

Honolulu, Hawaii

MAR 20 2008

RE: H.B. No. 2860  
H.D. 2  
S.D. 2

Honorable Colleen Hanabusa  
President of the Senate  
Twenty-Fourth State Legislature  
Regular Session of 2008  
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred H.B. No. 2860, H.D. 2, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to exempt common carriers from the general excise and use taxes for fuel sold from a foreign-trade zone to common carriers for use in interisland air transportation.

Testimony in support of this measure was submitted by the Department of Taxation; the Tourism Liaison of the Department of Business, Economic Development & Tourism; The Chamber of Commerce of Hawaii; Aloha Airlines, Hawaiian Airlines; the Association of Flight Attendants; the International Association of Machinists and Aerospace Workers, the Transport Workers Union, and the Hawaii Chapter of the March of Dimes, and one anonymous individual citizen. Comments on this measure were submitted by Tax Foundation of Hawaii.

Your Committee finds that currently, aviation fuel purchased in a foreign-trade zone is exempt from state taxation for those flights that are bound for an out-of-state or foreign destination. Because these flights are considered within interstate or foreign commerce, taxation is exempt pursuant to federal law. There is no corresponding exemption for interisland flights because these flights are not considered to be in foreign or interstate commerce



for tax purposes by the Department of Taxation. Your Committee also finds that it is fiscally responsible to cap the maximum amount of aviation fuel that is not taxed under chapter 237, Hawaii Revised Statutes.

Your Committee received a fiscal impact statement from the Department of Taxation that this measure, as introduced, would result in the following approximate revenue losses to the State:

- (1) \$5,100,000 for fiscal year 2009;
- (2) \$5,300,000 for fiscal year 2010; and
- (3) \$5,500,000 for fiscal year 2011.

Their methodology is as follows:

During fiscal year 2007 approximately 110,000,000 gallons of fuel was sold on Oahu. From previous estimates it was found that approximately fifty-five per cent of that was from non-exempt fuels. General excise revenues were calculated from that amount, which totaled \$4,800,000. That total was inflated by the Consumer Price Index for the relevant years above.

Your Committee has amended this measure by adding a maximum dollar limitation on the amount received from sales of aviation fuel that is not subject to general excise taxes each year.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2860, H.D. 2, S.D. 1, as amended herein, and recommends that it be referred to the Committee on Ways and Means, in the form attached hereto as H.B. No. 2860, H.D. 2, S.D. 2.

Respectfully submitted on  
behalf of the members of the  
Committee on Economic  
Development and Taxation,

  
CAROL FUKUNAGA, Chair



