

MAR 11 2016

SENATE RESOLUTION

REQUESTING THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM, IN CONSULTATION WITH THE DEPARTMENT OF BUDGET AND FINANCE, AND DEPARTMENT OF TAXATION, TO CONDUCT A STUDY ON THE ECONOMIC IMPACT OF GRANTING AN EXEMPTION FOR THE SALE OF GOODS AND SERVICES TO THE FEDERAL GOVERNMENT FROM THE STATE GENERAL EXCISE TAX.

1 WHEREAS, contracts to provide goods and services to the
2 federal government are a vital part of Hawaii's economy, and
3 these contracts provide opportunities for Hawaii small
4 businesses to establish themselves and to create well-paying
5 careers for Hawaii residents; and

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7 WHEREAS, of the approximately \$2,000,000,000 of federal
8 contracts that are available for bid annually in Hawaii,
9 approximately \$900,000,000 is set aside for small businesses;
10 and

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12 WHEREAS, businesses are assessed a State's general excise
13 tax rate of four percent for the sale of goods and services to
14 the federal government and another half percent surcharge for
15 the sale of goods and services on Oahu, but goods and services
16 used and consumed outside the State are not taxed under the
17 general excise tax; and

18
19 WHEREAS, Hawaii is one of only three states in the nation –
20 the others being Washington and Vermont – that apply the general
21 excise tax to the provision and sale of goods and services by
22 businesses domiciled in their states to the federal government;
23 and

24
25 WHEREAS, federal agencies overseeing the bidding process
26 have opined that since the sale of goods to the federal
27 government is not subject to the State's general excise tax, the
28 federal government will not enforce the State's tax on out-of-
29 state small businesses bidding to provide goods and services to
30 the federal government; and

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1 WHEREAS, the Hawaii Department of Taxation has admitted
2 that they are unable to effectively track the sale of goods and
3 services that are made to the federal government by out-of-state
4 vendors, and are unable to accurately determine and report on
5 the aggregate amount of excise taxes that are due and are owed
6 to the State from these out-of-state vendors; and
7

8 WHEREAS, because businesses domiciled and based in Hawaii
9 are assessed the State's general excise tax, but businesses
10 outside the State are not, Hawaii businesses are effectively at
11 a disadvantage when they bid on federal contracts for goods and
12 services, and as a result most of these contracts are awarded to
13 out-of-state businesses; and
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15 WHEREAS, when Hawaii's small businesses lose these
16 contracts for providing goods and services to the federal
17 government in Hawaii, the overall economic activity decreases
18 within the State, which negatively affects the State's tax
19 revenue and economy; and
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21 WHEREAS, this body would like to better understand the
22 effect of granting an exemption from the general excise tax for
23 the sale of goods and services to the federal government,
24 especially as it relates to federal contracts awarded to in-
25 state small businesses, economic activity in the State, job
26 creation in the State, personal and corporate income, and the
27 state tax revenue; and
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29 WHEREAS, three state agencies have expertise over various
30 aspects of this issue:
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- 32 (1) The Department of Business, Economic Development, and
33 Tourism is responsible for fostering economic
34 development within the State;
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- 36 (2) The Department of Budget and Finance is responsible
37 for administering the state budget and developing near
38 and long range financial plans for the State; and
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- 40 (3) The Department of Taxation is responsible for
41 administering the tax laws of the State; now,
42 therefore,



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 2 BE IT RESOLVED by the Senate of the Twenty-eighth
 3 Legislature of the State of Hawaii, Regular Session of 2016,
 4 that the Department of Business, Economic Development, and
 5 Tourism, in consultation with the Department of Budget and
 6 Finance and Department of Taxation, is requested to determine
 7 the potential increase in economic activity, including the
 8 number of jobs, personal and corporate income, and personal and
 9 corporate taxes that would result from granting an exemption for
 10 the sale of goods and services to the federal government from
 11 the state general excise tax; and

12
 13 BE IT FURTHER RESOLVED that the Department of Budget and
 14 Finance and Department of Taxation are requested to cooperate
 15 and assist the Department of Business, Economic Development, and
 16 Tourism; and

17
 18 BE IT FURTHER RESOLVED that the Director of Business,
 19 Economic Development, and Tourism is requested to submit
 20 findings, recommendations, any proposed legislation, and a clear
 21 narrative of the methodology the departments used to conduct
 22 this analysis to the Legislature no later than twenty days prior
 23 to the convening of the Regular Session of 2017; and

24
 25 BE IT FURTHER RESOLVED that certified copies of this
 26 Resolution be transmitted to the Director of Business, Economic
 27 Development, and Tourism; Director of Finance; and Director of
 28 Taxation.

OFFERED BY:

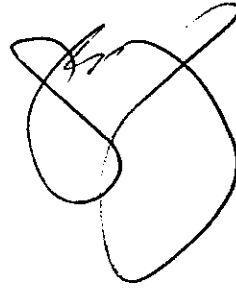
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S.R. NO. 125

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