Hawaii state income tax compared to what other corporations pay.

Through this measure, corporations and other business entities doing business in Hawaii will pay a fair tax burden commensurate with the substantial privileges and resources in Hawaii that were used to generate their profits.

Your Committee has amended this measure by:

- (1) Changing its effective date to July 1, 2112, to encourage further discussion; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

As you requested, your Committee also respectfully asks your Committee on Finance to examine the effect this measure may have on public and private pension plans.

As affirmed by the record of votes of the members of your Committee on Economic Development & Business that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2605, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2605, H.D. 1, and be referred to your Committee on Finance.



Respectfully submitted on  
behalf of the members of the  
Committee on Economic  
Development & Business,



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ANGUS L.K. MCKELVEY, Chair



