L E G I S L A T I V E

TAXBILLSERVICE

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SUBJECT: GENERAL EXCISE, USE, PUBLIC SERVICE COMPANY, Increase wholesale rate

BILL NUMBER: HB 2880

INTRODUCED BY: Say

BRIEF SUMMARY: Amends HRS sections 237-8.6, 237-13, 237-13.3, 237-18, 238-2, 238-2.3, 238-2.6, 239-5, 239-6, to increase the general excise, use tax rate and public service company tax from 0.5% to 1% from 7/1/10 to 6/30/15.

Repeals this act on June 30, 2015; provided that HRS sections 237-8.6, 237-13, 237-13.3, 237-18, 238-2, 238-2.3, 238-2.6, 239-5, and 239-6 shall be reenacted in the form in which they read on the day before the effective date of this act.

EFFECTIVE DATE: July 1, 2010.

STAFF COMMENTS: This measure temporarily increases the wholesale tax rate under the general excise, use and public service company tax laws from 0.5% to 1% between 7/1/10 to 6/30/15. While it appears that this measure proposes to generate much needed general fund revenues for the state, it comes at the expense of increasing the cost of living and doing business in Hawaii. The lesser half percent rate was adopted after the Arthur D. Little Study of 1968 pointed out the turnover of goods that travel through the distribution chain increases the cost of the final selling price many more times than the nominal rate imposed at each step of the transaction chain. This is known as pyramiding. To reintroduce, if not exacerbate, the pyramiding characteristic of the general excise tax in this economic slump can be devastating to any recovery and may indeed prolong the return of vitality to the state's revenue picture.

It should be remembered that there is money to be had but, unfortunately, much of this money is tied up or designated for specific programs or activities in special funds. This situation is largely the work of past lawmakers who thought it was prudent to provide certain favorite programs their own resources by earmarking sources of revenue for that particular program and setting the receipt of that resource off into a special fund. It is not that special funds are all that bad, but over the years the number of funds has proliferated as lawmakers took pet programs under wing and provided those programs with earmarked revenues. When Hawaii became a state more than 50 years ago, there were only three special funds - all in the area of transportation - the highway fund, the airport fund, and the harbor fund. These were established largely because the users of the facilities financed by the moneys in these funds paid the fees and taxes that went into these special funds. In many cases, these transportation funds are kept separate from the state's general funds because the fees and taxes deposited into these funds are used to match federal subsidies for these transportation activities.

However, over the years many of the numerous special funds are now financed with resources that were formerly receipts of the general fund. For example, the fees from the issuance of marriage licenses used to be entirely deposited in the state general fund. Nearly 20 years ago, some lawmaker got the idea that somehow there was a connection between getting married and the domestic violence problem in our community. So one half of the proceeds from the marriage license fees was earmarked for domestic violence programs. When it was discovered that the proceeds were insufficient to fund all domestic violence programs, the license fee was raised by the next session of the legislature. Because the applicants for the license receive no direct benefit from those domestic violence programs, one has to question the legitimacy of that arrangement.

The drawback of creating these special funds with totally irrelevant earmarked revenues is that the favored program usually does not undergo the kind of close scrutiny that general-fund financed programs do. Why pay any attention to those special-fund financed programs as the money in those special funds can only be used for the designated purpose? Thus, lawmakers don't know how effective the programs are and whether or not there is sufficient funding or perhaps more than sufficient funding.

Over the years, the slice of the state's operating budget pie financed through special funds other than the transportation special funds has grown steadily, rising from 11.7% of the operating budget in the 1995-1997 fiscal biennium to more than 17% for the fiscal biennium that ended just this past June. That 17% translates into just over $3.6 billion, more than twice the estimated shortfall for the current biennial budget. Lawmakers should consider putting all of that money on the table for discussion. For those special fund financed programs that are financed with resources that do not provide the people paying the fees or taxes with a clear service in return, these programs should be folded back into the general fund and the proceeds from the fees or taxes put back into the general fund. Then lawmakers should set priorities for spending among all programs. Lawmakers may just find that some of those programs are really not of high priority, especially when there is not enough money to fund all programs.

A tax increase of any magnitude in this fragile economy will, no doubt, have a negative impact as costs soar due to higher taxes. As costs soar and overhead increases, employers will have to find ways to stay in business by either increasing prices to their customers or cut back on costs. Given the tenuous condition of the marketplace, many businesses will have to resort to the latter and reduce overhead costs. This may take the form of reducing inventory, shortening business hours, reducing employee hours, or in the worst-case scenario, laying off workers. A tax increase of any magnitude would send most companies, especially smaller ones, out of business taking with them the jobs the community so desperately needs at this time. Instead of improving the employment picture and, therefore, consumer demand for goods and services, this increase will likely destroy those businesses that are already on the edge, closing down enterprises and laying off workers.

Finally, another danger in the adoption of this measure is the possibility that the tax increase proposed in this measure may be extended or even made permanent if lawmakers refuse to examine its spending priorities and allow spending to go unchecked.

Digested 2/16/10

TO : COMMITTEE ON FINANCE
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice chair

FROM: Eldon L. Wegner, Ph.D.
Policy Advisory Board for Elder Affairs (PABEA)

HB 2880 RELATING TO TAXATION

4:30 pm Wednesday, February 17, 2010
Conference Room 308, Hawaii State Capitol

PABEA supports passage of HB 2880.

for Elder Affairs has a statutory obligation to advocate on behalf of the senior citizens of Hawaii. While we advise the Executive Office on Aging, we do not speak on behalf of the Executive Office of Aging.

During this time of economic crisis and revenue shortfalls for our state government, we need to find alternative revenue in a way that assures that everyone shares in the cost rather than to further cut the programs and services needed by our most vulnerable populations.

$ We support at least a temporary increase in some tax rates in order to assure that the fiscal burden is shared by those most able to afford more taxes.

Thank you for allowing me to testify.

Representative Marcus Oshiro, Chair
Representative Marilyn Lee, Vice Chair
Committee on Finance

HEARING Tuesday, February 16, 2010
4:30 pm
Conference Room 308
State Capitol, Honolulu, Hawaii 96813

RE: HB2880, Relating to Taxation

Chair Oshiro, Vice Chair Lee, and Members of the Committee:

Retail Merchants of Hawaii (RMH) is a not-for-profit trade organization representing 200 members and over 2,000 storefronts, and is committed to the support of the retail industry and business in general in Hawaii.

RMH strongly opposes HB2880, which increases the "wholesale" rates under the general excise, use, and public service company taxes to one per cent from one-half per cent, effective from July 1, 2010 through June 30, 2015.

Manufacturers in the state of Hawaii are faced with exceptionally high costs at every level of their operations: property values and associated taxes; labor costs and mandated benefits; transportation and shipping for raw materials; 4% GET on goods and services needed to support their operations. These costs and the current ½% tax determine the cost of products to their buyers. These high production costs already put Hawaii's manufacturers at a global disadvantage. Increasing any of these costs further diminishes their abilities to compete.

Increasing the ½% use tax will result in increased prices for Hawaii's consumers, at all tiers of consumption.

In this difficult time, when businesses are struggling to keep their doors open and residents are barely making ends meet, any increases in the cost of living are counter -productive to economic recovery. As consumers, we all will pay more for the goods we need in our everyday lives; these increased costs will impact those in our society with the fewest resources.

We urge you to hold HB2880. Thank you for your consideration and for the opportunity to testify on this measure.

Carol Pregill

Carol Pregill, President

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