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STATE OF HAWAII
DEPARTMENT OF TAXATION

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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION



To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Wednesday, February 18, 2015
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1486, Relating to the State Fuel Tax

The Department of Taxation (Department) appreciates the intent of H.B. 1486 and provides the following comments for your consideration.

H.B. 1486 amends the fuel tax, changing the rate from a flat rate of 17 cents per gallon for liquid fuel to the greater of either 17 cents per gallon or an unspecified percentage of the wholesale price to the retailer per gallon, provided that the tax paid by the wholesaler on any gallon of liquid fuel shall not be less than the monetary amount of tax paid per gallon of liquid fuel by the retailer to whom the wholesaler charges the highest price per gallon of liquid fuel. Rates are changed in a similar fashion for diesel oil. The changes are effective July 1, 2015.

While the Department appreciates the desire to adjust the fuel tax rate to the cost of fuel, the Department suggests a simple adjustment to the rate. The adjustment provided in this bill will create confusion for taxpayers and administrative challenges both in ensuring compliance and in educating taxpayers regarding the change in the law. A rate change by a set amount, by contrast, is relatively easy for the Department to administer.

Whether the rate change is flat or graduated, however, the Department will need to change its forms and instructions, and therefore suggests that the changes be made effective for taxable years beginning after December 31, 2015.

Thank you for the opportunity to provide comments.



TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: FUEL, Percentage of wholesale price per gallon option

BILL NUMBER: HB 1486

INTRODUCED BY: Yamashita

BRIEF SUMMARY: Amends HRS section 243-4 to provide that the state tax on gasoline, other than gasoline used in airplanes and naphtha used in a power generating facility, shall be the greater of: (1) 17 cents; or (2) a tax of ___% per cent of the wholesale price to the retailer per gallon of gasoline; provided that if the tax based on the percentage is applied, the amount of tax paid by a wholesaler on any gallon of gasoline sold to a retailer shall not be less than the monetary amount of tax paid per gallon of liquid fuel by the retailer to whom the wholesaler charges the highest price per gallon of liquid fuel.

The state tax on diesel oil, shall be the greater of: (1) 15 cents; or (2) a tax of ___% per cent of the wholesale price to the retailer per gallon of diesel oil; provided that if the tax based on the percentage of wholesale price is applied, the amount of tax paid by a wholesaler on any gallon of diesel oil sold to a retailer shall not be less than the monetary amount of tax paid per gallon of diesel oil by the retailer to whom the wholesaler charges the highest price per gallon of diesel oil.

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: This measure proposes to change the methodology of assessing the state fuel tax on gasoline and diesel oil from 17 cents per gallon or 15 cents per gallon, respectively, to the greater of those fixed rates and an unspecified percentage of the wholesale price per gallon of gasoline or diesel oil.

It should be remembered that the wholesale and retail prices of gasoline and diesel change frequently, sometimes several times a month. A gallonage tax is relatively easy to compute, as is a tax on gross revenue by itself; but a greater-of-the-two approach would be tougher to comply with and to audit.

The idea of imposing an ad valorem fuel tax is not new. The idea was floated by the state department of transportation and the then senate transportation committee chair in the 1981 legislative session. Although a half dozen states at the time had adopted a variable or ad valorem fuel tax, many had encountered administrative problems in not only collecting the tax but also for retailers in complying with the law. Some states converted the variable rate back into a cents per gallon rate or provided retailers and wholesalers with voluminous tables to assist in compliance with the tax. One state allowed the conversion of the percentage tax back to a cents per gallon and allowed the rate to be rounded to the nearest half cent. Another calculated and converted the rate and then set it for six-month periods of imposition. All of the ramifications of imposing an ad valorem method should be carefully evaluated before such a method is enacted.

Digested 2/17/15

FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 17, 2015 11:09 AM
To: FINTestimony
Cc: khaynes@hawaiipetroleum.com
Subject: Submitted testimony for HB1486 on Feb 18, 2015 14:00PM

HB1486

Submitted on: 2/17/2015

Testimony for FIN on Feb 18, 2015 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
James Haynes	Hawaii Petroleum., Inc.	Oppose	No

Comments: I would like to respectfully submit testimony in opposition of House Bill 1486 for the following reasons. 1) Fuel taxes, which are ultimately passed on to the consumer, will increase as product costs increase if based on a percentage tax formula. There is a multiplying effect that will have a much bigger impact on the consumer at the worst possible time, when the cost of fuel rises. 2) As written, the actual amount of the tax will vary by distributor based on "the retailer to whom the wholesaler charges the highest price per gallon of liquid fuel". This may put some distributors and their resellers at a competitive disadvantage solely because of the resellers they supply. 3) As written, this bill would discourage distributors from supplying retailers that have higher wholesale prices due to location, volume, tank sizes, etc. because this would affect the taxes they would have to pay for all their resellers. Many of these resellers are small, rural, "mom & pop" resellers, who cannot afford to have fewer supply options. 4) A percentage based formula adds complication and costs to the current fixed cents per gallon tax structure, and allows for potential inequalities and unintended consequences. 5) We are opposed to increasing fuel taxes in general, and feel the burden should be on the State to reduce costs as we are forced to do both as a business and individually. Mahalo, James Haynes Hawaii Petroleum, Inc.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov



ALOHA
Petroleum, Ltd.



TO: HOUSE COMMITTEE ON FINANCE
Representative Sylvia Luke, Chair
Representative Scott Y. Nishimoto, Vice Chair

FROM: Thomas Grimes
Vice President of Aloha Petroleum, Ltd.

HEARING

DATE: Wednesday, February 18, 2015
TIME: 2:00 p.m.
PLACE: State Capitol, Conference Room 308

RE: **Testimony in Opposition to H.B. No. 1486 Relating to the State Fuel Tax**

Chair, Vice Chair, and Members of the House Committee on Finance, I am Thomas Grimes, Vice President of Aloha Petroleum, Ltd. ("Aloha Petroleum").

Aloha Petroleum opposes H.B. No. 1486 ("Bill"), which seeks to change the assessment of (1) the fuel tax on liquid fuel sold or used in the State of Hawaii ("State") and (2) the license tax for diesel oil sold or used for operating motor vehicles on State public highways. The Bill proposes to increase taxes from \$0.17 cents per gallon on liquid fuel and \$0.15 cents per gallon on diesel oil to the greater of the specified cents per gallon or a currently undisclosed percentage of the wholesale price per gallon, subject to a minimum tax based upon the highest taxes paid by retailers.

HB No. 1486 proposes to change the flat fuel and license tax rates into a percentage tax. As fuel costs increase, the tax will increase. Aloha opposes any attempt to increase taxes because they are ultimately passed on to consumers. Notably, the Bill does not specify the proposed percentage rate on the wholesale price per gallon for both liquid fuel and diesel oil. This alone is sufficient grounds to reject the Bill for lack of transparency.

Moreover, the proposed amendments to the fuel and license taxes in the Bill are problematic for several reasons. First, percentage based fuel and license taxes would be difficult to administer and unnecessarily complicate operations while increasing costs for distributors, wholesalers, retailers, and customers in Hawaii. The taxes assessed on the fuel will vary by distributor based in part on the distributor's production and operations costs for a specific location. Therefore, percentage based taxes will result in



Testimony of
Aloha Petroleum, Ltd.



H.B. No. 1486
Hearing Date:
Wednesday, Feb. 18, 2015

inequality because certain retailers will pay higher taxes on their fuel purchases in comparison to their competitors.

Second, it will be difficult for the State to verify that the correct amounts of taxes are assessed by distributors to wholesalers and retailers since the taxes are based on the unique individual costs paid by the wholesalers and retailers. The State will also be challenged to forecast tax collections and to budget accordingly due to the fluctuating and unpredictable changes in fuel prices. In fact, several states which experimented with percentage-based gas taxes have abandoned this approach because of their volatility.

Third, this bill is anti-consumer and is inherently regressive – that is, low- and middle-income families will pay a much larger share of their income in gasoline taxes than wealthier consumers. While this bill is clearly designed to raise state fuel taxes, it hurts those who can least afford it.

Lastly, to the extent the State is increasing the fuel and license taxes as a means to generate highway tax revenue and secure matching federal funds, this is an unnecessarily complicated and burdensome approach.

For these reasons, please vote no on H.B. No. 1486.

Thank you for the opportunity to testify in opposition to this Bill.

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Testimony to the House Committee on Finance
Wednesday, February 18, 2015
2:00 p.m.
State Capitol - Conference Room 308

LATE

RE: HOUSE BILL NO. 1486, RELATING TO THE STATE FUEL TAX

Chair Luke, Vice Chair Nishimoto, and members of the Committee:

My name is Gladys Marrone, Chief Executive Officer for the Building Industry Association of Hawaii (BIA-Hawaii), the Voice of the Construction Industry. We promote our members through advocacy and education, and provide community outreach programs to enhance the quality of life for the people of Hawaii. BIA-Hawaii is a not-for-profit professional trade organization chartered in 1955, and affiliated with the National Association of Home Builders.

BIA-Hawaii **opposes** H.B. 1486, which proposes to change the assessment of the state fuel tax from a specified cents per gallon to the greater of a specified cents per gallon or a specified percentage of the wholesale price per gallon to the retailer, subject to a minimum monetary amount of tax based upon the tax paid by certain retailers.

We understand that the impetus for the bill is based on some projections that the state's highway fund will run out of money in three years. However, implementing a tax based on the price of fuel would have a broad adverse economic impact. For many companies, fuel costs are a large cost component which gets factored into the pricing of products and services. In this way, the fuel tax would compound the constraining effects of rises in fuel costs. Further, the constantly fluctuating nature of fuel prices would make it very difficult for the State to forecast expected revenue compared to the current tax based on consumption.

Our state is currently facing a "crisis" of deteriorating infrastructure. Our roads, sewer, and water systems seem to be in constant states of disrepair. We believe it is governments' responsibility to invest in and maintain our basic infrastructure. However, we do not support an increase in the fuel tax as a means to fund the highway fund. Increases in the fuel tax penalize those who have to travel great distances on a regular basis. It penalizes those who can least afford it.

One funding alternative that should be considered is to increase the General Excise Tax for a fixed period of time and deposit these funds into an infrastructure fund that the state and county agencies can use to fund new or maintain existing infrastructure. Projects could then be prioritized based on need, timeliness in completing the project, and efficiency in the use of the funds.

We believe the public will support a dedicated funding source for infrastructure provided there is accountability and efficiency in the use of these funds.

Thank you for the opportunity to express our views on this matter.

DAVID Y. IGE
GOVERNOR



LATE

Testimony of
FORD N. FUCHIGAMI
DIRECTOR

Deputy Directors
JADE T. BUTAY
ROSS M. HIGASHI
EDWN H. SNIFFEN
DARRELL T. YOUNG

IN REPLY REFER TO:

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

February 18, 2015
2:00 P.M.
State Capitol, Room 308

H.B. 1486
RELATING TO THE STATE FUEL TAX

House Committee on Finance

The Department of Transportation (DOT) **supports** the intent of an alternative means to collect the state fuel tax based on the greater of a specified cent per gallon or a specified percentage of the wholesale price per gallon to provide revenues for the state highway fund.

The state fuel tax revenue for fiscal year 2014 was \$86.8 million or 34 percent of the total state highway fund revenue. It is currently the most efficient means of raising revenues to support the operation, maintenance and construction of the state highway system. However, the improved fuel economy in new vehicles and the increased sales of hybrid and electric vehicles means that more driving does not match up with higher fuel sales. It has become a less reliable source of revenue for the state highway fund and cannot be expected to continue to be a viable source of revenue over the long term. Motor fuels are currently taxed at cent per gallon rates that does not adjust with inflation or price. Converting the cents per gallon of state fuel tax to the greater of a specified cent per gallon or a percent of the wholesale price per gallon to the retailer will allow revenues to be indexed to adjust for changing fuel prices.

Thank you for the opportunity to provide testimony.