
From: Tina Desuacido [tina500@juno.com]
Sent: Friday, February 04, 2011 11:46 AM
To: ERBtestimony
Subject: Tax Foundation Testimony
Attachments: h0848-11.pdf; h1642-11.pdf; h0364-11.pdf

TRANSMISSION OF TESTIMONY

DATE: Friday, February 4, 2011

TO: House Committee on Economic Revitalization & Business

FROM: Tax Foundation of Hawaii

Total Pages 6

FOR: Rep. Angus McKelvey, Chair

Testifier: Lowell L. Kalapa, President - Tax Foundation of Hawaii

(Mr. Kalapa will not appear in person at the hearing.)

Date of Hearing - Tuesday, February 8, 2011

Position: Comments

Time of Hearing - 8:00 am

HB 848 - Relating to the General Excise Tax (2 pages)

HB 364 - Relating to Economic Development (2 pages)

HB 1642 - Relating to High Technology (2 pages)

Number of copies - 4

Thank you.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Tax holiday for school supplies and computers

BILL NUMBER: SB 755; HB 364 (Identical)

INTRODUCED BY: SB by Fukunaga, Chun Oakland, Shimabukuro, 5 Democrats and 1 Republican; HB by McKelvey, Awana and 1 Democrat

BRIEF SUMMARY: Adds a new section to HRS chapter 237 to establish an annual exemption from the general excise tax on the retail sale of: (1) books sold for less than \$50 per book; (2) clothing items sold for less than \$100 per item; (3) computers, computer software, and computer supplies sold for less than a total of \$1,500; and (4) school supplies sold for less than \$15 per item. Stipulates that the sale of computer systems, devices, software, and peripherals designed or intended primarily for commercial use and furniture shall not be exempt.

The annual general excise tax exemption shall be effective for tax years beginning after December 31, 2010, for a period of five days beginning on Wednesday of the last full week in July and ending at 12:00 midnight on the following Sunday, regardless of whether the Sunday falls in July or August. Delineates stipulations and exceptions as to what items qualify for the exemption.

Defines "book," "clothing," "computer," "computer software," "computer supplies," and "school supplies" for purposes of the measure.

EFFECTIVE DATE: Tax years beginning after December 31, 2010

STAFF COMMENTS: This measure would grant an annual general excise tax holiday on retail sales of books, clothing, computers and computer accessories, and school supplies. The idea of "temporary" tax holidays ignores the forces and factors of the market and ignores basic economics of the marketplace. Such temporary holidays tend to skew the normal course of business and people's attitudes and shopping patterns. It creates the "coupon" syndrome of people deciding that they should wait until the store has another "discount period" or another coupon special. Why purchase that item now when it will go on sale next weekend in "another" one of those coupon offerings?

While the 4% or 4.5% is not as great as some of the discounts that have been offered by retailers, it will create that anticipatory attitude that will cause shoppers to delay their purchases until that special period.

It must be recognized that with the higher cost of living in Hawaii, families are struggling to make ends meet and have only so much in disposable income. Such a tax holiday, combined with promotions by businesses, will skew sales and therefore cash flow. To a certain degree, sales tax holidays are regressive, that is the poor tend to end up paying more in taxes than those in higher income categories because they will be less likely to have the cash or the credit to participate at the time the holiday occurs.

Probably the most important and appropriate question is who is going to pay for this tax holiday? Given

that state lawmakers and administration officials have not made a concerted effort to reduce the demand for tax revenues, will the burden of taxes be shifted to other businesses and individuals? Certainly the loss of revenues must be recaptured if the demand for spending those dollars is not reduced or contained. Would lawmakers be just as eager to enact this proposed tax holiday if it contained a provision that state spending had to be automatically reduced by the same dollar amount regardless of program? Probably not. But that is the problem with this and every other “goodie” tax proposal that would grant a tax break, lawmakers are just not willing to make concurrent reductions in state spending.

When and until state policy makers and administrators can get a firm grip on the spending spigot, any and all tax reduction proposals will be disingenuous. It should be remembered that the retail purchases this proposal intends to encourage are only possible if consumers have the resources to spend and have the confidence that there is stability in the economy. That stability in Hawaii is highly dependent, at this time, on the fiscal health of state and county governments.

Digested 1/28/11

Representative Angus McKelvey, Chair
Representative Isaac Choy, Vice Chair
Committee on Economic Revitalization & Business
State Capitol, Honolulu, Hawaii 96813



HEARING Tuesday, February 08, 2011
8:00 am
Conference Room 312

RE: HB364, Relating to Economic Development

Chair McKelvey, Vice Chair Choy, 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. Retail is one of the largest single employers in the state, employing almost 24% of the labor force.

RMH strongly supports HB364, which creates annual exemption from general excise tax on purchase of school supplies of less than \$15 per item; computers, computer software, and computer supplies of less than \$1,500 per purchase; clothing of less than \$100 per item; and books of less than \$50 per item.

In 2010, consumers in nineteen (19) states enjoyed some form of "sales tax holiday." The study cited in the preamble of this bill, *An Analysis of the Costs and Benefits of a Sales Tax Holiday in Florida*, provides compelling support for this legislation:

- Increased generation of jobs; 71% in retailing and 29% in other areas [21,896]
- Additional labor income: 61% in retailing and 38% throughout the economy [\$628 million]
- Net increase in tax revenues as the result of increased economic activity [\$118 million]

Further analytical evidence indicates:

- Reduction in the overall price shoppers pay solicits greater amounts of goods purchased, both tax exempt and non-tax exempt during this time period
- Tax holidays increase store traffic. A mall intercept survey during a back to school event in Texas revealed that 80% of shoppers said that the tax holiday motivated their decision to shop
- The benefits of a tax holiday tend to be shared: about 80% with shoppers while 20% with retailers. In a highly competitive sector like retail, special sales events always result in greater value for the consumer.

To clarify that the exemption must be passed on by the retailer to the ultimate consumer, we respectfully request the insertion of language similar to that in SB851, perhaps at the end of Section 2, after (d):

- All savings generated by this section shall be passed on by the seller to the purchaser without any increase in price.
- The exemption provided in this section shall not apply to: 1) Rebates, layaway sales, rain checks, or exchanges when the transactions occur before or after the tax holiday period; and 2) Mail, telephone, e-mail, or internet orders with businesses operating outside the state of Hawaii.

The tax exemption proposed in this measure will provide needed cost savings to Hawaii's families, especially during the back-to-school time frame, when there already are considerable budgetary concerns with getting children ready for a new school year. Further benefit will extend to Hawaii's non-profit organizations that hold school supplies fund drives, and to our teachers who purchase supplies in preparation for their classes.

The members of RMH respectfully urge you to pass HB364. We are prepared to work with the legislature and the tax department going forward. Thank you for your consideration and for the opportunity to comment on this measure.

Carol Pregill, President

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2/8/11

Honorable Angus L.K. McKelvey

COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

8:00am

Conference Room 312

State Capitol

415 South Beretania Street

Re: Support of HB 364

Mr. Chairman and Members of the Committee

I am in support of HB 364. I believe it will be a great benefit to our community. My only concern will be building awareness of this tax holiday for mass participation.

Thank you for this opportunity to testify in support of HB 364.

Joseph Heaukulani

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