

**SB 1678**



Senator Donna Mercado Kim, Chair  
Senator Shan Tsutsui, Vice Chair  
Committee on Ways and Means  
State Capitol, Honolulu, Hawaii 96813

HEARING Thursday, February 26, 2009  
9:00 am  
Conference Room 221

**RE: SB1678, SD1, Relating to Taxation**

Chair Kim, Vice Chair Tsutsui, and Members of the Committee:

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

**RMH supports SB1678, SD1, which adopts amendments to Hawaii's tax laws to implement Streamlined Sales and Use Tax Agreement.**

Through our affiliation with the National Retail Federation, the world's largest retail trade association, and a major participant in the Streamlined Sales Tax Project, RMH has watched the development and progress of this program over the past eight years and has supported Hawaii's initiatives to participate in the multi-state discussions. As electronic commerce increased dramatically in recent years, traditional brick and mortar retailers, which are required by law to collect taxes for government, have experienced an erosion of their sales base to remote sellers, which, under most circumstances, are not subject to tax mandates. The Streamlined Sales and Use Tax Project will level the playing field.

Retailers nationally are encouraged that current initiatives in Congress hold greater promise to ameliorate this unfair situation, and there is consensus that federal legislation will be enacted soon. SB1678, SD1, makes the necessary amendments to Hawaii tax laws to facilitate our compliance.

We respectfully request that you pass SB1678, SD1. Thank you for your consideration and for the opportunity to comment on this measure.

Carol Pregill, President



The REALTOR® Building  
1136 12<sup>th</sup> Avenue, Suite 220  
Honolulu, Hawaii 96816

Phone: (808) 733-7060  
Fax: (808) 737-4977  
Neighbor Islands: (888) 737-9070  
Email: har@hawaiiirealtors.com

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February 25, 2009

**The Honorable Donna Mercado Kim, Chair**  
Senate Committee on Ways and Means  
State Capitol, Room 211  
Honolulu, Hawaii 96813

**RE: S.B. 1678, S.D.1, Relating to Taxation**

**HEARING DATE:** Thursday, February 26, 2009 at 9:00 a.m.

Aloha Chair Kim and Members of the Committee on Ways and Means:

I am Craig Hirai, a member of the Subcommittee on Taxation and Finance of the Government Affairs Committee of the Hawai'i Association of REALTORS® ("HAR"), here to testify on behalf of the HAR and its 9,600 members in Hawai'i. HAR **supports** S.B. 1678, S.D.1, which adopts amendments to Hawaii tax laws to implement the streamlined sales and use tax agreement.

The Report of the 2001-2003 Tax Review Commission states that Hawaii would potentially achieve not only the benefit of better definitions, uniformity, and certainty, but also increase tax compliance by interstate vendors (primarily mail order and e-commerce merchants) who agree to pay state taxes under the Streamlined Sales Tax Project. The Report goes on to state that because of Hawaii's uniquely broad based General Excise and Use Tax system, by joining the Streamlined Sales Tax Project, Hawaii may be able to better maintain the viability of its broad revenue base.

The Report of the 2005-2007 Tax Review Commission, however, states that while the Commission believes that the goal of coordinating the collection of taxes on interstate sales, such as via the internet, is desirable, and that Hawaii should remain involved in discussions on the Streamlined Sales Tax Project, the Commission did not think that Hawaii should make a formal commitment yet.

HAR believes that the delayed effective date contained in Section 35 of S.B. 1678, S.D.1, should help alleviate the concerns of the 2005-2007 Tax Review Commission, and that S.B. 1678, S.D.1, should eventually level the playing field for local merchants who must deal with the high cost of doing business in Hawaii and still compete with mail order and e-commerce merchants from outside of the State.

HAR looks forward to working with our state lawmakers in building better communities by supporting quality growth, seeking sustainable economies and housing opportunities, embracing the cultural and environmental qualities we cherish, and protecting the rights of property owners.

Mahalo for the opportunity to testify.

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510  
FAX NO: (808) 587-1560

## SENATE COMMITTEE ON WAYS & MEANS

### WRITTEN POSITION STATEMENT REGARDING COMMITTEE DECISION MAKING

February 26, 2009

Dear Chair Kim:

Please find attached the Department of Taxation's summary position statement relating to the Senate bills being heard by your Committee on February 26, 2009. As a decision making hearing, the Department provides you and your Committee with the attached spreadsheet that includes the following information for efficient review of its positions:

- **Bill Number**
- **Bill Title**
- **Position**
- **Comments**
- **Revenue Impact**
- **Methodology**

The Department hopes that this information is useful to you, your Committee members, and your staff. Please feel free to contact me directly at 587-1513 if any additional questions arise.

Thank you for the opportunity to provide comments.

Respectfully submitted,

KURT KAWAFUCHI  
Director of Taxation

# Department of Taxation

## Position Summary

Senate Committee on Ways & Means/February 26, 2009 Agenda

Bill Number	Bill Title "Relating to..."	Position	Comments	Revenue Impact	Methodology
SB 1299 SD 1	ADVANCED FLIGHT SIMULATOR TRAINING	Opposed to revenue loss	No technical comments.	Assuming a current effective date: *\$400,000 FY10 *\$1.2 m FY 11 *\$400,000 FY 12 *\$275,000 FY 13 thereafter	It is estimated that the construction of facilities for the aviation training would cost \$50 million over three years, with \$10 million being incurred in the first and third years and \$30 million being incurred in the second year. In the fourth year and thereafter, the facility is assumed to generate \$5 million in gross receipts and to increase the enterprise zone tax credit by 5%. GET is foregone at the rate of 4% on the construction costs and on the gross receipts from the training facility.
SB 427	GENERAL EXCISE TAX	No comments	No technical comments.	Cannot provide due to taxpayer specific information.	Please discuss the revenue impact directly with the proponents of this measure.
SB 528 SD 1	TOBACCO	Support	No technical comments.	Loss of the retail tobacco permit enforcement function could result in a revenue loss of \$5.3 million per year.	Revenue loss is based on the assumption that 5% of the revenue might be lost due to lower level of compliance.

SB 1678 SD 1

TAXATION

No position;  
however  
acknowledge  
the potential  
revenue gain

No technical comments.

The bill will have little revenue impact, unless Congress enacts required legislation. However, the expense of the oversight committee would be incurred. If the required Congressional legislation is enacted, the effect on revenues is indeterminate, but it could be \$25 million annually in additional GET and Use Tax collections. Without the federal legislation, the revenue gain is estimated to be \$1-\$5 million. The exemption for blind, deaf, and disabled taxpayers would cost about \$500 thousand annually.

William Fox has estimated that e-commerce cost Hawaii between \$113 million and \$117 million in 2003. This number may be too large. First, Hawaii has an income tax credit for the general excise tax (GET) on capital investments made by business, so companies have little incentive to avoid the GET on investment property. Secondly, it is hard for individuals to avoid the tax on big-ticket items, such as automobiles.

SB 32 SD 1

FUEL

Opposed to  
revenue loss

No technical comments.

Assuming a current effective date, annual revenue loss is estimated at \$40.0 million for FY 2010 and after.

The cost of the GET exemptions for alcohol fuels has been estimated to be \$40 million annually. Sales of gasoline in CY08 is estimated to be 445 million gallons. Assuming that this figure applies in future, that 100% contains alcohol, and that the price net of all taxes is \$2.25 per gallon, the GET exemption would cost \$40 million annually ( $=445 \text{ million} \times 1.00 \times \$2.25 \times .04$ )