

Honolulu, Hawaii

March 17, 2006

RE: S.B. No. 2222
S.D. 2
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Third State Legislature
Regular Session of 2006
State of Hawaii

Sir:

Your Committee on Economic Development & Business Concerns,
to which was referred S.B. No. 2222, S.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO STREAMLINED SALES AND USE
TAX,"

begs leave to report as follows:

The purpose of this bill is to amend the State's tax laws to allow Hawaii to participate in the Streamlined Sales and Use Tax Agreement (SSUTA), a project undertaken with other states that is intended to simplify sales and use tax administration as it relates to multiple sales and use tax rates, definitions, and taxing jurisdictions.

Specifically, this bill:

- (1) Moves the implementation of the tax rate for wholesale transactions to a new chapter;
- (2) Adds a new chapter on the taxation of imports of property, services, and contracting;
- (3) Moves the 0.15 percent tax on insurance producers to a new chapter; and
- (4) Eliminates the tax on businesses owned by disabled persons.



The committee created by Act 3, Special Session, Session Laws of Hawaii of 2005 (Act 3), to review the SSUTA; Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO; Hawaii Association of Realtors; and Retail Merchants of Hawaii testified in support of this bill. The Department of Taxation (DOTAX), Tax Foundation of Hawaii, and National Federation of Independent Business offered comments.

Under current law, only vendors who are physically present in the state are required to collect and remit tax on taxable sales in that state. As a result, the Legislature finds that Hawaii has lost approximately \$112,000,000 in state and local revenues due to the inability to capture tax revenues from mail-order, catalog, electronic commerce transactions, and other vendors who exist beyond Hawaii's boundaries.

In response to this, the Legislature enacted chapter 255D, Hawaii Revised Statutes (HRS), also known as the Hawaii Simplified Sales and Use Tax Administration Act. This Act essentially authorized DOTAX to participate in the SSUTA and provided conditions to participate. The State of Hawaii, and other participating states, must pass implementing legislation that simplifies and creates uniform policies that conform to the requirements of the SSUTA.

The Legislature also enacted Act 3 to:

- (1) Require legislative concurrence for DOTAX to enter into the SSUTA; and
- (2) Request DOTAX and three designees to identify issues that needed resolution for orderly implementation of the SSUTA and create legislation.

Amending Hawaii's tax laws to conform to the requirements of the SSUTA will provide increased tax revenues to local businesses who sell products outside of Hawaii. However, your Committee notes numerous concerns resulting in the implementation of SSUTA policies, such as:

- (1) Sourcing - Currently, there is no decision about whether taxes will be assessed according to the product's point of origin or destination. Furthermore, the different general excise tax rates between the City and County of Honolulu and three Neighbor Island counties will result



in a complex system of differing tax revenues depending on where the tax is assessed;

- (2) Outsourcing - The complexities and higher costs of assessing new taxes may deter companies from establishing businesses in the United States and the State of Hawaii; and
- (3) Hawaii businesses and consumers, who rely on products from the mainland, will be negatively impacted by the new taxes.

Accordingly, your Committee has amended this bill by:

- (1) Changing the effective date to July 1, 3000, to encourage further discussion; and
- (2) Making technical, nonsubstantive amendments for clarity and style.

As affirmed by the record of votes of the members of your Committee on Economic Development & Business Concerns that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2222, S.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2222, S.D. 2, H.D. 1, and be referred to the Committees on Consumer Protection & Commerce and Judiciary.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development & Business
Concerns,



JON RIKI KARAMATSU, Chair



