

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

STANLEY SHIRAKI  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510  
FAX NO: (808) 587-1560

**HOUSE COMMITTEE ON FINANCE  
TESTIMONY REGARDING HB 2884  
RELATING TO TAXATION**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: FEBRUARY 10, 2010**

**TIME: 3PM**

**ROOM: 308**

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This measure seeks to assess the general excise tax on the proceeds received by life settlement contract companies

The Department of Taxation (Department) recommends defining what a "life settlement contact is." Otherwise, the Department has **no comment** on this measure at this time.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Taxability of death benefit provider

BILL NUMBER: HB 2884

INTRODUCED BY: Say

**BRIEF SUMMARY:** Adds a new section to HRS chapter 237 to provide for the imposition of the general excise tax on the provider of a life settlement contract. The tax shall be 4% of the death benefit or other gross income derived by the provider upon: (1) the death of the owner of the life settlement contract; (2) the transfer to the provider of the life settlement contract from the owner or trust or other entity who owned the contract; or (3) both.

Defines "gross income" as any compensation or thing of value derived by a provider from the transfer of a life settlement contract from the owner or trust or other entity who owned the contract to the provider. Defines "transfer" for purposes of the measure.

Makes conforming amendments to HRS section 237-24.

This measure shall be repealed on June 30, 2015 provided that HRS section 237-24 shall be reenacted in the form in which it read on June 30, 2010. The section added to HRS chapter 237 by this act shall not be repealed when HRS section 431E-2 is repealed on June 16, 2010 by Act 177, SLH 2008, and provides that it shall not be reenacted after June 30, 2015. Also provides that the amendments made to HRS section 237-24 shall not be repealed when that section is repealed and reenacted on December 31, 2013, by Act 70, SLH 2009.

**EFFECTIVE DATE:** July 1, 2010

**STAFF COMMENTS:** Under the current law, death benefits are not subject to the 4% general excise tax.

While this measure temporarily subjects the death benefits or other gross income derived by a provider of a life settlement contract to the 4% general excise tax between July 1, 2010 and June 30, 2015, it appears that this measure is merely proposed to generate funds to address the dire financial condition of the state at the expense of selected taxpayers.

Like many other proposals this year to generate additional revenues for the state, it would appear that the tax is aimed at the insurer providing the coverage to the purchaser of the life insurance policy. If the insurer and/or the reinsurer is being tapped for the 4% general excise tax, the insurer, which more than likely is not a Hawaii company, will pass that cost on by reducing the benefits paid to the insured beneficiaries. Thus, in a round about way, the insured resident will end up paying for this added cost imposed on such life insurance policies.

Digested 2/9/10