

SB 946

Measure Title: RELATING TO GENERAL EXCISE TAX.
Report Title: General Excise Tax; Intermediary Business Transactions
Description: Repeals the GET on all intermediary business transactions.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
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To: The Honorable Glenn Wakai, Chair
and Members of the Senate Committee on Economic Development and
Technology

Date: Wednesday, February 4, 2015
Time: 2:45 P.M.
Place: Conference Room 016, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 946, Relating to General Excise Tax

The Department of Taxation (Department) appreciates the intent of S.B. 946 and provides the following comments for your consideration. S.B. 946 exempts intermediary transactions from the general excise tax (GET).

Section 1 of the bill amends section 237-24, Hawaii Revised Statutes (HRS), to exempt two categories of gross receipts currently taxed at four per cent. The bill exempts amounts received by a licensed person from another licensed person for the sale of goods that are then used by the purchasing business. Section 1 also exempts amounts received from subleasing between two licensed taxpayers. Section 3 of the bill correspondingly repeals the sublease deduction.

Section 1 of the bill also exempts specific transactions currently taxed at one half per cent. Proposed subsection (19)(A) exempts sales of tangible personal property (TPP) to a service business where the TPP remains an identifiable element of the final product. Proposed subsection (19)(B) exempts wholesale sales of amusements. Proposed subsection (19)(C) exempts wholesale services.

Section 2 of the bill repeals section 13.3, HRS, which included the declining rates for certain wholesale sales from 2000 through 2005. Since 2006 the wholesale rate has been one half per cent for all sales at wholesale.

The Department notes that due to the commerce clause of the U.S. Constitution, some of the proposed GET exemptions will necessitate corresponding exemptions in the Use Tax. Proposed subsection (18)(A) exempts from GET gross receipts from transactions that are taxable under the Use Tax. If this exemption is adopted, the Department recommends the repeal of the capital goods excise tax provided under section 235-110.7, HRS, which allows for a four percent tax credit on tangible personal property purchased for use in a business.

Proposed subsection (19)(C) would exempt from GET gross receipts from sales that would be subject to Use Tax if this bill is passed. To avoid unconstitutional interference with interstate commerce the Department suggests the bill be amended to include amendments to the Use Tax to exempt the import of the goods exempted by proposed subsections (18)(A) and (19)(C).

The Department notes that S.B. 946 has an effective date of July 1, 2015. Because S.B. 946 would require forms and instructions changes the Department requests the effective date be changed to January 1, 2016.

Thank you for the opportunity to provide comments.



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

TO:
COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
Senator Glenn Wakai, Chair
Senator Sam Slom, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: February 4, 2015
TIME: 2:45pm
PLACE: Conference Room 16

RE: SB946

Position: Support

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.

Hawaii is consistently ranked among the worst states to do business, and the main causes often sighted are high business cost and unfriendly regulatory environment*. Passage of this bill could go a long way in addressing both those issues and making Hawaii a better state for business. Becoming a better state for business is not just about helping businesses, it's about creating jobs, and creating a stronger, more diversified, more resilient economy.

In addition to improving the overall business climate and possibly attracting new businesses, removing the GET on intermediary business transactions incentivizes businesses here in Hawaii to patronize other Hawaii business and keep more dollars here in the state. It makes it more affordable for a business to invest in itself by expanding, growing, and making improvements. This bill would enable some companies to have more capitol

* **Forbes, The Best States for Business and Careers, 2014, Hawaii ranked 45th**

<http://www.forbes.com/best-states-for-business/list/>

Chief Executive, 2014 Best and Worst States for Business, Hawaii ranked 43rd

<http://chiefexecutive.net/best-worst-states-for-business-2014#ranking>

CNBC, 5 Worst States for Business in the US, Hawaii ranked 2nd worst

<http://www.cnbc.com/id/101769584#>.

The Economist, Best and Worst States for Small Business, Hawaii given grade of F

<http://www.economist.com/news/united-states/21606293-small-businesses-fret-less-about-taxes-over-regulation-red-tape-blues>

available for things like creating jobs, investing in employee training and education, and possibly even lowering consumer prices.

This bill is an opportunity for the state government to invest in Hawaii businesses and in Hawaii's economy, which is exactly what our economy and our state needs right now. Please vote yes on this measure.

Thank you for the opportunity to testify.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Repeal tax on intermediary transactions

BILL NUMBER: SB 946

INTRODUCED BY: Slom and 2 Democrats

BRIEF SUMMARY: Adds a new paragraph (18) to HRS section 237-24 to provide that amounts received by a taxpayer licensed under the general excise tax from another taxpayer licensed under the general excise tax for the sale of goods that are: (1) not for resale; (2) to be used or consumed in a business as part of the operation of the business; and (3) subject to the general excise tax at 4%; or who are a lessor and lessee subleasing real property that would otherwise be taxed at the 4% general excise tax rate, shall be exempt from the general excise tax.

Adds a new paragraph (19) to HRS section 237-24 to provide that wholesale sales subject to HRS 237-4(a)(8)(B), 237-4(a)(13) and 237-4(a)(10) shall be exempt from the general excise tax.

Repeals HRS sections 231-13.3 and -16.5.

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: The legislature by Act 71, SLH 1999, acknowledged the pyramiding effect of the general excise tax imposed on sales of services and provided for a phased-in reduction beginning with calendar year 2000 and when fully phased-in for calendar 2006 such sales would be taxed at the rate of 0.5%. The legislature by Act 353, SLH 1997, addressed the problem of the pyramiding of the general excise tax as it affects leasing transactions. As it was enacted, Act 353 phased-in the deduction over an eight-year period, beginning in calendar 1998 with a deduction amount of .125 which would increase each year until calendar 2004 with the deduction amount reaching .875. When fully phased-in, the deduction amount would subject such real property subleasing transactions to a 0.5% rate. This measure proposes to repeal the dypyramiding of services purchased for resale and subleasing activities.

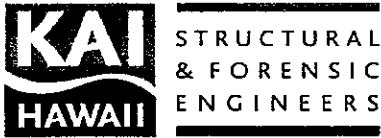
In its place this measure would completely exempt business-to-business transactions. This is the case in many other states where a retail sales tax is imposed instead of a gross receipts tax. It should be remembered that the reductions in the general excise tax imposed on services and the leasing of real property were not adopted with an immediate reduction to the 0.5% rate because, at that time, the state could not afford the loss of revenues. Thus, phasing in the reduction of the rate would allow the state to accommodate the loss of revenue over a period of time.

While this may be welcome relief for businesses and consumers, unless there is a concurrent reduction in spending, lawmakers may just look for other ways to make up the revenue loss. Before lawmakers enact any more tax benefits, they must exert the political will to right-size government.

SB 946 - Continued

Finally, as a technical matter it should be noted that the bill, as now drafted, eliminates the 0.5% general excise tax but does not touch the 0.5% use tax. The 0.5% use tax would need to be repealed as well; if not, the tax system would discriminate against interstate commerce and, therefore, would not pass constitutional muster.

Digested 2/3/15



Ken Hayashida, P.E. | *President*
Michael Hunnemann, P.E. | *Vice President*

February 3, 2015

Senate Committee on Economic Development and Technology
Senator Glenn Wakai, Chair; Senator Sam Slom, Vice Chair

Subject: TESTIMONY IN SUPPORT of SB 946, Relating to General Excise Tax
Hearing: Wednesday, February 4th, 2:45 p.m., Conference Room 016

Dear Chair Wakai, Vice Chair Slom, and Members of the Committee:

I am a small business owner in the State of Hawaii and I would like to request that you support the repeal of the General Excise Tax on all intermediary business transactions. At the surface, opponents of the corporate income tax often defer to the "tax fairness" argument. However, this argument is not consistent with the economic and tax policy principles, as well as with the actual tax revenue collections.

According to the Council on State Taxation, Hawaii businesses pay an aggregate share of 40% of all general excise tax collections. In other words, 40% of all the General Excise Tax that is being collected is derived from business-to-business transactions, which amounts to \$1.2 billion. To put this into perspective, the GET collections on businesses is ten times larger than state corporate income tax collections.

The tax fairness argument is often brought up. However, the costs of taxing business-to-business transactions are generally hidden and unrecognized in the form of higher consumer prices and/or reduced state economic activity, including reduced employment and lower wages.

We appreciate the continuing efforts of your committees and the members of the Senate to improve the business climate in Hawaii, and respectfully urge you restore fairness to businesses. Thank you for an opportunity to express our views in SUPPORT of this bill.

Respectfully submitted,

KAI Hawaii, Inc.

A handwritten signature in black ink, appearing to read "Ken Hayashida". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Ken Hayashida
President

Statement of
Eric Ching
CC Repair & Maintenance Services Inc.
before the
COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

Wednesday, February 4, 2015
2:45 p.m.
State Capitol, Conference Room 016

in consideration of
SB 946
RELATING TO GENERAL EXCISE TAX.

Good morning Chair Wakai, Vice Chair Slom, and Members of the Committees. My name is Eric Ching and I am a concerned resident and business owner who does business in Hawaii.

I support the overall objective of this bill which attempts to reduce the cumulative effect of supply chain excise taxes that add to the cost of goods and services. While I believe we must make every effort to reduce the cost of living in Hawaii, efficient collection of the excise tax is critical to fund state budgets. If the collection of owe taxes are not collected at the user end we will short change the government from revenue that otherwise would have been collected. A concern would be accounting for sales done over the internet and cash sales that may be missed and rightfully be taxable.

Thank you for this opportunity to submit my testimony.

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 03, 2015 8:14 AM
To: EDT Testimony
Cc: jnscott62@gmail.com
Subject: Submitted testimony for SB946 on Feb 4, 2015 14:45PM

SB946

Submitted on: 2/3/2015

Testimony for EDT on Feb 4, 2015 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Jackie Scott	Scott Hawaii	Support	No

Comments: Small businesses are failing by the day and taxes play a huge part in that. It is time for government to recognize that even small business is important to the economy and any help with lowering taxes would be a huge relief.

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.

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 02, 2015 9:46 AM
To: EDT Testimony
Cc: csdp@kyd-inc.com
Subject: *Submitted testimony for SB946 on Feb 4, 2015 14:45PM*

SB946

Submitted on: 2/2/2015

Testimony for EDT on Feb 4, 2015 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Carmelita Phillips	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 02, 2015 6:10 PM
To: EDT Testimony
Cc: auntyhonu@aol.com
Subject: Submitted testimony for SB946 on Feb 4, 2015 14:45PM

SB946

Submitted on: 2/2/2015

Testimony for EDT on Feb 4, 2015 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
JoDee Hunt	Individual	Comments Only	No

Comments: I am asking you to favorably consider voting to exempt excise taxes from being assessed and collected for business to business transactions. This concept has a way of multiplying and multi-taxing for the same item. The loss to the general excise fund would be negligible while the asset to the business community would be huge. I am hoping that this can be accomplished in this current session. Please add your yes-vote to SB 946 and lower the cost of doing business. Thank you!!

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 02, 2015 7:29 PM
To: EDT Testimony
Cc: sgeilfuss@hawaii.rr.com
Subject: Submitted testimony for SB946 on Feb 4, 2015 14:45PM

SB946

Submitted on: 2/2/2015

Testimony for EDT on Feb 4, 2015 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Steven Geilfuss	Individual	Support	No

Comments: This is a good start to improving the business climate and growing the economy.

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 02, 2015 7:35 PM
To: EDT Testimony
Cc: sthazam@yahoo.com
Subject: Submitted testimony for SB946 on Feb 4, 2015 14:45PM

SB946

Submitted on: 2/2/2015

Testimony for EDT on Feb 4, 2015 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Stephen T Hazam	Individual	Support	No

Comments: This reduction will help grow the economy and benefit the middle class. Thank you for the opportunity to submit testimony.

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From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 03, 2015 6:25 AM
To: EDT Testimony
Cc: lila.m@hawaiiantel.net
Subject: *Submitted testimony for SB946 on Feb 4, 2015 14:45PM*

SB946

Submitted on: 2/3/2015

Testimony for EDT on Feb 4, 2015 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Lila Mower	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 02, 2015 11:15 PM
To: EDT Testimony
Cc: loisjyoung@gmail.com
Subject: Submitted testimony for SB946 on Feb 4, 2015 14:45PM

SB946

Submitted on: 2/2/2015

Testimony for EDT on Feb 4, 2015 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Lois J Young	Individual	Support	No

Comments: Dear Sen Slom and EDT committee, As a small business person, I support the repeal of GET between intermediary businesses and allow the free flow of money to build a strong economy for Hawaii. We are already taxed in more ways than one, and I support this bill to repeal this "pile on" tax. Thank you, Lois Young

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.

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From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 03, 2015 12:08 PM
To: EDT Testimony
Cc: kjcole52@yahoo.com
Subject: Submitted testimony for SB946 on Feb 4, 2015 14:45PM
Attachments: SB 946.docx

SB946

Submitted on: 2/3/2015

Testimony for EDT on Feb 4, 2015 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Kevin J. Cole	Individual	Support	No

Comments: This would greatly encourage growth.

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**- See attached*

SB 946 - RELATING TO GENERAL EXCISE TAX

I support this measure. As most of us know the "velocity of money" (VM) is key factor in the growth of an economy. In a state such as ours, the primary promoter for economic growth is the small business community. Hawaii is known as a place that is not businessperson friendly. Anything that can reduce costs and lower prices will help people start and maintain their business. Consumers would benefit from the lower prices of goods and services. People from Hawaii should be encouraged to start their own local business

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 03, 2015 1:01 PM
To: EDT Testimony
Cc: bsanada74@gmail.com
Subject: Submitted testimony for SB946 on Feb 4, 2015 14:45PM

SB946

Submitted on: 2/3/2015

Testimony for EDT on Feb 4, 2015 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Rebecca McGuire	Individual	Support	No

Comments: I am submitting testimony in support of SB 946. I believe this bill would support the economy by repealing the general excise tax on all intermediary business transactions. Thank you, Rebecca McGuire

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