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Whopping Tax Increases Pass Hawaii Legislature

Tax credits for businesses also revoked

By Jay McWilliams, 4/7/2010 12:10:35 PM

HONOLULU, HAWAII - Taxpayers and business owners thought they dodged a bullet in recent days when legislators' 25 percent General Excise Tax increase was killed.

But instead of hiking the state's most regressive tax, which 7 economists this Monday noted would further damage Hawaii's economic recovery, lawmakers increased a number of other taxes and fees and suspended tax credits during the crossover or exchange of bills from one House to the other.

They focused on funding their \$10 billion budget without cutting government services or personnel at a time when the state is facing a \$1.2 billion budget shortfall and is in dire financial condition.

Business owners who visited the Capitol in recent days to ask legislators to cut government rather than raise taxes, oppose the state's spending spree, pointing out that in the private sector, if a business was \$1.2 billion short of meeting its budget, it would be forced to cut its costs or its workforce or go out of business.

However, the majority of lawmakers instead listened to public union leaders who also lobbied them - but for tax hikes and other "revenue enhancement" plans.

The bills that made it through the second crossover will now go to various conference committees, where the lawmakers in both chambers of the Legislature must agree on the final version of a bill. Once in agreement, the bills proceed to Gov. Linda Lingle, where she can veto them, sign them into law or let them pass into law without her signature.

Here are some of the tax bills that are continuing to move ahead this session:

HB2421, to promote economic development for Hawaii's locally-produced food and energy industries, encourage food and energy self sufficiency, and address environmental concerns relating to climate change.

On April 1, the Senate Ways and Means Committee amended the bill to increase the amount of the environmental response, energy, and food security tax to \$1.55 per barrel of petroleum product, up from .05 per barrel.

Sen. Donna Mercado Kim, Chair of the Ways and Means Committee, said this tax increase will be "pennies" for consumers who buy gas for their cars and pay for electricity for their homes, among every other petroleum product used in Hawaii.

The money raised from this tax increase is estimated to be around \$22 million a year.

Dale Evans, president of Charley's Taxi, says, "This tax is harmful, insidious and counterproductive. Harmful, because taking money out of a distressed economy dries up cash flow that businesses need to operate and from which the government derives its revenues. Insidious, because it is hidden, difficult to understand and will have broad impact – because human and economic activities are fueled by oil energy. Counterproductive, because it does not produce positive results: it won't fix the roads and relieve traffic congestion that saps the productivity and efficiency of people and business."

While environmentalists say this bill is needed to "punish" consumers who they believe rely too much on oil, Barney Robinson, a Chevron dealer on Oahu, says this is just another tax that is going to add to the cost of everything, including gasoline, electricity and anything petroleum related. Coupled with other proposals to

raise taxes, gasoline could increase as much as 6 cents per gallon this year.

"Hawaii already has the highest taxes on gasoline in the nation and this is taking it even higher," Robinson says. He also asks: "What is the money earmarked for? Is the environmental clean up fund that this was set up for depleted or have their costs gone up or is it just another tax on the people to cover the state's general fund deficit?"

April 6, 2010, Report adopted; Passed Third Reading, as amended (SD 2). Ayes, 22; Aye(s) with reservations: Senator(s) Rosalyn H. Baker, Robert Bunda, Will Espero, Carol Fukunaga, David Y. Ige, Les Ihara Jr. . Noes, 3 (Senator(s) Josh Green. M.D., Fred Hemmings, Sam Slom). Excused, 0 (none). Transmitted to House.

http://www.capitol.hawaii.gov/session2010/lists/measure_indiv.aspx?billtype=HB&billnumber=2421

SB2402, to suspend temporarily the exemptions for certain persons and certain amounts of gross income or proceeds from the general excise and use tax and requires the payment of the tax at a 1 percent rate. Effective July 1, 2010, and sunsets on June 30, 2015.

On March 31, 2010, the House Finance committee deleted the original version of SB2402 and replaced it with HB2877 HD1, with certain provisions. Among the many groups that would be liable to pay the 1 percent tax rate hike, some lawmakers are saying it would be especially unfair to people in condominiums who currently are exempted from paying general excise tax on the money collected by their associations for common expenses. They say it would mean double taxation for the condo owners since the expenses for which they pay already include taxes.

April 6, 2010, Passed Third Reading with Representative(s) Lyla Berg, Tom Brower, Corinne Ching, Barbara Marumoto, Kymberly Pine, K. Mark Takai, Gene Ward voting no (7) and Representative(s) Faye P. Hanohano excused (1). Transmitted to Senate.

http://www.capitol.hawaii.gov/session2010/lists/measure_indiv.aspx?billtype=SB&billnumber=2402

SB2807, to create a fiscal reserve to enable the state to meet its financial obligations during economic difficulties and other emergencies.

This bill proposes an amendment to Article VII, section 6, of the Hawaii Constitution to amend the requirement that excess general fund revenues be returned to taxpayers of the state as a tax refund or tax credit by giving the Legislature the alternative of depositing these excess revenues into an emergency and budget reserve fund.

April 6, 2010, Passed Third Reading as amended in HD 2 with Representative(s) Barbara Marumoto voting no (1) and Representative(s) Rida Cabanilla, Faye P. Hanohano, Marcus R. Oshiro, Gene Ward excused (4). Transmitted to Senate.

http://www.capitol.hawaii.gov/session2010/lists/measure_indiv.aspx?billtype=SB&billnumber=2807

SB2461, to raise the rental motor vehicle customer facility charge. Specifically, the measure: (1) beginning September 1, 2010, increases the rental motor vehicle customer facility charge from \$1 to \$4.50 per day; (2) requires the Department of Transportation to collect the fee for at least twenty years; and (3) raises the ceiling of the rental motor vehicle customer facility special fund from \$25,000,000 to \$500,000,000.

April 6, 2010, Passed Third Reading as amended in HD 2 with Representative(s) Tom Brower, Barbara Marumoto, Kymberly Pine, K. Mark Takai, Cynthia Thielen, Gene Ward voting no (6) and Representative(s) Joe Bertram III, Faye P. Hanohano excused (2). Transmitted to Senate.

http://www.capitol.hawaii.gov/session2010/lists/measure_indiv.aspx?billtype=SB&billnumber=2461

SB2405, to temporarily suspend the income tax net operating loss carryback deduction for losses generated in 2009 and 2010, places a cap on itemized deductions claimed on state income tax returns. This applies to taxable years beginning after 12/31/09 and sunsets on 12/31/15 and removes the refunding feature of the capital goods excise tax credit from 01/01/10 to 12/31/15. Effective July 1, 2020.

On March 31, the House Finance Committee deleted the contents of SB2405 and replaced it with the substance of HB1907 HD1.

As amended this measure addresses, in part, the fiscal concerns facing the state by incorporating a “take-away bill for businesses,” Rep. Gene Ward said yesterday on the floor of the House.

Some legislators called suspension of a tax loss deduction a “loan” to the state, however, business owners note that when a business experiences a loss, the owners use their own money to pay their costs or they have to take out a loan to keep their doors open.

April 6, 2010, the bill passed Third Reading with Representative(s) Corinne Ching, Lynn Finnegan, Barbara Marumoto, Kymberly Pine, Cynthia Thielen, Gene Ward, Jessica Wooley voting no (7) and Representative (s) Joe Bertram III, Faye P. Hanohano excused (2). Transmitted to Senate.

http://www.capitol.hawaii.gov/session2010/lists/measure_indiv.aspx?billtype=SB&billnumber=2405

SB2401 would suspend temporarily the claiming of the technology infrastructure renovation and high technology business investment tax credits

On March 31, the House Finance Committee replaced the provisions of SB2401, “with provisions that temporarily suspend the ability of a taxpayer to claim the Technology Infrastructure Renovation and High Technology Business Investment Tax Credits. More specifically, the amended bill prohibits the tax liability of a taxpayer for taxable years beginning in 2010, 2011, and 2012 from being reduced by those credits. The provision applies to a taxpayer under the income tax, bank and financial corporation tax, and insurance premium tax laws. The bill, as amended, is conceptually similar to House Bill No. 2962, H.D. 1, which was previously passed by the House.”

Lawmakers who supported the bill said the amendment is needed to “generate more revenues to fund services essential to the public ... from persons who may be better able to afford to pay the additional taxes than low- or moderate-income persons.”

But lawmakers opposing the measure say temporarily suspending a tax credit for businesses that already spent money to do business in Hawaii will not encourage other companies to invest here, not with a track record of failing to make good on our promises.

April 6, 2010, Passed Third Reading with Representative(s) Lyla Berg, Lynn Finnegan, Gilbert S.C. Keith-Agaran, Chris Lee, Cynthia Thielen, Gene Ward voting no (6) and Representative(s) Henry J.C. Aquino, Joe Bertram III, Faye P. Hanohano excused (3). Transmitted to Senate.

http://www.capitol.hawaii.gov/session2010/lists/measure_indiv.aspx?billtype=SB&billnumber=2401

Other money-related bills moving through the Legislature:

SB2124, to restore the remaining public school instructional days for the 2009-2010 and 2010-2011 school years that would otherwise be lost to furloughs pursuant to a collective bargaining agreement with the Hawaii State Teachers Association (HSTA).

Specifically, this bill appropriates funds from the Hawaii Hurricane Relief Fund (HHRF) to the public schools, including a proportionate amount to charter schools. Requires unexpended funds from each school year to lapse to the Hawaii hurricane relief fund.

Another "loan" from a special fund that critics of the measure say will not likely be repaid before the next hurricane hits Hawaii.

April 6, 2010, Passed Third Reading as amended in HD 1 with none voting no (0) and Representative(s) Faye P. Hanohano excused (1). Transmitted to Senate.

http://www.capitol.hawaii.gov/session2010/lists/measure_indiv.aspx?billtype=SB&billnumber=2124

SB1178, to appropriate \$40,000,000 in general funds and \$80,000,000 in federal Medicaid funds to address a funding shortfall in the Medicaid program.

On April 1, the House Finance Committee amended this bill by adopting the language in the proposed H.D. 2, to ensure the availability of the Medicaid program to eligible participants and appropriate payments to healthcare providers.

April 6, 2010, Passed Third Reading as amended in HD 2 with none voting no (0) and Representative(s) Joe Bertram III, Faye P. Hanohano excused (2). Transmitted to Senate.

http://www.capitol.hawaii.gov/session2010/lists/measure_indiv.aspx?billtype=SB&billnumber=1178

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