

JN Group, Inc.

fka WHOLESale MOTORS, INC.

ESTABLISHED IN 1961

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JN Automolive Group

JN Chevrolet

January 30, 2008

JN Mazda

Audi of Hawaii

The Honorable Carol Fukunaga
Chair, Senate Economic Development and Taxation Committee
Room 216 Hawaii State Capitol
Honolulu, HI 96813

Audi of Maui

Ferrari of Hawaii

Maserati of Hawaii

The Honorable Rosalyn H. Baker
Chair, Senate Ways and Means Committee
Room 210 Hawaii State Capitol
Honolulu, HI 96813

Lamborghini of Hawaii

JN Lotus

Subj: De-pyramiding tax on warranty / request to fast-track HB 1755

La Collezionre Nicolai

Dear Senator Fukunaga and Senator Baker:

First Extended Service

Removing the warranty tax will preserve jobs and bring Hawaii in line with the other States.

JN Car and Truck Rentals


This is particularly important now in light of the recessive state of our industry.

JN Leasing

Sincerely,

JN Advertising

JN Development


for Joseph P. Nicolai
President

Cycle City, Ltd.

Two Wheels - Kauai

Maui Harley-Davidson

Pacific Harley-Davidson

Pacific Buell

Pacific Kawasaki

Pacific Vespa

**DEPARTMENT OF TAXATION
RESEARCH DIVISION • REVENUE IMPACTS ANALYSIS**

**H.B. 1755, H.D. 1, RELATING TO THE GENERAL EXCISE TAX
January 29, 2008**

REVISED

PROPOSAL: The original bill clarifies that the reduced General Excise Tax (GET) rate of 0.5% for wholesale sales of services would apply to tangible personal property and services that dealers provide in fulfillment of warranty obligations of the manufacturer. The bill would take effect upon approval.

The revised bill takes effect on July 1, 2034.

REVENUE IMPACT: The revised bill will not affect tax revenues within the budget window. The original bill could cost more than \$1.5 million annually in lost GET revenues.

METHODOLOGY: According to a report in Wards Auto World published in October of 2005, warranty claims cost car manufacturers about \$14 billion annually. Other industries also offer manufacturer warranties, such as computers and home appliances, but cars probably account for the great bulk of the warranty work.

- Reduce the \$14 billion by 11% (reduction in automobile sales in Hawaii from 70,268 in 2005 to 62,823 in 2007).
- Use Hawaii's share of U.S. GDP to get the State's share of total warranty work (0.30% for automobile).
- Multiple by 3.5% (4% - 0.5%) to get the difference in GET at the wholesale and retail levels
- Add 15% to get the figure for all other warranty cost
- The estimated GET revenue loss for automobile warranty is $\$14 \text{ billion} \times 0.89\% \times 0.003 \times 0.035 = \1.3 million . Adding 15% to the figure to account for all other industries: $\$1.3 \text{ million} \times 0.15 = \0.2 million . Total revenue impact = \$1.5 million.

DISCUSSION: The dealer does not resell the warranty work to the customer after it is performed, so the amounts the dealer receives from the manufacturer typically are considered retail sales under the GET. However, the customer has already paid for the warranty work, either in the original price of the car or by buying warranty protection, so treating the dealer's reimbursement by the manufacturer as an intermediate sale is consistent with the intent of the reduced GET provided for wholesale sales.

H.B. 1755, H.D. 1, RELATING TO THE GENERAL EXCISE TAX
January 24, 2008

PROPOSAL: The original bill clarifies that the reduced General Excise Tax (GET) rate of 0.5% for wholesale sales of services would apply to tangible personal property and services that dealers provide in fulfillment of warranty obligations of the manufacturer. The bill would take effect upon approval.

The revised bill takes effect on July 1, 2034.

REVENUE IMPACT: The revised bill will not affect tax revenues within the budget window. The original bill could cost more than \$2.8 million annually in lost GET revenues.

METHODOLOGY: According to a report in Wards Auto World published in October of 2005, warranty claims cost car manufacturers about \$14 billion annually. Other industries also offer manufacturer warranties, such as computers and home appliances, but cars probably account for the great bulk of the warranty work. Adding 15% to the figure for auto warranty work to account for all other industries and for growth since 2005, using Hawaii's share of U.S. GDP to get the State's share of total warranty work, and multiplying by 3.5% to get the difference in GET at the wholesale and retail levels (4% - 0.5%) the estimated GET revenue loss is \$14 billion X 1.15 X 0.005 X 0.035 = \$2.82 million.

DISCUSSION: The dealer does not resell the warranty work to the customer after it is performed, so the amounts the dealer receives from the manufacturer typically are considered retail sales under the GET. However, the customer has already paid for the warranty work, either in the original price of the car or by buying warranty protection, so treating the dealer's reimbursement by the manufacturer as an intermediate sale is consistent with the intent of the reduced GET provided for wholesale sales.