The Twenty-Eighth Legislature
Regular Session of 2015

THE SENATE
Committee on Ways and Means
Senator Jill N. Tokuda, Chair
Senator Ronald D. Kouchi, Vice Chair
State Capitol, Conference Room 211
Wednesday, February 18, 2015; 9:00 a.m.

STATEMENT OF THE ILWU LOCAL 142 ON S.B. 118
RELATING TO REAL ESTATE INVESTMENT TRUSTS

The ILWU Local 142 supports the intent of S.B. 118, which disallows dividends paid deduction for Real Estate Investment Trusts (REITs).

Hawaii is losing out on millions of dollars in taxes because of something called the dividends paid deduction that helps REITs avoid paying taxes in Hawaii as long as they distribute 90% of their taxable income to shareholders, who then pay taxes in their home states. Most of the REITs with real estate holdings in Hawaii have shareholders/investors who do not live in Hawaii. Since REITs themselves currently have a dividends paid deduction, and most shareholders reside outside of Hawaii, all of the income from real estate activity of REITs in Hawaii goes to other states, and none of it remains in Hawaii.

Hawaii can certainly use another revenue stream. Requiring REITs to pay corporate income taxes would be one means of generating the revenues needed for the services and programs needed to address the myriad of issues facing our residents—including public education and early childhood education, homelessness and affordable rental housing, support for the elderly and disabled, and access to quality health care.

Many involved with REITs have testified in opposition to repealing the deduction. However, we believe this option needs more careful study and discussion. It is highly unlikely that a repeal of the deduction will mean that REITs will pull out of the Hawaii real estate market altogether. There are reasons why REITs invest in Hawaii—the deduction being but one small reason. And there are also reasons why everyone should pay their fair share of taxes to benefit the entire community.

The ILWU urges the Committee on Ways and Means to pass S.B. 118 to continue the discussion needed to determine if repeal of the dividends paid deduction should be enacted into law.

Thank you for the opportunity to share our views on this measure.

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice
Supporting Senate Bill 118 Relating to Real Estate Investment Trusts
Senate Committee on Ways and Means
Scheduled for Hearing Wednesday, February 18, 2015 9:00 AM, Room 211

Hawai‘i Appleseed Center for Law and Economic Justice is a nonprofit law firm created to advocate on behalf of low income individuals and families in Hawai‘i on policy and legal issues. Our core mission is to help our clients gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.

Thank you for the opportunity to testify in **support** of Senate Bill 118, which would eliminate the dividends-paid deduction allowed for Real Estate Investment Trusts on their Hawai‘i state income taxes. We support this measure as a fair means to raise revenue. Because of their dividends-paid deduction, real estate investment trusts (REITs) in Hawai‘i are able to avoid significant taxation on wealth derived from Hawai‘i’s land without providing any significant benefits to the state in return.

Real estate investment trusts are given special federal tax treatment through a corporate income tax deduction on all dividends paid out to their investors, and are required by statute to pay out at least 90 percent of their net income in dividends. This ensured that REITs would be an attractive vehicle for individuals who wanted to invest in real estate but couldn’t afford to purchase it outright—the original intent of Congress when it established REITs. Most states, including Hawai‘i, have followed the federal tax treatment.

The cumulative value of Hawai‘i’s 291 REITs is $13 billion, the highest in the country. (“A Multimillion-Dollar Tax Loophole Bigger than Ala Moana Center,” Honolulu Civil Beat, Jan. 8, 2015). The rents collected on these properties are collected by REITs and then paid out to their investors, many of whom are large corporations and wealthy non-residents. Because Hawai‘i state tax law allows a deduction for these dividends, this income goes untaxed here. In most cases, the investors will be required to pay income taxes on the dividends they receive in their home states. However, given that relatively few of these investors live in Hawai‘i, those tax revenues go to other states. In short, REITs have become a vehicle whereby large mainland investors are able to profit from Hawaii’s high land values, and export that wealth without paying taxes on the income in Hawai‘i—effectively functioning as a tax loophole.

Eliminating the dividends-paid deduction is the most straightforward way to ensure that the financial benefits of owning and operating real estate in Hawai‘i do not accrue only to wealthy out-of-state investors, and that the state of Hawai‘i has a fair share of the revenue created by REITs by eliminating the dividends-paid deduction. For these reasons, we respectfully request that you **pass SB 118.**

Hawai‘i Appleseed Center for Law and Economic Justice
119 Merchant Street, Suite 605A ◆ Honolulu, Hawai`i, 96813 ◆ (808) 587-7605

February 17, 2015

Senator Jill N. Tokuda, Chair
Senator Ronald D. Kouchi, Vice Chair
Committee on Ways and Means

Alan Tsuruda
Corporate Controller
Sullivan Family of Companies
3536 Harding Avenue
Honolulu, Hawaii 93816

Support for S.B. No. 118, Relating to Real Estate Investment Trusts

Dear Senators Tokuda and Kouchi, and Members of the Committee:

I have been a resident of Hawaii for my entire life and I am discouraged to continually hear that the State does not have the means to fix our public schools, improve public health services, and pay promised benefits to its retirees. I support S.B. No. 118, Relating to Real Estate Investment Trusts, because it is a way to help address this situation.

It is unfair that the owners of major shopping centers, hotels, and office buildings in Hawaii who have profited from our local and visitor trade have not been paying our State their share of income taxes. They should be required to cover the costs of the infrastructure, emergency, and social services that support their properties, the same way our local businesses and Hawaii residents do with their taxpayer dollars. S.B. No. 118 would close the REIT income tax loophole and keep more revenues in Hawaii for the benefit of our community.

I strongly urge you to pass S.B. No. 118. Thank you.

Sincerely,
Alan Tsuruda

Senator Jill N. Tokuda, Chair
Senator Ronald D. Kouchi, Vice Chair
Committee on Ways and Means

Blair Suzuki
808-230-3559

Wednesday, February 18, 2015

Support for S.B. No. 118, Relating to Real Estate Investment Trusts

I strongly support S.B. No. 118, Relating to Real Estate Investment Trusts. This bill will correct an unfair state income tax loophole, which allows mainland REITs operating in Hawaii to take their net income earned here out of state and tax free, resulting in an annual State loss between $30 to $60 million. These funds are sorely needed to supplement education, social services, infrastructure, affordable housing, the list goes on.

It is unfair that the owners of the major shopping centers, hotels, and office buildings in Hawaii who have profited from our local and visitor trade have not been paying our State their share of income taxes. They should be required to cover the costs the same way our local businesses and Hawaii residents are.

As a concerned local about Hawaii's long term social and economic wellbeing, I urge the committee to pass S.B. No. 118.

Thank you for the opportunity to testify.

Senator Jill N. Tokuda, Chair
Senator Ronald D. Kouchi, Vice Chair
Committee on Ways and Means

June Akina
1511 Nuuanu Avenue
Box 125
Honolulu, Hawaii 96817

Wednesday, February 18, 2015

Support for S.B. No. 118, Relating to Real Estate Investment Trusts

As a business person concerned about Hawaii's economy and long-term community development,I strongly support S.B. No. 118, Relating to Real Estate Investment Trusts.

This bill corrects a loophole in our state income tax law that allows mainland corporations operating profitably as REITs in Hawaii to take the net income they earn here out of state, tax free. This represents a loss of between $30 to $60 million annually to the state, funds that are needed to supplement the costs of education, social services, and other state commitments.

There is more REIT-owned property in Hawaii per capita than any other state in the nation, and, with our attractive real estate market,this will only increase in the future. REITs should be taxed the same way as other real estate investors, who are paying state income taxes ranging from 6 to 11 percent.

I urge the committee to pass S.B. No. 118. Thank you for the opportunity to testify.

June Akina

Senator Jill N. Tokuda, Chair
Senator Ronald D. Kouchi, Vice Chair
Committee on Ways and Means

June Akina
1511 Nuuanu Avenue
Box 125
Honolulu, Hawaii 96817

Wednesday, February 18, 2015

Support for S.B. No. 118, Relating to Real Estate Investment Trusts

I have been a resident of Hawaii for [NUMBER] years, and I am discouraged to continually hear that the State does not have the means to fix our public schools, improve public health services, and pay promised benefits to its retirees, even while my tax bill seems to increase every year. I support S.B. No. 118, Relating to Real Estate Investment Trusts, because it is a way to address this situation.

It is unfair that the owners of the major shopping centers, hotels, and office buildings in Hawaii who have profited from our local and visitor trade have not been paying our State their share ofincome taxes. They should be required to cover the costs of the infrastructure, emergency, and social services that support their properties, the same way ourlocal businesses and Hawaii residents are. S.B. No. 118 would close the REIT income tax loophole and keep more revenues in Hawaii for the benefit of our community.

We need to protect our tax base. I strongly urge you to pass S.B. No. 118. Thank you.

June Akina

Testimony of Paul H. Brewbaker, Ph.D., Principal, TZ Economics

before the Senate Committee on Ways and Means
Hawaii State Legislature
on
SB118: RELATING TO REAL ESTATE INVESTMENT TRUSTS

Wednesday, February 18, 2015

My name is Paul H. Brewbaker and I am a private economist and former member and Chair of the Hawaii Council on Revenues (COR). Many of you are familiar with me from my testimony at your committee's annual economic informational briefing, presenting with colleagues from DBEBT and UHERO, along with the COR Chair and, oftentimes, Directors of Taxation and Budget and Finance. It is along those lines of experience that I recently have been engaged to conduct a brief economic analysis of the proposal to disallow the dividends paid tax deduction for Real Estate Investment Trusts (REITs). My research is ongoing, but a preliminary examination of the bill's proposal and the economic principles underlying the relevant federal tax law suggests to me that SB118 is an ill-advised initiative unlikely to raise much revenue and mostly likely to divert capital inflows away from Hawaii. It is not a good idea.

Withdrawing the exemption for dividends paid introduces a pernicious tax distortion—double-taxation of capital income—that impairs one asset class (real property owned or being built or redeveloped by REITs) relative to other asset classes indistinguishable except by their ownership structure (real property with individual, pension and charitable fund, private corporate, private equity fund, etc. ownership). In this instance, private ownership structure is not simply a veil that when swept away reveals indistinguishable value of the underlying real assets. The financial structure of ownership itself can be a determinant of value, signaling valuations important to levels of financial capital flows and physical capital formation. It is important *not* to alter the tax code in a way that discriminates against one or another financial structure lest it risk a misallocation of financial capital.

Real capital—residential condominiums, commercial retail capacity, and the like—are formed and transformed because of efficient financial capital mobility both within the U.S. and internationally. Financial structures like pension funds, charitable endowment funds, private equity funds, and REITs all bear similarity because they mobilize financial capital and allocate its deployment into real capital formation by pooling risk exposures and by enabling collective, small-investor access to global capital markets. Hawaii's physical capital endowment as a modern, post-industrial economy and the productivity latent in this capital stock is a product of individuals investing in long-term real capital formation personally (as in their family residences) *as well as* their collective investments through a variety of financial structures including REITs. The latter now dominate over the former. It is not a good idea to distort returns to and flows of capital in Hawaii in a way that impairs one financial structure versus others.

There is never a good time in the economic cycle to doubly-tax capital income and deter capital formation in Hawaii. However, if you had to pick the worst time to do it, introducing such a tax distortion at the threshold of an investment-led reacceleration of Hawaii economic activity, this would be it. (See appended Figure 1 and Figure 2.) I refer the committee to my earlier comments before the joint House and Senate "money" committees from January 21, 2015 and, in particular, the presentation's title, "Overoptimistic forecasts bailed out by oil prices." To wit: (a) the tourism-led Hawaii economic recovery, 2010-2012, faded in 2013; (b) through stagnating real federal government civilian employment in Hawaii,[1] real Hawaii construction outlays,[2] and real Hawaii tourism receipts,[3] Hawaii's economy lost growth impetus from its principal exports and from investment during 2013-2014; and (c) the much-anticipated construction and investment upswing forecast for several years running has yet to manifest itself durably. Only falling oil prices in second half 2014 provided a tailwind sufficient to sustain Hawaii economic growth in the fact of an absolute decline in real federal government and construction activity, and a stagnation in Hawaii's primary export receipts through tourism. An increase in scheduled seats flown non-stop to Hawaii's Neighbor Islands bodes well for the near-term, but an investment-led reacceleration is the *only* plausible way to sustainably extend Hawaii economic expansion during the 20-teens. Capacity constraints in the lodging sector and long-term fiscal challenges of the U.S. federal government in funding Medicare, social security, and net interest on federal debt in the hands of the public, against the cross-current of demographic transition, limit Hawaii's growth prospects.

Investment is the key. As many observers note from the reappearance of construction cranes in Honolulu,[4] some people labor under the misimpression that investment already has mounted its cyclical upswing. The incipient upswing *is* benefitting from a substantial inflow of offshore capital in acquisitions and in commitments to build. However, talk is cheap. In terms of *actual* building (the verb), as recently as in 2014 the number of new housing units for which building permits were issued in Hawaii was the lowest since 1944. It's so good, only world war was worse than last year. (These housing totals *include* urban high-rise residential condominiums.) In commercial development there hasn't been a Class A office tower built in Hawaii in over twenty years.[5] As a consequence of this anticipated but no-show investment upswing, as recently as last fiscal year, the state's general fund revenue forecast estimate was too high by approximately 10 percentage points in absolute value. The fact that revenues declined when they were forecast to rise is an indication of how much forward economic momentum the state lost in the last two calendar years.[6]

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[1] Including military employment, monthly, on a seasonally-adjusted basis going back over two years to federal fiscal year 2013 commencing in October 2012.

[2] Measured by contracting receipts in the State's General Excise and Use Tax Base, adjusted for construction cost inflation using the U.S. Bureau of the Census implicit price deflator for (residential) construction and, therefore, an *underestimate* of decline because of the wind-down in federal military housing privatization and redevelopment, which was not general excise taxable economic activity (qualifying as "federal" projects on federal lands).

[3] Measured to total visitor expenditure in either event, adjusted for inflation on a seasonally-adjusted basis adjusted for U.S. price inflation using the Bureau of Economic Analysis (BEA) implicit price deflator for consumption or, at quarterly frequencies, using the Honolulu Consumer Price Index interpolated from its semi-annual original format.

[4] See Andrew Gomes (June 3, 2013) "CONDO MANIA!" *Honolulu Star-Advertiser*, page A-1

[5] Ironically, the most recent one was the benchmark used by the Legislature last year to cap building heights at the level of 20 years ago, in a time in which it would be inconceivable to cap cellular telephone technology accordingly.

[6] Compare actual FY2014 revenues, in the year ending in June 2014, to the forecast from May 2013. See Hawaii Council on Revenues (May 30, 2012) (http://files.hawaii.gov/tax/useful/cor/2012gf05-29_with0530_Rpt2Gov.pdf).

For Hawaii in the 21st century, *re*development is the dominant phenomenon and the key players are offshore institutional investors. (See appended Figure 3.) Investment-led economic growth is a sufficient and *necessary* condition for improving the State of Hawaii's fiscal picture, but not if it is impaired by tax distortions or an increased probability of future tax distortions.

This point about "signaling" is an important one. My guess is that a double-tax on REIT income from Hawaii real assets will raise nothing approaching the $35 million I am told prior testimony to this committee has conjectured in tax revenue. For one thing, every REIT with an investment in Hawaii immediately would have a motivation to completely change ownership structure of the holding entity to avoid the tax liability. Financial structure is not inert, even if buildings are. Worse, however, is the risk that Hawaii would send a signal to the global financial market that it cannot be taken seriously as an investment host because it cannot credibly pre-commit adherence to basic, efficiency-enhancing, non-distortionary tax policy principles.

Investors in physical capital formation of large structures face uncertainty about their future returns which is complicated by the irreversibility of the investments they are making when building or redeveloping. Anything that *increases* the uncertainty of future returns—such as whether the host environment's tax code can be credibly perceived as stable—interacts with irreversibility to raise even higher then threshold for an investor's acceptance of a potential acquisition or development project. Simply talking about the tax code in a manner that renders its perception variable rather than fixed can deleteriously affect the amount of capital flowing to Hawaii. There are plenty of other geographies in which such uncertainties are absent, not to mention other investment impediments. Beyond the *direct* behavioral response to a decrease in asset values implied by higher taxes on capital income, and diminution of capital flows implied by the reduction in the net present value of future returns, lies the *indirect* and adverse behavioral response to a jurisdiction signaling unpredictability of its tax code or willingness to introduce inefficiencies into the tax code. For investors, confidence is about predictability. Don't act like Greece.

Note that the pernicious consequences of capital taxation may not be obvious except in the long-run. For example, Hawaii's existing corporate net income tax on the surface may not seem like a pernicious distortion that we teach undergraduates it is. First, Hawaii taxes gross business receipts, then it taxes the net income of corporations with a Hawaii tax domicile, and then it taxes incomes of the corporation's owners, its shareholders, in Hawaii. Much is made in Hawaii by residents, as is true in Wisconsin and rural Idaho, surely, about the fact that out-of-state corporations send money "out of state." Ooooh, scary. As if a person importing a cell phone bought on the mainland, rather than buying one locally from a corporation, or on-line from a corporate retailer, isn't the same thing. It's *because* of trade that our living standards are high enough. It's because importing and exporting are so economically beneficial that we *tolerate* the pernicious distortions in our tax code as "too much pilikia" to try to correct. Make no mistake about it, however: Hawaii is no different from anywhere else in terms of "money leaving the state" bad-thinking. Hawaii has prospered economically from trade, in spite of the fact that Hawaii's tax code gives corporations a reason not to exist in Hawaii.

Here are the facts. Adjusted for inflation and seasonality, the constant-dollar value of Hawaii corporate net income tax receipts has been *declining* for the last four or five *decades*.

(See appended Figure 4.) Did Hawaii's economy decline in real terms over the last half century? No. Between 1969 and 2007, between the first full year for which I have monthly Hawaii tax revenue data and the last full year before the recent recession, Hawaii real GDP grew at a 2.7 percent annual average rate. During that same interval, real Hawaii corporate net income tax receipts declined at a −0.17 percent annualized annual rate, 1969-2007. In contrast, general excise tax receipts grew at a +3.0 percent average annual rate, and individual income tax receipts grew at a +2.7 percent annual average growth rate, 1969-2007. I suppose that corporate economic activity in Hawaii could have become dramatically *less* important to the state by 2007 than it was thirty-eight years earlier. However, I'm pretty sure what declined dramatically was having a corporate net income tax liability in Hawaii, *not* the amount of economic activity conducted by corporations. After inflation, Hawaii GDP grew 2.7 percent per annum, general excise taxes grew 3.0 percent per annum, individual income taxes grew 2.7 percent per annum, and corporate net income tax receipts grew −0.17 percent per annum. That says something distorted corporations in Hawaii, and taxation is one candidate (among other, structural factors).[7]

Hawaii should not to impair potential economic growth and development by introducing a tax distortion that creates uncertainty about the predictability of future asset returns in general and imposes a differential cost burden on one particular form of financial ownership structure and not others. Taxing REIT income twice, once when received in gross form (implied in the bill's creative accounting as comprising dividend income not received by Hawaii residents or others with a Hawaii state income tax liability), and once again when received by Hawaii REIT owners is an obvious distortion to returns on capital. Other things equal (*ceteris paribus*) a financial structure such as a pension fund or a charitable endowment fund or a private equity fund will not be impaired by the double-tax liability to which REITs are intended to be subjected by the proposed legislation. Nothing prevents ownership structure from changing to avoid a tax liability from withdrawal of the REIT deduction, so, it's possible the tax will not raise revenue simply through behavioral response: change of ownership. Nevertheless the shadow of tax code unpredictability also will be cast across the path of existing and prospective investments of non-REIT financial management structures.

Economics teaches that in the balancing act between revenue adequacy, efficiency, and equity (fairness), a tax policy decision-maker must be careful not to stray too far in one direction to the neglect of the others. Taxing REIT income before it is distributed to a subset of shareholders, and then taxing it again upon accrual to Hawaii shareholders as dividend income, is not just an exercise in creative (and fictional) accounting, it's a straight-up introduction of economic *in*efficiency. It benefits alternative financial structures that are near-substitutes for REITs as acquisition, development, and management vehicles for Hawaii real estate portfolios.

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[7] Economic governance, economies of scale, globalization, information technology, the market for corporate control, and many other factors explain the disappearance of some of the grand old corporate names such as Hawaii's oligarchic Big Five of the mid-20th century (Alexander & Baldwin, AMFAC, C. Brewer & Company, Castle & Cooke, Theo. H. Davies). It's not simply an accident of history that First Hawaiian Bank is a wholly-owned subsidiary of Banque National de Paris, or that the vast majority of Bank of Hawaii's shareholders are non-resident financial institutions such as pension funds. Most Hawaii consumers are delighted no longer to live in the world B.C. (Before Costco), enjoying the consumer benefits of Costco as well as Wal-Mart, Target, Home Depot, and Ross Dress For Less without getting hung-up on whether "da money goes out of state" through KTA Supermarkets or Whole Foods, only one of which is "local," or whether Liberty House "kept da money in state," before Macy's. Most people know they're better off even faking it at the farmer's market, driving their earth-friendly Ford F-150s.

It spuriously induces a flow of capital away from REITs to alternative structures for which the tax distortion is not applicable. It risks spuriously inducing a flow of capital away from Hawaii as a host environment for capital formation. It directs capital away from REITs and away from Hawaii *for no obvious gain*. Neither will revenue adequacy be enhanced if the dynamic, behavioral responses to the tax distortion shift capital away from REITs and away from Hawaii, nor will any obvious gain in fairness arise except for the patently unfair treatment of Hawaii REIT dividend recipients.[8] Their incomes first will be diminished by the amount of income extracted at the structure-level, and then diminished (appropriately) at the final recipient-level. This is like paying once to enter Disneyland, and then paying again for each ride: you would only do this if you *intended* to distort the pattern of ridership and to *deter* entry into the theme park.

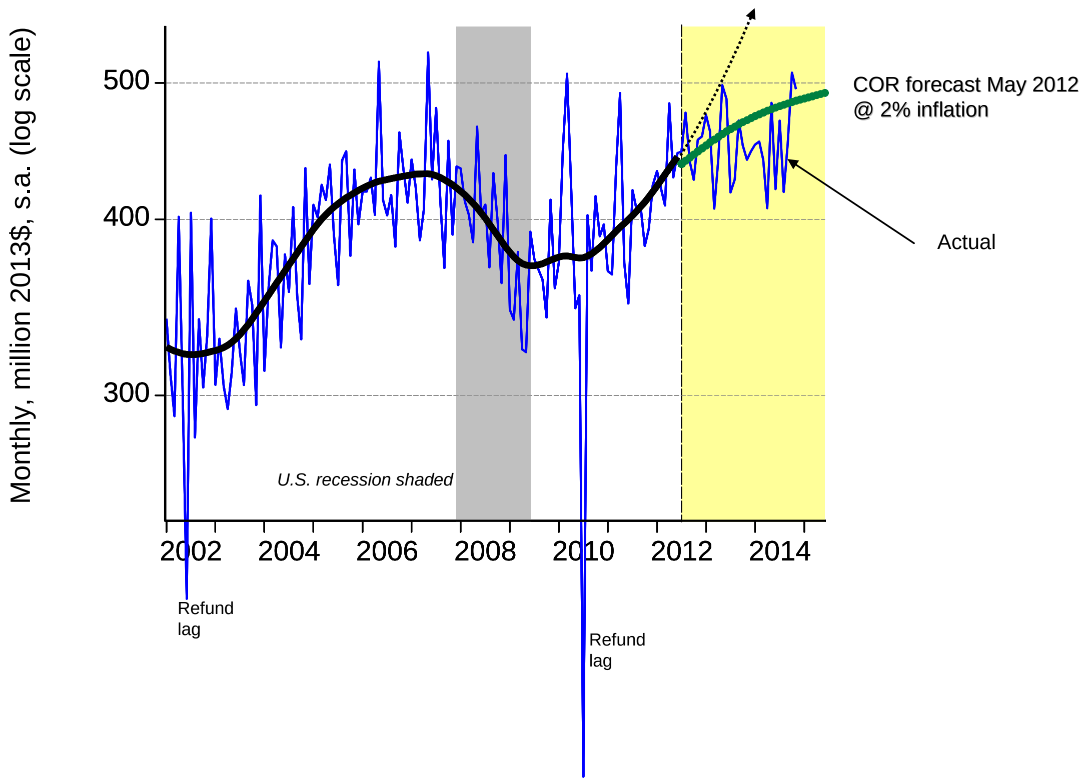
Surely the State of Hawaii intends neither to distort the pattern of financial capital allocation nor of physical capital formation. Hawaii must recognize that as a host environment for investment it faces a global capital market playing field that is tilted in its favor only slightly by its natural endowment and its advanced stage of destination-tourism development and related commercial activities such as shopping and recreation. These are precious, thin distinctions from the global competition for capital. Like Disneyland, to maximize attendance and insure that each attendee has the most rewarding experience, it should charge the same entrance fee and let the guests make their own choices from Disneyland's many experience options. Hawaii should treat all financial structures equally in its tax code, and maximize returns to investors *and* to Hawaii by facilitating an efficient flow of capital across Hawaii's many investment options.

[8] Technically, getting rid of REITs and other modern financial management structures as Hawaii property development, ownership, and management entities might return the islands to an earlier romanticized time when a few families owned most of the assets. See Gavin Daws, *Land and Power in Hawaii*, UH Press or get a copy of the movie version of Kaui Hemming's *The Descendants*. It's true that Hawaii's income distribution in the 21st century is worse than it was for most of the 20th, but not because REITS, pension funds, charitable endowments, private equity funds and other institutions through which the vast majority of Hawaii residents participate directly as individual investors are major real estate holders in Hawaii, rather than a few families.

Graphical Appendix

Figure 1. Hawaii General Fund Revenues in constant dollars lost upward momentum

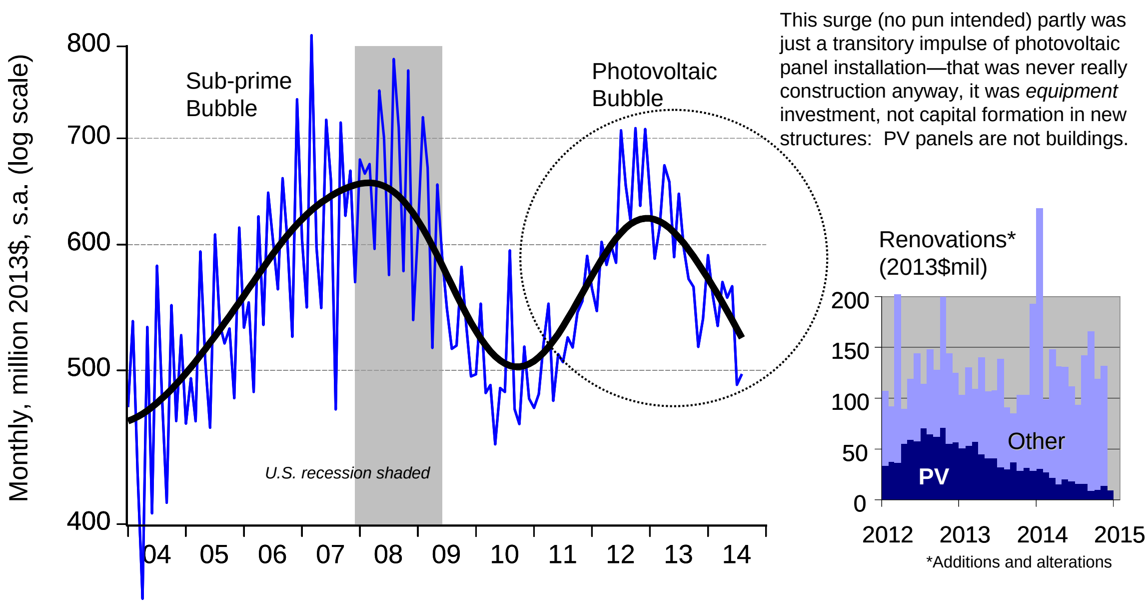
Hawaii Council on Revenues forecasts did not anticipate the extent of Hawaii's economic deceleration, 2013-2014



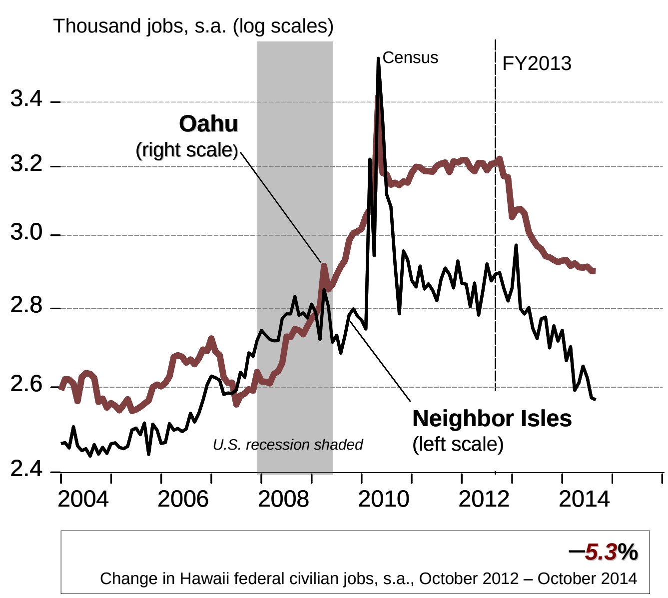
Sources: Hawaii DBEDT, DoTAX, and Hawaii Council on Revenues (May 30, 2012) (http://files.hawaii.gov/tax/useful/cor/2012gf05-29_with0530_Rpt2Gov.pdf); deflation using U.S. PCE deflator, seasonal adjustment using Census X-12 ARIMA filter, trend extraction with Hodrick-Prescott filter and interval regression by TZE.

Figure 2. Three areas of Hawaii economic activity where down is the new up

1. Hawaii contracting receipts

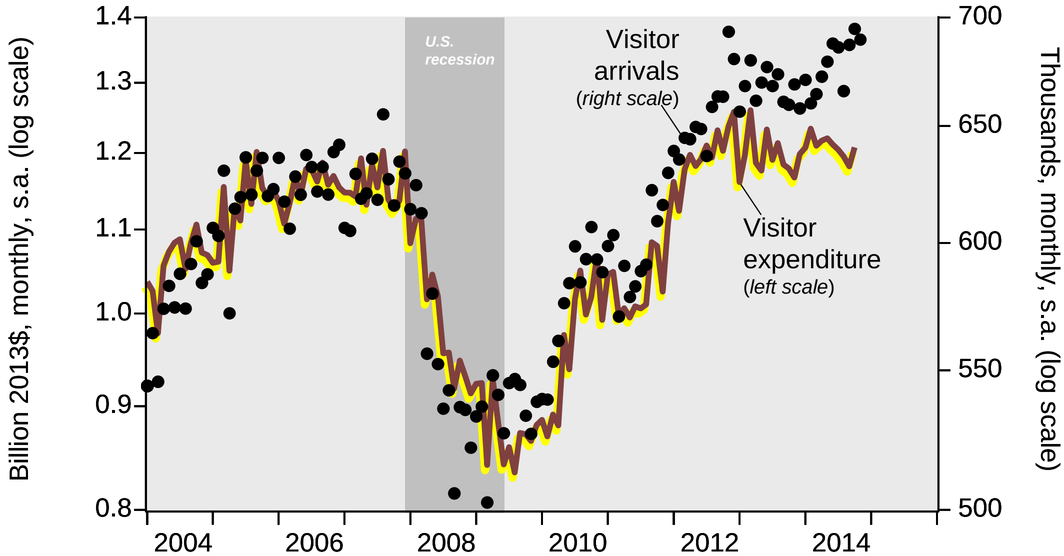


2. Hawaii federal government employment



- Federal fiscal contraction
- Loss of earmarks, Inouye
- Sequestration, impasse
- CBO: "If current laws governing federal taxes and spending generally remained unchanged, revenues would grow only slightly faster than the economy and spending would increase more rapidly.... Consequently, relative to the size of the economy, deficits would grow and federal debt would climb."

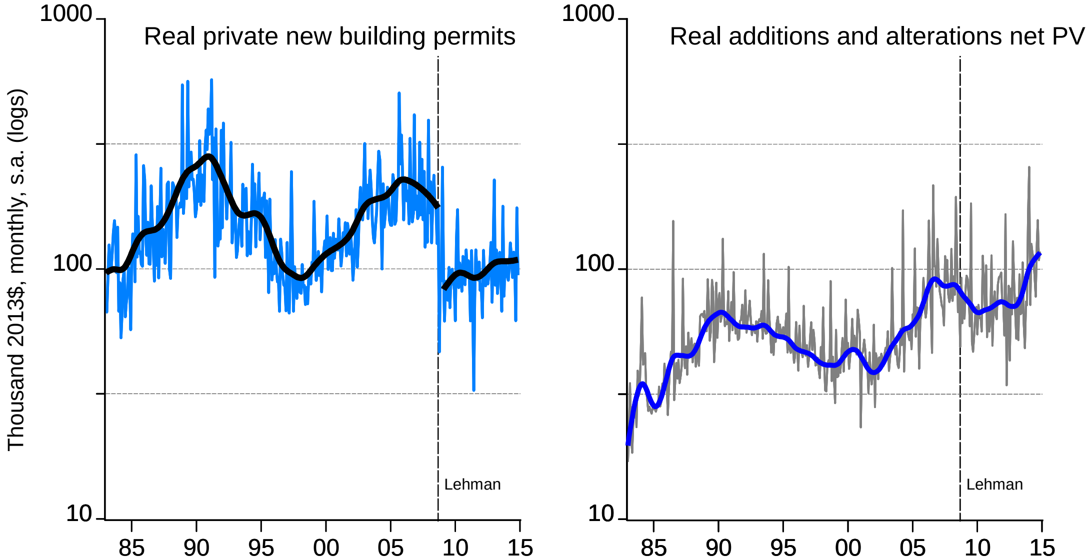
3. Hawaii real tourism performance



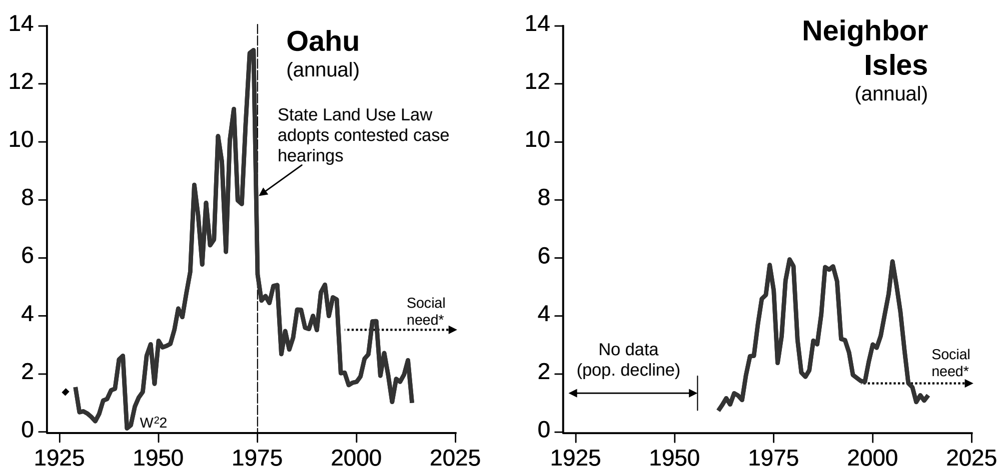
Sources: Hawaii Department of Taxation (contracting receipts), Hawaii DLIR, Hawaii DBEDT (payroll employment monthly averages through October 2014); quote from CBO (August 27, 2014) (http://cbo.gov/publication/45653), Bureau of the Census (construction cost deflator), Hawaii Tourism Authority and Hawaii DBEDT (http://dbedt.hawaii.gov/visitor/tourism/) including 2013-2014(Apr) revisions and data through November 2014, Bureau of Economic Analysis (U.S. personal consumption deflator); seasonal adjustment, deflation, trend/cycle component extraction by TZ Economics.

Figure 3. Emerging Hawaii investment upswing is *re*development-led, housing-poor

1. Real private building permit value net of photovoltaic panel (PV) installation



2. Hawaii statewide new housing authorizations (thousand units permitted)

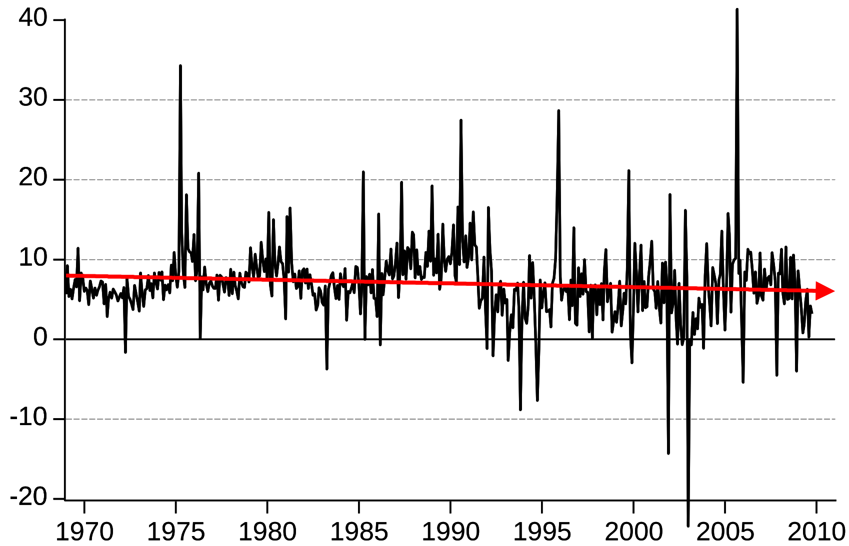


*Eugene Tian, Hawaii DBEDT, "What are the Economic Drivers for Hawaii in 2014 and Beyond," Realtor Housing Forum (May 2, 2024) calculated annual need to accommodate new household formation at existing density (http://files.hawaii.gov/dbedt/economic/reports/2014-economic-drivers.pdf).

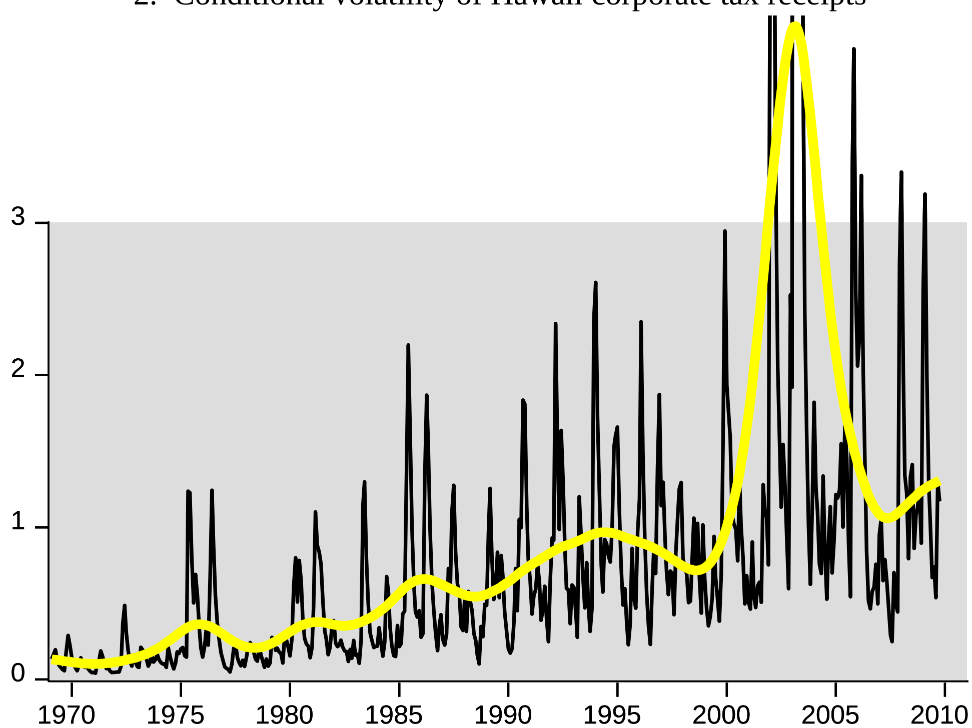
Sources: County building departments, Hawaii DBEDT, U.S. Bureau of the Census, Robert C. Schmitt (1976) Historical Statistics of Hawaii UH Press, county building departments, Hawaii DBEDT (various) State of Hawaii Data Book (Section 21), TZE database; flows are permitted new units minus authorized demolitions, but later data (since late-1970s) are gross new units; seasonal adjustment, deflation, and trend extraction by TZ Economics.

Figure 4. Hawaii real monthly corporate net income tax receipts:
more noise than signal (all data seasonally-adjusted, 1969-2009)

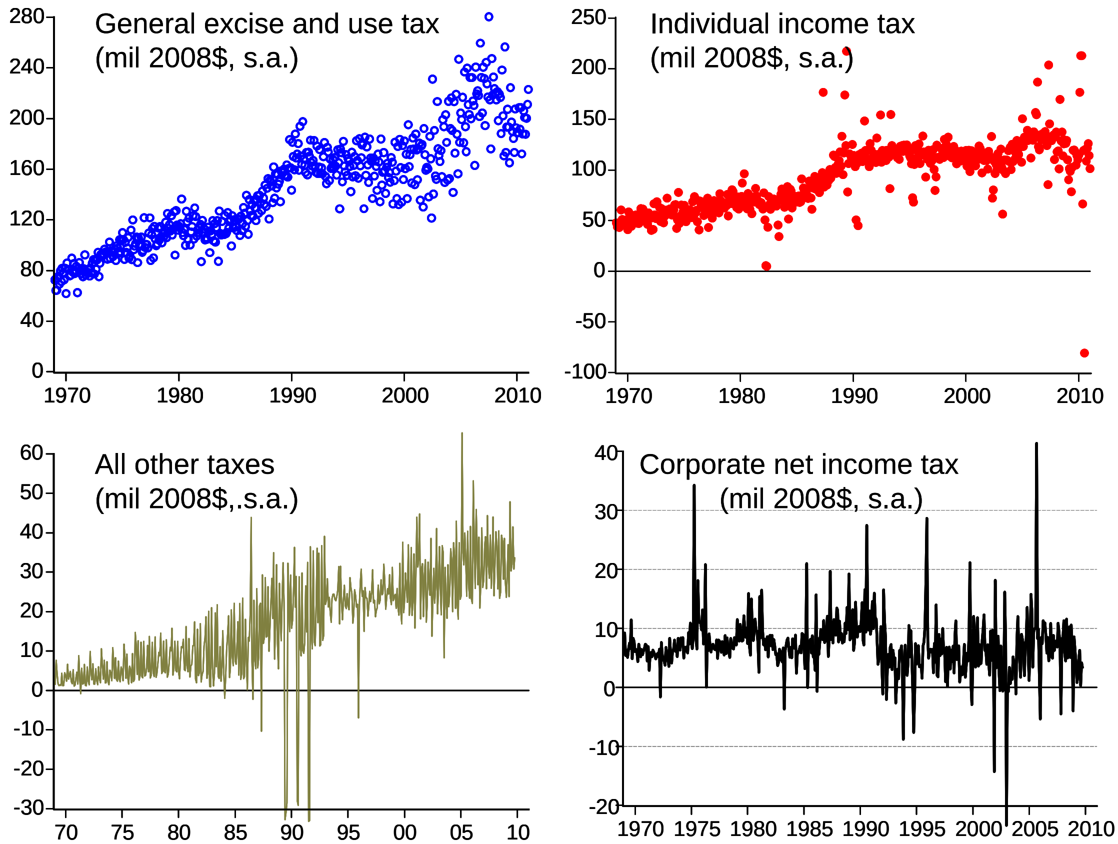
1. Hawaii corporate net income tax receipts (million 2008$)



2. Conditional volatility of Hawaii corporate tax receipts



3. Everything grew *except* Hawaii corporate income tax revenues



Sources: Hawaii Department of Taxation; all calculations (seasonal adjustment, deflation, etc.) are by TZ Economics, volatility depicted is generalized autoregressive conditional heteroskedasticity estimate of the annualized monthly standard deviation of log changes of intercept-adjusted, seasonally-adjusted monthly Hawaii real corporate net income tax receipts.

Senator Jill N. Tokuda, Chair
Senator Ronald D. Kouchi, Vice Chair
Committee on Ways and Means

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Wednesday, February 18, 2015

Support for S.B. No. 118, Relating to Real Estate Investment Trusts

As a business person concerned about Hawaii's economy and long-term community development, I strongly support S.B. No. 118, Relating to Real Estate Investment Trusts.

This bill corrects a loophole in our state income tax law that allows mainland corporations operating profitably as REITs in Hawaii to take the net income they earn here out of state, tax free. This represents a loss of between $30 to $60 million annually to the state, funds that are needed to supplement the costs of education, social services, and other state commitments.

There is more REIT-owned property in Hawaii per capita than any other state in the nation, and, with our attractive real estate market, this will only increase in the future. REITs should be taxed the same way as other real estate investors, who are paying state income taxes ranging from 6 to 11 percent.

I urge the committee to pass S.B. No. 118. Thank you for the opportunity to testify.

Senator Jill N. Tokuda, Chair
Senator Ronald D. Kouchi, Vice Chair
Committee on Ways and Means

[YOUR NAME]
[YOUR ADDRESS OR CONTACT NUMBER]

Wednesday, February 18, 2015

Support for S.B. No. 118, Relating to Real Estate Investment Trusts

I have been a resident of Hawaii for [NUMBER] years, and I am discouraged to continually hear that the State does not have the means to fix our public schools, improve public health services, and pay promised benefits to its retirees, even while my tax bill seems to increase every year. I support S.B. No. 118, Relating to Real Estate Investment Trusts, because it is a way to address this situation.

It is unfair that the owners of the major shopping centers, hotels, and office buildings in Hawaii who have profited from our local and visitor trade have not been paying our State their share of income taxes. They should be required to cover the costs of the infrastructure, emergency, and social services that support their properties, the same way our local businesses and Hawaii residents are. S.B. No. 118 would close the REIT income tax loophole and keep more revenues in Hawaii for the benefit of our community.

We need to protect our tax base. I strongly urge you to pass S.B. No. 118. Thank you.