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KALI WATSON
CHAIRPERSON, HHC
Ka Luna Hoʻokele

KATIE L. LAMBERT
DEPUTY TO THE CHAIR
Ka Hope Luna Hoʻokele

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
Ka ʻOihana ʻĀina Hoʻopulapula Hawaiʻi
P. O. BOX 1879
HONOLULU, HAWAII 96805

TESTIMONY OF KALI WATSON, CHAIR
HAWAIIAN HOMES COMMISSION
BEFORE THE HOUSE COMMITTEE ON TOURISM AND
THE HOUSE COMMITTEE ON HOUSING
HEARING ON JANUARY 30, 2025 AT 9:00AM IN CR 423

HB 604, RELATING TO TAX REVENUES

January 29, 2025

Aloha Chairs Tam and Evslin, Vice Chairs Templo and Miyake, and Members of the Committees:

The Department of Hawaiian Home Lands (DHHL) **strongly supports** this bill which 1) beginning on 1/1/2026, increases transient accommodations tax rates by 1 percentage point and 2) deposits the increased revenues into the Hawaiian Home General Loan Fund established under the Hawaiian Homes Commission Act, 1920, as amended.

HB604 provides an opportunity and means by which the State can fulfill its trust obligations under the Hawaiian Homes Commission Act, 1920, as amended, and the Hawaii State Constitution. Increasing the transient accommodations tax rate by 1 percentage point would greatly aid DHHL in addressing its extensive applicant waiting list via a source of funds that is not currently available to DHHL.

Thank you for your consideration of our testimony.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAIʻI
DEPARTMENT OF TAXATION
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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
H.B. No. 604, Relating to Tax Revenues

BEFORE THE:
House Committees on Tourism and Housing

DATE: Thursday, January 30, 2025
TIME: 9:00 a.m.
LOCATION: State Capitol, Room 423

Chairs Tam and Evslin, Vice-Chairs Templo and Miyake, and Members of the Committees:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 604 for your consideration.

H.B. 604 amends chapter 237D, Hawaii Revised Statutes (HRS), by modifying the transient accommodation tax (TAT) structure as follows:

- Increases the TAT rates under HRS sections 237D-2(a) through (c) from 9.25% to 10.25% effective January 1, 2026;

- Imposes an additional 1% surcharge on the TAT under section 237D-2(e), HRS, until December 31, 2030, for an effective total rate of 11.25%;

- Directs the 1% surcharge to the mass transit special fund, as currently required under existing law;

- Introduces a new subsection (f) to allocate the difference between the 10.25% rate and the 9.25% rate to the Hawaiian home general loan fund; and

- Retains the allocation of the base 9.25% TAT to be deposited per section

237D-6.5.

The bill takes effect upon it approval. DOTAX requests that the effective date of the bill be amended to January 1, 2026 to provide DOTAX with sufficient time to make the necessary form, instruction, and system changes.

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

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS TAX; Rate increase with the increased revenues earmarked to the Hawaiian Home General Loan Fund.

BILL NUMBER: HB 604

INTRODUCED BY: HOLT, EVSLIN, KAHALOA, KEOHOKAPU-LEE LOY, KILA, LAMOSAO, MARTEN, POEPOE, SOUZA

EXECUTIVE SUMMARY: Beginning on 1/1/2026, increases transient accommodations tax rates by 1 percentage point. Deposits the increased revenues into the Hawaiian Home General Loan Fund established under the Hawaiian Homes Commission Act, 1920, as amended.

SYNOPSIS: Amends section 237D-2, HRS, to increase the rate of TAT and to direct the increased revenue to Hawaiian home general loan fund.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: In law prior to 2009, the TAT was levied at the rate of 7.25% on most transient accommodations. Once collected, 44.8% of the tax, after satisfying specified earmarks, was distributed to the counties. Act 61, SLH 2009, increased the TAT rate to 8.25% between 7/1/09 and 6/30/10 and to 9.25% between 7/1/10 to 6/30/15. Act 161, SLH 2013, made permanent the TAT rate of 9.25% and changed the allocations of TAT from a percentage basis to a specific dollar amount.

After the counties complained about their allocations, Act 174, SLH 2014, required a state-county functions working group to be convened to evaluate the division of duties and responsibilities between the State and counties relating to the provision of public services and to recommend an appropriate allocation of the transient accommodations tax revenues between the State and counties that properly reflects the division of duties and responsibilities relating to the provision of public services. The working group met and issued a report to the 2015 legislature, recommending that the percentage allocation of the TAT be restored. Bills were drafted to adopt that recommendation. The bills did not pass.

In the meantime, the City & County of Honolulu, needing a bailout to continue with its rail project, pleaded for and ultimately got an additional percentage point added to the TAT to fund rail efforts in Honolulu and to enhance transportation infrastructure in the other counties. Act 1, SLH 2017 (Special Session).

And, to put the icing on the cake, a few years later, in 2021, the legislature by veto override put an end to sharing any of the TAT revenues with the counties, but instead allowed the counties to enact their own transient accommodations tax at a rate up to 3%. Act 1, SLH 2021 (1st Special Session). The counties swiftly enacted 3% taxes.

This proposed increase in TAT will be borne largely by visitors. With the recent ability of counties to impose their own TAT charge, Hawaii already has the highest accommodation tax in the country. Although the bill's proponents may think that this is simply picking the pockets of our tourists to help our own, there may be ripple effects from further squeezing our tourists. What policy makers need to realize is that the more they extract from the economy in taxes and fees, the more economic performance declines. To put it specifically, tourists can't vote for our lawmakers at the ballot box but they can vote with their feet. We aren't the only resort island destination in the world, and the tourists know this. As economic performance declines, so do tax revenues.

Digested: 1/28/2025

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

GRASSROOT
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Removing barriers to Hawaii's prosperity

Jan. 30, 2025, 9 a.m.
Hawaii State Capitol
Conference Room 423 and Videoconference

To: House Committee on Tourism
Rep. Adrian K. Tam, Chair
Rep. Shirley Ann Templo, Vice Chair

House Committee on Housing
Rep. Luke A. Evslin, Chair
Rep. Tyson K. Miyake, Vice Chair

House Committee on Economic Development & Technology
Rep. Greggor Ilagan, Chair
Rep. Ikaika Hussey, Vice Chair

From: Grassroot Institute of Hawaii
Ted Kefalas, Director of Strategic Campaigns

RE: TESTIMONY IN OPPOSITION TO HB604 — RELATING TO TAX REVENUES

Aloha Chairs, Vice-Chairs and other members of the committees,

The Grassroot Institute of Hawaii would like to offer its comments **in opposition** to HB604, which would increase the current state transient accommodations tax rate by 1 percentage point, from 10.25% to 11.25%, or by 9.75%, with the revenues from the tax increase to be deposited into the Hawaiian Home General Loan Fund.

The goal of increasing the amount of money available to the Hawaiian Home General Loan Fund is a laudable one and worth discussing in the context of state budgeting. However, in the context of a significant tax hike, a laudable purpose does not negate the damage that this tax increase would cause to Hawaii businesses and the state's economy as a whole.

Support for a TAT increase is often based on the notion that the tax hike will fall more heavily — or even exclusively — on tourists. However, the TAT also directly affects Hawaii residents who need to stay in local transient accommodations when traveling interisland or simply seeking to enjoy a "staycation."

Beyond that, a large body of research demonstrates that increasing taxes on tourists can also affect both the competitiveness of Hawaii's tourism industry and the health of local businesses that depend upon tourism dollars — which means the tax affects most, if not all, Hawaii residents, albeit in some cases indirectly.

A 2017 European Union study on the impact of taxation on tourism in Europe found that high tourism taxes, passed on to tourists through higher prices, affected the competitiveness of particular destinations.[1] Coastal and leisure destinations in particular were most adversely affected by increases in tourism taxes, especially compared to locations that were more focused on business travelers.

In addition, occupancy taxes such as Hawaii's TAT were singled out as inequitable and especially frustrating to tourists. The EU study recommended that countries that depend heavily on tourism should reduce their tourism taxes in order to increase competitiveness.

Even unique destinations are not immune from the effect of taxation on international arrivals. A study of the Maldives, a country that earns as much as 70% of its revenue from tourism taxes, found that a 10% increase in tourism taxes — approximately the same increase contemplated in this bill — reduces demand by 5.4%.[2]

To put it plainly, increasing tourism taxes decreases the number of visitors. Moreover, policymakers cannot assume that tourism taxes will not have an additional effect on visitor spending. It is common sense to assume that tourists will compensate for higher tourism taxes by adjusting their budgets and spending less on dining, activities or shopping.

This is borne out by a study of the effect of an air passenger duty on the budget allocations of United Kingdom tourists. The study found that tourists compensated for the higher taxes by decreasing destination expenditures on items such as accommodations and food.[3]

Thus, increasing tourism taxes will ultimately hurt Hawaii's restaurants, stores and hotels, as tourists decrease their expenditures to compensate for the state's higher taxes.

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[1] PricewaterhouseCoopers LLP, "The Impact of Taxes on the Competitiveness of European Tourism," European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, October 2017.
[2] Festus Fatai Adedoyin, Neelu Seetaram and George Filis, "The Effect of Tourism Taxation on International Arrivals to a Small, Tourism-Dependent Economy," Journal of Travel Research, Vol. 62, Iss. 1, pp. 135-153.
[3] Haiyan Song, Neelu Seetaraum and Sunh Ye, "The effect of tourism taxation on tourists' budget allocation," Journal of Destination Marketing and Management, March 2019, pp. 32-39.

This is on top of the fact that Hawaii already has some of the world's highest tourism taxes,[4] making any additional hike a threat to the continued health of the industry and the businesses that depend on it.

Tourism is such a critical part of the state's economy that even industries that are not directly linked to tourism are linked to businesses that are.

In addition, as I mentioned earlier, we should not ignore the fact that tourists are not the only ones who pay the TAT. For example, neighbor island residents who stay on Oahu for medical care, or families in need of a temporary dwelling after a natural disaster, must book either a hotel or a short-term rental. Likewise, medical professionals must stay somewhere while temporarily practicing in Hawaii.

In other words, a TAT increase will have a negative effect on the health of the state's tourism industry, its economy and the cost of living in general.

Hawaii residents must already make ends meet while living in the state with the highest cost of living. This is not the time to make Hawaii a more expensive place to live and do business.

As a final thought, please remember that Hawaii's TAT started out in 1986 as a temporary tax at 5% to help fund the Hawaii Convention Center.[5] Its original purpose has long disappeared, but we still have the tax, and it has only continued to increase through the years. And now we are talking about maybe increasing it again.

It is this kind of tax policymaking that breeds cynicism among Hawaii voters regarding the notion that there is really such a thing as a temporary tax — as you have heard in your discussions concerning other taxes, such as the general excise tax surcharge. Increasing the rate for this formerly so-called temporary tax will only exacerbate that cynicism.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

[4] Alison Fox, "These Cities — Including 3 in the U.S. — Have the Most Expensive Tourist Taxes in the World, Study Shows," Travel + Leisure, Aug. 12, 2022.
[5] Tom Yamachika, "Erasing An Error of the Past in the Transient Accommodations Tax," Tax Foundation of Hawaii, Oct. 26, 1997.