

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 Aaron Ling Johanson, Chair;
The Honorable Lisa Kitagawa, Vice Chair;
and Members of the House Committee on Consumer Protection & Commerce

From: Isaac W. Choy, Director
Department of Taxation

Date: March 23, 2021
Time: 2:00 P.M.
Place: Via Video Conference, State Capitol

Re: S.B. 646, S.D. 2, Relating to Taxation

The Department of Taxation (Department) offers the following comments regarding S.B. 646, S.D. 2, for your consideration.

S.B. 646, S.D. 2 amends section 251-2, Hawaii Revised Statutes, to increase the Rental Motor Vehicle Surcharge Tax from \$5 per day to \$8 per day for vehicles rented in Maui county. S.D. 2 has a defective effective date of January 1, 2050.

The Department notes that it can administer this measure as written, but requests an effective date of no earlier than January 1, 2022 to allow time to make amendments to its forms, instructions, and computer system.

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

March 23, 2021
2:00 P.M.
State Capitol, Teleconference

S.B. 646, S.D. 2
RELATING TO TAXATION

House Committee on Consumer Protection & Commerce

The Department of Transportation (DOT) **supports** this bill which increases the amount of the rental motor vehicle surcharge tax from \$5 to \$8 a day, or any portion of a day that a rental motor vehicle is rented or leased for any county with a resident population of more than 125,000, but less than 195,000 and sets aside \$3 for every \$8 collected to be deposited into that county's subaccount within the state highway fund.

The increase in revenues will provide infrastructure enhancements that support safe and efficient travel by users of the State highway system 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 care users may decrease rental care 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

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: RENTAL MOTOR VEHICLE, Increase on Maui

BILL NUMBER: SB 646, SD2

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: Increases the amount of the rental motor vehicle surcharge tax from \$5 to \$8 for any county with a resident population of more than 125,000, but less than 195,000. Sets aside the revenue from the increased surcharge tax for capacity projects in that county.

SYNOPSIS: Amends section 251-2, HRS, to increase the amount of the rental motor vehicle surcharge tax from \$5 to \$8 for any county with a resident population of more than 125,000, but less than 195,000.

Amends section 251-5, HRS, to earmark the revenue from the increased surcharge tax for the affected county's subaccount within the state highway fund.

EFFECTIVE DATE: 1/1/2050.

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 and without going through the normal appropriation and budgeting process that also considers sweltering primary schools, underfunded state pensions, or the unique costs of intercollegiate athletics?

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 3/20/2021

TESTIMONY FROM ALAN MATTSON, PRESIDENT & CEO, CASTLE HOSPITALITY GROUP

In opposition of SB 646, S.D. 2
Relating to Taxation

HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE
MARCH 23, 2021, 2:00 p.m.
Via Video Conference

Chair Johanson and members of the committee,

Castle Hospitality Group is a locally-based hotel, resort and vacation management company with two brands in its portfolio: Castle Resorts & Hotels and Castle Vacation Rentals Hawaii. Established in 1993, Castle manages 21 resort properties on all Hawaii Islands with over 1500 rooms under the Castle Resorts & Hotels brand and more than 800 legal short-term vacation rentals throughout the Hawaiian Islands under the Castle Vacation Rentals brand.

Castle Hospitality Group **opposes SB 646, S.D. 2**, which would increase the amount of the rental motor vehicle surcharge tax from \$5 to \$8 for any county with a resident population of more than 125,000 but less than 195,000.

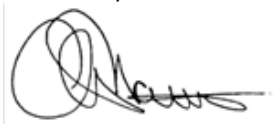
Hawaii's travel and tourism industry has been among the hardest hit by the COVID-19 pandemic and is still struggling to recover. Raising fees on car rentals could deter visitors from traveling to Hawaii, causing a negative ripple effect across the industry. It could also deter visitors from renting cars, which could limit activities outside their resort area and decrease spending at local attractions and businesses.

Local residents, who travel inter-island or use rental cars for personal reasons, will also be negatively affected by this bill.

It is for all of these reasons we kindly ask that you oppose SB 646, S.D. 2.

Thank you for your consideration.

Sincerely,



Alan Mattson
President & CEO



Robert Muhs, Esq.
Vice President Government Affairs
T - 973 496-3532
Robert.muhs@avisbudget.com

Representative Aaron Ling Johanson, Chair
Representative Lisa Kitagawa, Vice Chair
Committee on Consumer Protection and Commerce

Tuesday, March 23, 2021; 2:00 PM
Hawaii State Capitol; Via Videoconference

RE: SB 646 SD2 Relating to Taxation - IN OPPOSITION

Aloha Chair Johanson, Vice Chair Kitagawa and Members of the Committee:

My name is Robert Muhs, Vice President Government Affairs for Avis Budget Group. Thank you for giving us this opportunity to offer testimony in opposition to SB 646 SD2, which increases the amount of the rental motor vehicle surcharge tax from \$5 to \$8 for any county with a resident population of more than 125,000, but less than 195,000; and allocates the increase in surcharge tax revenues to the county's subaccount within the state highway fund.

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.

Avis Budget Group's Hawaii operations suffered a significant revenue loss in 2020 due to the pandemic and is still struggling. Our partnerships with local businesses traveling between the islands has helped us sustain. This bill would adversely impact those businesses, in addition to visitors. Also, there is more competition in the market. Visitors and residents have more transportation options, including Uber and Lyft. While we believe visitors prefer to rent a car if their stay is several days or longer, if this passes, some may opt for other options.

A \$3 increase on Maui customers could lead to an overall decline of transaction days and will add to our financial hardship.

For these reasons, we urge the Committee to hold this measure.



SanHi

GOVERNMENT STRATEGIES

A LIMITED LIABILITY LAW PARTNERSHIP

DATE: March 22, 2021

TO: Representative Aaron Johanson
Chair, Committee on Consumer Protection and Commerce

FROM: Mihoko Ito

RE: **S.B. 646 S.D. 2, Relating to Taxation**
Hearing Date: Tuesday, March 23, 2021 at 2:00 p.m.
Conference Room: 329

Dear Chair Johanson, Vice Chair Kitagawa, and members of the Committee on Consumer Protection and Commerce:

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** S.B. 646, S.D.2, which increases the rental motor vehicle surcharge tax from \$5 to \$8 for any county with a resident population of more than 125,000, but less than 195,000, and sets aside the revenue from the increased surcharge tax for capacity projects in that county.

While Enterprise appreciates the need for additional funding for road capacity projects, 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. S.B. 646 now proposes to increase the tax another \$3 for Maui County. This 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 numerous capital projects throughout the State that have improved the safety and functionality of Hawaii's highways. However, Enterprise is concerned that S.B. 646, S.D.2 places too high a burden on our industry.

Enterprise also notes that a rent tax increase would impact a significant number of local residents, who represent approximately 15% of Enterprise's total rental days. While we would prefer that the Committee hold the bill, at a minimum, Enterprise requests the Committee's consideration to lessen the impact on local renters by adopting the amendment below in Section 2 of the bill, which would exempt rental vehicles that are provided when total loss or thefts occur.

Proposed amendment

"(a) There is levied and shall be assessed and collected each month a rental motor vehicle surcharge tax of \$5 a day, or any portion of a day that a rental motor vehicle is rented or leased[-]; provided that, in any county having a resident population of more than 125,000, but less than 195,000, the rental motor vehicle surcharge tax shall be \$8 a day, or any portion of a day that a rental motor vehicle is rented or leased. The rental motor vehicle surcharge tax shall be levied upon the lessor; provided that the tax shall not be levied on the lessor if:

(1) The lessor is renting the vehicle to replace a vehicle of the lessee that is being repaired[-] or

(2) The lessor is renting the vehicle to replace a vehicle of the lessee that has been stolen and is unrecovered or will not be repaired due to a total loss of the vehicle.

[(2)]- A record of the repair order, the stolen vehicle record or total loss vehicle claim for the vehicle must be [is] retained either by the lessor for two years for verification purposes or by a motor vehicle repair dealer for two years as provided in section 437B-16.

Enterprise also requests that the fee amount be blanked out as noted above, so that discussions can continue regarding on the amount of any fee increase.

Thank you for the opportunity to submit testimony on this bill.

GRASSROOT INSTITUTE OF HAWAII

March 23, 2021
2:00 p.m.
VIA VIDEOCONFERENCE
Conference Room 329

To: House Committee on Consumer Protection & Commerce
Rep. Aaron Ling Johanson, Chair
Rep. Lisa Kitagawa, Vice Chair

From: Grassroot Institute of Hawaii
Joe Kent, Executive Vice President

RE: SB646, SD2 — RELATING TO TAXATION

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on SB646, which would increase the rental motor vehicle surcharge on Maui from \$5 to \$8.

We are gravely concerned about the impact of this tax hike and the many fees, tax increases and surcharges that have been proposed during 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.

Commented [1]: We'll have to change this to only "the highest" as soon as Joe pins down that data he was telling us about.

Grassroot Institute of Hawaii - HB646 Testimony

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.¹

>> State lawmakers increased taxes and fees substantially following the Great Recession of 2007-2008,² 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 2016³ has left Hawaii's remaining taxpayers with a greater tax burden.

>> Hawaii businesses will be experiencing an average 38% increase in their state unemployment tax in 2021.⁴ 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.⁵

>> Hawaii has a regressive general excise tax that disproportionately hits the poor.⁶

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

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

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

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

³ "[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.

⁴ "[Grassroot Institute UI contribution analysis](#)" Grassroot Institute of Hawaii, Nov. 13, 2020, sheet 2.

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

⁶ "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.

⁷ Katherine Loughead, "[State Individual Income Tax Rates and Brackets for 2020](#)," Tax Foundation, Feb. 4, 2020.

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

Grassroot Institute of Hawaii - HB646 Testimony

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



HAWAI'I LODGING & TOURISM
A S S O C I A T I O N

Testimony of
Mufi Hannemann
President & CEO
Hawai'i Lodging & Tourism Association

House Committee on Consumer Protection & Commerce
Senate Bill 646, SD2: Relating to Taxation

Chair Johanson and members of the Committee, mahalo for the opportunity to submit testimony on behalf of the Hawai'i Lodging & Tourism Association, the state's largest private sector visitor industry organization.

The Hawai'i Lodging & Tourism Association—nearly 700 members strong, representing more than 50,000 hotel rooms and nearly 40,000 lodging workers — counts among its membership vehicle rental services around the state. These businesses, like all businesses in the tourism industry, have suffered unprecedented losses during the economic downturn caused by the COVID-19 pandemic. As it is currently written, this measure would layer a further expense that will be added to the cost of doing business in Hawai'i.

In the current phase of our community's economic recovery, we should be making it easier for local businesses to rebound from the past year. This measure would result in the exact opposite occurring and would further hamper the recovery process for a critical sector of our industry.

For these reasons, HLTA opposes Senate Bill 646, Senate Draft 2.

Thank you for the opportunity to offer this testimony.



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

**HEARING BEFORE THE HOUSE COMMITTEE ON
CONSUMER PROTECTION & COMMERCE
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 329
TUESDAY, MARCH 23, 2021 AT 2:00 P.M.**

To The Honorable Aaron Ling Johanson, Chair;
The Honorable Lisa Kitagawa, Vice Chair; and
Members of the Committee on Consumer Protection & Commerce;

SUPPORT SB646 SD2 RELATING TO TAXATION

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce, in the county most impacted by the COVID-19 pandemic in terms of our dependence on the visitor industry and corresponding rate of unemployment. I am writing share our support of SB646 SD2.

The Maui Chamber of Commerce supports the bill to increase the amount of the rental motor vehicle surcharge tax from \$5 to \$8 and sets aside revenue from the increased surcharge tax for capacity projects in that county. We realize that increases to visitor expenses can make Hawaii less attractive when competing against other destinations and this is particularly difficult in a time when we need economic recovery on an island very dependent on the visitor industry. However, we also realize that visitors use our highways as well. Our transportation infrastructure in Maui County, like the Honoapiilani Highway, Hana Highway and Paia Bypass, need significant upgrades and this additional tax will make these upgrades possible.

We appreciate the opportunity to testify on this matter and we ask that this bill be passed.

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.