

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
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ISAAC W. CHOY
DIRECTOR OF TAXATION

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: March 3, 2021
Time: 2:00 P.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 the effective date of this new GET exemption be made no earlier than January 1, 2022. 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.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Exempts sale of precious metal bullion

BILL NUMBER: HB 1184, HD1

INTRODUCED BY: House Committee on Economic Development

EXECUTIVE SUMMARY: Exempts the sale of precious metal bullion from the general excise tax.

SYNOPSIS: Adds a new section to chapter 237, HRS, providing an exemption from the sale of precious metal bullion within the State. Defines “precious metal bullion” as coins, bars, or rounds, minted primarily of refined gold or silver, that are: (1) Marked and valued by their weight, purity, and content; or (2) Minted by a government authority.

EFFECTIVE DATE: 7/1/2050.

STAFF COMMENTS: The general excise tax is a business privilege tax, which means that it is not supposed to be imposed if there is no underlying business.

Section 237-3(b), HRS, provides an exemption for income from a number of investing activities which the legislatures at the time thought were not the kind of business they wanted to tax, including:

gross receipts from the sale of securities as defined in 15 United States Code section 78c or similar laws of jurisdictions outside the United States, contracts for the sale of a commodity for future delivery and other agreements, options, and rights as defined in 7 United States Code section 2 that are permitted to be traded on a board of trade designated by the Commodities Futures Trading Commission under the Commodity Exchange Act, or evidence of indebtedness or, except as otherwise provided, from the sale of land in fee simple, improved or unimproved....

We suggest that if the legislature agrees that precious metal bullion sales are not worthy of general excise taxation, the sale of foreign currency (which we understand the Department has administratively decided not to tax) as well as precious metal bullion be added to the list in section 237-3(b), instead of establishing an entirely new code section, because of similarity with the investment activities already identified in that subsection.

Digested 3/1/2021



AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS		MAILING ADDRESS	
John Bickel, President	Melodie Aduja	John Miller	Bill South	P.O. Box 23404
Alan Burdick, Vice President	Juliet Begley	Jenny Nomura	Zahava Zaidoff	Honolulu
Dave Nagajji, Treasurer	Stephanie Fitzpatrick	Stephen O'Harrow		Hawaii 96823
Doug Pyle, Secretary	Jan Lubin	Lyn Pyle		

March 1, 2021

TO: Chair Luke and members of Finance Committee

RE: HB 1184 HD1 Relating to Taxation

Opposition for hearing on March 3

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We oppose HB 1184 HD1 as it would exempt precious metal from the General Excise Tax. This would be a windfall for wealthy investors at a time we are looking to raise revenue. It would mean we would tax a houseless person buying food but not tax a billionaire buying gold. Something is wrong with that picture.

Thank you for your consideration.

Sincerely,

John Bickel, President



Testimony of the Industry Council for Tangible Assets, Inc.
IN SUPPORT OF
HB 1184: EXEMPTS THE SALE OF PRECIOUS METAL BULLION
FROM THE GENERAL EXCISE TAX
Submitted before the House Committee on Finance
March 3, 2021

Chair Luke and members of the committee, thank you for allowing us to submit written testimony on HB 1184. My name is David Crenshaw, and I am the executive director of the Industry Council for Tangible Assets, the national association representing the owners of businesses that deal in coins, currency, and precious-metal bullion, as well as those who collect and invest in these items. Our mission for over 35 years has been legislative and regulatory affairs on the state and federal level.

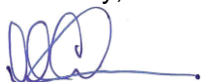
The sales-tax exemption on precious-metal bullion will increase revenue for Hawaii in multiple ways. It will increase the number of coin businesses and industry jobs, generating revenue from additional income tax. As the volume of in-state retail sales increases, so too will sales taxes revenues on related items, like supplies, that are non-exempt. In addition, it is a proven fact that in the 37 states on the mainland plus Alaska with sales tax exemptions, the hospitality industry has benefitted significantly from the opportunity to host small, medium, and large coin shows such as the American Numismatic Association World's Fair of Money and the Whitman Coin & Collectibles Expo.

The sales tax exemption will also level the playing field for the small-business owner. Hawaii's businesses would no longer lose customers to operations in the 37 states on the mainland plus Alaska that do have a sales-tax exemption. Additionally, Hawaii's residents would have the security of doing business and developing relationships with local businesses, sparing them the expense, inconvenience, and potential risks of purchasing these items out of state.

As you will see from my colleague's written testimony, Patrick Heller, states that the accumulated data suggest that state tax collections increase by a greater amount as the reach of this exemption covers all coins and even currency. Please consider an amendment adding all legal tender coins and currency to the items qualifying for an exemption. The model bill language below would achieve not only clarifying precious-metal bullion, but the inclusion of all coins and currency. Also consider this bill's effective on the first day of the calendar quarter following the effective date of this bill.

Please support this important exemption which will be beneficial to the state's revenue, to in-state businesses, and to in-state investors and collectors. (Additional information supporting this bill is below.) I can be reached at (678) 430-3252 should you request more information or wish to discuss this matter further. Thank you for the opportunity to submit this testimony.

Sincerely,



David Crenshaw
Executive Director



HAWAII

Benefits Exempting Coins, Currency, and Precious-Metals Bullion from Sales-Taxes

- Profits will increase for existing businesses.
- More jobs and higher pay will be available to Hawaii workers.
- The increased number of in-state businesses and the related increase in employment will result in additional business-tax and sales-tax collections. (The Michigan Treasury, for example, estimates that 38.5% of Michigan payrolls are spent on merchandise on which Michigan sales taxes are collected.)
- The 2015 Numismatic Dealer Directory listed 1.19-coin dealers per 100,000 residents in Hawaii while states with complete or partial sales tax exemptions on coins and precious metals bullion sales averaged 1.29-coin dealers per 100,000 residents. In the 2015 Numismatic Dealer Directory there were 17 dealers listed for the state.
- As sales of tax-exempt merchandise rises, so too will sales of merchandise that is still subject to sales tax—for example, collector supplies, jewelry, antiques, and other collectibles.
- The playing field will be leveled for small-business owners.
- The hospitality industry will benefit significantly from the opportunity to host small, medium, and large coin shows (as has been the case in the other 37 states on the mainland plus Alaska with sales-tax exemptions).
- Hawaii coins, currency, and precious-metals bullion dealers will no longer lose almost all customers to the mainland states with such sales tax exemptions.
- Hawaii consumers will have the security of doing business and developing relationships with local vendors, sparing them the expense, inconvenience, and potential risks of purchasing these high-value items out of state.
- Smaller-scale investors will have a chance to deal locally without the burden of sales and use taxes, which affluent investors can easily avoid by purchasing commodities or arranging for storage out of state.
- Senior citizens, who can consult local businesses for a second opinion, will have more resources to avoid scam artists.
- All Hawaii consumers will benefit from the fact that local brick-and-mortar businesses have more incentives to address local customer concerns and problems than do out-of-state businesses.
- Increased tax collections by the State Treasury.

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SYNOPSIS

Rare Coins and Precious-Metals Bullion National Survey 2015 Sales-Tax Collections

Coin dealers generate sales-tax collections in four different ways: 1) in-state retail sales of rare coins and precious-metals bullion, 2) in-state retail sales of other merchandise on which sales tax is collected, 3) spending by coin dealership staff who devote part of their income on merchandise subject to sales tax, and 4) hospitality industry sales to attendees at coin trade shows.

On the basis of this survey, ICTA conservatively concludes that, contrary to what might be expected, **when a state government enacts a rare-coin and precious-metals bullion sales-tax exemption, the state is almost certain to experience a net increase in total sales-tax collections.**

Further, because of higher business activity and industry employment, states with such sales-tax exemptions also experience higher individual income-tax and business-tax collections.

<u>2015 Revenue Sources, per Coin Dealer</u>	Taxable States	Exempt States	Diff.
<u>In-State</u>			
Retail sales of rare coins and precious metals	\$104,188	\$1,068,612	926%
Retail sales of other merchandise	\$29,269	\$98,659	237%
Services	\$2,390	\$15,088	531%
Wholesale sales	\$252,189	\$651,584	158%
Total In-State Sales	\$388,036	\$1,833,943	372%
<u>Out-of-State</u>			
Retail sales	\$214,639	\$1,857,931	766%
Wholesale sales	\$472,029	\$984,780	109%
Total Out-of-State Sales	\$686,668	\$2,842,711	314%
TOTAL SALES	\$1,074,704	\$4,676,654	335%

<u>2015 Sales Taxes Collected, per Coin Dealer</u>			
Sales of sales-taxable rare coins and precious metals	\$5,423	\$0	-100%
Sales of sales-taxable merchandise—other	\$1,520	\$5,213	243%
TOTAL SALES TAXES COLLECTED	\$6,943	\$5,213	-25%

<u>Average Number of 2015 Coin Trade Shows Where Coin Dealers Hosted Booths</u>			
In-state	2.9	5.7	97%
Out-of-state in states with no coin/bullion exemption	1.3	0.5	-62%
Out-of-state in states with coin/bullion exemptions	5.3	4.6	-13%
TOTAL	9.5	10.8	14%

Proportion of taxable sales in taxable states consisting of merchandise other than coins or precious-metals bullion: **21.9%**

Total sales in taxable states not affected by enacting a coin/bullion sales-tax exemption: **90.3%**

Percentage of forsaken sales-tax collections from coin/bullion exemption replaced by increased sales of other merchandise still subject to sales tax $[(\$5,213 - \$1,520) / \$5,423]$: **68.1%**

Percentage of forsaken sales-tax collections from coin/bullion exemption replaced by increased sales-taxable purchases that result from higher industry personal incomes (estimated): **50-200%**

Percentage of forsaken sales-tax collections from coin/bullion exemption replaced by increased sales-taxable purchases that result from increased hospitality industry sales (estimated): **10-200%**

For more information, please contact ICTA by calling (678) 430-3252 or by emailing icta@ictaonline.org.

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The Difficulty of Calculating Potentially Lost Sales-Tax Collections from Exempting Coins, Currency, and Precious-Metals Bullion from Hawaii Sales and Use Tax

Prepared by Patrick A. Heller, CPA
Owner of Liberty Coin Service, Lansing, Michigan (1981-2014)

- Surveys conducted in the 1990s of coin dealers in Kentucky and in Ohio both determined that about 50% of in-state retail coin dealer sales involve merchandise other than what would be impacted by a sales-tax exemption for coins, paper money, and precious-metals bullion products.
- Many brick and mortar coin dealers are jewelers or antique stores that also handle a small volume of coins, paper money, and precious-metals bullion.
- It is therefore not possible to pull up data on sales-tax remittances from Hawaii businesses identified as coin dealers and know how much of these taxes resulted from sales of coins, paper money, and precious-metals bullion.
- Using Dun & Bradstreet data in the mid-1990s, I calculated that my company collected about 25% of industry-wide Michigan sales-taxes on coin and precious-metals bullion sales. At the maximum, we collected almost \$48,000 annually on such sales, indicating that statewide sales-tax collections on such products totaled less than \$200,000. The Michigan Treasury and House and Senate fiscal agencies rounded this amount up to \$300,000 in annual sales-tax collections in their analyses of a coins and precious-metals bullion sales-tax exemption that took effect in July 1999.
- The impact on paying sales-tax on coin and precious-metals sales is so sensitive that when the Michigan sales-tax rate rose from 4% to 6% on May 1, 1994, my company's sales-taxable retail sales fell almost exactly one-third in the following 12 months compared to the 12 months before the rate increase.
- In 2005, the Ohio budget staff projected that a sales-tax on coins and precious-metals bullion would collect \$1 million over the two-year budget cycle.
- The retail profit margins on precious-metals bullion products are usually in the 1-5% range. These are the bulk of sales volume for dealers who sell coins, paper money, and precious-metals bullion. Collecting Hawaii sales-tax on the sales of such products yields greater net revenues to the state treasury than the gross profit to the company making the sale.
- Precious-metals bullion products and many coins are fungible, meaning that matching products can be purchased from thousands of sellers located nationwide.
- Hawaii purchasers of coins, paper money, and precious-metals bullion can now easily purchase these products from non-Hawaii sellers who do not have to charge Hawaii sales-tax. If these purchases are stored in Delaware depositories, safe deposit boxes in neighboring states such as Louisiana and Alabama, or elsewhere outside of Hawaii—as is generally done by more prosperous Hawaii residents—no Hawaii sales or use tax would ever be due on such purchases.
- When coins and precious-metals bullion were subject to Michigan sales-tax when purchased in-state, in-state retail transactions of \$5,000 or larger for such merchandise accounted for about 1% of my company's in-state retail sales. By the year 2011, my company's total in-state retail sales of coins and precious-metals had increased more than 2,500% (versus about a 500% increase for our in-state wholesale and out of state sales) from when the sales-tax exemption took effect. Of this larger sales volume, transactions of \$5,000 or more accounted for 94% of total in-state retail sales volume.
- Therefore, any analysis such as using U.S. Mint sales volume to calculate state sales in proportion to that state's population to the national population is statistically invalid. For a more accurate figure, ICTA's 2016 national survey of actual coin dealer activity for the year 2015, determined that the average annual in-state retail sales of coins and precious-metals bullion came to \$104,188 per dealer of those in states where such merchandise is subject to sales-taxes. In the 2015 *Numismatic Dealer Directory*, there were listed 17 Hawaii dealers. Calculating $17 \times 104,188 \times 4\% =$ about \$ 70,848 in annual state sales tax collections. Note, the number of coins, currency and precious metals dealers in Hawaii is now lower than in 2015. Consequently, current sales tax collections from the industry might also be lower.

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Model Bill Language NAICS and SIC Codes for Coin Businesses

Model Bill Language

AN ACT concerning sales and use taxation; relating to exemptions, sales of currency, certain coins, or bullion.

There is exempt from sales and use tax the sale of all coins, currency, and bullion that are:

- (1) Manufactured in whole or in part from gold, silver, platinum, palladium, or other material;
- (2) Used solely as a medium of exchange, security, or commodity in this or another state, the United States, or a foreign nation; and
- (3) Sold based on their intrinsic value as precious material or collectible items rather than their representative value as a medium of exchange.

To aid fiscal agencies in their calculations, here are the NAICS and SIC codes where coin businesses would be classified:

NAICS Codes for Coin Businesses

4239 Miscellaneous Durable Goods
423920 Toy and Hobby Goods and Supplies Merchant Wholesalers
423940 Jewelry, Watch, Precious Stone and Precious Metal Merchant Wholesalers
448310 Jewelry Stores
451120 Hobby, Toy, and Game Stores
453220 Gift, Novelty, and Souvenir Stores
4533 Used merchandise stores
4539 Other miscellaneous store retailers
453998 All Other Miscellaneous Store Retailers (except Tobacco Stores)
4541 Electronics shopping and Mail-Order Houses
454390 Other Direct Selling Establishments
523130 Commodity Contracts Dealing

SIC Codes for Coin Businesses

3911 Jewelry, Precious Metal
3915 Jewelers' Findings and Materials, and Lapidary Work
5092 Toys and Hobby Goods and Supplies
5093 Scrap and Waste Materials
5094 Jewelry, Watches, Precious Stones, and Precious Metals
5099 Durable Goods, not elsewhere classified
5944 Jewelry Stores
5945 Hobby, Toy, and Game Shops
5947 Gift, Novelty, and Souvenir Shops
7299 Miscellaneous Personal Services, not elsewhere classified

Hyatt Coin & Gun Shop

Tel. 704-394-0387

3332 Wilkinson Blvd.
Charlotte, NC 28208

Fax: 704-399-3388

November 5, 2018

David Crenshaw, Chief Operating Officer
Industry Council for Tangible Assets
PO Box 237
Dacula, GA 21403

Dear Mr. Crenshaw:

I write in response to your request asking how my business, Hyatt Coin and Gun Shop, Inc., has been impacted by North Carolina's adoption of a rare coins, precious metals, and currency sales and use tax exemption that became effective on July 25, 2017.

We have observed several developments. Among them are:

- Significant growth in purchases by existing in-state retail customers, both in frequency and in size of transaction.
- Significant expansion in the number of new in-state retail customers, which expansion is accelerating as more residents learn about the exemption.
- Significant growth of in-state retail sales of other merchandise we handle where such sales are still subject to North Carolina sales tax.
- To handle the surge in sales we have added five full-time and two part-time staff since enactment of this exemption became apparent. We are planning to soon hire one more full-time employee as our sales continue growing.
- Significant increase in our local advertising expenditures.
- Because of the growth of our in-state retail sales, we are liquidating less inventory to in-state and out-of-state wholesalers.

With the increase in sales tax collections on other merchandise we handle that is subject to the tax, the imputed increase in sales tax (and individual income tax) collections from the additional payroll, and the higher business activity from our expanded advertising, I project that the North Carolina Treasury is, barely 15 months after adoption of this sales and use tax exemption, already collecting more total taxes because of this company than it did before the exemption.

If you have questions or we can be of further assistance, please call me at (704) 394-0387 or email me at mitch@hyattcoins.com.

Sincerely,



Mitchell Hyatt
Hyatt Coin & Gun Shop, Inc
3332 Wilkinson Blvd
Charlotte, NC 28208



Event Impact Calculator Detail - 2013 Spring Whitman Coin & Collectibles Expo - 10/28/2014

Event Summary

Key Parameters

Event Name	2013 Spring Whitman Coin & Collectibles Expo	Start Date	03/11/2013
Organization	Whitman Coin and Collectibles Conventions	End Date	03/17/2013
Overnight Attendees	700	Event Type	Tradeshow
Day Attendees	4000		

Key Metrics

Business Sales (Direct)	\$1,607,421	Jobs Supported (Direct)	324
Business Sales (Indirect)	\$1,458,604	Jobs Supported (Indirect)	167
Business Sales (Total)	\$3,066,025	Jobs Supported (Total)	491
Local Tax	\$120,925	Net Direct Local Tax ROI	\$83,714
Est. Room Nights Generated	2,549		

Direct Business Sales Segmentation

Spending By Source

Exhibitor Spending	\$356,283	Organizer Spending	\$348,575
Attendees Spending	\$902,562	Total Event Spending	\$1,607,421

Business Sales By Source



Business Sales By Category

Industry	Attendees	Organizer	Exhibitor	Total
Lodging	\$370,865	\$55,388 *	-	\$426,254
Transportation	\$128,301	\$18,462 *	\$27,406	\$174,170
Food & Beverage	\$246,821	\$36,396	\$45,677	\$328,894
Retail	\$97,423	-	-	\$97,423
Recreation	\$59,150	-	-	\$59,150
Space Rental	-	\$65,440	\$18,270	\$83,710
Business Services	-	\$172,888	\$264,928	\$437,816
Totals	\$902,562	\$348,575	\$356,283	\$1,607,421

* indicates that the calculator's model defaults were used

Business Sales By Category

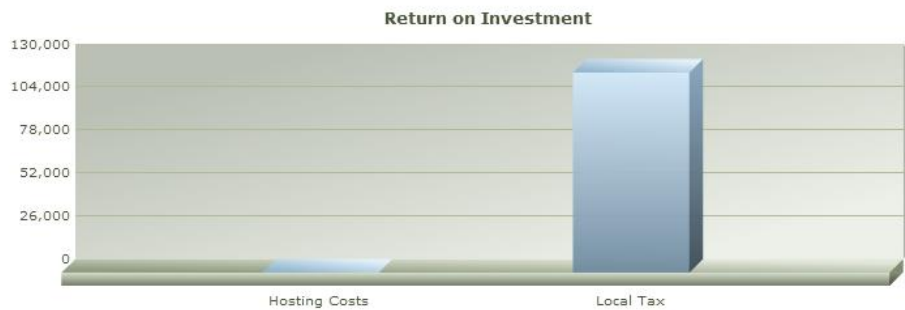


Taxes Collected

	Direct	Indirect/Induced	Total
Business Sales	\$1,607,421	\$1,458,604	\$3,066,025
Personal Income	\$543,351	\$493,540	\$1,036,891
Jobs Supported			
Persons	324	167	491
Annual FTEs	15	8	23
Taxes And Assessments			
Federal Total	<u>\$146,010</u>	<u>\$132,548</u>	<u>\$278,558</u>
State Total	<u>\$99,103</u>	<u>\$59,908</u>	<u>\$159,011</u>
Sales	\$57,220	\$21,879	\$79,099
Income	\$25,809	\$23,443	\$49,252
Bed	\$0		\$0
Other	\$16,074	\$14,586	\$30,660
Local Total	<u>\$83,714</u>	<u>\$37,211</u>	<u>\$120,925</u>
Sales	\$0	\$0	\$0
Income	\$8,405	\$7,635	\$16,040
Bed	\$35,232		\$35,232
Per Room Charge	\$0		\$0
Tourism District	\$0		\$0
Property Tax	\$32,039	\$22,283	\$54,322
Restaurant	\$0	\$0	\$0
Other	\$8,037	\$7,293	\$15,330

Event Return On Investment

Direct	
Direct Local Tax Receipts	\$83,714
Local Costs	\$0
ROI	\$83,714
Net Present Value	\$85,480
ROI (%)	0
Total	
Local Tax Receipts	\$120,925
ROI	\$120,925
Net Present Value	\$123,475



ROI (%) 0

Demand Metrics

Room Nights Sold	2,549
Room Pickup (block only)	765
Peak Room Nights	636
Total Visitor Days	5,804

HB-1184-HD-1

Submitted on: 3/1/2021 1:56:35 PM

Testimony for FIN on 3/3/2021 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Andrew Crossland	Individual	Support	No

Comments:

Aloha Sir / Madam,

I strongly testify in support of this Bill to exempt the sale of precious metal bullion from the general excise tax.

Mahalo for your kokua,

Andy

HB-1184-HD-1

Submitted on: 3/1/2021 6:00:20 PM

Testimony for FIN on 3/3/2021 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Alan Watanabe	Individual	Support	No

Comments:

Good bill. Please pass it.

Liberty Coin Service

400 Frandor Avenue
Lansing, Michigan 48912

Toll Free (800) 933-4720
Phone (517) 351-4720
Fax (517) 351-3466
Email path@libertycoinservice.com

Written Testimony of Patrick A. Heller of Liberty Coin Service, Lansing, Michigan

In Support Of

HB 1184: An Act To Create An Exemption From Sales And Use Tax For The Retail Purchase Of Precious Metals Coins And Bullion

Before The Hawaii House Committee on Finance

March 3, 2021

Chair Luke and members of the Committee, I write in support of HB 1184 to establish a sales-and-use-tax exemption for the retail sales of precious-metals coins and bullion in Hawaii.

My name is Patrick A. Heller. After working as a CPA in Michigan, in 1981 I became the owner of Michigan's largest coin dealer, Liberty Coin Service, in Lansing. When Michigan enacted a comparable exemption in 1999, the House and Senate fiscal agencies and the Michigan Treasury used my calculation of forsaken tax collections in their analyses. I also conservatively forecasted the likely increase in Michigan tax collections if the exemption was enacted, and later documented that the actual increase in tax collections was nearly double what I had estimated. My analyses of both tax expenditures and documented increases in state Treasury tax collections were subsequently used to support successful efforts to adopt sales and use tax exemptions for precious-metals bullion, coins, and currency in Alabama, Indiana, Iowa, Kansas, Minnesota, Nebraska, North Carolina, Oklahoma, Ohio, Pennsylvania, South Carolina, Virginia, West Virginia, and Wyoming. These same analyses were used to expand the tax exemptions in Texas and Louisiana (and also to restore the exemption in Louisiana after it was suspended in 2016).

I write to address three issues about which legislators around the country have expressed concern. First, I discuss the question of whether enacting a sales tax exemption for money and not for other tangible property is fair. Second, I discuss why precious metals and coins merit a sales-and-use-tax exemption, while other assets sometimes purchased as investments (such as rare stamps, works of art, antiques, and the like) do not. Third, I review the limitations of a static tax-impact analysis versus a dynamic analysis.

I. Is it fair to exempt money but no other tangible property?

Precious-metals bullion, coins, and currency have a major distinction from other tangible assets that are subject to sales and use tax. Sales and use taxes are consumption taxes on assets that are consumed or used.

In contrast, precious-metals bullion, coins, and currency are not consumed. Often, they are acquired as investments to be sold. Others are acquired for the enjoyment of a hobby but are still preserved carefully with an eye toward future sale. They are not worn, used, or otherwise consumed.

The Internal Revenue Service and the Hawaii Department of Taxation confirm that precious-metals bullion, coins, and currency are capital assets that are not consumed. Both tax agencies anticipate that these assets will be sold and that the owners will report and pay income taxes on their profits from the sales. In fact, the IRS has a Form 1099-B, which is used by coin dealers to report to the IRS some bullion and coin purchases from the public.

2. Why it is appropriate to “draw the line” with a coin and precious metals exemption?

- It parallels the intent of Federal legislation that permits Individual Retirement Accounts to own these products but no other tangible personal property.
- It parallels legislation in over thirty states, none of which extend exemptions to stamps, art, antiques, diamonds, and so forth.
- It parallels the scope of investment advice given by many prudent investment advisors, who recommend only these forms of tangible personal property.
- The state of Utah exempts gold and silver gains and losses from Utah income taxes; the state of Arizona now exempts gains and losses from US gold, silver, and platinum coins from that state's income taxes.
- Coins are or have been “legal tender” in their land of issue, a status not shared by other tangible personal property.
- The U.S. Constitution specifically grants the Federal government the authority to coin money, but no explicit powers to manufacture any other tangible personal property.
- The United States Mint manufactures commemorative coins and proof versions of circulating coinage. It sells them at prices well above precious metal or face value. The U.S. government has no other programs to manufacture and sell art, antiques, gems, and so forth.
- Investment brokerage firms have often established investment funds for the sole purpose of acquiring coins. To my knowledge, no comparable investment funds have ever been created for investments in other tangible personal property.
- Investment brokerage firms have established exchange-traded funds for trading gold, silver, platinum, and palladium. I am not aware of exchange-traded funds established to invest in stamps, art, antiques, gems, or other collectible tangible personal property.

- Directly underneath the masthead of The Wall Street Journal are listed key financial indicators, including the price of gold. No information appears there for stamps, art, antiques, gems, or other collectible tangible personal property.

3. Static versus dynamic tax analysis.

State treasuries and legislative fiscal agencies use a static analysis of the impact of tax-law changes. A static analysis asks, “If a sales tax exemption is enacted, how much in existing tax collections would be lost?”

However, if only the forsaken taxes are calculated, with no consideration of the change in behavior of Hawaii residents after a tax change occurs, the overall impact on total tax collections will be inaccurate. Instead, a dynamic analysis is needed to reflect the impact of changes to other Hawaii state government tax collections.

From my work with the agencies in Michigan, I learned that there is no approved methodology for state treasuries and fiscal agencies to do a dynamic analysis. I believe my findings of the coin-dealer industry’s changes in Michigan, once the exemption was adopted, will help this committee in approximating a dynamic analysis.

- From the enactment of the exemption in 1999 to the end of 2011, I tracked a 67% increase of coin dealerships in Michigan. About half of this increase was from new businesses opening, and about half was from existing businesses expanding their operations to also become coin dealers.
- Coin-dealer employment levels more than doubled over this time frame, and total payrolls increased by an even greater amount. For my own company, from 1997 to 2011, total employment and contractors increased 243%, while total payroll increased more than 800%. Michigan Treasury research has determined that 38.5% of payrolls are spent on merchandise for which Michigan sales tax is collected. The increase in coin-dealer payrolls in Michigan generated additional sales tax collections that more than offset tax collections lost because of the exemption. I would also like to point out that this coin-dealer employment increase occurred while Michigan as a whole was suffering a decline in employment.
- Industry sales soared. According to Dun & Bradstreet information in 1995, my company accounted for about 15% of sales by coin dealers in Michigan. From 1997 to 2011, my company’s out-of-state retail and wholesale sales and Michigan wholesale sales increased about 673%. Our Michigan retail sales during this time increased more than 2,500%. Yes, volume increased across the board, but there was a definite major volume increase specifically resulting from the new tax exemption. Before the exemption was enacted in Michigan, my company rarely saw in-state retail sales of precious-metals bullion or coins amounting to more than \$1,000. An analysis of my company’s Michigan retail sales for the year 2011 showed that 94% of total sales volume was for transactions of \$5,000 or higher. (Special

note: State treasuries and legislative fiscal agencies do not realize how price-sensitive customers are to have to pay sales and use taxes on precious-metals bullion and rare-coin investments. Therefore, they almost always assume that states that impose such taxes on these sales still have as much per capita in-state retail sales as do states that grant exemptions. There have been several one-time surveys done on coin dealer sales tax collections over the past 30 years of sales tax collections for the retail sales of precious-metals bullion and coins, almost no state treasuries collected more than \$500,000 per year).

- As coin dealers drew more customers for exempt merchandise, they also drew more customers for merchandise they handled that were still subject to sales tax. Major categories of such products handled by coin dealers were jewelry, antiques, sports cards, other collectibles, and hobby supplies. A national survey conducted in 2016 by the Industry Council for Tangible Assets, the coin and precious metals dealer national trade association, found that dealer sales of merchandise still subject to sales tax increased so much that, on average, they replace two-thirds of tax collections lost from the exemption.
- As the number of coin dealers increased and their volumes rose, business tax collections from these companies rose.
- For my own company, from 1997 to 2011, our total Michigan tax collections increased 216% despite the drop in sales taxes collected on our Michigan retail sales. Over the same period, our Lansing tax payments increased by more than 1,100% and our local advertising expenditures increased more than 480%!
- Further, the hospitality industry in Michigan increased tax collections as more coin shows were sponsored in the state, which encouraged more out-of-state dealers to spend money in Michigan.
- My research that indicated that the Michigan Treasury collected greater sales taxes after the exemption and greater amounts of other taxes was confirmed nationwide by the Industry Council for Tangible Assets 2016 national survey of actual 2015 sales, sales tax collections, and coin show attendance, which document has been supplied to the sponsors of HB 1184.

OTHER QUESTIONS AND CONCERNS

Why would Hawaii coin dealers experience such growth after an exemption was established?

- Affluent investors currently can afford to purchase in bulk quantities out of state and have their purchases stored at specialized depositories in Delaware. Our experience is that many such purchasers would prefer to deal face-to-face when make sizeable transactions.
- Alternatively, affluent investors can afford to purchase gold, silver, platinum, or palladium contracts on commodity exchanges, or purchase shares in precious metals exchange traded funds, which are purchases not subject to sales and use taxes in any state. If able to purchase comparable physical products from local dealers, many if not most customers alter their buying habits to do so.

- Because of thin profit margins on bullion products, the sales tax is a major impediment to potential buyers. In 1994, Michigan raised the sales tax rate from 4% to 6%. My company's in-state retail sales for the 12 months following the increase fell by almost exactly one-third from the 12 months before the rate increase. Therefore, our sales tax collections did not increase.
- When precious-metals bullion, coins, and currency were subject to Michigan sales tax, we rarely made in-state retail sales greater than \$1,000. Yet, my analysis of my company's 2011 retail sales showed that 94% of our Michigan retail sales volume was for transactions of \$5,000 or more.

Who would benefit from the exemption?

Hawaii residents can easily purchase precious-metals bullion and coins from sellers in 38 states on the mainland plus Alaska, and then arrange for out-of-state storage. Generally, the more affluent use such arrangements.

There are several constituencies that would benefit from enacting House Bill 1184 in Hawaii. Among the beneficiaries would be:

- Hawaii state government, with increased tax collections
- Existing Hawaii businesses, with higher profits
- Future owners and employees of new business that will be made possible
- Hawaii workers, with more jobs and higher pay
- Hawaii smaller-scale investors, who can deal locally without the burden of sales and use taxes, which affluent investors can easily achieve by purchasing commodities or arranging for storage in Delaware.
- Hawaii consumers, who are better protected by dealing with local businesses than with strangers
- Hawaii senior citizens, who will have more resources to avoid scam artists

All these benefits and more were realized in Michigan with no net cost to the state Treasury or Michigan taxpayers.

In Michigan, a high percentage of sales tax collections is explicitly allocated to education funding. For this reason, the Michigan Education Association automatically opposes sales tax exemptions. However, the MEA did not oppose this exemption and was rewarded when total sales tax collections increased.

One Final Note

HB 1184 would establish a sales and use tax exemption on the retail sales of precious metals coins and bullion. Most other states that have enacted such exemptions have also exempted other legal tender coinage, though almost all do not exempt from sales or use taxes coins sold for use in jewelry (a consumption item). After Virginia first enacted a precious metals coin and bullion exemption, it later amended the law to add all legal

tender coins. The accumulated data suggest that state tax collections increase by a greater amount when the reach of this exemption covers all coins and even currency. If the Committee were to consider an amendment, I would encourage adding all legal tender coins and currency to the items qualifying for a sales and use tax exemption. The Industry Council for Tangible Assets has a template for a model bill that would achieve this purpose.

Thank you for the opportunity to submit this written testimony. Should you have any questions, you are welcome to call me at 800-933-4720 or email me at pat@libertycoinservice.com. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Patrick A. Heller". The signature is written in a cursive, flowing style.

Patrick A. Heller
Communications Officer and Owner Emeritus (1981-2014)
Liberty Coin Service
Member of the Board of Directors, Industry Council for Tangible Assets (2002-2021)
Treasurer, Industry Council for Tangible Assets (2002-2019)

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Lawrence M. Parks
Executive Director

Considerations About Gold

When I was a young boy in the 1950s, the Boy Scout motto, “BE PREPARED,” was considered not only admirable, but required. The idea was to always be in “a state of readiness in mind and body.”

In Hawaii, it is even more important than elsewhere to be prepared, because so many essentials are imported. A breakdown in the supply chain of essential goods could be disastrous.

Few possess any of the most critical good: real money. They may have some so-called dollars, but those are not in any way related to real “dollars,” as the *Constitution’s* Seventh Amendment use of the word.

For more than 150 years or more, our Supreme Court has been making political decisions, as opposed to legal decisions, about our money. Ignoring the *Constitution’s* teaching that we have only gold and silver coins as our money, we now have paper or electronic blips as money.

Profits garnered by financial firms from this usurpation of our *Constitution* are unfathomable. You have read about some of the excesses, such as an apartment in New York City that sold for \$240 million, paintings that have sold for many hundreds of millions, and so on.

What you may have not read about are the hundreds of trillions (no typo) in derivative bets by large U.S. money-center banks, all backstopped by an unlimited call on all the accumulated wealth of our citizens should an “accident” occur. Another data point, according to the Bank for International Settlements, “Trading in FX [foreign exchange] markets reached \$6.6 trillion per day in April 2019, up from \$5.1 trillion three years earlier. How can this be? What could go wrong?”

In the entire history of nations, there have been zero successes with paper money. There is no reason to believe that our experience will be any different. Indeed, because the United States dollar has been appointed the world’s “reserve currency,” with perhaps minor exceptions of North Korea and Cuba, nearly the entire world is directly or indirectly dependent on it.

It is critical that Hawaii be prepared when the dollar is no longer accepted as payment for essential goods.

The most efficient way to do that is for Hawaii to take possession of gold to meet emergency payments to its most vulnerable citizens, especially pensioners.

Hawaii should also look for ways to get rid of possible impediments for its citizens to take possession of gold on their own. There is virtually no cost to the state and no downside to do this, although it may aggravate some Wall Street relationships.

I understand that you may not have heard much about monetary malfeasance in the U.S. nor in other countries. If the authorities were truthful, it would precipitate a panic.

We offer, at no cost to you, evidence, mostly from official sources, both at home and abroad, that will bring you up the learning curve on this critical issue.

Meanwhile, Hawaii should be prepared.

HB-1184-HD-1

Submitted on: 3/2/2021 9:24:20 AM

Testimony for FIN on 3/3/2021 2:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Jp Cortez	Individual	Support	No

Comments:

On behalf of the Sound Money Defense League, I ask you to vote YES on House Bill 1184, which removes taxation from the purchase of gold and silver coins and bullion. HB 1184 passed out of the House Committee on Economic Development with a unanimous vote of 7-0.

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. 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 (see enclosure #1) 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.
- **39 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 damages 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.

Last year, a few states considered repealing existing tax exemptions on precious metals. Washington and Nebraska recognized the harm that would befall the residents and businesses in their respective states if taxes were imposed on the purchase of monetary metals, and neither measure made it out of its committee.

We strongly urge you to vote YES on House Bill 1184 to remove taxes on gold and silver in Hawaii.