

MAR 11 2016

SENATE CONCURRENT RESOLUTION

REQUESTING THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM, IN CONSULTATION WITH THE DEPARTMENT OF BUDGET AND FINANCE, AND DEPARTMENT OF TAXATION, TO CONDUCT A STUDY ON THE ECONOMIC IMPACT OF GRANTING AN EXEMPTION FOR THE SALE OF GOODS AND SERVICES TO THE FEDERAL GOVERNMENT FROM THE STATE GENERAL EXCISE TAX.

1 WHEREAS, contracts to provide goods and services to the
2 federal government are a vital part of Hawaii's economy, and
3 these contracts provide opportunities for Hawaii small
4 businesses to establish themselves and to create well-paying
5 careers for Hawaii residents; and
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7 WHEREAS, of the approximately \$2,000,000,000 of federal
8 contracts that are available for bid annually in Hawaii,
9 approximately \$900,000,000 is set aside for small businesses;
10 and
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12 WHEREAS, businesses are assessed a State's general excise
13 tax rate of four percent for the sale of goods and services to
14 the federal government and another half percent surcharge for
15 the sale of goods and services on Oahu, but goods and services
16 used and consumed outside the State are not taxed under the
17 general excise tax; and
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19 WHEREAS, Hawaii is one of only three states in the nation –
20 the others being Washington and Vermont – that apply the general
21 excise tax to the provision and sale of goods and services by
22 businesses domiciled in their states to the federal government;
23 and
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25 WHEREAS, federal agencies overseeing the bidding process
26 have opined that since the sale of goods to the federal
27 government is not subject to the State's general excise tax, the
28 federal government will not enforce the State's tax on out-of-



1 state small businesses bidding to provide goods and services to
2 the federal government; and

3
4 WHEREAS, the Hawaii Department of Taxation has admitted
5 that they are unable to effectively track the sale of goods and
6 services that are made to the federal government by out-of-state
7 vendors, and are unable to accurately determine and report on
8 the aggregate amount of excise taxes that are due and are owed
9 to the State from these out-of-state vendors; and

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11 WHEREAS, because businesses domiciled and based in Hawaii
12 are assessed the State's general excise tax, but businesses
13 outside the State are not, Hawaii businesses are effectively at
14 a disadvantage when they bid on federal contracts for goods and
15 services, and as a result most of these contracts are awarded to
16 out-of-state businesses; and

17
18 WHEREAS, when Hawaii's small businesses lose these
19 contracts for providing goods and services to the federal
20 government in Hawaii, the overall economic activity decreases
21 within the State, which negatively affects the State's tax
22 revenue and economy; and

23
24 WHEREAS, this body would like to better understand the
25 effect of granting an exemption from the general excise tax for
26 the sale of goods and services to the federal government,
27 especially as it relates to federal contracts awarded to in-
28 state small businesses, economic activity in the State, job
29 creation in the State, personal and corporate income, and the
30 state tax revenue; and

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32 WHEREAS, three state agencies have expertise over various
33 aspects of this issue:

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35 (1) The Department of Business, Economic Development, and
36 Tourism is responsible for fostering economic
37 development within the State;

38
39 (2) The Department of Budget and Finance is responsible
40 for administering the state budget and developing near
41 and long range financial plans for the State; and
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(3) The Department of Taxation is responsible for administering the tax laws of the State; now, therefore,

BE IT RESOLVED by the Senate of the Twenty-eighth Legislature of the State of Hawaii, Regular Session of 2016, the House of Representatives concurring, that the Department of Business, Economic Development, and Tourism, in consultation with the Department of Budget and Finance and Department of Taxation, is requested to determine the potential increase in economic activity, including the number of jobs, personal and corporate income, and personal and corporate taxes that would result from granting an exemption for the sale of goods and services to the federal government from the state general excise tax; and

BE IT FURTHER RESOLVED that the Department of Budget and Finance and Department of Taxation are requested to cooperate and assist the Department of Business, Economic Development, and Tourism; and

BE IT FURTHER RESOLVED that the Director of Business, Economic Development, and Tourism is requested to submit findings, recommendations, any proposed legislation, and a clear narrative of the methodology the departments used to conduct this analysis to the Legislature no later than twenty days prior to the convening of the Regular Session of 2017; and

BE IT FURTHER RESOLVED that certified copies of this Concurrent Resolution be transmitted to the Director of Business, Economic Development, and Tourism; Director of Finance; and Director of Taxation.

OFFERED BY: B



S.C.R. NO. 164

Handwritten signature and date
2/24/12





DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Thursday, April 14, 2016
9:00 A.M.
State Capitol, Room 312

in consideration of
SCR164

**REQUESTING THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT,
AND TOURISM, IN CONSULTATION WITH THE DEPARTMENT OF BUDGET AND
FINANCE, AND DEPARTMENT OF TAXATION, TO CONDUCT A STUDY ON THE
ECONOMIC IMPACT OF GRANTING AN EXEMPTION FOR THE SALE OF GOODS
AND SERVICES TO THE FEDERAL GOVERNMENT FROM THE STATE GENERAL
EXCISE TAX.**

Chair Kawakami, Vice Chair Kong, and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) offers comments on SCR164, which requests DBEDT to conduct a study on the economic impact of granting an exemption for the sale of goods and services to the federal government from the State General Excise Tax. DBEDT would like to provide the following comments:

1. In FY2014, the federal government awarded \$2.9 billion in grants and \$2.2 billion in contracts within Hawaii.¹ However, extensive analysis and data collection would be required to estimate the amount of federal spending that would be subject to Hawaii's General Excise Tax. DBEDT does not have the adequate resources to collect all the data required for this analysis.

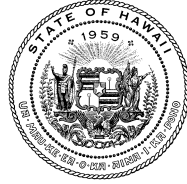
¹ 2016. Federal Spending in the States 2005-2014. The PEW Charitable Trusts. March. pp 6.

2. We estimate that the cost to hire a firm to collect the required data would be \$200,000.
3. As noted in the resolutions, collaboration with DOTAX would be beneficial for this analysis. Due to data confidentiality, DBEDT employees do not have access to the State tax data.

Thank you for the opportunity to provide the above comments.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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DEPARTMENT OF TAXATION
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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

To: The Honorable Derek S. K. Kawakami, Chair
and Members of the House Committee on Economic Development and Business

Date: Thursday, April 14, 2016
Time: 9:00 A.M.
Place: Conference Room 312, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.C.R. No. 164, Requesting the Department of Business, Economic Development, and Tourism, in Consultation with the Department of Budget and Finance, and Department of Taxation, to Conduct a Study on the Economic Impact of Granting an Exemption for the Sale of Goods and Services to the Federal Government from the State General Excise Tax.

The Department of Taxation (Department) appreciates the intent of S.C.R. No. 164, and offers the following comments for your consideration.

This resolution requests that the Department, in concert with the Department of Business, Economic Development, and Tourism (DBEDT) and the Department of Budget and Finance, to determine the potential increase in economic activity, including the number of jobs, personal and corporate income, and personal and corporate taxes that would result from granting an exemption for the sale of goods and services to the federal government from the state general excise tax (GET).

The Department is willing to comply with this resolution to the best of its ability and defers to DBEDT regarding its ability to make the types of economic predictions called for in this resolution. The Department is able to provide data to the extent allowed by confidentiality laws, but notes that it does not perform the type of economic analysis called for in this resolution.

It is important to note that sales of tangible personal property to the federal government are already exempt from the GET under section 237-25, Hawaii Revised Statutes (HRS); therefore, the exemption the Department is asked to study would apply to sales of services and sales of services in conjunction with tangible personal property.

It is also important to note that, for the sales services to be used and consumed in Hawaii, the out-of-state businesses referred to in the Whereas provisions of this resolution would typically be subject to the GET for the same activity that in-state businesses would be, assuming that the out-of-state businesses have nexus with Hawaii. Services used and consumed outside Hawaii are already exempt from the GET, pursuant to section 237-29.53, HRS. In addition, for taxpayers that do business within and without the State, section 237-21, HRS, allows for apportionment.

If the competitive disadvantage faced by in-state businesses referenced in this measure does in fact exist, it is an issue related to enforcement of the tax laws. The Department has systems in place through which taxpayers may report suspected nonpayment of taxes by other parties. Individuals may anonymously report information on non-filers via email, phone or fax.

Thank you for the opportunity to provide comments.