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Hawaii excise tax may rise to 5% if move in Legislature succeeds

2 committees agree to raise it 1 percentage point through December 2012

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State senators yesterday moved toward a general excise tax increase to help with the state's budget deficit after finding that targeted tax hikes on businesses would likely be passed on to consumers and could undermine economic growth.

The Senate Economic Development and Technology Committee and the Senate Commerce and Consumer Protection Committee agreed to increase the general excise tax by 1 percentage point through December 2012.

The tax, the state's largest source of revenue, would rise from 4 percent to 5 percent — 5.5 percent on O'ahu because of a surcharge to finance Honolulu's mass-transit project. The increase could raise about \$500 million a year to

help close the state's \$1.2 billion budget deficit.

Senators said they were concerned about the impact on the poor, since the general excise tax is regressive, and said they would provide a state earned-income tax credit. The tax credit would reduce the amount of GET revenue available to pay off the deficit.

"Good tax policy, I've always been taught, is as broad a reach as possible, and you try to make it fair across the board," said state Sen. Rosalyn Baker, D-5th (W. Maui, S. Maui), the chairwoman of the Senate Commerce and Consumer Protection Committee.

The committees' decision creates a potential rift with Senate and House leaders, who have downplayed a GET increase as an option to pay down the deficit and who say they doubt they have the two-thirds' votes necessary to overcome a veto by Gov. Linda Lingle even if a bill were to pass.

The Republican governor and majority Democrats in the House have offered budget drafts that do not rely on a GET hike to close the deficit.

State Sen. Donna Mercado Kim, D-14th (Hālawā, Moanalua, Kamehameha Heights), the chairwoman of the Senate Ways and Means Committee, questioned why the senators would move the proposal to her committee.

"My interest is to try to balance the budget and to make sure that our solutions are realistic and, at the end of the day, we're not going to be left

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with a vetoed measure that we can't override," she said.

State Senate President Colleen Hanabusa, D-21st (Nānākuli, Mākaha), said she will wait to see how the Senate Ways and Means Committee deals with the issue.

"I'm not sure that we have the votes to override a veto on that," she said.

State House Speaker Calvin Say, D-20th (St. Louis Heights, Pālolo Valley, Wilhelmina Rise), also said he believes a GET increase lacks support in the House.

house version

The Senate passed a GET hike last session to help finance public education and tax credits for the poor and middle class, but the bill did not advance in the House. The bill remains alive as an option this session, however, no matter the fate of the new proposal in the Senate.

"I don't want to go down a path where I don't have the 34 votes to override," Say told The Advertiser's editorial board, referring to the two-thirds' vote of the 51-member House required to overcome a veto.

Many lawmakers say they believe a GET hike will be politically difficult in an election year without the buy-in among community leaders. The Chamber of Commerce of Hawaii is expected to discuss the different tax options at a board meeting tomorrow. The Hawai'i Government Employees Association, the state's largest public-sector union, has urged lawmakers to adopt a GET increase to help avoid further cuts to state programs.

Several economists have also told lawmakers that temporary tax increases and diverting money from special funds should be part of the plan to close the deficit. Economists have noted that 38 percent of the general excise tax is paid by tourists, so residents would not absorb the

full burden of a GET increase.

But the Tax Foundation of Hawaii argues that raising the GET, because of its pyramiding characteristic, could have a "devastating impact" on the state's economic recovery. The foundation's officials say taking money from special funds and curtailing tax credits would be better options.

"I guess the question for the broader community is when you look at the alternatives that are in front of you, and the impacts on business and on the consumer, you just have to sort of ask them, 'How would you rather we solve this problem?' " asked state Sen. Carol Fukunaga, D-11th (Makiki, Pāwa'a), the chairwoman of the Senate Economic Development and Technology Committee.

other tax options

The House moved a menu of tax options over to the Senate to help with the deficit, but Senate committees are narrowing those options before the bills reach the pivotal Senate Ways and Means Committee.

Fukunaga and Baker swapped the GET increase for a House proposal to generate \$100 million a year by eliminating GET exemptions on a range

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of business activities and imposing a 1 percent GET on those activities.

Fukunaga also substituted her Streamlined Sales Tax Project — which would collect use taxes owed on consumer mail-order catalog and Internet purchases — for a House proposal to defer high-technology investment tax credits in the program known as Act 221.

Fukunaga also held a House bill that would reduce Act 221 tax credits.

Baker's committee held a House bill that would have increased insurance premium tax rates, while Baker and the Senate Health Committee tabled a House bill that would have imposed an insurance premium tax on the Hawaii Medical Service Association and Kaiser Permanente.

HMSA and Kaiser warned lawmakers that the insurance premium tax would be passed on to businesses and would raise already escalating health care costs.

Fukunaga said many of the House tax options would create "severe long-term economic impacts" on businesses and were not as preferable as a temporary GET increase.

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