JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAIʻI
DEPARTMENT OF TAXATION
Ka ʻOihana ʻAuhau
P.O. BOX 259
HONOLULU, HAWAIʻI 96809
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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
S.B. No. 3345, Relating to the Estate Tax.

BEFORE THE:
Senate Committee on Commerce and Consumer Protection

DATE:	Tuesday, February 13, 2024
TIME:	9:20 a.m.
LOCATION:	State Capitol, Room 229

Chair Keohokalole, Vice-Chair Fukunaga, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding S.B. 3345 for your consideration.

Section 2 of S.B. 3345 adds a new section to the Estate and Generation-Skipping Transfer Tax in chapter 236E, Hawaii Revised Statutes (HRS), to establish an estate tax deduction equal to the value of a qualified family-owned business interest held by the decedent or the decedent's heir at the time of the decedent's death, provided that the decedent or the decedent's heir materially participated in the operation of the trade or business to which the interest relates. If the estate tax due on an estate includes tax attributable to that qualified business interest, the estate shall be allowed a deduction from the gross estate of the decedent equal to the value "of the interest in a closely held business." "Interest in a closely held business" means the same as is defined in section 6166 of the Internal Revenue Code (IRC) and "material participation" means the same as is defined in section 2032A(e)(6) of the IRC; "qualified family-owned business interest" means any interest in a closely held business that meets three requirements:

(1) The decedent had a material participation in the trade or business for at least five of the eight years preceding the date of death;

(2) The value of the trade or business, including the value of the decedent's interest in the trade or business, shall be at least thirty-five per cent of the adjusted gross estate of the decedent; and

(3) At least fifty-one per cent of the voting stock of the corporation shall be owned by members of two or more families who are related by blood, marriage, or adoption."

Section 3 of the bill amends section 236E-6, HRS, relating to the exclusion allowed under state estate tax law, to conform to the federal exclusion amount.

The bill is effective upon approval and applies to decedents dying or taxable transfers occurring after December 31, 2023.

The Department notes that although the definition of "qualified family-owned business interest" requires that the decedent had material participation in the trade or business, subsection (a) seems to suggest that the interest and the material participation may have been done by the decedent <u>or a qualified heir</u> of the decedent. The Department recommends amending these provisions to avoid ambiguity.

Next, with respect to the proposed conformity change in section 3 of the measure, the Department notes that under current law, for tax year 2023, the State exclusion amount is $5,490,000 while the federal exclusion amount is $12,920,000. However, the increased federal exclusion is set to expire in 2025 with the sunset of the federal Tax Cuts and Jobs Act, at which time, barring any federal or state legislative changes, the federal exclusion will revert to the same amount as the state's current exclusion, plus adjustments for inflation. Even with the inflation adjustment, the disparity between these two numbers will be significantly reduced for tax year 2026 and onward.

Finally, based on the complexity of these proposed changes, the Department requests that the effective date be delayed and S.B. 3345 be made applicable to decedents dying or taxable transfers occurring after December 31, 2024. This will help provide time to make the necessary form, instruction, and computer system updates while educating taxpayers about these significant changes.

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

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: ESTATE TAX; Exclusion Amount; Deduction; Family Businesses

BILL NUMBER: SB 3345, HB 2653

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

EXECUTIVE SUMMARY: Conforms Hawai‘i estate tax laws to the operative provisions of the Internal Revenue Code to decrease the burden on taxpayers and increase efficiencies in the Department of Taxation's monitoring and auditing of estate tax returns. Establishes an estate tax deduction for the value of closely held business interests that will help ensure that locally-owned family businesses can continue to contribute to the Hawai‘i economy and assist families to retain the ownership interest in their family businesses.

SYNOPSIS: Adds a new section to chapter 236E, HRS, allowing a deduction from the taxable estate for the value of the decedent's qualified family-owned business interests provided that

(1) Interest in a closely held business was owned by the decedent or a qualified heir of the decedent; and

(2) There was material participation by the decedent or the decedent's qualified heir in the operation of the trade or business to which the interest relates.

Defines "Interest in a closely held business" as the same as it is used in section 6166 of the Internal Revenue Code.

Defines "Material participation" as the same as it is used in section 2032A(e)(6) of the Internal Revenue Code.

Defines "Qualified family-owned business interest" as any interest in a closely held business that meets the following requirements:

(1) The decedent had a material participation in the trade or business for at least five of the eight years preceding the date of death;

(2) The value of the trade or business, including the value of the decedent's interest in the trade or business, shall be at least thirty-five per cent of the adjusted gross estate of the decedent; and

(3) At least fifty-one per cent of the voting stock of the corporation shall be owned by members of two or more families who are related by blood, marriage, or adoption."

Amends section 236E-6, HRS, to conform the applicable exclusion amount to the federal applicable exclusion amount.

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

STAFF COMMENTS: The federal estate and gift tax system presently has a very high threshold before kicking in. In 2017, the threshold was $5.49 million, which meant that if unexcluded lifetime gifts plus the value of the taxable estate at a decedent's death did not total $5.49 million or more, there would be no federal estate tax. Excluded transfers, such as a transfer between husband and wife of any amount or gifts under a small threshold amount ($10,000 indexed for inflation), did not count against the $5.49 million at all. Between 2017 and the present, the Tax Cuts and Jobs Act increased the exclusion amount substantially, to $11.58 million for tax year 2020.

Hawaii law generally conforms to the mechanics of the federal estate tax system, except that Hawaii has no gift tax. In addition, perhaps because of revenue concerns, Hawaii law froze the exclusion amount at the 2017 level of $5.49 million. Thus, if a decedent dies with an estate worth $10 million, the estate would not pay federal estate tax because it is under the $11.58 million threshold, but the estate would pay Hawaii estate tax because it is over the $5.49 million Hawaii threshold.

This measure proposes to do two things; first, recouple the federal exclusion amount, which has since grown to $13.61 million; and second, allow a deduction from the taxable estate for a qualified family-owned business interest so it doesn't count for purposes of determining the size of the taxable estate. Both of the changes in tandem would allow a person with a very valuable qualified family-owned business interest, Mark Zuckerberg of Facebook for example, to leave all of it plus $13.61 million to his heirs free of any Hawaii estate tax.

Finally, the definition of qualified family-owned business interest does not appear to require that the taxpayer be in the one or two families owning the majority of the trade or business. Thus, the deduction could be used by others. We wonder if this is what was intended.

Digested: 2/8/2024

SERVCO

Senator Jarrett Keohokalole, Chair
Senator Carol Fukunaga, Vice Chair
Committee on Commerce and Consumer Protection

February 13, 2024
Conference room 229; 9:20 am

RE: SB 3345 Relating to the Estate Tax – In Support

Aloha Chair Keohokalole, Vice Chair Fukunaga 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 SB 3345 for the following reasons:

- 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.

O 808.564.1300
SERVCO PACIFIC INC.
2850 Pukoloa St., Suite 300
Honolulu, HI 96819 USA

- 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.

Very truly yours,

Mark H. Fukunaga
Executive Chairman

February 9, 2024

The Honorable Jarrett Keohokalole, Chair
The Honorable Carol Fukunaga, Vice Chair
Committee on Commerce and Consumer Protection
Hawaii State Capitol
Honolulu, Hawaii 96813

Subject: SB 3345 Relating to the Estate Tax – In Support
February 13, 2024
Conference Room 229; 9:20am

Dear Chair Keohokalole, Vice Chair Fukunaga 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 SB3345.

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.

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 SB3345, harmonizing Hawaii's tax law with the IRS code and exempting the value of a family business from an owner's taxable estate is the first step in ensuring that 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

SB-3345
Submitted on: 2/10/2024 4:09:30 PM
Testimony for CPN on 2/13/2024 9:20:00 AM

Submitted By	Organization	Testifier Position	Testify
Tyler Tokioka	Testifying for Island Insurance Companies	Support	Written Testimony Only

Comments:

Aloha Chair Keohokalole, Vice-Chair Fukunaga and members of the committee:

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

I am writing in strong support of SB3345.

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 services. Tey do not have ready cash available and paying an estate tax can be financially devasting. 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 customers. Locally owned businesses significantly invest time and money to local nonprofits, charities and more.

Finally, locally owned businesses like ours coninue to live and teach the values that we feel have made and coninue to make Hawaii special, but as our loclly owned businesses disappear these values and the Aloha Spirit are being lost.

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

Sincerly,

Tyler Tokioka

STANFORD CARR DEVELOPMENT, LLC

February 9, 2024

The Honorable Jarrett Keohokalole, Chair
The Honorable Carol Fukunaga, Vice Chair
and Members of the Senate Committee on Commerce and Consumer Protection

Re: Testimony - SB 3345, Relating to the Estate Tax
Hearing: February 13, 2024 at 9:20 AM
Conference Room 229

Dear Chair Keohokalole, Vice Chair Fukunaga and Committee Members:

Stanford Carr Development (SCD) is writing to **support** SB 3345 that proposes to establish an estate tax deduction to decrease the burden of estate taxes on closely held businesses.

Succession planning is critical for all businesses to remain successful and relevant to the marketplace. In addition to planning, significant resources for estate taxes are necessary to pass ownership of family-owned businesses to the next generation.

This measure proposes to increase the allowable deduction and therefore reduce the estate tax burden and support the use of resources to sustain and reinvest into the business. As a local small business owner for thirty years, I urge you to support this measure.

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

Respectfully,

Stanford S. Carr

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Senator Jarrett Keohokalole, Chair
Senator Carol Fukunaga, Vice Chair
Committee on Commerce and Consumer Protection

Tuesday, February 13, 2024

RE: SB 3345 Relating to the Estate Tax

Dear Chair Keohokalole and members of the committee

My name is Paul Kosasa, President and CEO of ABC Stores. **We support SB 3345.**

Our Company is family owned started by my grandparents. We are one of the few locally based, locally owned companies in Hawaii doing business nearly 100 years. Being in business this long has allowed us to give back to the local community through our Kosasa Foundation and our Jumpstart Scholarships to local youth.

However, estate taxes that target the transfer of ownership to our lineal descendants can undermine the millions of dollars of benefits that our Company gives back. Local family owned businesses are slowly disappearing. Please be a part of the solution to keep family businesses sustainable.

Thank you,

Paul Kosasa

Y. Hata & Co.

Senator Jarrett Keohokalole, Chair
Senator Carol Fukunaga, Vice Chair
Committee on Commerce and Consumer Protection

February 13, 2024
Conference room 229; 9:20am

RE: SB 3345 Relating to the Estate Tax – In Support

Aloha Chair Keohokalole, Vice Chair Fukunaga and members of the committee:

My name is Russell Hata, the Chairman and CEO of Y. Hata & Company, Limited, and I am writing in support of SB3345.

Y. Hata is a kamaaina, family-owned foodservice distributor since 1913. This year marks our 111th anniversary. We service all branches of the military, public schools, hotels and restaurants in the state of Hawaii. We also own a cash and carry division called ChefZone. Our total employment is approximately 475.

I am in strong support of SB 3345 with the following amendment to the definition of "immediate family member":

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

In the 1990's, the company sold all its real estate to avoid bankruptcy and has since reinvested all profits back into the operation for its growth. To this day, the company does not pay shareholders any dividends.

When I pass away, my family will have to sell the company to pay the estate taxes. And that sale will most likely be to an out-of-state company.

I ask for your favorable consideration in passing this bill with the requested amendment.

Sincerely,

Russell J Hata

ChefZone · the inspired chef · HAWAI'I PACIFIC LOGISTICS

February 10, 2024

Senator Jarrett Keohokalole, Chair
Senator Carol Fukunaga, Vice Chair
Committee on Commerce and Consumer Protection

RE: <u>SB 3345 Relating to the Estate Tax – In Support</u>

Aloha Chair Keohokalole, Vice Chair Fukunaga and Members of the Committee:

As a local, family-owned restaurant business since 1966, we support SB 3345 because it ensures that Hawaii family-owned businesses can continue their operations in Hawaii upon the death of a principal shareholder.

In 1999, Francis Higa (one of two co-founders of Zippy's) passed away unexpectedly. But for existing federal and state laws which allowed the deferral of estate tax payments over 15 years, Zippy's could not have continued as a local family business as the business would have to be sold (likely to a mainland buyer) in order to pay the estate taxes.

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 $85 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 10, 2024

Senator Jarrett Keohokalole, Chair
Senator Carol Fukunaga, Vice-Chair
Committee on Commerce and Consumer Protection

Tuesday, February 13, 2024
Conference Room 229
9:20 am

RE: SB 3345 – Relating to Estate Tax
Position: Support

Aloha Chair Keohokalole, Vice-Chair Fukunaga and Members of the Committee:

My name is Toby Taniguchi and I have both 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."

Thank you for this opportunity to express my support for SB 3345 which amongst other things, will help to ensure locally-owned family businesses continue their operations upon the passing of a principal shareholder.

Again, thank you for this opportunity to submit my testimony.

Sincerely,

Toby B. Taniguchi

50 E. Puainako St. – Hilo, HI 96720 – 808-959-4575 – 808-959-8050 (fax)

GRASSROOT INSTITUTE OF HAWAII

1050 Bishop St. #508
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808-864-1776
info@grassrootinstitute.org

Removing barriers to Hawaii's prosperity

Feb. 13, 2024, 9:30 a.m.
Hawaii State Capitol
Conference Room 229 and Videoconference

To: Senate Committee on Commerce and Consumer Protection
Sen. Jarrett Keohokalole, Chair
Sen. Carol Fukunaga, Vice-Chair

From: Grassroot Institute of Hawaii
Ted Kefalas, Director of Strategic Campaigns

COMMENTS IN SUPPORT OF SB3345 — RELATING TO THE ESTATE TAX

Aloha Chair Keohokalole, Vice-Chair Fukunaga and members of the Committee,

The Grassroot Institute of Hawaii would like to offer its support for SB3345, which would conform Hawaii's estate tax law to federal estate tax law and create an estate tax benefit for certain family-owned businesses.

Research has shown that the estate tax lowers business investment and harms job creation.[1] And to put this bill into context, only 12 states even have estate taxes, and among those states, Hawaii is tied with Washington state for having the highest estate tax rates — with both topping out at 20% for certain estate values.[2]

Making matters worse, Hawaii's estate tax threshold is also relatively low — \$5.49 million per individual versus \$13.61 million at the federal level. And once the threshold is exceeded, Hawaii's rates kick in at anywhere from 10% to 20%, depending on the value of the estate, as the table below shows.[3]

[1] Pavel A. Yakovlev and Antony Davies, "How does the estate tax affect the number of firms?" Journal of Entrepreneurship and Public Policy, April 14, 2014; and Donald Bruce and John Deskins, "Can state tax policies be used to promote entrepreneurial activity?" Small Business Economics, Feb. 19, 2010.
[2] Andrey Yushkov, "Does Your State Have an Estate or Inheritance Tax?" Tax Foundation, Oct. 10, 2023.
[3] "Hawaii Estate Tax Explained," Valur Library, accessed Feb. 11, 2024.

Estate value	Marginal rate
$5,490,000 – $6,490,000	10%
$6,490,000 – $7,490,000	11%
$7,490,000 – $8,490,000	12%
$8,490,000 – $9,490,000	13%
$9,490,000 – $10,490,000	14%
$10,490,000 – $15,490,000	15.70%
Over $15,490,000	20%

This bill seeks to give tax relief to certain family-owned businesses by tying Hawaii's exemption value to the federal exemption value, which is set to decrease to about $7 million beginning in 2026.[4]

This is not a new idea: Until 2018, Hawaii's exemption had been tied to the federal tax code.

Increasing the value of Hawaii's "zero bracket" exemption would help local businesses stay afloat in Hawaii's often unfriendly business environment.

As the bill notes, "The imposition of estate taxes upon the death of the owner of a family business has sometimes resulted in the sale of that business, as that is the only way sufficient cash can be raised to pay those taxes. In other cases, family businesses have sold key assets or operating divisions to raise cash for those taxes."

As the bill also notes, aligning Hawaii's estate tax with the federal tax would reduce the administrative burden on the state Department of Taxation, since currently the department must "independently monitor and examine the filings of estate tax returns."

In other words, adopting this bill would be a win-win for both local businesses and the state government.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

[4] "Federal Estate and Gift Tax Exemption Will Sunset After 2025: How to Prepare Now," Cherry Bekaert, June 15, 2023.

TORI RICHARD

Senator Jarrett Keohokalole, Chair
Senator Carol Fukunaga, Vice Chair
Committee on Commerce and Consumer Protection

Tuesday, February 13, 2024
Conference room 229; 9:20 a.m.

RE: SB 3345 Relating to the Estate Tax – In Support

Aloha Chair Keohokalole, Vice Chair Fukunaga and members of the committee:

My name is Josh Feldman and I am President and CEO of Tori Richard, Ltd. Our family business was founded in Hawaii nearly 70 years ago and today we employ approximately 200 people throughout the state.

Locally owned and operated businesses like Tori Richard, Ltd are committed to their employees, local customers, and the Hawaii community. We reinvest most of our profits in our business to create jobs and improve our facilities and products. Most family businesses do not have cash on hand to pay estate taxes and heirs often have no choice but to sell or liquidate the business to pay those taxes.

Hawaii is one of just 12 states with a state level estate tax in addition to the existing federal estate tax. This is destructive to local businesses and puts them at a competitive dis-advantage to publicly traded and mainland businesses. Hawaii's tax base of locally owned and run businesses remains at risk from this extra-ordinary and burdensome tax. This is why I and our company supports SB 3345.

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

Sincerely,

Josh Feldman
President & CEO

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BUILDBETTER.LIVEBETTER®

February 13, 2024

Committee:	Senate Committee on Commerce and Consumer Protection
Bill Number:	SB 3345 Relating to the Estate Tax
Hearing Date and Time:	February 13, 2024, 9:20am
Re:	Testimony of HPM Building Supply in Support

Aloha Chair Keohokalole, Vice Chair Fukunaga and members of the committee,

I write in strong support of SB 3345. This bill is an important step in supporting Hawaii's small family-owned businesses to continue for years to come. Making the proposed changes to the estate tax laws will allow businesses to operate after a family member passes and reduce the financial burden of estate taxes. These businesses are the foundation of Hawaii's economy and support thousands of local jobs. As the 5th generation leader of HPM Building Supply, I understand the value of family business.

HPM Building Supply is a 100% employee-owned company serving Hawaii's home improvement market and building industry for over 100 years since 1921. With 18 locations across Hawaii and Washington State, HPM offers various services and products, including retail stores, building supply and lumber yards, home design centers, drafting and design services, and manufacturing facilities. HPM is dedicated to enhancing homes, improving lives, and transforming communities one home at a time.

Supporting locally-owned businesses not only helps that business directly, but has a positive ripple effect throughout our communities. When dollars are spent at small businesses in Hawaii, those dollars recirculate back into local economies to support jobs, fund schools, and services, and contribute tax revenue to the state. Locally-owned businesses also tend to support community events and local non-profits at higher rates than large out-of-state corporations. For all these reasons and more, protecting and nurturing small family-owned businesses through bills like SB 3345 leads to healthier and more vibrant communities across our islands.

Furthermore, an amendment that would further the impact of this bill would be to add the language to include "lineal descendant of the decedent's great-grandparents, including any adoptees" as there may be situations where there were no direct descendants.

Mahalo for the opportunity to submit testimony in support of SB 3345. I strongly urge the Committee to support this bill and consider the abovementioned amendment.

Sincerely,

Jason Fujimoto
Chairman & CEO

HPM
BUILDING SUPPLY

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HPMHAWAII.COM

Loyalty Enterprises, Ltd
45 North King Street, Suite 600
Honolulu, HI 96817
808-543-0511

February 9, 2024

Honorable Ronald D. Kouchi
Commerce and Consumer Protection Committee

RE: SB 3345 Relating to Taxation – In Support

Aloha Senator Kouchi 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 that was incorporated in 1958. We are a third generation kamaaina property management 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 SB 3345. We believe SB 3345 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 devasting. 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.

Very truly yours,

LOYALTY ENTERPRISES, LTD.

Catherine Luke, Its President

Senator Jarrett Keohokalole, Chair
Senator Carol Fukunaga, Vice Chair
Committee on Commerce and Consumer Protection

Tuesday, February 13, 2024
Conference room 229; 9:20am

RE: SB 3345 Relating to the Estate Tax – In Support

Aloha Chair Keohokalole, Vice Chair Fukunaga 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 writing in strong support of SB 3345.

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,

Chairman and CEO

<u>SB-3345</u>
Submitted on: 2/10/2024 1:26:25 PM
Testimony for CPN on 2/13/2024 9:20:00 AM

Submitted By	Organization	Testifier Position	Testify
Gerard Silva	Individual	Oppose	Written Testimony Only

Comments:

All TAXES are Ileagal!!!!!!

Senator Jarrett Keohokalole, Chair
Senator Carol Fukunaga, Vice Chair
Committee on Commerce and Consumer Protection

February 13, 2024
Conference room 229; 9:20am

RE: SB 3345 Relating to the Estate Tax – In Support

Aloha Chair Keohokalole, Vice Chair Fukunaga 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 writing in strong support of SB 3345. 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 SB 3345 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.

SB 3345 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, SB 3345 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

Senator Jarrett Keohokalole, Chair
Senator Carol Fukunaga, Vice Chair
Committee on Commerce and Consumer Protection

February 13_, 2024
Conference room 229; 9:20 AM

RE: SB 3345 Relating to the Estate Tax – In Support

Aloha Chair Keohokalole, Vice Chair Fukunaga 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 writing in strong support of SB 3345 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.

Sincerely,

Jenai S. Wall

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

Committee on Commerce and Consumer Protection

Tuesday, February 13, 2024
Conference room 229: 9:20a.m.

RE: SB 3345 Relating to Estate Tax – In Support

Aloha members of the committee:

My name is Wayne K De Luz, President and Director of Big Island Motors, Director of 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 SB 3345 which will allow us to continue to use our capital to expand and support our businesses.

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

SB-3345
Submitted on: 2/11/2024 11:55:03 AM
Testimony for CPN on 2/13/2024 9:20:00 AM

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

Comments:

Senator Jarrett Keohokalole, Chair

Senator Carol Fukunaga, Vice Chair

Committee on Commerce and Consumer Protection

February 13, 2024

Conference room 229; 9:20 a.m.

RE: SB 3345 Relating to the Estate Tax – In Support

Aloha Chair Keohokalole, Vice Chair Fukunaga 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 Hawaiʻi for over 100 years and currently employ over 250 employees.

I am writing in strong support of SB 3345. Local family businesses should not burdened by the state's estate tax. Many family-owned businesses spend too much time and money trying figure out how to pay the tax while maintaining ownership rather than using those same resources to grow their companies.

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

Sincerely,

Dana Tokioka