

STAND. COM. REP. NO. **2151**

Honolulu, Hawaii

FEB 10 2010

RE: S.B. No. 2405
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fifth State Legislature
Regular Session of 2010
State of Hawaii

Madam:

Your Committee on Economic Development and Technology, to which was referred S.B. No. 2405 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 participate in the national Streamlined Sales and Use Tax Agreement, which simplifies state tax systems and removes burdens to interstate commerce.

Testimony in support of this measure was received from the Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO; Legislative Information Services of Hawaii; Hawai'i Association of REALTORS; Retail Merchants of Hawaii; and National Association of Social Workers, Hawaii Chapter. The Tax Foundation of Hawaii submitted comments.

Written testimony presented to the Committee may be reviewed on the Legislature's website.

Your Committee finds that participation in the national Streamlined Sales and Use Tax Agreement (Agreement) requires that Hawaii change its tax law and adopt a single rate of general excise tax, Hawaii's substitute for a sales tax, to be in conformity with the Agreement. Once a sufficient number of states agree to a uniform framework, this national demonstration project of the feasibility of collecting state use taxes on out-of-state purchases will give states the ability to level the playing field

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for in-state retailers who are at a competitive disadvantage because they collect the sales taxes due on local purchases. Modern technology and e-commerce giants Amazon.com, Borders, Sears, Costco and a wide range of national businesses have demonstrated the ease of calculating taxes due at the point of sale, thereby serving as the most practical reason for the United States Congress to overturn the 1992 Quill vs. North Dakota decision (requiring out-of-state retailers to collect taxes owed to another state at the point of sale was held to be an "undue burden" on commerce).

Your Committee further finds that there are compelling reasons for requiring remote sellers to collect use taxes due on out-of-state purchases that state tax departments have traditionally been unable to enforce against individual taxpayers. In a National Conference of State Legislatures (NCSL) state-by-state listing that highlighted anticipated fiscal year 2010 budget gaps and uncollected 2008 sales/use tax revenue, the aggregate 2010 budget gaps estimated for all states was roughly \$84,340.2 billion dollars, with 2008 uncollected sales/use taxes amounting to \$27,836.7 billion dollars in lost revenue - or approximately thirty-three per cent of the total budget gap (State Budget Update: June 2008, State Budget Update: November 2008 and February 2009 Update on State Budget Gaps: FY 2009 & FY 2010). As states reel from the impact of budget cuts, employee layoffs and furloughs, disruption of critical health care and social services, even large states like Texas, Massachusetts, Florida, Illinois, Virginia, Missouri, and California introduced streamlined sales and use tax conforming legislation in 2009. Collecting state use taxes that were previously uncollectable is an obvious alternative to be pursued before tax increases are adopted.

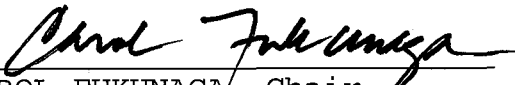
From the NCSL listing, Hawaii's budget gap was projected at \$1.057 billion for fiscal year 2010, and uncollected 2008 use taxes projected at \$245.5 million. Although Hawaii cannot obtain the full amount of its uncollected use taxes until Congress acts to authorize states to pursue the streamlined solution, adoption of this year's legislation will give the State an opportunity to capture voluntary collections on behalf of participating streamlined states. Twenty-three states that have adopted conforming legislation since 2005 have received over \$468 million in voluntarily-collected use taxes through 2009 from 1,200 retailers.



Your Committee has amended this measure by making technical amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Economic Development and Technology that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2405, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2405, S.D. 1, and be referred to the Committee on Ways and Means.

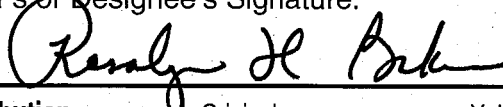
Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Technology,


CAROL FUKUNAGA, Chair



The Senate
Twenty-Fifth Legislature
State of Hawaii

Record of Votes
Committee on Economic Development and Technology
EDT

Bill / Resolution No.:* SB 2405	Committee Referral: EDT, WAM	Date: 2-5-2010		
<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)	✓			
BAKER, Rosalyn H. (VC)	✓			
HEE, Clayton				✓
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: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes