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To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Monday, February 11, 2019
Time: 10:00 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 1274, Relating to Department of Taxation Fees

The Department of Taxation (Department) strongly supports S.B. 1274, an Administration measure, and offers the following comments the Committee's consideration.

S.B. 1274 changes the fees for licenses and permits issued under chapters 243, 244D, and 245 (the Fuel Tax, Liquor Tax, and Cigarette and Tobacco Tax, respectively) from specified amounts to reasonable fees to be determined by administrative rule. Section 1, amending the Fuel Tax, is effective January 1, 2020. Section 2, amending the Liquor Tax, is effective July 1, 2020. Section 3, amending the Tobacco wholesaler and dealer license, is effective July 1, 2020. Section 4, amending the Tobacco retail permit, is effective December 1, 2020.

The fees charged for issuing permits and fees under these chapters have not been changed in decades and are not adequate to cover the cost of the service being provided to taxpayers. This measure would allow the Department to increase these fees to reasonable amounts or to discontinue the fees entirely.

Thank you for the opportunity to provide testimony in support of this measure.

TAX FOUNDATION OF HAWAII

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SUBJECT: FUEL, LIQUOR, TOBACCO, Allows DOTAX to Set User Fees by Rule

BILL NUMBER: HB 1048; SB 1274 (Identical)

INTRODUCED BY: HB by SAIKI (Introduced by request of another party); SB by KOUCHI (Introduced by request of another party)

EXECUTIVE SUMMARY: Allows the Department of Taxation to set reasonable fees for registration, permits, or licenses by administrative rulemaking.

SYNOPSIS: Amends chapters 243, 244D, and 245, HRS, to delete specific dollar amounts now charged for fees and permits, and instead allows the Department to set those fees by adopting administrative rules.

EFFECTIVE DATE: January 1, 2020 (fuel tax), July 1, 2020 (liquor tax), December 1, 2020 (tobacco tax).

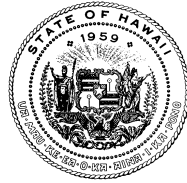
STAFF COMMENTS: This is an Administration bill sponsored by the Department of Taxation and designated TAX-09 (19).

The Department asserts that the fees now charged for issuance of permits and licenses under chapters 243 (fuel tax), 244D (liquor tax), and 245 (tobacco tax) are not adequate to cover the cost of the service being provided to the taxpayers.

Oh? So they want me to pay for the privilege of forking over my hard-earned cash to them?

It's difficult at best to place a value on the alleged service being provided to the taxpayers. Perhaps the Department can start by explaining what valuable services they are talking about, and then we in the public would be better able to understand whether the fees they are proposing are indeed reasonable.

Digested 2/4/2019



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**Testimony in SUPPORT of S.B. 1274
RELATING TO DEPARTMENT OF TAXATION FEES**

SENATOR DONOVAN M. DELA CRUZ, CHAIR
SENATE COMMITTEE ON WAYS AND MEANS

Hearing Date: February 11, 2019

Room Number: 211

1 **Fiscal Implications:** None

2 **Department Testimony:** The Department of Health supports and provides comments from a
3 public health perspective.

4 The Department supports Senate Bill 1274 (S.B. 1274) which proposes to give the
5 Department of Taxation (DOTAX) the authority to adopt administrative rules pursuant to
6 Chapter 91 and set reasonable fees for various permits.

7 The public health rationale for laws regulating licensing and permitting is well
8 developed. Permits are an effective public health tool for limiting the negative public health
9 consequences of tobacco and liquor use by ensuring that wholesalers and retailers are
10 accountable for complying with responsible sales practices. Licensing and permitting are
11 consistent with the simple concept that wholesalers and retailers obey all relevant laws or risk
12 losing the privilege of selling their products.

13 The Department was able to find national cost comparisons for tobacco license and
14 permit costs. At present, under §245-2(b), HRS, a licensing fee costs \$2.50 and under §245-
15 2.5(c), HRS, a retail tobacco permit costs \$20. In contrast, tobacco sales license requirements
16 across the United States reveals a very broad range of fees for different statutory purposes. The
17 amounts vary from no fee at all, to \$1,500 a year. Nationally, permit fees vary from no fee to
18 \$1,000 a year. Hawaii is one of only two states that charge a wholesaler less than a retailer.
19 Alcohol permit costs vary greatly from Hawaii's \$2.50 to several hundred dollars.

20 The Department supports the proposed authorization for DOTAX through administrative
21 rules to increase or adjust the current retail licensing and permitting fees.

22 Thank you for the opportunity to testify.

23 **Offered Amendments:** None