

**SB 755**

**EDT**

**Testimony to the Senate Committee on Economic Development and Technology  
Monday, January 31, 2011 at 1:45 p.m.  
Conference Room 016, State Capitol**

**RE: SENATE BILL NO. 755 RELATING TO ECONOMIC DEVELOPMENT**

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") is in general **support** of SB 755, which is one of the bills in the Small Business Caucus package. The Chamber appreciates the effort of the Legislature to help small businesses in Hawaii.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

This measure creates an annual exemption from the general excise tax on purchases 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, made beginning on Wednesday of the last full week of July and ending in 5 days on the following Sunday.

As Hawaii's economy makes a slow recovery, a "sales tax holiday" provided in this measure will afford consumers temporary relief and spark consumer confidence and spending, as well as provide temporary assistance to local businesses. Some studies show that this type of holiday increases job creation and net increase in tax revenues as a result of increased economic activity. An ancillary effect, especially in the retail industry, is that it increase store traffic and encourages spending not only on items that are exempted from the sales tax but on non-exempt items, which in turn generates tax revenues.

The Chamber asks that the committee pass SB 755 for further discussion. Thank you for the opportunity to provide testimony.

Senator Carol Fukunaga, Chair  
Senator Glenn Wakai, Vice Chair  
Committee on Economic Development & Technology  
State Capitol, Honolulu, Hawaii 96813



HEARING Monday, January 31, 2011  
1:45 pm  
Conference Room 016

**RE: SB 755, Relating to Economic Development**

Chair Fukunaga, Vice Chair Wakai, 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 SB755**, 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
- Additional labor income: 61% in retailing and 38% throughout the economy
- Net increase in tax revenues as the result of increased economic activity

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 by both consumers and retailers: about 80% of the tax relief remains with shoppers while 20% is shared with retailers. In a highly competitive sector like retail, additional motivation for consumer activity results in greater value for the consumer.

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. We concur that the items eligible for this exemption, computers, and their related equipment and supplies, ARE as essential as paper and pencils.

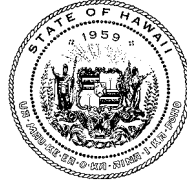
The members of RMH respectfully urge your passing SB755. We are prepared to work with the legislature and the tax department going forward. Thank you for your consideration and for the opportunity to comment on this measure.

Carol Pregill, President

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## SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TECHNOLOGY

### TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING SB 755 RELATING TO ECONOMIC DEVELOPMENT

**TESTIFIER:** FREDERICK D. PABLO, INTERIM DIRECTOR OF  
TAXATION (OR DESIGNEE)

**COMMITTEE:** EDT

**DATE:** JANUARY 31, 2011

**TIME:** 1:45PM

**POSITION:** SUPPORT/OPPOSED

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This measure provides an annual general excise tax (GET) holiday on the sales of certain school supplies, computers, and computer equipment starting at the beginning of the last Wednesday in July and ending five days after.

The Department of Taxation (Department) **supports the intent** of this measure; however is **concerned with the fiscal impact** of this measure given the current revenue forecast.

#### **I. SUPPORT FOR TAX RELIEF THROUGH A GET HOLIDAY**

The Department supports the tax relief intended by this measure. In light of the current economic slowing experienced in Hawaii and nationwide, both state governments and the national government have been actively seeking means to stimulate the economy. This measure serves as an efficient and effective means of stimulating the economy on a short-term basis. How much stimulus would result from this measure is difficult to project; however all tax revenue would remain in the economy. GET holidays will likely encourage people to purchase the targeted goods in higher volume.

Beyond stimulus, this measure also serves the targeted purpose of minimizing the tax impact on the sales of school supplies and expensive computers. As is well known, having access to the necessary school supplies and computer technology greatly enhances the quality of education children experience. For others, access to computers is a necessity in carrying out many daily tasks.

## **II. FISCAL CONCERN, REVENUE IMPACT & METHODOLOGY**

As with all measures, the Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either.

This measure will result in an estimated revenue loss of \$7.8 million per year from FY 2012 to FY 2016.

It is estimated that retail sales covered by the legislation amounted to about \$2 billion in 2002. Using growth in retail sales from 2002 through 2009, it is estimated that the bill would affect goods with annual sales of \$2.6 billion by July of 2011. For purposes of the revenue estimate, it is assumed that the bill causes consumers to move purchases of about 7.5% of the annual total into the window for GET exemption (about four times the average weekly sales amount). Thus, the GET loss is estimated to be \$7.8 million (= \$2.6 billion X 0.075 X 0.04) for each fiscal year beginning in FY2012 (assuming the legislation is passed before the sale time for July and August of 2011).

## **III. OTHER COMMENTS**

The Department offers the following technical comments for the committee's consideration—

**LIMIT PER PURCHASE**—As currently written, the exemption applies to “purchases.” This provision would not preclude people from “stacking” or “structuring” purchases by returning to the retailer later over the weekend. The Department does not object to repeat uses of the exemption and merely points it out.

**SUPPORT FOR SUBSECTION (d)**—The Department supports subsection (d) and requiring that proper records be required for this GET holiday. The Department appreciates this provision because it shifts the administrative burden to the retailer to ensure compliance.

# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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**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