L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: PUBLIC SERVICE COMPANY, Increase rate

BILL NUMBER: HB 2853

INTRODUCED BY: Say

BRIEF SUMMARY: Amends HRS sections 239-5, 239-7, 239-9 and 239-10 to provide that references to the 4% shall be increased to 5% such that any amount of tax paid in excess of that created by a 5% rate shall be paid over to the counties. Amends HRS section 239-5 to provide that the rate of tax of the gross income of a carrier of passengers by land which consists of passenger fares for transportation between points on a scheduled route shall be 6.35% instead of 5.35%.

This act shall be repealed on June 30, 2015; provided that HRS sections 239-5, 239-7, 239-9, and 239-10, shall be reenacted on June 30, 2015, in the form in which they read on the day prior to the effective date of this act.

EFFECTIVE DATE: July 1, 2010

STAFF COMMENTS: It appears that this measure proposes a temporary tax increase to generate additional revenue to address the state's fiscal crisis. In this case, the proposal raises the threshold from four to five percent where revenues generated at any rate higher than that threshold is paid over to the counties in lieu of the real property tax. Thus, this is another strategy to generate additional revenues for the state general fund at the expense of the counties. Like the stealing of the TAT revenues from the counties, such a strategy will only pass on the budget shortfall headache to the counties and, therefore, raise the potential for a tax increase on real property taxpayers at the county level. While this may not increase the cost of utilities, it will force the county government to increase the real property tax.

As noted in the raid of the TAT revenues, both the state and counties have expanded beyond their means, to the point where they have no where to turn to make up the budget shortfall. Given that this measure, as well as the raid of the TAT, is an indicator that expenses have outpaced the ability of taxpayers to support the level of government those programs demand, the only prudent option for lawmakers both at the state and county level to is right-size government. If not, then all of the revenue raising machinations will have a devastating impact on the state's economy aa communities across the state and families try to deal with shortfalls in their own budgets. Try as they may to raise additional revenue for government programs and services, lawmakers need to realize it comes at a very heavy price, the recovery and sustainability of Hawaii's economy. This is not an option but a duty to fix government now or pay the consequences with a crippled and weak economy stumbling into the future.

Economists attribute this to the high cost of housing in Hawaii and perhaps the generally high cost of living in Hawaii. However, what many seem to overlook is the fact that the high cost of government is the major culprit behind the struggle to survive in Hawaii. And lest one say that it is the poor who are being squeezed out of Hawaii, that is the farthest from the truth.

The truly poor do not have the means to leave Hawaii. Those who are leaving are from the struggling middle-class workforce with just enough means to get out of town, but not enough to survive. While this and other tax increase measures will, no doubt, make residents think about leaving, government growth and spending have to be curtailed so that residents can "afford" to live here again.

It should be noted that the taxation of common carriers was moved from the public service company tax to the general excise tax by Act 9, Special Session of 2001, in the aftermath of 9/11.

Digested 2/16/10

HB 2853
RELATING TO TAXATION
(Agenda Two)

KEN HIRAKI
VICE PRESIDENT – GOVERNMENT & COMMUNITY AFFAIRS
HAWAIIAN TELCOM

FEBRUARY 17, 2010

Chair Oshiro and Members of the Finance Committee:

I am Ken Hiraki, testifying on behalf of Hawaiian Telcom on HB 2853, "Relating to the Public Service Company Tax." Hawaiian Telcom opposes this measure.

HB 2878 increases the Public Service Company Tax (PSC) on public utilities by one percent beginning on July 1, 2010 with a sunset on June 30, 2015. While recognizing the need to address the current budget shortfall, this bill imposes a significant negative financial drain on our company that we cannot in our current financial situation absorb.

Unlike other utilities included under this measure, our company should not be included in this bill because we are not a monopoly and do not have the ability to pass on these added costs to our customers. Telecommunications is a highly competitive industry. Today consumers have the freedom to choose from a wide array of other telecommunication providers besides a landline including wireless and VoIP. In addition, this measure will allow some of these same companies to offer the same services but not be burdened by these additional costs.

If the Committee decides to advance this measure, we respectfully request an exemption to the increase in the PSC be provided for a "telecommunications carrier utility owner."

Based on the aforementioned, unless the bill is amended to address our concerns, we respectfully request that HB 2853 be held in your committee.

Thank you for the opportunity to testify on this measure.