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TESTIMONY OF KIRK CALDWELL, MAYOR
CITY AND COUNTY OF HONOLULU
BEFORE THE SENATE
COMMITTEE ON WAYS AND MEANS
Thursday, February 21, 2013, 9:00 a.m., Conference Room 211

SENATE Bill 571 SD 1, "RELATING TO THE COUNTY SURCHARGE OF STATE TAX"
Position: In Support

To: The Honorable David Y. Ige, Chair
and Members of the Committee on Ways and Means

The City & County of Honolulu supports Senate Bill 571 SD1, "Relating to the County Surcharge of State Tax", which proposes to change to State's automatic deduction of 10% of the gross proceeds of a county's surcharge on state tax to a deduction of 6% to reimburse the State for costs associated with handling the assessments, collection, and disposition of the county surcharge on state tax. This proposal also allows the State, by administrative rule, to change the 6% to an amount not exceeding 10% if the costs of assessment, collection, and disposition increase.

In order to build rail better, the City needs to be able to rely on timely and accurate payments from the State for the one half percent general excise tax (GET) surcharge collected from businesses doing business in the City & County of Honolulu.

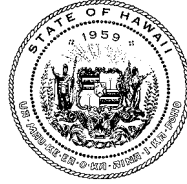
The enabling law which authorized the City to adopt a GET surcharge specifies that the 10% fee shall be used "to reimburse the State for the costs of assessment, collection, and disposition of the county surcharge on state tax incurred by the State ... the costs of assessment, collection, and disposition ... shall include any and all costs, direct or indirect, that are deemed **necessary and proper** to effectively administer this section..." (HRS Section 248-2.6(a)(c))(emphasis added).

In 2012, the fees collected (\$21.2 Million) amounted to nearly the entire budget to operate the State Tax Department (\$23.7 Million). The Legislature could not have intended to pay for nearly the entire operation of its Tax Department through the imposition of the 10% administrative fee taken off the top of the one-half percent GET surcharge. As such, Senate Bill 571 SD1 facilitates a more proper use of taxpayers' money, as the GET surcharge was originally intended.

Mahalo for the opportunity to testify on this bill. Should you have any questions or concerns, please feel free to contact me at 768-4141.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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To: The Honorable David Y. Ige, Chair
and Members of the Senate Committee on Ways and Means

Date: Thursday, February 21, 2013

Time: 9:00 a.m.

Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 571, S.D. 1, Relating to County Surcharge on State Tax

The Department of Taxation (Department) appreciates the intent of S.B. 571, S.D. 1, but is concerned with the impact on the State's financial plan.

S.B. 571, S.D. 1, reduces the amount to be deducted from the revenues generated by county surcharges on state tax paid from 10% to 6% of the gross proceeds to reimburse the State for the costs of assessment, collection, and disposition of the county surcharge on state tax incurred by the State. This measure will reduce the amount deposited into the State's general fund.

In fiscal year 2012, the 10% from the revenues generated by the county surcharge deposited into the State's general fund was \$21.2 million. If only 6% rather than 10% was deposited into the State's general fund, there would be \$8.5 million less in the general fund.

Thank you for the opportunity to provide comments.

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SUBJECT: COUNTY BUDGETS, County surcharge reimbursement

BILL NUMBER: SB 571, SD-1

INTRODUCED BY: Senate Committees on Transportation & International Affairs and Public Safety,
Intergovernmental & Military Affairs

BRIEF SUMMARY: Amends HRS section 248-2.6 to provide that the annual reimbursement by the city and county of Honolulu from the gross proceeds of the county 0.5% surcharge shall be reduced from 10% to 6% of the proceeds of the surcharge.

If the costs of assessment, collection, and disposition of the county surcharge on state tax increase, the state is authorized to amend its deduction to up to 10% by administrative rules.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: Act 247, SLH 2005, allowed the counties to adopt a county surcharge on the state general excise tax. However, only the city and county of Honolulu adopted the surcharge at the rate of 0.5%. Although the surcharge is a county imposition, it appeared that the legislature always intended that the surcharge was to be piggybacked onto the state's general excise tax rate of 4%. Perhaps believing the state should be reimbursed for the cost of collecting the surcharge, lawmakers specified that 10% of the surcharge collections be paid to the state to cover those costs.

Since the surcharge has been in place since 2006, consideration might be given to providing that the city reimburse the state for the actual cost of administering the 0.5% surcharge for the city and county of Honolulu. Such blanket earmarking of revenues for a program is inefficient and lacks accountability as the costs could be more or less than the amount earmarked. In other words, the 10% charge has no basis and was determined with no idea of the true cost of collecting the surcharge.

It should be noted that, as drafted and adopted by Act 247, the money does not go toward the department of taxation's budget, but accrues to the state general fund. Thus, there is no way of ascertaining the true cost of administering the surcharge as the amount taken by the state is buried in the state general fund and appropriations made to the department for its operations are not specifically designated for administering the surcharge. It would seem only fair that the amount retained by the state be a true reimbursement of the additional costs incurred in administering and collecting the surcharge and be appropriated to the department for that purpose.

Digested 2/20/13