



DAVID Y. IGE
GOVERNOR

MIKE MCCARTNEY
DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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: www.hawaii.gov/dbedt

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

Statement of
MIKE MCCARTNEY
Director

Department of Business, Economic Development, and Tourism

before the

SENATE COMMITTEE ON ENERGY, ECONOMIC DEVELOPMENT, AND TOURISM

Friday, February 1, 2019

3:00 PM

State Capitol, Conference Room 414

In consideration of

SB 717

RELATED TO TRANSIENT ACCOMMODATIONS.

Chair Wakai, Vice Chair Taniguchi and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) **supports** SB 717, which requires associations to submit annual reports to county planning departments and DBEDT. Furthermore, it requires DBEDT to submit an annual report to the Legislature.

Vacation rentals are an important part of the visitor plant inventory. According to the Hawaii Tourism Authority (HTA), the total number of vacation rentals was 13,082 in 2018, accounting for 16.2% of state total visitor units. This segment of accommodations increased 138.2% between 2008 and 2018, while total visitor units increased 8.9% during the same period.

Preliminary data from HTA indicate that visitors staying in rental houses increased 23.6%, in private rooms within private homes increased 18.7%, and in shared rooms within private homes increased 36.8% during 2018. On the other hand, visitors staying in hotels increased 2.7% during the year.

While DBEDT supports this bill, we would like to add the comment that it is important to accurately measure the total number of visitor units in our state so that the total visitor capacity can be estimated. However, the bill focuses on those rental units with condominium associations. Single family homes without associations are excluded, and therefore, the vocational rental count would be incomplete.

Thank you for the opportunity to testify.



Senate
The Thirtieth Legislature
Regular Session of 2019

To: Senator Glenn Wakai, Chair
Senator Brian Taniguchi, Vice Chair

Date: February 1, 2019

Place: Conference Room 414
Hawaii State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

RE: Senate Bill 717, Relating to Transient Occupancy

Chair Wakai, Vice Chair Taniguchi and Members of the Committee:

Rental By Owner Awareness Association (RBOAA) fully supports the State and Counties in tax collection and compliance with zoning and other regulations.

We, however, offer our comments SB717 for the following reasons:

SB717 provides for a new manual paper system to be utilized whereby every homeowners' association would prepare paper reports with the information on each and every owner who rents transient accommodation. All these paper reports would then be sent to the relevant county official as well as the State Department of Business, Economic Development and Tourism (DBEDT). This type of report is clearly a burdensome and cumbersome system for not only the homeowners' associations but also for the county and DBEDT. Who would then take all the thousands of pages and compile the information? The information also will be inconsistent, and therefore less reliable, as it is sourced from hundreds of different people working on behalf of the associations.

Further the information sought by SB717 only tracts those who rent legally. Shouldn't the goal be to identify those who are not complying with the laws? SB717 doesn't achieve that.

The State legislature, a number of years ago, established the Cash Economy Special Enforcement Section within the Department of Taxation. The legislature then expanded the scope of the Special Enforcement Section to include transient accommodation activity. The legislature further funded the Special Enforcement Section to provide the manpower to carry out this work. For the past two years the DoT Special Enforcement Section has reported to the legislature their successful achievements where they:

"utilize investigative and analytical methods to identify business operators showing indications of noncompliance with GET and/or TAT laws"

"using various investigative techniques, conducted tax investigations of various complexities to identify income sources and determine the amount of income subject to taxation"

"sent letters to over 300 transient accommodation operators advising them of registration and advertising requirements under Act 204"

"Furthered projects on vacation rental/transient accommodation businesses utilizing publicly available" (online advertising platforms AirBnB, VRBO, etc.)

"and *confidential database sources* to develop leads on taxpayers who appear to be out of compliance with GET and TAT laws. These projects *utilized new resources made available by the Tax System Modernization Program (TSM)* to evaluate large amounts of data."

The DoT Special Enforcement has the tools it needs to effectively focus on tax compliance of **non-filers**. They have the funding allowing them to hire more investigators focused on compliance for transient accommodation businesses. They have the latest technology which they fully utilize that enables them to identify non-filers.

Is the DoT Special Enforcement the only source that the State has to monitor and identify non-compliance? Not at all. We draw your attention to the recent report prepared for Hawaii Tourism Authority that notes data analysis was performed on the online advertising platforms AirBnB, Trip Advisor, VRBO and HomeAway that was able to extract property identification number, name of host or operator, and other specific identifiers. This report also analyses where the vacation rental units (VRU) are located. The report concludes on page 65, "most of the Individually Advertised Rental Units were located within the State's resort areas" as opposed to the groups who promote that it is otherwise.

Technology has rapidly changed the information available for the State and Counties to identify tax compliance and zoning compliance.

SB717 is a manual reporting system that still would not achieve what the DoT and HTA are ALREADY able to provide to the Legislature.

Thank you for the opportunity to testify on this measure.

Sincerely,

Alicia Humiston
President,
Rentals by Owner Awareness Association