

Honorable Scott K. Saiki  
Speaker, House of Representatives  
Thirtieth State Legislature  
Regular Session of 2020  
State of Hawaii  
Sir:

Your Committee on Economic Development & Business, to which was referred S.B. No. 2697, S.D. 1, entitled:  
"A BILL FOR AN ACT RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS,"

begs leave to report as follows:

The purpose of this measure is to disallow dividends paid deductions for real estate investment trusts, except those that provide affordable housing in the State, for taxable years beginning January 1, 2021, through December 31, 2023.

Your Committee received testimony in support of this measure from Fergus & Company, MRC West Inc., Hawaii Appleseed Center for Law & Economic Justice, Young Progressives Demanding Action, Faith Action for Community Equity, IMUAlliance, Hawaii State Teachers Association, UNITE HERE Local 5, Housing Now Coalition, OPTrust, Free Access Coalition, Americans for Democratic Action, Hawaii Alliance for Community-Based Economic Development, League of Women Voters of Hawaii, Democratic Party of Hawaii Education Caucus, Kauai Women's Caucus, First Unitarian Church of Honolulu, and numerous individuals. Your Committee received testimony in opposition to this measure from Kauai Island Brewing Company; Extra Space Storage Inc.; Park Hotels & Resorts Inc.; NAIOP Hawaii; Simon Property Group; Taubman Centers; The RMR Group LLC; Brookfield Property REIT; Douglas Emmett, Inc.; Public Storage; Land Use Research Foundation; Pacific Resource Partnership; Maui Chamber of Commerce; Chamber of Commerce Hawaii; Nareit Hawaii; Alexander & Baldwin; Hawaii Laborers-Employers Cooperation and Education Trust; Hawaii Laborer's Union Local 368; Hawaii Association of REALTORS; Hawaii Construction Alliance; Sunstone Hotel Investors, Inc.; and two individuals. Your Committee received comments on this measure from the Department of Taxation; Department of Business, Economic Development, and Tourism; Church of the Crossroads; Tax Foundation of Hawaii; and three individuals.

Your Committee finds that real estate investment trusts in Hawaii own real estate assets of about \$17 billion, generating an annual income of \$1 billion, which, if taxed at the current corporate rate assessed on all other corporations, would generate Hawaii tax revenue of \$65 million per year. Your Committee further finds that while real estate investment trusts own more real estate in Hawaii per capita than in any other state, Hawaii ranks fortieth in the nation for the number of real estate investment trust shareholders as a percentage of the population, resulting in many real estate investment trusts and their shareholders paying a mere fraction of the Hawaii state income tax compared to what other corporations pay. Your Committee also finds that the COVID-19 pandemic has decimated all types of Hawaii businesses and corporations, many of whom are now desperate for tax relief from the State. As a matter of equity, it is unfair for the State to continue to grant certain off-shore entities tax exemptions while locally-based companies face mounting tax bills with no revenue to speak of. Your Committee therefore finds that it would be more equitable to decouple from the federal system in this regard so that corporations and other business entities doing business in Hawaii pay a fair tax burden, commensurate with the substantial privileges and resources in Hawaii that were used to generate their profits.

As affirmed by the record of votes of the members of your Committee on Economic Development & Business that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2697, S.D. 1, and recommends that it pass Second Reading and be referred to your Committee on Finance.

Respectfully submitted on behalf of the members of the Committee on  
Economic Development & Business,

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ANGUS L.K. McKELVEY, Chair