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Hawaii News

CEO defends massage deductions

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COURTESY HAWAII NEWS NOW
Albert Hee

Honolulu businessman Albert Hee says the two-hour, twice weekly massages he has been getting for the past 20 years have a legitimate business purpose because they “allowed me to function as CEO” of Waimana Enterprises Inc.

Hee testified in U.S. District Court on Wednesday that he gets the massages to help him deal with stress and other serious health issues and only started charging them to his company after he was convinced of their benefit.

The Internal Revenue Service says Hee falsely characterized the massage payments as health consulting fees, causing his company accountants to improperly deduct \$92,000 as a business expense from 2002 to 2012.

Hee, 60, is on trial for allegedly having his company pay approximately \$2.75 million of his personal expenses, improperly deducting the payments as business expenses, then failing to report the payments as personal income.

In addition to the cost of the massages, the personal expenses include \$150,095 in credit card charges and cash withdrawals, \$752,082 in college tuition payments for his three children and \$1,755,855 in false wages and benefits for his wife and children, according to a March 2015 grand jury indictment.

The indictment also says Hee caused Waimana subsidiary Clearcom Inc. to falsely claim \$28.8 million in business deductions in connection with a lease agreement with the Honolulu Board of Water Supply, resulting in the company underpaying \$3.6 million in federal taxes, and had Waimana purchase a home in Santa Clara, Calif., for \$1,313,261 for the exclusive use of two of his children while they attended college there.

Hee's daughter Breanne Liko Hee-Kahalewai testified Wednesday that while she attended college, Waimana paid her \$24,000 per year. Then after she graduated with a bachelor of science degree in communications in 2008, her salary went up to \$50,000 even though she remained in California and worked part-time jobs. She said her salary went up to \$80,000 when she returned to Hawaii in 2012 and is now the director of corporate services of Waimana subsidiary Sandwich Isles Communications Inc. and is on the board of directors for Waimana. She is the only one of Hee's children involved in her father's business.

Waimana started paying the college tuition for Hee's children in 2004 when it paid \$33,298 to MIT for Hee's older daughter, Adrienne.

Hee says he believes the college tuition payments and salaries for his wife and children are proper Waimana business expenses "because they were an integral part of the company and its ability to go forward."

Still, he said, he went along with company accountants who later told him the tuition payments cannot be deducted as a business expense and instead will be categorized as loans. Hee said he paid back the loans with interest.

According to the indictment, categorizing the tuition payments as loans to shareholders is still improper because they were not taxed as income.

Hee said the Santa Clara home is a Waimana investment that gave him a place to stay on his frequent visits to check on a California biotechnology company in which the company had invested \$4 million. Hee said Waimana purchased a \$43,000 sport utility

vehicle for his use on those visits, which the government says Hee's son also used while attending college.

He also said the credit card charges and cash withdrawals were for legitimate company travel expenses for him and his family members, including trips to France, Tahiti and Disney World.

Hee says he is not a tax expert. He says he gives all payments to company accountants and leaves it up to them to decide whether an expense qualifies as a business deduction. Even when the Internal Revenue Service started its investigation, Hee said, he didn't hide anything and told investigators that the health consulting fees were paid to his masseuse.

"Everything that the IRS is charging me with was in plain sight and given to them," he said. "Nothing was concealed from them."

Sandwich Isles and Clearcom provide telecommunications services on Hawaiian Homesteads and are wholly owned subsidiaries of Waimana.