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To: The Honorable Roy M. Takumi, Chair
and Members of the House Committee on Consumer Protection and Commerce

Date: Tuesday, February 12, 2019
Time: 2:00 P.M.
Place: Conference Room 329, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 475, H.D.1, Relating to the Real Estate Investment Trusts

The Department of Taxation (Department) provides the following comments regarding H.B. 475, H.D. 1, for your consideration.

H.B. 475, H.D. 1, eliminates conformity to Internal Revenue Code section 857(b)(2)(B), and disallows the deduction for dividends paid by a Real Estate Investment Trust (REIT). House Committee on Economic Development and Business added a provision that 10% of the net revenue gain from this measure is to be earmarked for the Department of Business, Economic Development, and Tourism (DBEDT) to fund economic development in the State. H.D. 1 has a defective effective date such that it applies to taxable years beginning after December 31, 2112.

First, the Department notes that the new provision providing that 10% of the revenue generated from REITs is very ambiguous. If the intent is to earmark 10% of all income tax revenue paid by REITs this should be specified. Further, the provision as currently written does not seem to be sufficient to create and appropriation. The provision can be read to simply provide a method to calculate an amount that DBEDT must spend rather than providing the funds to spend. If this provision is intended to be an appropriation, the Department suggests appropriating the amount to a special fund that has specific requirements on the how the funds must be spent.

Second, while a REIT must report all of its income on a tax return, it is not mandatory to report all of its allowable deductions. This is because the dividends paid for the deduction alone will eliminate any tax liability. In other words, to properly estimate the potential revenue gain we must also consider the other allowable deductions that can be used to offset tax liability, as well as behavioral responses due to tax planning.

Finally, the Department notes that it always prefers conformity with the Internal Revenue Code (IRC) where possible, as it provides clear guidance to both the Department and to taxpayers; the Internal Revenue Service has issued substantial guidance in the form of rules and regulations, and there are many court decisions regarding the various sections of the IRC. Conformity greatly minimizes the burden on the Department and taxpayers, thereby assisting compliance with Hawaii's tax law.

Thank you for the opportunity to provide comments.

LAND USE RESEARCH
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February 8, 2019

Representative Roy M. Takumi, Chair
Representative Linda Ichiyama, Vice Chair
House Committee on Consumer Protection & Commerce

Comments and Concerns in Strong Opposition to HB 475, HD1, Relating to Real Estate Investment Trusts (REITs); Disallows Dividends Paid Deduction for REITs.

Tuesday, February 12, 2019, 2:00 p.m., in Conference Room 329

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. LURF's mission is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

HB 475, HD1. The purpose of this bill is to amend subsection (b) of Section 235-2.3, Hawaii Revised Statutes, to deem Internal Revenue Code Section 857(b)(2) (with respect to the dividends paid deduction for real estate investment trusts) inoperative, thereby disallowing the dividend paid deduction for REITs. Should HB 475, HD1 be adopted, REITs will be taxed on their net income in Hawaii, while REIT shareholders will continue to be taxed on dividend income received, resulting in a double tax.

LURF's Position. LURF acknowledges the intent of this and prior, similar iterations of this measure given what may be perceived to be the potential for tax avoidance and abuse by foreign/mainland corporations and wealthy individuals through real estate ownership arrangements structured through REITs, however, stated justifications for this bill have not, to date, been proved or supported by any credible facts or evidence.

The State's Final Report on the Impact of REITs in Hawaii Has Failed to Validate the Alleged Purpose of and Need for this Proposed Legislation.

Given that an unwarranted change of a universal tax rule in place since 1960 could undoubtedly affect investments made by REITs in Hawaii, significantly reduce the availability of capital in this State, as well as result in other economic repercussions, the Legislature determined in 2015 that it was necessary and prudent to require support for this type of measure prior to considering its passage. Thus, Act 239, Session Laws of

Hawaii 2015, was passed which required the State Department of Business, Economic Development & Tourism (DBEDT) and the State Department of Taxation (DOTAX) to study the impact of REITs in Hawaii, and to present material facts and evidence which could show that such proposed legislation is in fact needed, and whether the State's economy will not be negatively affected because of taking the action proposed.

An interim report was released in December 2015 (the "Interim Report"),[1] followed by a final report issued in September 2016 (the "Final Report"),[2] however, even the Final Report is based on assumptions and estimates; relies on inconclusive results of surveys admittedly taken with a small sample size and low response rate; and is fraught with uncertainties, inconsistencies and weighting errors, making it unfeasible and ill-advised to rely upon for presenting any conclusive calculations or impacts.

Inquiries which critically must be, yet have not been proficiently or accurately addressed in the Final Report, include the amount of income the State would in fact receive as a result of the proposed legislation,[3] especially given the likelihood that REIT investment in Hawaii will in turn decline (i.e., whether the proposed measure is fiscally reasonable and sound); and whether it would be possible to replace the billions of dollars in investments currently being made by REITs should they elect to do business elsewhere if this proposed legislation is passed.

Given the inadequacy, inaccuracy and unreliability of the tenuous findings contained in the Interim and Final Reports, as well as the complete failure of said Reports to come to any meaningful and valid conclusions required to be made pursuant to Act 239, it should be brought to this Committee's attention that another study on the economic impacts of REITs in Hawaii dated December 2015, was prepared by economic expert Paul H. Brewbaker, PhD., CBE for the National Association of Real Estate Investment Trusts (the "Brewbaker Study").[4] The Brewbaker Study concludes that the repeal of the dividend paid deduction (DPD) for REITs in Hawaii would likely result in a net revenue loss to the State due to a number and combination of negative consequences which would be experienced by the local economy.

In view of the inconsistency between findings contained in the Final Report and the Brewbaker Study, LURF believes it would be irresponsible for this Committee to consider, let alone support HB 475, HD1 which may potentially stifle, if not reverse the current growth of the State's economy, in reliance solely upon the untenable findings of the Final Report, and must respectfully urge this Committee to at the very least, conduct

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[1] Department of Business, Economic Development & Tourism Research and Economic Analysis Division. *Real Estate Investment Trusts in Hawaii: Preliminary Data and Analysis - Interim Report*. December 2015.

[2] Department of Business, Economic Development & Tourism Research and Economic Analysis Division. *Real Estate Investment Trusts in Hawaii: Analysis and Survey Results*. September 2016.

[3] LURF understands that even the State DOTAX does not know how much tax income the government might receive as a result of the proposed legislation.

[4] Paul H. Brewbaker, Ph.D., CBE. *Economic Impacts of Real Estate Investment Trusts in Hawaii*. December 2015.

an independent investigation and analysis of all the available facts and information relating to the disallowance of the DPD, and the potential financial and economic consequences thereof, prior to making any decision on this bill.

In view of the inability of the Final Report to conclusively support the validity of this measure, LURF must oppose HB 475, HD1 based on the following reasons and considerations:

1. The "Double-Tax" Resulting from this Proposed Measure is Contrary to the Underlying Intent of REITs.

REITs are corporations or business trusts which were created by Congress in 1960 to allow small investors, including average, every day citizens, to invest in income-producing real estate. Pursuant to current federal and state income tax laws, REITs are allowed a DPD resulting in the dividend being taxed a single time, at the recipient level, and not to the paying entity. Most other corporations are subject to a double layer of taxation – on the income earned by the corporation and on the dividend income received by the recipient.

Proponents of this measure attempting to eliminate the DPD, however, appear to ignore that the deduction at issue comes at a price. REITs are granted the DPD for good reason - they are required under federal tax law to be widely held and to distribute at least 90% of their taxable income to shareholders,[5] and must also comply with other requirements imposed to ensure their focus on real estate. In short, REITs earn the DPD as they must comply with asset, income, compliance and distribution requirements not imposed on other real estate companies.

According to the Brewbaker Study, repealing the DPD for REITs would subject Hawaii shareholders to double taxation and may reduce future construction and investment by REITs locally, thereby resulting in revenue loss to the State.[6] Moreover, replacement investor groups may likely be tax-exempt institutions such as pension plans and foundations which would generate even less in taxes from their real estate investments.[7]

2. HB 475, HD1 is Contrary to the Tax Treatment of REITs Pursuant to Current Federal Income Tax Rules and Laws of Other States with an Income-Based Tax System.

HB 475, HD1 would enact serious policy change that would create disparity between current Hawaii, federal, and most other states' laws with respect to the taxation of REIT income.

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[5] The State of Hawaii thus benefits from taxes it collects on dividend distributions made to Hawaii residents.

[6] *Brewbaker Study* at pp. 1, 32, 38.

[7] *Id.*

The laws of practically every state with an income-based tax system now allow REITs a deduction for dividends paid to shareholders. Hawaii, as well as other states which impose income taxes currently tax REIT income just once on the shareholder level (not on the entity level), based on the residence of the shareholder that receives the REIT dividends and not on the location of the REIT or its projects.

By now proposing to double tax the REITs that do business in Hawaii as well as their shareholders, HB 475, HD1 would upset the uniformity of state taxation principles as applied between states. Other states which have similarly explored the possibility of such a double tax over the past years have rejected the disallowance of the DPD for widely held REITs.

3. Hawaii REITs Significantly Contribute to and Benefit the Local Economy.

Elimination of the DPD would result in a double taxation of income for Hawaii REITs which would certainly mitigate, if not extinguish interest and incentive in investing in Hawaii-based REITs, which currently contribute significantly to Hawaii's economy.

Results from the Final Report indicate that even as of September 2016, approximately 42 REITs operating in Hawaii reportedly held assets in the amount of an estimated $7.8 billion at cost basis[8], which has resulted in substantial economic activity in local industries including construction, retail, resort, healthcare and personal services, as well as employment for many Hawaii residents, and considerable tax revenues for the state and city governments. Such tax revenues include State General Excise Tax (GET) on rents and retail sale of goods, business income tax on profits made by tenants, income tax from employment of Hawaii residents, and millions of dollars in property taxes.

Proponents of this bill should be mindful that significant economic growth experienced in this State over the past years, and which is expected to continue in the future, is undoubtedly attributable in part to REIT investment in Hawaii. Outrigger Enterprises partnered with REIT American Assets Trust to successfully develop the Waikiki Beach Walk. General Growth' Properties' expansion and renovation of the Ala Moana Shopping Center, as well as its partnering with Honolulu-based, local companies (The MacNaughton Group, The Kobayashi Group and BlackSand Capital) to develop the Park Lane residential condominium project is another example. The capital invested in that project to construct additional retail space and luxury residences will reportedly exceed $1 billion, and the development will have created an estimated 11,600 full- and part-time jobs and over $146 million of state revenue. Taubman Centers, Inc., another REIT, also partnered with CoastWood Capital Group, LLC to revitalize Waikiki through the redevelopment of the International Market Place at a cost of approximately $400 million.

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[8] *Final Report* at pages 3, 15-16.

REIT projects have helped to support Hawaii's construction industry immensely[9] by providing thousands of jobs, and continue to significantly contribute to the local economy through development of more affordable housing (more than 2,000 rental housing units for Hawaii's families, such as the Moanalua Hillside expansion of more affordable housing rentals), student housing near the University of Hawaii, health care facilities, offices, shopping centers (Ala Moana Center addition; Pearlridge Center renovations; Ka Makana Ali'i), and hotels.

Despite claims made by detractors, the multibillion-dollar investments and contributions to Hawaii's economy made by REITs may not be so easily generated through other means or resources. Attracting and obtaining in-state capital for large projects is very difficult. The State should also be concerned with the types of entities willing and able to invest in Hawaii and should be wary of private investors looking only to make quick gains when the market is booming. Because federal regulations preclude REITs from "flipping" properties, REITs are by law, long-term investors which help to stabilize commercial real estate prices, and which are also likely to become a part of the local community.

4. **The Disallowance of the DPD Proposed by this Bill will Unfairly Affect REITs and the Small Investors Which Have Already Made Substantial Investments in Hawaii.**

Disallowance of the DPD and resulting increased taxation of REITs is expected to reduce investment returns as well as dividend payments to shareholders, which will no doubt have a significant negative effect on future investment by REITs in Hawaii.

Proponents of this bill attempt to minimize the negative consequences of disallowing the DPD by claiming that very few Hawaii taxpayers invest in REITs with property in Hawaii, however, LURF understands that in 2014 over 9,000 Hawaii investors had investments in over 70 public, non-listed REITs and received almost $30 million in distributions, and that tens of thousands more directly or indirectly own shares in stock exchange-listed REITs.

Supporters of this measure also ignore the fact that tax law changes proposed by HB 475, HD1 will unfairly impact those publicly traded REITs which have already made substantial investments in Hawaii and have contributed greatly to the State's economy in reliance on the DPD, which, as discussed above, is considered a fundamental principle of taxation applicable to REITs.

If passed, this measure would strongly discourage future investment by REITs in Hawaii, which would ultimately impact jobs, reduce tax revenue and result in significant consequences for the State's future economy.

Conclusion. LURF's position is that the findings of the Final Report which have not been updated or amended since issuance, have failed to credibly present any material

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[9] In the past five years, REIT-related construction activity alone is estimated to have generated $3 billion in Hawaii GDP.

facts or circumstances to prove that this proposed legislation is in fact necessary, or that the State's economy will significantly improve as a result of taking the action proposed. The intent and application of HB 475, HD1 thus arguably remain unreasonable, unwarranted, and exceedingly anti-business.

Act 239, SLH 2015 was specifically enacted by the State Legislature to validate the alleged purpose of disallowing the DPD. The results of the Final Report are thus considered vital to confirm the need for this type of measure. Therefore, based on the inability of said Report to convincingly and conclusively determine that the State's economy will be negatively impacted as a result of the action proposed, or that this proposed legislation is otherwise warranted, and given that an unjustifiable change of a universal tax rule in place since 1960 could significantly reduce the availability of capital in this State, as well as result in other negative economic repercussions, LURF must **strongly oppose HB 475, HD1**, and respectfully requests that this bill be **held in this Committee.**

HB-475-HD-1
Submitted on: 2/8/2019 11:06:09 PM
Testimony for CPC on 2/12/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Diane S. Martinson	Faith Action	Support	No

Comments:

I am writing in support of HB475 HD1. REIT developments benefit from generous federal tax exemptions and Hawai`i's low property taxes. Their business is generated from Hawai`i residents and visitors. This bill will improve their contribution to being responsible community members by requiring that they pay their fair share of taxes—tax revenue that can be used to address critical needs within this state. Please pass SB301 and eliminate the corporate income tax exemption on dividends paid out by REITs. Thank you for the opportunity to provide testimony in support HB475 HD1.

HB-475-HD-1
Submitted on: 2/11/2019 1:05:02 AM
Testimony for CPC on 2/12/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Galen Fox	FAITH ACTION	Support	No

Comments:

AMEND AND PASS HB475, HD1.

It makes no sense for the State to forego $60 million a year in corporate income taxes that every other business operating in HI must pay. We need the money to build affordable rental housing, and HB475 should be amended to send tax collections from real estate investment trusts (REITS) to the rental housing revolving fund. There is a nexus between "real estate investment" and HI's affordable housing need. (HD 1 oddly sends 10% of the collections to DBEDT for "economic development".)

Hawaiʻi Alliance for Community-Based Economic Development
1575 South Beretania Street, Suite 211 Honolulu, HI 96826
Ph. 808.550.2661
Email info@hacbed.org www.hacbed.org

HACBED

Date: February 9, 2019
To: Representative Roy M. Takumi, Chair, Representative Linda Ichiyama, Vice-Chair, and members of the Committee on Consumer Protection and Commerce
From: Brent Kakesako, Hawaiʻi Alliance for Community-Based Economic Development (HACBED)
Re: Strong Support for HB475 HD1

Aloha Chair Takumi, Vice-Chair Ichiyama, and Committee Members,

The Hawaiʻi Alliance for Community-Based Economic Development (HACBED) strongly supports HB475 HD1, which disallows the dividends paid deduction for real estate investment trusts (REITs).

HACBED was established in 1992 as a nonprofit statewide intermediary to address social, economic, and environmental justice concerns through community-based economic development. It advances its mission with core competencies in the areas of community and organizational capacity building, community and economic development planning, and asset policy development and advocacy. In providing technical assistance to grassroots community-based organizations, HACBED sees so much potential in how these organizations provide opportunities for place-based economic development. Many of these organizations carry out a wide range of environmental and cultural restoration activities as well as development of our youth and workforce in a way that is grounded in the cultures and values of Hawaiʻi. As such, eliminating the dividends paid deduction for REITs and directing at least 10% of that revenue to economic development grant programs, particularly as tied to place-based community organizations, would be of great benefit to the entire state and could also be seen as a way for REITs to truly invest in this place where they are already seeing many economic benefits.

In addition, HACBED played a facilitating role in the State Asset Policy Task Force and was a key contributor to the State Asset Policy Road Map. Currently, the 2015 State Housing Demand Study made it clear that 75% of the housing needed by 2026 must be for households earning $75,000 annually or less. Funds from eliminating the dividends paid to REITs should also be used to support the development of truly affordable living opportunities for families to be able to live here – again another way for REITs to reinvest in Hawaiʻi.

The passage of HB475 HD1 is an opportunity to recapture needed capital, and hopefully work with REITs to invest in place-based economic development and affordable housing development for families work and live in this place – Hawaiʻi.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Executive Director

HB-475-HD-1
Submitted on: 2/10/2019 9:30:37 AM
Testimony for CPC on 2/12/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Jeff Gilbreath	Hawaiian Community Assets	Support	No

Comments:

Our organization supports HB475, HD1 with amendments to include language that dedicates a portion of retained taxes from REITs toward the Rental Housing Revolving Fund, Dwelling Unit Revolving Fund, and the new, Homeownership Housing Revolving Fund. The bill was amended in the last committee to dedicate 10% of retained taxes to economic development. As we continue to face a housing affordability crisis, in particular for local households earning $75,000 annually or less, we must utilize these retained taxes for the building and preservation of affordable housing units.

TO: Representative Roy M. Takumi, Chair
Committee on Consumer Protection & Commerce

FROM: Evelyn Aczon Hao, President of Faith Action for Community Equity

Tuesday, February 12, 2019

Support for HB475 HD1 RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

Good morning, Chair Takumi, Vice-Chair Ichiyama and committee members.

I am Evelyn Aczon Hao, President of Faith Action for Community Equity.

Faith Action for Community Equity (*formerly* FACE) is a 23-year-old grassroots, interfaith organization that includes 18 congregations and temples, a union, health center, housing association and 3 advocacy organizations on Oahu. Faith Action is driven by a deep spiritual commitment to improve the quality of life for our members and all people of Hawaii. We strive to address issues of social justice at all levels of government.

Our legislative focus aims to get more resources for truly affordable housing in Hawaii. Sadly, affordable housing/thus a stable home is still an impossible dream for so many of our residents. The high cost of housing is burdening the middle class and crushing the poor.

I don't know of any holy writing, no moral or ethical teachings that promote or defend what we have somehow allowed to happen—that is, to effectively shut people out of affordable housing.

Why is Faith Action so dedicated to finding ways to increase housing stock for all?

Home is the center of life. Making housing affordable so that people can begin to build a home for themselves and their children is a moral responsibility for those who have the power to help make it so.

It is a moral responsibility because affordability leads to stability. Stability leads to community. Community leads to a place that can be truly called "home" where people can hope, contribute, and thrive.

My experience as a school principal at Kuhio Elementary in Moiliili made so clear to me how important stable housing is. *Eighty percent* of our students qualified for free or reduced cost lunch which means family income was below the poverty line. Also, 51 percent were English language learners. In fact, 21 languages were represented among our families. The DOE requires that schools meet statewide adequate yearly progress in statewide reading and math tests. Because of our innovative curriculum and hard-working teachers and students, our students met and even exceeded adequate yearly progress for seven straight years. Then one year, our scores dropped precipitously. We were shocked and could not figure out what went wrong. Later, we found out that during the second semester of that school year, our families had been slowly evicted from their substandard apartments which they shared with relatives. When students and their families were evicted from their apartments, they lost their stability. Their solid ground, as humble as it was, was gone. Besides suffering academically, how else did my students suffer?

Faith Action's HousingNow! task force has been a consistent and diligent force in striving to make affordable housing a reality for all Hawaii's residents. Making this happen is complicated; it requires creativity, persistence, and money.

HB475 HD1 can help to make this happen. The number of Hawaii commercial real estate owned by Real Estate Investment Trusts (REITs) is increasing, and because REITs do not currently pay Hawaii income tax, everyone else loses. Over 99% of their investors live and pay tax out of State and so REITs and almost all their investors are not contributing income tax to the support of Hawaii's economy on which their Hawaii investments depend on.

It makes no sense for the State to forego $60 million a year in corporate income taxes that every other business operating in Hawaii must pay. We need the money to build affordable rental housing, and HB475 HD1 should be amended to send tax collections from real estate investment trusts (REITs) to the rental housing revolving fund. There is a nexus between "real estate investment" and Hawaii's affordable housing need.

Thank you for this opportunity to testify.

Evelyn Aczon Hao
President
Faith Action for Community Equity

WRITTEN TESTIMONY OF

JEFFREY S. CLARK
SVP-TAX & JV ACCOUNTING
HOST HOTELS & RESORTS, INC.
IN OPPOSITION TO H.B. 475 H.D.1

BEFORE THE HAWAII HOUSE COMMITTEE ON
CONSUMER PROTECTION AND COMMERCE

THE HONORABLE ROY M. TAKUMI, CHAIR
THE HONORABLE LINDA ICHIYAMA, VICE CHAIR

HEARING ON H.B. 475 H.D.1

FEB. 12, 2019

Thank you for the opportunity to submit this testimony in opposition to H.B. 475 H.D.1 on behalf of Host Hotels & Resorts, Inc. (Host). Host is the largest lodging real estate investment trust (REIT) and one of the largest owners of luxury and upper-upscale hotels. The Company is headquartered in Bethesda, Maryland and is traded on the New York Stock Exchange. Host owns approximately 90 hotels throughout the US, Canada and Brazil, including four in Hawaii. Host strongly opposes, and asks you to hold, H.B. 475 H.D.1.

Host agrees with the discussion points included in the testimony of NAREIT in opposition to H.B. 475 H.D.1 regarding how the legislation would lose revenue on a net basis and how the bill would cause REITs to invest more in other states since such states do not have such anti-REIT provisions.

In addition, Host would like to emphasize that the federal tax law requirements of a hotel REIT like Host leads to the doubling or tripling of the general excise tax (GET) as compared with non-REIT hotel owners.

REITs are subject to federal tax law requirements that do not apply to other types of property owners. As relevant here, at least 75% of a REIT's annual gross income must consist of "rents". Hotel room charges are not considered as "rents". As a result, federal tax law requires hotel REITs to:

- Lease their hotels to a third party or to a taxable subsidiary, and
- If leased to a taxable subsidiary, the subsidiary must hire an independent operator to manage the hotel.

Again, these requirements do not apply to non-REIT hotel owners.

Hawaii imposes GET not only on the room charges and other hotel operating income earned by the hotel, but also on the rent received from the taxable subsidiary and on the management fee paid to the operator. Again, this additional GET is not imposed on a non-REIT hotel owner. As a result, GET is imposed on at least three levels of income of a hotel REIT: the room charges and other operating income, the rent received from the taxable subsidiary, and the management fee paid to the hotel operator.

For example, Host leases its four Hawaiʻi hotels, the Fairmont Kea Lani on Maui, the Hyatt Regency Maui Resort & Spa, the Andaz Maui, and the Hyatt Place Waikiki Beach to a taxable subsidiary, and the taxable subsidiary hires independent operators (Fairmont and Hyatt) to operate the hotels. Both the subsidiary rents and the operator fees have resulted in an **additional annual GET of approximately $5-$6 million** to Hawaii for each of 2017 and 2018 that would not have been assessed if the same entity was the owner and the operator. Because the GET is a gross receipts, rather than a net income, tax, it is a much more reliable source of revenues for the State. It also is a much greater source of revenues to the State than the corporate income tax. The enactment of H.B. 475 H.D.1 immediately would risk elimination of this extremely valuable source of GET revenues to the State.

Because of these unique requirements applicable to hotel REITs, the State received more than $16 million of GET in 2018 alone from hotel REITs in Hawaiʻi that non-REIT hotel owners do not incur. Yet the proponents of H.B. 475 H.D.1 claim that we operate tax-free in Hawaii!

Why operate this way if it results in more aggregate tax than a non-REIT hotel owner-operator? Because owning and operating the hotels require different expertise and separating the hotel ownership from the hotel operations creates more value both for the investors in the REIT and the investors in the hotel operator. As an additional benefit, it also creates million of dollars of revenues to, and many jobs, in, this State. It’s a win-win situation, all of which immediately could be jeopardized by the enactment of H.B. 475 H.D.1. Accordingly, Host respectfully asks the Committee to hold H.B. 475 H.D.1.

Hawaii
Children's Action Network
Building a unified voice for Hawaii's children

February 11, 2019

To: Representative Roy Takumi, Chair
Representative Linda Ichiyama, Vice Chair
House Committee on Consumer Protection

From: Laura Nevitt, Director of Public Policy
Hawaii Children's Action Network

Re: **S.B. 475– RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS**
Hawaii State Capitol, Room 329 , February 12, 2019, 2:00 PM

HCAN is committed to improving lives and being a strong voice advocating for Hawaiʻi's children. We write in support of S.B. 475 which disallows dividends paid deduction for real estate investment trusts. (HB475 HD1)

REITs operating in Hawaiʻi need to pay their fair share of state taxes.

As part of our community, they need to do their part in supporting our community. REITs already receive generous federal tax exemptions and benefit from Hawaiʻi's low property tax. They can operate and thrive in Hawaiʻi while still being a responsible community member and paying their share of the taxes needed build a strong Hawaiʻi for everyone.

- REITs own approximately $17 billion worth of Hawaii real estate and earn about $1 billion in profits every year.
- Hawaii loses an estimated $60 million in potential tax revenue every year due to the REITs tax loophole.
- The income generated by Hawaii REITs should be taxed so they help support the communities in which they operate.
- Every other individual and corporation doing business in Hawaii is subject to state income tax.
- If the REITs pay their fair share of taxes, then that can reduce the tax burden on the rest of us.
- Examples of REIT-owned properties across Hawaii include: International Marketplace, Pearlridge Shopping Center, Hilton Hawaiian Village, Ala Moana Center, most of Mapunapuna, and many more.
- As part of our community, REITs need to do their part in supporting our community.
- REITs already receive generous federal tax exemptions and benefit from Hawaii's low property tax.
- REITs can operate and thrive in Hawaii while still paying their share of the taxes needed build a strong Hawaii for everyone.
- REIT shareholders pay individual income tax on REIT dividends, but most shareholders of REITs operating in Hawaii are not Hawaii residents and do not pay Hawaiʻi state income taxes.

For these reasons, HCAN respectfully requests that the committee pass S.B. 475

HCAN is committed to building a unified voice advocating for Hawaii's children by improving their safety, health, and education.

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice
Supporting HB 475 HD1 – Relating to Taxation of Real Estate Investment Trusts
House Committee on Consumer Protection & Commerce
Scheduled for hearing on Tuesday, February 12, 2019, 2:00PM, in conference room 329

Dear Chair Takumi, Vice Chair Ichiyama, and members of the Committee on Consumer Protection & Commerce:

Thank you for the opportunity to testify in STRONG SUPPORT of **HB 475 HD1**, which would eliminate the corporate tax exemption for REITs. Right now, income produced on Hawai‘i REIT property is escaping Hawai‘i income tax. Typically, individuals and corporations in Hawai‘i that generate income off Hawai‘i real estate are paying state income tax. REITs should be no exception. Eliminating the exemption would generate an estimated $60 million in tax revenue to fund the infrastructure, projects and programs our that community, and even REITs themselves, depend on.

A Real Estate Investment Trust or “REIT,” is a corporation that owns income-producing real estate, like hotels and shopping malls. Like a mutual fund for real estate, people can purchase shares in a REIT to get a portion of the income it generates. REIT’s have been granted a special tax status that exempts them from paying corporate income tax on the dividends paid to its shareholders.

REITs suggest that the exemption is appropriate because REIT shareholders pay income tax. However, while REITs own approximately $17 billion worth of real estate in Hawai‘i—more than any other state on a per capita basis—we have relatively few residents who are REIT shareholders, ranking 40^{th} in the nation for the number of REIT shareholders as a percentage of the population. That means that a lot of REIT money is going out of our state, and only a little is remaining in. An estimated $1 billion in profits is created in Hawai‘i on Hawai‘i REIT property, and a significant portion of it is escaping Hawai‘i income tax.

REITs can still operate and thrive in Hawai‘i, even if required to pay their share of taxes needed to build a strong Hawai‘i for everyone. If the Hawai‘i state corporate income tax exemption were eliminated, REITs would still receive generous federal tax exemptions, and they would continue to benefit from Hawai‘i’s extraordinarily low property tax rate. HB 475 would ensure that REITs start paying their fair share of Hawai‘i income taxes to help support the communities in which they operate.

Mahalo for your consideration of this testimony.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Disallow REIT Deduction for Dividends Paid

BILL NUMBER: HB 475, HD-1

INTRODUCED BY: House Committee on Economic Development & Business

EXECUTIVE SUMMARY: This bill would disallow the dividends paid deduction that real estate investment trusts, or REITs, now enjoy. The numerous REITs who now own and manage Hawaii real estate would be taxed like any other corporation doing business in Hawaii. HD-1 earmarks 10% of the revenue generated to be used by DBEDT to fund economic development; earmarks generally reduce transparency and accountability and should be avoided.

SYNOPSIS: Amends HRS section 235-2.3(b) to provide that section 857(b)(2)(B) (with respect to the dividends paid deduction for real estate investment trusts) shall not be operative for Hawaii income tax purposes.

Amends HRS section 235-71(d) to provide that for tax years beginning after December 31, 2019, no deduction for dividends paid shall be allowed for REITs for Hawaii income tax purposes. Also provides that 10% of the revenue generated shall be used by DBEDT to fund economic development in the State.

EFFECTIVE DATE: Taxable years beginning after December 31, 2019.

STAFF COMMENTS: Currently under federal and state income tax law, a real estate investment trust (REIT) is allowed a dividend paid deduction, unlike most other corporations, resulting in that dividend being taxed once, to the recipient, rather than to the paying corporation. The proposed measure would make that section of the IRC inoperative for Hawaii income tax purposes for tax years beginning after 12/31/19, meaning that REITs would be subject to double taxation like other corporations.

All state income tax systems in the United States, including ours, have a set of rules that are used to figure out which state has the primary right to tax income. For example, most tax systems say that rent from real property is sourced at the location of the property, so if a couple in Florida rents out a property they own on Maui they can expect to pay our GET and our net income tax on that rent. These sourcing rules, which do vary by state but are relatively consistent across state lines, are there to assure consistent and fair treatment between states.

Sourcing rules, however, can yield strange results. Here, there is a Hawaii Supreme Court case saying that when real property is sold on the installment basis under an "agreement of sale," where the seller remains on title until the price is paid (although the buyer can live in the house), then the interest on the deferred payments is Hawaii source income and is subject to our net income tax and our GET. There is also a Hawaii Tax Appeal Court case holding that when the seller instead finances the deal by taking a purchase money mortgage on the property, and does not remain on title, then the mortgage interest is sourced to the residence of the seller, who in that case did not live in Hawaii. In the second case the court applied the rule for income from intangibles such as interest, royalties, and dividends, which says that income is sourced to the residence of the recipient unless you can connect it with some active business that the recipient is conducting somewhere else.

Real estate investment trusts (REITs) are source shifters. For income tax purposes, they take in rent income, which is sourced to the location of the property being rented. They don't pay income tax on that income as long as they distribute the money to their shareholders as dividends. The dividend income of their shareholders, on the other hand, is generally sourced to the residence of the shareholders. So, the income that the property states expected to tax is instead taxed in the states in which the shareholders live. And, to the extent that REIT shares are held by tax-exempt entities such as labor unions and retirement funds, passive income such as dividends may not be taxed at all. Source shifting is an issue specific to state taxation.

Apparently, the evil sought to be addressed by the bill is that (1) REITs are very visible in Hawaii, but do not get taxed because of the deduction allowed for dividends paid, while (2) many REIT owners who receive the dividend income are either (a) outside of Hawaii and don't get taxed either because they are outside of Hawaii, or (b) are exempt organizations that normally are not taxed on their dividend income. Normally we like to have our income tax law conform to the Internal Revenue Code to make it easier for people and companies to comply with it, but our legislature has departed from conformity when there's a good reason to do so (such as if it is costing us too much money). The issue is whether such a good reason exists here.

REITs do pay general excise and property taxes on rents received and property owned – as do the rest of us who are fortunate enough to have rental income or property to our name.

HD-1 added an earmark on the revenues generated. As with any earmarking of revenues, the legislature will be preapproving each of the initiatives fed by the tax earmark, so expenses from the funds largely avoid legislative scrutiny, and the effectiveness of the programs funded becomes harder to ascertain. It is also difficult to determine whether too little or too much revenue has been diverted from other priorities in the state budget.

If the legislature deems the programs and purposes funded by this special fund to be a high priority, then it should maintain the accountability for these funds by appropriating the funds as it does with other programs. Earmarking revenues merely absolves elected officials from setting priorities. If the money were appropriated, lawmakers would have to evaluate the real or actual needs of each program.

Digested 2/10/2019

February 11, 2019

Representative Roy M. Takumi, Chair
Representative Linda Ichiyama, Vice Chair
Members of the House Committee on Consumer
Protection & Commerce
Thirtieth Legislature
Regular Session of 2019

RE: **HB 475, HD1 – RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS**
Hearing date – February 12, 2019 at 2:00 pm

Aloha Chair Takumi, Vice Chair Ichiyama and members of the committee,

Thank you for allowing NAIOP Hawaii to submit testimony in **OPPOSITION** to HB 475, HD1 – Relating to Taxation of Real Estate Investment Trusts. NAIOP Hawaii is the Hawaii chapter of the nation's leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders and other professionals.

Over the past few years, REIT investment has resulted in several billion dollars of construction activity, creating thousands of local jobs, both construction and permanent, and helping our community maintain a strong economy.

REITs have continued to contribute to our community by investing in affordable housing, retail, healthcare, office buildings and other commercial projects that will serve our community and local families for decades to come.

HB 475, HD1 would disallow the dividends paid deduction for REITs. Hawaii is already among the most heavily taxed states in the entire country which stifles economic growth, and HB 475, HD1 would make Hawaii one of only two states to disallow the dividends paid deduction. This change would create additional barriers to do business in our state and would negatively impact the level of interest in future investment in Hawaii and put jobs and revenues at risk.

Simply put, the bill will not provide the tax benefit assumed, but increase even further, the cost of doing business in this state. Accordingly, we respectfully urge you to defer HB 475, HD1.

Mahalo for your consideration,

Scott Settle, Director
NAIOP Hawaii

Douglas Emmett

February 9, 2019

Representative Roy Takumi, Chair
Representative Linda Ichiyama, Vice Chair
House Committee on Consumer Protection & Commerce

RE: HB 475 HD1 Relating to Taxation of Real Estate Investment Trusts – In Opposition
Tuesday, February 12, 2019; 2:00 PM; Conference room 329

Aloha Chair Takumi, Vice Chair Ichiyama and Members of the Committee:

On behalf of Douglas Emmett, Inc. ("Douglas Emmett"), we appreciate this opportunity to present testimony expressing concerns on HB 475 HD1, which disallows a dividends-paid deduction for real estate investment trusts ("REITs").

Douglas Emmett has been investing in Oahu for over fifteen years. We currently own approximately 1,800 workforce rental apartment units and have almost completed new construction of 475 workforce rental units at the Moanalua Hillside Apartments. We also own three large office properties in downtown Honolulu, including Bishop Square, Bishop Place and Harbor Court.

Douglas Emmett has been an active member of the local communities, most recently sponsoring the Prince Lot Hula Festival, which is organized by the Moanalua Gardens Foundation, and Bishop Museum's Annual Dinner. We are also large regular donors to the Boys & Girls Club of Hawai'i, and were one of the largest donors to The Shelter (First Assembly's initiative to provide transitional housing to homeless people that looks like igloos). Our CEO, an active environmentalist, also co-founded Waiwai Ola Waterkeepers Hawai'ian Islands.

HB 475 HD1 will unfairly negatively impact those that invest in real estate through REITs, including Hawai'i residents and Hawai'i pension funds, because they will be subject to double taxation (the REIT will pay tax on its income and then the individual will pay tax again on his or her distributions from the REIT).

With the exception of corporations, most companies and partnerships are subject to a single tax. Historically, real estate was held in one of these single tax entities and was owned by a small number of wealthy individuals. Larger properties were owned by tax exempt entities.

REITs were introduced to create a single tax structure for individuals to invest in real estate in order to "level the playing field" for small investors. Anyone can now buy a share of Douglas

Emmett and own a "piece" of the REIT's buildings. Those individuals are treated similarly to other institutional investors and wealthy individuals who invest through partnerships and limited liability companies (which do not subject them to "double tax").

Although the dividends are deducted at the REIT level to avoid double taxation, REITs – just like any other property owner in Hawai'i – are required to pay all other taxes associated with their real estate holdings, including real property taxes, occupancy taxes, and general excise taxes.

By imposing a double tax on REITs, Hawai'i will be at a competitive disadvantage compared to other states for one of the best sources of capital to build workforce housing and improve our communities. Presumably, over time, the real estate would transfer back to single tax entities that are dominated by tax exempt entities with large sums to make direct investments, such as endowments, foundations and pension funds. These investors pay no state income tax.

As a stakeholder in Hawai'i, Douglas Emmett believes HB 475 HD1 will eliminate an important source of capital that generates substantial local economic activity. Inasmuch as HB 475 HD1 appears to be outside of the best interest of the residents of Hawai'i and the objectives of the State to encourage the investment into, and growth of, Hawai'i's economy, we respectfully ask that you defer HB 475 HD1.

Respectfully,

Kevin Crummy
Chief Investment Officer

Michele Aronson
Senior Vice President

ALA MOANA
HAWAII'S CENTER

February 11, 2019

Hearing Date: February 12, 2019
Time: 2:00 p.m.
Place: State Capitol, Conference Room 329

Rep. Roy M. Takumi, Chair
Rep. Linda Ichiyama, Vice Chair
Committee on Consumer Protection & Commerce
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Testimony in Opposition to House Bill No. 475, HD 1

Dear Chairman Takumi, Vice-Chairwoman Ichiyama and Committee Members:

Thank you for the opportunity to provide written testimony on House Bill No. 475, HD 1. The intent of the Bill is to disallow the dividends paid deduction; subjecting REIT investment in Hawaii to double taxation contrary to the taxation of REITs nationwide. As we have previously testified, we are not in support of these type of measures and believe this is not the appropriate legislative path to take with respect to REITs. We are Francis Cofran, the Senior General Manager of Ala Moana Center, the largest retail center in the state of Hawaii, and Jared Chupaila, EVP, Chief Operating Officer of Brookfield Properties, an owner of Ala Moana Center.

GGP has now become Brookfield Property REIT and is an affiliate of Brookfield Asset Management. Brookfield Properties' retail group, which encompasses the former GGP portfolio as well as other retail properties within the Brookfield group, has an extensive portfolio of mall properties encompassing 161 locations across 42 U.S. states. Brookfield Properties assures premier quality and optimal outcomes for our tenants, business partners and the communities in which we do business. Brookfield Properties continues GGP's legacy of being a part of the economic fabric of Hawaii for more than 30 years (since 1987) -- managing, owning and reinvesting in its Hawaii real estate assets as part of a long-term commitment that provides economic stability, growth, and jobs through all economic cycles.

Brookfield Properties operates three major retail shopping centers in Hawaii – the Prince Kuhio Plaza in Hilo, Whalers Village in Lahaina, and the Ala Moana Center in Honolulu. The latter two are iconic visitor attractions that help sustain Hawaii's important tourism industry. In addition to their important role in tourism, all three centers directly benefit the state and local economy through the Hawaii general excise tax.

ALA MOANA CENTER
1450 Ala Moana Blvd, Suite 1290, Honolulu, HI, 96814
T +1 808 946 2811 F +1 808 955 2193 BrookfieldPropertiesRetail.com

These centers are also key gathering places for our local communities. The Committee should note that our tenants vary by size, rent paid per square foot and duration of occupancy. Ala Moana Center has a wide range of uses including local services, food and beverage offerings, discount tenants, travel services, grocery and drug stores and health clubs. Efficient REIT capital allows us to constantly reinvest in and enhance the customer experience. For example, we are very supportive and proud of the activities that take place at the new Center Stage at Ala Moana Center, our sponsorship of the Fourth of July firework celebration, our enhancements at Whaler's Village, and our ability to introduce to Hawaii residents, retailers and retail concepts which are on the cutting edge and brand new to the State of Hawaii. Efficient REIT capital also allows us to make infrastructure and other improvements which bear fruit in projects such as Foodland Farms at Ala Moana Center, and the new Lanai food court, which opened last year. In addition, 80% of tenants at our office properties are local many of them serving the health care needs of the community.

In prior year legislative sessions, we have testified in opposition to attempts to eliminate the deduction for dividends paid by REITs. That testimony has focused on the following points:

- If Hawaii enacts this legislation, it will be out of step with all other states with respect to the dividends paid deduction for REITs (with the exception of New Hampshire, where we believe REIT investment has been inhibited).
- The deduction for dividends paid by REITs results in a single level of taxation at the shareholder level which is consistent with how limited liability companies, Subchapter S corporations and partnerships that own real estate are taxed. Changing this would put REITs at a disadvantage in relation to these other forms of doing business.
- REITs produce substantial economic benefits to the State of Hawaii in the form of jobs, general excise tax, income tax from persons working or engaging in business at REIT properties, and real property taxes. The three properties annually pay more than $32 million in real property and general excise taxes – metrics that clearly demonstrate that REITs are investing in the economic well-being of the state and its residents.
- During 2012-2016, Brookfield Property REIT invested almost $1 billion in capital to construct additional retail square footage and residential condominiums based on the existing Hawaiian tax regime. During the construction period, we estimated economic activity of 11,600 full- and part-time jobs and over $146 million of state revenue including indirect community benefits. Post-construction, the additional retail will produce an incremental $33 million of state revenue and 3,000 jobs annually.
- Future expansion plans could be reconsidered if the attractiveness of investing in Hawaii relative to the rest of the United States is diminished through the enactment of this bill.

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T +1 808 946 2811 F +1 808 955 2193 BrookfieldPropertiesRetail.com

In September 2016, the Department of Business, Economic Development & Tourism ("DBEDT") released its final study on REITs in Hawaii. The report specifically notes that the estimates do not take into account changes in behavior, including the likelihood of reduced future REIT investment, if there are additional impediments to REIT or shareholder returns. Similarly, the report does not address the revenue loss to the State resulting from future reduced REIT investment. Last week, Donovan M. Dela Cruz, the Committee Chair of the Senate Ways and Means Committee, while having a hearing on SB 301, a similar measure, noted that the Department of Taxation told him that there would be a smaller amount of revenue to be earned than the figures thrown out by the proponents of the measure. To deviate from the national legislative norm is not good policy.

Please do not allow the perception of a revenue increase override the long-term economic benefits that REIT investment under the existing tax regime brings to the state of Hawaii and its residents. For the foregoing reasons, we respectfully oppose House Bill No. 475 and urge you to not let it move forward. Thank you for your consideration.

Sincerely,

Francis Cofran
Senior General Manager

Jared Chupaila
EVP, Chief Operating Officer

WAIKELE
PREMIUM OUTLETS®
A SIMON CENTER

February 11, 2019

The Honorable Roy M. Takumi, Chair
The Honorable. Linda Ichiyama, Vice Chair
House Committee on Consumer Protection & Commerce
State Capitol
415 South Beretania Street
Honolulu, HI 96813

RE: Opposition to HB 475 HD 1/Hearing on Feb. 12, 2019

Dear Chair Takumi, Vice Chair Ichiyama and Members of the Committee:

On behalf of Simon Property Group (Simon), thank you for the opportunity to submit this testimony in strong opposition to HB 475 HD 1. Simon is a publicly traded real estate investment trust (REIT). We own, develop and manage premier shopping, dining, entertainment and mixed-use destinations, including Waikele Premium Outlets in Waipahu. As of December 31, 2017, we owned or held an interest in 207 income-producing properties in the United States, which consisted of 107 malls, 68 Premium Outlets, a number of other retail properties in 37 states and Puerto Rico. We also own a number of overseas properties.

HB 475 HD would eliminate the REIT dividends paid deduction (DPD), contrary to federal law and the laws of virtually every state with a corporate income tax.

Modeled after mutual funds, Congress created REITs in 1960 to provide a way for ordinary Americans to combine their capital in order to invest in professionally-managed, income producing real estate with a single level of taxation. In the past, such investment was generally limited to wealthy investors through partnerships. Unlike other real estate owners, as a REIT, we must meet strict asset, income, and operational tests to ensure that we are a widely-held, real estate-focused company. Unlike other real estate owners, but like mutual funds, we can't retain our earnings. We must distribute at least 90% of our taxable income to shareholders. If we satisfy this distribution requirement as well as the other REIT rules, we are entitled to claim a DPD. We must pay corporate tax on an income we retain.

Like other REITs, we invest for the long-term. We have owned the Waikele Premium Outlets since 2004. Since we've owned this property, we have invested over $95 million to improve the property. This investment has improved the property's value, allowing it to generate about $1.4 million annually in property taxes and $1.5 million annually in general excise taxes.

As a publicly traded REIT that invests in multiple states and throughout the world, we must consider the local business climate as a factor in terms of where to invest, and to continue to invest, capital. Enactment of this bill would lead to double taxation of our shareholders and would make Hawaii a less attractive place to invest, not just for Simon, but for other investors who may view its enactment as meant to discourage future investment, thereby jeopardizing jobs and future revenues in the State. Investments in virtually all other states would not be subject to this second level of tax, so HB 475 HD 1 would make it more likely that we would invest outside of Hawaii. Please consider the important contributions that REITs have made in Hawaii. We respectfully ask that you hold HB 475 HD 1.

Thank you again for the opportunity to submit this testimony.

Sincerely,

Rajeev Chhabra
Manager
Waikele Premium Outlets

WAIKELE

An American Assets Trust Property

February 12, 2019

Honorable Roy M. Takumi, Chair
Honorable Linda Ichiyama, Vice Chair
Committee on Consumer Protection & Commerce
State Capitol
415 South Beretania Street Room 329
Honolulu, Hawaii 96813

Re: Written Testimony to House Bill No. 475 HD1 , Relating to Taxation of Real Estate Investment Trusts

Dear Chair Takumi, Vice-Chair Ichiyama, and Committee Members:

My name is Pamela Wilson, and I am the General Manager of Hawaii Real Estate for American Assets Trust (AAT). I am a life-long resident of our Islands. I have worked for American Assets Trust for the past fourteen years and have witnessed the positive impact that they have had on our communities. American Assets Trust is a New York Stock Exchange-listed Real Estate Investment Trust (REIT) engaged in acquiring, improving, developing and managing premier retail, office and residential properties primarily in Hawaii, Southern California, Northern California, Oregon, and Washington State.

H.B. 475 HD1 seeks to eliminate the dividends paid deduction (or DPD) for all REITs operating in Hawaii.

REITs allow ordinary Americans to invest in real estate. As with all REITs, and unlike other non-REIT property owners, we must satisfy many strict and expensive requirements in order to maintain our REIT status. One of the requirements is to distribute annually all of our taxable income to shareholders in order for all of our earnings to be taxed at the shareholder level. Another requirement is to own properties for the long-term, rather than to develop and sell properties. This bill would penalize not only the REITs themselves, but also Hawaii residents and pension funds who invest in REITs owning Hawaii real estate.

Like most REITs, American Assets Trust is a long-term property investor. AAT owns four properties in Hawaii: The Shops at 2150 Kalakaua; Waikele Center; Waikiki Beach Walk and the Embassy Suites-Waikiki Beach Walk. We are committed to creating sustainable value at our properties. We have helped to nurture local businesses that provide jobs, increase business activity, and contribute to the state's economy (through generation of additional payroll, general excise, property taxes and income taxes earned by residents employed at these properties). We play a valuable role in support of the local communities. Additionally, the growth in tourism over the last decade is in part a result of the long term capital allocation by REITs to create high quality, world class retail and resort destinations that tourists enjoy and are drawn back to time and time again.

Notably, the REIT business model does not depend on "flipping" properties but on providing sustainable returns to our investors from distributions of current earnings and modest capital appreciation of our stock. Thus, we are incentivized (assuming state law regarding REITs does not change) to continue making additional investments in Hawaii at these properties.

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Email: pwilson@americanassets.com

As a REIT that invests in multiple states, a double taxation would make Hawaii less attractive and encourage the placement of investments in other states that do permit the Dividend Paid Deduction (DPD). HB 475 HD1 would make Hawaii only one of two states that would subject REITs to corporate income taxation, upsetting the uniformity of state taxation principles between all states except New Hampshire, which has about a fourth of REIT investment compared with Hawaii.

Furthermore, House Bill 475 HD1 proposes an unworkable system. Unlike an S corporation, a publicly traded REIT is not limited to 100 shareholders who can be easily identified. In fact, many such REITs have millions of shares outstanding, with approximately 99 percent held in "street name" by a central securities depository on behalf of the ultimate owners. It is and would be impossible for a given REIT to provide the name, address and federal identifying information required under House Bill 475 HD1 with respect to all of these shares. And the way in which capital markets operate, with thousands of shareholders entering and leaving the market in a single day or an hour, further compounds an already impossible challenge.

I ask that you consider the very real financial contributions and community benefits that REITs bring to our State. I ask that you consider how burdensome this new legislation as proposed would be and how difficult compliance would be. Please hold Bill 475 HD1. Thank you for the opportunity to submit this testimony.

Sincerely,

Pamela R. Wilson

Pamela R. Wilson
General Manager, Hawaii Real Estate
American Assets Trust

HB 475, HD1, RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

FEBRUARY 12, 2019 · HOUSE CONSUMER PROTECTION AND COMMERCE COMMITTEE · CHAIR REP. ROY M. TAKUMI

POSITION: Support.

RATIONALE: IMUAlliance supports HB 475, HD 1, relating to taxation of real estate investment trusts, which disallows the dividends paid deduction for real estate investment trusts. A REIT, notably, is a corporation that owns income-producing real estate, like hotels and shopping malls, in which individuals may purchase shares to earn a portion of the income generated.

Under state taxation law, REIT's are currently afforded an exemption from paying corporate income taxes on dividends paid to shareholders. REIT shareholders, however, pay federal and state income taxes on their earnings from the REIT in which they have invested. Unfortunately, since most shareholders of Hawai'i REITs don't live in the Aloha State, they pay income taxes in other locations. Thus, income generated by Hawai'i property is getting taxed elsewhere, sending sorely needed tax dollars for local schools, infrastructure, climate change mitigation, human and social services, and affordable housing outside of our shores.

Eliminating REIT dividend deductions will uplift Hawai'i's people. Over 30 REITs operate in Hawai'i, the most prominent of which is Alexander and Baldwin. Collectively, Hawai'i REITs own roughly $17 billion worth of real estate and produce almost $1 billion in dividend income exempt from the corporate income tax, amounting to over $50 million in lost tax revenue–a number that will only increase over time, as real estate values continue to soar.

WRITTEN TESTIMONY OF

DARA F. BERNSTEIN
SENIOR VICE PRESIDENT & TAX COUNSEL
NAREIT
IN OPPOSITION TO HB 475 HD 1

BEFORE THE HAWAII HOUSE
COMMITTEE ON CONSUMER PROTECTION & COMMERCE

THE HONORABLE ROY M. TAKUMI, CHAIR
THE HONORABLE LINDA ICHIYAMA, VICE CHAIR

HEARING ON HB 475 HD 1

FEB. 12, 2019

Thank you for the opportunity to submit this testimony on behalf of the Hawaiʻi members of Nareit. Nareit is the worldwide representative voice for real estate investment trusts—REITs—and publicly traded real estate companies with an interest in U.S. real estate and capital markets. These REITs, which have substantial long-term investments in Hawaiʻi, strongly oppose, and ask you to hold, H.B. 475 HD 1, legislation that would eliminate the "dividends paid deduction" (DPD) for all widely-held REITs contrary to federal income tax rules and the existing laws of virtually every other state with an income-based tax system, for the reasons discussed below.

In summary, HB 475 HD 1 would: 1) produce less net tax revenues (taking into account the GET as the predominant source of revenue in Hawai'i) than current law; 2) cause capital markets to invest less in the State, which in turn would create fewer jobs over the long-term; and, 3) violate core comity principles in relationship to other states and their citizens. Further, if the legislature wanted to enact true tax conformity between REITs and partnerships/LLCs, HB 475 HD 1 should be broadened to impose on partnerships/LLCs the same burdens that would apply to REITs, namely that partnerships/LLCs would be required to annually distribute all their earnings to investors, and an entity-level tax would be applied to the partnership/LLC's earnings. Of course, this solution could be expected to be met with fierce opposition by the investment community.

Many Hawaiʻi residents may not even realize that they benefit from REITs either through mutual funds or their pension or retirement accounts. Nareit analysis of data from 2016 Federal Reserve Board Survey of Consumer Finances (SCF), the Employment Benefit Research Institute data on 401(k) equity allocations (EBRI), Census population and household counts, and Morningstar Direct data, indicate that about 44% of Hawaii households own REIT stock directly and/or through mutual funds or certain retirement accounts (See attached chart comparing REIT ownership by Hawai'i households to that in other states.). There are more than 200 publicly traded REITs, and only about 30 REITs with Hawaiʻi properties. As a result, a significant portion of REIT ownership most likely relates to REITs with properties outside of Hawaiʻi.

HB 475 HD 1 Would Produce Less Revenue Than Current Law

Because of unique requirements applicable to REITs, the State received more than $16 million in annual General Excise Tax (GET) in 2018 alone just from hotel REITs in Hawaiʻi that non-REIT hotel owners wouldn't owe. Federal law requires that REITs must earn most of their income from "rent" and similar real estate income. For this purpose, hotel room charges and other operating/service-related income are not "rent". Unlike other owner-operators, REITs with operating properties like hotels, hospitals, parking garages, and theme parks must either lease those properties to a third party operator (like Marriott or Hilton) or with hotels and certain health care properties, to a fully taxable subsidiary in exchange for market-based rent. If leased to a taxable subsidiary, federal law requires the subsidiary to hire an independent operator. In Hawaiʻi, the operator/subsidiary lease results in one level of REIT-specific GET revenue to the State, and the management fee results in yet another level of REIT-specific GET revenue to the State.

For example, Park Hotels & Resorts, Inc. leases its Hawaiʻi hotels to a taxable subsidiary, and, in Hawaiʻi, the taxable subsidiary hires Hilton to operate its hotels. Both the subsidiary rents and the operator fees have resulted in an **additional annual GET of approximately $9.5 million** to Hawaii for each of 2017 and 2018 that the prior owner, Hilton, as a non-REIT hotel owner-operator, wasn't paying before. When aggregated with other REIT hotel owners in Hawai‘i, this additional GET is estimated to **exceed $16 million in 2018**.

And as a tax on gross receipts rather than a tax on net income, the GET makes up the majority of the State's revenue, constituting a much larger percentage of the State's budget (around 50%) than the corporate income tax (around 1-3%) and a much more stable source of State revenues than corporate income tax, which goes up and down according to the economy. (For example, see data from Council on State Revenues for FY 2019 To FY 2025). **H.B. 475 HD 1's enactment would seriously endanger this extremely valuable source of GET revenues to the State.** Not only that, enactment also would put at risk the revenues and jobs created by non-hotel REITs that invest in the State. During deliberations following the Senate Ways and Means Committee hearing on companion bill SB 301, Senate Ways and Means Committee Chair Dela Cruz noted that the Department of Taxation has estimated that, at best, SB 301 would raise $10 million a year. Given the risk of losing up to $16 million in GET annually, it would not be prudent to enact HB 475 HD 1.

This additional GET does not even consider the tens of millions of dollars of GET revenues generated from construction, repairs, and tenant businesses, as well as personal income tax and transient accommodation taxes directly attributable the billions of dollars invested by REITs over the past few years in the State to build, among other investments, student housing at UH Manoa or affordable rental housing, including Moanalua Hillside Apartments in Aiea. REITs also provide office space for small businesses that employ thousands of local residents. Medical facilities made possible by REITs, like Hale Pawa‘a, also ensure Hawai‘i physicians can deliver the highest quality care in state-of-the-art facilities.

Unlike non-REIT property investors, REITs can't retain their earnings. Like other corporations, REITs are subject to the corporate income tax rules. However, if REITs meet specific requirements to ensure that they are widely-held, long-term investors in real estate, and they distribute at least 90% of their taxable income to shareholders, REITs can claim a dividends paid deduction (DPD). REITs can retain up to 10% of taxable income (for example, during a recession) but must pay corporate tax on what they retain. While REITs are subject to requirements that other businesses are not, HB 475 HD 1 would enact a drastic policy change that would put Hawaii at odds with virtually all other states regarding the taxation of REIT income at the shareholder level only based on the state of shareholder residence.

Unlike other real estate businesses, REITs cannot be in the business of "flipping" properties. – Any gain from a REIT's doing so is subject to a 100% tax. REITs are long-term neighbors in this community. The conflation of REITs with the activities in Kakaako suggests that the nature of REITs is not fully understood. REITs hold their investments for a very long time. These entities are not making a quick profit and leaving town; they are making long-term real investments back into the community and improving the State's retail, office, hotel, affordable rentals, and medical facilities.

Hawai'i taxes REIT shareholders on dividends from out-of-state sources. For example, securities law filings show that Hawaii-based institutional investment managers own tens of millions of dollars' worth of REIT stock. The chilling effect of this measure --which would result in Hawai‘i's REIT investment's being taxed differently from REIT investment virtually anywhere else**--** would cause such local investors to consider avoiding investment in REITs with Hawai‘i interests if Hawai‘i REIT investment is taxed differently from REIT investment virtually anywhere else, resulting in less revenue for the state.

HB 475 HD 1's Enactment Would Lose Jobs for Hawai'i Residents

HB 475 HD 1 risks significant job loss. Enactment of HB 475 HD 1would potentially result in a reduction of millions of dollars of new REIT investment, a shift in property ownership to tax-exempt owners like pensions and endowments, and loss of revenue and the stability of hundreds of the jobs generated by REITs to the State. While it may be easy to argue that no jobs will be lost by the onerous burdens and double taxation proposed by HB 475 HD 1, these existing and potential jobs belong to real people. Is it fair to risk significant job loss by enacting this proposal?

Enacting this proposal would signal Hawai‘i's discouragement of long-term capital investment in the State. REITs provide sorely needed investment capital to Hawai‘i. If this measure is passed it is very likely that potential REIT and non-REIT investors, fearing unexpected law changes post-investment, would choose to deploy their capital elsewhere, Hawai‘i would be on the outside looking in.

Hawai‘i's significant economic growth over the past several years is, and we hope into the future, will be, a direct result of REIT investment. The popular new addition to Ala Moana Center was made possible by REIT funding. That project alone was estimated to have brought in more than $146 million in state revenue in 2016. Since completion, the additional retail sales produced some estimated $33 million in GET revenue for the state, along with 3,000 new jobs.

Hawai‘i residents have benefitted from REIT investment, which made possible dining at the Cheesecake Factory at Ka Makana Ali'i or taking their family to Wet'n'Wild or going shopping at Pearlridge, more eating choices and better Waikiki parking opportunities with the re-development of the International Market Place, not to mention the financial benefits to the Queens Health System, which is the landowner.

These jobs and tax revenue would not be here without REIT funding. REIT investment occurred during the recession we recently experienced. While regular investors shied away from re-development, REITs continued to build and improve their properties, providing a boost to the State's local economy through needed construction jobs and later retail jobs for the completed projects.

While REITs in Hawai‘i have been good for the local economy, they have also supported a wide variety of non-profit organizations providing much-needed services throughout the state. For example, Washington Prime Group's Pearlridge Center has partnered with the Honolulu Chapter of the American Institute of Architects to support the "Canstruction" project. Over the past 13 years, more than 377,042 pounds of food has been raised through this event to help feed the hungry in Hawai‘i – providing more than 296,884 meals.

HB 475 HD 1 Would Violate Core State Comity Principles

HB 475 HD 1 would be contrary to federal income tax rules and the existing laws of virtually every other state with an income-based corporate tax system. Virtually every state with an income-based tax system, including Hawaii currently, allows REITs a deduction for dividends paid. (New Hampshire is the only state with income-based corporate tax that does not permit a DPD. New Hampshire has much less REIT investment than Hawai‘i; see attached chart.) Additionally, Hawai‘i currently taxes all REIT dividend income received by Hawaii resident shareholders, regardless of where the REIT's real estate is located or the REIT does business.

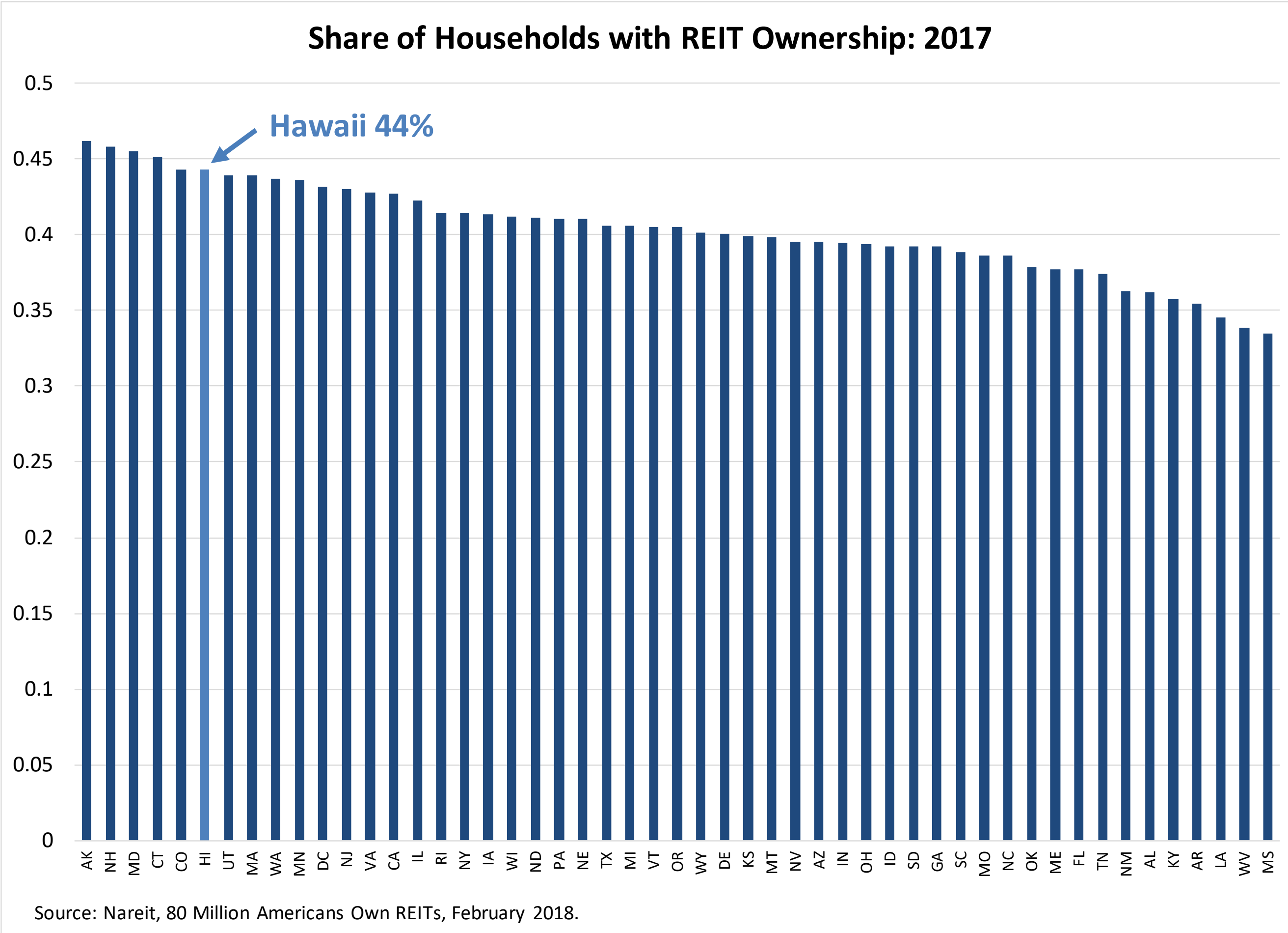
All other states that impose income taxes also tax the REIT income based on the location of the resident that receives the REIT dividends and not based on the location of the real estate. HB 475 HD 1 would eliminate this comity of state taxation principles by unilaterally double taxing REITs (and their shareholders) that do business in Hawai‘i. In past years, a number of states such as Idaho, Louisiana, New Jersey, North Carolina, and Rhode Island have examined, and then rejected, the disallowance of a widely-held REIT's DPD.

HB 475 HD 1 Would Not Create Parity Between Partnerships/LLCs and REITs

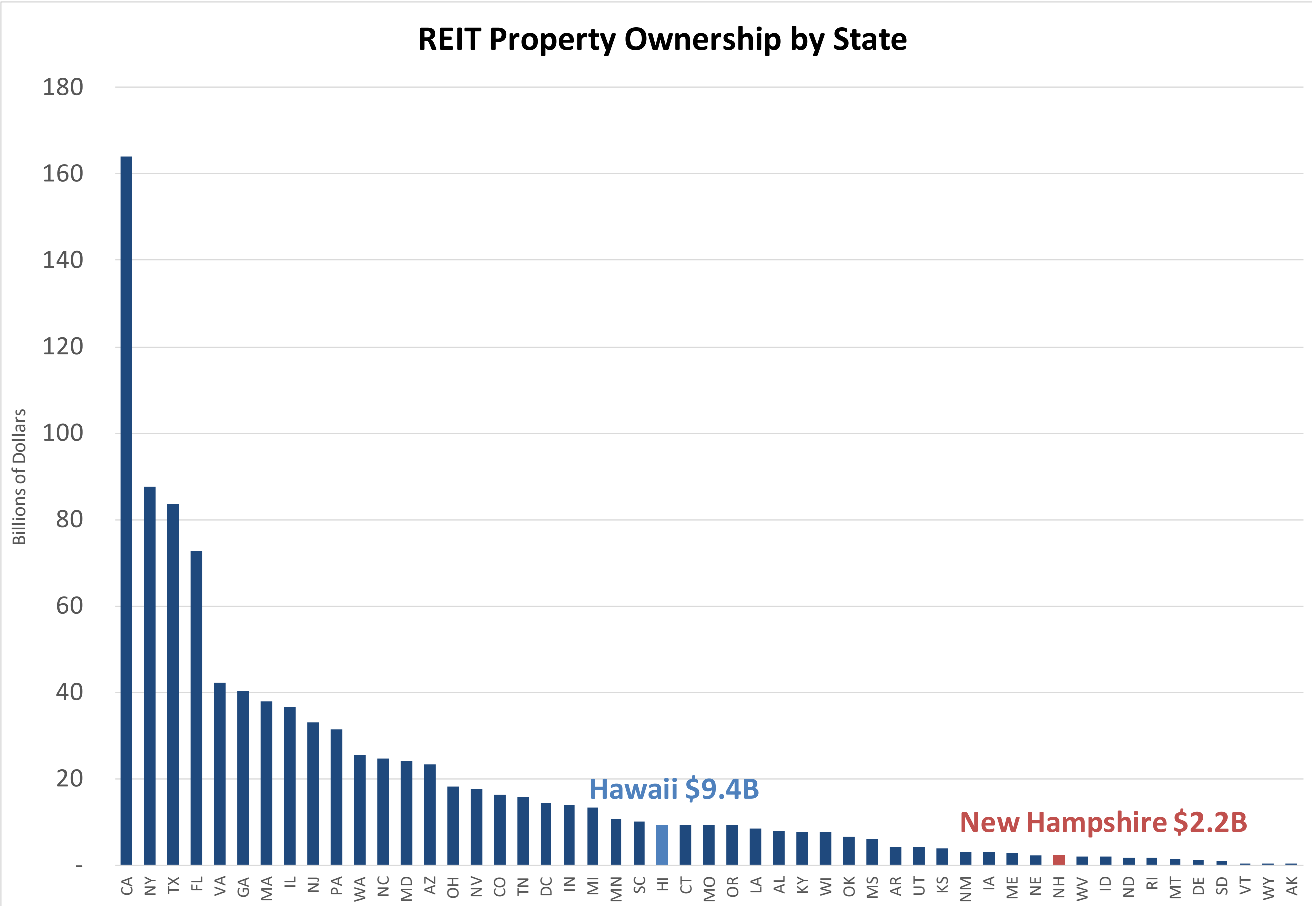
If the legislature wanted to enact true tax conformity between REITs and partnerships, HB 475 HD 1 should be broadened to impose on partnerships the same burdens that would apply to REITs, namely that partnerships/LLCs would be required to annually distribute all their earnings to investors and still be subject to an entity-level tax applied on those. Of course, any such effort presumably would be met with fierce resistance from the investment community.

Please Do Not Enact HB 475 HD 1

Considering the many problems with the provisions of this measure and the likelihood for real economic harm that could result if it were to pass, the Hawai‘i members of Nareit respectfully ask that you hold this bill.



As shown in the above chart, Nareit analysis of data from 2016 Federal Reserve Board Survey of Consumer Finances (SCF), the Employment Benefit Research Institute data on 401(k) equity allocations (EBRI), Census population and household counts, and Morningstar Direct data, indicate that about 44% of Hawaii households own REIT stock directly and/or through mutual funds or certain retirement accounts.



Source: Nareit analysis of data from S&P Global Market Intelligence. 2017 data. Property value is historic cost.

Park Hotels & Resorts Inc.
Scott Winer, SVP Tax
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7th Floor
Tysons, VA 22102
+1 571 302 5757 Main

WRITTEN TESTIMONY OF

SCOTT D. WINER
SENIOR VICE PRESIDENT, TAX
PARK HOTELS & RESORTS INC.

IN OPPOSITION TO HB 475, HD 1

BEFORE THE HAWAII HOUSE OF REPRESENTATIVES

COMMITTEE ON CONSUMER PROTECTION & COMMERCE

Rep. Roy M. Takumi, Chair
Rep. Linda Ichiyama, Vice Chair
HEARING ON HB 475, HD 1

FEBRUARY 12, 2019

On behalf of Park Hotels & Resorts Inc. ("PARK"), thank you for this opportunity to provide our testimony on HB 475, HD 1. PARK submits this testimony in **opposition** to HB 475, HD 1.

PARK is a publicly traded lodging real estate investment trust ("REIT") (NYSE:PK) that owns 52 premium branded hotels and resorts globally. Included within PARK's portfolio of hotels are (i) the Hilton Hawaiian Village Waikiki Beach Resort located along Oahu's prestigious Waikiki Beach, and (ii) the Hilton Waikoloa Village located on the Kohala Coast of the Big Island of Hawaii. PARK strives to be the preeminent lodging REIT, focused on consistently delivering superior, risk adjusted returns for shareholders that invest in the hotel sector. PARK, like most REITs, has a long-term investment focus and is committed to creating sustainable value at its properties.

As you know, Congress enacted the REIT legislation in 1960 to allow individual investors the ability to own and benefit from professionally managed, institutional quality, income-producing real estate. As with all REITs, PARK must meet multiple stringent, complex and costly requirements in order to maintain its status as a REIT, including: organizational requirements, asset holding requirements, passive income generation requirements, and importantly REITs must distribute at least 90% of their taxable income annually. These stringent, complex and costly requirements do Not apply to non-REIT real estate owners.

One of these requirements, the passive income generation requirement, separates the federal tax rules for REITs and the rules applicable to non-REITs. Federal tax law dictates that a REIT must earn most of its income from "rents", and income from operating a hotel is not "rents". Thus, federal law requires that a lodging REIT lease its hotels to a third party or one or more fully taxable subsidiaries. If leased to a taxable subsidiary (which is the structure used by public REITs), the taxable subsidiary is required to hire an independent operator, like Hilton, to manage the hotel. The rents paid by the taxable subsidiary to the REIT hotel owner and the management fees paid to the independent operator are both subject to Hawaii GET. Thus, hotel REITs are subject to **triple GET taxation**. The over-whelming majority (approx..85%) of the additional GET is a direct result of federal law governing hotel REITs and would not be paid by a typical non-REIT hotel owner.

As described below, Park's acquisition of the two Hawaii hotels resulted in approximately **$9.5 million in additional GET being paid to the State of Hawaii annually**.

Further, as REITs are passive real estate companies, they cannot actively trade in real estate properties without being subject to a 100% tax on the gain. In addition, because of the taxable income distribution requirement, REITs are required to continuously access the debt and equity capital markets to obtain capital for maintenance, improvements and growth projects.

By meeting these stringent, costly and complex requirements REITs are allowed to claim a dividend paid deduction ("DPD") essentially passing through their taxable income to shareholders. HB 475, HD 1 proposes to eliminate the DPD for all REITs operating in Hawaii, effective for taxable years beginning after December 31, 2019.

We believe **the DPD should not be eliminated**. The elimination of the DPD would be inconsistent with federal tax rules and the existing rules of virtually all other states with an income-based tax system and potentially harmful to Hawaii by eliminating the additional GET revenue that is directly attributable to the REIT structure.

We believe that our investment and the investments by other REITs in Hawaii are beneficial to the state and that eliminating the DPD would have the undesirable consequence of discouraging future investment by REITs in Hawaii. We believe the proposed legislation will not increase tax revenue for the state as the cost of doing business in Hawaii will diminish investment returns and result in less investment. Further, elimination of the DPD could result in foundations or pension funds replacing REIT ownership of real property. Foundations and pension funds generally are passive owners that pay no income taxes and do not make the same investments as REITs. If hotels in Hawaii are held by non-REIT hotel owners, including C corporations and taxable subsidiaries of REITs, the additional GET revenue generated solely as a result of the REIT structure will disappear.

We believe the GET, which is a tax on gross receipts rather than a tax on net income, is a more reliable and steadier source of state revenues than Corporate income tax and HB 475's enactment would threaten this extremely valuable source of revenues to the State.

PARK's two landmark, oceanfront resorts cater to residents from Hawaii and the mainland, and international travelers. PARK's Hawaiian resorts provide significant economic benefit to the State of Hawaii. We have made extensive renovations in excess of ~$228 million at Hilton Hawaiian Village and Hilton Waikoloa Village, over the last 5 years.

PARK's economic footprint benefits the State of Hawaii in many ways, including:

JOBS: PARK's hotels directly employ more than 2,728 employees. The payroll and associated benefits for these direct employees is in excess of $188,843,121 million annually.

CAPITAL MAINTENANCE: Over the next five years, PARK will likely spend almost $200 million at Hilton Hawaiian Village and Waikoloa Village on capital maintenance projects.

CAPITAL IMPROVEMENTS. Given the long-term nature of our investment, PARK is currently analyzing meaningful capital investment at both resorts. These investments are sizeable and at various stages of feasibility / underwriting.

TAXES GENERATED BY PARK in HAWAII:

- Payroll Taxes. Payroll taxes on employee wages totaled $10,069,127 in 2018.
- General Excise and Use Tax - Operations. The tax revenues generated from our operations totaled $25,238,236 in 2018.
- General Excise Tax – Rent / Management Agreement. As described above as a REIT, unlike other real estate owners, PARK must use a lease structure. As a result, we are required to pay General Excise Tax on the rent paid between our related companies. Effectively a double taxation of the same revenue. This additional GET was $8,068,335 in 2018 and the additional GET paid on the management fees paid to our independent operator was $1,400,294 in 2018.
- Property taxes. Property taxes at PARK's two resorts totaled $18,378,954 in 2018.

CHARITABLE ENDEAVORS BY PARK and ITS ASSOCIATES in HAWAII:

- PARK associates spend thousands of hours annually volunteering for local events and charities.
- PARK and its associates provide cash and in-kind charitable contributions in excess of $600,000.

We believe that PARK's REIT structure and hotels benefit the State of Hawaii and its residents tremendously in a variety of economic and charitable ways. If adopted, this controversial legislation would (i) put Hawaii at a competitive disadvantage for REIT investment, (ii) penalize Hawaii citizens, including the Hawaii Employer-Union Health Benefits Trust Fund beneficiaries, who invest in REITs by reducing their investment returns, (iii) discourage REITs from investing in Hawaii, and (iv) require PARK to reassess the level of future capital invested in Hawaii and our Hawaiian assets, and address our form of ownership and operation in Hawaii. Further, this legislation would have a chilling effect on the positive economic and charitable impact PARK provides through its REIT ownership and capital investment in Hawaii.

We thank you again for this opportunity to provide testimony against H.B. 475, H.D. 1 and sincerely hope you consider our **strong opposition** to this proposed legislation.

Respectfully submitted,

Spw

Scott Winer
Senior Vice President, Tax

SIERRA CLUB OF HAWAIʻI
MĀLAMA I KA HONUA. *Cherish the Earth.*

HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

February 12, 2019 2:00 PM Room 329

In SUPPORT of HB 475 HD 1: Relating to Taxation of Real Estate Investment Trusts

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Aloha Chair Takumi, Vice Chair Ichiyama, and members of the committee,

On behalf of our 20,000 members and supporters, the Sierra Club of Hawaiʻi, a member of the Common Good Coalition, supports passage of HB 475 HD 1- which seeks to establish a fairer tax system in the state of Hawaiʻi by disallowing dividends paid deduction for real estate investment trusts.

Since 1968, the Sierra Club of Hawaiʻi has worked to help people explore, enjoy, and protect the unique natural environment of the Hawaiian Islands. We believe that the health of our environment will benefit from a fairer tax system, such as the taxation of Real Estate Investment Trusts, and therefore support this bill.

Real Estate Investment Trusts are corporations that own income-producing real estate, like retail and hospitality-related establishments. Examples of REIT property include Ala Moana Shopping Center, Pearlridge Shopping Center, Hilton Hawaiian Village, the International Marketplace, and many others. There are 42 REITs operating in Hawaiʻi, with only 1 REIT having its main office in Hawaiʻi- meaning that almost all of these properties are owned by mainland-based corporations and shareholders.[1] As the law is currently written, all dividends paid out to REIT shareholders (at least 90% of REIT income) can be deducted from REIT income taxes. As a result, the state of Hawaiʻi is missing out on potential tax revenues of $30-50 million annually from these corporations.[2]

We will defer to the Legislature on how the revenues from REIT taxes will be utilized, **but recommend that the 10% appropriated for economic development, as amended via the HD1, be removed**. We feel that funding for economic development comes secondary to protecting our natural resources, building much needed affordable housing, funding our schools and social services, and repairing public infrastructure in the face of climate change. There are many worthwhile projects that could use a dedicated source of funds from REIT taxes.

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[1] http://files.hawaii.gov/dbedt/economic/data_reports/REIT_Final_9.19.16.pdf
[2] http://hiappleseed.org/wp-content/uploads/2016/12/RevenueGeneratingMeasuresOverview.pdf

The Sierra Club recognizes that there is a nexus between the environment and economic justice issues. This bill will require REITs and their shareholders to pay their fair share of taxes, creating a more equitable system to the benefit of all of Hawaiʻi. Our tax system reinforces our income inequality; forcing more and more families to live paycheck-to-paycheck and make short-term decisions about their lives that usually impose a greater burden on the natural environment. We support tax fairness because we know that with a more balanced tax system, Hawaiʻi's residents, our communities, and our environment as a whole will prosper.

Thank you very much for this opportunity to provide testimony in **support of HB 475 HD 1.**

Mahalo,

Jodi Malinoski

Jodi Malinoski, Policy Advocate

Taubman

February 11, 2019

Honorable Roy M. Takumi, Chair
Honorable Linda Ichiyama, Vice Chair
Committee on Consumer Protection and Commerce
State Capitol (conference room 329)
415 South Beretania Street
Honolulu, Hawaii 96813

Re: **Testimony in Opposition to House Bill No. 475 relating to real estate investment trusts**

Dear Chair Takumi, Vice-Chair Ichiyama and Committee Members:

On behalf of Taubman Centers, thank you for the opportunity to provide our testimony in opposition to House Bill No. 475, which is being heard by the Committee on Consumer Protection and Commerce on February 12, 2019 at 2 pm. House Bill 475 would disallow the dividend paid deduction for real estate investment trusts ("REITs").

Taubman Centers in Hawaii

Taubman Centers is a publicly owned real estate investment trust engaged in the ownership, operation, management, development and leasing of 26 regional, super-regional and outlet shopping centers in the U.S. and Asia. We completed construction to redevelop International Market Place in Waikiki, Honolulu in August of 2016 for a total cost of over $475 million. The construction began in 2014 with Queen Emma Land Company and our partner Coastwood Capital Group. The shopping center offers 90 retailers and 10 restaurants. It is designed to celebrate the rich history of the site and honor Queen Emma's legacy, while adding vitality and appeal to Waikiki for tourists and kamaʻāina alike. We are very excited about the center and are proud to be a part of the community.

REIT Tax Treatment

We are organized, owned and operated in a manner to qualify as a REIT under the Internal Revenue Code for federal income tax purposes. A REIT is a conduit vehicle designed to allow many small investors to participate in real estate development and ownership. REITs are also owned by institutions comprised of state and local pension funds and 401K individual retirement plans. Some of the requirements to qualify as a REIT include (1) ownership by at least 100 shareholders, (2) a prohibition on being closely held and controlled by limiting ownership by five or fewer persons to no more than a 50% interest in the REIT, (3) meeting certain asset and income tests to ensure we are primarily invested in real estate and operate it for rental purposes as a long term investor, and (4) paying out all of our taxable income as cash dividends to our shareholders which is not required by most other entity forms such as partnerships, LLCs and other c-corporations. Failure to meet these requirements results in losing our REIT tax status or in some circumstances harsh penalties like a prohibited transaction tax for not holding property as a long term investor in a rental real estate business. For meeting these stringent tests, Taubman Centers, like all REITs, is entitled to a deduction for dividends paid to our shareholders to reduce our taxable income. It is this deduction afforded in the federal tax law and permitted by virtually all other states that House Bill 475 would eliminate and disallow for Hawaii corporate income taxation.

Because of the forced dividend requirement to distribute all of its taxable income, a REIT's taxable income is effectively taxed at the shareholder level by the state taxing the shareholder's dividend income in their state of residence. This allows for a single level of taxation at the shareholder level and no double taxation (i.e., it prevents taxation at both the entity level and again at the shareholder level) and is consistent with the treatment of investors in mutual funds that are treated as regulated investment companies for tax purposes. For REITs, state income taxation based on the shareholder's residence is the uniform tax treatment in virtually all states that impose an income based tax system. This results in state income taxation by Hawaii on dividends received by Hawaii residents who are shareholders in REITs that may own property and operations outside of the State.[1]

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[1] More than 9,300 individual investors in Hawaii receive $30 million in dividend each year
Brewbaker, P.H., Ph.D., CBE. (2015, December). *Economic Impacts of Real Estate Investment Trusts in Hawaii* http://thereitwayhawaii.com/wp-content/uploads/2016/02/REITs-in-Hawaii-final-December-2015.pdf (Prepared for the National Association of Real Estate Investment Trusts® (NAREIT)

REIT Economic Benefits in Hawaii

Approximately 80 REITs have invested in commercial real estate in Hawaii and are responsible for significant economic activity in the construction industry, resort industry, restaurant and retail industry, office and industrial leasing and others.[2] Taubman alone invested over $475 million for the redevelopment of International Market Place. In addition, it will continue to require investment to fund significant capital expenditures on a recurring annual basis to maintain the property to our standards and provide the highest quality shopping destination for our shoppers and tenants.

Such business activity generates substantial economic benefit for Hawaii, including providing jobs, as well as significant tax revenues for the State government. The tax revenues include substantial general excise taxes on rents from tenants, on the sale of goods and services at retail by the tenants, and on construction activities. For local governments the business activity generates property and conveyance taxes.

In year 2015 REITs were associated with more than 11,700 jobs representing labor earnings of nearly $500 million and $95 million in tax revenue in Hawaii. And in the past five years REIT funded construction activity is estimated to have generated $3 billion in Hawaii GDP.[3]

Taubman Centers' International Market Place shopping center is expected to pay in this current year over $1 million in general excise tax and over $3 million in property taxes. To date we have paid in total over $1.5 million in local conveyance taxes. During the development of the center it resulted in employment of over an estimated 1,000 construction jobs and after opening is expected to create 2,500 permanent jobs (including employment by tenants), which generate both general excise tax revenues from construction work and individual income tax revenues from both the construction and permanent jobs.

Hawaii residents own an estimated $2.5 billion in real estate equity through REITs, mutual funds and exchange traded funds that distribute more than $105 million in REIT dividends annually. Approximately 9,300 individual investors in Hawaii receive $30 million each year in

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[2] Brewbaker, P.H., Ph.D., CBE. (2015, December). *Economic Impacts of Real Estate Investment Trusts in Hawaii* http://thereitwayhawaii.com/wp-content/uploads/2016/02/REITs-in-Hawaii-final-December-2015.pdf (Prepared for the National Association of Real Estate Investment Trusts® (NAREIT)
[3] ibid

REIT distributions.[4] House Bill No. 475 resulting in double taxation to REIT profits (once at the REIT level and again at the shareholder level) will affect after tax return on investment of Hawaii residents.

For more information about REITs in Hawaii please visit www.thereitwayhawaii.com.

Such a policy change in state taxation of REITs could discourage future investment by REITs in Hawaii, stifling the availability of capital and putting Hawaii at a competitive disadvantage versus virtually every other state when trying to attract capital for investment. Because investments by REITs generate so much economic activity and create so many local jobs in the State, disallowing the deduction for dividends paid could not only hurt workers in Hawaii, over the long run, it ultimately may result in less tax revenue for the State as its makes Hawaii unattractive for investment by REITs resulting in less economic activity.

For the foregoing reasons, we respectfully ask the Committee on Ways and Means to hold House Bill 475.

Thank you for your consideration of our testimony.

Very truly yours,

Robert S. Taubman
Chairman, President and Chief Executive Officer
Taubman Centers, Inc

[4] ibid

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48304-2324

T 248.258.6800
www.taubman.com

February 11, 2019

Hearing Date: February 12, 2019
Time: 2:00 P.M.
Place: Conference Room 329

The Honorable Roy M. Takumi, Chair
The Honorable Linda Ichiyama, Vice Chair
House Committee on Consumer Protection & Commerce

Re: Testimony ***Opposing*** Repeal of the REIT Dividends Paid Deduction - HB 475 H.D. 1

Dear Chair Takumi, Vice Chair Ichiyama, and Members of the Committee on Consumer Protection & Commerce:

My name is Lily Yan Hughes and I am the Senior Vice President, Chief Legal Officer and Corporate Secretary of Public Storage. As I have previously testified before the hearing on the predecessor to this bill before the House Committee on Economic Development & Business, Public Storage is ***strongly opposed*** to HB 475 H.D. 1 (and related bills such as SB 301).

Public Storage and Hawaii. Public Storage is a real estate investment trust that is the largest owner and operator of self-storage facilities in the United States, with almost 162 million rentable square feet of real estate in 38 states. In the United States we have approximately 2,425 facilities and 1.4 million tenants. We own 11 facilities in Hawaii. In 2018, those Hawaii properties generated more than $30 million of gross revenue and we paid the state about $1.4 million of general excise tax. For the 2018/2019 fiscal year, we will pay almost $2.25 million of real estate taxes in Hawaii.

Because we are taxed as a REIT, Public Storage is effectively required to distribute all taxable income to our shareholders. The shareholders then report and pay state and federal tax on those dividends. Our shareholders in Hawaii are taxable by the state on the full amount of our dividends (not just the very limited portion of those dividends attributable to the 11 properties we have in the state, compared to about 2,425 properties across the nation), so the state benefits from the REIT regime because Hawaii shareholders are taxed on all of the distributed income.[1]

Proposed Repeal of the Hawaii DPD. The bill would eliminate the "dividends paid deduction" (DPD) for Hawaii income tax purposes for real estate investment trusts (REITs). The DPD is a central feature of the taxation of REITs. REITs get the deduction because they are effectively required to distribute their income to their shareholders, who are currently taxable on those dividends.

Simply a Tax Increase, Causing Double Taxation. While the bill offers no explanation or justification for the proposed DPD repeal, the Committee on Economic Development & Business commented "that businesses suffer an inordinate amount of taxation in Hawaii, and that

[1] We are confident that investors in Hawaii directly and indirectly hold significant PSA shares, but we cannot specifically identify our Hawaiian shareholders. Our common stock is traded publicly on the New York Stock Exchange under the symbol PSA. Publicly traded companies typically cannot specifically identify their shareholders, as most publicly traded stock is held by depositaries in street name.

source shifting the tax base to entities such as real estate investment trusts will help to create a more level business playing field." Plainly, the motivation is to shift Hawaii taxes to REITs, and the ED&B committee seemed not to appreciate such a new tax will further increase the taxation of businesses operating in Hawaii. The new tax also would not create a "level business playing field" since it will impose double taxation on REIT shareholders, in contrast to the single level of tax applied to other pass-through type entities, such as partnerships, LLCs, and S corporations. REITs are not comparable to regular C corporations that are subject to local taxes because REITs are required to distribute their income and are subject to significant operating restrictions governing their income and assets. The taxes are paid by REIT shareholders on the dividends they receive.

Chasing REITs Away, Adverse Ripple Effects. While apparently motivated by a misguided effort to raise added tax revenue, the bill can be expected to have the opposite effect. Hawaii's Department of Taxation has been reported to say that the bill only would produce collections of about $2.2 million in its first year with perhaps $10 million in subsequent years. Most importantly, such an anti-business tax would strongly incentivize REITs to reduce or avoid future investment in, and possibly redirect investments away from, the state. That could be expected to have adverse long term effects on the Hawaii economy and the state's tax collections.[2]

Breaking the Mold; Inconsistent with Federal and Other State Treatment. Enactment of HB 475 H.D. 1 or a similar measure would make REITs separately taxable in Hawaii, imposing a double tax regime that is completely contrary to the accepted federal and state tax treatment of REITs. No state that imposes income tax upon REITs (other than New Hampshire) denies the dividends paid deduction as proposed by HB 475 H.D. 1. Indeed, over the past decade or so, a number of states (*e.g.*, Idaho, Louisiana, New Jersey, North Carolina, and Rhode Island) have examined, and then rejected, legislation that would have disallowed a widely-held REIT's DPD in those states.

Strong Recommendation: Do NOT Move this Bill Forward. As when Hawaii's legislature considered similar proposals in recent years, Hawaii should decline to enact this bill, so that the DPD for widely-held REITs will continue. We respectfully request that you do ***not*** move forward HB 475 H.D. 1 or any similar bill.

Sincerely,

Lily Yan Hughes
Senior Vice President, Chief Legal Officer
& Corporate Secretary of Public Storage
lhughes@publicstorage.com
818.244.8080, extension 1537

cc: Department of Taxation, Department of Business, Economic Development & Tourism

[2] An economic study prepared for Nareit by Paul H. Brewbaker, PhD., CBE in December 2015 suggested that by repealing the DPD, Hawaii could lose more revenue from foregone economic activity than might be gained in taxes payable by REITs.

ALEXANDER & BALDWIN

PARTNERS FOR HAWAI'I

HB 475 HD1
RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

PAUL T. OSHIRO
DIRECTOR – GOVERNMENT AFFAIRS
ALEXANDER & BALDWIN, INC.

FEBRUARY 12, 2019

Chair Takumi and Members of the House Committee on Consumer Protection & Commerce:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin (A&B) on HB 475 HD1, "A BILL FOR AN ACT RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS." We respectfully oppose this bill.

While A&B has always been a Hawaii-based company, in 2012, A&B made a strategic decision to migrate its mainland investments back to Hawaii. Since then, A&B has sold all of its mainland properties and has reinvested the proceeds back in Hawaii—acquiring properties including the Kailua Town commercial center, Manoa Marketplace, Waianae Mall, Laulani Village (Ewa Beach), Puunene Shopping Center (Maui), and Hokulei Village (Kauai). In 2017, A&B then made the decision to convert to a real estate investment trust (REIT) to better support our Hawaii-focused strategy and increase our ability to invest in Hawaii, in an increasingly competitive environment. A REIT structure enables A&B to attract new investors to its stock, giving us capital to invest in our Hawaii-focused strategy, and puts us in a better position to compete with large, out-of-state investors, with greater sources of capital, for the acquisition of Hawaii properties, thus keeping them in locally-owned hands. Furthermore, REITs are structured to be long-term holders of real estate, thus complementary to A&B's goal of being Partners for Hawaii, with a long-term presence in our communities.

Real estate investment trusts were established by Congress in 1960 to enable all sizes of investors to invest in real estate. REITs generally own, operate, and finance income-producing commercial real estate such as shopping malls, hotels, self-storage facilities, theme parks, and apartment, office, and industrial buildings. Unlike other corporations, REITs must meet several restrictive regulatory requirements which includes a requirement under Federal Law to distribute at least 90% of its taxable income to its shareholders as dividends. At present, all states except for one (New Hampshire) allow REITs to pass through the dividends to its shareholders without the imposition of a corporate tax, as the individual shareholders will pay the tax on these dividends in their home state of residence.

The purpose of this bill is to repeal the dividend paid deduction for real estate investment trusts. Repeal of the dividend paid deduction will result in the double taxation of shareholder dividends for REIT properties situated in Hawaii. The passage of this bill will essentially result in Hawaii REITs distributing, as mandated by Federal Law, at least 90% of their taxable income to shareholders however, unlike the other states, the REIT will pay Hawaii corporate income tax prior to making the dividend distribution to its shareholders, thus reducing the amount of dividends shareholders will receive. In addition, shareholders of Hawaii REIT properties will also be responsible to pay income tax in their home state on the distributed dividends—a second tax on the same profits.

Greater Overall Impact On Hawaii Focused REITs

It is envisioned that the repeal of the dividend paid deduction in Hawaii will have a greater overall impact on locally focused REITs that have a large percentage of their commercial holdings in Hawaii --such as A&B--as opposed to out of state entities that only have a few holdings in Hawaii and a number of properties in other states. If Hawaii becomes only the second state (along with New Hampshire) to double tax mandatory REIT dividends to shareholders, investors may prefer investing in non-Hawaii focused entities rather than investing in a REIT focused in one of only two states which double taxes dividends which must be paid to shareholders. Hawaii focused REITs such as A&B will be at a competitive disadvantage in attracting additional investors to support continued investment in Hawaii based properties.

Overall Impact On Hawaii's Economy

Today, every state except for New Hampshire that imposes a corporate net income tax allows the dividend paid deduction for REITs. Should the dividend paid deduction be repealed in Hawaii, REITs may be compelled to relocate their operations elsewhere or lessen their business activity in Hawaii. When combined with the direct reduction in general excise and income taxes from diminished REIT related construction, fewer jobs, and the reduction in business and individual income taxes because of the direct and indirect impacts of lower REIT related activity, the impact that this bill will have on State tax revenues is very unclear as this bill will likely have a significant negative impact to the state's overall economy.

REITs provide a much-needed source of outside capital for Hawaii. Very few individual investors and a fairly small number of corporate players in Hawaii have capital market access equivalent to what is enabled by REITs. REITs are not limited to raising capital from one geographical area or from one type of investor, but generally seek investments from around the world. A REIT's ability to access and raise capital with equity offerings in the public markets to make these types of real estate investments in Hawaii and other states make it a unique investment vehicle and a major advantage over privately held real estate with a limited amount of investors.

In addition, if the DPD is repealed in Hawaii, REITs operating in Hawaii will likely pursue options to minimize their tax liability via tax deductions, tax credits, and other tax adjustments. Coupled with the likely reduction in general excise and income taxes mentioned before, the anticipated increase in State tax revenue as a result of the DPD repeal is very unclear, and may not meet initial projections.

Based on the aforementioned, we respectfully request that this bill be held in Committee. Thank you for the opportunity to testify.

SUNSTONE
HOTEL INVESTORS

February 11, 2019

Committee on Consumer Protection and Commerce
Rep. Roy M. Takumi, Chair
Rep. Linda Ichiyama, Vice Chair
Conference Room 329
State Capitol
415 South Beretania Street

Honorable Chair Takumi & CPC Committee Members,

Thank you for the opportunity to provide written testimony in opposition of House Bill No. 475, relating to the taxation of Real Estate Investment Trusts in Hawaii. My name is Olivier Kolpin and I am the Vice President of Tax at Sunstone Hotel Investors, Inc. ("Sunstone"). Sunstone is a publicly traded lodging real estate investment trust ("REIT") with 21 upper upscale, luxury and resort properties comprised of 10,780 rooms in 9 states and Washington DC.

Our presence in Hawaii began in 2014 with the purchase of the Marriott Wailea on the beautiful island of Maui. Soon after we made a significant capital investment of between $110 and $120 million dollars to renovate and reposition the resort, which resulted in many local jobs created. In addition, we continue to make capital improvements to the property in the millions of dollars, which keeps these jobs going.

I bring your attention to Hawaii's General Excise Tax. REITs are required to generate a majority of their income through rents and other passive income. For hotel REITs this is accomplished by the REIT leasing the hotel property to a fully taxable subsidiary corporate entity, who in turn hires an independent 3rd party to manage the hotel on its behalf. This arrangement is subject to GET. In Sunstone's case, our annual GET payments have ranged between $1.5 and $1.8 million dollars. The GET applicable to the rent from the taxable subsidiary are dollars that a non-REIT hotel business does not have to pay.

Key to Sunstone's business philosophy is the ability to listen. We listen to our investors and take what they say seriously. We listen to our employees and take what they say seriously. We listen to our guests and take what they say seriously, and we are listening to you and take what you say seriously. We understand that Hawaii, much like other

200 Spectrum Center Drive, 21st Floor
Irvine, CA 92618

states where we do business, faces desperate challenges with housing and homelessness. However, we feel that House Bill No. 475 will not accomplish the goals you have set out for it. The intended and unintended consequences of decoupling Hawaii's tax regime from the Internal Revenue Code could lead to less investment, less tax revenues and fewer jobs in Hawaii.

In conclusion, I would like to reiterate our opposition to House Bill No. 475.

Sincerely,

Olivier Kolpin
VP Tax
Sunstone Hotel Investors, Inc.

HB-475-HD-1
Submitted on: 2/11/2019 1:48:24 PM
Testimony for CPC on 2/12/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments:

Testimony in supporting HB 475 HD1 with an amendment
House Committee on Economic Development and Business
February 12, 2019 at 2:00 in Conference Room 329

My name is Rev.. David Turner, and I am the pastor of The Church of the Crossroads, Hawaii's first intentionally multi-cultural church, founded in 1923. We have 200 members residing all over Oahu and have, as a congregation, unanimously adopted a position of supporting taxation of REITs as a revenue source for affordable housing. Both our church and myself are also very involved in Faith Action an inter-faith organization advocating for justice and community equity here in Hawaii. Faith Action is also in support HB 475

Thank you for this opportunity to testify in support of HB 475. Real Estate Investment Trusts (REITs) are corporations that use a loophole to avoid the Hawaii corporate tax. That loophole should be closed, and the new tax revenue that is generated should be dedicated 100% to increase the supply of affordable housing.

REITs own income-producing property in Hawaii such as Ala Moana Center, the Hilton Hawaiian Village Resort, as well as office buildings and many other shopping centers and hotels. Together, they own property with an estimated total value of $18 billion that earns an estimated $1 billion in profits annually. If Hawaii's corporate tax were applied to REITs, an estimated $60 million in tax revenue would be generated.

Meanwhile, Hawaii faces an enormous shortage of housing that is affordable to low- and middle-income individuals and families. New housing is being built, but most of it is priced for the high-income strata. Some efforts are being made to build affordable housing for low- and middle-income levels, but much greater efforts must be made because the need is so great and the cost of housing is so high.

Various ideas to finance affordable housing are contained in an action plan for workforce/affordable housing that was funded by the Legislature and issued in 2017. Those ideas include dedicating new tax revenue for affordable/workforce housing or infrastructure, with the funds kept separate from the general fund. (Housing Action Plan Final Report to the State Legislature, 2017, p. xii)

This bill should be amended to separate the new tax revenue from the general fund and to dedicate 100% of it to the creation of affordable housing in Hawaii. With that amendment, the Church of the Crossroads supports this bill.

Mahalo for your time and dedication.

Aloha, Rev. David Turner
Church of the Crossroads – 1212 University Ave. / Honolulu, HI 96826

Testimony of Ellen Godbey Carson
Supporting HB475 with an amendment
February 12, 2019, at 2:00pm Conference Room329

I am writing in SUPPORT of HB475, with request for one amendment noted below. Real Estate Investment Trusts (REITs)(or their shareholders) should pay taxes in Hawaii for their profits earned off Hawaii properties. The loophole in our laws that has failed to tax REITS in the past has led to a large erosion in our tax base, since REITs own major commercial properties in Hawaii that are essentially going untaxed here. That loophole should be closed. **This bill should be amended to dedicate a major portion, up to 100% of its tax revenues, to the creation of affordable housing in Hawaii.** With that amendment, I would be in full support of this bill.

REITs own many large income-producing properties in Hawaii such as Ala Moana Center, the Hilton Hawaiian Village Resort, as well as office buildings and many other shopping centers and hotels. Together, they own property with an estimated total value of $18 billion that earns an estimated $1 billion in profits annually. If Hawaii's corporate tax were applied to REITs, an estimated $60 million in tax revenue would be generated. Those revenues are lost for every year we fail to tax REITs.

Meanwhile, profitable activities of REITs and other large landholders increase the price of property for everyone in Hawaii. Hawaii now faces an enormous shortage of housing that is affordable to low- and middle-income individuals and families. New housing is being built, but most of it is priced for the high-income strata. Some efforts are being made to build affordable housing for low- and middle-income levels, but much greater efforts must be made because the need is so great and the cost of housing is so high. Devoting 100% of the tax revenues from REITs would provide a sustainable source of major funding for Hawaii's critical needs for affordable housing

Thank you.

Ellen Godbey Carson
Honolulu, HI

HB-475-HD-1
Submitted on: 2/9/2019 2:42:56 PM
Testimony for CPC on 2/12/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
noel kent	Individual	Support	Yes

Comments:

Despite the huge influx of tourists and increased tourist spending this past year, out state is not doing well financially considering the huge amount of unfunded liabilities we have in the ERS and other areas. As an educator, I know how underfunded our system is currently. Given this situation, the special privilege REITs have to remain untaxed is astonishing. We desperately need the millions of dollars that are being lost because of this policy. You have the power to rectify this tax loophole and protect our state in the years to come. Mahalo Noel Kent

HB-475-HD-1
Submitted on: 2/10/2019 5:13:04 PM
Testimony for CPC on 2/12/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Claire Gearen	Individual	Support	Yes

Comments:

Claire Gearen
House District 24
Senate District 12

Hearing: February 12, 2019 2:00 p.m.

Dear Chair Takumi, Vice-Chair Ichiyama and Members of the Consumer Protection and Commerce Committee,

Thank you for your public service. I am proud of the achievements of the legislature in 2018 and have hopes for another great session in 2019.

My name is Claire Gearen, and I write in strong support of House Bill 475 HD1. I am a member of Faith Action for Community Equity and speak also as a concerned private citizen and public school teacher.

As an educator in the public schools, I have a clear stake in legislators' work to maintain an adequate revenue stream while operating within the state biennial budget. Not only is my salary directly tied to the legislators' appropriations, my students' educational experience is affected by the amount available in the weighted student formula. I still teach students who experienced Furlough Fridays and am just recovering financially from those pay cuts. My conditions in the classroom have improved in recent years as I acquire the resources I need to teach.

However, the public more widely has an interest in closing the Real Estate Investment Trust (REIT) tax loophole. With approximately $17 billion in REIT entities in the islands, this bill could generate sizable additional revenue for our state. We currently have more REIT owned property per capita than any other state. With increases in asset value of approximately 43% in just five years, REITs are unlikely to divest upon losing the dividend deduction. We are foregoing revenue that is measurable on the level of the individual resident of Hawaiâ€›i.

There are significant potential uses for an additional $120 million in the biennium budget. Millions could go to the rental revolving fund to support affordable housing. We need a course correction in our state as the last two years have seen an exodus of residents from the islands. Our birth rate has also declined significantly. This is unsustainable.

As someone who came of age in the 1990s only to see our state lose the most residents per capita of any state in that decade (U.S. Census), I ask that legislators do their outmost this session to achieve tax fairness and grow our affordable housing stock. I am here today testifying on House Bill 475 HD1 rather than an education bill because my efficacy as a citizen who wishes to improve Hawaiâ€›i is tied to how many students choose to live their adult lives here. We have collectively improved our K-12 education system substantially in the last twenty years and it would be a shame not to benefit from the skills and talents of our upcoming generation. I want my students to be able to make their future home here. I urge you to close the REIT tax loophole as a step in the right direction.

Sincerely,
Claire Gearen

Chair Takumi
Vice Chair Ichiyama
House Committee on Consumer Protection & Commerce

Tuesday, February 12, 2019
2:00 PM

TESTIMONY IN SUPPORT OF HB475 HD1 RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

Aloha Chair Takumi, Vice Chair Ichiyama, Members of the House Committee on Consumer Protection & Commerce,

My name is Jun Shin, a member of Generation Z. I am a freshman at the University of Hawaiʻi at Mānoa in my third semester, and a member of the Faith Action for Community Equity (FACE). I am testifying in **support of HB475 HD1 relating to taxation of real estate investment trusts**.

This has become an issue that is very close to my heart. I live in the Ala Moana area currently, so I'm personally neighbors with the Ala Moana Center, one of the well known REIT-owned properties in Hawaiʻi that is constantly busy. However, I am also neighbors with houseless individuals, and have also seen their struggles up close while coming home from school. I want to be able to do something to help our fellow human beings who have just as much worth as everyone else. To me, this is a tale of two cities, two very stark contrasts in my community that needs fixing. Closing the REITs tax loophole and making them pay their fair share of taxes is a much needed reform and a great step in the right direction.

REITs are a well-off part of our communities. They should be helping to support the communities that they are currently operating in, and be a good neighbor. With REITs having federal tax exemptions and benefiting from our low property tax, they are in a great position to pay their fair share in taxes while still being well off. It is a common understanding among residents that it is very hard to live here. With low wages, our workers are taking on several jobs and living paycheck to paycheck, close to seeking the streets for refuge while our young people are moving out. By doing their part, REITs can operate and thrive in Hawaiʻi while still being a responsible community member, and paying their share of the taxes needed to build a strong Hawaiʻi for everyone, revenue that would be able to go to affordable housing programs and bettering our public education. For future generations, **please pass HB475 HD1 and eliminate the corporate income tax exemption on dividends paid out by REITs**.

Thank you for the opportunity to testify,

Jun Shin
1561 Kanunu St.
Cell: 808-255-6663
Email: junshinbusiness729@gmail.com

February 11, 2019

Re: HB475 HD1 in support

Representative Roy Takumi, Chair
Consumer Protection and Commerce Committee
House of Representatives
State of Hawai‘i

Dear Representative Takumi and Members of the Committee,

I am a retired United Church of Christ clergyperson who has lived in Hawai‘i for over 40 years. I am writing in support of HB475 HD1 relating to the taxation of REITs.

I have only two arguments to make in support of the bill:

1. Profits generated from Real Estate Investment Trusts on property held in Hawai‘i should be taxed by the State of Hawai‘i and the taxes generated should be directed to the State of Hawai‘i.

2. Since it is real estate that is taxed, and given the desperate need for affordable housing in Hawai‘i, the taxes generated should be designated for the Rental Income Housing Fund. This provision should be added as an amendment to the bill.

Please vote affirmatively for HB475 HD1. Fairness dictates that profits from investment property in Hawai‘i should by taxed by the State of Hawai‘i to benefit the people of Hawai‘i.

Yours truly,

The Rev. D. Neal MacPherson

HB-475-HD-1
Submitted on: 2/11/2019 10:34:32 AM
Testimony for CPC on 2/12/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Annie AuHoon	Individual	Support	No

Comments:

HB475, HD1 - Relating to Taxation of Real Estate Investment Trusts

Tuesday, February 12, 2019, 2pm

Conference Room 329

*From our friends at Faith Action...*REITs own about $17 billion worth of Hawaii real estate and earn profits of about $1 billion every year, but they have a special tax status that exempts them from paying millions of dollars in corporate income tax. We are losing approximately $60 million every year through this loophole that could be used to invest in housing that is affordable for households earning $75,000 annually or less. HB 475 would close the REITs tax loophole and make them pay their fair share of taxes. TAKE ACTION: Support HB475, HD1.

Annie Aui
Hoon, Individ
ual,

February 11, 2019

Dear Rep. Takumi and other members of the committee,

Testimony in support of HB 475 HD 1

This letter is in strong support of taxing REITs. We need to close the loophole that allows them to avoid contributing to the Hawaii tax base. All of us must contribute our fair share to support the infrastructure in Hawaii.

It is estimated that we could generate $60million in annual revenues, which should be applied to creating affordable housing, a huge need and essential for keeping Hawaii a place where we can live. As a long time resident of Hawaii, I am very concerned about the lack of affordable housing and feel this could contribute to part of the solution.

Thank you for your support on this important issue

Best wishes,

Jeannette Koijane
PO Box 62155
Honolulu, HI 96839

FORM email testimony (ON-TIME) in SUPPORT of HB1574 HD1

Marilyn Gagen	Mark Levin
Anne Scharnhost	Michelle Gray
Tenaya Jackman	Mealani Rahmer
Christopher La Chica	May Rose Dela Cruz

ichiyama1 - Kaishu

From: annes@everyactioncustom.com on behalf of Anne Scharnhorst <annes@everyactioncustom.com>
Sent: Monday, February 11, 2019 1:49 PM
To: CPCtestimony
Subject: Strong Support of HB1574 HD1, Relating to Electronic Smoking Products

Follow Up Flag: Follow up
Flag Status: Flagged

Dear House Committee on Consumer Protection and Commerce,

The Honorable Roy M. Takumi, Chair
The Honorable Linda Ichiyama, Vice Chair Members of the House Committee on Consumer Protection & Commerce

The Honorable Chris Lee, Chair
The Honorable Joy A. San Buenaventura, Vice Chair Members of the House Committee on Judiciary

Hrg: February 12, 2019 at 2:35 PM at Capitol Room 329

I strongly support HB1574 HD1, which would regulate electronic smoking devices (ESDs) and e-liquids as tobacco products through taxation, online shipment restrictions, and licensing and permitting. In addition, it also appropriates $200,000 to the Hawai'i Tobacco Prevention and Control Trust Fund.

State lawmakers have been trying to regulate ESDs for the last five years. Hawai'i is in the midst of a youth vaping epidemic, and we must regulate these products to reverse this trend. ESDs are the only tobacco products without a tobacco tax and sellers are not required to obtain a tobacco permit and license to sell. Tobacco taxes and increasing the price is a proven strategy that discourages use of these products, especially among youth. I appreciate that a portion of revenues generated from this tax will be dedicated to tobacco prevention, cessation, education programs, which will help support individuals who want to quit. In addition, restricting online sales to retailers with a tobacco license will prevent sales to underage youth.

I strongly support HB1574 HD1 and ask you to pass this out of committee.

Sincerely,
Anne Scharnhorst
Wailuku, HI 96732

Various Members in Support for HB 475 HD1

LATE TESTIMONY

Wally Inglis	Soo San Schake
Tani Kagesa	Angelina Mercado
Brandon Duran	John Finau
Ben Sadoski	

From: Wally Inglis <noreply@jotform.com>
Sent: Monday, February 11, 2019 2:11 PM
To: CPCtestimony
Subject: In SUPPORT of HB 475 HD1 - Relating to Taxation of REITs

To: House Committee on Consumer Protection & Commerce
Date of hearing: February 12, 2019 at 2:00 PM
Location: Conference Room 329

Subject: In SUPPORT of HB 475 HD1 - Relating to Taxation of REITs

From: Wally Inglis
Email: wallyinglis@yahoo.com
Will be attending the hearing: Yes

Dear Chairman Takumi, Vice Chair Ichiyama, and members of the Committee:

REITs operating in Hawai'i need to pay their fair share of state taxes.

As part of our community, they need to do their part in supporting our community. REITs already receive generous federal tax exemptions and benefit from Hawai'i's low property tax. They can operate and thrive in Hawai'i while still being a responsible community member and paying their share of the taxes needed build a strong Hawai'i for everyone.

Please pass HB 475 HD1 and eliminate the corporate income tax exemption on dividends paid out by REITs.

I note that the HD1 version calls for ten percent to go to DBEDT to fund economic development. I hope that further amendments will allocate funds for much-needed affordable housing.

Thank you for this opportunity to provide testimony in support of HB 475 HD1.

Aloha,

Wally Inglis

Hawaiʻi Association of REALTORS®

808-733-7060
808-737-4977
1259 Aʻala Street, Suite 300
Honolulu, HI 96817

February 12, 2019

The Honorable Roy M. Takumi, Chair
House Committee on Consumer Protection and Commerce
State Capitol, Room 329
Honolulu, Hawaii 96813

RE: H.B. 475, HD1, Relating to Taxation

HEARING: Tuesday, February 12, 2019, at 2:00 p.m.

Aloha Chair Takumi, Vice Chair Ichiyama and Members of the Committee,

I am Ken Hiraki Government Affairs Director, submitting written testimony on behalf of the Hawaiʻi Association of REALTORS® ("HAR"), the voice of real estate in Hawaiʻi, and its over 9,500 members. HAR **opposes** House Bill 475, HD1, which disallows the dividends paid deduction for Real Estate Investment Trusts (REIT.)

In 1960, the United States Congress created REITs to allow all individuals, and not just the wealthy, the opportunity to invest in large-scale diversified portfolios of income producing real estate.

REITs are tied to all aspects of the economy, and have a major economic impact on our state by encompassing a full range of real estate types, which includes:

- Affordable Housing: Waena Apartments and The Lofts at Kapolei
- Student Housing: Hale Mahana Student Housing
- Healthcare Facilities: Hilo Medical Center, Kapiolani and Pali Momi Medical Center
- Retail: Prince Kuhio Plaza, Whaler's Village and Ka Makana Aliʻi

REITs bring in investment to help build thriving communities where residents can live, work and play. REITs not only provide a boost to our economy through construction of these projects, but create real job opportunities.

Under this measure, it proposes to remove the income tax deduction for dividends from a REIT, thereby creating a double taxation of income. HAR has concerns that this will become a disincentive to invest in Hawaiʻi and negatively impact our economy.

Mahalo for the opportunity to testify.

OPTrust

OPSEU Pension Trust

Fiducie du régime de retraite du SEFPO

February 12, 2019

The Honorable Roy Takumi, Chair and Committee Members
Committee on Consumer Protection & Commerce
Hawaii State Capitol, Rm. 329
Honolulu, HI 96813

Dear Chair Takumi and Committee Members:

RE: HB 475 HD1 Relating to Taxation of Real Estate Investment Trusts (REIT's)

My name is Andrew Alcock, Director, Real Estate Investments, OPTrust, testifying in strong opposition to HB 475 HD1 Relating to Taxation of Real Estate Investment Trusts. OPTrust is one of Canada's largest pension funds, with net assets of over $20 billion CAD. The trust administers a defined benefit plan with over 92,000 members and retirees.

OPTrust partnered with DeBartolo Development ("DeBartolo") to develop the Ka Makana Ali'i center in Kapolei. DeBartolo's vision and partnership with the Department of Hawaiian Home Lands ("DHHL") were important factors in OPTrust's decision to invest in Hawaii. One of the deciding factors in OPTrust making its investment in Ka Makana Ali'I, was the sound investment policies of both the State of Hawaii and its partnership with developers like DeBartolo. OPTrust invests across the globe. Many of those investments are made through REIT structures, which provide a dividend exemption by law. By way of example, there is only one State in the United States of America (New Hampshire) which does not permit the REIT dividend deduction. The ability to invest in Ka Makana Ali'i through a REIT structure was paramount to OPTrust's decision to invest in Hawaii.

REIT's provide a way to finance projects that local investors or the State of Hawaii would not be able to provide. Disallowing the dividends paid deduction for REIT's will result in the double taxation of REIT income and will place Hawaii at a disadvantage compared to others States when it comes to attracting investor capital. Disallowing the deduction would prevent numerous investors from investing in the State of Hawaii, resulting in far fewer development projects and less low-income housing. Should HB 475 HD1 be passed, it would no longer be efficient for OPTrust to make investments in the State of Hawaii, including Phase 2 of the Ka Makana Ali'i project. As result, OPTrust would be forced to direct its investment capital elsewhere. Unfortunately, we also understand and recognize that any changes in the law will have a very undesirable effect on groups like DHHL.

1 Adelaide Street East
Suite 1200
Toronto, ON M5C 3A7

Tel: (416) 681-6161
(Toronto calling area)

1-800-906-7738
(Toll-free in Canada)

Fax: (416) 681-6175

www.optrust.com

We urge you to strongly oppose HB475 HD1, so that projects such as Ka Makana Ali'i can continue to be built and enhance Hawaii's economic growth.

Thank you for this opportunity to testify.

Yours truly,

Andrew Alcock
Director, Real Estate Investments
OPTrust

{00364931.1}

HB-475-HD-1
Submitted on: 2/11/2019 4:49:51 PM
Testimony for CPC on 2/12/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Marcella Alohalani Boido	Individual	Support	No

Comments:

HB-475-HD-1
Submitted on: 2/12/2019 10:04:24 AM
Testimony for CPC on 2/12/2019 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Kathy Campbell	Individual	Support	No

Comments:

I support HB475 because it could bring much-needed revenue to Hawaii, and it will help local people.

REIT Income Tax Petition

The undersigned have been informed about the facts and law resulting in neither Real Estate Investment Trusts ("REITs") nor their shareholders paying any income tax on the enormous amount of income they earn on their Hawaii real estate and want the Hawaii Legislature to revise our laws in the 2019 Session so that a withholding tax is imposed or the REIT dividends paid deduction is eliminated and REIT income is properly taxed in Hawaii where it is earned. It is not fair for these organizations to be utilizing so many Hawaii services and occupying prime Hawaii lands and paying no income taxes.

Jan [illegible]	1255 Nuuanu Ave. 3012 96817 apt.
[illegible]	1255 Nuuanu Ave 96817 apt 702
Chase [illegible] ~~[illegible]~~	1255 Nuuanu ave 96817
[illegible] ~~[illegible]~~ III	1255 Nuuanu Ave, 96817
Richard Buya	47-101 Kamehameha 96744
[illegible]	555 Hahaione St., HI 96825
Patricia Gee	4754 Farmers Rd. 96816
[illegible]	133 Bates St Hon. 96817
Chishiko Takata	133 Bates St Hon 96817
Julie [illegible]	3 Woodland Ln BH ~~[illegible]~~ 04609
S. [illegible]	133 Bates St. 96817
Jean M [illegible]	1255 Nuuanu Ave #402E
[illegible]	2646 [illegible] Hon, HI 96817
[illegible]	2626 Liliha St HI 96817
Beatrice T. Kong	1005 Nanaina Pl. Hon. HI 96817
Colleen Lugo	414 Kekau Pl Hon 96817

REIT Income Tax Petition

The undersigned have been informed about the facts and law resulting in neither Real Estate Investment Trusts ("REITs") nor their shareholders paying any income tax on the enormous amount of income they earn on their Hawaii real estate and want the Hawaii Legislature to revise our laws in the 2019 Session so that a withholding tax is imposed or the REIT dividends paid deduction is eliminated and REIT income is properly taxed in Hawaii where it is earned. It is not fair for these organizations to be utilizing so many Hawaii services and occupying prime Hawaii lands and paying no income taxes.

Barbara J. Service	472 Keonu St. #4 Honolulu 96816
3516 Galvan Lane, Wahiawa HI 96786	Hannah Devin Hannah Devin
Jami Hitt	1234 Alexander St. Apt F1 Honolulu HI 96826
Judith Murashige JUDITH MURASHIGE 96821	887 Hind Iuka 96821
Ruth Yoshioka Ruth Yoshioka	4883 Poola St., Hon. HI 96821
Kathleen Otani Kathleen Otani	340 Awini Pl., Hon, HI 96825
Mary Calantoc	55 S Judd St #2107, Hon. HI 96817
Arlene Koegler Arlene Koegler	2333 Kapiolani #1612 Hon., HI 96826
M Carolyn Kuahulu	1646 Clark St. #202 Hon. 96822
Kent Reinke	928 Hoolulu St, Hon 96825
[illegible] PHILLIPS	[illegible] 96826
Lei Wallace	1170-1 Kaumailuna Place 96817
Mark D. Looper	45-536 Mahinui Rd., Kaneohe, HI 96744

REIT Income Tax Petition

The undersigned have been informed about the facts and law resulting in neither Real Estate Investment Trusts ("REITs") nor their shareholders paying any income tax on the enormous amount of income they earn on their Hawaii real estate and want the Hawaii Legislature to revise our laws in the 2019 Session so that a withholding tax is imposed or the REIT dividends paid deduction is eliminated and REIT income is properly taxed in Hawaii where it is earned. It is not fair for these organizations to be utilizing so many Hawaii services and occupying prime Hawaii lands and paying no income taxes.

Winifred K.O. [illegible]	45-320 Kahiko St. Kaneohe
Dianne T. Stevens-Poai	
Carl M. Miyagi	47-533 Pulama Rd [illegible]
[illegible]	47-748 Huikelu St. #5 96744
Flora Obazaski	P.O. Box 113 96744
Won-Sek Yuh	47-253 Waihee Rd., 96744
[illegible]	53-549 Kamehameha Hwy 96717
Frances M. Wielenga	47-510 Lulani St., Kaneohe, HI 96744
Walter W. Killough Jr.	47-510 Lulani St., Kaneohe, HI 96744
[illegible]	P.O. Box 6146 Kaneohe, Hi. 96744
Ethel [illegible]	47-538 Ahilama Rd Kaneohe HI 96744
Ruth H. Onoto	47-708 Ahilama Rd. Kaneohe - 96744
Frances Goo	45-621 Apiapi St. Kaneohe
Patricia A. [illegible]	46-109 Konohiki #3913 Kaneohe, HI 96744.
Ncepe - W.A.	244 Hanahapiai [illegible] Honolulu HI 96815
Melany Malakea	47-748 Hui Kelu St. #5, Kaneohe 96744

Lainie Sey	1344 Mamalu Street Hon HI 96817
Nicholas Seu	" "
Lindsey Seu	" "
McKenna Seu	" "
Betty Wakatsuki	98-312 Ponokaula Place 96701
Edna Jackson	1272 Alewa Drive " "
El Dora K. Robertson	
Evie Myers	336 N. Kuakini St. " "
Paul Reid	155 N Beretania " "
[illegible]	3363 Kaimuki Ave " "
[illegible]	PO BOX [illegible] Kaneohe HI 96744
Helen Mashino	15 Craigside Place, Apt 501 Hon 96817
Sylvia Hekekia	709 Lihapai St Kailua 96734
[illegible]	1561 Kanunu St. #1608 Hon. 96814
Emilia Collins	707 Hausten ST. Hn 96826
[illegible]	1471 Ihiloa Dr. Hn. 96821
Trilby Aki	1453 Kukele St Hon 96819

REIT Income Tax Petition

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NAME	ADDRESS
Calvin Foo Pham	721 W Belmont Ave Chicago, IL
Galen Fox	425 South St #1808 96813
Kathleen Triolo	1326 Center St, 96816
Bruce Anderson	941 B Prospect St. 96822
Kelly Garrett	1659 Hoohai St PC 96782
Scott Shafer	2067 KilaKila Dr. apt A Hon HI 96817

REIT Income Tax Petition

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ELDON WEGNER

Mario Avalle

Whitney Rim

WILLIAM BEKEMEIER

Piula Alaitima

REIT Income Tax Petition

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Claire Gearen	1212 Punahou St. #2601
Alana Buckus	220 Ohana St. Kailua 96734
Ronny Lynn	2611 Ala Wai Blvd. #2106
Joli Tokusato	1612 Anapuni St apt B Hon. 96822
Mary Talon	PO Box 861592 Wahiawa, HI 96786
Dorothy L. Oraven	4921 Waa St Hon. Hi 96821
William Caron	2054 9th Avenue, Hon, HI 96816
Jun Shin	1561 Kanunu St. 2106
Allison Harts	3796 Sierra Drive. 96805
Jeff Raburn	44-291E Kaneohe Bay Dr. Kaneohe 96744
	2333 KAPIOLANI BLVD #2308 96826
Gary S. Hoover	1415 Kinau St, Room 5, Ho, HI 96814

REIT Income Tax Petition

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Ellen Godbey Carson	ELLEN GODBEY CARSON 1080 S. Beretania St, Apt GPH 2, Hon 96814
Wally Inglis	WALLY INGLIS 2349 C Palolo Av. Hon. HI 96816

<u>REIT Income Tax Petition</u>

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Nicole R [illegible]

Theodore M. Henderson

Noel H. Sutherland

[illegible]

Irene Austin

[illegible]

<u>REIT Income Tax Petition</u>

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Clara B. Burrows
Chuck Burrows
Lani C. [illegible]
KAREN HOWELL
Kirsten B. Turner
Aya Kimura
Eiichi KIMURA
MARKUS FAIGLE
James W. K[illegible]
Carol Ota
[illegible]
Daniel [illegible]
Mary [illegible] Reese

Mildred M. Miyashiro
[illegible]
Michael I. Yano
Ernest K. Harada
Donald L. Corner
[illegible]
Coral Prince Wilson
[illegible]
Linda Q Green
Walter Lokepa Barrett
Rosaline K. Teixeira
Jean Coffman
Cheryl O. Ho

REIT Income Tax Petition

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[illegible] Dominic Chao	J A Howell
[illegible] Patricia Demello	David Takagi
Elizabeth Nelson ELIZABETH NELSON	Angie [illegible]
Charles Mark Ratay CHARLES MARK RATAY	[illegible]
Margaret Ann Renizk	Keanu [illegible]
Stig Lindberg Stig Lindberg	Kaye A. Kroehler
Robin Hart Robin Hart	[illegible] Kroehler
Richard Tallopin	Sigrid B. Southworth
Alan L. Wegner	Thomas Moerter
John H Southworth	Mark Wilson
John Kawamoto	Valerie Wayne
Sarah R Way	[illegible] Hitomi Demura Devore
JHK II	Lee E Takagi

<u>**REIT Income Tax Petition**</u>

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Name	Address
Lorraine Fay	1037B Ilima Dr. Honolulu, HI 96817
Nancy Kleiber [illegible]	1736 Beckam St Honolulu Hi 96816
Jane Raissle	310 Ilimano St. Kailua HI 96734
[illegible]	1942 IWAHO PL HNL HI 96819
[illegible]	626 Ilikai St. 96734
	2197 10th Ave 96816
Carla S Allison [illegible]	1062 Oilipua Place Honolulu 96825
Hilleka R. Easterwood	626 Coral St. #2309 Hono, HI 96813
Lee Curran	7122 Hawaii Kai DR #8 96825
Mike Young	3583-E Kalihi St. 96819
Catherine Graham	1639 O'o Lane 96817
Jill Rabinow	44-291E Kaneohe Bay Dr, Kaneohe HI 96744
Allison Jacobs	3796 Sierra Drive 96816
William Carrie	54 White Sands Pl - 96734

REIT Income Tax Petition

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Name	Address
Laurel May Zeri	46-262 Kalaua Pl Kaneohe
Junko S. Davis	1350 Ala Moana Blvd, PH5 Honolulu 96814
Charlotte B. Morgan	94-291 Makapipipi Mililani 96789
Paul Davis	1617 Keeaumoku St, #1101, 96822
John M Compton	
J. Heidi + Nick Jones	849 Hahaione St.
David Friedman	633 Ulumalu St. Kailua 96734
Jeff Schumacher	633 Ulumalu Kailua
Leanne MacIntire	47-644 MeleKula Rd #A Kaneohe HI 96744
Alan Rowland	1905 PUU NANEA PL, HONOLULU HI, 96822
Molly Rowland	1905 Puu Nanea Pl. Honolulu HI 96822

REIT Income Tax Petition

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Name	Address
David Friedman	633 Ulumalu St Kailua 96734
Jean Schumacher	" " " "
Mary MacKay	1617 Keeaumoku St Apt 1001, Honolulu 96822
Sue Yamane · Carpenter	86 012 Pokai Bay St Waianae, HI 96792
Marie Anne	45-638 Halekou Pl. Kaneohe HI
Aimee Mayeda	600 Ala Moana Blvd #4208 Honolulu HI 96813
Laurel Mayzeri	46-262 Kalaua Pl Kaneohe
Martina Quesnell	1435 9th AVE Honolulu
John McConnell	P.O. Box 1066, Kaneohe
Eileen Cain	720 Mahi'ai St., Apt. E, Honolulu 96826
Marilyn Bornhorst	1434 Punahou # 723, 96822
Dennis Krause	4050B Keanu St. # 8 96816
CAROL AMOS	1634 MAKIKI ST #904 HONOLULU HI 96822
Albert Fitzgerald	545 Queen A402
Ckert	Honolulu, HI 96813

<u>REIT Income Tax Petition</u>

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Mildred M Chang 4384 Malia St Hon 96821
Aileen Fujitani 6020 Elelupe Pl Hon 96821
Wilma Tom 634 Ainapo St, Hon. 96825
Winifred Kumura 3828 Claudine St Hon 96816
Rita Thompson 5212 Makalena St Hon 96821
Mildred Yamamoto 895 Kalanipuu St. Hon. HI 96825
John Thompson 5212 Makalena St., Hon. 96821
Kara Mark 5661 Haleola St Hon 96821
[illegible] " " " "
Lori KaKuni 11 Akilolo St Hon, Hi 96821
Carole Wakazuru 385 Haleloa Place Honolulu HI 96821
Jean McIntosh 252 Kawaiha St. Hon 96825
[illegible] 45-435 [illegible] St Kaneohe ~~[illegible]~~ 96744
[illegible] 280 Paniolo St Honolulu Hi 96821
Kristen Clark-Vega 5669 Havola Street, Honolulu, HI 96821
(Cory Vega) " " "
Jaeman Lim 280 Paniolo St. Honolulu, HI 96821
Matthew Hayakawa 5252 Kilauea Ave. Honolulu, HI, 96816
Vickie Hayakawa 5252 Kilauea Avenue Hon 96816
[illegible] 95-312 Alo Place Mililani HI 96789
Marta Kalanyan 7262 Kaunaka, Honolulu 96825
Leona Kato 916 Lunalilo Hm Rd Hon 96825
[illegible] J Miyasato 6770 Hawaii Kai Dr. #102
Stan Miyasato 7273 Nohili St., Hon. 96825
Elpidio RT Cadavona 1720 Huna St #317 Hon. Hi 96817-2466
[illegible] Ito 4389 Malia St #220 Hon 96821
Karen Thompson 1085 Kalwani Rd. Honolulu, HI, 96825

REIT Income Tax Petition

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print name	Signature	Address
Robin Van Eps	[illegible]	117 Kihapai Pl. Apt. 7 Kailua, 96734
SUSIE JANNOZZI	[illegible]	85 Wilikoki Pl. Kailua 96734
ANI VAN EPS	[illegible]	10989 Kam. V Hwy, KAUNAKAKAI, Molokai 96748
LARRY GRIMM	Larry Grimm	357 N. Vineyard #6-201, Hawaii 96817
Joy Lee Caule	[illegible]	1507 Ulupii St Kailua HI 96734
	[illegible]	533 Ulukou St. Kailua 96734
Charlene Hosenfeld	[illegible]	604 N. Kalaheo Ave " "
R.W. SCHEUREN	[illegible]	604 N KALAHEO AVE "
MARY PIETTE	Mary J. Piette	45 090 Namoku #503 Kaneohe 96744
MELODY HEIDEL	[illegible]	1341 Manu Mele St Kailua 96734
John Heidel	John Heidel	1341 Manu Mele St., Kailua 96734
	Richard M. Smith	1222 MANU MELE St. " "
Courtney Nichols	Courtney Nichols	1015 Aoloa Pl. #361 Kailua HI 96734

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print name Signature	Address
[illegible]	PO Box 1915, Kailua 96734
[illegible]	1063 Koohoo Pl. Kailua
Laurie Baron Lameson	44-392 Olinest #1 Kaneohe HI 96744

REIT Income Tax Petition

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Keith Zeilinger [signature]	598 Uluhaku St, Kailua 96734
Clarence Lyman [signature]	1039 Kahili Pl. Kailua, 96734
Louis South	47-657 Hui Ulili Kaneohe 96744

REIT Income Tax Petition

The undersigned have been informed about the facts and law resulting in Real Estate Investment Trusts ("REITs") not paying any income tax on the enormous amount of income they earn on their Hawaii real estate and want the Hawaii Legislature to revise our laws in the 2019 Session so that the REIT dividends paid deduction is eliminated and REIT income is properly taxed in Hawaii where it is earned. It is not fair for these organizations to be utilizing so many Hawaii services and occupying prime Hawaii lands while paying no income taxes.

Name	Signature	Address
Terry Hiller	Terry Hiller	1649 B Kewalo St, Honolulu, HI 96822
Colleen Cameron	Colleen Cameron	3215 Ala Ilima St B808 Hon HI 96818
Monica Lujan	[illegible]	91-960 Iwikuamoo St. unit 502 EWA Beach HI. 96706
Kyong C	[illegible]	PO Box 11386 Honolulu HI 96828
Robert Sawyer	Robert Sawyer	1015 Green St. #B-4
Raymund Viggayan	[illegible]	1088 Bishop St. #2511
Ray Windrath	[illegible]	1551 Pukele Avenue/Hono HI 96816
STIG FURBERG	S Furberg	2439 NALANIEHA ST. #A2 Honolulu, HI 96819
DEAN MURAMOTO	D. Muramoto	2755 KAPIOLANI BLVD #17
Marie Laberge	[illegible]	1550 Rycroft St 96814

Name	Signature	Address
Joey Robelo	J. Robello	99-034 Kohomua St #19-B
Kimberly Yin	K. M. Yin	3033 Ala Ilima #2002 96818
Don Takashima	Don Takashima	94-014 Apohele Pl. 96797
Ingu Pak	[illegible]	1032 Kinau St. #703
Ron Pacquing	Ron Pacquing	91-952 Ft. Weaver Rd. Ewa Beach Hi 96706
Randy Bivona	Randy P. Bivona	1448 Pele St. #4 Hon, HI 96813
Royce Okazaki	[illegible]	2011-A 9th Ave
Ross L. Tilitile	[illegible]	1574 Machado St. Hon. Hi 96819
Wyatt Tong	[illegible]	1241 A 17th Ave
Wendi L Parker	Wendi Parker	1550 Rycroft st #321
David K. Wilson	D. Wilson	759 Keolu Dr. Kailua HI. 96734

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D. Neal MacPherson

David Rivas

Carolyn Eaton

Jami Kagesa

[illegible]

JoAnn Waton

[illegible]

[illegible]

Mary E Wein

Linda L. Rich

K. M. Jayer

[illegible]

[illegible]

[illegible]