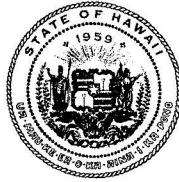


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HOUSE COMMITTEE ON TOURISM, CULTURE & INTERNATIONAL AFFAIRS
TESTIMONY REGARDING HB 756
RELATING TO THE GENERAL EXCISE TAX

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 2, 2009

TIME: 8:30AM

ROOM: 312

This measure provides a general excise tax (GET) exemption for amounts received for the provision of "facilities and services" for convention, meeting, and incentives program events paid by foreign entities.

The Department of Taxation (Department) **opposes this measure because of the large, unbudgeted revenue loss** this measure would have on the general fund.

SUPPORT FOR TOURISM AND CONVENTION INDUSTRY, GENERALLY—As a general matter, the Department supports the tourism and convention industry in Hawaii because of the important role it plays in the State's economy. The Department also recognizes the inherent benefit of minimizing the tax burden on this industry, which could increase visitor arrivals and out-of-state revenue to the State. However, given the current fiscal outlook, the Department cannot support such a tax exemption at this time.

EXEMPTION IS EXTREMELY BROAD—The Department points out that, although defined to some extent, the exemption drafted in this measure could potentially apply to any proceeds earned related to a convention. Whether this was intended, using the term "facilities and services' includes," the bill leaves open the possibility for any proceeds that are convention related to be exempt. For example, a hotel could easily qualify under this exemption for the cost of transient hotel rooms for a convention because the rooms would be facilities or services for a convention. Given the broad definition by using the term "includes," this legislation's revenue impact could be greater than projected. This bill should be amended to define the term as "facilities and services' means...."

OPPOSED DUE TO BUDGET IMPACT—The Department cannot support the tax provision in this measure because it is not factored into the budget. The Department must be

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cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

REVENUE IMPACT—This legislation is projected to result in a revenue loss of approximately \$8 million per year starting in FY 2010.

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