

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau
P.O. BOX 259

HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 2652, Relating to Taxation.

BEFORE THE:

House Committee on Finance

DATE: Tuesday, February 27, 2024

TIME: 10:00 a.m.

LOCATION: State Capitol, Room 308

Chair Yamashita, Vice-Chair Kitagawa, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 2652 for your consideration.

H.B. 2652 amends two sections in chapter 236E, Hawaii Revised Statutes (HRS), which governs the Estate and Generation-Skipping Transfer Tax. First, the bill adds a new definition to section 236E-2, HRS, defining "immediate family member" as a spouse, child, sibling, parent, grandparent, grandchild, stepparent, stepchild, stepsibling, and equivalent adoptive relationships. Second, the measure amends section 236E-7, HRS, to amend the definition of "Hawaii taxable estate" for residents and nonresident citizens so that the marital deduction allowed under section 2056 of the Internal Revenue Code (IRC), which is only available to surviving spouses, would apply to the passage of any interest in property to any immediate family member. These changes would apply to decedents dying or taxable transfers occurring after December 31, 2023.

First, the Department notes that if the intent of the bill is to exempt transfers to grandchildren, the generation skipping transfer tax in section 236E-17 should also be amended.

Second, the Department requests that the effective date of this bill be amended to apply to decedents dying or taxable transfers occurring after December 31, 2024.

This will provide time to make the necessary form, instruction, and computer system changes, as well as to provide taxpayer education about the new law.

Finally, the Department estimates expected revenue losses as follows:

General Fund Impact (\$ millions)

FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
-43.3	-43.3	-43.3	-43.3	-43.3	-43.3

Thank you for the opportunity to provide comments on this measure.

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Committee on Finance

Tuesday, February 27, 2024
Conference room 308; 10:00 a.m.

RE: HB 2652 Relating to Taxation – In Support, Request Amendment

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee:

My name is Elisia Flores and I am the CEO of L&L Hawaiian Barbecue. L&L started as a dairy in 1952 by an immigrant family, looking to create opportunities for the next generation. The organization changed as it grew, passing to different families, until my dad, Eddie Flores, Jr., purchased the business in 1976. He was also an immigrant, and bought L&L for his mom, wishing to help her start her American Dream. L&L grew from the original store in Liliha, to a leading, world-wide restaurant franchise. We currently have 228 L&L locations, including 69 on the Hawaii Islands. We have 23 employees in our corporate office, and in Hawaii, our franchisees employ over 700 workers. In 2014, I returned home to work in the family business, and in 2019, took over as CEO.

I am in strong support of HB 2652 with the following amendment to the definition of "immediate family member":

"lineal descendants of the decedent's great-grandparents (including any adoptees by them)"

When I moved home to work at L&L, I didn't know what my passion for the job would be. It took about a year for me to realize that my purpose wasn't to open more restaurants or serve more plate lunch. My purpose was to help others make their American Dreams come true. Every franchisee we work with opens an L&L to create a better life for themselves, a legacy for their family, and a way to contribute to their community. I strongly support HB 2652 because I know how invested my family business is to the fabric and future of Hawaii. Since the original founding in 1952 to this day, L&L has been dedicated to serving the people of Hawaii. As our company has grown, so too has our contributions to the State. As an example, I am most proud of my dad's leadership in creating the Filipino Community Center.

HB 2652 helps protect and ensure that my family can continue operations in Hawaii long after the passing of our founders. It levels the playing field for family businesses who have to operate against companies that do not have to have estate taxes taken out of owners, and subsequently the business, overtime. For me personally, HB 2652 helps make sure I can focus all my efforts on continuing to help families achieve their American Dream in Hawaii and beyond, supporting local entrepreneurship and ownership in our State.

Thank you for the opportunity to submit testimony in support. I ask for your favorable consideration in passing this bill.

Sincerely,
Elisia Flores

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: ESTATE TAX; Allow Marital Deduction for Transfers Between Immediate Family Members

BILL NUMBER: SB 3289, HB 2652

INTRODUCED BY: SB by KOUCHI; HB by SAIKI, YAMASHITA

EXECUTIVE SUMMARY: Amends the definition of Hawai'i taxable estate to provide that the marital deduction under section 2056 of the Internal Revenue Code shall apply to the passage of any interest in property to any immediate family member.

SYNOPSIS: Adds a new definition to section 236E-2, HRS, defining "Immediate family member" as a spouse, child, sibling, parent, grandparent, grandchild, stepparent, stepchild, stepsibling, and equivalent adoptive relationships.

Amends section 236E-7, HRS, to provide that passage of any interest in property to any immediate family member.

EFFECTIVE DATE: Upon approval and shall apply to decedents dying or taxable transfers occurring after December 31, 2023.

STAFF COMMENTS: If the intent of the bill is to exempt transfers between immediate family members including grandchildren, a similar exemption needs to be written into the generation-skipping transfer tax, for it would otherwise kick in.

Digested: 2/8/2024



Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Committee on Finance

Tuesday, February 27, 2024
Conference room 308; 10:00 a.m.

RE: HB 2652 Relating to Taxation – In Support, Request Amendment

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee:

My name is Jenai Wall and I am chair and chief executive officer of Foodland Supermarket Ltd., a company founded by my late parents Joanna and Maurice J. “Sully” Sullivan 75 years ago, in 1948. I also serve as chief executive officer of the other entities that comprise the Sullivan Family of Companies including Food Pantry, Ltd., Kalama Beach Corporation, and The Coffee Bean and Tea Leaf Hawaii. Together, our entities employ more than 4,000 employees across the state.

From the earliest days, my parents were committed to doing their part to support our community, and they instilled in us a belief that we have a responsibility to support the community that supports us. Even as competition has become fierce and operating our business is more challenging than ever, we have remained dedicated to giving back to Hawaii by supporting non-profits throughout our state. In fact, with the help of our customers we have raised nearly \$40 million through Give Aloha, Foodland’s annual community matching gifts program, which was started in 1999 in memory of my late father.

I am in strong support of HB 2652 with the following amendment to the definition of “immediate family member”:

"lineal descendants of the decedent's great-grandparents (including any adoptees by them)"

I support the bill with the above amendment for the reasons below:

- This bill will help ensure that local family-owned businesses like ours will be able to continue to operate in Hawaii upon the death of a principal shareholder. We believe Hawaii would be a very different place without local businesses like ours who care deeply about – and invest in - this place we call home.

- Families like ours who own Hawaii businesses are committed to our employees, customers and the Hawaii community. Because we want our businesses to continue into the future, we reinvest most of our profits in the business to create jobs and improve the experience for those we serve. At Foodland, for example, we have reinvested in building innovative, new stores so that our customers have a great experience that is local and distinctly different from our larger, out-of state competitions. As such, we – like many other family businesses - do not have ready cash available, and thus paying an estate tax could be financially devastating to our business. I worry that my children – and other family heirs – will have no choice but to sell even though doing so is against their wishes and even though they know such a sale could impact our employees and customers.
- Competition here in Hawaii is already tough and estate taxes put family businesses at a disadvantage against competitors that are public companies. A public company doesn't have to pay estate taxes; only their shareholders do, and they can sell a portion of their holdings on the stock exchange. For family businesses, the shareholders and the company are the same, and the company has to provide the funds to its family shareholders to pay the tax — amounts that would likely otherwise have been invested in the business.
- As a matter of tax policy, many economists believe that the estate tax actually collects less revenues than if the business were not so taxed and instead reinvested those funds in growth. Such reinvestment would likely result in additional jobs and a greater amount of income and excise taxes over time. Only 12 states now have a state estate tax, and other states have repealed it.
- The small benefit of estate taxes (only \$58 million raised in 2023) is outweighed by the substantial costs of hurting local businesses.
- Locally owned businesses are the backbone of a healthy economy and generate many jobs and understand local consumers. Locally owned businesses significantly invest time and money in local nonprofits, charities and more. Imagine what Hawaii might be like without local businesses. There might be fewer jobs and there likely would be less dollars reinvested in making our community a better place to live.

Thank you for the opportunity to submit testimony in support. I ask for your favorable consideration in passing this bill with the requested amendment.

Sincerely,

A handwritten signature in black ink that reads "Jenai S. Wall". The signature is written in a cursive, flowing style.

Jenai S. Wall
Chair and Chief Executive Officer
Foodland Supermarket, Ltd.



Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Committee on Finance

February 27, 2024
Conference room 308; 10:00 a.m.

RE: HB 2652 Relating to Taxation – In Support, Request Amendment

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee:

My name is Mark Fukunaga, and I am the Executive Chairman (and former CEO) of Servco Pacific Inc. Servco was founded by my grandfather in 1919 and is now in its 105th year. We employ 1,084 employees in Hawaii, many of them having been with us for decades. Servco has been recognized as a Best Place to Work for the past 20 years and as one of the Best Managed Private Companies in the U.S. by Deloitte and the Wall Street Journal for the four years since that award's inception. We support local charities with about \$1 million in donations annually and a lot of volunteer work. Through our paid internship program, we gave work experience to 29 interns last summer, many of whom are from Hawaii but studying away and want to return. Our charitable foundations currently support 44 Hawaii students with college scholarships.

I am in strong support of HB 2652 with the following amendment to the definition of "immediate family member":

"lineal descendants of the decedent's great-grandparents (including any adoptees by them)"

My reasons are as follows:

- First, Hawaii is one of only 12 states that have a state estate tax. Other states have repealed the tax.
- Second, estate taxes are a huge challenge for family businesses. We all reinvest the great majority of our profits into our businesses to create more jobs, improve facilities and remain competitive. We simply don't have large amounts of cash available to pay estate taxes. Families are either forced to sell all or parts of their businesses or divert capital from their businesses to buy large amounts of life insurance.
- Third, public companies who compete with family businesses don't have to worry about estate taxes. Those taxes are imposed on their shareholders, who can then sell some of their shares on a stock exchange to pay the taxes. That option is not available to a family business, where the business and shareholders are effectively the same and the business must provide the funds to its family shareholders to pay the tax. Competing against global competitors is tough enough without this additional handicap.

- Fourth, as a matter of tax policy, many economists believe that the estate tax ends up collecting less revenue than if the tax were not imposed and that capital were reinvested in future growth. The increased income and excise taxes from that business, along with the multiplier effect of taxes from employees, vendors and suppliers of that business, and so on, results in more revenue over time.
- Fifth, the estate tax only collected \$58 million in 2023, which is about one-half of one percent of total state tax revenues. And the amount of estate taxes from family business owners is an even smaller fraction. That small benefit is outweighed by the substantial harm to family businesses and eventually the State's economy.
- Lastly, Hawaii-based businesses, which are mostly family businesses, are a critical part of our economy. We generate many jobs (including those for middle and upper management, and financial, digital and marketing specialists) and, being philosophically and emotionally invested in Hawaii for the long haul, we take good care of our employees and customers. After all, they are our neighbors and fellow community members. Because of our commitment to Hawaii, we also disproportionately support local nonprofits and community initiatives.

For Servco and the Fukunaga family, estate taxes are a major concern. We reinvest 90% of our profits into the business, and even with the 10% in dividends received by the Fukunaga family, most of that money is used to buy life insurance solely to pay for estate taxes. Servco also makes additional loans to family members to help them make those life insurance premium payments, which total millions of dollars annually and go to companies outside of Hawaii. That capital could have been so much better used in hiring more people and investing in Hawaii.

Like other families who own businesses, the Fukunaga family has always seen itself less as owners and more as custodians of a special legacy. We are proud of our history and want to continue serving Hawaii for another 105 years, and we are lucky that we have several very capable next generation family members who are leading Servco into the future. Unfortunately, estate taxes are a looming challenge and will deprive them of needed capital that would help Servco to remain competitive and continue serving our community.

Thank you for the opportunity to submit testimony in support. I ask for your favorable consideration in passing this bill with the requested amendment.

Very truly yours,



Mark H. Fukunaga
Executive Chairman

HB-2652

Submitted on: 2/26/2024 7:30:28 AM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Tyler Tokioka	island insurance	Support	Written Testimony Only

Comments:

Representative Kyle Yamashita, Chair

Representative Lisa Kitagawa, Vice Chair

Committee on Finance

Tuesday, February 27, 2024

Conference room 308; 10:00 a.m.

RE: HB 2652 Relating to Taxation - In Support, Request Amendment

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee:

My name is Tyler Tokioka and I am the Chairman of Island Insurance. We have been in business for over 80+ years with approximately 150+ employees.

I am in strong support of HB 2652, however would like to request the following amendment to the definition of "immediate family member":

"lineal descendants of the decedent's great-grandparents (including any adoptees by them)"

This bill helps ensure that local family-owned businesses can continue their operations in Hawaii upon the death of a principal shareholder.

Families who own Hawaii businesses are committed to their employees, customers and the Hawaii community, and reinvest most of their profits in the business to create jobs and improve facilities and service. They do not have ready cash available and paying an estate tax can be financially devastating.

Locally owned businesses are the backbone of a healthy economy and generate many jobs and understand local consumers. Locally owned businesses significantly invest time and money into local nonprofits, charities and more.

Finally, locally owned family businesses such as ours continue to practice and teach the values of our founders. Values that have helped to shape and make our community special. But as more and more of our locally owned family business disappear so to are those values and what has made Hawaii special.

Thank you for the opportunity to submit testimony in support. I ask for your favorable consideration in passing this bill with the requested amendment.

Sincerely,

Tyler Tokioka

Chairman

Island Insurance



STANFORD CARR DEVELOPMENT, LLC

▪ February 26, 2024

The Honorable Kyle T. Yamashita, Chair
The Honorable Lisa Kitagawa, Vice Chair
and Members of the House Committee on Finance

Re: Testimony – HB2652, Relating to Taxation
Hearing: February 27, 2024 at 10:00 AM
Conference Room 308

Dear Chair Yamashita, Vice Chair Kitagawa, and Committee Members:

Stanford Carr Development (SCD) is writing to **support** HB 2652 which proposes to amend the definition of Hawaii taxable estate to provide that the marital deduction of section 2056 of the Internal Revenue Code shall apply to the passage of any interest in property to any immediate family member.

Succession planning is critical for all businesses to remain successful and relevant to the marketplace, especially family-owned entities. While current tax laws spare a spouse the tax burden, Hawaii's legacy of generational operations requires this broader definition to ensure the transition to the next generation for continued operations. From a state revenue perspective, the continued income and excise tax revenues of the entity will eventually yield greater revenue when compared to the one-time estate tax.

As a local small business owner for thirty years, I urge you to support this measure. Thank you for the opportunity to offer comments.

Respectfully,

A handwritten signature in black ink, appearing to read "Stanford S. Carr".

Stanford S. Carr

LOYALTY ENTERPRISES, LTD.
45 North King Street, Suite 600
Honolulu, HI 98617
808-543-0511

February 26, 2024

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Committee on Finance

Tuesday, February 27, 2024
Conference Room 308; 10:00 a.m.

RE: HB 2652 Relating to Taxation – In Support, Request Amendment

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the Committee:

Thank you for this opportunity to submit our testimony in support of this bill.

My name is Catherine Luke and I am president of Loyalty Enterprises, Ltd., a Hawaii company incorporated in 1958. We are a third generation kamaaina property management company and commercial real estate company. We have all local employees and work very closely with many local family businesses.

We are in strong support of HB 2652, however we would like to request the following amendment to the definition of “immediate family member”:

“lineal descendants of the decedent’s great-grandparents (including any adoptees by them)”

We believe HB 2652 as amended will decrease the burden of state death taxes on the value of closely held business interests, which will help locally-owned family businesses to continue to contribute to Hawaii’s economy. Families who own Hawaii businesses are committed to their employees, customers and the Hawaii community, and reinvest most of their profits in the business to create jobs and improve facilities and services. They do not have ready cash available and paying an estate tax can be financially devastating. Family heirs often have no other option but to sell. Locally owned businesses are the backbone of a healthy economy and generate many jobs and understand local consumers. Locally owned businesses significantly invest time and money to local nonprofits, charities and more.

We thank you for the opportunity to submit testimony in support. We respectfully ask for your favorable consideration in passing this bill with the requested amendment.

Very truly yours,

LOYALTY ENTERPRISES, LTD.

Catherine Luke, Its President

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Committee on Finance

Tuesday, February 27, 2024
Conference room 308; 10:00 a.m./p.m.

RE: HB 2652 Relating to Taxation – In Support, Request Amendment

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee:

My name is Wayne K De Luz, President and Director of Big Island Motors, Big Island Toyota and De Luz Chevrolet serving the Big Island for over 60 years.

We currently have the privilege of employing over 170 employees at 5 locations throughout the Big Island.

I am in strong support of HB 2652, however would like to request the following amendment to the definition of "immediate family member":

"lineal descendants of the decedent's great-grandparents (including any adoptees by them)"

Our families have experienced 2 generations of paying this tax and has led us to depleting very valuable resources and shrinking our work forces as we sold other business to meet the obligation.

We appreciate the chance to submit testimony and humbly ask for your support in passing this bill including this amendment.

Mahalo,

Wayne K. De Luz

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Committee on Finance

Tuesday, February 27, 2024
Conference room 308; 10:00am

RE: HB 2652 Relating to Taxation – In Support, Request Amendment

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee:

My name is Russell Lau and I am Chairman, President and CEO of Finance Enterprises, Ltd, the parent company of Finance Factors, Limited, Finance Insurance Company, Limited, and Waipono Investment Company along with numerous other entities under our family of companies umbrella. We have been in business in Hawaii for nearly 72 years having been founded by six local businessmen, one of which included the first Asian U.S. Senator, Hiram L. Fong, with the purpose of helping local Hawaii people to be able to purchase simple everyday needs of our community. Finance Factors began making small loans to residents for things like washing machines, refrigerators, vacuum cleaners and used cars, that they were unable to obtain from other financial institutions. We innovated from small loans, with the advent of credit cards, to pioneering second mortgages, home equity lines of credit that once again were not available from other institutions. We are still helping Hawaii residents by make their dreams come true of homeownership by being creative in financing their home purchases.

With about 150 employees not including our insurance agents, we provide valuable good paying jobs to help Hawaii's economy grow and keep our people in our state instead of them departing to the mainland.

I am in strong support of HB 2652, however would like to request the following amendment to the definition of "immediate family member":

"lineal descendants of the decedent's great-grandparents (including any adoptees by them)"

I support this bill as family businesses in Hawaii are difficult to own and operate without the added burden of having to worry about the threat of estate planning issues. This added issue poses the necessity of having to liquidate of the company simply to pay these taxes.

Only private companies are faced with this funding dilemma, as public company shareholders simply have a ready market to sell whatever they need to fund their financial estate requirements.

Please remember the reason businesses increase in value is due to the founders reinvesting their earnings into the business in order for it to grow and prosper. We invested in our businesses instead of taking capital out, which allows our business to remain competitive in the already difficult and highly competitive Hawaii market.

Thank you for the opportunity to submit testimony in support. I ask for your favorable consideration in passing this bill with the requested amendment.

Sincerely,

A handwritten signature in black ink, appearing to be "William" followed by a stylized flourish and a long horizontal line extending to the right.

Chairman and CEO

HB-2652

Submitted on: 2/26/2024 11:19:07 AM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Dana Tokioka	Individual	Support	Written Testimony Only

Comments:

Representative Kyle Yamashita, Chair

Representative Lisa Kitagawa, Vice Chair

Committee on Finance

Tuesday, February 27, 2024

Conference room 308; 10:00 a.m.

RE: HB 2652 Relating to Taxation – In Support, Request Amendment

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee:

My name is Dana Tokioka and I am a Vice President at Atlas Insurance Agency and President of the Tradewind Group Foundation. The Tradewind Group consists of multiple local companies such as Island Insurance, Atlas Insurance Agency and Pacxa. These companies, combined, have been in business in Hawaii for over 100 years and currently employ over 250 employees.

I am in strong support of HB 2652 with the following amendment to the definition of “immediate family member”:

"lineal descendants of the decedent's great-grandparents (including any adoptees by them)"

It is important that local family businesses are not burdened by the state's estate tax. Many family-owned businesses spend too much time and money devising ways to pay the tax and maintain ownership rather than using those same resources to grow their local companies and hire more people.

Thank you for the opportunity to submit testimony in support. I ask for your favorable consideration in passing this bill with the requested amendment.

Sincerely,

Dana Tokioka

ZIPPY'S

February 26, 2024

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Committee on Finance

Tuesday, February 27, 2024
Conference room 308; 10:00 a.m.

RE: HB 2652 Relating to Taxation – In Support, Request Amendment

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee:

As a local, family-owned restaurant business since 1966 employing over 1,700 team members, we strongly support HB 2652 with the following amendment to the definition of “immediate family member”:

“lineal descendants of the decedent's great grandparents (including any adoptees of them)”

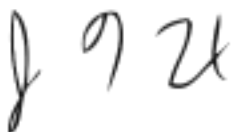
HB 2652 supports Hawaii family-owned businesses in continuing their operations in Hawaii upon the death of a shareholder. Hawaii family businesses are committed to their team members, customers, and Hawaii community and reinvest their profits in the family business creating jobs and improving facilities.

Estate taxes put family businesses at a disadvantage against competitors that are public companies. A public company doesn't have to pay estate taxes; only their shareholders do and they can sell a portion on the stock exchange. For family businesses, the shareholders and the company are the same, and the company has to provide the funds to its family shareholders to pay the tax.

As a matter of tax policy, many economists believe that the estate tax actually collects less revenues than if the business were not so taxed and reinvested those funds in growth resulting in additional jobs and a greater amount of income and excise taxes over time. Only 12 states now have a state estate tax, and other states have repealed it.

The small benefit of estate taxes (only \$58 million raised in 2023) is outweighed by the substantial costs of hurting local businesses. Locally owned businesses are the backbone of Hawaii's economy and generate many jobs and understand local consumers. Locally owned businesses significantly invest time and money to local nonprofits, charities and more.

Mahalo for your consideration,



Jason Higa
Chief Executive Officer
FCH Enterprises, Inc.

February 26, 2024

The Honorable Kyle T. Yamashita, Chair
The Honorable Lisa Kitagawa, Vice Chair
Committee on Finance
Hawaii State Capitol
Honolulu, Hawaii 96813

Subject: HB2652 Relating to Taxation – In Support, Request Amendment
February 27, 2024
Conference Room 308; 10:00am

Dear Chair Yamashita, Vice Chair Kitagawa and members of the committee:

My name is Barron Guss, President and CEO and second-generation owner of ALTRES, Inc. a three-generation, family-owned Hawaii business. For 55 years ALTRES has been providing services and jobs to our island community. Today, our in-house staff totals more than 350 people and last year we provided jobs, payroll, benefits and insurance to more than 42,000 Hawaii residents.

I am writing in strong support of HB2652 with amendment.

As you know, small business is the engine of society and family business is the cornerstone of Hawaii's economy. These local businesses make up the majority of the state's employers and, together, they provide jobs, benefits and the tax base from which we all live and thrive.

We all know the story of the exodus from Hawaii by our children and longtime residents who are relocating to the mainland to seek a better lifestyle for their families. Like many testifying here today, we are the fortunate ones who were able to lure our next generation of Hawaii's leaders back home to continue the legacy of service and commitment to our community. I, for one, am happy to have my three children working in our business and look forward to passing it on to them as my father did before me.

Unfortunately, the chance of this happening within the framework of Hawaii's current estate tax law makes this extremely unlikely. Under the current law, when a principal passes or a transfer is to take place, a financial evaluation is performed and, if the business is to continue, estate taxes must be paid on the value of the business. The casual observer may say, "Everyone is subject to tax" or "Such is life." This is not a realistic view of the situation.

February 26, 2024
Page Two

Privately held businesses may be of high value, but their operating model is not usually one where there is a surplus of cash on hand to pay taxes, as our value is based on goodwill and the ability to earn future income.

For example, in a service business like ALTRES, there are no partial or hard assets to liquidate. We can't just sell our customer list from A through G and keep H through Z and continue to operate. Or, in the case of the neighborhood grocery store, are they to sell off 30% of the inventory and make the store 30% smaller to pay 30% of its value in taxes and then hope to survive? This scenario forces these small businesses to make hard choices. Should they sell to a mainland competitor, encumber the business with debt, or possibly close rather than put themselves at financial risk?

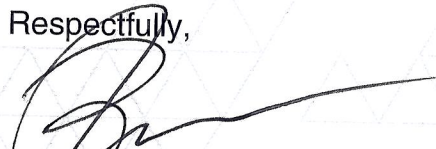
In any of these scenarios, it's the community that will suffer with the loss of locally owned businesses, jobs and services. Ultimately, this will result in a change in landscape and a Hawaii that we will no longer recognize.

As the legislature focuses on ways to expand to a more circular economy, it is important to recognize the role of locally owned businesses. If our landscape changes to mostly businesses from outside the state, you will see jobs leaving, financial resources eroding, and tax revenue declining. Equally concerning is the fact that family-owned businesses play a vital role in the support of Hawaii's non-profits. What becomes of them?

As outlined in HB2652, I would like to urge the legislature to amend Section 236E-2 of the Hawaii Revised Statutes to expand the definition of "marital exemption" and to include immediate family members as well as modifying the definition of the proposed bill to recognize lineal descendants of great-grandparents (including any adoptees by them). Enacting the above is the first step in ensuring the family-owned businesses in Hawaii continue their vital role in the socio-economic landscape of our state.

Thank you in advance for your continued efforts to bring thoughtful legislation to the people of Hawaii.

Respectfully,



Barron L. Guss
President and CEO



February 26, 2024

Rep. Kyle T. Yamashita, Chair
Rep. Lisa Kitagawa, Vice-Chair
Committee on Finance

Tuesday, February 27, 2024
Conference Room 308

RE: HB 3289 – Relating to Taxation

Position: Support with Amendments

Aloha Chair Yamashita, Vice-Chair Kitagawa and Members of the Committee:

My name is Toby Taniguchi and I have the privilege and honor of serving as President of our 108 year-old family owned and operated grocery business here on Hawaii Island, “KTA Super Stores.”

I would like to take this time to express my support of HB 2652 with the following amendment to definition of “immediate family member”:

“lineal descendants of the decedent’s great-grandparents (including any adoptees by them)”

Thank you for the opportunity to submit my testimony.

Sincerely,

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

Toby B. Taniguchi

Hawai'i Children's Action Network Speaks! is a nonpartisan 501c4 nonprofit committed to advocating for children and their families. Our core issues are safety, health, and education.

To: House Committee on Finance
Re: **HB 2652 – Relating to Taxation**
Hawai'i State Capitol & Via Videoconference
February 27, 2024, 10:00 AM

Dear Chair Yamashita, Vice Chair Kitagawa, and Committee Members,

On behalf of Hawai'i Children's Action Network Speaks!, I am writing in **OPPOSITION to HB 2652**. This bill amends the definition of Hawai'i taxable estate to provide that the marital deduction under section 2056 of the Internal Revenue Code shall apply to the passage of any interest in property to any immediate family member.

The "estate tax is the taxation of property held by an individual at the time of their death and is one of the oldest and most common forms of taxation."¹ It is intended to **slow down the concentration of wealth at the top**, by taxing multimillion dollar estates when they are passed on to heirs.

Currently the marital deduction allows estates to be passed to spouses tax-free. **This bill would render Hawai'i's estate tax ineffective**, by extending the marital deduction to any immediate family member, including children, stepchildren and grandchildren.

The estate tax has already been greatly weakened over the past couple of decades. In 2001, the amount of an estate that could be passed on tax-free was \$675,000 for a single person and \$1.35 million for a married couple,² and now it is almost \$5.5 million per single / \$11 million per couple.³

When the federal estate tax exemption was where Hawai'i's is now, only **the top 2 in 1,000 estates** were taxed. Since the Trump tax cuts for the rich came into effect, which is where this bill would put Hawai'i, **less than 1 in 1,000 estates** have been taxed.⁴ That's the lowest share of estates subject to the estate tax on record, or more than ten times lower than the historical 1 to 2 percent share.⁵

In addition, the estate tax is applied only to the amounts above the exemption. **Currently, an estate worth \$6 million pays only \$50,000 in estate tax.**

Especially in a tight state budget season, Hawai'i cannot afford to give tax breaks to the top 0.2 percent. Mahalo for the opportunity to provide this testimony. We respectfully request that you defer this bill.

Thank you,
Nicole Woo
Director of Research and Economic Policy

¹ https://www.law.cornell.edu/wex/estate_tax

² https://en.wikipedia.org/wiki/Estate_tax_in_the_United_States

³ <https://files.hawaii.gov/tax/forms/2023/m6ins.pdf>

⁴ <https://www.irs.gov/statistics/soi-tax-stats-historical-table-17>

⁵ <https://www.cnbc.com/2021/09/29/heres-how-many-people-pay-the-estate-tax-.html>



February 23, 2024

Testimony on HB 2652 Relating to Taxation
Before the House Committee on Finance

Chair Yamashita and Vice Chair Kitagawa, and Members of the Committee;

My name is Mike Miyahira. I have been assisting family owned businesses for more than two decades so I am intimately familiar with many of the issues and challenges that they face.

HB 2652 seeks to amend the marital deduction to include transfer to immediate family members as well as update the definition of who are 'immediate family members.' I further support an amendment to expand the definition to 'lineal descendants of the decedent's great-grandparents (including any adoptees by them).'

Expanding the 'marital deduction' to include lineal descendants will help Hawaii's family owned businesses survive from generation to generation.

Estate taxes are a significant challenge for many family owned businesses. They all invest much of their earnings back into their businesses. That creates more jobs, enables them to enhance or expand their facilities, and enables them to purchase services from others.

The payment of estate taxes takes cash out of the business. It's unfortunate that some family owned business have had to sell off assets and sometimes the business itself, in order to generate enough cash to pay estate taxes when an owner dies. In other cases, some families have resorted to buying and paying expensive term life insurance policies to ensure that the owner's estate has sufficient liquidity in the event of the owner's death.

Our state's family owned businesses are the backbone of Hawaii's economy and our communities. They employ many people, pay taxes, and invest in their communities. They are part of the fabric that our state relies upon.

Thank you for allowing me to present my testimony.

Aloha,

Mike Miyahira
Principal

HB-2652

Submitted on: 2/25/2024 10:02:52 AM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Beppie Shapiro	Individual	Oppose	Written Testimony Only

Comments:

This measure would reduce the amount of State income tax generated in a year (or probably more than 1 year) when we can't afford to reduce State general fund income

and

I, as a life-long resident of Hawaii, **oppose strongly** giving this privilege to non-residents

and

This measure increases the already too-large conservation of wealth between generations of the same family. That is a huge disadvantage for all those who don't possess such wealth but find it is locked away from them in wealthy families.

Thank you for consideration of this testimony.

HB-2652

Submitted on: 2/26/2024 2:05:51 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Oppose	Written Testimony Only

Comments:

I am testifying in opposition to HB2652. This bill extends the estate tax marital deduction to other family members. The estate tax is meant to prevent the accumulation of huge amounts of wealth by families by taxing the transfer of multi-million dollar estates (at least [\\$5.5 million per person / \\$11 million for couples](#)) to younger generations.

Currently estates can be passed to spouses tax-free. This bill would extend that tax-free status to other family members, including children, essentially rendering the estate tax ineffective. Please defer this bill.

HB-2652

Submitted on: 2/26/2024 2:37:19 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Krystal Baba	Individual	Oppose	Written Testimony Only

Comments:

I am testifying in opposition to HB2652. This bill extends the estate tax marital deduction to other family members. The estate tax is meant to prevent the accumulation of huge amounts of wealth by families by taxing the transfer of multi-million dollar estates (at least [\\$5.5 million per person / \\$11 million for couples](#)) to younger generations.

Currently estates can be passed to spouses tax-free. This bill would extend that tax-free status to other family members, including children, essentially rendering the estate tax ineffective. Please defer this bill.

HB-2652

Submitted on: 2/26/2024 2:51:10 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Doris Matsunaga	Save Medicaid Hawaii	Oppose	Written Testimony Only

Comments:

Save Medicaid Hawaii is in opposition to HB2652. This bill extends the estate tax marital deduction to other family members. The estate tax is meant to prevent the accumulation of huge amounts of wealth by families by taxing the transfer of multi-million dollar estates (at least [\\$5.5 million per person / \\$11 million for couples](#)) to younger generations.

Currently estates can be passed to spouses tax-free. This bill would extend that tax-free status to other family members, including children, essentially rendering the estate tax ineffective. Please defer this bill.

HB-2652

Submitted on: 2/26/2024 3:11:32 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Jessie L Gonsalves	Individual	Oppose	Written Testimony Only

Comments: I am testifying in opposition to HB2652.

HB-2652

Submitted on: 2/26/2024 3:17:41 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Diliaur Tellei	Individual	Oppose	Written Testimony Only

Comments:

I am testifying in opposition to HB2652. This bill extends the estate tax marital deduction to other family members. The estate tax is meant to prevent the accumulation of huge amounts of wealth by families by taxing the transfer of multi-million dollar estates (at least [\\$5.5 million per person / \\$11 million for couples](#)) to younger generations.

Currently estates can be passed to spouses tax-free. This bill would extend that tax-free status to other family members, including children, essentially rendering the estate tax ineffective. Please defer this bill.

HB-2652

Submitted on: 2/26/2024 3:31:43 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Shay Chan Hodges	Individual	Oppose	Written Testimony Only

Comments:

I am testifying in opposition to HB2652. This bill extends the estate tax marital deduction to other family members. The estate tax is meant to prevent the accumulation of huge amounts of wealth by families by taxing the transfer of multi-million dollar estates (at least [\\$5.5 million per person / \\$11 million for couples](#)) to younger generations.

Currently estates can be passed to spouses tax-free. This bill would extend that tax-free status to other family members, including children, essentially rendering the estate tax ineffective. Please defer this bill.

HB-2652

Submitted on: 2/26/2024 3:37:17 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Dan Gardner	Individual	Oppose	Written Testimony Only

Comments:

Chair Yamashita, Vice-Chair Yamamoto and Members of the Finance Committee:

I do not support SB 2652 extending the estate tax marital deduction to other family members.

Currently estates can be passed to spouses tax-free. This bill would extend that tax-free status to other family members, including children. This would essentially render the estate tax ineffective. Please defer this bill.

Dan Gardner

Honolulu

daniel.dano.gardner@gmail.com

HB-2652

Submitted on: 2/26/2024 5:19:06 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Pua Auyong-White	Individual	Oppose	Written Testimony Only

Comments:

I am testifying in opposition to HB2652. This bill extends the estate tax marital deduction to other family members. The estate tax is meant to prevent the accumulation of huge amounts of wealth by families by taxing the transfer of multi-million dollar estates (at least [\\$5.5 million per person / \\$11 million for couples](#)) to younger generations.

Currently estates can be passed to spouses tax-free. This bill would extend that tax-free status to other family members, including children, essentially rendering the estate tax ineffective.

Please defer this bill.

HB-2652

Submitted on: 2/26/2024 5:56:28 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Jessica dos Santos	Individual	Oppose	Written Testimony Only

Comments:

Dear Legislators,

I am testifying in opposition to HB2652. This bill extends the estate tax marital deduction to other family members. The estate tax is meant to prevent the accumulation of huge amounts of wealth by families by taxing the transfer of multi-million dollar estates (at least [\\$5.5 million per person / \\$11 million for couples](#)) to younger generations.

Currently estates can be passed to spouses tax-free. This bill would extend that tax-free status to other family members, including children, essentially rendering the estate tax ineffective. Please defer this bill.

Sincerely,

Jessica dos Santos

HB-2652

Submitted on: 2/26/2024 5:58:21 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
John Fitzpatrick	Individual	Oppose	Written Testimony Only

Comments:

Aloha,

I am testifying in opposition to HB2652. This bill extends the estate tax marital deduction to other family members. The estate tax is meant to prevent the accumulation of huge amounts of wealth by families by taxing the transfer of multi-million dollar estates (at least [\\$5.5 million per person / \\$11 million for couples](#)) to younger generations.

Currently estates can be passed to spouses tax-free. This bill would extend that tax-free status to other family members, including children, essentially rendering the estate tax ineffective. Please defer this bill.

Mahalo,

Fitz

HB-2652

Submitted on: 2/26/2024 6:21:50 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Kathy Shimata	Individual	Oppose	Written Testimony Only

Comments:

I am testifying in opposition to HB2652. This bill extends the estate tax marital deduction to other family members. The estate tax is meant to prevent the accumulation of huge amounts of wealth by families by taxing the transfer of multi-million dollar estates (at least [\\$5.5 million per person / \\$11 million for couples](#)) to younger generations.

Currently estates can be passed to spouses tax-free. This bill would extend that tax-free status to other family members, including children, essentially rendering the estate tax ineffective. Please defer this bill.

Mahalo,

Kathy Shimata

96822

HB-2652

Submitted on: 2/26/2024 8:25:51 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Kim Coco Iwamoto	Individual	Oppose	Written Testimony Only

Comments:

I am testifying in strong opposition to HB2652, which amends the definition of Hawai'i taxable estate to provide that the marital deduction under section 2056 of the Internal Revenue Code shall apply to the passage of any interest in property to **any immediate family** member.

Currently, most estates pass to the remaining spouse tax-free. For the wealthiest widows/ers, the first \$5.5M of what is left to them by their deceased spouse is tax free. Normally, high net worth individuals and couples purchase sufficient life insurance to cover the tax liability that will come along with their inherited estate.

Most life insurance agents help wealthy individuals and couples calculate the tax rate for the amounts above the exempt \$5.5M, and sells them the right sized policy to cover the taxes; no matter who inherits the estate, their estate taxes can be covered by life insurance pay outs purchased by the person leaving the estate behind.

Hawaii already has a regressive tax. This means that the wealthiest individuals and families pay the smallest percent of their wealth in taxes and the lowest income earners pay the largest percentage of their income in taxes. Hawaii has an estate tax to prevent the accumulation of huge amounts of wealth by families, by taxing the transfer of multimillion dollar estates (at least [\\$5.5M per person / \\$11M for couples](#)) to younger generations. This is one way to balance the regressivity of our current tax scheme.

HB2652 bill would extend that tax-free status to other family members, including children, essentially making the estate tax ineffective and further burdening the lowest income families with the costs of operating our state.

The wealthiest families in Hawaii can purchase their own life insurance to cover the foreseeable tax liability so the inheiritors can enjoy the full corpus of the estate free and clear.

HB-2652

Submitted on: 2/26/2024 8:58:08 PM

Testimony for FIN on 2/27/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
John Bickel	Individual	Oppose	Written Testimony Only

Comments:

One of the core values often associated with Americans is supporting work. Yet if this bill passes, we would be taxing work and not inheritance . Not to mention the regressive nature of this proposed reform. This bill moves us in the wrong direction.