

From: Tina Desuacido [tina500@juno.com]
Sent: Monday, February 07, 2011 9:22 AM
To: ERBtestimony
Subject: Tax Foundation Testimony
Attachments: h0370-11.pdf; h0831-11.pdf; h0983-11.pdf; h1159-11.pdf; h0475-11.pdf

TRANSMISSION OF TESTIMONY

DATE: Monday, February 7, 2011

TO: House Committee on Economic Revitalization & Business

FROM: Tax Foundation of Hawaii

Total Pages 7

FOR: Rep. Angus McKelvey, Chair

Testifier: Lowell L. Kalapa, President - Tax Foundation of Hawaii

(Mr. Kalapa will not appear in person at the hearing.)

Date of Hearing - Tuesday, February 8, 2011

Position: Comments

Time of Hearing - 8:00 am

HB 370 - Relating to the Enterprise Zones (2 pages)

HB 831 - Relating to the General Excise Tax (1 page)

HB 983 - Relating to the Hawaii Strategic Development Corporation (1 page)

HB 475 - Relating to Taxation (1 page)

HB 1159 - Relating to Taxation (2 pages)

Number of copies - 4

Thank you.

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SUBJECT: GENERAL EXCISE, Payment of general excise tax liability

BILL NUMBER: HB 831

INTRODUCED BY: Choy by request

BRIEF SUMMARY: Amends HRS section 237-31 to allow a taxpayer who is a licensed contractor under HRS chapter 444 to pay general excise taxes owed by negotiating for, working on, and completing construction or renovation projects for the state, upon written request and at the discretion of the director of taxation.

EFFECTIVE DATE: Tax years beginning after December 31, 2010

STAFF COMMENTS: It appears that the adoption of this measure would allow licensed contractors to pay off their general excise tax liability while they are working on state projects. While this measure would grant preferential treatment for licensed contractors performing work for the state, if the practice is successful in insuring that general excise taxes are paid by contractors, then this treatment should be extended to other professions performing work for the state.

However, given that the responsibility is placed on the tax department for establishing rules for this "bartering" of performing work on state projects in return for being forgiven general excise tax liability, the department does not have the expertise in evaluating whether or not the value of that work performed is equal to or exceeds the contractor's general excise tax liability. With no details as to how the relationship between the delinquent contractor and the work to be done in payment of the delinquency is to be established, this measure would open up unknown liability exposure for both the state and the taxpayer.

Digested 2/7/11