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To: The Honorable Sylvia Luke, Chair;  
The Honorable Kyle T. Yamashita, Vice Chair;  
and Members of the House Committee on Finance

From: Isaac W. Choy, Director  
Department of Taxation

Date: Monday, February 28, 2022  
Time: 11:00 A.M.  
Place: Via Videoconference, Hawaii State Capitol

**Re: H.B. 1184, H.D. 1, Relating to Taxation**

The Department of Taxation (Department) offers the following comments regarding H.B. 1184, H.D. 1, for your consideration.

H.B. 1184, H.D. 1, adds a new section to chapter 237, Hawaii Revised Statutes (HRS), to exempt from General Excise Tax (GET) amounts received from the sale of precious metal bullion within the State. "Precious metal bullion" means coins, bars, or rounds, minted primarily of refined gold or silver that are either marked and valued by their weight, purity, and content, or minted by a government authority. The measure has a defective effective date of July 1, 2050.

If a functional effective date is to be inserted, the Department respectfully requests that measure be amended so that it is effective on January 1, 2023. This will provide the Department time to make the necessary forms, instructions, and computer system changes.

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

DAVID Y. IGE  
GOVERNOR



CRAIG K. HIRAI  
DIRECTOR

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**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
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EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN ONLY**  
TESTIMONY BY CRAIG K. HIRAI  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 1184, H.D. 1

**February 28, 2022**  
**11:00 a.m.**  
**Room 308 and Videoconference**

RELATING TO TAXATION

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill No. 1184, H.D. 1, adds a new section to Chapter 237, HRS, to exempt the sale of precious metal bullion from the State general excise tax.

B&F notes that the federal American Rescue Plan (ARP) Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

- By enacting policies to raise other sources of revenue;
- By cutting spending; or
- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with this ARP restriction.

Thank you for your consideration of our comments.

**HB-1184-HD-1**

Submitted on: 2/28/2022 4:57:22 AM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Jp Cortez	Sound Money Defense League	Support	Yes

Comments:

Members of the House Finance Committee, thank you for the opportunity to testify before you today. I ask you to vote YES on House Bill 1184, which removes taxation from the purchase of gold and silver coins and bullion.

Under current law, Hawaii citizens are discouraged from insuring their savings against the devaluation of the dollar because they are penalized with taxation for doing so. House Bill 1184 removes the disincentives to holding gold and silver for this purpose.

Removing the tax on the purchase of gold and silver coins, bars, and rounds would especially benefit small-time savers and investors, who, unlike the wealthy, have more limited options to other investments. House Bill 1184 would help level the playing field.

Here are a few reasons why we strongly urge you vote YES on House Bill 1184:

- **Studies have shown that taxing precious metals is an inefficient form of revenue collection.** The results of one study involving Michigan show that any precious metals tax proceeds Hawaii gains are likely surpassed by the state revenue *lost* from conventions, businesses, and economic activity that are driven out of the state.
- **41 states have removed some or all taxes from the purchase of gold and silver.** Hawaii currently stands against the vast majority of its peers.
- **Taxing precious metals is unfair to certain savers and investors.** Gold and silver are held as forms of savings and investment. Hawaii does not tax the purchase of stocks, bonds, ETFs, currencies, and other financial instruments.
- **Levying taxes on precious metals is inappropriate.** In many states, purchases of computers, shirts, and shoes carry taxes because the consumer is "consuming" the good. Precious metals are inherently held for resale, not "consumption," making the application of taxes on the purchase of precious metals inappropriate.
- **Taxing precious metals is harmful to citizens attempting to protect their assets.** Purchasers of precious metals aren't fatcat investors. Most who buy precious metals do so in small increments as a way of saving money. Precious metals investors are purchasing precious metals as a way to preserve their wealth against the ravages of inflation. Inflation harms the poorest among us, including pensioners, Hawaiians on fixed incomes, wage earners, savers, and more.

In 2016, the state of Louisiana experimented briefly with slapping taxes on precious metals purchases. *They quickly reversed course only one year later -- and reinstated the exemption on precious metals -- because businesses and coin conventions were closing their doors, and state tax revenues were leaving the state.*

I strongly urge you to vote YES on House Bill 1184 to give Hawaiians an opportunity to protect their savings without being punished with taxation.

Thanks again for your time and consideration.

**HB-1184-HD-1**

Submitted on: 2/27/2022 10:59:41 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Scott Smart	Individual	Support	No

Comments:

I SUPPORT HB1184 HD1. Individuals buy precious metals for investment purposes. Currently, one can buy so-called "paper" metal via instruments such as future contracts or "GLD" shares without being subject to GET. However, taking possession of bullion in Hawaii results in a GET liability, meaning you are 4.7% behind the "paper" asset when you start. This creates a disincentive to hold physical bullion. I don't see a rational reason to treat physical and paper representing the identical asset differently.