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Business Owners to Lawmakers: Tax Bills Kill Business, Cause Layoffs, Hurt Consumers and Taxpayers

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While dozens of Hawaii's small and large businesses have closed their doors in recent months because the economic recession has hit Hawaii hard, the majority of Hawaii business owners are struggling to find ways to stay in business and keep their employees by cutting costs, boosting revenue, and attracting new business.

But Hawaii lawmakers, business owners say, are making the challenge of simply keeping the doors open and employees employed all the more difficult during one of the worst economic times in Hawaii's history.

Instead of pushing legislation that helps business, or just gets government out of the way, the Democratic majority that holds all but 8 seats in the 76-member body is quickly passing massive tax hikes to close the state's $1.2 billion shortfall. Hawaii is already the fifth highest taxed state overall in the nation.

In addition, lawmakers are adding regulations and mandates that business owners say will cause them to lay off employees and raising the price of goods or services.

Legislature snubs governor's unemployment bills in favor of temporary fix

One of the major problems facing businesses right now is a looming hike in the unemployment compensation tax, which automatically spikes 1,000 percent this year retroactive to January without legislative intervention. Business owners have testified that the spike will cause them to layoff employees, meaning the unemployment tax will ultimately cause more employees to lose their jobs this year.

Republican Gov. Linda Lingle stated during a March 1 press conference that while she is required to balance the budget, "the focus should be on job creation."

First on the list to assist businesses were the administration's proposals outlined in SB 2732 and HB 2579 to reduce the sharp increase in unemployment insurance from an average of $90 per employee to $1,070 per employee scheduled to take effect in April 2010.

State Department of Labor and Industrial Relations Director Darwin Ching produced a detailed analysis illustrating how the governor's plan would provide tax savings of $95 million in 2010, $221 million in 2011, $131 million in 2012 and $50 million in 2012 and tax savings of $475 million over 4 years.

Instead passing the governor's proposals, the House passed HB 2169, introduced by Karl Rhoads, D- Palama, with an estimated tax savings of $99 million. Unemployment costs under this bill are scheduled to progressively increase from an average of $630 per employee per year to $1,520 per employee by 2012.

Hawaii's unemployment compensation fund boasted a $552 million balance at the end of 2007 when the Legislature passed a "tax holiday" under Act 110.

Without that law, the fund would have been $190 million at the end of 2010 instead of the currently projected $31 million, according to Ching's presentation. Act 110 temporarily reduced unemployment costs, but added permanent additional benefits.

Sen. Sam Slom, R-Hawaii Kai, who runs Smart Business Hawaii, warned against the consequences of that legislation then and the current bill as well. "The legislative session was manipulated so that session workers can now file for unemployment. Under Act 110, construction and agricultural seasonal workers were allowed to file for unemployment," says Slom.

Despite the added burden on businesses, the Chamber of Commerce of Hawaii supported HB 2169 over the governor's plan, advocating for a much higher tax per employee. This action by a so-called business advocacy organization angered many local business owners.

Surcharge on each barrel of petroleum will raise the cost of living for Hawaii's families

HB 2421 HD 2 or the "Barrel Tax Bill" increases a surcharge on each barrel of petroleum from .05 to $1.05 per barrel.

Rep. Gene Ward, R-Kalama Valley, says this bill is "jobs-bill killer number 1" because it will increase the cost of living in Hawaii and cause the loss of jobs.

Rep. Denny Coffman, D-North Kona, defended the bill, "Why tax fossil fuels? Because we have an addiction to fossil fuels. We tax tobacco and alcohol and fossil fuel is another addiction. You can turn off your lights or drive slower."

Rep. Lynn Finnegan, R-Lower Pearlridge, opposed the bill, saying "we have to make the cost of living affordable for Hawaii's residents."

"Amazon" tax returns after governor veto last year

SB 2402 SD2, the "streamlined" sales tax, otherwise known as the "Amazon" tax, requires consumers to pay general excise tax on all Internet purchases.

Last year, after the legislature passed a similar measure, the giant Internet retailer, Amazon dropped Hawaii affiliate advertisers, but reinstated them when the governor vetoed the bill.

The bill is anything but "streamlined" at 159 pages long and changes the state's tax structure to allow Hawaii to participate in the national streamlined sales and use tax agreement.

Sen. Carol Fukunaga, D-Makiki/Punchbowl, stated that the requirement for use taxes requiring the payment of 4 percent on out-of-state purchases via catalog, direct mail or Internet has been on the books for years and should be enforced.

Labor unions, retail merchants and members of the "Keiki Caucus" rallied at the State Capitol on Wednesday to support the law, which they say will bring in an additional $245 million to the state.

The cost of living in Hawaii is already 170 percent of the national average.

Purported child advocates, such as Sen. Suzanne Chun Oakland, D-Sand Island, feel that further increasing the cost of living for Hawaii's residents will help children who are currently living in poverty.

Bill designed to put "business out of business" and kill competition

Although a previous law allowed professional employer organizations (PEOs) to flourish in Hawaii, SB 1062 SD1 now will have the effect of "killing the industry," according to J.S. Services President Jack Schneider.

By requiring PEOs to furnish a $1 million collateralized bond, many smaller PEOs will be driven out of business and competition will suffer, says Schneider.

Barron Guss, president and CEO of Altres, the largest PEO in Hawaii, who wants regulation to keep out competition from smaller companies, is in favor of the measure. Guss testified that he is in favor of government regulation to maintain the integrity of the industry.

However, Celia Suzuki, acting licensing administrator of the Professional Vocational licensing Division of the Department of Commerce and Consumer Affairs, testified that a sunrise audit should be conducted to examine the necessity of this law.

Suzuki found many discrepancies and conflicts within the current legislation. For example, registration containing detailed information about each business is required, but that information would be confidential and would not be made public, contrary to the purpose of public registration.

Additionally, the bill is not written to protect the “covered employee,” but instead to protect the PEO and the client using the PEO’s services.

Suzuki says that the purpose of professional vocational licensing is not to protect business relationships or businesses, but to protect the interests of the covered employee.

These bills are making their way through the legislature, crossing over between so they can be considered by other lawmakers. In order to become law, the bills must pass both Houses in the same version and be approved or allowed to become law by the governor.

The legislature can override the governor’s vetoes, with a two-thirds majority in both Houses, something they frequently do with her vetoes.

The session wraps up in the end of April.

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