

STAND. COM. REP. NO.

559

Honolulu, Hawaii

FEB 16 2007

RE: S.B. No. 1840

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred S.B. No. 1840 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to adopt changes to Hawaii's tax law that will allow Hawaii to become a participating member of the National Streamlined Sales Tax Project.

Testimony in support of this measure was received from the Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO; Hawaii Association of REALTORS; and Retail Merchants of Hawaii. The Legislative Committee of Catrala-Hawaii testified in opposition. The Department of Taxation (Department) submitted comments.

Your Committee finds that the Streamlined Sales Tax Project (SSTP) is an effort created by state governments, with input from local governments and the private sector, to simplify and modernize sales and use tax collection and administration. SSTP proposals include tax law simplifications, more efficient administrative procedures, and emerging technologies to substantially reduce the burden of tax collection. The Project's proposals are focused on improving sales and use tax administration systems for both "Main Street" and remote sellers for all types of commerce. Forty-two states and the District of Columbia are involved in the Project.



Your Committee further finds that Hawaii has been a participating member of SSTP since 2003, and that this measure is a culmination of the efforts by both government and the private sector to identify and resolve issues necessary for SSTP compliance.

Your Committee is aware that some members are concerned that SSTP compliance is a "new tax" on Internet commerce. This is not accurate. SSTP provides a standardized means of collecting Hawaii's existing four and one-half per cent use tax on out-of-state sales. Through the SSTP effort, out-of-state sellers can voluntarily collect and remit the correct amount of Hawaii use taxes on out-of-state purchases to the Department of Taxation without imposing any new burdens on Hawaii consumers.

Ultimately, the State's participation in SSTP is premised on treating all taxpayers fairly - to afford the Hawaii-based retailer paying his or her general excise taxes today, the same tax treatment as the out-of-state retailer who sells to Hawaii consumers.

Your Committee received a revenue impact statement from the Department that this measure would increase revenue by about \$10,000,000 annually.

In its methodology, the Department stated that in a study produced for the Office of the Auditor (Auditor) in April 2006, Dr. William Fox estimated that joining the Streamlined Sales and Use Tax Agreement (SSUTA) would provide Hawaii with about \$10,000,000 in additional revenues annually. However, your Committee notes that the 2006 Auditor study was a limited one, based on tax estimates available for a single year. It did not examine Hawaii's growth in electronic or out-of-state commerce.

As such, your Committee finds that 2002 Census Bureau reports of \$1.6 trillion in e-commerce transactions, twenty-four to twenty-five per cent increases in U.S. online sales reported between 2004-2005 ("The State of Retailing Online," a Shop.org Study by Forrester Research, 2005) and a twenty per cent increase in online shopping recorded between 2005 and 2006 (Wall Street Journal, December 23, 2006) illustrate the strong growth of e-commerce in recent years. Revenue erosion is therefore a legitimate concern among state and local governments.



Your Committee notes that the Department requested a delayed effective date to give practitioners and businesses time to adjust to the changes. However, the measure has an effective date of January 2009, for all but two sections of the bill, which is well beyond the extra year the Department noted is optimal for significant changes in the Hawaii Revised Statutes (HRS).

The two sections that would take effect July 1, 2007, authorize establishment of a seven-member working committee to address technical, compliance, policy, and other issues involved in final implementation; and appropriate funds to the Auditor for technical assistance support for a working committee.

Your Committee also notes that in their testimony in opposition, the Legislative Committee of Catrala-Hawaii expressed concern regarding the effect of the legislation on the visible pass through pursuant to section 437D-8.4, HRS. Your Committee believes this may be a misreading of the bill, as the proposed language would not affect the provisions of that section and the general excise tax will continue as Hawaii's "sales" tax.

It is the intent of your Committee to support the continuing effort toward compliance with the SSUTA.

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 S.B. No. 1840 and recommends that it pass Second Reading 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.:*	Committee Referral:	Date:		
<i>SB 1840</i>	<i>EDT, WAM</i>	<i>2/13/07</i>		
<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 checked="" type="checkbox"/> Pass, unamended 2312	<input 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)	✓			
ENGLISH, J. Kalani				✓
IGE, David Y.	✓			
SLOM, Sam			✓	
TOTAL	3		1	1
Recommendation:				
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
<i>Will Espero</i>				
Distribution:				
Original File with Committee Report	Yellow Clerk's Office	Pink Drafting Agency		

*Only one measure per Record of Votes