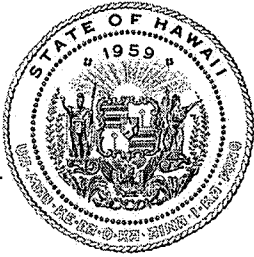


SB 745

SD 1



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE
GOVERNOR

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Statement of
RICHARD C. LIM
Interim Director

Department of Business, Economic Development, and Tourism
before the

SENATE COMMITTEE ON WAYS AND MEANS

Tuesday, March 1, 2011
9:20 a.m.
State Capitol, Conference Room 211

in consideration of
SB 745 SD1
RELATING TO SEAWATER AIR CONDITIONING.

Chair Ige, Vice Chair Kidani, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of Senate Bill 745 SD1, which adds Seawater Air Conditioning (SWAC) District Cooling Systems to the list of businesses eligible for the Enterprise Zone GET exemption and income tax credits for seven years as the technology is in alignment with Hawaii's Clean Energy Initiative which supports renewable energy activities.

The list of qualified businesses in Chapter 209E, already includes wind energy, which was added in 2000. DBEDT recognizes that adding other alternative energy production such as SWAC District Cooling Systems would further promote the State's goal of lessening our dependency on fossil fuels.

We do note that seawater air conditioning cooling systems are site specific and all installations may not be located in one or more of the 21 Enterprise Zones across the state whose boundaries are determined by the counties. The downtown Honolulu Seawater Air Conditioning Project is located in the Urban Honolulu Zone which includes Downtown and Kaka'ako. However, not all coastal areas, including Waikiki and the Kohala coast, are within existing zones. Thank you for the opportunity to provide these comments.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Expand enterprise zone eligibility

BILL NUMBER: SB 745, SD-1

INTRODUCED BY: Senate Committee on Energy and Environment

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of "eligible business activity" to include the production of air conditioning from a seawater air conditioning district cooling system.

Amends HRS section 209E-11 to provide that the gross income received by a contractor in connection with the construction of a seawater air conditioning district cooling system shall not be exempt from the general excise tax.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure proposes to expand enterprise zone laws to include the production of air conditioning from a seawater air conditioning district cooling system. In an enterprise zone, businesses are attracted and encouraged to relocate to the zone through tax incentives, bonds, and other appropriate measures. Businesses located in an enterprise zone may claim a credit against taxes paid for a period of seven years and also allows the sale of items sold by such businesses to be exempt from the general excise tax.

While it appears that the legislature wishes to subsidize a project that is already on the drawing boards, the question is whether or not the project has demonstrated a need for such special treatment or is it just a matter that the legislature just wants to look like it is doing something to "revitalize the economy?" Using the back door means of conferring an enterprise zone upon this project implies the legislature knows better what this project needs to become a success. The project may not need all of the exemptions and exclusions from taxes and employment mandates, but instead, it may need financing. Thus, unless the project has identified where it needs assistance, creating an enterprise zone makes absolutely no sense. Concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses. Enterprise zones, on the other hand, are merely an abdication of government's responsibility to create a nurturing and supportive business climate so that all businesses can thrive in Hawaii and provide the jobs the people of Hawaii need.

Instead of expanding the enterprise zone program, the program should be repealed in favor of across-the-board tax relief for all businesses in Hawaii. Indeed, has there been a comprehensive evaluation of the program and do lawmakers know exactly how much enterprise zone businesses have benefitted and whether or not they have created the jobs promised when the program was first established?

This, like many other "tax incentive" proposals, is an indicator that lawmakers truly do not understand business, but instead want to offer a "magic bullet" to heal the economy. It is no surprise that Hawaii's economy continues to falter as policymakers do not understand some of the basics that make businesses run and thrive.

Digested 2/28/11

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

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SUBJECT: GENERAL EXCISE, Tax holiday for school supplies and computers

BILL NUMBER: SB 755, SD-1

INTRODUCED BY: Senate Committee on Economic Development and Technology

BRIEF SUMMARY: Adds a new section to HRS chapter 237 to establish an annual exemption from the general excise tax on the retail sale of: (1) books sold for less than \$50 per book; (2) clothing items sold for less than \$100 per item; (3) computers, computer software, and computer supplies sold for less than a total of \$1,500; and (4) school supplies sold for less than \$15 per item. Stipulates that the exemption shall not be applicable to: (1) rebates, layaway sales, rain checks, or exchanges when the transactions occur before or after the tax holiday period; (2) mail, telephone, e-mail, or internet orders with businesses operating outside the state; and (3) the sale of computer systems, devices, software, and peripherals designed or intended primarily for commercial use.

The annual general excise tax exemption shall be effective for tax years beginning after December 31, 2010, for a period of five days beginning on Wednesday of the last full week in July and ending at 12:00 midnight on the following Sunday, regardless of whether the Sunday falls in July or August. Delineates stipulations and exceptions as to what items qualify for the exemption.

Defines “book,” “clothing,” “computer,” “computer software,” “computer supplies,” and “school supplies” for purposes of the measure.

EFFECTIVE DATE: Tax years beginning after December 31, 2010

STAFF COMMENTS: This measure would grant an annual general excise tax holiday on retail sales of books, clothing, computers and computer accessories, and school supplies. The idea of “temporary” tax holidays ignores the forces and factors of the market and ignores basic economics of the marketplace. Such temporary holidays tend to skew the normal course of business and people’s attitudes and shopping patterns. It creates the “coupon” syndrome of people deciding that they should wait until the store has another “discount period” or another coupon special. Why purchase that item now when it will go on sale next weekend in “another” one of those coupon offerings?

While the 4% or 4.5% is not as great as some of the discounts that have been offered by retailers, it will create that anticipatory attitude that will cause shoppers to delay their purchases until that special period.

It must be recognized that with the higher cost of living in Hawaii, families are struggling to make ends meet and have only so much in disposable income. Such a tax holiday, combined with promotions by businesses, will skew sales and therefore cash flow. To a certain degree, sales tax holidays are regressive, that is the poor tend to end up paying more in taxes than those in higher income categories because they will be less likely to have the cash or the credit to participate at the time the holiday occurs.

If advocates of this tax holiday believe that it will create new jobs, it should be noted that those jobs will be only temporary at best. While additional employees may be brought on in anticipation of the shopping bonanza, once the holiday is over, those temporary workers will be laid off in addition to furlough of permanent employees as one would suspect that sales activity would drop off severely in the aftermath.

Probably the most important and appropriate question is who is going to pay for this tax holiday? Given that state lawmakers and administration officials have not made a concerted effort to reduce the demand for tax revenues, will the burden of taxes be shifted to other businesses and individuals? Certainly the loss of revenues must be recaptured if the demand for spending those dollars is not reduced or contained. Would lawmakers be just as eager to enact this proposed tax holiday if it contained a provision that state spending had to be automatically reduced by the same dollar amount regardless of program? Probably not. But that is the problem with this and every other "goodie" tax proposals that would grant a tax break, lawmakers are just not willing to make concurrent reductions in state spending.

When and until state policy makers and administrators can get a firm grip on the spending spigot, any and all tax reduction proposals will be disingenuous. It should be remembered that the retail purchases this proposal intends to encourage are only possible if consumers have the resources to spend and have the confidence that there is stability in the economy. That stability in Hawaii is highly dependent, at this time, on the fiscal health of state and county governments.

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