DAVID Y. IGE
GOVERNOR

MIKE MCCARTNEY
DIRECTOR

CHUNG I. CHANG
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
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Statement of
MIKE MCCARTNEY
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON WAYS AND MEANS

Tuesday, March 30, 2021
9:05 AM
State Capitol, Conference Room 211 & Videoconference

In consideration of
HB58, HD1
RELATING TO STATE FUNDS.

Chair Dela Cruz, Vice Chair Keith-Agaran and members of the Committee.

The Department of Business, Economic Development and Tourism opposes Part V section 9 (16) and (17) of **HB58, HD1**, which from July 1, 2021 through June 30, 2023 repeals certain General Excise Tax (GET) exemptions specifically those described under §HRS 209E-ll, which is the Enterprise Zone Program.

The Enterprise Zone (EZ) Program is a state-county partnership. The objective of this partnership is to bring new business activities and employment to areas of the state with high unemployment. The GET exemption for qualified businesses is in exchange for job creation in economically challenged areas of the state. Each enrolled EZ business must send in an annual report to DBEDT where we verify the company's full-time employee count. Objectives are clearly known and EZ businesses must fulfil their job number targets in order to receive the tax benefits in any given year. The GET tax relief stops after seven (7) or ten (10) years.

Passage of this section of this bill would significantly alter the ability of DBEDT and its county partners to accomplish the goals and objectives of the Enterprise Zone Program.

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR OF
HAWAIʻI

SUZANNE D. CASE
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

ROBERT K. MASUDA
FIRST DEPUTY

M. KALEO MANUEL
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

STATE OF HAWAIʻI
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621
HONOLULU, HAWAIʻI 96809

Testimony of
SUZANNE D. CASE
Chairperson

Before the Senate Committee on
WAYS AND MEANS

Tuesday, March 30, 2021
9:05 AM
State Capitol, Via Videoconference, Conference Room 211

In consideration of
HOUSE BILL 58, HOUSE DRAFT 1, PROPOSED SENATE DRAFT 1
RELATING TO STATE FUNDS

House Bill 58, House Draft 1, proposed Senate Draft 1 proposes that for the period beginning July 1, 2021, through June 30, 2023, all taxes collected under Section 247-7, Hawaii Revised Statutes (HRS). shall be deposited into the General Fund, and the Land Conservation Fund would not receive annual revenue from real estate conveyance taxes (SECTION 1). This measure also proposes to deposit cash generated from general obligation bonds into the Land Conservation Fund (SECTIONs 2 and 3) and proposes to appropriate necessary amounts from the Land Conservation Fund for the Department of Land and Natural Resources to expend "for the purposes for which the land conservation fund is established" (SECTION 4). **The Department of Land and Natural Resources (Department) acknowledges that this bill supports its Legacy Land Conservation Program and offers the following comments and amendments.**

<u>Proposed Appropriations and Biennium Budget Request</u>
The Department appreciates the intent to appropriate necessary amounts from the Fiscal Year (FY) 2022 and FY 2023 Land Conservation Fund for legacy land conservation purposes. The Department requires at least $285,000 per year to support two existing staff positions and operational costs for the Legacy Land Conservation Program, plus an additional $1.5 million per year for required debt service payments on the Turtle Bay reimbursable general obligation bonds.

<u>General Obligation Bonds</u>
The Department supports the intended deposit of bond proceeds into the Land Conservation Fund to replace conveyance tax revenues for land acquisitions under the Legacy Land Conservation Program.

Administrative Costs and Management Grants

In addition to land acquisition costs, the conveyance tax revenue also covers funds for administrative costs and management grants, per Sections 173A-5(h)(3) and 173A-5(h)(4), HRS, providing that expenditures shall not exceed five per cent of annual fund revenues of the previous year. The Department estimates administrative costs at $285,000 for each year of the upcoming biennium (based on a five-year average for FY 2016 through FY 2020). Therefore, in order to provide for administrative expenses, the Department proposes an amendment to SECTION 1 of House Bill 58, House Draft 1, proposed Senate Draft 1 (Amendments section, below).

Turtle Bay Debt Service Obligations

In 2005, the Legislature authorized real estate conveyance taxes as the source of revenue for supporting the Land Conservation Fund and the Legacy Land Conservation Program (LLCP). In 2015, the Legislature required that the annual operating budget for the LLCP provide $1,500,000 for debt service payments on the Turtle Bay reimbursable general obligation bonds. Therefore, we respectfully request an amendment to SECTION 1, House Bill 58, House Draft 1, proposed Senate Draft 1 that would relieve the Land Conservation Fund of its obligation to pay annual debt service for the Turtle Bay reimbursable general obligation bonds by amending Act 121, Session Laws of Hawaii 2015, to suspend the use of moneys from the Land Conservation Fund to reimburse the general fund for Turtle Bay debt service.

Amendments

In PART I, SECTION 1, further amend Section 247-7, HRS, by adding a new subsection (c), to read as follows:

(c) Notwithstanding subsections (a) and (b) and any other law to the contrary, for the period beginning July 1, 2021, through June 30, 2023, of the taxes collected under this chapter each fiscal year, notwithstanding sections 173A-5(h)(3) and 173A-5(h)(4), $285,000 shall be paid into the land conservation fund established pursuant to section 173A-5 to support administrative costs for the legacy land conservation program.

Thank you for the opportunity to comment on this measure.

HB-58-HD-1
Submitted on: 3/28/2021 11:57:18 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
David Penn	Testifying for DLNR	Comments	No

Comments:

I am available for questions. Please allow me Zoom access. Thank you.

HB-58-HD-1
Submitted on: 3/28/2021 10:35:55 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Suzanne D. Case	Testifying for DLNR	Comments	No

Comments:

I am available for questions. Please allow me Zoom access. Thank you.

HB-58-HD-1
Submitted on: 3/28/2021 10:37:22 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Robert K. Masuda	Testifying for DLNR	Comments	No

Comments:

I am available for questions. Please allow me Zoom access. Thank you.

DAVID Y. IGE
GOVERNOR

DENISE ISERI-MATSUBARA
EXECUTIVE DIRECTOR

STATE OF HAWAII

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO:

Statement of
DENISE ISERI-MATSUBARA
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON WAYS AND MEANS
March 30, 2021 at 9:05 a.m.
State Capitol, Room 211

In consideration of
H.B. 58, PROPOSED S.D. 1
RELATING TO STATE FUNDS.

The HHFDC ***offers the following comments*** on H.B. 58, Proposed S.D. 1.

HHFDC ***supports*** Parts I and III of H.B. 58, Proposed S.D. 1, which suspends the Rental Housing Revolving Fund's (RHRF) dedicated funding from conveyances taxes for the Fiscal Biennium 2021 to 2023.

We note that the Executive Biennium Budget request and H.B. 200, H.D. 1, both include a General Obligation Bond appropriation for the RHRF of $38 million in both FY2022 and FY2023 to replace the conveyance tax funding. This appropriation is needed to continue making RHRF awards in the upcoming Fiscal Biennium to add direly needed affordable rental units statewide.

The demand is exemplified in the magnitude of requests for RHRF during our current funding round. HHFDC received 21 unduplicated applications from developers with requests totaling nearly $300,000,000 for RHRF.

HHFDC has ***concerns*** with Section 11 of the Proposed S.D. 1 as it may unintentionally adversely impact transactions of real property acquired for the purpose of conversion or rehabilitation for affordable housing purposes. Section 11 increases conveyance tax rates for properties without homeowners' exemptions with a value at least $4 million or more from the existing rates of .85% to 1.25% to 1.7% to 5%. The increased conveyance tax rates may be especially burdensome for these particular real property transfers and could inadvertently stall affordable rental housing projects.

Thank you for the opportunity to testify.

Hawaii Technology Development Corporation
521 Ala Moana Blvd, Ste 255 | 808-539-3806
Honolulu, Hawaii 96813 | www.htdc.org

Written Statement of
Len Higashi
Acting Executive Director
Hawaii Technology Development Corporation
before the
Senate Committee On Ways and Means
Tuesday, March 30, 2021
9:05 a.m.
Videoconference

In consideration of
HB58 SD1 PROPOSED
RELATING TO STATE FUNDS.

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee.

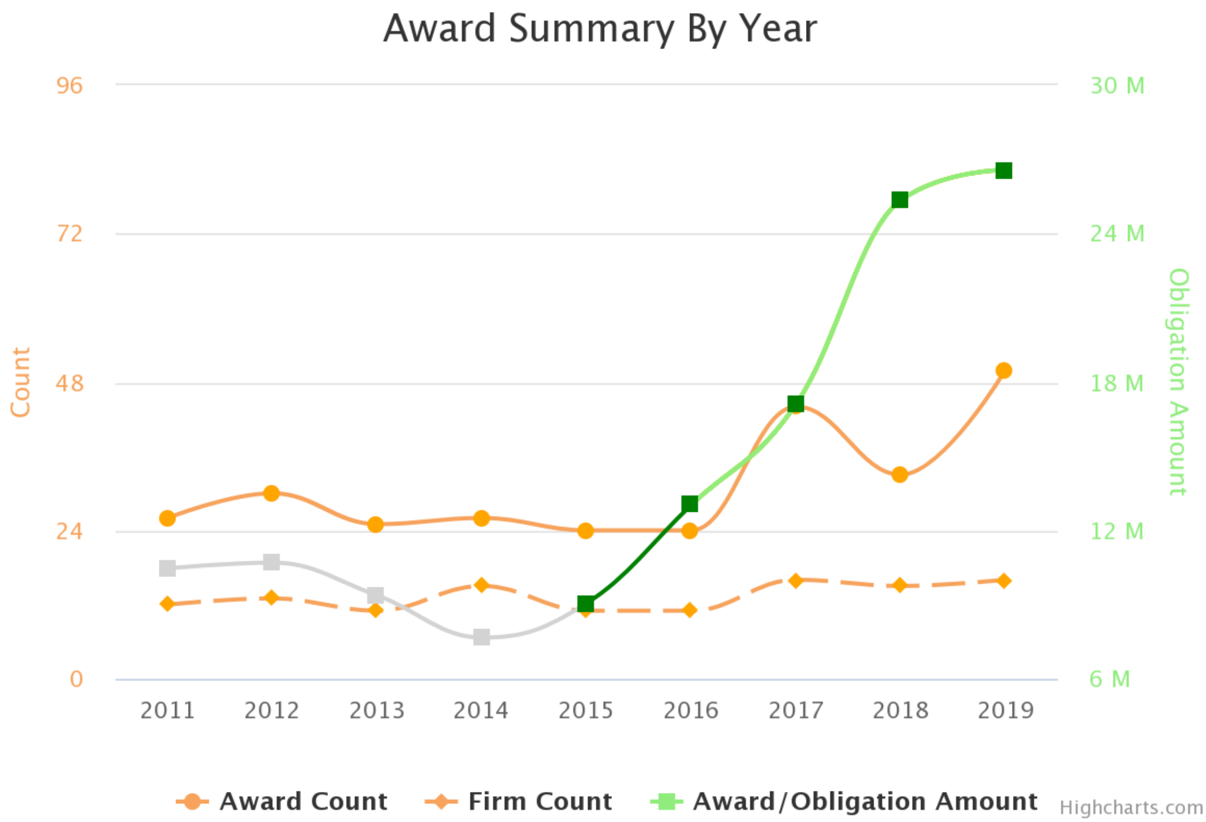
The Hawaii Technology Development Corporation (HTDC) offers **comments** on HB58 SD1 proposed that temporarily suspends certain tax exemptions.

HTDC comments that on page 7, line 1, the suspension of the exemption for amounts received as high technology research and development grants under section 206M-15 as described under section 237-24.7 could negatively impact the Hawaii SBIR program. The program has proven effective and offers the state great leverage with companies bringing into the state over 20 federal dollars per state dollar.

HTDC supports efforts to diversify Hawaii's economy through innovation. HTDC currently administers the Hawaiʻi Small Business Innovation Research (HSBIR) program providing matching grants and wrap around support services covering grant-writing assistance to technology commercialization assistance. The funding appropriated by the legislature for the phase II program has varied from year to year, but overall the funding coming into the State has seen a noticeable increase. Funding was not appropriated in FY21 and is not part of the Administration's FY22 budget.

	HSBIR phase II and phase III			
	2017	**2018**	**2019**	**2020**
Total Application Received	9	9	12	16
Total Application Funded	8	5	6	14
First-time Applications Funded	1	0	1	3
Total Match Requested	$13,000,000	$2,745,691	$4,500,840	$6,300,000
Total Match Grants Awarded	$1,900,000	$900,000	$1,425,000	$900,000
New full time	131	166	135	509
Job Saved		22	34	168

HTDC tracks the impact of the Hawai‘i SBIR program through the federal SBIR website. The following chart depicts the Federal grant awards won by Hawai‘i companies since 2011.



HTDC understands the challenges with the state budget and respectfully offers this information for consideration. Thank you for the opportunity to offer these comments.

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR

ISAAC W. CHOY
DIRECTOR OF TAXATION

LATE

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Donovan M. Dela Cruz, Chair;
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

From: Isaac W. Choy, Director
Department of Taxation

Date: March 30, 2021
Time: 9:05 A.M.
Place: Via Video Conference, State Capitol

Re: H.B. 58, H.D. 1, Proposed S.D. 1, Relating to State Funds

The Department of Taxation (Department) offers the following comments regarding H.B. 58, H.D. 1, Proposed S.D. 1, for your consideration. This measure has a defective effective date of January 1, 2050. In regard to State taxation, Proposed S.D. 1 does the following:

- Amends the disposition of the conveyance tax from July 1, 2021 to June 30, 2023;
- Reduces the estate tax exclusion to $3.5 million;
- Suspends numerous general excise tax (GET) and use tax exemptions;
- Provides a grandfathering provision from the suspension of the GET exemptions;
- Requires information reporting for all GET exemptions and exclusions; and
- Amends the conveyance tax rates.

First, the Department notes that the effective date of Part IV should be clarified. If the intent is to make the reduced exemption amount on July 1, 2021, the Departments suggests making Part IV applicable to "decedents dying or taxable transfers occurring after June 30, 2021."

Second, the Department notes that the suspension of the GET and use tax exemptions begins on July 1, 2021. Due to the magnitude of the proposed suspensions, the Department respectfully requests that the suspension of the GET and use tax exemptions **begin no earlier than January 1, 2022**. This will provide the Department the necessary time to notify taxpayers and make the form and computer system modifications.

Third, the Department notes this measure requires information reporting on GET and use tax exemptions. The Department suggests deleting the information reporting requirement as there is no way to enforce a penalty against a taxpayer who fails to report as the income is already being subjected to the retail rate of 4%.

Finally, the Department notes that the GET exemption for home service providers acting as service carriers is actually a codification of federal law, thus, suspending the Hawaii law will not result in an increase in tax revenue.

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

LATE

HB-58-HD-1
Submitted on: 3/29/2021 2:24:29 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Vivian Pham	Testifying for City and County of Honolulu, Office of Economic Revitalization	Oppose	No

Comments:

The City & County of Honolulu Office of Economic Revitalization opposes Part V section 9 (16) and (17) of **HB58 SD1**, which from July 1, 2021 through June 30, 2023 repeals certain General Excise Tax (GET) exemptions specifically those described under §HRS 209E-ll, which is the Enterprise Zone Program.

The Enterprise Zone (EZ) Program is a state-county partnership. The objective of this partnership is to bring new business activities and employment to areas of the state with high unemployment. The GET exemption for qualified businesses is in exchange for job creation in economically challenged areas of the state. Each enrolled EZ business must send in an annual report to DBEDT where we verify the company's full-time employee count. Objectives are clearly known and EZ businesses must fulfil their job number targets in order to receive the tax benefits in any given year. The GET tax relief stops after seven (7) or ten (10) years.

Passage of this section of this bill would significantly alter the ability of DBEDT and its county partners to accomplish the goals and objectives of the Enterprise Zone Program.

KUA'ĀINA ULU 'AUAMO

Testimony Before The
Senate Committee on Ways and Means
IN OPPOSITION TO HB 58 SD 1
March 30, 2021, 9:05AM, Room 211

We are Kevin Chang Executive and Miwa Tamanaha Co-Directors of Kuaʻāina Ulu ʻAuamo (or KUA). KUA works to empower grassroots rural and Native Hawaiian mālama ʻāina groups to celebrate their places and pass on their traditions to better Hawaiʻi and achieve ʻāina momona—an abundant, productive ecological system that supports community well-being.

KUA opposes HB 58 SD 1. This bill proposes to stop conveyance tax deposits into the Legacy Land Conservation Fund for FY22 and FY23, and use the conveyance tax funds to issue general obligation bonds. Although the purpose of the bill indicates that the intent of the bill is redeposit bond funds into the Legacy Land Conservation Fund, the current draft of the bill does not have any redeposit provision. Instead, the bill as written effectively suspends conveyance tax deposits into Legacy Land Conservation Fund and uses that conveyance tax allocation to issue general obligation bonds for unspecified purposes.

KUA works to empower communities to improve their quality of life through caring for their environmental heritage together. We employ a community-driven approach that currently supports a network of more than 36 mālama ʻāina community groups collectively referred to as E Alu Pū (moving forward together), 38 fishpond projects and practitioners called the Hui Mālama Loko Iʻa, and a growing hui of Limu practitioners all from across our state.

A primary function of KUA includes development of the ʻauwai, a stream of resources tools, bridges and networks that help to cultivate and take our communities' work to greater levels of collective impact. A core source of the flow in this ʻauwai includes the partnerships and programs within government that empower communities to care for and/or own land outright or in partnership with government. The Legacy Land's program is one of the most important programs helping see this through and as at home, national conversations look to broaden conservation capacity as part of our economic recovery. If deposits in the Legacy Land Conservation Fund are paused and the entire program paused, Hawaiʻi will be unable to capitalize on millions of dollars of federal funding opportunities that can provide up to 75% of matching funding because Hawaiʻi has established a dedicated source of conservation funding via the Legacy Land Conservation Fund.

It is important to shore up on some of our fiscal concerns but this proposal could stifle the pathways toward growth and resources important to Hawaiʻi's fiscal and environmental future.

Mahalo for this opportunity to testify.

Aloha ʻĀina Momona.

HB-58-HD-1
Submitted on: 3/28/2021 9:45:32 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Scott Crawford	Testifying for Ke Ao Hali'i	Oppose	No

Comments:

Aloha Members of the Committee,

On behalf of Ke Ao Hali'i, a Hawaiian land conservation organization based in Hana, Maui, that has participated in the Legacy Land Conservation Program to protect precious lands in Hana in perpetuity for future generations, we urge you to oppose HB58 HD1.

The challenges of the pandemic have just reinforced the importance of protecting our important lands and ecosystems, which underly both the environmental and economic health of our islands.

It would be extremely short-sighted and counterproductive to halt conveyance tax deposits into the Legacy Land Conservation Fund, and to raid the fund for other purposes including general obligation bonds.

Also, this would jeopardize federal funding for Hawaii's land conservation programs. Because Hawaiʻi has a dedicated source of funding for land conservation in the Legacy Land Conservation Fund, the match requirements for some federal programs are more favorable, allowing 75% federal share and 25% state/local share. If this dedicated source was removed, some programs will only allow a 50% federal share and require a 50% local/state match, meaning Hawaii would miss out on the potential for millions of dollars in federal funds to help support our important land conservation goals.

The environment is the economy. The natural beauty and ecosystem services of our open space, forest and other natural lands are crucial to the health and sustainability of our economy in the long term.

Please oppose HB58 HD1 to preserve the Legacy Land Conservation program.

Mahalo for your consideration,

Scott Crawford, Chair

Ke Ao Hali'i

Testimony of Kuʻuhaku Park
On Behalf of Matson Navigation Company, Inc.
Opposition to HB58, SD1 Proposed
Before the Committee on Ways and Means
March 30, 2021

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee:

Matson Navigation Company, Inc. ("Matson") respectfully opposes HB58, Proposed SD1, Relating to State Funds. This measure, among other things, imposes general excise taxes amounts received from: the loading or unloading of cargo; tugboat and towage services; and the transportation of pilots, governmental officials, and other maritime-related services. Currently, amounts received or accrued from these services are exempt from the general excise tax.

Suspending the offset deduction creates an onerous pyramiding of the general excise tax and will result in higher costs for end consumers of all goods imported into the State. As an island state, Hawaii is very dependent upon commercial maritime shipping. It is estimated that over 90 percent of our imported goods pass through Hawaii's harbors, including consumer goods, motor vehicles, construction materials, and fuel. Taxing gross income received as a result of stevedoring activities and the loading and unloading of cargo will hit every resident of our State and could adversely impact our State's economic recovery.

If your Committee chooses to pass this measure, we respectfully request that you amend it to delete the language on page 6, lines 6 to 17.

Thank you for allowing us the opportunity to oppose this proposed draft.

HB-58-HD-1
Submitted on: 3/28/2021 3:19:26 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Carlton Yuen	Testifying for Aloha Vision Consultants	Oppose	No

Comments:

I oppose this bill. Businesses in Hawaii are suffering from the Pandemic. Our business kept our workers employed during the pandemic at great risk to our personal livelihood and personal finances. Repealing GE tax exemptions would be a mistake. Also increasing the estate tax will force more residents to leave the state when they retire. We need to reverse the brain drain not enhnace it. Get a larger tax base by encouraging higher earners to move to Hawaii and work from home contributing to our tax base.

Young Progressives Demanding Action
P.O. Box 11105
Honolulu, HI 96828

March 28, 2021

TO: SENATE COMMITTEE ON WAYS & MEANS
RE: Testimony in support of HB58 HD1, Proposed SD1

Dear Senators,

Young Progressives Demanding Action (YPDA) **strongly supports** the proposed SD1 of HB58 HD1, which would include new provisions in the bill such as raising the taxes on multimillion dollar inheritances and property sales.

Hawaiʻi saddles our low-income neighbors with the second-heaviest state and local tax burden in the nation. While families who earn less than $20,000 per year pay 15 percent of their income in state and local taxes, those who make over $450,000 pay only about 9 percent.

Even in good times, that's bad tax policy. And it's particularly bad for our economy now because low-wage workers spend most of their earnings here in Hawaiʻi, powering the consumer spending we need to generate tax revenue through the General Excise Tax (GET).

We must, instead, increase the revenue collected from the wealthiest residents—folks who are doing better than ever right now. These are changes that we ought to be making regardless of the state's financial situation, but are even more important during a recession.

Good tax policy is a cornerstone of a robust economic system. Good tax policy strengthens opportunity by letting working families keep more of what they earn, while asking the wealthy and corporations to pay their fair share.

Why? Because when workers keep more earnings, they support our economy through spending. And when the wealthy and corporations pay their fair share for the use of the public goods and infrastructure that helped them succeed, they ensure that the next generation can succeed as well.

The 21st century brings with it a host of new and evolving challenges for our state to address: the threat of climate chaos, soaring housing prices, emerging diseases—both viral and psychiatric in nature, radical changes to the job market caused by automation and other technological advances, and more. To successfully meet these challenges, Hawaiʻi will need a strong public infrastructure, a top-notch education system, and an open, transparent and effective government. All of that will require adequate funding.

Federal relief money will only help in the short run. It will not provide the strong foundation we need to build a better future for all Hawaiʻi's residents.

Mahalo for the opportunity to testify,

Will Caron
Board President & Secretary, 2020–2021
action@ypdahawaii.org

Hawai'i Association of REALTORS®
808-733-7060
808-737-4977
1259 A'ala Street, Suite 300
Honolulu, HI 96817

March 30, 2021

The Honorable Donovan Dela Cruz, Chair
Senate Committee on Ways and means
Via Videoconference

RE: House Bill 58, HD1, Proposed SD1

HEARING: Tuesday, March 30, 2021, at 9:05 a.m.

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee,

I am Derek Lau, HAR President, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its over 10,000 members. HAR **strongly opposes** House Bill 58, HD1, Proposed SD1, which temporarily reallocates conveyance tax revenues for purposes of paying the principal and interest of general obligation bonds. Authorizes the issuance of general obligation bonds to be appropriated into and out of the land conservation fund and rental housing revolving fund. Amends the exclusion amount of Hawaii's estate tax to $3.5 million. From 7/1/2021 through 6/30/2023, temporarily repeals certain general excise tax exemptions. Increases conveyance taxes for the sale of properties valued at $4,000,000 or greater.

CONVEYANCE TAX

Under this measure, it proposes to drastically increase the Conveyance Tax to the following rates:

Property Value:	Current *Per $100:*	Proposed:	Current Rate (in Dollars):	Proposed (in Dollars) :
$4 mil - $5.99 mil	$0.70	$1.40	$28,000 ($4 mil property)	$56,000
$6 mil - $9.99 mil	$0.90	$2.70	$54,000 ($6 mil property)	$162,000
$10 mil +	$1.00	$4.00	$100,000 ($10 mil property)	$400,000

Additionally, for single-family and condominiums for which the purchaser is ineligible to qualify for a homeowner exemption, the rate would increase to:

Property Value:	Current *Per $100:*	Proposed:	Current Rate (in Dollars):	Proposed (in Dollars) :
$4 mil - $5.99 mil	$0.85	$1.70	$34,000 ($4 mil property)	$68,000
$6 mil - $9.99 mil	$1.10	$3.30	$66,000 ($6 mil property)	$198,000
$10 mil +	$1.25	$5.00	$125,000 ($10 mil property)	$500,000

Throughout the current COVID-19 pandemic, the residential real estate market has had a positive economic impact on our communities. Government projects and demand for housing has been a bright spot during the pandemic.[1]

[1] https://www.civilbeat.org/2021/02/the-construction-industry-is-still-going-strong-in-hawaii-it-may-get-even-stronger/

Hawai'i Association of REALTORS®
808-733-7060
808-737-4977
1259 A'ala Street, Suite 300
Honolulu, HI 96817

According to the Department of Business Economic Development and Tourism's 2019 report on Housing Demand in Hawai'i, the State needs up to 46,000 housing units to meet demand in Hawai'i by 2030. Ultimately, we have a housing supply problem and the Conveyance Tax adds to the cost of housing and businesses.

Additionally, the Conveyance Tax applies to not only residential property such as single-family homes and condominium apartments that help build strong communities, but to the conveyance of multi-family rentals, land for residential subdivisions, mixed-income and multi-use properties, commercial properties, resort properties, and agricultural lands. At a time during the pandemic when our economy is hurting due to lack of tourism and the State has looked for ways to diversify the economy and attract new industries, the additional tax would discourage that.

Furthermore, this would affect development projects including affordable housing rentals or for sale projects, which purchase uninhabitable property and make it habitable, even if it is being sold as affordable units. Ultimately, the tax would be passed on to the future homeowner, and will continue to put housing affordability further out of reach for Hawaii's residents.

HAR would also note that the Conveyance Tax applies even if someone sells a property at a loss. This makes it a punishing tax, especially for someone that is already struggling financially and needs to sell their assets. HAR believes that the tax resulting from the sale of property should be based on the seller's profit, not the sales price, which is already taxed via the capital gains tax resulting in a double taxation.

ESTATE TAX

Hawaii's current exclusion for the estate tax is set at $5.49 million. This measure proposes to reduce the exclusion amount to $3.5 million. This would hurt local families with small businesses who may not have the funds to pay the estate tax and would need to sell assets just to keep their family business. This would also be devastating for family farmers who may be land rich but cash poor, and would need to sell portions of their farm just to pay the estate tax. As such, HAR believes the estate tax should be kept the same to address Hawaii's high land values.

Furthermore, Hawai'i has had a population decline since 2017. With Hawaii's high cost of living and housing, we should be focusing on efforts to increase supply to reduce the costs of housing so we can ensure Hawai'i residents and keiki can afford to live here. Increasing taxes during a period where residents, businesses and the economy is hurting would be counterproductive to our path for recovery, especially in light of State and local aid received through the American Rescue Plan.

Mahalo for the opportunity to testify.

HB-58-HD-1
Submitted on: 3/28/2021 6:58:11 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Michael Golojuch Jr	Testifying for LGBT Caucus of the Democratic Party of Hawaii	Support	No

Comments:

Aloha Senators,

The LGBT Caucus of the Democratic Party of Hawai‘i, Hawaii’s oldest and largest policy and political LGBTQIA+ focused organization, fully supports HB 58 HD1.

Mahalo nui loa for your time and consideration,

Michael Golojuch, Jr.
Chair
LGBT Caucus of the Democratic Party of Hawai‘i

TAX FOUNDATION OF HAWAII
126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: ESTATE, GENERAL EXCISE, USE, CONVEYANCE, Omnibus Tax Increase and Suspension of Exemptions

BILL NUMBER: HB 58, Proposed SD1

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: Temporarily reallocates conveyance tax revenues for purposes of paying the principal and interest of general obligation bonds. Authorizes the issuance of general obligation bonds to be appropriated into and out of the land conservation fund and rental housing revolving fund. Amends the exclusion amount of Hawaii's estate tax. From 7/1/2021 through 6/30/2023, temporarily repeals certain general excise tax exemptions. Increases conveyance taxes for the sale of properties valued at $4,000,000 or greater.

SYNOPSIS:

Conveyance Tax -- Earmarks

Amends section 247-7, HRS, to provide that between 7/1/2021 and 6/30/2023, all conveyance taxes shall be deposited into the general fund for the purposes of paying the principal and interest of general obligation bonds.

Authorizes the issuance of general obligation bonds to replenish $_____ of the land conservation fund and $_____ of rental housing revolving fund, the two funds that were the beneficiaries of earmarks on the conveyance tax.

Estate Tax Increase

Amends section 236E-6, HRS, to slash the applicable exclusion amount from the 2017 federal unified credit amount to $3.5 million.

General Excise and Use Tax: Suspension of Exemptions

Adds a new section to chapter 237, HRS, that would suspend the following general excise tax exemptions between July 1, 2021 and June 30, 2023:

- 237-13(3)(C) - reimbursements received by federal cost-plus contractors for the costs of purchased materials, plant, and equipment;
- 237-13(6)(D) - gross receipts of telecommunications home service providers acting as service carriers for other home service providers;
- 237-16.5 - amounts deducted from the gross income of real property lessees because of receipt from sublessees;
- 237-24(14) - amounts received by sugarcane producers;

- 237-24.3(1) - amounts received from the loading, transportation, and unloading of agricultural commodities shipped interisland;
- 237-24.3(3)(A) - amounts received or accrued from the loading or unloading of cargo;
- 237-24.3(3)(B) - amounts received or accrued from tugboat and towage services;
- 237-24.3(3)(C) - amounts received or accrued from the transportation of pilots or government officials and other maritime related services;
- 237-24.5 - amounts received by stock exchanges and exchange members;
- 237-24.7(10) - amounts received as high technology development grants;
- 237-25(a)(1) - gross proceeds from the sale of intoxicating liquor to the United States;
- 237-25(a)(2) - tobacco products and cigarettes to the United States;
- 237-25(a)(3) - Other tangible personal property to the United States (including any agency, instrumentality, or federal credit union thereof but not including national banks) and any state-chartered credit union;
- 237-27 - amounts received by petroleum product refiners from other refiners for further refining of petroleum products;
- 237-27.5 - gross proceeds received from the construction, reconstruction, erection, operation, use, maintenance of furnishing of air pollution facilities that do not have valid certificates of exemption on July 1, 2021;
- 237-28.1 - gross proceeds received from shipbuilding and ship repairs;
- 237-29.8 - amounts received by telecommunications common carriers from call center operators for interstate or foreign telecommunications services;
- 209E-11 - gross proceeds received by qualified businesses in enterprise zones that do not have valid certificates of qualifications from DBEDT on July 1, 2021; and
- 209E-11 - gross proceeds received by licensed contractors for construction performed for businesses in an enterprise zone or businesses who have been approved by DBEDT to enroll in the enterprise zone program.

Provides for the imposition of a tax of 4% on the previously exempt gross income or gross proceeds of sale between July l, 2021, and June 30, 2023. No county surcharge shall be levied, assessed, or collected on any previously exempt gross income or gross proceeds of sale that is subject to taxation by this measure.

This section shall not be applicable to gross income or gross proceeds from binding written contracts entered into prior to July 1, 2021 that do not permit the passing on of increased rates of tax. Also provides that the tax not be applicable to any gross income or gross proceeds of sale that cannot be legally taxed under the U.S. Constitution or laws of the United States.

Adds a new section to chapter 237, HRS, that requires the director of taxation from July 1, 2021 to require the information reporting on all exclusions or exemptions of all amounts, persons, or transactions under this chapter except for: (1) amounts received that are exempt under FIRS section 237-24(1) through (7); and (2) any other amounts, persons, or transactions as determined by the director in the best interest of tax administration and made by official pronouncement.

Adds a new section to chapter 238, HRS, to suspend the following general excise tax exemptions between July 1, 2021 and June 30, 2023:

- 238-3(g) - the use or sale of intoxicating liquor and cigarette and tobacco products imported into the state and sold to any person or common carrier in interstate commerce, whether ocean-going or air, for consumption out-of-state by the person, crew, or passengers on the shipper's vessels or airplanes;
- 238-3(h) - the use of any vessel constructed under HRS section 189-25 prior to July 1, 1969;
- 238-3(k) - the use of any air pollution control facility subject to HRS section 237-27.

Provides for the imposition of a tax of 4% on the previously exempt value of property, services, or contracting between July 1, 2021 and June 30, 2023. No county surcharge shall be levied, assessed, or collected on any previously exempt value of property, services, or contracting that is subject to taxation by this measure.

This section shall not be applicable to the value of property, services, or contracting from binding written contracts entered into prior to July 1, 2021 that do not permit the passing on of increased rates of tax. Also provides that the tax not be applicable to any gross income or gross proceeds of sale that cannot be legally taxed under the U.S. Constitution.

If so determined, requires the director of taxation to: (1) exempt or exclude the property, services, or contracting or the use of the property, services, or contracting, from the tax; or (2) apportion the gross value of services or contracting sold to ëustomers within the state by persons engaged in business both within and without the state to determine the value of that portion of the services or contracting that is subject to taxation under HRS chapter 237 for the purposes of section 237-21.

Adds a new section to chapter 238, HRS, that requires the director of taxation from July 1, 2021 Requires the director of taxation, from January 1,2012 to require information reporting on all exclusions or exemptions of all amounts, persons, or transactions under the use tax, except for any amounts, persons, or transactions as determined by the director in the best interest of tax administration and made by official pronouncement.

Conveyance Tax: Rate Increases

SYNOPSIS: Amends section 247-2, HRS, to raise the conveyance tax rates for a condominium or single-family residence for which the purchaser is ineligible for a county homeowner's exemption on real property tax:

Minimum Property Value	Current Tax (per $100 of consideration)	New Tax (per $100 of consideration)
$0	$ 0.15	$ 0.15
$600,000	0.25	0.25
$1,000,000	0.40	0.40
$2,000,000	0.60	0.60
$4,000,000	0.85	**1.70**

$6,000,000	1.10	**3.30**
$10,000,000	1.25	**5.00**

Also raised is the tax for all other real property transfers:

Minimum Property Value	Current Tax (per $100 of consideration)	New Tax (per $100 of consideration)
$0	$ 0.10	$ 0.10
$600,000	0.20	0.20
$1,000,000	0.30	0.30
$2,000,000	0.50	0.50
$4,000,000	0.70	**1.40**
$6,000,000	0.90	**2.70**
$10,000,000	1.00	**4.00**

EFFECTIVE DATE: 7/1/2050.

STAFF COMMENTS:

General Remarks

I call this bill the Enola Gay Frankenbill. You might remember from the history books that Enola Gay was the name of the aircraft that dropped the first atomic bomb on the City of Hiroshima in World War II. Here, of course, the bill's destination isn't Japan; it's the pocketbooks of us the taxpayers.

The general excise and conveyance tax increases come from SB56, which tried to justify the increases there proposed by saying that we are in a pandemic and state government needs " to generate revenue to allow the State to meet its strategic goals, avoid furloughs and layoffs for state workers, and prevent disruptions to essential government services."

Pandemics don't last forever, however. These tax increases do. There is no sunset on anything other than the suspension of the general excise and use tax exemptions. Perhaps this is why SB56 received the chilliest of receptions in the House, meriting a rare quadruple referral after which no House committee even heard the bill.

The pandemic has taken its toll. Jobs outside of the public sector that are rapidly disappearing because businesses big and small can't make ends meet. In the private sector we are not simply talking about salary reductions and furloughs. Those are happening too, but we are seeing layoffs and business closures. People who suffer salary reductions and furloughs still have jobs. Layoffs and business closures aren't easily reversible. So we know that some of those jobs and businesses won't be coming back soon.

Data from the Census Bureau show what we have suspected all along, that our population is going down. A press release from the Census Bureau on Dec. 30, 2019 states that only ten states lost population between 2018 and 2019, and Hawaii made the list. (https://www.census.gov/–newsroom/press-releases/2019/popest-nation.html).

When people are squeezed economically by the cost of living, taxes, and inefficient bureaucracy, they can and do vote with their feet – by getting on planes, for example. To what lengths will we go to chase people out of our state?

Lawmakers, are you going to let this Enola Gay drop the bomb on an economy already reeling from the pandemic? We need to do everything we can to restart economic activity, and not make it more difficult by heightening the tax burdens associated with that activity.

Conveyance Tax -- Earmarks

This part of the bill (the only part of HB58 that existed before the Frankenstein modifications) has many similarities to the Administration measure BUF-26 (21) (SB 1092; HB 938). The Department's stated justification for its bill is that the economic impact of the COVID—19 pandemic on the revenues of the State has been devastating with an estimated decline of $2.3 billion for fiscal biennium 2019—2021 and necessitates action to preserve the solvency of the state general fund and ensure the continuation of critical government operations.

The proposed victims of this action are the Land Division of the Department of Land and Natural Resources and the HHFDC. If, however, the Legislature deems their respective programs worthy, it can compensate. This bill compensates by borrowing money and appropriating a specific sum to both funds. In the current draft of the bill the borrowing amounts are unspecified.

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.

This part proposes to decrease or eliminate existing earmarks, which appears to be a step in the right direction.

Estate Tax Increase

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

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

million threshold, but the estate would pay Hawaii estate tax because it is over the $5.49 million Hawaii threshold.

This bill proposes to lower the $5.49 million to $3.5 million. That would have the effect of increasing the number of decedents' estates exposed to Hawaii estate tax, and could well have the effect of motivating folks who are of advanced age and advanced means to hop on a plane. The State's population already has been declining. Accelerating the shrinkage of the tax base is not a good thing for those who need to ensure that the governments' budgetary ends meet.

General Excise and Use Tax: Suspension of Exemptions

This measure proposes to suspend the selected general excise and use tax exemptions and provides that the amount of the exempt income shall be taxed at the rate of 4% temporarily between 7/1/21 and 6/30/23. The apparent intent is to mirror Act 105, SLH 2011, which did the same thing between 7/1/11 and 6/30/13.

Many of the exemptions exist because if the general excise or use tax were imposed on these entities or transactions it would impose an undue burden or cause businesses to structure transactions in an inefficient manner. There are those exemptions that exist because to tax the transaction would be a violation of superior law or may be deemed unconstitutional. Other deductions, exclusions and exemptions exist because they help to reduce the pyramiding effect of the general excise tax. Undoing these exemptions will not only result in the increase in the cost of doing business in Hawaii, but may create inequitable taxing situations that were addressed by the specific general excise tax exemption.

For example, this measure would suspend the leasing and subleasing deduction which was enacted to prevent the pyramiding of the tax which impacts small businesses who usually sublease their business space from a lessor of real property. This will drive the cost up for small businesses, making some businesses either raise prices to an uncompetitive level or to close their doors and go out of business.

Taxing gross income received as a result of stevedoring activities, the loading and unloading of ships or aircraft, that is currently exempt would represent added cost that would ripple through the entire economy as nearly 96% of everything residents consume comes over the docks.

While this measure is proposed to extract additional revenues to address the state's fiscal crisis, it should be remembered that the adoption of measures like this that temporarily propose a "tax increase" on certain transactions, will not be effective unless government expenditures are also curtailed. If taxes increase and spending rises, little or no net gain is achieved – and we are starting this year in a deficit.

Elimination of many of these exemptions or exclusions would come at a bad time as the state's economy struggles to come back from the devastation caused by the COVID-19 pandemic. recession. Adding to the cost of doing business and living in Hawaii will stall economic recovery, prolonging the downturn in state revenues.

As Hawaii families have tightened their collective belts during these difficult times, so should federal state, and county governments. Before adding additional burdens to Hawaii's overburdened taxpayers, both businesses and individuals, state policymakers need to put all programs and services on the table and decide which are really "core" services and which are "nice to have" and then rearrange the allocation of resources so that it is only the "core" services that are funded.

Finally, we note the distinct probability that these tax increases will be used to fund collective bargaining increases, as this measure, like any across the board tax increase, would motivate the government employee unions to demand, and mediators or arbitrators to award, substantial wage and salary increases. This would certainly be unfair to a larger group of taxpayers who have suffered not only furloughs or pay reductions, but layoffs and business closures, starting from the pandemic and which would be exacerbated by the tax increases in this bill.

That said, this measure underscores the depth and breadth of the financial crisis that the state faces. Unless elected officials rein in the size and cost of running government in Hawaii, such desperate measures, as this bill represents, may have to be adopted and in doing so will destroy the economic base of the state. This is not a compromise situation but an either/or situation: either expenditures are right-sized or the state's economy is destined for collapse. If lawmakers believe that their only alternative is to raise more revenues, it is less than honest to implement that belief by suspending exemptions and making the general excise and use taxes more expensive indirectly; the cost of these revenue enhancements will be regressive, and hidden from the public at large, who instead may blame the businesses who must recover the cost of the additional tax in the shelf price of their goods and services.

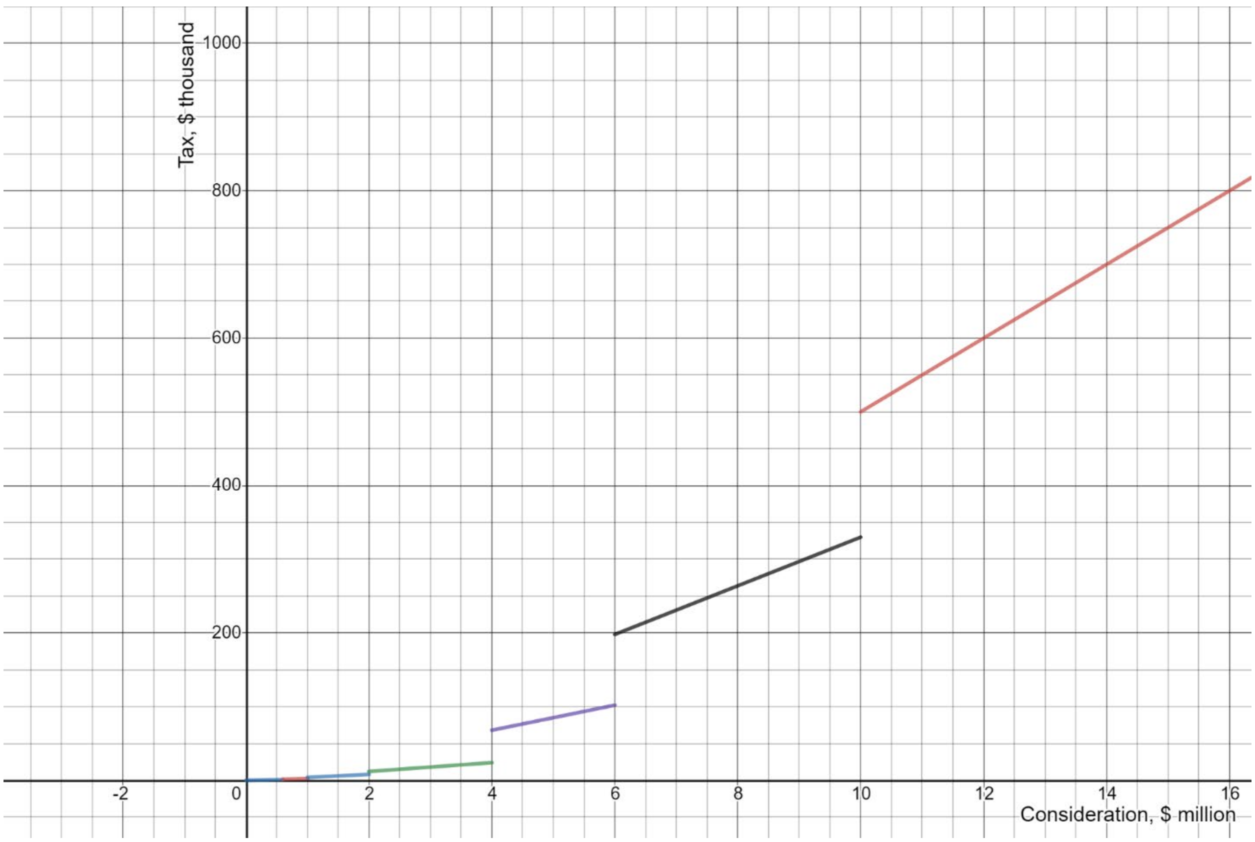
Conveyance Tax: Rate Increases

The conveyance tax was enacted by the 1966 legislature after the repeal of the federal law requiring stamps for transfers of real property. It was enacted for the sole purpose of providing the department of taxation (which at the time also administered the real property tax) with additional data for the determination of market value of properties transferred. This information was also to assist the department in establishing real property assessed values and at that time the department stated that the conveyance tax was not intended to be a revenue raising device.

Prior to 1993, the conveyance tax was imposed at the rate of 5 cents per $100 of actual and full consideration paid for a transfer of property. At the time all revenues from the tax went to the general fund. The legislature by Act 195, SLH 1993, increased the conveyance tax to 10 cents per $100 and earmarked 25% of the tax to the rental housing trust fund and another 25% to the natural area reserve fund. Because of legislation in 2005 and in 2009, the conveyance tax rates were substantially increased and bifurcated between nonowner-occupied residential properties and all other properties. Tax brackets were based on the amount of the value transferred.

This bill proposes to raise conveyance tax rates yet again, and in dramatic fashion once property values exceed a certain amount.

There are two points lawmakers may wish to consider. First, the proposed new brackets have discontinuities at the bracket break points, which means that if taxable income increases by $1 at a break point, such as from $9,999,999 to $10200,001, the increase in tax will be substantially more than $1. In this example the tax would go from $330,000 to $500,000. Substantial discontinuities such as these may motivate behavior for taxpayers near a break point. This behavior might not be desirable from an economic standpoint. Consideration should be given to making the conveyance tax brackets more like the existing income tax brackets which do not have this problem.



Second, it should be kept in mind that a large dollar value transaction doesn’t necessarily mean that a filthy rich person ripe for the fleecing is on one or the other end. A multi-unit affordable housing development, for example, easily could sell for an eight digit number.

Digested 3/27/2021

PHOCUSED

PROTECTING HAWAII'S OHANA, CHILDREN, UNDER SERVED, ELDERLY AND DISABLED

March 30, 2021

TO: Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Members of the Senate Committee on Ways and Means

FROM: Christy MacPherson, Director, PHOCUSED

SUBJECT: Testimony: Relating to State Funds

Hearing: March 30, 2021 at 9:05 am
Via videoconference

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee on Ways and Means,

Thank you for the opportunity to provide testimony **in strong support** of HB58, SD1

PHOCUSED is a nonpartisan project of Hawai`i Appleseed Center for Law and Economic Justice and comprises health and human service organizations and the people they serve across the State of Hawai`i. We have been collaborating on advocacy regarding the impacts of the pandemic and procurement and funding concerns.

We appreciate and **support the proposed provisions in SD1**. Dropping the exclusion amount of the estate tax to $3,500,000, increasing the sales tax rates on multi-million-dollar real estate and suspending some of our GET exemptions will generate hundreds of millions of dollars that our State needs to mitigate budget cuts for essential community services.

Raising these taxes is both fair and prudent, and Hawai`i's economic recovery and growth depend on it.

Thank you again for the opportunity to submit testimony on HB58, SD1.

PHOCUSED IS A PROJECT OF HAWAI'I APPLESEED

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HPBS INC.

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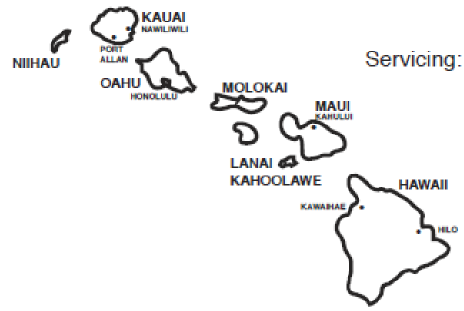

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Testimony of HPBS, Inc.
In Opposition to HB58, SD1 Proposed
Before the Committee on Ways and Means
March 30, 2021

Honorable Chair Dela Cruz, Vice Chair Keith-Agaran, and Committee Members:

HPBS, Inc. provides dispatching and pilot boat transportation services to Hawaii's State regulated Port Pilots under the terms of a Memorandum of Agreement with the Department of Commerce and Consumer Affairs (DCCA). HPBS revenue is currently exempt from General Excise Tax as per HRS 237-24 (3) (B) and (C). Suspension of this exemption would place HPBS in a catch 22 type situation. The rates that HPBS charges are set by order of the DCCA and can only be altered via a contested case hearing. These regulated rates are the only source of operating revenue for HPBS and are intended to reimburse HPBS at cost for the operating expenses of the pilot dispatch and boat transportation services. The DCCA's rate order specifically states that "State of Hawaii General Excise Tax for pilotage services shall not be added on to any invoices for pilotage services." (DCCA Order PTP-2012-1). HPBS is therefore not permitted to pass on the General Excise Tax and is also not able to generate additional revenue to absorb the General Excise Tax expense. For these reasons, HPBS opposes HB58, SD1 Proposed, Relating to State Funds.

If your Committee does decide to pass this measure, we respectfully request that the bill is amended to delete PART V, SECTION 9 (a) (7) and PART V, SECTION 9 (a) (8). This change would ensure that the exemptions described in HRS 237-24 (3)(B) and HRS 237-24 (3)(C) are not suspended, and thereby permit HPBS to continue normal operations under the current regulated rate structure.

Thank you for considering this testimony in opposition.

Captain Thomas Heberle
President
HPBS, Inc.

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

To: Senate Committee on Ways and Means

Re: **HB 58, HD1, Proposed SD1 - Relating to state funds**
Hawaiʻi State Capitol, Room 211 and via videoconference
March 30, 2021, 9:05 AM

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and committee members,

On behalf of Hawaiʻi Children's Action Network Speaks!, I write in SUPPORT of HB 58, HD1, Proposed SD1, which temporarily reallocates conveyance tax revenues, authorizes the issuance of certain general obligation bonds, amends the exclusion amount of Hawaii's estate tax, temporarily repeals certain general excise tax exemptions, and increases conveyance taxes for the sale of properties valued at $4 million or more.

As the state legislature faces revenue shortfalls, it's important to keep in mind that government spending cuts would further harm our already injured economy, as well as hobble social services that have become more and more essential to Hawaiʻi's keiki and their families during this pandemic crisis.

That's why we support a range of progressive revenue options, such as those included in this bill. It makes sense to ask those who are fortunate enough to be doing well in this economy to pay more, in order to prevent cuts to critical government services that so many struggling working families have come to rely on.

For example, one of the policies that's most narrowly targeted at our wealthiest residents is the estate tax. Especially as so many of our working families are struggling, it makes sense to ask those at the top to pay a little more.

The amount of inherited wealth that is exempted from Hawaiʻi's estate tax multiplied more than nine times, from $600,000 in 1997 to the current exemption of $5.5 million.[1] **Hawaiʻi's current exemption amount is the fourth highest among the states that have estate taxes.** This bill drops the exemption to $3.5 million, which would raise about $6.6 million in additional revenues per year.[2]

Since 2018, the Tax Cuts and Jobs Act has given a tremendous tax break to those at the top, shielding estates of up to $11 million for singles (and $22 million for couples) from federal taxation. They can afford to share some of their federal windfall with Hawaiʻi.

[1] https://www.thebalance.com/exemption-from-federal-estate-taxes-3505630
[2] Unpublished analysis from the Center on Budget and Policy Priorities

Meanwhile, high-end real estate prices have been skyrocketing to record highs during the pandemic, but current conveyance tax rates are only 0.50–1.25 percent on multi-million dollar properties. We should not allow our real estate to be sold at such high prices with such low tax returns.

This bill would raise the conveyance tax on properties worth $4 million or more. Between January 2019 and September 2000, **more than $2 billion of homes worth at least $4 million were sold, and 62% of those were sold to non-Hawai'i residents**, according to the Bureau of Conveyances.

In addition, the state legislature suspended 31 GET exemptions for FY2012 and FY2013 to address the economic crisis of the last recession. These exemptions were worth about $254.5 million in 2018.[3]

Mahalo the opportunity to provide this testimony. Please pass this bill.

Thank you,

Nicole Woo
Director, Research and Economic Policy

[3] https://files.hawaii.gov/auditor/Reports/2020/20-05.pdf

HB 58, HD 1, PROPOSED SD 1, RELATING TO STATE FUNDS

MARCH 30, 2021 · SENATE WAYS AND MEANS COMMITTEE · CHAIR SEN. DONOVAN DELA CRUZ

POSITION: Strong support with amendments.

RATIONALE: Imua Alliance **strongly supports and suggests amendments for HB 58, HD 1 (proposed SD 1),** relating to state funds, which temporarily reallocates conveyance tax revenues for purposes of paying the principal and interest of general obligation bonds; authorizes the issuance of general obligation bonds to be appropriated into and out of the land conservation fund and rental housing revolving fund; amends the exclusion amount of Hawai'i's estate tax; from 7/1/2021 through 6/30/2023, temporarily repeals certain general excise tax exemptions; and increases conveyance taxes for the sale of properties valued at $4,000,000 or greater.

It is time for Hawai'i to tax the rich. We need to raise revenue to manage the economic recession spurred by COVID-19, not slash essential services for vulnerable residents. Imua Alliance is one of the state's largest victim service providers for survivors of sex trafficking. Over the past 10 years, we have provided comprehensive direct intervention (victim rescue) services to 150 victims, successfully emancipating them from slavery and assisting in their restoration, while providing a range of targeted services to over 1,000 victims and individuals at risk of sexual exploitation. **During the pandemic, demand for victim services to our organization has skyrocketed by 330 percent, driven in part by a fivefold increase in direct crisis calls from potential trafficking victims.**

Each of the victims we have assisted has suffered from complex and overlapping trauma, including post-traumatic stress disorder, depression and anxiety, dissociation, parasuicidal behavior, and substance abuse. Trafficking-related trauma can lead to a complete loss of identity. A victim we cared for in 2016, for example, had become so heavily trauma bonded to her pimp that while under his grasp, she couldn't remember her own name. Yet, sadly, many of the victims with whom we work are misidentified as so-called "voluntary prostitutes" and are subsequently arrested and incarcerated, with no financial resources from which to pay for their release.

Sex trafficking is a profoundly violent crime. At least 23 percent of trafficking victims in Hawai'i report being first exploited before turning 18, according to a recent report, with the average age of trafficked keiki's initial exposure to exploitation being 11. Based on regular outreach and monitoring, we estimate that approximately 150 high-risk sex trafficking establishments operate in Hawai'i. In a recent report conducted by the State Commission on the Status of Women, researchers from Arizona State University found that 1 in every 11 adult males living in our state buys sex online. When visitors are also counted, that number worsens to 1 in every 7 men walking the streets of our island home and a daily online sex buyer market of 18,614 for O'ahu and a total sex buyer population for the island of 74,362, including both tourists and residents.

ASU's findings are grim, but not surprising to local organizations that provide services to survivors of sex trafficking. Imua Alliance, for example, has trained volunteers to perform outreach to victims in high-risk locations, like strip clubs, massage parlors, and hostess bars. More than 80 percent of runaway youth report being approached for sexual exploitation while on the run, over 30 percent of whom are targeted within the first 48 hours of leaving home. With regard to mental health, sex trafficking victims are twice as likely to suffer from PTSD as a soldier in a war zone. Greater than 80 percent of victims report being repeatedly raped and 95 percent report being physically assaulted, numbers that are underreported, according to the United States Department of State and numerous trauma specialists, because of the inability of many victims to recognize sexual violence. As one underage survivor told Imua Alliance prior to being rescued, "I can't be raped. Only good girls can be raped. I'm a bad girl. If I *want* to be raped, I have to *earn* it."

Accordingly, we support measures to raise revenue to sustain critical services for survivors of sexual exploitation and sexual violence. Hawai'i saddles our low-income neighbors with the second-heaviest state and local tax burden in the nation. While families who earn less than $20,000 per year pay 15 percent of their income in state and local taxes, those who make over $450,000 annually pay only about 9 percent. Lawmakers should ask those who can afford it to pay a little more to uplift working families. Public spending is the fuel that keeps our state's economic engines running. As the private sector sputters, government needs to throttle up public spending to keep our economy going. Cutting government spending at this time would be akin to taking our foot off the pedal and letting the second engine of the local economy stall. The International Monetary Fund has found that every dollar of reduced government spending results in as much as $1.50 in lost economic activity. Thus, a $670 million cut in government programs would punch a $1 billion hole in our economy. Studies of the Great Recession show that states that trimmed their budgets had higher unemployment, fewer private sector jobs, and shrinking economies. In contrast, states that expanded public spending saw stronger economic growth.

This measure institutes tax fairness in a number of ways. Trump's Tax Cuts and Jobs Act gave tax breaks to the wealthiest Americans, including by shielding from taxation $11 million for single people and $22 million for couples of property transferred from the deceased to their heirs. Among states that have estate taxes, Hawai‘i has the fourth-highest exemption amount at $5.5 million for singles and $11 million for couples. The exemption amount was only $675,000 in 2001, less than one-eighth of the exempted amount today. We need to return to fiscal sanity and ask: do we support the privileged class's or the public's interest?

Reducing Hawai‘i's estate tax exemption to $1 million, as we suggest amending this measure to effectuate, would generate $18.3 million per year, according to the Center on Budget and Policy Priorities. Moreover, in Hawai'i, a person can inherit up to $5.49 million without owing state estate tax. This high threshold has meant that the tax only applies to a very limited number of people. In 2019, the Center for Budget and Policy Priorities found that there were only 30 estate tax collections in the islands. We need to improve intergenerational economic mobility, giving the children of working families a chance to scale the socioeconomic ladder that currently holds them back, in part by passing measures that raise the revenue necessary to deliver the services on which trauma survivors depend.

Furthermore, this proposal temporarily suspends certain general excise tax (GET) exemptions. In 2011, to address the economic crisis of the last recession, the State Legislature suspended 31 GET exemptions for FY2012 and FY2013. **These exemptions were worth about $254.5 million in 2018.** Should a comparable measure be considered as a response to the economic impacts of the COVID-19 pandemic, as this bill proposes, that revenue would be returned to state coffers in **at least $44.8 and $51.6 million for each of the next two respective fiscal years per Hawai'i Department of Taxation estimates and possibly over $100-$150 million more.**

Finally, this measure increases the sales tax rate on luxury real estate speculation. Real estate is one of the few sectors of Hawai'i's economy that's been booming during the pandemic, with home prices soaring to new record highs in 2020. Yet, sellers of high-end properties are not paying their fair tax share. Conveyance taxes are applied to transfers of ownership of real property and our current conveyance tax rates are only 0.50–1.25 percent on multimillion-dollar mansions. We should not allow our real estate to be sold at such high prices with such low tax returns. Between January 2019 and September 2020, just over half (52 percent) of homes priced at or above $2 million were sold to nonresidents. Of homes worth at least $4 million, 62 percent were sold to nonresidents. **If the conveyance tax rate is raised on properties valued at $1 million and above, as we urge you to amend this bill to perform, then that would generate up to $71.5 million, while the current $4 million threshold would generate approximately $7-10 million annually according to DoTax estimates, bringing this measure's total revenue generation estimate to approximately $80 million.**

Kris Coffield · Executive Director, Imua Alliance · (808) 679-7454 · kris@imuaalliance.org

HOUSE BILL 58, HD 1, PROPOSED SD 1, RELATING TO STATE FUNDS

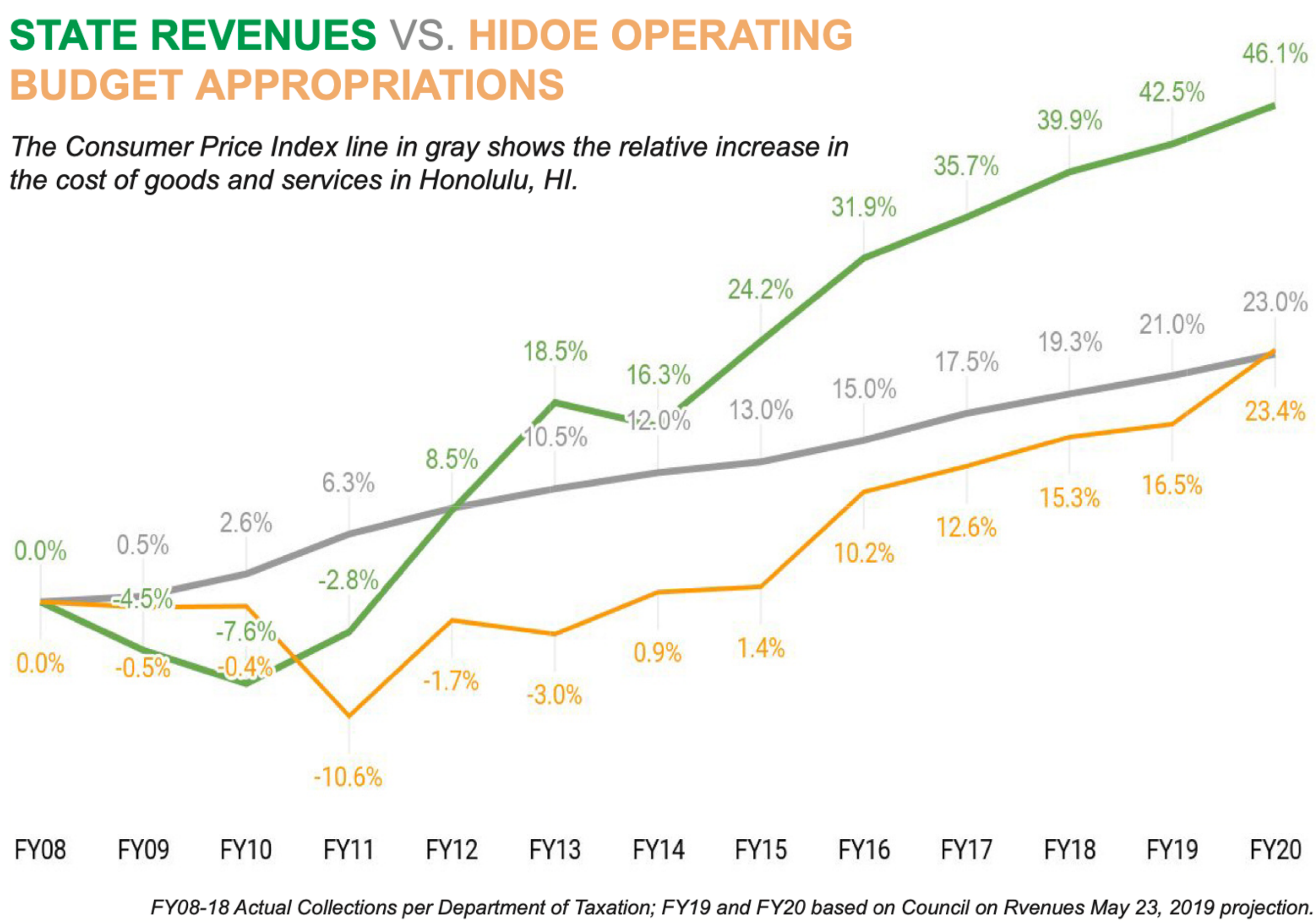
MARCH 30, 2021 · SENATE WAYS AND MEANS COMMITTEE · CHAIR SEN. DONOVAN DELA CRUZ

POSITION: Strong support with amendments.

RATIONALE: The Democratic Party of Hawai'i Education Caucus **strongly supports and suggests amendments for** HB 58, HD 1, proposed SD 1, relating to state funds, which temporarily reallocates conveyance tax revenues for purposes of paying the principal and interest of general obligation bonds; authorizes the issuance of general obligation bonds to be appropriated into and out of the land conservation fund and rental housing revolving fund; amends the exclusion amount of Hawai'i's estate tax; from 7/1/2021 through 6/30/2023, temporarily repeals certain general excise tax exemptions; and increases conveyance taxes for the sale of properties valued at $4,000,000 or greater.

It is time for Hawai'i to tax the rich. We desperately need to increase funding for public education, rather than cut the education programs on which their futures rely. As it has for years, the Aloha State is suffering from a chronic teacher shortage crisis, which could be exacerbated by proposed cuts to the Hawai'i Department of Education's budget amounting to 15 to 21 percent. Additionally, we continue to lose approximately 50 percent of new hires after five years–the number of teachers exiting the teaching profession has spiked by over 80 percent since 2010.

Prior to the pandemic, the Hawai'i Department of Education saw its budget grow at a pace that was much slower than the rate of increase for general fund revenue. From FY2008 to FY2020, the DOE's budget grew by 23.4 percent, keeping pace with the escalation in the state's cost of living. Yet, general fund revenue grew by 46.1 percent, nearly double the growth reflected in the DOE's budget. This proportional disparity must be rectified, so that our schools and students don't lose out on critical resources or learning opportunities. Education must be a priority for our state.



Accordingly, we strongly support measures to generate revenue in the face of the pandemic-related economic downturn, rather than managing the budget shortfall slashing services. Trump's Tax Cuts and Jobs Act gave tax breaks to the wealthiest Americans, including by shielding from taxation $11 million for single people and $22 million for couples of property transferred from the deceased to their heirs. Among states that have estate taxes, Hawai‘i has the fourth-highest exemption amount at $5.5 million for singles and $11 million for couples. The exemption amount was only $675,000 in 2001, less than one-eighth of the exempted amount today. We need to return to fiscal sanity and ask: do we support the privileged class’s or the public’s interest?

Hawai’i saddles our low-income neighbors with the second-heaviest state and local tax burden in the nation. While families who earn less than $20,000 per year pay 15 percent of their income in state and local taxes, those who make over $450,000 annually pay only about 9 percent. Lawmakers should ask those who can afford it to pay a little more to uplift working families. Public spending is the fuel that keeps our state’s economic engines running. As the private sector sputters, government needs to throttle up public spending to keep our economy going. Cutting government spending at this time would be akin to taking our foot off the pedal and letting the second engine of the local economy stall. The International Monetary Fund has found that every dollar of reduced government spending results in as much as $1.50 in lost economic activity. Thus, a $670 million cut in government programs would punch a $1 billion hole in our economy. Studies of the Great Recession show that states that trimmed their budgets had higher unemployment, fewer private sector jobs, and shrinking economies. In contrast, states that expanded public spending saw stronger economic growth.

This measure institutes tax fairness in a number of ways. Trump’s Tax Cuts and Jobs Act gave tax breaks to the wealthiest Americans, including by shielding from taxation $11 million for single people and $22 million for couples of property transferred from the deceased to their heirs. Among states that have estate taxes, Hawai‘i has the fourth-highest exemption amount at $5.5 million for singles and $11 million for couples. The exemption amount was only $675,000 in 2001, less than one-eighth of the exempted amount today. We need to return to fiscal sanity and ask: do we support the privileged class’s or the public’s interest? **Reducing Hawai‘i's estate tax exemption to $1 million, as we suggest amending this measure to effectuate, would generate $18.3 million per year**, according to the Center on Budget and Policy Priorities. Moreover, in Hawai'i, a person can inherit up to $5.49 million without owing state estate tax. This high threshold has meant that the tax only applies to a very limited number of people. In 2019, the Center for Budget and Policy Priorities found that there were only 30 estate tax collections in the islands. We need to improve intergenerational economic mobility, giving the children of working families a chance to scale the socioeconomic ladder that currently holds them back, in part by passing measures that raise the revenue necessary to deliver the services on which trauma survivors depend.

Furthermore, this proposal temporarily suspends certain general excise tax (GET) exemptions. In 2011, to address the economic crisis of the last recession, the State Legislature suspended 31 GET exemptions for FY2012 and FY2013. **These exemptions were worth about $254.5 million in 2018.** Should a comparable measure be considered as a response to the economic impacts of the COVID-19 pandemic, as this bill proposes, that revenue would be returned to state coffers in **at least $44.8 and $51.6 million for each of the next two respective fiscal years per Hawai'i Department of Taxation estimates and possibly over $100-$150 million more.**

Finally, this measure increases the sales tax rate on luxury real estate speculation. Real estate is one of the few sectors of Hawai'i's economy that's been booming during the pandemic, with home prices soaring to new record highs in 2020. Yet, sellers of high-end properties are not paying their fair tax share. Conveyance taxes are applied to transfers of ownership of real property and our current conveyance tax rates are only 0.50–1.25 percent on multimillion-dollar mansions. We should not allow our real estate to be sold at such high prices with such low tax returns. Between January 2019 and September 2020, just over half (52 percent) of homes priced at or above $2 million were sold to nonresidents. Of homes worth at least $4 million, 62 percent were sold to nonresidents. **If the conveyance tax rate is raised on properties valued at $1 million and above, as we urge you to amend this bill to perform, then that would generate up to $71.5 million, while the current $4 million threshold would generate approximately $7-10 million annually according to DoTax estimates, bringing this measure's total revenue generation estimate to approximately $80 million.**

We must fully fund our schools. Our keiki's and our community's future depends on our resolve.

Kris Coffield · Chairperson, Democratic Party of Hawai'i Education Caucus · (808) 679-7454 · kriscoffield@gmail.com

Testimony of Gary J. North
On Behalf of the Hawaii Harbor Users Group
Opposition to HB58, SD1 Proposed
Before the Committee on Ways and Means
March 30, 2021

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee:

The Hawaii Harbor Users Group (HHUG) is a non-profit maritime transportation industry group comprised of key commercial harbor users. HHUG strongly opposes HB58, Proposed SD1, Relating to State Funds. This measure, among other things, imposes general excise taxes amounts received from: the loading or unloading of cargo; tugboat and towage services; the transportation of pilots, governmental officials, and other maritime-related services; and the loading, transportation, and unloading of agricultural commodities shipped interisland. Currently, amounts received or accrued from these services are exempt from the general excise tax.

Suspending the offset deduction creates an onerous pyramiding of the general excise tax and will result in higher costs for end consumers of all goods imported into the State. As an island state, Hawaii is very dependent upon commercial maritime shipping. It is estimated that over 90 percent of our imported goods pass through Hawaii's harbors, including consumer goods, motor vehicles, construction materials, and fuel. Taxing gross income received as a result of stevedoring activities and the loading and unloading of cargo will hit every resident of our State and could adversely impact our State's economic recovery.

If your Committee chooses to pass this measure, we respectfully request that you amend it to delete the language on page 6, lines 6 to 17.

Thank you for considering this testimony in opposition.

ADA HAWAI'I
AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS			MAILING ADDRESS
John Bickel, President	Melodie Aduja	John Miller	Bill South	P.O. Box 23404
Alan Burdick, Vice President	Juliet Begley	Jenny Nomura	Zahava Zaidoff	Honolulu
Dave Nagajji, Treasurer	Stephanie Fitzpatrick	Stephen O'Harrow		Hawaii 96823
Doug Pyle, Secretary	Jan Lubin	Lyn Pyle		

March 28, 2021

TO: Chair Dela Cruz and members of WAM Committee

RE: HB 58 HD1 Relating to State Funds

Support for hearing on March 30

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We support SB 56 as it would raise the sales tax rate on multi-million dollar real estates, multi-million dollar inheritances, and suspends certain GET exemptions. Our total tax system has been far too regressive. These changes are needed to ensure that the wealthy pay their fair share. Accordingly the bottom income-earners should have a lighter burden. This bill has a lot of provisions; the total effect is very positive for our tax structure.

Thank you for your favorable consideration.

Sincerely,
John Bickel, President

HSTA
HAWAII STATE TEACHERS ASSOCIATION
Teaching Today for Hawaii's Tomorrow

1200 Ala Kapuna Street ♦ Honolulu, Hawaii 96819
Tel: (808) 833-2711 ♦ Fax: (808) 839-7106 ♦ Web: www.hsta.org

Corey Rosenlee
President

Osa Tui Jr.
Vice President

Logan Okita
Secretary-Treasurer

Wilbert Holck
Executive Director

TESTIMONY BEFORE THE SENATE COMMITTEE ON WAYS & MEANS

RE: HB 58 HD1, PROPOSED SD1 - RELATING TO STATE FUNDS

TUESDAY, MARCH 30, 2021

COREY ROSENLEE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Dela Cruz and Members of the Committee:

The Hawaii State Teachers Association **<u>supports HB 58, HD1, Proposed SD1</u>**, relating to state funds. This bill temporarily reallocates conveyance tax revenues for purposes of paying the principal and interest of general obligation bonds. Authorizes the issuance of general obligation bonds to be appropriated into and out of the land conservation fund and rental housing revolving fund. Amends the exclusion amount of Hawaii's estate tax. From 7/1/2021 through 6/30/2023, temporarily repeals certain general excise tax exemptions. Increases conveyance taxes for the sale of properties valued at $4,000,000 or greater. Effective 1/1/2050. (SD1 Proposed)

Hawaii currently saddles our low-income residents with the second-heaviest state and local tax burden in the nation. While families who earn less than $20,000 per year pay 15% of their income in state and local taxes, those who make over $450,000 pay only about 9%.

<u>This bill will help change some of the tax structures in our state to make our tax system more fair and generate funds that will help make up for state revenue losses so that the state will be able to maintain much needed services and supports, such as our public schools and our teachers, but other state services, as well as providing for essential services and supports needed within our communities and our state! We need funding to prevent severe budget cuts, layoffs, pay cuts, and furloughs!!</u>

<u>By asking the wealthy and profitable corporations to pay their fair share in taxes, we can prevent cuts to essential services while protecting and investing in our communities.</u>

The COVID-19 recession has devastated many workers who were already struggling to make ends meet before the pandemic hit.

During the past year, many of those at the top have benefitted from the record-breaking stock market and skyrocketing high-end real estate prices.

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Logan Okita
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Wilbert Holck
Executive Director

There's a better solution than depriving people of the services they need. We can fill budget gaps by ensuring that the wealthiest pay their fair share.

Here in Hawaii, we value taking care of our community and helping each other when we can. Those who can, can. Those who can pay, should pay.

- **The 2017 Tax Cuts and Jobs Act gave a tremendous federal tax break to literally the richest among us, shielding estates of up to $11 million for singles (and $22 million for couples) from taxation. They can afford to share some of their federal windfall with Hawaii.**

- High-end real estate is one of the few sectors of the economy in Hawaiʻi that's been booming during the pandemic, with home prices soaring to new record highs.

- Our state should raise taxes on multi-million dollar inheritances. This bill would drop the amount estates exempt from taxes from $5.5 million to $3.5 million. That would generate between $6.6 in additional taxes per year. With an estate tax exemption of $3.5 million, a house worth $3.5 million would be passed on tax-free. A house worth $4 million would be subject to a tax of $50,000, or 1.25 percent of its value.

- Among the states that have estate taxes, currently Hawaiʻi has the fourth-highest exemption amount of $5.5 million for singles (and $11 million of couples). The exemption amount was only $675,000 in 2001, or less than one-eighth of the exempted amount today.

- This bill would raise the conveyance tax on properties worth $4 million or more. Between January 2019 and September 2000, more than $2 billion of homes worth at least $4 million were sold, and 62% of those were sold to non-Hawaiʻi residents.

- When multi-million dollar properties are sold, our current conveyance tax rates are only 0.50–1.25 percent. **We should not allow our real estate to be sold at such high prices with such low tax returns.**

This bill also temporarily suspends certain general excise tax (GET) exemptions

- In 2011, to address the economic crisis of the last recession, the state legislature suspended 31 GET exemptions for FY2012 and FY2013.

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Secretary-Treasurer

Wilbert Holck
Executive Director

- These exemptions were worth about $254.5 million in 2018. With some adjustments for our current situation, a similar suspension of certain GET exemptions is called for in this bill.

Social service programs are crucial to struggling working families during this recession and must be protected. **By asking the wealthy and profitable corporations to pay their fair share in taxes, we can prevent cuts to essential services and protect our communities.** Community service cutbacks during the Great Recession are still hurting us now -- and their effects can be seen on our streets. Service providers still haven't been able to undo all the damage inflicted on nonprofits and the state's mental health system by funding slashed a decade ago.

Government spending on social service programs is good for the state economy because it increases the flow of money throughout the community and supports jobs. It is the fuel that keeps our state's economic engines running. **As the private sector engine of our economy sputters, the government needs to throttle up its spending in order to keep the economy going**. At this crucial time, cutting government spending would be akin to taking our foot off the pedal and letting the second engine of the economy sputter as well.

The International Monetary Fund has found that every dollar of reduced government spending results in as much as $1.50 in lost economic activity. That means that a $670 million cut in government programs and community services would punch a $1 billion hole in our economy.

Studies of the Great Recession show that states that cut their budgets had higher unemployment, fewer private sector jobs, and shrinking economies. In contrast, states that expanded their budgets saw stronger economic growth.

To fairly tax wealth, while also ensuring that local families can contribute to their children's financial security, the Hawaii State Teachers Association asks your committee to **support** this bill.

March 29, 2021

The Honorable Donovan M. Dela Cruz, Chair
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair
Senate Committee on Ways & Means

RE: House Bill 58, Proposed SD1 – RELATING TO STATE FUNDS
Hearing date: March 30, 2021, 9:05 a.m.

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Senate Committee on Ways & Means:

Thank you for allowing me to submit testimony on behalf of Young Brothers ("YB") in **<u>OPPOSITION</u>** to House Bill 58, Proposed SD1 – Relating to State Funds.

This measure, would, in part, establish a temporary suspension of the exemption for the calculation of general excise taxes of certain functions set forth under Hawaii Revised Statutes ("HRS) Chapter 237, specifically HRS Sections 237-24.3. In other words, it would impose general excise taxes amounts received from, among other things, (1) the loading, transportation, and unloading of agricultural commodities shipped interisland; (2) the loading or unloading of cargo; (3) tugboat and towage services; and (4) the transportation of pilots, governmental officials, and other maritime-related services. Currently, amounts received or accrued from these services are exempt from the general excise tax.

YB, as a certificated intrastate water carrier subject to Chapters 269 and 271G, offers the following COMMENTS on this measure:

- YB is opposed to the temporary suspension of exemption for the calculation of general excise taxes. While we understand the efforts of this legislature and the administration to find ways to generate revenues to address the shortfalls caused by the current pandemic, the temporary suspension of exemptions creates unintended consequences to not only businesses like YB, but also its customers such as those that load, transport, and unload agricultural commodities shipped interisland and its vendors such as those that perform shipbuilding and ship repairs.

- In short, this temporary suspension will result in higher costs for end consumers of all goods transported to and between the islands. As an island state, Hawaii is very dependent upon commercial maritime shipping between the major island ports. Taxing gross income received because of stevedoring activities and the loading and unloading of cargo will hit every resident of our State and could adversely impact our State's economic recovery.

- In essence, the temporary suspension of exemption places a great burden on the economy when all businesses such as YB are doing their best to remain financially viable and a going concern. It is our belief that allowing for the exemption to continue at this time will allow our economy to thrive again. While all businesses are in a recovery mode, this is not the time to impose such burden on these businesses.

At the minimum, we respectfully request that this committee remove the proposed suspension of exemption language. Thank you for your service to the State of Hawaii, and for the opportunity to testify and comment on this measure.

Sincerely,

Kris Nakagawa
Vice President, External and Legal Affairs

Conservation Council for Hawaiʻi

Hawaiʻi's voice for wildlife
Kō Hawaiʻi o nā holoholona lōhiu

SUBMITTED TO SENATE COMMITTEE ON WAYS AND MEANS
HEARING: WEDNESDAY, MARCH 30, 2021 9:05am
HAWAII STATE CAPITOL ROOM 211 and VIA VIDEO CONFERENCE
HB58, SD1 RELATING TO STATE FUNDS

Conservation Council For Hawaii (CCH) **strongly opposes HB58 SD1** and urges the Legislature to ensure that the base level of funding for the Legacy Land Conservation Fund of at least $5.1M continues.

HB 58 SD 1 proposes to halt conveyance tax deposits into the Legacy Land Conservation Fund for FY22 and FY23, use balances in the Legacy Land Conservation Fund to issue general obligation bonds, and redeposit an unspecified amount back into the Legacy Land Conservation Fund for the purposes of the program.

The COVID-19 crisis has proved that DLNR's mission to maintain and manage our natural and cultural resources is critical to our physical and mental well-being, our shrinking freshwater supplies threatened by climate change, our public shorelines and reefs, and our unique plant and animal species found nowhere else in the world. Current DLNR programs and staffing levels should continue. As discussed below, at least base/core funding of $5.1 million per year for the Legacy Land Conservation Program is critical for Hawaiʻi to secure its share of federal funding for important projects.

If deposits in the Legacy Land Conservation Fund are paused and the entire program paused, Hawaiʻi will be unable to capitalize on millions of dollars of federal funding opportunities that can provide up to 75% of matching funding because Hawaiʻi has established a dedicated source of conservation funding via the Legacy Land Conservation Fund.

In the Summer of 2020, Congress passed and the President signed the Great American Outdoors Act, which fully funded the Land and Water Conservation Fund (LWCF) at **$900 million annually**. LWCF finances conservation programs like the U.S. Forest Legacy Program under the U.S. Department of Agriculture, the Outdoor Recreation Legacy Partnership under the National Park Service, and U.S. Fish & Wildlife Recovery Land Acquisition and Habitat Conservation Plan Acquisition Programs. As a result, federal funding has increased (in some cases, more than doubled) for these federal programs.

The Legacy Land Conservation Fund provides an important source of local/state match for these federal conservation programs. Because Hawaiʻi has a dedicated source of funding – the Legacy Land Conservation Fund – the match requirements for some federal programs are more favorable, allowing 75% federal share and 25% state/local share (in the absence of a dedicated fund, some programs will only allow a 50% federal share and require a 50% local/state match).

CCH urges the Legislature to continue funding the State Legacy Land Conservation Program at least at its current/base level to pay for staff and the base program.

March 30, 2021. 9:05 a.m.

To: Chair Donovan M. Dela Cruz, Vice Chair Gilbert S.C. Keith-Agaran, and members of the Senate Committee on Ways and Means

From: Beth Giesting, Director, Hawaiʻi Budget & Policy Center

Re: Support for HB58, Proposed SD 1, Relating to Revenue Generation

The Hawaiʻi Budget & Policy Center provides the following comments in support of the proposed Senate Draft 1 of House Bill 58, Relating to Revenue Generation.

While it is important to have progressive income taxes, the estate tax is among the few options available to tax wealth. While the distance between the income of low- and high-wage earners in America is great and increasing, the wealth gap is larger, more troubling, and more difficult to address. Just 1 percent of all Americans hold more than 30 percent of the country's wealth, while the bottom 50 percent have less than 2 percent.

An estate tax is a means to fairly tax the appreciation in the value of assets. Under our current tax system, the appreciation of capital assets is taxed only when they are sold or otherwise "realized," and at a rate that is lower than the tax on ordinary income. In many cases, assets are held until death and their appreciated value would never be taxed at all if an estate tax were not imposed.

Conveyance Tax. From January 2019 through September 2020, more than $2 billion in residential properties were sold in Hawaiʻi for $4 million or more. Nonresidents purchased 58 percent of the houses that sold for $4-5.99 million and 68 percent of houses priced at $6 million or more. Increasing the conveyance tax, as proposed, is not the only strategy that should be deployed against investors that raise the cost of housing for Hawaiʻi, but it will help.

Thank you for the opportunity to testify.

STANFORD CARR DEVELOPMENT, LLC

March 29, 2021

The Honorable Donovan Dela Cruz, Chair
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair
And Members of the Committee on Ways and Means

RE: HB58, HD1, Proposed SD1, Relating To State Funds
Tuesday, March 30,2021,9:05AM; Conference Room 211 & Videoconference

Dear Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee,

My name is Stanford S.C. Carr and I am the President of Stanford Carr Development, LLC. We are a local development firm that has worked to provide our local residents with affordable housing opportunities. **I am offering testimony to express strong concerns about HB58, HD1, proposed SD1 and to respectfully request that this committee not pass this measure without important amendments.**

Developers like myself face significant challenges in trying to build more affordable housing because of high construction and development costs in our State. In order to mitigate these costs, developers rely heavily on various financing tools including low income housing tax credits combined with other financing mechanisms. One of the most important of these financing options is funding from the Rental Housing Revolving Fund (RHRF) which provides critical gap financing for affordable housing projects. Without this source of funding, it would simply be cost prohibitive to develop affordable rental projects in Hawaii's high cost housing market. For example, in a typical affordable housing project, funds generated from combined federal and state low income housing tax credits will cover approximately 40% of development costs with permanent financing providing funds for another 30-35% of project costs, leaving a financing "gap" that an affordable housing developer needs to fill. Funds from the RHRF help to provide this necessary gap financing.

In this regard, I have strong concerns about the provisions in HB58, HD1, proposed SD1 that would suspend the dedicated source of funding for the RHRF from conveyance tax revenues for the Fiscal Biennium 2022-2023. I would respectfully ask that this measure be amended to include adequate appropriation amounts for the RHRF to replace conveyance tax funds to ensure the availability of revenue sources for the continued development of badly needed affordable rental housing in our communities. It should be noted that the Executive Biennium Budget includes a request for a General Obligation Bond appropriation of $38 million in both FY2021-2022 and FY2022-2023 for the RHRF.

I am also concerned about the provision in this bill that would increase conveyance taxes for the sale of properties valued at $4 million or greater. To the extent that this would also significantly add to the cost of affordable housing projects, I would ask this committee to amend this measure by exempting transactions involving affordable rental housing that provide rental units to households earning at or below 100% of the area median income. This is the group that has the most dire need for affordable housing.

For all of these reasons, I ask this committee to make these necessary amendments to HB58, HD1, proposed SD1 before approving it. Thank you for the opportunity to submit this testimony.

Stanford S. Carr

NAIOP
COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION
HAWAII CHAPTER

March 29, 2021

The Honorable Senator Donovan Dela Cruz, Chair
The Honorable Senator Gilbert Keith-Agaran, Vice Chair
Senate Committee on Ways and Means

RE: **HB58 - RELATING STATE FUNDS**
Hearing date: Tuesday, March 30, 2021 at 9:05 AM

Aloha Chair Dela Cruz, and Members of the Committee,

Mahalo for the opportunity to submit testimony on behalf of NAIOP Hawaii **OPPOSITION** to HB58. NAIOP Hawaii is the local 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.

The proposed SD1 for HB58 temporarily reallocates conveyance tax revenues for purposes of paying the principal and interest of general obligation bonds and authorizes the issuance of general obligation bonds to be appropriated into and out of the land conservation fund and rental housing revolving fund. The measure amends the exclusion amount of Hawaii's estate tax. Further, the proposed SD1 temporarily repeals certain general excise tax exemptions and increases conveyance taxes for the sale of properties valued at $4,000,000 or greater from 7/1/2021 through 6/30/2023.

Hawaii is already among the highest taxed states in the country and routinely ranks amongst the least business friendly. This measure will significantly impair the State's ability to recover from its worst economic downturn in history. As we recover from the impacts of the pandemic, the State should focus on rebuilding the economy. We urge the Legislature to look at reducing the size and cost of government and lowering taxes, rather than increasing the tax burden on companies and individuals.

The proposed SD1 removes critical passthrough exemptions which are vital to several industries in our State. A suspension of certain GET exemptions increases costs for struggling businesses and may result in the loss of jobs throughout the state. The measure may also cause businesses to pass on the increase in costs to the consumer which will continually make it more expensive for our residents.

Moreover, Hawaii already has one of the worst highest real estate sales taxes (conveyance tax) in the country. The proposed increase on the conveyance tax: 1) doubles the rate for properties sold for $4-6 million; 2) triples the rate for properties sold for $6-10 million; and 3) quadruples the rate for properties sold for over $10 million. This would radically curtail economic activity as few properties would trade hands due to the exorbitant tax on the sale of property. Typically, the acquisition of new commercial property comes with additional investment to redevelop and increase the value of the asset. This increase to the conveyance tax would result in less capital to invest into the property, and thus, would make the transaction economically infeasible.

Further, the increase in conveyance tax will: 1) hinder the development of affordable housing; and 2) increase purchase price of affordable units to accommodate additional cost. This would lead to less property transactions and reduce the amount of times conveyance tax is collected. As a result, property values would significantly decline in order to account for the increased costs.

Additionally, increases to the conveyance taxes for properties $4 million and over will not generate as much revenue as intended under this measure. The nominal amount of transactions for properties with these high values are not frequent enough to generate meaningful revenue for the State, yet the negative consequences to our economy would be severe.

Accordingly, this measure would impair the State's ability to recover from the economic impacts of the pandemic. The proposed tax increases would lead to less jobs, less local businesses, less homes for residents, and ultimately less tax revenue generation as intended under this measure. The State should prioritize alternatives that encourage economic growth and tax generation by reducing the cost of doing business in Hawaii rather than increasing it.

Mahalo for your consideration,

Catherine Camp, President
NAIOP Hawaii

GRASSROOT INSTITUTE OF HAWAII

March 30, 2021
9:05 a.m.
Conference Room 211 and Videoconference

To: Senate Committee on Ways and Means
Sen. Donovan M. Dela Cruz, Chair
Sen. Gilbert S.C. Keith-Agaran, Vice Chair

From: Grassroot Institute of Hawaii
Joe Kent, Executive Vice President

RE: HB58 Proposed SD1 — RELATING TO STATE FUNDS

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on the proposed SD1 for HB58, which would increase Hawaii's conveyance taxes and lower the exclusion amount of Hawaii's estate tax. The bill also temporarily repeals certain exemptions to the general excise tax.

The rationale for this and many other tax hikes is the need to improve state revenues in the wake of the COVID-19 crisis. However, the strategy pursued here would be more damaging to Hawaii's fragile economy than helpful.

There is a far better route to improving state revenues than levying higher taxes on Hawaii's struggling residents and businesses. If the state needs more revenues, policymakers should focus on growing the economy. In our current condition, even small economic gains would have big effects.

We are gravely concerned about the impact of this tax hike and the many fees, tax increases, and surcharges that have been proposed this legislative session. Hawaii residents are already among the most taxed in the country; the state has the second highest overall tax burden in the U.S.[1]

That high tax burden contributes to Hawaii's cost of living and is one of the reasons why so many Hawaii residents have been leaving in search of greater opportunities elsewhere.

Given the state's already-high tax burden, there is never a good time to raise taxes. But this proposal comes at an especially bad time. Hawaii is still in a state of emergency, tourism has slowed to a trickle, businesses are closing and unemployment is high. The economy will take years to recover from the pandemic and lockdowns. The last thing Hawaii residents and businesses need at this point is a tax hike.

There are myriad reasons policy makers should be wary of implementing tax hikes at this time. Here are just a few:

>> Hawaii cannot sustain a hike in taxes since its already-damaged economy was hit harder by the lockdowns than any other state in the nation.[2]

>> State lawmakers increased taxes and fees substantially following the Great Recession of 2007-2008,[3] despite a windfall in revenues from an economic boom over the past decade. Taxes and fees ballooned on motor vehicles, transient accommodations, estates, fuel, food, wealthy incomes, property, parking and businesses.

>> Hawaii's population reduction of 21,879 people since fiscal 2016[4] has left Hawaii's remaining taxpayers with a greater tax burden.

>> Hawaii businesses will be experiencing an average 38% increase in their state unemployment tax in 2021.[5] The UI tax rate depends not only on individual employer's claims experiences but also on the overall health of the state's unemployment insurance fund, which is hundreds of millions of dollars in the red.[6]

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[1] Adam McCann, "2020's Tax Burden by State," WalletHub, June 24, 2020. See also John S. Kiernan, "2021's States with the Best & Worst Tax ROI," WalletHub, March 23, 2021.
[2] Dave Segal, "Hawaii's unemployment rate hit nation-high 15% in September," Honolulu Star-Advertiser, Oct. 20, 2020.
[3] "Tax Acts (by Year)," Tax Foundation of Hawaii, accessed Feb. 8, 2021.
[4] "Annual Estimates of the Resident Population for the United States, Regions, States, and the District of Columbia: April 1, 2010 to July 1, 2020 (NST-EST2020)" U.S. Census Bureau, Population Division, December 2020.
[5] Grassroot Institute UI contribution analysis" Grassroot Institute of Hawaii, Nov. 13, 2020, sheet 2.
[6] "UI Budget," United States Department of Labor, Employment & Training Administration, Feb. 8, 2021.

>> Hawaii has a regressive general excise tax that disproportionately hits the poor.[7]

>> Hawaii has a progressive income tax that taxes high-income earners at 11%, second only to California at 13.3%.[8] Hawaii's top 1% already pays 23% of all income taxes in the state.[9]

>> Closing tax exemptions would amount to a tax hike for Hawaii businesses already facing a steep spike in their unemployment insurance taxes.

Hawaii needs leadership that will stabilize the current financial crisis, reduce unsustainable long-term costs and lower the cost of living. Balancing the books without tax increases or future debt could send a message that Hawaii is a good place for businesses and future generations, and this could help the economy thrive while motivating people to return to the islands.

If the state needs more revenues, policymakers should focus on growing the economy. In our current condition, even small economic gains would have big effects.

If the purpose of the tax is to alter behavior, consider that the negative impact of a tax hike can far outweigh whatever policy goal is being pursued.

Hawaii's residents and businesses need a break from new taxes, fees, surcharges and tax hikes. This is not the time to make Hawaii a more expensive place to live and do business.

Thank you for the opportunity to submit our comments.

Sincerely,

Joe Kent
Executive Vice President
Grassroot Institute of Hawaii

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[7] "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index: "Sales Tax Burden," American Legislative Exchange Council, 2021. Note that Hawaii does not have a sales tax, but a state general excise tax that is levied on almost all goods and services, and imposed multiple times throughout the production chain.
[8] Katherine Loughead, "State Individual Income Tax Rates and Brackets for 2020," Tax Foundation, Feb. 4, 2020.
[9] "Hawaii Individual Income Tax Statistics," Hawaii Department of Taxation, December 2020, Table 13A.

Chamber of Commerce HAWAII
The Voice of Business

LATE

Testimony to the Senate Committee Ways and Means
Wednesday, March 31, 2021 at 9:45 A.M.
Written Testimony

RE: HB 58, HD 1, Proposed SD 1, Relating to State Funds

Chair Dela Cruz, Vice-Chair Keith-Agaran, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **opposes Section 11** of HB 58, HD 1 that increases conveyance tax for sale of real properties valued at $4 million or greater.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The enactment of broad tax increases during an economic recovery phase will undermine efforts made to turn Hawaii's economy around. Hawaii's business community is at a critical point -- where any additional business taxes could mean the difference between closing their doors, bankruptcy, or laying off employees. As evidenced by recent media accounts in a COVID-19 pandemic, many local establishments, some of which have faithfully served consumers for generations, are going out of business.

The conveyance tax rates were substantially increased and bifurcated between nonowner-occupied residential properties and all other properties in 2005 and in 2009. Given that the conveyance tax applies to essentially all real property and not only residential, including businesses and landowners who may not realize any capital gains, we ask whether this is counter productive to the original intent of the conveyance tax to support the development affordable housing and rentals.

While we understand and appreciate the predicament the state is under to balance the budget, in a new Pulse of Business survey[1] conducted in partnership with Omnitrak and with the support of Central Pacific Bank Foundation, the Hawaii Chamber of Commerce

[1] Survey finds Hawaii businesses reeling from lost revenue, cutting jobs, and expecting a long road to recovery https://www.staradvertiser.com/2021/02/02/breaking-news/survey-finds-hawaii-businesses-reeling-from-lost-revenue-cutting-jobs-and-expecting-a-long-road-to-recovery/

733 Bishop Street, Suite 1200 • Honolulu, Hawaii 96813 • Phone: (808) 545-4300 • Facsimile: (808) 545-4369

Foundation found the economic impact of the COVID-19 pandemic continues to have dramatic consequences for local businesses. The Pulse of Business results are not surprising as they continue to suffer from the economic impact of the COVID-19 pandemic.

The Pulse of Business survey found that:

- Eighty percent of the businesses that participated in the survey are small businesses with 20 or fewer employees.
- Island companies face a long road to recovery that they expect will extend into April 2022.
- Revenues fell an average of 45% from 2019 to 2020, with no significant differences between Oahu and neighbor isles.
- Almost half (45%) reduced their workforce. The percentage would have been higher (63%) if businesses had not received federal Paycheck Protection Program funds.
- Businesses that had to cut jobs laid off a median of one in three workers in 2020. On neighbor isles, cuts were even greater, with five in nine employees laid off due to the pandemic.
- Many local businesses attributed a drastic drop in revenue to waning tourism, even if they were not directly involved in the visitor industry. A drop in visitor arrivals was the single most important factor impacting employee cutbacks.

While we understand the intent, this measure will undermine efforts to recover Hawaii’s stagnant economy. Hawaii's business community is at a critical point and asking for government policies that offers them the relief to stay in business and keep employees working.

Thank you for this opportunity to provide testimony.

Livable Hawaii Kai Hui

Aloha 'Āina 'O Kamilo Nui

Plant Your Roots. Grow Your Future.

A COMMUNITY DRIVEN, VOLUNTEER-BASED RESTORATION PROJECT.

Hāwea Heiau Complex & Keawāwa Wetland

CELEBRATE THE CULTURAL AND NATURAL RESOURCES OF YOUR COMMUNITY!

Ka Iwi Coalition

Mauka to Makai

March 29, 2021

LATE

Senate Ways & Means Committee
Tuesday, March 30, 2021 9:05 a.m.
Conference Room 211

RE: Livable Hawaii Kai Hui's Testimony Regarding HB 58 HD1

Aloha Chair Dela Cruz and Honorable Senators,

Livable Hawaii Kai Hui **strongly opposes HB 58 HD 1**, which would suspend deposits into the Legacy Land Conservation Fund for the next two fiscal years. We urge the Legislature to instead allow base level of funding for the Legacy Land Conservation Fund of at least $5.1 million to continue. Core funding is critical to ensure that the Department of Land & Natural Resources can secure its share of federal funding for future conservation projects throughout the state.

Our organization successfully acquired Hāwea Heiau & Keawāwa Wetlands (4.5 acres) and the Ka Iwi Mauka lands (182 acres) in east Honolulu because of grant contributions through the Legacy Land Conservation Fund. During the challenges brought by the COVID-19 pandemic in the past year, Livable Hawaii Kai Hui has experienced increased public interest through self-management mālama volunteer opportunities and people yearning to connect with their own communities.

The Legacy Land Conservation Program has been invaluable to our community, allowing our organization to preserve the last undeveloped parcels of a scenic shoreline, a Heiau, and a wetland preserve. We support other local communities throughout the State who want to conserve their own special places, and therefore believe that continued funding for the Legacy Land Conservation Fund serves an even larger purpose in this current environment.

We are extremely grateful to the Legislature for establishing this incredible program that has and will benefit so many generations. Suspending fund deposits will hurt our natural resources and the many communities that have come together to serve our lands. Please help our local communities and preserve current funding for the State Legacy Land Conservation Program.

Elizabeth Reilly
Founder/President
Livable Hawaii Kai Hui

Kendrick S. Chang
Community Outreach
Livable Hawaii Kai Hui

LATE

HB-58-HD-1
Submitted on: 3/30/2021 5:33:19 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Kaikea K. Blakemore	Testifying for Neighborhood Place of Puna	Support	No

Comments:

We support raising taxes on the wealthy. Hawai'i is home to some of the wealthiest people and some of the greatest divides in economic inequality. While we face food insecurity and housing shortages for Hawaii's family and keiki, it is imperative that we implement a progressive tax system to meet the growing need for social safety nets. If we continue to see housing gentrification and stagnated minimum wages, we will have a continued housing and homelessness crisis. On Big Island alone there are hundreds of children experiencing homelessness on average each night. Many other families experience food insecurity and struggle to pay for basic bills. These social inequities are unacceptable and need to be addressed. Especially when Hawaii is home to many who have so much wealth, and while Hawaii was one of the most regressive tax systems in the United States, we should be examining this issue while seeing increasing wealth inequity and community poverty.

Thank you for supporting HB58 and supporting transitions to a more progressive tax system.

Kaikea Kaleikini Blakemore

Community Development Specialist

Neighborhood Place of Puna

HB-58-HD-1
Submitted on: 3/27/2021 8:29:37 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
GALE M SHODA	Individual	Comments	No

Comments:

My comments are regarding Part IV, Section 8 of BILL 58, HD 1, "Section 236E-6, HRS.

I strongly oppose the lowering of the exclusion amount to $3.5 million from its current exemption level of $5.49 million. The exclusion amount should be maintained at this current level.

Thank you for allowing me to testify in very strong opposition to Part IV, Section 8 of HB 58,

HD 1, SD 1 (proposed).

HB-58-HD-1
Submitted on: 3/27/2021 8:33:05 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Lynn Murakami-Akatsuka	Individual	Comments	No

Comments:

To: Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee RE: Testimony providing comments for HB 58, HD 1, SD1 (proposed)

My comments pertain only to Part IV, Section 8 of this bill that states "Section 236E-6, HRS, is amended by amending subsection (a) to have an exclusion from a Hawaii taxable estate shall be allowed to the estate of every decedent against the tax imposed by section 236E-8. For the purpose of this section, the applicable exclusion amount is $3,500,000, and as further adjusted pursuant to subsection (b)."

I **strongly oppose** the lowering of the exclusion amount to $3.5 million from its current exemption level of $5.49 million; which should be maintained at this current level. There is no sunset date on this Section 8 of this proposed SD1 bill version. It will not be surprising that the value and sale of a home (senior's greatest asset) will be $1.5 million or more in a few years.

Reducing the estate tax from its current exemption level will cause many negative unintended consequences, increased costs to families, and a tax burden for Hawaii residents upon the death of their loved ones, e.g., parents and their grandparents. I strongly urge you to retain the current Hawaii estate tax exemption level of $5.49 million.

Thank you for the opportunity to testify in **strong opposition** to Part IV, Section 8 of HB 58, HD 1, SD1 (proposed).

Ronald I. Heller
700 Bishop Street, Suite 1500
Honolulu, Hawaii 96813

phone 808 523 6000 fax 808 523 6001
rheller@torkildson.com

Before the Senate Ways & Means Committee on

Tuesday, March 30, 2021

Testimony of Ronald I. Heller

In Opposition to House Bill 58, Proposed S.D. 1

Relating to State Funds

Chair Dela Cruz, Vice-Chair Keith-Agaran, and Members of the Committee:

I have been a practicing attorney and a licensed CPA in Hawaii for more than 40 years, and I OPPOSE House Bill 58, Senate Draft 1.

I recognize the reasons why this Committee might be concerned about the overall level of State revenue, but a significant tax increase right now will be harmful to local businesses and to our overall economy.

In particular, suspending the General Excise Tax exemptions for loading or unloading of cargo on ships and for tugboat and towage services will increase the cost of everything that arrives in Hawaii by ocean freight, and increase the cost of doing business for every local company that ships a product anywhere.

In addition, suspending the GE Tax exemption for the loading, transportation, and unloading of agricultural commodities shipped interisland will increase the cost of Hawaii-grown food and hurt Hawaii agriculture.

I think any form of tax increase right now is a mistake, but these particular increases will have a regressive impact on lower-income Hawaii residents.

I would be happy to respond to any questions you may have.

Respectfully submitted,

Ronald I. Heller

Ronald I. Heller

HB-58-HD-1
Submitted on: 3/28/2021 1:19:32 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Bill Skelton	Individual	Oppose	No

Comments:

Hawaii already has one of the highest tax burdens in the nation.

Hawaii's economy can't handle more taxes right now.

I would prefer to see the legislature reduce taxes and spending and focus on growing the economy by reducing regulations and burdens on businesses.

HB-58-HD-1
Submitted on: 3/28/2021 2:52:55 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Andrew Crossland	Individual	Oppose	No

Comments:

It is not acceptable to add any elements from SB56 to this bill.

HB-58-HD-1
Submitted on: 3/28/2021 3:49:22 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Alice Abellanida	Individual	Oppose	No

Comments:

I strongly oppose this bill. Hawaii Is already overtaxed. Kill this bill!

Alice Abellanida

HB-58-HD-1
Submitted on: 3/28/2021 4:27:44 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
L.M. Holmes	Individual	Support	No

Comments:

Please pass this tax fairness bill; average citizens and the poor cannot afford to carry the burdens of the rich. Mahalo for doing the right thing.

HB-58-HD-1
Submitted on: 3/28/2021 5:57:29 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Susan Shaheen Mulkern	Individual	Oppose	No

Comments:

Please oppose this bill. I understand the recent additions will heavily impact taxpayers by increasing taxes on properties sold as well as inheritances. This is a very difficult time for all of us as we try to balance resources with the pandemic and the economy. To expect more taxes from us when most of us can barely pay for necessities is unreasonable.

Respectfully submitted,

Susan Mulkern

First a procedural question that you probably don't want to hear. Why do politicians think it is OK to remove things from a bill that didn't pass muster (S.B.56) and insert it in another bill (H.B.58) leaving the general public little time to comment? If it failed before there probably was a good reason. You are forcing the people you represent to play Whack-A-Mole.

Now to the nexus of the reasoning. It's OK to increase the tax burden on rich people and companies. They can afford it, and the state government needs it. There happens to be two sides to the budget equation however – expenditures and receipts. A family quickly gets in financial trouble if it spends more than it makes. To dig out of the hole the family usually has to tighten the purse strings. Unfortunately the government is a different entity altogether. Especially when they are dealing with other people's money.

Businesses are suffering through no fault of their own. I do not understand how levying additional taxes on contractors, ship repair, airlines, tech companies, telecommunications, towing services, tobacco, liquor and petroleum will help them dig out of a financial hole. Government should be in the business of helping people, not hurting them. Higher expenses equates to fewer workers.

Finally there are a few rich among us. Raising property conveyance taxes and lowering the threshold on estate taxes (the ultimate example of double taxation) might result in a few more dollars in the general fund in the short term, but rich people have the most wherewithal to relocate. Do you really want them talking with their feet? People are already one of Hawaii's major exports.

Do the right thing. Stop the exodus and make it easier for businesses to make a profit, and the state will ultimately benefit as well.

Fred Fogel
POB 1071
Volcano 96785
808 265 1659

HB-58-HD-1
Submitted on: 3/28/2021 7:33:00 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Barbara Barry	Individual	Support	No

Comments:

Aloha,

I strongly support this Bill.
Mahalo,

Ms. Barbara Barry

Maui

HB-58-HD-1
Submitted on: 3/28/2021 8:07:52 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Edward Hampton	Individual	Oppose	No

Comments:

STOP, just STOP!

The people of hawaii WILL NOT stand for this ANY MORE.

"Gut and Replace" is one of the most reprehensible practices I've ever seen. Right up there with changing the date of a bill's hearing in order to avoid negative testimony.

We already have the second highest tax burden in the nation, we don't have any more for you to steal.

You should be ashamed of yourselves.

HB-58-HD-1
Submitted on: 3/28/2021 8:48:53 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Harold E Dille	Individual	Oppose	No

Comments:

My wife and I have been residents of Hawaii for over seven years now. I am extremely concerned that throughout this period we have seen a trend of increased taxation and public spending well above appropriate levels of fiscal responsibility. If the Pandemic has taught us anything it must be that our State is disproportionally dependent on external sources of revenue to fuel our economy. Concurrently, the same residents who serve the hospitality industry are, in large part, also lower income Hawaii residents and native citizens of the State. I lead with these points to show that I understand the challenge you have all faced in attempting to govern during this period. With respect for that challenge, I also see a pattern of short term attempts at “fixes” which actually increase the burden on full time residents and push real obligations down the road repeatedly. In HB58 specifically, you are committing a number of grievous errors:

- Taxing maritime commerce and industries which we all rely upon, knowing full well that the average consumer will end up paying these taxes at the register
- The knock on effect is to further erode margins for small and large businesses alike, even though many of these same businesses not only employ a large number of local workers, they are also critical retail lifelines for residents. Is the expectation that we will all eventually shop via Amazon only? Private sector growth must lead government spending increases, not the other way around.
- The Diaspora of Hawaiian natives has only accelerated over the last few decades, and raising taxes without providing greater opportunity to our residents further erodes our most precious natural resource, our children
- The presence of a punitive estate tax that kicks in at roughly 25% of the level of exclusion from Federal Estate Tax, when combined with one of the highest home ownership costs in the nation, effectively prohibits families from building the multi-generational wealth needed to deal with rising costs of tuition, healthcare, elder care and so many existing real world demands on everything we’ve worked out entire lives to set aside for unforeseen circumstances and to provide opportunities we did not have to our surviving family members. Personally, I think that there should not be any level of Death Tax because it is doubly taxing the same money, but certainly it should not kick in at roughly 5 times the median home price. People would revolt if that standard were applied at the Federal Level.

If you wish to restore the confidence of the local population, I encourage you to put forward legislation that mirrors the Swiss form of government. Representatives are elected just like here, but they have no power to execute any law without putting it to a vote by the people. Impress us, pass that law and a further one which locks all government service in the State of Hawaii to two terms. Until then, please vote No on HB58 and all new forms of taxation, however embedded in other forms. Please do take real meaningful steps to eradicate debt, diversify our local economy, retain and provide real opportunity to our young people, and demonstrate leadership that motivates and inspires all of us to come alongside you rather than rising in opposition.

May God Bless and Keep you all, and may His wisdom and instruction benefit you in your duties.

HB-58-HD-1
Submitted on: 3/29/2021 12:53:10 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Marya Grambs	Individual	Support	No

Comments:

The 2017 Tax Cuts and Jobs Act gave a tremendous federal tax break to the richest among us, shielding estates of up to $11 million for singles and $22 million for couples from taxation. They can afford to share some of their federal windfall with Hawaii.

Among the states that have estate taxes, Hawaiʻi has the fourth-highest exemption amount of $5.5 million for singles (and $11 million of couples). This bill would drop the amount estates exempt from taxes from $5.5 million to $3.5 million. That would generate between $6.6 in additional taxes per year.

The bill will subject a house worth $4 million to a tax of $50,000, or 1.25 percent of its value.

It's no secret that our economy is hurting, and the state is facing revenue shortfalls. Serious cuts in community service programs will be necessary in the near future. We must ask the wealthy and profitable corporations to pay their fair share in taxes.

During the past year, many of those at the top have benefitted from the record-breaking stock market and skyrocketing high-end real estate prices. In Hawaii, our low-income neighbors pay more in state and local taxes, as a portion of their income, than the rich.

Those who can pay, should pay.

I urge you to pass this common-sense bill.

HB-58-HD-1
Submitted on: 3/29/2021 12:55:57 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Janet Montgomery	Individual	Support	No

Comments:

I urge you to support this bill. It will provide needed revenue from those who can afford it.

HB-58-HD-1
Submitted on: 3/29/2021 6:58:21 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Laron Tamaye	Individual	Oppose	No

Comments:

I am writing to **strongly oppose** this bill.

I'm a local father of two children. If they decide to stay in Hawaii, or leave and then return, I don't want them to struggle with the decision the way that my wife and I did. We're part of the resident population who left for college and careers, then returned with a significant drop in pay and a significantly higher cost of living. We're also part of the (seemingly small) resident population who recognize that much of this circumstance is due to the state's regulatory and tax structure, which disincentives businesses and entrepreneurs from implementing novel solutions to Hawaii's unique constraints.

Proposals such as this that aim to increase taxes (which is what removing an exemption does) strongly rely on the assumption that the state will be more adept at investing those monies than the individuals who labored and innovated to create value in the first place. Hawaii's Tax Review Commission is aware of this[1], yet it appears that many are not. Although Hawaii has the highest per capita tax burden in the US[2], I don't know anyone who would report that the state has the best transportation infrastructure, airports, permitting processes, unemployment insurance offices, etc. Given the state's spending and investment history, I don't think that someone needs to be strongly Hayekian to see that allowing high- or low-wealth residents to invest their hard-earned monies as they see fit has a better probability of being socially beneficial.

By ignoring incentives, deadweight losses, etc. these tax increases (even "only on the wealthy") impart a doubly troubling burden on current and future residents. On the one hand, they increase marginal costs that disincentives innovative labor and capital from investing time/energy/resources in our state to overcome Hawaii's unique constraints. This means all residents lose out on greater productivity and efficiencies that lower costs for everyone. At the margin, this also translates into a higher cost of the "unseen" economic activity, meaning the businesses and jobs and capital and experience that never occur because the local or transplant employee, entrepreneur, or investor never stayed home or never decided to come.

Every bill like this lowers the probability that my two children, and our neighbor's children, and our potential neighbor's children, will have an easier decision when the time comes for them to choose between life here or life away.

I also wish to briefly comment on the Auditor's report[3] that seems to have informed this bill, given that no modeling or forecasting was prepared to analyze the bill's impacts (as far as I know). Although the increase in state revenues is mentioned with confidence, the Auditors themselves were far more humble and forthcoming with the limitations of their methodology. The results relied on a static analysis with debatable assumptions and incomplete data. While this is acceptable in an audit exercise, referencing it in place of a more robust dynamic modeling method is inadequate when the results will inform such a wide-reaching policy. Please reach out to the many qualified economists and tax researchers locally (including the Tax Review Commission) to perform such work before moving further with these proposals to provide a more educated discussion/debate and decision.

Mahalo for your time,

Laron Tamaye

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[1] "Who Pay's Hawaii's Taxes", Tax Review Commission, 3/17/2021, https://files.hawaii.gov/tax/stats/trc/docs2022/sup_210317/Who_Pays_and_Revenue_Sustainability.pdf

[2] "Hawaii per-capita state tax revenues highest in nation, research shows", Grassroot Institute of Hawaii, https://www.grassrootinstitute.org/2021/03/hawaii-per-capita-state-tax-burden-highest-in-nation-research-shows/

[3] "Review of General Excise and Use Tax Exemptions and Exclusions", Report No. 20-09, June 2020, https://files.hawaii.gov/auditor/Reports/2020/20-09.pdf

HB-58-HD-1
Submitted on: 3/29/2021 7:36:25 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
briana kawata	Individual	Support	No

Comments:

I am in strong support of HB58.

The gap in wealth and income between the richest and poorest is growing ever wider in Hawaii and across the United States.

HB-58-HD-1
Submitted on: 3/29/2021 7:43:34 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Joann Salakielu	Individual	Oppose	No

Comments:

I oppose this bill.

HB-58-HD-1
Submitted on: 3/29/2021 7:55:37 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Rita Kama-Kimura	Individual	Oppose	No

Comments:

I strongly oppose this bill; stop over burdening the struggle citizens of this state. There is no way the people of our state can get ahead much less survive based on these types of bills!

And I certainly hope you folks don’t plan to go ahead with those pending pay raises for yourself!

Please stop it now!

LATE

HB-58-HD-1
Submitted on: 3/29/2021 10:09:26 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Raelyn Reyno Yeomans	Individual	Support	No

Comments:

Support

LATE

HB-58-HD-1
Submitted on: 3/29/2021 10:38:41 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Elizabeth Kellam	Individual	Oppose	No

Comments:

I oppose HB58.

LATE

HB-58-HD-1
Submitted on: 3/29/2021 10:59:03 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
John D. Smith	Individual	Support	No

Comments:

I support

LATE

HB-58-HD-1
Submitted on: 3/29/2021 11:19:43 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Ann S Freed	Individual	Support	No

Comments:

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and members,

I strongly support the tax fairness provisions that have been added to HB58. Specifically, raising taxes on mult-million dollar inheritances; Increasing sales tax rate on multi-million dollar real estate and suspending targeted GET exemptions.

The economic devastation that the pandemic, coupled with the Trump administrations tax cuts for the rich policies, have visited on middle and low income families in Hawaii is an ongoing nightmare. The concomitant cuts in safety net social programs and services will surely drive our economy and our citizens deeper into recession and poverty.

Please pass out of committee and here's hoping that the bill makes it through the conference process to become law.

Mahalo, Ann S. Freed, Mililani

HB-58-HD-1
Submitted on: 3/29/2021 11:31:50 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

LATE

Submitted By	Organization	Testifier Position	Present at Hearing
Kelsey Mills	Individual	Support	No

Comments:

I strongly support this measure.

HB-58-HD-1
Submitted on: 3/29/2021 11:55:06 AM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Trish Renguul	Individual	Support	No

Comments:

I strongly support this bill.

LATE

HB-58-HD-1
Submitted on: 3/29/2021 1:40:26 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Marianne Martin	Individual	Oppose	No

Comments:

Taxes in Hawaii are so high.
We have lost so many residents.
It's hard to hire workers.

I am a small business owner, and 2020 was devastating to our business and most hardest on our workers.
URGENT Please stop raising and adding new taxes, we beg you!
Marianne Martin

LATE

HB-58-HD-1
Submitted on: 3/29/2021 3:24:33 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
michelle horen	Individual	Oppose	No

Comments:

I strongly oppose this bill. The Legacy Lands Conservation fund is extremely important to protect our dwindling natural resources and allow the people of Hawai'i to take an active part in protecting, restoring and revitalizing these lands under threat of development. These funds ensure that future generations of Hawaiians will have a place to practice their culture and all residents will be able to enjoy nature, a vital part of human health.

LATE

HB-58-HD-1
Submitted on: 3/29/2021 4:02:57 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Derwin	Individual	Support	No

Comments:

Aloha Senator Donovan Dela Cruz,

My name is Derwin Teranishi and I am from the Waipahu Aloha Clubhouse, a part of the Hawaii Clubhouse Advocacy Coalition. I am in support of HB 58 HD1 Proposal. I believe its is for the best interests to attain funding during this period by taxing those who can afford to contribute what is fair and needed.

Thank you for your time,

Derwin Teranishi

LATE

HB-58-HD-1
Submitted on: 3/29/2021 4:07:20 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
GEORGE WRIGHT	Individual	Support	No

Comments:

Aloha Senator Donovan Dela Cruz,

My name is Keoki Wright of the Ko'olau Clubhouse in Kaneohe, part of the Hawaii Clubhouse Advocacy Coalition. I am in support of HB 58 because I feel it is very important that bills like this will aid in boosting our economy through taxation. I believe this bill is a long awaited answer to a question that we have asked for a long time. So please support HB58.

Aloha,

Keoki Wright

HB-58-HD-1
Submitted on: 3/29/2021 5:11:08 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

LATE

Submitted By	Organization	Testifier Position	Present at Hearing
Stephen K Hanohano	Individual	Support	No

Comments:

Aloha to the House of Representatives

My name is Stephen and I am member of the Diamond

Head Clubhouse, part of the Hawaii Clubhouse Advocacy

Coalition.

I am supporting of HB58

Mahalo Stephen

HB-58-HD-1
Submitted on: 3/30/2021 4:43:00 PM
Testimony for WAM on 3/30/2021 9:05:00 AM

LATE

Submitted By	Organization	Testifier Position	Present at Hearing
Stephen T Hazam	Individual	Oppose	No

Comments:

Please do not support HB58 HD1. No to Taxes and borrowing. Reduce spending.

Thank you for the opportunity to submit testimony.

Mahalo,

Stephen T Hazam