



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: dbedt.hawaii.gov

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
LUIS P. SALAVERIA
Director

Department of Business, Economic Development, and Tourism
before the

SENATE COMMITTEE ON WAYS AND MEANS

Tuesday, April 5, 2016
1:00 P.M.
State Capitol, Room 211

in consideration of
SCR164/SR125

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

Chair Tokuda, Vice Chair Dela Cruz, and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) offers comments on SCR164/SR125, which requests DBEDT to conduct a study on the economic impact of granting an exemption for the sale of goods and services to the federal government from the State General Excise Tax. DBEDT would like to provide the following comments:

1. In FY2014, the federal government awarded \$2.9 billion in grants and \$2.2 billion in contracts within Hawaii.¹ However, extensive analysis and data collection would be required to estimate the amount of federal spending that would be subject to Hawaii's General Excise Tax. DBEDT does not have the adequate resources to collect all the data required for this analysis.

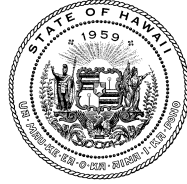
¹ 2016. Federal Spending in the States 2005-2014. The PEW Charitable Trusts. March. pp 6.

2. We estimate that the cost to hire a firm to collect the required data would be \$200,000.
3. As noted in the resolutions, collaboration with DOTAX would be beneficial for this analysis. Due to data confidentiality, DBEDT employees do not have access to the State tax data.

Thank you for the opportunity to provide the above comments.

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 Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: Tuesday, April 5, 2016

Time: 1:00 P.M.

Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.C.R. No. 164 / S.R. No. 125, Requesting the Department of Business, Economic Development, and Tourism, in Consultation with the Department of Budget and Finance, and Department of Taxation, to Conduct a Study on the Economic Impact of Granting an Exemption for the Sale of Goods and Services to the Federal Government from the State General Excise Tax.

The Department of Taxation (Department) appreciates the intent of S.C.R. No. 164 / S.R. No. 125, and offers the following comments for your consideration.

This resolution requests that the Department, in concert with the Department of Business, Economic Development, and Tourism (DBEDT) and the Department of Budget and Finance, to determine the potential increase in economic activity, including the number of jobs, personal and corporate income, and personal and corporate taxes that would result from granting an exemption for the sale of goods and services to the federal government from the state general excise tax (GET).

The Department is willing to comply with this resolution to the best of its ability and defers to DBEDT regarding its ability to make the types of economic predictions called for in this resolution. The Department is able to provide data to the extent allowed by confidentiality laws, but notes that it does not perform the type of economic analysis called for in this resolution.

It is important to note that sales of tangible personal property to the federal government are already exempt from the GET under section 237-25, Hawaii Revised Statutes (HRS); therefore, the exemption the Department is asked to study would apply to sales of services and sales of services in conjunction with tangible personal property.

It is important to note that, for the sales services to be used and consumed in Hawaii, the out-of-state businesses referred to in the Whereas provisions of this resolution would typically be subject to the GET for the same activity that in-state businesses would be, assuming that the out-of-state businesses have nexus with Hawaii. Services used and consumed outside Hawaii are already exempt from the GET, pursuant to section 237-29.53, HRS. In addition, for taxpayers that do business within and without the State, section 237-21, HRS, allows for apportionment.

If the competitive disadvantage faced by in-state businesses referenced in this measure does in fact exist, it is an issue related to enforcement of the tax laws. The Department has systems in place through which taxpayers may report suspected nonpayment of taxes by other parties. Individuals may anonymously report information on non-filers via email, phone or fax.

Thank you for the opportunity to provide comments.