

Honolulu, Hawaii

FEB 12 2008

RE: H.B. No. 1755  
H.D. 1  
S.D. 1

Honorable Colleen Hanabusa  
President of the Senate  
Twenty-Fourth State Legislature  
Regular Session of 2008  
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred H.B. No. 1755, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO THE GENERAL EXCISE TAX,"

begs leave to report as follows:

The purpose of this measure is to clarify the tax consequences of the reduced general excise tax rate of 0.5 per cent on service-to-service wholesale transactions. This measure specifies if the reduced rate applies to dealers that furnish goods or services related to fulfilling a manufacturer's warranty obligations to a purchaser of the manufacturer's tangible personal property.

Testimony in support of this measure was submitted by the Hawaii Automobile Dealers' Association and King Auto Group. Comments on this measure were submitted by the Department of Taxation and the Tax Foundation of Hawaii.

Your Committee finds that to reduce the pyramiding tax effects of the general excise taxes on service-to-service wholesale transactions, the Legislature reduced the general excise tax rate on those transactions to 0.5 per cent. This measure will explicitly inform the service-to-service industry of their general excise tax obligations in relation to fulfilling a manufacturer's warranty obligation for tangible personal property.



Accordingly, it is the intent of your Committee to support a reduced general excise tax rate of 0.5 per cent on service-to-service wholesale transactions for dealers who fulfill warranty obligations to purchasers of tangible personal property.

Your Committee received a fiscal impact statement from the Department of Taxation that this measure, as introduced, would result in an annual revenue loss to the State of \$1,500,000. Their methodology is as follows:

Automobile manufacturer warranties encompass about 85% of all warranty obligations on tangible personal property in the United States, with the remainder consisting of warranties on electronics, such as computers and home appliances. In 2005, warranty claims cost automobile manufacturers approximately \$14,000,000,000 per year. Hawaii's share of the gross domestic product is 0.3 per cent. In addition, from 2005 to 2007 the sales from Hawaii's automobile industry sales declined by 11 per cent. Taking those factors in consideration, along with the difference between the retail and wholesale general excise tax rates and the other warranty obligations on tangible personal property, this measure will result in annual revenue losses to the State of \$1,500,000. That revenue loss is calculated as follows:  
$$\begin{aligned} & \$14,000,000,000 \times .003 \text{ (Hawaii's share of gross domestic product)} \\ & \times 0.89 \text{ (Hawaii's decline in sales)} \times 0.035 \text{ (the difference between} \\ & \text{the retail and wholesale general excise tax rates)} \times 1.15 \\ & \text{(representing the additional warranty obligations on tangible} \\ & \text{personal property in Hawaii)} = \$1,500,000. \end{aligned}$$

Your Committee has amended this measure by changing its effective date to July 1, 2008.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1755, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1755, H.D. 1, S.D. 1, and be referred to the Committee on Ways and Means.



Respectfully submitted on  
behalf of the members of the  
Committee on Economic  
Development and Taxation,

  
\_\_\_\_\_  
CAROL FUKUNAGA, Chair



The Senate  
 Twenty-Fourth Legislature  
 State of Hawaii

**Record of Votes**  
**Committee on Economic Development and Taxation**  
**EDT**

Bill / Resolution No.:* HB 1755 HD1	Committee Referral: EDT, WAM	Date: 2/5/08		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
ESPERO, Will (VC)	✓			
BAKER, Rosalyn H.				/
ENGLISH, J. Kalani				/
IGE, David Y.	✓			
SLOM, Sam	✓			
<b>TOTAL</b>	4			2
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <div style="text-align:center; font-family: cursive; font-size: 1.2em;">Will Espino</div>				
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\*Only one measure per Record of Votes