

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
FAX NO: (808) 587-1584

FREDERICK D. PABLO
INTERIM DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

LATE TESTIMONY

HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 364 RELATING TO ECONOMIC DEVELOPMENT

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF
 TAXATION (OR DESIGNEE)

COMMITTEE: ERB

DATE: FEBRUARY 8, 2011

TIME: 8AM

POSITION: SUPPORT INTENT

This measure provides an annual general excise tax (GET) holiday on the sales of certain school supplies, computers, and computer equipment starting at the beginning of the last Wednesday in July and ending five days after.

The Department of Taxation (Department) **supports the intent** of this measure; however is **concerned with the fiscal impact** of this measure given the current revenue forecast.

I. SUPPORT FOR TAX RELIEF THROUGH A GET HOLIDAY

The Department supports the tax relief intended by this measure. In light of the current economic slowing experienced in Hawaii and nationwide, both state governments and the national government have been actively seeking means to stimulate the economy. This measure serves as an efficient and effective means of stimulating the economy on a short-term basis. How much stimulus would result from this measure is difficult to project; however all tax revenue would remain in the economy. GET holidays will likely encourage people to purchase the targeted goods in higher volume.

Beyond stimulus, this measure also serves the targeted purpose of minimizing the tax impact on the sales of school supplies and expensive computers. As is well known, having access to the necessary school supplies and computer technology greatly enhances the quality of education children experience. For others, access to computers is a necessity in carrying out many daily tasks.

II. FISCAL CONCERN, REVENUE IMPACT & METHODOLOGY

As with all measures, the Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either.

This measure will result in an estimated revenue loss of \$7.8 million per year from FY 2012 to FY 2016.

It is estimated that retail sales covered by the legislation amounted to about \$2 billion in 2002. Using growth in retail sales from 2002 through 2009, it is estimated that the bill would affect goods with annual sales of \$2.6 billion by July of 2011. For purposes of the revenue estimate, it is assumed that the bill causes consumers to move purchases of about 7.5% of the annual total into the window for GET exemption (about four times the average weekly sales amount). Thus, the GET loss is estimated to be \$7.8 million ($= \$2.6 \text{ billion} \times 0.075 \times 0.04$) for each fiscal year beginning in FY2012 (assuming the legislation is passed before the sale time for July and August of 2011).

III. OTHER COMMENTS

The Department offers the following technical comments for the committee's consideration—

LIMIT PER PURCHASE—As currently written, the exemption applies to “purchases.” This provision would not preclude people from “stacking” or “structuring” purchases by returning to the retailer later over the weekend. The Department does not object to repeat uses of the exemption and merely points it out.

SUPPORT FOR SUBSECTION (d)—The Department supports subsection (d) and requiring that proper records be required for this GET holiday. The Department appreciates this provision because it shifts the administrative burden to the retailer to ensure compliance.

**Testimony to the House Committee on Economic Revitalization & Business
Tuesday, February 8, 2011 at 8:00 a.m.
Conference Room 312, State Capitol**

RE: HOUSE BILL NO. 364 RELATING TO ECONOMIC DEVELOPMENT

Chair McKelvey, Vice Chair Choy, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") is in general **support** of the intent of HB 364, which is one of the bills in the Small Business Caucus package. The Chamber appreciates the effort of the Legislature to help small businesses in Hawaii.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

This measure creates an annual exemption from the general excise tax on purchases of: school supplies of less than \$15 per item; computers, computer software, and computer supplies of less than \$1,500 per purchase; clothing of less than \$100 per item; and books of less than \$50 per item, made beginning on Wednesday of the last full week of July and ending in 5 days on the following Sunday.

As Hawaii's economy makes a slow recovery, a "sales tax holiday" provided in this measure will afford consumers temporary relief and spark consumer confidence and spending, as well as provide temporary assistance to local businesses. Some studies show that this type of holiday increases job creation and net increase in tax revenues as a result of increased economic activity. An ancillary effect, especially in the retail industry, is that it increase store traffic and encourages spending not only on items that are exempted from the sales tax but on non-exempt items, which in turn generates tax revenues.

The Chamber asks that the committee pass HB 364 for further discussion. Thank you for the opportunity to provide testimony.