

# SB2599

Measure Title: RELATING TO TAXATION.

Report Title: General Excise Tax; Department of Education; Special Account

Description: Increases the general excise tax from four per cent to five per cent and requires that additional revenue collected from the general excise tax increase be deposited into a special account in the general fund for department of education operations, including salaries and maintenance costs

Companion:

Package: None

Current Referral: EDU, WAM

Introducer(s): KIDANI, Baker, Galuteria



STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
P.O. BOX 2360  
HONOLULU, HAWAII 96804

**Date:** 02/10/2016  
**Time:** 01:15 PM  
**Location:** 229  
**Committee:** Senate Education

**Department:** Education

**Person Testifying:** Kathryn S. Matayoshi, Superintendent of Education

**Title of Bill:** SB 2599 RELATING TO TAXATION.

**Purpose of Bill:** Increases the general excise tax from four per cent to five per cent and requires that additional revenue collected from the general excise tax increase be deposited into a special account in the general fund for department of education operations, including salaries and maintenance costs

**Department's Position:**

The Department supports the intent of SB 2599 to address adequate levels of funding for public education.

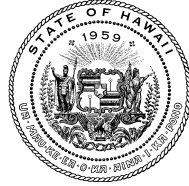
The Department shares the concerns raised in Section 1 that include recognition that:

- The Department is heavily dependent on general fund appropriations for its operations (over 80%);
- Since fiscal year 2008, the general fund appropriations made to the Department have not increased at the same rate as inflation;
- The Department has experienced an increase in demands driven by increased expectations while also managing an increase in the proportion and number of students with high needs;
- There is a persistent repair and maintenance backlog; and
- There are many other priorities for general fund resources.

Thank you for the opportunity to submit testimony on this measure.

DAVID Y. IGE  
GOVERNOR

SHANTSUTSUI  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

MARIA E. ZIELINSKI  
DIRECTOR OF TAXATION

JOSEPH K. KIM  
DEPUTY DIRECTOR

To: The Honorable Michelle N. Kidani, Chair  
and Members of the Senate Committee on Education

Date: February 10, 2016

Time: 1:15 P.M.

Place: Conference Room 229, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 2599, Relating to Taxation.

The Department of Taxation (Department) appreciates the intent of S.B. 2599, and provides the following comments for your consideration.

S.B. 2599 amends sections 237-13, 237-15, 237-16.5, and 237-18, Hawaii Revised Statutes (HRS), by increasing the general excise tax on the business of selling tangible personal property; contracting; operating a theater, amusements, radio broadcasting, etc; performing services for another; all other business activities; technicians supplying dentists or physicians with dentures, orthodontic devices, braces, etc.; leasing of real property by a lessor to a lessee; and tourism related services; from 4% to 5% of the gross income or proceeds.

S.B. 2599 also amends sections 237-31, HRS, by creating a new subsection (c), beginning on January 1, 2017, directing the additional revenues generated and collected from the 1% increase in the GET rates imposed by Sections 40 to 43 of S.B. 2586 to be deposited into a special account in the general fund for operations, including salaries and maintenance costs, of the Department of Education under Chapter 302A, HRS.

First, the Department notes that an amendment to section 237-16.5(f), HRS, seems to have unintentionally been omitted. If this is the case, the Department suggests adding the following provision to Section 42 of this measure:

"(f) This section shall not cause the tax upon a lessor, with respect to any item of the lessor's gross proceeds or gross income, to exceed [~~four~~] five per cent."

Second, the Department notes that this measure does not increase the corresponding use tax rates. The use tax, codified at chapter 238, HRS, is a tax meant to complement the GET levied on gross income derived from business activity in Hawaii, and serves to level the playing field for business activity within and without the State. Raising the GET rates without raising the corresponding use tax rates will destroy this balance. The Department suggests that the Committee adopts the appropriate amendments to chapter 238 to retain parity of the GET and use tax rates.

Third, the Department notes that the allocation provision in subsection (c) cannot be administered as written as there is no way to know whether an increase in collections is based entirely on the increase in rate. For example, an increase in collections may also be attributable to the economy, so it cannot be said with certainty that all increases in collections are due to an increase in the tax rate. The Department suggests clarification of this provision.

Finally, this measure applies to taxable years beginning after December 31, 2016. The Department believes that it is able to implement an increase in the GET rate as proposed in this measure by this effective date.

Thank you for the opportunity to provide comments.



1200 Ala Kapuna Street ♦ Honolulu, Hawaii 96819  
 Tel: (808) 833-2711 ♦ Fax: (808) 839-7106 ♦ Web: www.hsta.org

**Corey Rosenlee**  
 President  
**Justin Hughey**  
 Vice President  
**Amy Perruso**  
 Secretary-Treasurer  
**Wilbert Holck**  
 Executive Director

TESTIMONY BEFORE THE SENATE COMMITTEE ON  
 EDUCATION

RE: SB 2599 - RELATING TO TAXATION.

WEDNESDAY, FEBRUARY 10, 2016

COREY ROSENLEE, PRESIDENT  
 HAWAII STATE TEACHERS ASSOCIATION

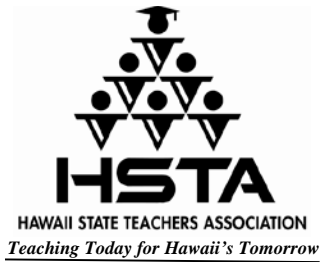
Chair Kidani and Members of the Committee:

The Hawaii State Teachers Association **strongly supports SB 2599**, relating to taxation.

Hawai'i shortchanges its public schools. While our state's per-pupil spending of \$11,823 ranks 17th in the nation when compared to other states in raw dollars, comparison with school districts of similar size and demographics yields different results. Mainland districts with high costs of living are typically urban and averaged with with rural districts experiencing lower costs of living in statewide analyses. When comparing school districts of similar size, Hawai'i, the nation's only statewide school district, ranks 227th in per-pupil funding *before* adjusting for cost of living. A comparison of spending per pupil in America's largest school districts shows the following:

DISTRICT	Wash. D.C.	New York City, NY	Boston, MA	Pittsburgh, PA	Cincinnati, OH	Detroit, MI
AMOUNT	\$26,661	\$25,061	\$22,762	\$22,600	\$22,157	\$18,361

Hawaii's major private schools, on the other hand, average \$15,173 in per-pupil spending. When Catholic schools, subsidized by the Roman Catholic Diocese, are removed, private school spending jumps to nearly \$19,173 dollars per student, sans endowment funds that further boost private school baselines. As Punahou President Jim Scott revealed in 2014, "The real cost of our education per student is \$26,000," with the school's endowment standing then at \$235 million and fundraising operations generating an additional \$12-\$15 million each year.



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Tel: (808) 833-2711 ♦ Fax: (808) 839-7106 ♦ Web: [www.hsta.org](http://www.hsta.org)

**Corey Rosenlee**  
President

**Justin Hughey**  
Vice President

**Amy Perruso**  
Secretary-Treasurer

**Wilbert Holck**  
Executive Director

To rectify our state's chronic underfunding of public schools, we propose raising the general excise tax by one percent and devoting the additional revenue *solely* to education. A single-percent GET hike would bring in an estimated \$750-850 million annually, which could be used to fund public preschool (\$125 million per year), provide comprehensive classroom cooling (\$50-\$100 million total), align teacher step raises with actual classification levels (approximately \$73 million in total), support class materials for special education teachers (\$3,750,000 annually), provide debit cards for classroom supplies to all public school educators (\$6,500,000 per year), expand arts and vocational education, lower class sizes, and subsidize professional pay that attracts and retains effective educators.

Education is our state's safest investment. Accordingly, the Hawaii State Teachers Association asks your committee to **support** this bill.



# Meadow Gold Dairies



Written Testimony by: Glenn Muranaka  
SB2599, Relating to Taxation  
Senate EDU Hearing  
Weds, Feb. 10, 2016 – 1:15pm  
Room 229  
Position: Oppose

Chair Kidani, and Members of the Senate EDU Committee:

My name is Glenn Muranaka, President and General Manager of Meadow Gold Dairies. Our company has been in Hawaii since 1897—119 years, providing Hawaii consumers with a variety of milk products and juices. Meadow Gold's long history has not come without effort. We continually adapt to our customers' and consumers' ever-changing needs, and we constantly evolve along with our industry, our community and our market. Over the years, this has required that we struggle, tighten our belts, innovate and work extremely hard, making us a better company in the process. The foundation of this work rests with the 330 employees that are committed to providing superior quality products.

The proposal to increase the GET for a DOE special account to support DOE operations, including salaries and maintenance costs is opposed. Increasing the GET as the vehicle to fund this is not supported, particularly when the GET is applied to every business transaction per item, ultimately adding to the cost for businesses and consumers.

Hawaii is a difficult place to do business with many challenges such as importing of inputs to manufacture or process items, shipping distribution to Neighbor Islands, high cost of land and water, etc. Please do not pass this measure which will drive increased cost of living and doing business in Hawaii.

Thank you for the opportunity to submit testimony. If you have any questions, please contact me at 944-5911.

**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
**To:** [EDU Testimony](#)  
**Cc:** [bobs@times-supermarket.com](mailto:bobs@times-supermarket.com)  
**Subject:** Submitted testimony for SB2599 on Feb 10, 2016 13:15PM  
**Date:** Wednesday, February 03, 2016 2:22:35 PM

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**SB2599**

Submitted on: 2/3/2016

Testimony for EDU on Feb 10, 2016 13:15PM in Conference Room 229

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Bob Stout	Times Supermarkets	Comments Only	No

Comments: As a business we oppose this bill as it only continues the ever growing expenses pushed down on us. This creates a situation where it has to be passed back to the consumers which further perpetuates the increasing cost of living in our state. Perhaps the Senate should look for ways to cut expense versus raising taxes. Mahalo, Times.

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](mailto:webmaster@capitol.hawaii.gov)





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Robert W. "Bill" Hastings II

Robin Tijoe

February 10, 2016  
1:15 PM  
Conference Room 229

**To: Senate Committee on Education**  
**Sen. Michelle Kidani, Chair**  
**Sen. Breene Harimoto, Vice Chair**

**From: Grassroot Institute of Hawaii**  
**President Keli'i Akina, Ph.D.**

RE: SB 2599 -- RELATING TO TAXATION  
***Comments Only***

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on SB 2599, which would increase the general excise tax from 4% to 5% and deposit that revenue into a special account for department of education operations.

At a time when leading education reformers are looking to move away from central control of education and empower parents, principals, and local schools, the impetus behind this bill shows us the exact opposite—a dedication to centralized control of schools, a one-size-fits-all education policy, and the further bureaucratization of the state's education system. That a massive 25% increase in the general excise tax is envisioned as the method by which to accomplish these aims only adds insult to injury. Thus, the state's businesses, entrepreneurs, and disadvantaged are being asked to bear the greatest financial burden in funding a plan that shows little promise of fixing our state's education ills, but every possibility of handicapping it economically.

The most recent edition of the ALEC-Laffer State Economic Competitive Index<sup>1</sup> ranks Hawaii last among all states for its sales tax burden, a rating that significantly contributes to a mediocre economic outlook ranking. In a similar way, the Small Business Policy Index<sup>2</sup>, which compares state policies and costs related to small business and entrepreneurship puts Hawaii at a dismal 47<sup>th</sup>, thanks largely to our high consumption taxes. In the same survey, Hawaii was ranked 50<sup>th</sup> in a ranking of states by sales, gross receipts, and excise taxes. Moreover, at least one study of OECD countries has found that along with corporate and personal taxes, consumption taxes like the state excise tax can be economically harmful over the long-term.<sup>3</sup>

In fact, economic theory recommends using consumption taxes like the excise tax as a way to influence consumer behavior and discourage purchase or use of the product taxed. A report from Deutsche Bank making recommendations to boost economic growth in Europe following the financial crisis posits that ideally any increase in a consumption tax would be offset by no more than an equal decrease in demand. (For our purposes, that means we would hope that a 1% surcharge would cause no more than a 1% drop in demand, purchases, or revenue.) However, as the author of the report concludes, “this result is based on strong assumptions that make realistic implementation impossible”<sup>4</sup> In other words, the inevitable effect of raising the excise tax is to discourage consumption, and any realistic model has to account for the probability that an increase in revenue will be offset by the possibility of a greater decrease in consumption.

Given that the state depends heavily on the excise tax as its revenue source, these continued efforts to tack on surcharges for various projects (no matter how worthy) threaten to kill this particular golden goose. As the Grassroot Institute noted in its multi-year budget analysis,<sup>5</sup> the Council of Revenues has predicted only a 1% increase in revenue growth in 2018, followed by a 2% growth rate thereafter. This can be contrasted with historical spending growth that more than doubles that rate, leading to a widening budget gap. Increasing the tax rate may have short-term benefits, but threaten a long-term slowdown in overall state revenues.

Though the GET does affect local businesses, they are not 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 unfair tax system in the country. The GET in

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<sup>1</sup> Available at [http://www.alec.org/app/uploads/2015/10/RSPS\\_8th\\_Edition-Final.pdf](http://www.alec.org/app/uploads/2015/10/RSPS_8th_Edition-Final.pdf).

<sup>2</sup> Available at <http://www.sbecouncil.org/wp-content/uploads/2014/12/SBPI2014Final.pdf>.

<sup>3</sup> Norman Gemmill, Richard Kneller, & Ismael Sanz, *The Timing and Persistence of Fiscal Policy Impacts on Growth: Evidence from OECD Countries*, 121 *Economic Journal* F33-F58 (2011).

<sup>4</sup> Frank Zipfel and Caroline Heinrichs. *The Impact of Tax Systems on Economic Growth in Europe*, Deutsch Bank Research, Oct. 5, 2012. Available at [http://www.dbresearch.com/PROD/DBR\\_INTERNET\\_EN-PROD/PROD000000000295266/The+impact+of+tax+systems+on+economic+growth+in+Europe%3A+An+overview.pdf](http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD000000000295266/The+impact+of+tax+systems+on+economic+growth+in+Europe%3A+An+overview.pdf)

<sup>5</sup> See <http://new.grassrootinstitute.org/2016/01/state-of-the-state-budget-2016/>.

particular came under 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.<sup>6</sup>

Hawaii’s public schools currently have a \$1.9 billion dollar budget, 81% of which is comprised of state funds,<sup>7</sup> while in FY 2013, K-12 education spending represented 15.5% of total state expenditures—the second highest category after the catch-all “other expenses.”<sup>8</sup> At every level, data demonstrates that spending alone is not the panacea that can solve our education problems.<sup>9</sup> What are needed are innovative solutions that break out of the stale, centralized approach that has characterized our approach to this point, not more of the same.

Thank you for the opportunity to submit our comments.

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

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<sup>6</sup> See <http://www.itep.org/whopays/states/hawaii.php>.

<sup>7</sup> Hawaii State Department of Education website, available at <http://www.hawaiipublicschools.org/ConnectWithUs/Organization/Budget/Pages/home.aspx>

<sup>8</sup> Ballotpedia. “Hawaii State Budget & Finances.” Available at [https://ballotpedia.org/Hawaii\\_state\\_budget\\_and\\_finances](https://ballotpedia.org/Hawaii_state_budget_and_finances)

<sup>9</sup> Johnson, Kirk A. & Krista Kafer. “Why More Money Will Not Solve America’s Education Crisis.” The Heritage Foundation. (June 11, 2001) Available at <http://www.heritage.org/research/reports/2001/06/why-more-money-will-not-solve-americas-education-crisis>



46-063 Emepela Pl. #U101 Kaneohe, HI 96744 · (808) 679-7454 · Kris Coffield · Co-founder/Executive Director

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## TESTIMONY FOR SENATE BILL 2599, RELATING TO TAXATION

Senate Committee on Education  
Hon. Michelle N. Kidani, Chair  
Hon. Breene Harimoto, Vice Chair

Wednesday, February 10, 2016, 1:15 PM  
State Capitol, Conference Room 229

Honorable Chair Kidani and committee members:

I am Kris Coffield, representing IMU Alliance, a nonpartisan political advocacy organization that currently boasts over 350 members. On behalf of our members, we offer this testimony in strong support of Senate Bill 2599, relating to taxation.

In comparison to school districts of similar size and demographic composition, Hawai'i, ranks 227th in per-pupil funding *before* adjusting for cost of living, at \$11,823 per child. Washington D.C., New York City, Boston, Pittsburgh, and Cincinnati school districts, for example, spend nearly twice as much as Hawai'i per pupil, at well over \$22,000 to over \$26,000 per student. Similarly, local private schools, discounting Catholic institutions, spend nearly \$19,173 dollars per student, with Punahou President Jim Scott revealing, in 2014, "The real cost of our education per student is \$26,000," owing to the school's then-total endowment of \$235 million and fundraising operations of \$12-\$15 million annually.

Raising the general excise tax by one percent and dedicating generated revenue wholly to education makes sense. A one-percent GET hike would garner over \$750 million each year for local schools, which could be used to fund public preschool (\$125 million per year), provide comprehensive classroom cooling (\$100 million or less in total, per the most recent departmental estimates), "true up" teacher step raises with earned classification (approximately \$73 million in total), provide class materials to special education teachers (\$3,750,000 annually), give debit cards for supplies to educators statewide (\$6,500,000 per year), expand arts and vocational education, lower class sizes, and, at long last, pay teachers the

salaries they deserve. According to a WalletHub study, Hawai'i ranked 51<sup>st</sup> out of fifty states and the District of Columbia for starting and median teacher pay adjusted for cost of living. When teachers clamor for better pay, they're not being greedy. On the contrary, they're fighting for the professional stability necessary to retain highly effective educators and recruit new teachers into chronically understaffed schools. If teachers are the most important factor in determining scholastic success, then the state should compensate them accordingly, competitively, and professionally.

At the end of the day, this bill isn't about money. It's about respect for the teachers who provide the sign and signal of our society's audacious future. Mahalo for the opportunity to testify in strong support of this bill.

Sincerely,  
Kris Coffield  
*Executive Director*  
IMUAlliance



Executive Officers:  
Derek Kurisu, KTA Superstores - Chairperson  
John Erickson, Young's Market Company – Vice Chair  
Bob Stout, Times Supermarkets – Secretary/Treasurer  
Lauren Zirbel, Executive Director

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1050 Bishop St. PMB 235  
Honolulu, HI 96813  
Fax : 808-791-0702  
Telephone : 808-533-1292

TO:  
COMMITTEE ON EDUCATION  
Senator Michelle N. Kidani, Chair  
Representative Breene Harimoto, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION  
Lauren Zirbel, Executive Director

DATE: Wednesday, February 10, 2016  
TIME: 1:15pm  
PLACE: Conference Room 229

RE: SB2599

Position: Oppose

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.

We oppose this measure. While the intent of the bill is to enhance social benefits, there is a problem because it will also place an economic burden on Hawaii businesses and residents. Please keep in mind that profit margins are already quite sparse for grocers, which generally operate at a profit margin of around one percent. Increasing the GET, even by one percent, would be detrimental to the state, in particular small or rural island communities that are **less able to absorb the additional cost.**

Hawaii residents already pay very high prices for food and drinks. We are one of only a handful of states that pay taxes on groceries and our food costs can be up to seventy percent more than the national average. Increasing the GET will hurt the economy, drive up grocery costs, punish low-income consumers and burden businesses. It will unnecessarily impose an additional financial burden on people who are struggling to pay for basic necessities and on businesses that are struggling to survive.

For these reasons we ask that this measure be deferred indefinitely.

Thank you for the opportunity to testify.

February 10, 2016

**The Honorable Michelle N. Kidani, Chair**  
Senate Committee on Education  
State Capitol, Room 229  
Honolulu, Hawaii 96813

**RE: S.B. 2599, Relating to Taxation**

**HEARING: Wednesday, February 10, 2016 at 1:15 p.m.**

Aloha Chair Kidani, Vice Chair Harimoto, 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 8,800 members.

**HAR strongly opposes S.B. 2599** which increases the General Excise Tax ("GET") from a 25% increase from a rate of 4 to 5%.

HAR believes that, while education is of great value to the State, the GET increase in this measure will be especially burdensome for low to moderate-income families. Hawaii's excise tax is a regressive tax that weighs more heavily on the poor because lower-income residents are forced to contribute a larger share of their incomes to cover the tax.

The GET burden pyramid is hidden in the prices of goods and services. For example, if a person buys a loaf of bread on O'ahu for \$5.00, the store will typically add the excise tax of 4.712% and charges the person \$5.24, so the "visible tax" is 24 cents. In reality, however, the \$5.00 price has to cover the tax on goods and services as the bread moves through the production chain albeit at a lesser 0.5%. When it is all added up, the tax is a lot more than 24 cents.

Hawaii's general excise tax is unique and while it looks like a sales tax being imposed on every transaction, it is nothing like a retail sales tax found in some forty-four other states. This is because it is not a tax that is paid by the consumer, but one that is imposed on the business for the "privilege of doing business in the state."



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Studies have shown that with the pyramiding effect of the GET, the effective tax rate is considerably higher. For example, an increase from 4% to 5% or 5.5% on O'ahu would be equivalent to at least 17.5% upwards to 26% retail sales tax depending on the pyramiding whereas the GET in Hawaii is applied to 160 of 168 goods and services, the most of any State in the nation.

HAR believes that Hawaii's families and businesses continuously struggle to keep up with the cost of living and doing business in Hawai'i and a GET increase will only add to this burden. An increase of GET will have a regressive impact on families already living paycheck-to-paycheck, our renters, and our seniors.

There are many important programs that the state funds, but doing this could set a dangerous precedent for other programs with constituencies to come in for further tax increases.

Mahalo for the opportunity to testify.



# Chamber of Commerce HAWAII

*The Voice of Business*

**Testimony to the Senate Committee on Education  
Wednesday, February 10, 2016 at 1:15 P.M.  
Conference Room 229, State Capitol**

**RE: SENATE BILL 2599 RELATING TO TAXATION**

Chair Kidani, Vice Chair Harimoto, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **strongly opposes** SB 2599, which increases the general excise tax from four per cent to five per cent and requires that additional revenue collected from the general excise tax increase be deposited into a special account in the general fund for department of education operations, including salaries and maintenance costs.

The Chamber is Hawaii's leading statewide business advocacy organization, 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.

The Chamber supports the funding of public education and it receiving the necessary resources to accomplish its mission. With the state funding everything from agriculture to the University of Hawaii system, from ambulance service to protection of conservation lands, we understand that the education is part of a larger resource picture. At the same time, we do not believe this is the solution, and cannot support a one percent increase in the general excise tax.

This bill should it pass will increase taxes for taxpayers in Hawaii by approximately \$780 million or another way will increase the general excise tax by 25%. We believe that this tax increase could harm both business and residents by such a large increase in taxes. Last year Hawaii taxpayers paid almost \$7 billion in taxes. Such a tax increase will place a large financial burden on both business and consumers alike further increasing the cost to live in Hawaii especially those who may be affected by the general excises somewhat regressive nature. This may also encourage residents to purchase more things online to avoid the higher tax which would adversely affect Hawaii's local economy and lower revenues in the base itself.

We also have other issues with the bill. It does not guarantee (nor can any language) that the additional tax revenues will be used only for the department of education. Second the bill does not state what the \$780 million in additional taxes will accomplish. Lastly, we have concerns on the larger issue of raising taxes to fund a program. As we mentioned there are many important programs that the state funds, but doing this could set a dangerous precedent for other programs with constituencies to come in for further tax increases.

We ask that you defer this bill. Thank you for the opportunity to testify.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** GENERAL EXCISE, USE, Increase tax rate, disposition for department of education

**BILL NUMBER:** SB 2599

**INTRODUCED BY:** KIDANI, Baker, Galuteria

**EXECUTIVE SUMMARY:** Increases the general excise tax by 1% and provides that the revenue generated by the increased rate will be used for department of education operations, including salaries and maintenance costs. With a tax increase of this magnitude, economic ripple effects are likely to be enormous because of the all-encompassing nature of the tax. We also question why such a massive increase is being sought given that the Department of Education already has a gargantuan share of the State budget but is still beset with such issues as frustrated teachers and students roasting in our classrooms.

**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 the revenue derived from the increase in the general excise tax shall be deposited into a special account in the general fund and be appropriated to and expended for operations of the department of education provided that this revenue shall be in addition to and not substituted for moneys otherwise appropriated to the department of education.

**EFFECTIVE DATE:** Applies to taxable years beginning after December 31, 2016.

**STAFF COMMENTS:** This measure is proposed to provide additional revenue to the department of education by increasing the general excise tax by 1%. It should be remembered that any increase in the general excise tax rate 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. For teachers who have requested this increase in the tax to fund their salaries, they should acknowledge that they are just making 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, including their own, to survive.

The general excise tax is all-encompassing. The Hawaii courts have said it is "a wide and tight net." *In re Island Holidays, Ltd.*, 59 Haw. 307, 316, 582 P.2d 703, 708 (1978). It covers "virtually every economic activity imaginable." *Pratt v. Kondo*, 53 Haw. 435, 436, 496 P.2d 1, 2 (1972). It "applies at all levels of economic activity ... and to virtually all goods and services."

*In re Central Union Church*, 63 Haw. 199, 202, 624 P.2d 1346, 1349 (1981). It is an “omnipresent snare.” *Wasson-Bendon Partners v. Kamikawa*, 93 Haw. 267, 278, 999 P.2d 865, 876 (Ct. App. 2000). Not only will the general excise tax increase the cost of doing business, but it will affect the cost of all other non-food purchases, be it clothes, textbooks for university students, rent for those people who don’t own their shelter which are generally the poor and middle class, the price at the pump for gasoline - everything right down the line. Residents of Honolulu already know what such an increase can do the price of goods and services as a result of the transit surcharge.

More importantly, because the general excise tax is a tax on gross income, most businesses will try to recover as much of the cost of the tax by passing it 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 4.16% to 4.712%. Thus, the tax rate actually passed on will be more than the nominal 5%. Indeed, a 5% tax corresponds to a pass-on rate of 5.263%, and in Honolulu the rail surcharge will result in a pass-on rate of 5.820%. Again, such an increase will ripple through the economy and into the cost of all goods and services purchased by residents and visitors alike. To that degree, taxpayers can take their hats off to teachers for upping the cost of living and doing business in Hawaii.

While the measure earmarks the revenues from the 1% rate increase for the department of education and states that these new funds will be in addition to the \$1.5 billion the department currently receives from the state general fund. Lest advocates of this measure believe that education will be guaranteed these funds, the track record indicates how disingenuous lawmakers have been about earmarked special funds, raiding those special funds when it is expedient and even in the face of federal prohibitions such as the monies that were collected and designated to build the enhanced 911 system.

A tax increase of any magnitude in Hawaii’s fragile economy will, no doubt, have a negative impact as costs soar due to higher taxes. As costs and overhead increase, employers will have to find ways to stay in business by either increasing prices to their customers or cut back on costs. This may take the form of reducing inventory, shortening business hours, reducing employee hours, or even laying off workers. A tax increase of any magnitude would send many companies, especially smaller ones, out of business taking with them the jobs the community so desperately needs at this time.

While the teachers believe that they have not been given a fair shake at the negotiating table, that is an issue that should be resolved at the table and not by asking for tax increases or an earmarked source of funding. It is up to the teachers to ask for what money is available just like any other collective bargaining units. Although public employee union leaders complain about how the public employees should not be asked to bear the brunt of the downturn in the economy, they seem to ignore the fact that employees in the private sector have taken hits early and often, with many of them either working shorter hours or having taken pay cuts if they are working at all. To prove the point, lawmakers should ask how many of the unemployed workers come from the public payroll and how many are employees laid off from the private sector. The downsizing

during the recent economic downturn may seem to have hit more public employees, but then again, government is the largest employer in the state. However, one cannot ignore the impact the closing of businesses such as Aloha Airlines that affected more than 3,000 employees directly and many more indirectly in companies which provided goods and services to the airline.

Teachers do have a legitimate complaint that should demand the attention of lawmakers and Board of Education members, namely that teachers are being asked to do more and more administrative paperwork and are spending less and less time in the classroom. If nothing else, the funds that are being appropriated to the DOE are failing to reach the classroom because of the top-heavy administrative structure of the department that demands reports and schedules and evaluations to justify the role of administrators. The frustration of classroom teachers is that they spend too much time filling out forms and reports and not enough time in the actual classroom. Unfortunately, with more than \$1.5 billion in its budget and more than 20% of the general fund budget, teachers are frustrated, and kids are roasting in the schools. The department of education still cannot get it right. Until it does, there is little justification for an increase of financial resources let alone an increase in the general excise tax.

Digested 2/3/16

Testimony In Support of Senate Bill 2599  
Senate Committee on Education  
Wednesday, February 10, 2016

Dear Honorable Chair Kidani and committee members,

The current underfunding of Hawai‘i’s public schools is part of a larger historical pattern of almost criminal neglect. When the cost of living is factored in, Hawai‘i is *last* in the nation in the percent of state and local expenditures for public education per student.<sup>i</sup> Hawai‘i also ranks *last* in the nation with regards to capital improvement money per student per year, with the Hawai‘i state legislature allocating about \$300 per pupil whereas the mainland averages \$1,200 to \$1,500.<sup>ii</sup> Hawai‘i also currently ranks *last* in the nation when it comes to teacher pay adjusted for cost of living. The average teacher salary in Hawai‘i, adjusted for cost of living, is \$32,312.<sup>iii</sup>

Hawai‘i underfunds its public schools when compared to both school districts on the mainland with similar costs of living and with private schools in Hawaii. Hawai‘i spends \$11,823 per pupil, which is 17th in the nation when compared to other states.<sup>iv</sup> However, using a state-by-state comparison is not the most accurate measure of public education funding. Better, more insightful comparison is possible through comparison of Hawaii’s funding with other school districts of similar size and demographics, rather with other states. Hawai‘i is the only statewide school district, and school districts on the continent with high costs of living are averaged with school districts with rural districts with lower costs of living in statewide aggregate analysis. Illinois, which has a similar cost per pupil as Hawaii, has 863 school districts, with one expensive school district: Chicago.<sup>v</sup> When comparing school districts of similar size, Hawai‘i is 227 on the list, even without adjusting for cost of living. Comparisons of spending per pupil in America’s largest school districts yield interesting results:<sup>vi</sup>

DISTRICT	Washington, D.C.	New York City, NY	Boston, MA	Pittsburgh, PA	Cincinnati, OH	Detroit, MI
PER PUPIL	\$26,661	\$25,061	\$22,762	\$22,600	\$22,157	\$18,361

Hawaii’s major private schools average \$15,173 in per pupil spending. When Catholic schools, which are subsidized by the Roman Catholic Diocese, are removed from the aggregate, per pupil spending in Hawai‘i private schools reaches nearly \$19,173 dollars per student.<sup>vii</sup> This figure does not, however, include endowment funds that increase the actual amount spent per pupil. As Punahou President Jim Scott revealed in 2014, "The real cost of our education per student is \$26,000. ... The difference is met through our endowment — now at \$235 million — and fund-raising \$12 million or \$15 million a year. Every tuition-paying parent is being subsidized by fundraising and by the Punahou endowment."<sup>viii</sup>

The possible remedies for the inequities resulting from underfunding are limited only by the imagination and political will, of legislators and of the citizens of Hawaii. This is the education of our children, and if we are not willing to hold ourselves accountable, no one will.

Sincerely,

Amy Perruso, Ph.D.  
Mililani High School  
Advanced Placement Social Studies  
NBCT

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<sup>i</sup> "Superintendent's Annual Report." *State DOE Accountability*. ARCH, 2014. Web. 07 Jan. 2016.

<sup>ii</sup> Eagle, Nathan. "Board Chair: Schools' Brick-And-Mortar Projects 'Woefully' Underfunded." *Honolulu Civil Beat*. Civil Beat, 26 Oct. 2012. Web. 14 Jan. 2016.

<sup>iii</sup> Villarreal, Pamela. "How Much Are Teachers Paid: Nationwide Analysis of Teacher Pay?" *Highlights from Education at a Glance* (2014). National Center for Policy Analysis, Sept. 2014. Web. 22 Feb. 2016.

<sup>iv</sup> "Hawai'i DOE Budget Sheet." *Hawai'i Public Schools*. Hawaiipublicschools.org, Dec. 2015. Web. 22 Jan. 2016.

<sup>v</sup> "A Profile of Illinois Public Schools in 2013-14." (2015): 1-8. *Illinois State Board of Education Schools & Districts (Annual Report)*. Isbe.gov, Mar. 2015. Web. 22 Jan. 2016.

<sup>vi</sup> *Analysis of Spending in America's Largest School Districts*. Ballotpedia.org, 17 Nov. 2014. Web. 23 Jan. 2016.

<sup>vii</sup> Kalani, Nanea. "Increases Stacking up." *Honolulu Star Advertiser*. Staradvertiser.com, 12 July 2015. Web. 23 Jan. 2016.

<sup>viii</sup> Kalani, Nanea. "Private Schools Cite Increased Costs for Higher Prices." *Honolulu Star Advertiser*. Staradvertiser.com, 07 Apr. 2014. Web. 23 Jan. 2016.