



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

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Statement of
MIKE MCCARTNEY
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON ENERGY, ECONOMIC DEVELOPMENT, AND TOURISM

Wednesday, February 3, 2021
3:00 PM
State Capitol, Conference Room 224

In consideration of
SB0775
RELATING TO THE TRANSIENT ACCOMMODATIONS TAX.

Chair Wakai, Vice Chair Misalucha and members of the Committee. The Department of Business, Economic Development and Tourism (DBEDT) **supports the intent** of this bill, which requires the Director of DBEDT to determine and publish visitor arrivals annually.

While DBEDT supports the intent of the bill, the Hawaii Tourism Authority (HTA) is the official state agency collecting and reporting data for visitor arrivals. DBEDT collaborates with the HTA regarding tourism data to produce publications including the DBEDT Monthly Economic Indicators, the Quarterly Statistical and Economic Report, and the Hawaii State Data Book. The data are also included in the DBEDT Tourism Data Warehouse, which is updated monthly.

HTA reports preliminary visitor arrival statistics on a monthly basis, with a one month lag (January data are released by the end of February). The final monthly and annual numbers are usually released by the middle of August each year for the previous year. DBEDT will be happy to confirm and report the visitor arrival statistics to the Legislature once the HTA final visitor statistics are released.

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
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ISAAC W. CHOY
DIRECTOR OF TAXATION

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To: The Honorable Glenn Wakai, Chair
and Members of the Senate Committee on Energy, Economic Development, and
Tourism

From: Isaac W. Choy, Director
Department of Taxation

Date: February 3, 2021
Time: 3:00 P.M.
Place: Via Video Conference, State Capitol

Re: S.B. 775, Relating to the Transient Accommodations Tax

The Department of Taxation (Department) has concerns and offers the following comments regarding S.B. 775, for your consideration.

S.B. 775 proposes to vary the transient accommodations tax (TAT) rate based on the number of arrivals during the previous year. The bill would increase the TAT rate by two percentage points after any year in which visitor arrivals equals or exceed nine million and would decrease the TAT rate by two percentage points after any year that visitor arrivals are less than eight million. The rate shall never decrease to below 10.25 percent. The increase or decrease is based on visitor arrivals as reported by the Department of Business, Economic Development, and Tourism (DBEDT).

First, the Department notes that because travel plans are often made far in advance, the timing of TAT rate changes and notice to taxpayers is problematic in all cases. This proposal will potentially change the rate yearly creating the issue again and again. To be more specific, for reservations made before the TAT rate change is announced, but for visits taking place after the new rate is imposed, hotels will not know what tax rate to apply.

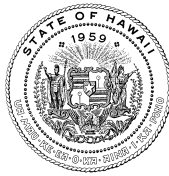
TAT is typically passed on to the customer, so if the rate goes up, hotels will be forced to under collect on reservations made before the TAT rate change is announced. They will be responsible for the difference. A decrease in the rate creates a similar but more problematic issue. In this case, hotels will over collect, raising a potential consumer protection issue.

Second, from a tax administration perspective it is difficult to change the rate each year based on an external factor such as visitor arrivals. There is a significant amount of computer systems modifications and testing that must be performed to implement a change in rates. In addition, the Department has concerns about a tax rate being based on data that could possibly change. For example, if the initial visitor arrival count is determined to be greater than 9,000,000, but is later found to be less, would the rate increase be reversed?

Finally, it is questionable whether the intent stated in the preamble of the measure will be achieved by this proposal. The stated purpose is to raise revenue; however, the rate increase may instead reduce visitor arrivals, leaving TAT revenue flat. If the intent is to raise revenue, the Department recommends waiting until the visitor arrivals have increased enough to warrant a rate increase and reassessing at that time.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

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DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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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 SENATE COMMITTEE ON ENERGY, ECONOMIC DEVELOPMENT,
AND TOURISM
ON
SENATE BILL NO. 775

**February 3, 2021
3:00 p.m.
Room 224**

RELATING TO THE TRANSIENT ACCOMODATIONS TAX

The Department of Budget and Finance (department) offers comments on Senate Bill (S.B.) No. 775.

S.B. No. 775 adds a new section to Chapter 201, HRS, to require the Director of the Department of Business, Economic Development and Tourism (DBEDT) to determine and publish the annual visitor arrivals to the State of Hawaii for the preceding calendar year at the end of each fiscal year, beginning at the end of FY 21. The bill also amends Section 237D-2, HRS, to create a mechanism to annually adjust the Transient Accommodations Tax (TAT) assessed on the gross rental or gross rental proceeds derived from furnishing transient accommodations and on the fair market rental value of a resort time share vacation unit in calendar years 2023-2030. The bill provides that the TAT rate would be adjusted up or down by increments of 2.00 percent or remain unchanged based on which threshold the number of annual visitor arrivals reported by the Director of DBEDT meets, provided that the adjusted TAT rate floor shall remain at 10.25 percent.

The department has concerns that the TAT rate adjustment mechanism does not provide a ceiling for the adjusted TAT assessment rate and could result in a significantly increased cumulative rate following consecutive years of upward adjustments.

Additionally, the department would like to note that any increase in TAT revenue collections resulting from the TAT rate adjustment mechanism provided in this bill would be deposited into the Mass Transit Special Fund and not into the general fund.

Thank you for your consideration of our comments.



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David Y. Ige
Governor

John De Fries
President and Chief Executive Officer

Statement of
JOHN DE FRIES

Hawai'i Tourism Authority
before the
SENATE COMMITTEE ON ENERGY, ECONOMIC DEVELOPMENT, AND TOURISM

Wednesday, February 3, 2021
3:00 PM
State Capitol, Conference Room #224

In consideration of
SENATE BILL NO. 775
RELATING TO THE TRANSIENT ACCOMMODATIONS TAX

Chair Wakai, Vice Chair Misalucha, and members of the Committee on Energy, Economic Development, and Tourism: the Hawai'i Tourism Authority (HTA) would like to **offer comments** on Senate Bill 775, which provides for a mechanism to adjust the Transient Accommodations Tax rate based on visitor arrivals for a calendar year. It requires the director of the Department of Business, Economic Development and Tourism to determine and publish visitor arrivals annually.

HTA's Tourism Research Division already publishes an Annual Visitor Research Report which includes total visitor arrivals. You can find annual research reports dating back to 1999 on HTA's website: <https://hawaii tourism authority.org/research/annual-visitor-research-reports/>. The 2020 Annual Visitor Research Report will be issued in the fall.

In addition to the annual research reports, HTA's Tourism Research staff also publishes preliminary visitor arrival statistics on a monthly basis, which you can also find on HTA's website: <https://hawaii tourism authority.org/research/monthly-visitor-statistics/>

We appreciate this opportunity to provide testimony.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMODATIONS, Rate adjustment based on visitor arrivals

BILL NUMBER: SB 775

INTRODUCED BY: LEE

EXECUTIVE SUMMARY: Provides for a mechanism to adjust the transient accommodations tax rate based on visitor arrivals for a calendar year. Requires the director of department of business, economic development and tourism to determine and publish visitor arrivals annually.

SYNOPSIS: Amends section 237D-2 to provide that on January 1 of each year from 2023 to 2030, that :

If the total number of visitor arrivals in the previous year is...	Then the TAT rate shall...
9,000,000 or more	Be increased by 2 percentage points
8,000,000 or more but less than 9,000,000	Remain the same
Less than 8,000,000	Be decreased by 2 percentage points (but not less than 10.25%).

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This bill creates a tax disincentive to raising our visitor count and has the potential to be a severe drag on our #1 industry that already has been decimated by the COVID-19 pandemic. There is a floor to the rate but no ceiling, meaning that the TAT rate could be increased to 26.5% if visitors once again flock to our shores.

If the Legislature in its wisdom concludes that we have too many tourists on our shores and wants visitors to stay away, it would probably reach that goal more efficiently by defunding all tourism marketing and promotion.

Digested 1/29/2021



HAWAI'I LODGING & TOURISM
ASSOCIATION

LATE

Testimony of

Mufi Hannemann
President & CEO
Hawai'i Lodging & Tourism Association

Committee on Energy, Economic Development, & Tourism
Senate Bill 775: Relating to the Transient Accommodations Tax

Chair Wakai and members of the Committee, mahalo for the opportunity to offer comments on this measure on behalf of the Hawai'i Lodging & Tourism Association, the state's largest private sector visitor industry organization.

The Hawai'i Lodging & Tourism Association—nearly 700 members strong, representing more than 50,000 hotel rooms and nearly 40,000 lodging workers —advocates on behalf of an economic sector that has been disproportionately affected by the COVID-19 public health crisis. Our industry has suffered an unprecedented depression from which it will likely take years to fully recover. Hawai'i, having always counted tourism among its top economic drivers, has long been ranked among the world's top destinations for travelers. This measure, should it be enacted, would increase the already significant cost of traveling to Hawaii, also hurting both our appeal and the profitability of our tourism sector in the process.

Moreover, we hope to soon be faced with the monumental task of restoring travel to Hawai'i in a manner that would regain and secure our state's status among other premier travel destinations. We must continue to make every effort to make travel to Hawai'i as amenable and accessible as possible for visitors. A marked rate increase to the TAT like the one stipulated in this measure would have the opposite effect and would harm our industry's overall wellbeing over the long term.

For these reasons, as presently written, HLTA does not support Senate Bill 775.

Mahalo for the opportunity to provide this testimony.