DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR

ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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To: The Honorable Donovan M. Dela Cruz, Chair;
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

From: Isaac W. Choy, Director
Department of Taxation

Date: April 1, 2021
Time: 9:30 A.M.
Place: Via Video Conference, State Capitol

Re: H.B. 485, H.D. 1, Relating to Taxation

The Department of Taxation (Department) offers the following comments regarding H.B. 485, H.D. 1, for your consideration.

H.B. 485, H.D. 1, raises the rental motor vehicle surcharge tax from $5 per day to an unspecified amount per day. H.D. 1 has a defective effective date of July 1, 2050.

The Department respectfully requests that the increase be made effective no earlier than January 1, 2022. This effective date will provide the Department the necessary time to update its forms, instructions, and computer system. Provided the requested effective date is inserted, the Department notes that it can administer this bill as drafted.

Thank you for the opportunity to provide testimony on this measure.

Robert Muhs, Esq.
Vice President Government Affairs
T - 973 496-3532
Robert.muhs@avisbudget.com

Senator Donovan Dela Cruz, Chair
Senator Gilbert Keith-Agaran, Vice Chair
Committee on Ways and Means

April 1, 2021; 9:30 A.M.
Hawaii State Capitol; Via Videoconference

RE: HB 485 HD1 Relating to Taxation - IN OPPOSITION

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee:

My name is Robert Muhs, Vice President Government Affairs for Avis Budget Group. Avis Budget Group appreciates the opportunity to offer testimony in opposition to HB 485 HD1, which increases the amount of the rental motor vehicle surcharge tax from $5.00 to an unspecified amount.

In 2019, the Legislature increased the amount of the rental motor vehicle surcharge tax from $3.00 to $5.00. In addition to this tax, Hawaii rental car customers pay a rental motor vehicle customer facility charge of $4.50 per day. The total surcharge amount before GET is among the highest in the country. We believe the industry contributes more than its fair share to the State highway fund with the current surcharge tax. An increase in the surcharge tax could lead to an overall decline of transaction days, adding to our financial hardship.

Avis Budget Group's Hawaii operations suffered a significant revenue loss in 2020 due to the pandemic and is still struggling. We request that the industry be allowed to fully recover before additional fees and increases be considered.

We ask that the committee defer this measure. Thank you.

CASTLE HOSPITALITY GROUP

Innovations in hospitality.

TESTIMONY FROM ALAN MATTSON, PRESIDENT & CEO, CASTLE HOSPITALITY GROUP

In opposition of HB 485, H.D. 1
Relating to Taxation

HOUSE COMMITTEE ON WAYS AND MEANS
April 1, 2021, 9:30 a.m.
Via Video Conference

Chair Dela Cruz and members of the committee,

Castle Hospitality Group is a locally-based hotel, resort and vacation management company with two brands in its portfolio: Castle Resorts & Hotels and Castle Vacation Rentals Hawaii. Established in 1993, Castle manages 21 resort properties on all Hawaii Islands with over 1500 rooms under the Castle Resorts & Hotels brand and more than 800 legal short-term vacation rentals throughout the Hawaiian Islands under the Castle Vacation Rentals brand.

Castle Hospitality Group **opposes HB 485, H.D. 1**, which would increase the amount of the rental motor vehicle surcharge tax from $5 to $8 for any county with a resident population of more than 125,000 but less than 195,000.

Hawaii's travel and tourism industry has been among the hardest hit by the COVID-19 pandemic and is still struggling to recover. Raising fees on car rentals could deter visitors from traveling to Hawaii, causing a negative ripple effect across the industry. It could also deter visitors from renting cars, which could limit activities outside their resort area and decrease spending at local attractions and businesses.

Local residents, who travel inter-island or use rental cars for personal reasons, will also be negatively affected by this bill.

It is for all of these reasons we kindly ask that you oppose HB 485, H.D. 1.

Thank you for your consideration.

Sincerely,

Alan Mattson
President & CEO

3 Waterfront Plaza, 500 Ala Moana Blvd.
Suite 555 Honolulu, HI 96813
Phone (808) 524-0900 / Fax (808) 521-9994
www.CastleHospitalityGroup.com

Castle RESORTS & HOTELS

CASTLE VACATION RENTALS HAWAII

April 1, 2021
9:30 a.m.
VIA VIDEOCONFERENCE
Conference Room 211

To: Senate Committee on Ways and Means
Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair

From: Grassroot Institute of Hawaii
Joe Kent, Executive Vice President

RE: HB485 HD1 — RELATING TO TAXATION

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on HB485, which would increase the rental motor vehicle surcharge to an as-yet unspecified amount.

We are gravely concerned about the impact of this tax hike and the many fees, tax increases and surcharges that have been proposed this legislative session. Hawaii residents are already among the most taxed in the country; the state ranks first nationwide in per-capita state tax revenues, and the fifth highest when state and county per-capita tax revenue quotients are combined.[1]

That high tax burden contributes to Hawaii's cost of living and is one of the reasons why so many Hawaii residents have been leaving in search of greater opportunities elsewhere.

Given the state's already-high tax burden, there is never a good time to raise taxes. But this proposal comes at an especially bad time. Hawaii is still in a state of emergency, tourism has

[1] "Hawaii per-capita state tax revenues highest in nation, research shows," Grassroot Institute of Hawaii news release, March 25, 2021.

slowed to a trickle, businesses are closing and unemployment is high. The economy will take years to recover from the pandemic and lockdowns. The last thing Hawaii residents and businesses need at this point is a tax hike.

There are myriad reasons policy makers should be wary of implementing tax hikes at this time. Here are just a few:

>> Hawaii cannot sustain a hike in taxes since its already-damaged economy was hit harder by the lockdowns than any other state in the nation.[2]

>> State lawmakers increased taxes and fees substantially following the Great Recession of 2007-2008,[3] despite a windfall in revenues from an economic boom over the past decade. Taxes and fees ballooned on motor vehicles, transient accommodations, estates, fuel, food, wealthy incomes, property, parking and businesses.

>> Hawaii's population reduction of 21,879 people since fiscal 2016[4] has left Hawaii's remaining taxpayers with a greater tax burden.

>> Hawaii businesses will be experiencing an average 38% increase in their state unemployment tax in 2021.[5] The UI tax rate depends not only on individual employer's claims experiences but also on the overall health of the state's unemployment insurance fund, which is hundreds of millions of dollars in the red.[6]

>> Hawaii already has a regressive general excise tax that disproportionately hits the poor.[7]

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[2] Dave Segal, "Hawaii's unemployment rate hit nation-high 15% in September," Honolulu Star-Advertiser, Oct. 20, 2020.
[3] "Tax Acts (by Year)," Tax Foundation of Hawaii, accessed Feb. 8, 2021.
[4] "Annual Estimates of the Resident Population for the United States, Regions, States, and the District of Columbia: April 1, 2010 to July 1, 2020 (NST-EST2020)" U.S. Census Bureau, Population Division, December 2020.
[5] Grassroot Institute UI contribution analysis" Grassroot Institute of Hawaii, Nov. 13, 2020, sheet 2.
[6] "UI Budget," United States Department of Labor, Employment & Training Administration, Feb. 8, 2021.
[7] "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index: "Sales Tax Burden," American Legislative Exchange Council, 2021. Note that Hawaii does not have a sales tax, but a state general excise tax that is levied on almost all goods and services, and imposed multiple times throughout the production chain.

>> Hawaii has a progressive income tax that taxes high-income earners at 11%, second only to California at 13.3%.[8] Hawaii's top 1% already pays 23% of all income taxes in the state.[9]

>> Closing tax exemptions would amount to a tax hike for Hawaii businesses already facing a steep spike in their unemployment insurance taxes.

Hawaii needs leadership that will stabilize the current financial crisis, reduce unsustainable long-term costs and lower the cost of living. Balancing the books without tax increases or future debt could send a message that Hawaii is a good place for businesses and future generations, and this could help the economy thrive while motivating people to return to the islands.

If the state needs more revenues, policymakers should focus on growing the economy. In our current condition, even small economic gains would have big effects.

Hawaii's residents and businesses need a break from new taxes, fees, surcharges and tax hikes. This is not the time to make Hawaii a more expensive place to live and do business.

Thank you for the opportunity to submit our comments.

Sincerely,

Joe Kent
Executive Vice President
Grassroot Institute of Hawaii

[8] Katherine Loughead, "State Individual Income Tax Rates and Brackets for 2020," Tax Foundation, Feb. 4, 2020.
[9] "Hawaii Individual Income Tax Statistics," Hawaii Department of Taxation, December 2020, Table 13A.

Testimony of
Mufi Hannemann
President & CEO
Hawaiʻi Lodging & Tourism Association

Senate Committee on Ways & Means
House Bill 485, HD1: Relating to Taxation

Chair Dela Cruz and members of the Committee, mahalo for the opportunity to submit testimony on behalf of the Hawaiʻi Lodging & Tourism Association, the state's largest private sector visitor industry organization.

The Hawaiʻi Lodging & Tourism Association—nearly 700 members strong, representing more than 50,000 hotel rooms and nearly 40,000 lodging workers — counts among its membership vehicle rental services around the state. These businesses, like all businesses in the tourism industry, have suffered unprecedented losses during the economic downturn caused by the COVID-19 pandemic. By proposing to increase the rental motor vehicle surcharge tax, this measure would layer a further expense that will be added to the cost of doing business in Hawaiʻi.

In the current phase of our community's economic recovery, we should be making it easier for local businesses to rebound from the pandemic. This measure would result in the exact opposite occurring and would further hamper the recovery process for a critical sector of our industry.

For these reasons, HLTA opposes House Bill 485, House Draft 1.

Thank you for the opportunity to offer this testimony.

HB-485-HD-1
Submitted on: 3/29/2021 11:04:09 AM
Testimony for WAM on 4/1/2021 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
John D. Smith	Individual	Support	No

Comments:

I support.