

**SB 1111**



The REALTOR® Building  
1136 12<sup>th</sup> Avenue, Suite 220  
Honolulu, Hawaii 96816

Phone: (808) 733-7060  
Fax: (808) 737-4977  
Neighbor Islands: (888) 737-9070  
Email: har@hawaiiirealtors.com

**LATE**

March 3, 2009

**The Honorable Donna Mercado Kim, Chair**  
Senate Committee on Ways and Means  
State Capitol, Room 211  
Honolulu, Hawaii 96813

**RE: S.B. 1111 Relating to Taxation**

**HEARING DATE: Wednesday, March 4, 2009 at 9:30 a.m.**

Aloha Chair Kim and Members of the Committee on Ways and Means.

I am Craig Hirai, a member of the Subcommittee on Taxation and Finance of the Government Affairs Committee of the Hawai'i Association of REALTORS® ("HAR"), here to testify on behalf of the HAR and its 9,600 members in Hawai'i. HAR **opposes** S.B. 1111, Relating to Taxation, which increases the rate of the Transient Accommodations Tax ("TAT").

HAR believes that most owners of short-term rentals will not be able to pass on a TAT increase to their tenants during these tough economic times, and that such an increase will only increase their expenses and possibly increase the losses on their rentals.

HAR looks forward to working with our state lawmakers in building better communities by supporting quality growth, seeking sustainable economies and housing opportunities, embracing the cultural and environmental qualities we cherish, and protecting the rights of property owners.

Mahalo for the opportunity to testify.

Kauai Chambe of Commerce  
4268H Rice St.  
Lihue, HI 96766

**LATE**

March 4, 2009


Chairperson Kim and members of the Senate Ways & Means Committee  
RE SB1111, Tuesday March 4, room 211

My name is Randall Francisco and I am President of the Kauai Chamber of Commerce which represents over 460 members comprising of over 87% small business and employing with over 8000 employees throughout the island of Kauai.

The Kauai Chamber of Commerce opposes SB 1111 Relating to Taxation. SB 1111 would increase the Transient Accommodations Tax ("TAT") by an unspecified amount. In 1999 the TAT was increased to 7 1/4%. Coupled with the GET, guests pay an 11.41% tax rate. On Oahu, this amount increased to 11.96% on 1/1/2007. Based on the 2007 annual average cost of a Hawaii hotel room and the 11.41% tax rate, the average tax bill would be \$22.80 per night. While the average U.S. room tax (sales tax and bed tax) is 12.46%, the lower U.S. average room rate results in the average tax of only \$12.91 per night. This amount is significantly below what a customer pays in Hawaii. Hawaii has reached the point where added taxes hurt business. Destinations with the highest room taxes are business destinations like New York City, Washington D.C., San Francisco, Chicago and Seattle. In these destinations, most travelers are not paying the hotel themselves but rather charging it to their business. In resort destinations like Hawaii, our competitors tax rates are often lower (Las Vegas 9%, Ft. Lauderdale 11.3%, etc...).

All of these destinations also have lower room rates due to lower costs of doing business thus leading to even lower tax bills for the customer. The cost of doing business and the cost of taxes are increasingly making us less competitive. Now is absolutely the worst time to be increasing taxes. Hotels and other businesses throughout Hawaii are discounting to attract customers. The discounts and very attractive offers we have seen recently are helping to reduce the losses in visitor arrivals and hotel occupancy. This in turn is helping to keep people working. Anything that increases the cost of doing business will have a negative impact by making it more difficult to attract visitors and cost jobs. The Kauai Chamber of Commerce strongly urges you to hold this measure. Mahalo for this opportunity to testify.

Sincerely yours,

  
Randall Francisco  
President

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
DEPUTY DIRECTOR

**LATE**

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510  
FAX NO: (808) 587-1560

**SENATE COMMITTEE ON WAYS & MEANS  
TESTIMONY REGARDING SB 1111  
RELATING TO TAXATION**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**  
**DATE: MARCH 4, 2009**  
**TIME: 9:30AM**  
**ROOM: 211**

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This measure proposes to increase the transient accommodations tax by an unspecified amount, with the increase being deposited to the benefit of the general fund.

The Department of Taxation (Department) **opposes this tax increase.**

The Department has concerns with the tax increase in this measure. The Department points out that it is a well-settled principle of economics that when an economy is slowing, increasing taxes is strongly discouraged because people will be less able to pay for the added costs of increased taxes. During economic slowing, economics suggests that money should remain with the people and in the economy in order to boost economic performance. The Department cautions further consideration of this legislation during a slowing economy based upon these economic concepts.

The Department is particularly concerned with the negative impact this tax increase could have on the State's already delicate tourism industry. Recent studies and data show that Hawaii's tourism industry is hurting badly. Increasing the tax on this industry, thus making Hawaii more expensive and a less favorable destination, could force Hawaii's economy into further disarray.

This legislation will result in an indeterminate revenue impact due to the blank amounts.



**HAWAII GOVERNMENT EMPLOYEES ASSOCIATION**  
AFSCME Local 152, AFL-CIO

**LATE**

**RANDY PERREIRA**  
*Executive Director*  
Tel: 808.543.0011  
Fax: 808.528.0922

**NORA A. NOMURA**  
*Deputy Executive Director*  
Tel: 808.543.0003  
Fax: 808.528.0922

**DEREK M. MIZUNO**  
*Deputy Executive Director*  
Tel: 808.543.0055  
Fax: 808.523.6879

The Twenty-Fifth Legislature, State of Hawaii  
Hawaii State Senate  
Committee on Ways and Means

Testimony by  
Hawaii Government Employees Association  
March 4, 2009

S.B. 1111 – RELATING TO TAXATION

The Hawaii Government Employees Association supports the purpose and intent of S.B. 1111. This bill proposes to increase the transient accommodations tax by an unspecified amount beginning July 1, 2009. The additional revenue would be placed into the general fund.

Although we support raising additional revenues and placing these into the general fund, we believe there are better alternatives for raising needed revenue. For example, we prefer S.B. 1346, S.D. 1, which combines an unspecified increase in the general excise tax with strategically targeted tax relief that will help many taxpayers and make the overall tax system more progressive.

The current budgetary challenges can be better addressed through raising the general excise tax rate, while offsetting this increase by making the State's income tax more progressive and increasing certain tax credits for individuals/families. Careful consideration of budget choices, including tax expenditures, is also warranted.

Some tax increases will be needed to avoid the negative effects of deep budget cuts. While tax increases reduce economic activity, they have a smaller impact on consumption because some of the money paid in taxes might otherwise have been saved rather than spent. Modest tax increases are less harmful to the economy than significant budget reductions.

The answer to solving our budget deficit is a package of thoughtful proposals contained in S.B. 1346, S.D. 1.

Thank you for the opportunity to testify in support of S.B. 1111.

Respectfully submitted,

Nora A. Nomura  
Deputy Executive Director



**LATE**

THE SENATE  
25<sup>th</sup> LEGISLATURE  
REGULAR SESSION of 2009

COMMITTEE ON WAYS AND MEANS  
Senator Donna Mercado Kim, Chair

3/4/09  
9:30 AM, Room 211

SB 1111  
Relating to Taxation

Chair Kim and Members of this Committee, my name is Max Sword, here on behalf of Outrigger Hotels, to speak in opposition to this bill.

In 1990, the city of New York raised their hotel room tax to a point where they had the highest room tax in the nation. The immediate effect was that people who wanted to visit and do business in New York, booked their hotel rooms in surrounding states and cities, then commuted in. Shortly thereafter, the tax was rescinded to the level it is today and people returned. New York continued to operate, but the loss of revenue from hotel businesses was in the millions of dollars.

We believe that raising the Transient Accommodations Tax (TAT) will have the same effect. It would make the cost of a room more expensive, thereby decreasing visitor numbers, which will lead to less taxes into the State coffers, etc.

There are two differences between Hawaii and New York. The first is that even though New York continued to function, they had neighboring areas to support them. We do not. Our nearest neighbor is 2500 miles away. The second is that we are only a leisure destination, while New York is a leisure AND business destination. People HAVE to go to New York, they don't have to come to Hawaii.

Finally, among similar leisure destinations that we compete against, we have one of the highest, if not the highest, TAT of them all.

The bottom line is that increasing the TAT will definitely have an increasingly negative impact on one of our top industries. Is the State willing to take that chance with a TAT increase? I know we are not.

We urge that you to hold this bill and mahalo for allowing me to testify.