Real estate investment trusts should not be taxed - Hawaii News - Honolulu Star-Advertiser

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There are several bills under consideration at the state Legislature that would impose double taxation on some companies doing business in Hawaii and could threaten billions of dollars of needed investments in Hawaii communities.

These bills aim to change the way real estate investment trusts (REITs) are taxed in Hawaii and would make Hawaii only the second state in the nation to impose this double taxation.

As a lifelong resident of Hawaii and the general manager of Hawaii real estate for American Assets Trust, which owns The Shops at 2150 Kalakaua, Waikele Center, Waikiki Beach Walk and the Embassy Suites-Waikiki Beach Walk, I have personally witnessed the positive impact REITs have had on our community.

In addition to our properties, this legislation would affect other REIT holdings like Ala Moana Center, International Market Place, St. Francis Medical Pavilion and more. It also would jeopardize thousands of construction, resort, retail and health care jobs.

Similar to mutual funds, REITs allow ordinary Americans to invest in professionally managed, income-producing real estate such as hotels, health care facilities and shopping centers.

In order to maintain REIT status, REITs are held to strict requirements, including distributing annually all taxable income to shareholders in order for all earnings to be taxed on the shareholder level.

Pam Wilson is general manager of Hawaii real estate for American Assets Trust, which owns, among other sites, Waikele Center and Waikiki Beach Walk.

Another notable regulation precludes REITs from "flipping" properties. Hawaii has benefitted from this long-term investment source and the outside capital that has come with maintaining and expanding current REIT infrastructures. This is beneficial to Hawaii's economy, community and tourism industry.

About 10 years ago, American Assets Trust made a significant investment to acquire the Waikiki Beach Walk with our partner at the time, Outrigger Enterprises. To date, it's the largest development in Waikiki's history and has become a gathering place for visitors and residents to shop, dine and stay — hugely revitalizing the area. The development has more than 40 retailers and restaurants and has supported local businesses, generated jobs, enhanced Waikiki's tourism product and generated tax revenue through the general excise tax on rents and retail sales, the business income tax on profits made by tenants, the income tax from employment of Hawaii residents, and property taxes.

This type of investment has a positive snowball effect. More capital leads to better infrastructure and retail offerings, which attract more visitors, which generates revenue for the state, which increases local jobs, and so on.

The "big picture" economic benefit is substantial. REITs accounted for $6 billion in investment in Hawaii as of the end of 2013.

And again, this proposed legislation would make Hawaii only one of two states that would subject REITs to corporate income taxation.

Why would investors choose to do business in a state where they are subject to double taxation when they could invest in 48 other states that wouldn't penalize them? This would also upset the uniformity of state taxation principles between all states except New Hampshire, which has about a fourth of REIT investment compared with Hawaii.

In 2014, Forbes listed Hawaii as the fifth worst place to do business — falling three spots from its 2013 rating —stating: "Hawaii has one of the most onerous business tax situations." Legislation to tax REITs would further put Hawaii at a disadvantage relative to the 48 states that have chosen to leave the REIT tax law alone.

The bills related to changing the tax structure for REITs are irresponsible and should not be passed. I care about the economic health and sustainability of my home state. The potential short-term revenue increase is not worth damaging this long-term source of capital and investment in our community.