Honolulu Star-Advertiser

February 15, 2016 | 75° | Check Traffic

Editorial| Island Voices

Hawaii will lose if bill to discriminate against REIT investment is approved

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Posted February 14, 2016
February 14, 2016

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Shoppers checked out the more than 20 stores in the new multi-level Ewa Wing of the Ala Moana Center, which is owned by an REIT.

Bills are pending in the Legislature that aim to discriminate against REITs (real estate investment trusts) investing in Hawaii.

This is surprising to us because REITs were created by the U.S. Congress shortly after Hawaii became a state to ensure that all citizens have the opportunity to pool resources to own and benefit from real estate in their communities and around the nation.

The pending legislation would eliminate the dividends-paid deduction for REITs owning and operating real estate in Hawaii.

For decades, Hawaii has respected the policy set by the U.S. and every state in the union except for New Hampshire, by permitting REITs to deduct dividends paid to shareholders whether in Hawaii or elsewhere from the corporate income tax, but requiring shareholders to pay the tax on dividends received.

Since REITs must pay out all their taxable income to shareholders each and every year to be treated similarly to a partnership for income tax purposes, they are a great way for small investors to own a part of large properties in Hawaii and around the nation.

Supporters of the legislation claim that Hawaii is losing income tax revenue on the dividends paid to nonresident shareholders.

If you believe the supporters' estimates, the lost tax revenue is roughly equal to 100 percent of all corporate tax revenue to the state for 2015. We believe this figure is grossly overstated, and the interim study completed by the state Department of Business, Economic Development and Tourism supports our conclusion.

The truth is the proposed legislation will only increase tax revenue for the state in the long run if REITs continue to own and operate real estate in a manner that will result in them paying higher taxes than competing property owners, or they are replaced by owners that are subject to Hawaii income tax.

REITs could be replaced by foundations or pension funds that are passive owners, pay no income taxes, and don't redevelop properties or build new buildings.

We could easily lose millions of investment dollars and operational expertise and gain no income tax revenue at all.

The additional general excise and real property tax revenue generated by redeveloping Ala Moana Center and the International Market Place in Waikiki and constructing public storage facilities and medical office buildings exceeds any lost income tax revenue many, many times over.

REIT investments have created significant, predictable tax revenue sources and thousands of permanent jobs.

REIT employees are productive members of our community.

Our focus should be on attracting REIT capital investment rather than supposed lost income tax revenue.