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HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING SB 1355, SD 1 RELATING TO TAXATION

TESTIFIER: FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR
DESIGNEE)
COMMITTEE: ERB
DATE: MARCH 22, 2011
TIME: 8:00AM
POSITION: COMMENTS

The purpose of this bill is to conform Hawaii law to the requirements of the Streamlined Sales and Use Tax Agreement ("SSUTA").

The Department of Taxation ("Department") suggests that this bill be passed out of committee for further discussion.

The Department notes that the SSUTA is an undertaking of numerous states with the intent of collecting unpaid use taxes on internet purchases. The Department continues to study the effectiveness of the SSUTA and its implementation, especially in light of the projected budget deficit. However, the Department continues to see unresolved issues with the SSUTA, including inherent limitations in a "voluntary" system of collection by vendors; the uncertainty of potential revenue that could be expected to benefit the general fund; as well as policy limitations placed on participant States by becoming a full member of SSUTA.

However, if Congress passes a federal law allowing states to require out-of-state vendors to collect state use taxes, SSUTA would be more attractive.

March 22, 2011

LATE TESTIMONY

The Honorable Angus L.K. McKelvey, Chair
House Committee on Economic Revitalization and Business
State Capitol, Room 312
Honolulu, Hawaii 96813

RE: S.B. 1355, S.D.1, Relating To Taxation

DECISION MAKING: Tuesday, March 22, 2011 at 8:00 a.m.

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

I am Craig Hirai, a member of the Subcommittee on Taxation and Finance, here to testify on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its 8,500 members. HAR **supports** S.B. 1355, S.D.1, Relating to Taxation, which adopts amendments to Hawaii tax laws to implement the Streamlined Sales and Use Tax Agreement.

The Report of the 2001-2003 Tax Review Commission states that Hawaii would potentially achieve not only the benefit of better definitions, uniformity, and certainty, but also increase tax compliance by interstate vendors (primarily mail order and e-commerce merchants) who agree to pay state taxes under the Streamlined Sales Tax Project. The Report goes on to state that because of Hawaii's uniquely broad based General Excise and Use Tax system, by joining the Streamlined Sales Tax Project, Hawaii may be able to better maintain the viability of its broad revenue base.

The Report of the 2005-2007 Tax Review Commission, however, states that while the Commission believes that the goal of coordinating the collection of taxes on interstate sales, such as via the internet, is desirable, and that Hawaii should remain involved in discussions on the Streamlined Sales Tax Project, the Commission did not think that Hawaii should make a formal commitment yet.

HAR believes that the procedures set forth in Section 32 of S.B. 1355, S.D.1, should help alleviate some of the concerns of the 2005-2007 Tax Review Commission, and that S.B. 1355, S.D.1, should eventually level the playing field for local merchants who must deal with the high cost of doing business in Hawaii and still compete with mail order and e-commerce merchants from outside of the State.

Mahalo for the opportunity to testify.