



**Testimony to the House Committee on Water, Land, & Ocean Resources
Monday, February 14, 2011; 9:00 a.m.
Conference Room 325**

RE: HOUSE BILL NO. 460 RELATING TAXATION

Chair Chang, Vice Chair Har, and Members of the Committee:

The Chamber of Commerce of Hawaii opposes H.B. No. 460, as it proposes to allow counties to increase the general excise tax by one-half percent to fund county infrastructure projects.

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.

The purpose of this Act is to authorize a county to levy a one-half per cent surcharge on state general excise tax and use tax to be used for county water infrastructure, including drainage improvements, wastewater infrastructure, and reclaimed water infrastructure.

Our understanding is that the Counties mechanism to raise funds for public projects is through the imposition of real property taxes. Usually, a budget is proposed and approved that includes projected revenues from real property taxes based on current real estate values, and a specific rate depending on land use, that each owner in the county is assessed. Theoretically, the real property tax imposed on the property (land use) reflects the proportionate share that the property will require municipal services. The higher the demand on municipal services, the higher the tax should be.

As proposed, property owners would effectively be paying twice for county infrastructure through real property taxes and through an increase in their GET if the County does levy a one-half per cent surcharge.

Thank you for this opportunity to express our views.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, USE, MISCELLANEOUS, County surcharge on state tax for county water infrastructure

BILL NUMBER: HB 460

INTRODUCED BY: Keith-Agaran

BRIEF SUMMARY: Adds a new section to HRS chapter 46 to allow each county to establish a surcharge on the state's general excise tax under HRS chapter 237 and the use tax under HRS chapter 238. The surcharge shall be imposed by ordinance provided a county has held a public hearing on the proposed ordinance. Requires a county electing to impose the surcharge to notify the director of taxation within ten days after the county adopts the surcharge and requires the director to levy, assess, collect and administer the county surcharge tax no earlier than January 1, 2012. The surcharge shall be used for county water infrastructure including infrastructure for reclaimed water, waste water and drainage.

Adds a new section to HRS chapters 237 and 238 to permit a county to impose a surcharge of up to 0.5%. All the provisions of these chapters shall apply to the surcharge. Requires the director of taxation to have exclusive rights and powers to determine the county or counties in which a person is engaged in business and determine that portion of the surcharge attributable to business conducted in each county. Each county water infrastructure surcharge on state tax shall be levied in the tax year after the adoption of the relevant county ordinance but not earlier than January 1, 2012.

The surcharge shall not be imposed on any: (1) gross income or gross proceeds taxable under HRS chapter 237 at the 0.5% and .15% rate; or (2) transactions, amounts, persons, gross income, or gross proceeds that are exempt under HRS chapter 237. Requires the director of taxation to revise the general excise and use tax forms to provide for the clear and separate designation of the imposition and payment of the surcharge. Further delineates the filing and reporting procedures of the surcharge, penalty and filing procedures and requirements relating to the surcharge.

Adds a new section to HRS chapter 248 to delineate the disposition of the surcharge. Permits the state to withhold a portion of the surcharge to cover costs of assessment, collection, and disposition. The state director of finance shall pay the surcharge collected on a quarterly basis to the counties.

Makes a conforming amendment to HRS section 437D-8.4.

The amendments made to HRS section 437D-8.4 by section 6 of this Act shall not be repealed when that section is repealed and reenacted on December 31, 2022, by Act 247, SLH 2005.

EFFECTIVE DATE: Tax years beginning after December 31, 2010

STAFF COMMENTS: This measure proposes to allow each of the counties to establish a county surcharge of up to 0.5% that would be piggybacked onto the state general excise and use tax and used for county

water infrastructure, including infrastructure for drainage, waste water, and reclaimed water. This measure is structured similar to Act 184, SLH 1990, which allowed each county to impose a county general excise tax of 0.5% the proceeds of which were to be used by the city and county of Honolulu to finance a fixed guideway mass transit system and the other counties to finance public transportation systems and park operations and purchases.

This measure would authorize the counties to impose a general excise and use tax surcharge of up to 0.5% and will provide the counties with another source of revenue in addition to their largest source of revenue, the real property tax.

Although imposing a surcharge on the general excise and use tax would give county officials another resource to underwrite their spending, the real question is whether or not the counties have dealt with the real problem and that is one of spending more than they are willing to take the political heat to raise. Not only do county lawmakers have complete control over the real property tax, which they begged for in 1978 promising never to come back to the state for help, but they also have a portion of the receipts of the TAT. Allowing the counties to now piggyback on the general excise and use tax would merely blur the lines of accountability, not only for the county but for the state. This is the very situation that the 1989 Tax Review Commission advised against, a sharing of the same tax resource by two different levels of government.

By allowing the counties to levy a surcharge on the general excise and use tax, the measure will complicate what otherwise is an easy tax with which to comply especially if some counties opt to levy the additional rate and others do not or for that matter opt at a different rate. Confusion may arise when a business does business in more than one county but may be physically located in one county. This is the case of the surcharge on state tax for the mass transit system in the city and county of Honolulu.

If this measure is adopted, it may open the door for similar requests and will result in an ever increasing rise in the general excise tax. While this measure does not have a sunset date, if adopted, it will be a permanent increase to the general excise tax rate in any county that chooses to adopt the proposed surcharge and in the case of the city and county of Honolulu, resulting in a general excise tax rate above the 4% rate after 2022 when the surcharge tax on state tax is scheduled to sunset.

Another uncertainty is whether there will be sufficient revenues generated from the proposed tax at the rate of 0.5%. If this "nominal" rate does not produce sufficient revenues to cover the costs of the county water infrastructure projects, then there is no doubt that the surcharge tax rate will be increased to generate the additional revenues needed. One only has to look at the track record of our recent legislative sessions. The barrel tax started out at a rate of 5 cents per barrel - last year it was increased to \$1.05 and the current legislative session is proposing to increase it again. The conveyance tax started out at a nominal rate of 5 cents per \$100 valuation of real property. Now it has matured and provides funding to the land conservation fund, the rental housing trust fund, and the natural area reserve fund.

Above all, lawmakers should be aware that of all the taxes imposed in Hawaii, the general excise tax imposes a serious burden on businesses and individuals alike. It is not only regressive, taking a larger percentage of a poorer family's budget than a high income family's budget, but it also takes its share off the top of a business' income without regard to the profitability of that business.

For taxpayers this proposal should be insulting given the actions of the legislature in the past few years. Lawmakers and administration officials have been more than eager to give away state resources in the form of tax credits to a few privileged individuals and activities, but now come before taxpayers and ask them to pony up what little is left in their pocketbooks.

The bottom line is the same across the board, it is not a matter of not having enough revenue as it is the unwillingness of elected officials to tighten the counties' or the state's purse strings in bringing expenditures into line with resources and setting priorities for what resources are already available. Instead of doing the fiscally responsible thing, the easiest response is to just raise more taxes as evidenced by this measure.

Digested 2/11/11

BIA-HAWAII
BUILDING INDUSTRY ASSOCIATION

February 14, 2011

Representative Jerry Chang, Chair
Committee on Water, Land and Ocean Resources
State Capitol, Room 325
415 South Beretania Street
Honolulu, Hawaii 96813

Chair Chang and Members of the Committee on Water, Land and Ocean Resources:

Subject: **House Bill No. HB 460 Relating to Taxation**

I am Karen Nakamura, Chief Executive Officer of the Building Industry Association of Hawaii (BIA-Hawaii). Chartered in 1955, the Building Industry Association of Hawaii is a professional trade organization affiliated with the National Association of Home Builders, representing the building industry and its associates. BIA-Hawaii takes a leadership role in unifying and promoting the interests of the industry to enhance the quality of life for the people of Hawaii.

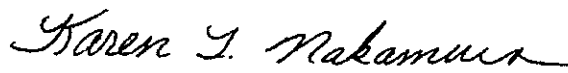
BIA-HAWAII strongly opposes H.B. No. 460, as it proposes to allow counties to increase the general excise tax by one-half percent to fund county infrastructure projects.

The purpose of this Act is to authorize a county to levy a one-half per cent surcharge on state general excise tax and use tax to be used for county water infrastructure, including drainage improvements, wastewater infrastructure, and reclaimed water infrastructure.

Our understanding is that the Counties' mechanism to raise funds for public projects is through the imposition of real property taxes. Usually, a budget that includes projected revenues from real property taxes based on current real estate values is proposed and approved, then a specific rate depending on land use is assessed. Theoretically, the real property tax imposed on the property (land use) reflects the proportionate share that the property will require municipal services. The higher the demand on municipal services, the higher the tax should be.

As proposed, property owners would effectively be paying twice for county infrastructure through real property taxes and through an increase in their GET. If the legislature is serious about allowing the counties to increase the GET, then the legislature should do away with the real property taxes and other fees imposed by the Counties for public infrastructure.

Thank you for this opportunity to express our views.


Chief Executive Officer
BIA-Hawaii

har3 - Megan

From: mailinglist@capitol.hawaii.gov
Sent: Friday, February 11, 2011 8:43 PM
To: WLOtestimony
Cc: web@cartoonistforchrist.org
Subject: Testimony for HB460 on 2/14/2011 9:00:00 AM

Testimony for WLO 2/14/2011 9:00:00 AM HB460

Conference room: 325
Testifier position: oppose
Testifier will be present: No
Submitted by: Lee McIntosh
Organization: Individual
Address:
Phone:
E-mail: web@cartoonistforchrist.org
Submitted on: 2/11/2011

Comments:

Mr. Chair and Members of the Water, Land, & Ocean Resources Committee:
Aloha, my name is Lee McIntosh. I operate a landscaping business called GopherLee in Kau on the Big Island, and I pay my taxes which include the GET. I am not in favor of HB 460, which would increase the GET. This additional cost will place a heavier burden on my struggling business. It is very difficult trying to operate a business in Kau, and the Legislature isn't helping any by increasing my taxes. There is no requirement in this bill that revenue will be strictly used to improve our water infrastructure. I believe that the true purpose of HB 460 is to divert 10% of revenue collected into the General Fund. Please do not increase my taxes to cover for the County's mismanagement of our water infrastructure. That is the purpose of our monthly water bill. Thank you for the opportunity to testify on HB 460.