

STAND. COM. REP. NO. 1257

Honolulu, Hawaii

March 16, 2007

RE: S.B. No. 1840
S.D. 1
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Sir:

Your Committee on Economic Development & Business Concerns,
to which was referred S.B. No. 1840, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this bill is to take steps toward becoming a member state under the Streamlined Sales and Use Tax Agreement (Agreement), that simplifies state sales and use tax laws and is intended to capture taxes on sales by out-of-state vendors. This bill:

- (1) Amends Hawaii tax laws to comply with the prerequisites for state membership under the Agreement;
- (2) Appropriates unspecified funds to the Auditor for technical assistance and briefings related to further compliance with those prerequisites; and
- (3) Establishes a committee of legislative and public members and the Director of Taxation, to assist the state to comply with those prerequisites.

The Hawaii Association of REALTORS, Hawaii State Teachers Association, and Retail Merchants of Hawaii supported this bill. The Department of Taxation, NFIB Hawaii, and Tax Foundation of Hawaii commented.

SB1840 HD1 HSCR EDB HMS 2007-3174



The 2005-2007 Tax Review Commission recommended that Hawaii remain involved in discussions on the Streamlined Sales Tax Project (Project) but recommended against making a formal commitment at this time. This was based on estimates that the costs of the Project would exceed revenues, and because the states with the largest economies have not joined the Project, jeopardizing its ability to effectively collect the use tax.

Your Committee finds that a formal assessment of the start-up and recurring costs and benefits of this Project is warranted before Hawaii overhauls its tax laws and commits its resources. Further, if a cost-benefit analysis supports Hawaii's commitment, a schedule for implementing the Agreement is needed that is designed to maximize the benefits and minimize the risks and costs to Hawaii. This schedule should recognize that the Project is still in its formative stages, and should take into account the number and economies of states that have become Project members.

Accordingly, your Committee has amended this bill by:

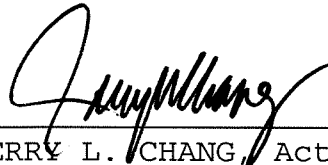
- (1) Requiring the Auditor to perform a study to be submitted to the 2008 Legislature, including:
 - (A) The costs and benefits of implementing the Agreement in Hawaii;
 - (B) Recommendations on the advisability of committing to the Agreement; and
 - (C) A recommended schedule for implementation of the Agreement that maximizes benefits and minimizes risks and costs to Hawaii;
- (2) Delaying the date on which the Tax Code is amended by this measure, from July 1, 2009, to July 1, 2012; and
- (3) Changing the date on which the remainder of the bill becomes effective to July 1, 2034.

Technical nonsubstantive amendments have also been made for clarity, consistency, 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. 1840, S.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 1840, S.D. 1, 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,



JERRY L. CHANG, Acting Chair



