

DAVID Y. IGE  
GOVERNOR

JOSH GREEN M.D.  
LT. GOVERNOR



ISAAC W. CHOY  
DIRECTOR OF TAXATION

STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
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To: The Honorable Sylvia Luke, Chair;  
The Honorable Ty J.K. Cullen, Vice Chair;  
and Members of the House Committee on Finance

From: Isaac W. Choy, Director  
Department of Taxation

Date: February 25, 2021

Time: 1:00 P.M.

Place: Via Video Conference, State Capitol

**Re: H.B. 485, H.D. 1, Relating to Taxation**

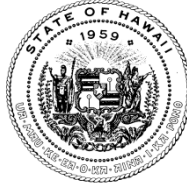
The Department of Taxation (Department) offers the following comments regarding H.B. 485, H.D. 1, for your consideration.

H.B. 485, H.D. 1, raises the rental motor vehicle surcharge tax from \$5 per day to an unspecified amount per day. H.D. 1 has a defective effective date of July 1, 2050.

The Department respectfully requests that the increase be made effective no earlier than January 1, 2022. This effective date will provide the Department the necessary time to update its forms, instructions, and computer system. Provided the requested effective date is inserted, the Department notes that it can administer this bill as drafted.

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

DAVID Y. IGE  
GOVERNOR



**TESTIMONY BY:**

JADE T. BUTAY  
DIRECTOR

Deputy Directors  
LYNN A.S. ARAKI-REGAN  
DEREK J. CHOW  
ROSS M. HIGASHI  
EDWIN H. SNIFFEN

**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION**  
869 PUNCHBOWL STREET  
HONOLULU, HAWAII 96813-5097

February 25, 2021  
1:00 P.M.  
State Capitol, Teleconference

**H.B. 485, H.D. 1**  
**RELATING TO TAXATION**

House Committee on Finance

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The Department of Transportation (DOT) **supports** this bill which increases the amount of the rental motor vehicle surcharge tax from \$5 to an unspecified amount.

The increase in revenues will provide safer infrastructure enhancements for all users including pedestrians, bicyclists, transit users and motorists and would positively impact the department's ability to qualify state matching funds for the highways federal-aid program.

Additionally, the DOT respectfully requests appropriation out of this increased surcharge tax to cover payment of the 5% central services assessment.

From the Airports perspective, the DOT offers the following comments to the bill:

- Any additional fees to on-airport rental car users may decrease rental car transaction days in which customers may opt for another mode of transportation resulting in a reduction of rental transaction days, thus decreasing Customer Facility Charge (CFC) revenues needed to meet current bond covenants, satisfy existing debt service obligations, retain high bond ratings, and ensure the marketability of the next bond issuance to be utilized to complete the construction of the consolidated rental car facility projects at the Daniel K. Inouye Honolulu International and Kahului Airports.
- In addition to future rental car projects at other Hawaii airports, it could also impact rental car concession revenues and risk dilution to potential investors in any future CFC backed bond financing.

Thank you for the opportunity to provide testimony.

# TAX FOUNDATION OF HAWAII

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126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

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SUBJECT: RENTAL MOTOR VEHICLE, Tax Hike

BILL NUMBER: HB 485, HD1

INTRODUCED BY: House Committee on Transportation

EXECUTIVE SUMMARY: Increases the amount of the rental motor vehicle surcharge tax from \$5 to \$\_\_\_.

SYNOPSIS: Amends section 251-3, HRS, to increase the amount of the rental motor vehicle surcharge tax from \$5 to \$\_\_\_.

EFFECTIVE DATE: 7/1/2050.

STAFF COMMENTS: The proposed measure would add another tax increase and would perpetuate the earmarking of rental motor vehicle and tour vehicle surcharge tax revenues. Yes, our highways and bridges need work, and the fuel tax that now feeds the highway fund has proven to be less stable as more and more consumers start using alternative fuel vehicles, electric vehicles, and hybrids. But does that justify burdening the visitor industry with yet another tax increase and without going through the normal appropriation and budgeting process that also considers sweltering primary schools, underfunded state pensions, or the unique costs of COVID-19 devastation?

Rather than the continual earmarking of revenues, a direct appropriation of general funds would be preferable. Earmarking revenues from any tax type for a particular purpose decreases transparency and accountability.

Next, it should be remembered that revenues diverted for a special purpose, in this case to fund highways and bridges, will not be counted against the state's spending ceiling or debt limit and will obscure the state's true financial condition.

Digested 2/14/2021



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Representative Sylvia Luke, Chair  
Representative Ty Cullen, Vice Chair  
Committee on Finance

Thursday, February 25, 2021; 1:00 PM  
Hawaii State Capitol; Via Videoconference

**RE: HB 485 HD1 Relating to Taxation - IN OPPOSITION**

Aloha Chair Luke, Vice Chair Cullen and Members of the Committee:

My name is Robert Muhs, Vice President Government Affairs for Avis Budget Group. Avis Budget Group appreciates the opportunity to offer testimony in opposition to HB 485 HD1, which increases the amount of the rental motor vehicle surcharge tax from \$5.00 to an unspecified amount.

In 2019, the Legislature increased the amount of the rental motor vehicle surcharge tax from \$3.00 to \$5.00. In addition to this tax, Hawaii rental car customers pay a rental motor vehicle customer facility charge of \$4.50 per day. The total surcharge amount before GET is among the highest in the country. We believe the industry contributes more than its fair share to the State highway fund with the current surcharge tax. An increase in the surcharge tax could lead to an overall decline of transaction days, adding to our financial hardship.

Avis Budget Group's Hawaii operations suffered a significant revenue loss in 2020 due to the pandemic and is still struggling. We request that the industry be allowed to fully recover before additional fees and increases be considered.

We ask that the committee defer this measure. Thank you.



February 25, 2021

1:00 p.m.

VIA VIDEOCONFERENCE

Conference Room 308

**To: House Committee on Finance**

**Rep. Sylvia Luke, Chair**

**Rep. Ty J.K. Cullen, Vice Chair**

**From: Grassroot Institute of Hawaii**

**Joe Kent, Executive Vice President**

RE: HB485 — RELATING TO TAXATION

***Comments Only***

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on HB485, which would increase the rental motor vehicle surcharge to an as-yet unspecified amount.

We are gravely concerned about the impact of this tax hike and the many fees, tax increases, and surcharges that have been proposed this legislative session. Hawaii residents are already among the most taxed in the country; the state has the [second highest overall tax burden](#) in the U.S.

That high tax burden contributes to Hawaii's cost of living and is one of the reasons why so many Hawaii residents have been leaving in search of greater opportunities elsewhere.

Given the state's already-high tax burden, there is never a good time to raise taxes. But this proposal comes at an especially bad time. Hawaii is still in a state of emergency, tourism has slowed to a trickle, businesses are closing and unemployment is high. The economy will take years to recover from the pandemic and lockdowns. The last thing Hawaii residents and businesses need at this point is a tax hike.

There are myriad reasons policy makers should be wary of implementing tax hikes at this time. Here are just a few:

>> Hawaii cannot sustain a hike in taxes since its already-damaged economy was hit harder by the lockdowns than any other state in the nation.<sup>1</sup>

>> State lawmakers increased taxes and fees substantially following the Great Recession of 2007-2008,<sup>2</sup> despite a windfall in revenues from an economic boom over the past decade. Taxes and fees ballooned on motor vehicles, transient accommodations, estates, fuel, food, wealthy incomes, property, parking and businesses.

>> Hawaii's population reduction of 21,879 people since fiscal 2016<sup>3</sup> has left Hawaii's remaining taxpayers with a greater tax burden.

>> Hawaii businesses are already bracing for an automatic tripling, on average, of the state unemployment tax.<sup>4</sup> The UI tax rate depends not only on individual employer's claims experiences but also on the overall health of the state's unemployment insurance fund, which is hundreds of millions of dollars in the red.<sup>5</sup>

>> Hawaii already has a regressive general excise tax that disproportionately hits the poor.<sup>6</sup>

>> Hawaii has a progressive income tax that taxes high-income earners at 11%, second only to California at 13.3%.<sup>7</sup> Hawaii's top 1% already pays 23% of all income taxes in the state.<sup>8</sup>

>> Closing tax exemptions would amount to a tax hike for Hawaii businesses already facing a steep spike in their unemployment insurance taxes.

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<sup>1</sup> Dave Segal, "[Hawaii's unemployment rate hit nation-high 15% in September](#)," Honolulu Star-Advertiser, Oct. 20, 2020.

<sup>2</sup> "[Tax Acts \(by Year\)](#)," Tax Foundation of Hawaii, accessed Feb. 8, 2021.

<sup>3</sup> "[Annual Estimates of the Resident Population for the United States, Regions, States, and the District of Columbia: April 1, 2010 to July 1, 2020 \(NST-EST2020\)](#)" U.S. Census Bureau, Population Division, December 2020.

<sup>4</sup> "[State unemployment tax slated to automatically triple in 2021](#)," Grassroot Institute of Hawaii, Nov. 16, 2020.

<sup>5</sup> "[UI Budget](#)," United States Department of Labor, Employment & Training Administration, Feb. 8, 2021.

<sup>6</sup> "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index: "[Sales Tax Burden](#)," American Legislative Exchange Council, 2021. Note that Hawaii does not have a sales tax, but a state general excise tax that is levied on almost all goods and services, and imposed multiple times throughout the production chain.

<sup>7</sup> Katherine Loughhead, "[State Individual Income Tax Rates and Brackets for 2020](#)," Tax Foundation, Feb. 4, 2020.

<sup>8</sup> "[Hawaii Individual Income Tax Statistics](#)," Hawaii Department of Taxation, December 2020, Table 13A.

>> Increasing Hawaii's lowest-in-the-nation property-tax rates<sup>9</sup> would result in a much higher overall tax bill compared to other states because Hawaii residents uniquely pay for public education through the general fund as opposed to property taxes.<sup>10</sup> Additionally, Hawaii's low property taxes are balanced out by the highest housing costs in the nation,<sup>11</sup> which results in a \$1,236 average annual property tax per capita, which is only slightly below the national average of \$1,617.<sup>12</sup>

Hawaii needs leadership that will stabilize the current financial crisis, reduce unsustainable long-term costs and lower the cost of living. Balancing the books without tax increases or future debt could send a message that Hawaii is a good place for businesses and future generations, and this could help the economy thrive while motivating people to return to the islands.

If the state needs more revenues, policymakers should focus on growing the economy. In our current condition, even small economic gains would have big effects.

Hawaii's residents and businesses need a break from new taxes, fees, surcharges and tax hikes. This is not the time to make Hawaii a more expensive place to live and do business.

Thank you for the opportunity to submit our comments.

Sincerely,

Joe Kent  
Executive Vice President  
Grassroot Institute of Hawaii

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<sup>9</sup> John Keirnan, "[Property Taxes by State](#)," WalletHub, Feb. 25, 2020.

<sup>10</sup> Janis Magin, "[Hawaii lawmakers seek to add new property tax to fund teacher pay](#)," Pacific Business News, Jan. 27, 2020.

<sup>11</sup> "[Average House Price by State in 2020](#)," The Ascent, Aug. 4, 2020.

<sup>12</sup> Janelle Cammenga, "[How Much Does Your State Collect in Property Taxes per Capita?](#)," Tax Foundation, March 11, 2020.



**SanHi**

GOVERNMENT STRATEGIES

A LIMITED LIABILITY LAW PARTNERSHIP

DATE: February 24, 2021

TO: Representative Sylvia Luke  
Chair, Committee on Finance

FROM: Matt Tsujimura

RE: **H.B. 485, H.D.1, Relating to Taxation**  
**Hearing Date: Thursday, February 25, 2021 at 1:00 p.m.**  
**Conference Room: 308**

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Dear Chair Luke, Vice Chair Cullen, and members of the Committee on Finance:

We submit this testimony on behalf of Enterprise Holdings, which includes Enterprise Rent-A-Car, Alamo Rent-A-Car, National Car Rental, and Enterprise Commute (Van Pool).

Enterprise **opposes** H.B. 485 H.D.1, which increases the rental motor vehicle surcharge tax from \$5 to an unspecified amount.

While Enterprise appreciates the State's need for additional funding, we are very concerned that increasing the surcharge tax will negatively impact an already hurting industry. At the peak of the COVID 19 pandemic, the rental car industry was down 95% and is only now starting to slowly make a recovery that is projected to take several years.

Just two years ago, the Governor signed Act 174 into law which increased the rental motor vehicle surcharge tax from \$3 to \$5 a day. H.B. 485 H.D.1 now proposes to increase the tax another \$3, which would result in the tax nearly tripling over the last three years.

The tax burden on rental cars to support the highway fund is already quite disproportionate to what other vehicles pay. While rental cars only comprise about 5% of the total vehicles in the State, the \$5 per day surcharge represents approximately 26% of the total funds in the highway special fund. And right now, that reliance on rental car revenue is hurting the highway fund because of the significant decrease in revenues due to the pandemic.

Enterprise supports the Department of Transportation's efforts to improve the safety and functionality of Hawaii's highways. However, Enterprise is concerned that H.B. 485 H.D.1 places too high a burden on the rental car industry.

For these reasons, we respectfully request that this bill be held. Thank you for the opportunity to submit testimony on this measure.