

DAVID Y. IGE
Governor

SHAN S. TSUTSUI
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State of Hawaii
DEPARTMENT OF AGRICULTURE
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SCOTT E. ENRIGHT
Chairperson, Board of Agriculture

PHYLLIS SHIMABUKURO-GEISER
Deputy to the Chairperson

**TESTIMONY OF SCOTT E. ENRIGHT
CHAIRPERSON, BOARD OF AGRICULTURE**

BEFORE THE HOUSE COMMITTEE ON AGRICULTURE

February 19, 2015
8:30 A.M.
CONFERENCE ROOM 312

HOUSE BILL NO. 330
RELATING TO STATE FINANCES

Chairperson Tsuji and Members of the Committee:

Thank you for the opportunity to testify on House Bill 330. The purpose of this measure is to acquire agricultural lands via an agricultural lands trust fund to be established within the Agribusiness Development Corporation and to be funded by revenues generated and collected from a temporary, two-year, one-percent increase in the general excise tax. The Department of Agriculture supports the intent of having the state acquire agricultural lands to insure they remain in agriculture, however, we offer the following comment.

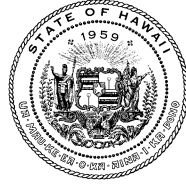
Before considering the action proposed in this measure, we believe the utilization of existing land acquisition mechanisms such as the Legacy Land Conservation Program (Chapter 173A, HRS) should be explored. This program focuses on the acquisition of lands having resource value to the State such as prime agricultural lands.

Thank you for the opportunity to comment on this measure.



DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
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HONOLULU, HAWAII 96809
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To: The Honorable Clift Tsuji, Chair
and Members of the House Committee on Agriculture

Date: Thursday, February 19, 2015
Time: 8:30 A.M.
Place: Conference Room 312, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 330, Relating to State Finances

The Department of Taxation (Department) appreciates the intent of H.B. 330 and offers the following comments for your consideration.

H.B. 330 raises the rate of the General Excise Tax (GET) on gross receipts of transactions currently taxed at the rate of four percent. The rate is increased to five percent, and the additional revenues generated by the increase in tax are deposited into a special fund, created by this measure, for the acquisition of agricultural lands. The measure is effective on July 1, 2015.

The Department notes that it cannot implement a change in GET rate by the effective date of the measure. A change in GET rate will require: substantial computer system changes that require extensive preparation; changes to forms and instructions; and substantial education of taxpayers on the change in the law. The Department requests an effective date of January 1, 2017 or later, in order to implement the changes required by this measure.

Additionally, the provision requiring that additional revenues generated by the GET rate increase be deposited into a special fund needs to be clarified. The amount of revenue generated by the GET each year is not constant. Therefore, it is difficult to determine with certainty whether an increase in revenue is due to a change in rate or a change in the number or types of transactions occurring within the State. For ease of administration, the Department suggests that a fixed amount be deposited into the special fund.

Thank you for the opportunity to provide comments.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Agriculture
Thursday, February 19, 2015 at 8:30 A.M.
Conference Room 312, State Capitol**

RE: HOUSE BILL 330 RELATING TO STATE FINANCES

Chair Tsuji, Vice Chair Onishi, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **opposes** HB 330, which increases the general excise tax by 1% for a 2-year period to provide a dedicated funding source for the acquisition of agricultural lands.

The Chamber is the largest business organization in Hawaii, representing about 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

While we understand the intent of this measure, the Chamber does not support an increase in the General Excise Tax for acquisition of agricultural lands. Businesses are already struggling to stay afloat and trying their best in continuing to provide benefits to their employees and avoiding job cuts during these tough economic times. Merely keeping up with operating expenses is difficult, especially for small businesses. Therefore, a tax increase will become an additional cost imposed on companies that they cannot afford to undertake at this time.

Thank you for the opportunity to testify.

February 19, 2015

The Honorable Clift Tsuji, Chair

House Committee on Agriculture
State Capitol, Room 312
Honolulu, Hawaii 96813

RE: H.B. 330, Relating to State Finances

HEARING: Thursday, February 19, 2015 at 8:30 a.m.

Aloha Chair Tsuji, Vice-Chair Onishi, and Members of the Committee:

I am Myoung Oh, Government Affairs Director, here to testify on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its 8,400 members. HAR **strongly opposes** H.B. 330, which increases the general excise tax by 1% for a 2-year period to provide a dedicated funding source for the acquisition of agricultural lands.

HAR believes that, in the current economic environment, businesses and residents are particularly sensitive to additional financial burdens imposed by government. An additional whole percent (1.00) county surcharge increase in the GET will be especially burdensome for low-income families, who have the least ability to afford a new tax that would apply so broadly to a family's basic needs such as food, medicine, and clothing.

The current GET rate is seemingly low, relative to the sales tax rate assessed in other states and municipalities, studies have shown that, with the pyramiding effect of the GET, the effective tax rate is considerably higher. A full 1.0% increase raises the stated GET tax rate to 5.0% (or 5.5% on Oahu). The GET in Hawaii is applied to 160 of 168 goods and services, the most of any state in the nation. Consumers can ill afford a tax increase of this magnitude in their general excise tax burden, when they are struggling today to afford other necessities. We just cannot continue to place the burden of rising costs on already overtaxed citizens.

Mahalo for the opportunity to testify in strong opposition to this measure.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Increase tax rate; disposition for acquisition of agricultural lands trust fund

BILL NUMBER: HB 330

INTRODUCED BY: Oshiro

EXECUTIVE SUMMARY: Increases the general excise tax from 4% to 5% to acquire agricultural lands. This step would increase our most regressive tax by 25%, with the potential for a crippling effect on our economy. The increase is “only” for two years, but has the potential for taking on a life of its own like other “temporary” tax increases.

BRIEF SUMMARY: Amends HRS sections 237-13, -15, -16.5, -18 to increase the general excise tax from 4% to 5%.

Amends HRS section 237-31 to provide that all general excise tax revenue derived from the increase in the general excise tax rate shall be deposited into the acquisition of agricultural lands trust fund beginning on July 1, 2015.

Adds a new section to HRS chapter 163D to establish the acquisition of agricultural lands trust fund which shall be used for the acquisition of agricultural lands.

This act shall be repealed on June 30, 2017.

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: This measure includes a 25% increase in the general excise tax rate. It will not only increase the cost of living in the state but also increase the cost of doing business. Thus, businesses must build the added cost of the additional rate into their overhead and, therefore, it must be recovered in the cost of the goods and services they sell. The general excise tax is perhaps the worst tax to increase because of its broad-based application. Increases in the cost of living, as well as the cost of doing business in the state will drive more and more businesses out of operation and with them the jobs Hawaii’s people need. This increase just makes it worse for everyone as the cost of food, shelter, clothing, transportation and every other essential household item will increase making it harder for all families to survive. Residents of Honolulu already know what such an increase can do the price of goods and services as a result of the transit surcharge.

Lawmakers should remember that Hawaii’s general excise tax is not a retail sales tax which is imposed only at the time of purchase for final consumption and then only on goods. Other states do not tax services which in Hawaii accounts for 60% of the general excise tax base. In fact, for those who believe Hawaii should restructure the general excise tax to be like a retail sales tax, they should know that in order to generate the same \$2.7 billion the general excise tax generates at the 4% rate, the retail sales tax

structure would require a tax rate of 11%. And if food is exempted from the base, as it is in California, the retail sales tax rate would have to be nearly 17% to generate the same amount of money.

Again, lawmakers and taxpayers should remember that businesses must also pay the general excise tax on all the goods and services it uses in their daily operation and if the rate goes to 5%, that added cost must be recovered in the goods and services that businesses sell to their customers. Thus, not only will the rate go up at the register, but the shelf price of the box of cereal or bag of rice will also increase because the cost of the overhead of that business must be recouped and the only way that businesses can do that is to raise the price of the goods and services they sell.

More importantly, because the general excise tax is a tax on gross income, the business will try to recover as much of the cost of the tax it passes on to the customer. As Oahu taxpayers learned when the 0.5% surcharge on the general excise tax for transit went into effect, the amount passed on to the customer went not from 4% to 4.5% but the charge went from 4.166% to 4.712%. Thus, the tax rate actually passed on will be more than the nominal 5% everyone believes will be imposed; it will go to 5.263%. Again, such an increase will ripple through the economy and into the cost of all goods and services purchased by residents and visitors alike.

This measure earmarks the revenues from the 1% rate increase for the purchase of agricultural lands, and sets up a "trust fund" into which the monies are to be deposited. The number of non-general funds we now have is out of control. This situation is largely the work of past lawmakers who thought it was prudent to provide certain favorite programs their own resources by earmarking sources of revenue for that particular program and setting the receipt of that resource off into a special fund. Over the years the number of funds has proliferated as lawmakers took pet programs under wing and provided those programs with earmarked revenues. Earmarking taxes to feed the special funds also became a popular idea, as that technique seems to circumvent the spending ceiling now written into the Hawaii Constitution. When Hawaii became a state more than 50 years ago, there were only three special funds - all in the area of transportation - the highway fund, the airport fund, and the harbor fund. These were established largely because the users of the facilities financed by the moneys in these funds paid the fees and taxes that went into these special funds. These transportation funds are kept separate from the state's general funds because the fees and taxes deposited into these funds are used to match federal subsidies for these transportation activities. Now there is a dizzying number of special, revolving, trust, and other non-general funds.

Next, lawmakers should keep in mind that although the special fund statute proposed by the bill states that the moneys in the fund "shall not be transferred, nor subject to transfer, to the general fund or any other fund in the state treasury," the dedication of a special fund to a particular purpose is never absolute. The legislature sets up a special fund with an enacted statute; a subsequent legislature could raid the fund, use the money for new or different purposes, or abolish it entirely by simply modifying or repealing the statute.

Finally, lawmakers should consider that although the new tax is "only" for two years, it's rare for temporary tax increases to stay temporary. Consider the transient accommodations tax, which was enacted in 1986 as a temporary 5% tax to fund construction of the Hawaii convention center. The tax is now almost double what it was, at 9.25%, and it isn't temporary any more. The barrel tax imposed on imported petroleum products was temporarily increased 20-fold in 2009, with the increase scheduled to sunset this year; the sunset date has since been pushed forward to 2030. The individual income tax was

HB 330 - Continued

temporarily increased to a top rate of 11%, then the highest in the nation, with the understanding that it was only for five years because our state was in a financial crisis; that rate is supposed to sunset at the end of this year.

Digested 2/17/15



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Robin Tijoe

February 19, 2015

8:30 AM

Conference Room 312

To: House Committee on Agriculture

Rep. Clift Tsuji, Chair

Rep. Richard Onishi, Vice Chair

From: Grassroot Institute of Hawaii

President Keli'i Akina, Ph.D.

RE: HB 330 -- RELATING TO STATE FINANCES

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer comment on HB 330, which would increase the state's General Excise Tax by 1% in order to fund the acquisition of agricultural lands.

While the intent to foster agriculture in the state is a laudable one, the Grassroot Institute has concerns about the manner in which the funds for this initiative are to be raised, namely the proposed increase in the state's General Excise Tax (GET). Raising this regressive tax by approximately 25% represents a significant burden on the state's economy, businesses, and citizens and should not be undertaken lightly.

The nature of the GET already places Hawaii among the worst states for sales and user taxes. The 2014 ALEC-Laffer State Economic Competitiveness Index (otherwise known as *Rich States, Poor States*) ranks Hawaii 50th among all states for its sales tax burden, meaning that the GET contributes a significant negative effect to the state's economic outlook.¹ The Tax Foundation ranks Hawaii 37th in state business tax climate, in part because of the GET (ranked 31st in their study).²

Nor are businesses the only ones burdened by the excise tax. A study from the Institute on Taxation and Economic Policy (ITEP) criticized Hawaii for its regressive taxation practices, ranking it the 15th unfairest tax system in the country. The GET in particular came under

¹ See <http://www.alec.org/publications/rich-states-poor-states/>.

² Available at <http://taxfoundation.org/article/2013-state-business-tax-climate-index-results>.

criticism as falling particularly heavily on those least able to afford it. According to ITEP, payment of sales and excise taxes takes up an average of 11% of family income for the poorest 20% of earners.³

The current trend of increasing state revenues via various GET increases and surcharges represents the sort of short-term planning that inevitably leads to economic troubles. Given the drive to extend the Rail surcharge, the public cannot take comfort in the promise that any increase is temporary, as the meaning of “temporary” has become very elastic.

Though we are in sympathy with the general goals of this bill, we feel that there are other avenues that should be explored before putting another expense on the back of the Hawaii taxpayer.

Thank you for the opportunity to submit our comments.

Sincerely,
Keli'i Akina, Ph.D.
President, Grassroot Institute of Hawaii

³ See <http://www.itep.org/whopays/states/hawaii.php>.



LATE

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
February 19, 2015
Conference Room 312
8:30AM

TESTIMONY IN STRONG OPPOSITION OF HB330 RELATING STATE FINANCES

Aloha Chair Tsuji, Vice Chair Onishi, and Members of the Committee:

The Maui Chamber of Commerce strongly opposes HB330 to increase the state's General Excise Tax (GET) by 1% to create a dedicated funding source for the acquisition of agricultural lands.

The GET is a regressive tax that gets multiplied many times over. Any time there is an increase in this tax, it raises the cost of doing business in this state and increases the costs for consumers, disproportionately hitting those with limited incomes the most.

With over 95% of our members being small businesses with fewer than 25 employees, any increase GET increase hurts their business. They are still struggling, even with the economy starting to pick up, and cannot keep treading water with the state adding on more and more weights.

Further, our state ranks among the worst states in the nation to do business in due in large part to our tax structures and increasing the GET will augment this perception, hampering business attraction and increasing business costs across the board.

Our agricultural industry is critical in Hawaii and we support efforts to sustain and grow the industry, however, we do not support funding this initiative via a GET increase or through any increase in fees. If securing additional agricultural lands is a priority, then monies should be shifted from other existing programs with lesser priorities to support the expansion of agricultural lands.

Therefore, we strongly oppose HB330 and ask that you hold this measure in committee.

Sincerely,

Pamela Tumpap
President

Katherine T. Kupukaa
Mililani Town, HI 96789

LATE

COMMITTEE ON AGRICULTURE
Rep. Clift Tsuji, Chair
Rep. Richard H.K. Onishi, Vice Chair

DATE: February 19, 2015
TIME: 8:30 am
PLACE: Conference Rm. 312
State Capitol
415 South Beretania Street

Re: OPPOSE HB 330 RELATING TO STATE FINANCES

I oppose HB 330 that authorizes an increase in general excise tax surcharge on State tax by 1% for a 2-year period to provide a dedicated funding source for the acquisition of agricultural lands. I believe that we are overtaxed as it is at the present time. This tax will impact the residents that can least afford it. I am on a fixed income and being charged 1/2% GET to fund a failed rail project. I humbly suggest you find other means of acquiring funds.

I urge you to use your God given wisdom as elected officials to make the right decision and not pass this bill. Thank you for allowing me the opportunity to voice my concern.