

NEIL ABERCROMBIE
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STATE OF HAWAII
DEPARTMENT OF TAXATION
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FREDERICK D. PABLO
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DEPUTY DIRECTOR

To: The Honorable Della Au Belatti, Chair
and Members of the House Committee on Health

Date: Wednesday, March 27, 2013
Time: 10:00 A.M.
Place: Conference Room 329, State Capitol

Re: H.C.R. 122/ H.R. 93, Requesting the Department of Taxation to Convene a Working Group to Evaluate the Feasibility of Imposing a Sales Tax on Non-Essential Food Items

The Department of Taxation ("Department") **appreciates the intent** of H.C.R. 122/ H.R. 93, but believes that a working group to evaluate the feasibility of imposing a sales tax on non-essential food items is unnecessary.

First, the Department notes that sales of all food items, as well as all other forms of tangible personal property, are already taxed under Hawaii's general excise tax. While from the consumers' perspective, the general excise tax may appear similar to a sales tax, in operation it is quite different from a sales tax. In other words, an imposition of a sales tax on any items would require a construction of an entirely new type of tax, which has not historically been implemented in the State.

The Department notes that exemptions to the general excise tax can provide a method for the Legislature to lower costs for certain types of sales over others, and that method is already well-understood by both the State government and by taxpayers familiar with Hawaii's system of taxation. Regarding this resolution's stated purpose, to protect the welfare of citizens of Hawaii by discouraging consumption of products that result in adverse health consequences, disincentives can be implemented through the general excise tax; there is no need to create a completely new tax merely to create disincentives related to the consumption of certain types of products. Construction of a sales tax is unnecessary and would consume substantial government resources that could be spent in other and potentially far more productive and effective ways.

Next, the Department notes that this resolution strongly implies that this tax would be levied on visitors rather than residents of Hawaii. The tax contemplated by this resolution would apply equally to all persons in Hawaii, visitor or resident, as is required under the United States Constitution. Thus, if an additional sales tax were implemented, all consumers of "discretionary foods" would be paying two types of taxes on these sales.

Finally, the Department notes that it would be difficult, if not impossible, for any statutory scheme to classify all food products available at grocery stores as either "essential" or "discretionary." Administration of these provisions would present an enormous burden that would have to be overcome before the tax could be imposed.

In brief, the Department feels that a feasibility study regarding the imposition of a sales tax as described in this resolution is unnecessary, as it would require a substantial amount of government resources to create disincentives that may already be imposed. The current general excise tax system already provides the means for the legislature to encourage particular consumer behavior, as well as to raise revenue, without the construction of an entirely new tax.

Thank you for the opportunity to provide comments.



HOUSE OF REPRESENTATIVES

STATE OF HAWAII
STATE CAPITOL
HONOLULU, HAWAII 96813

Wednesday March 27, 2013

10:00 a.m. Hearing for the Committee on Health

Regarding: **SUPPORT of HCR 122/ HR 93, "Requesting the Department of Taxation to Convene a Working Group to Evaluate the Feasibility of Imposing a Sales Tax on Non-Essential Food Items."**

Aloha Chair Belatti, Vice Chair Morikawa and Members of the Committee:

Thank you for allowing me an opportunity to testify in support of HCR 122 and HR 93.

The state is heading towards two big problems in the near future:

1. Budget Problems

In the near future, revenue growth is projected to be below 2%; many revenue sources established during the recession will be sun setting and during this period of recovery we are restoring program funding to pre-recession levels and adding even more new government programs.

This course of action will require additional sources of funding.

2. Health Problems

21.8% of adults in Hawaii are obese.

7.8% of these adults have been diagnosed with diabetes.

From 1999 to 2009, the rate of obesity in Hawaii's children grew by over 30%.

2 for the price of 1 Solution to our Problem

HCR122 establishes a working group to study, evaluate and recommend a process to tax discretionary food sold in grocery stores and restaurants and eliminate the general excise tax on essential foods such as dairy, breads, fruits, vegetables, meats and produce. A taxing process that would take advantage of the billions of dollars tourists spend in our state. A taxing process that would promote farmers markets where essential foods are sold. A taxing process that would discourage the purchasing of processed foods, candies, soda and other non-essential food products.

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Representative Coffman's Testimony
HCR 122 and HR 93

Thank you for the opportunity to testify and I hope that you will continue moving this measure forward.

Sincerely,

A handwritten signature in black ink that reads "Denny Coffman". The signature is written in a cursive style with a large, prominent "D" and "C".

Denny Coffman
State Representative



HAWAII FOOD INDUSTRY ASSOCIATION (HFIA)
1050 Bishop St. PMB 235
Honolulu, HI 96813
Fax : 808-791-0702
Telephone : 808-533-1292

DATE: Wednesday, March 27

TIME: 10:00 AM

PLACE: Conference Room 329

TO: COMMITTEE ON HEALTH

Rep. Della Au Belatti, Chair
Rep. Dee Morikawa, Vice Chair

FROM: Hawaii Food Industry Association - Lauren Zirbel, Executive Director

RE: HCR 122/ HR 93 REQUESTING THE DEPARTMENT OF TAXATION TO CONVENE A WORKING GROUP TO EVALUATE THE FEASIBILITY OF IMPOSING A SALES TAX ON NON-ESSENTIAL FOOD ITEMS

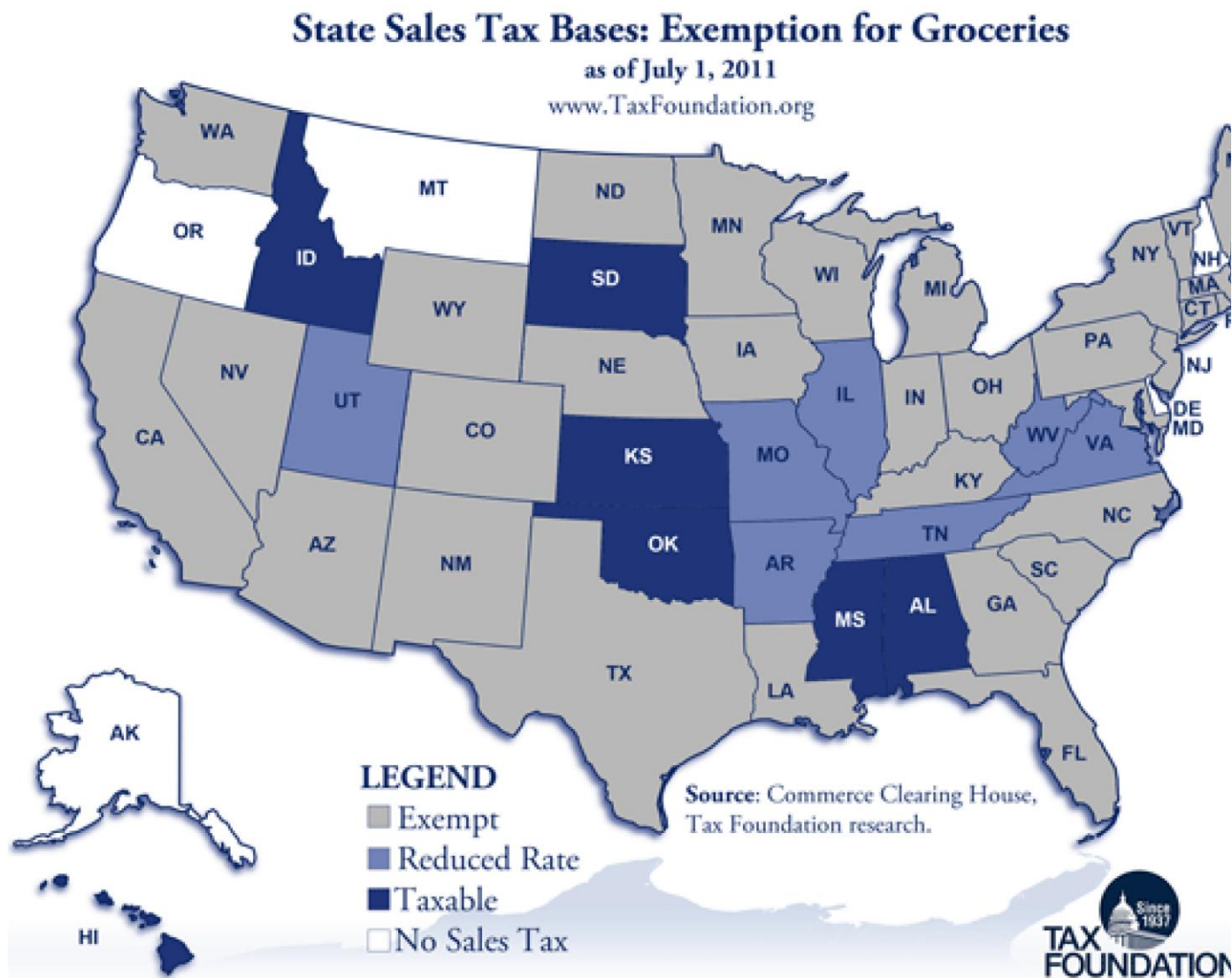
POSITION: PROVIDING COMMENTS.

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers and distributors of food and beverage related products in the State of Hawaii.

This Map shows how each state's sales tax treats groceries. In many states, groceries are exempt, in others, they are taxed at a reduced rate, and a small number include them fully in the tax base. According to the tax Foundation, as of July 1, 2011, Hawaii is one of only seven states that impose full taxes on groceries.¹ We should not be increasing or adding taxes to groceries. It is the most regressive and unfair way to fund government programs. Hawaii residents are already subject to more taxes on their food than the vast majority of states while

¹ <http://taxfoundation.org/blog/monday-map-sales-tax-exemptions-groceries>

also dealing with much higher base food costs do to our location.



If this resolution passes, the Hawaii Food Industry Association would request that it be added to the list of members included in this working group. Our wide variety of retailers across the state may help to shed light on this issue.

Thank you for the opportunity to provide this testimony.