

TO: Budget Committee of the Honolulu City Council

FROM: Natalie Iwasa, CPA, CFE
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MEETING: Wednesday, October 21, 2015

SUBJECT: Bill 23 County Tax Surcharge – **OPPOSE**
Calculation of Visitor Portion of Tax

Aloha Councilmembers,

Thank you for the opportunity to provide testimony regarding Bill 23, which would extend the general excise surcharge tax for five more years. I oppose this bill for the reasons I stated during the meeting on October 21. Following is the information I said I would send about the percentage of surcharge tax paid by visitors.

Mayor Caldwell said in his testimony that the GET [surcharge] is paid “1/3 to more than 1/3 by visitors and offshore military personnel.” First, it’s important to understand when the surcharge applies. Attached is a flowchart from the state tax department. Note that the surcharge does not apply to outer-island or out-of-state customers. Also note that neighbor island businesses may be subject to the surcharge, but only if the customer is on Oahu and only if the business has a presence on Oahu. **The surcharge only applies to expenditures on Oahu.**

Several months ago I confirmed with one of the mayor’s representatives that the source for his statement about the “one-third paid by visitors” is a tax review commission report. The report is available at http://files.hawaii.gov/tax/stats/trc/docs2007/Final_Report-Appendix_D.pdf. In the *Executive Summary* it states, “. . . the General Excise Tax (38 percent is born by tourists, nonresident military personnel and the federal government” This report only considered the general excise tax on a **statewide basis**; the surcharge hadn’t been implemented at the time.

Following are statewide vs. Oahu expenditures according to the Department of Business and Economic Development and Tourism (<http://dbedt.hawaii.gov/visitor/> under “Historical Visitor Statistics,” Table 13) along with the calculation of percentage of expenditures on Oahu:

Year	Total Expenditures State (\$mil)	Total Expenditures Oahu (\$mil)	% Oahu Expenditures
2013	14,352	7,358.7	51%
2012	14,193	7,672.5	54%
2011	12,047	6,257.9	52%
2010	10,967	5,572.1	51%
2009	9,794	5,010.6	51%
2008	11,182	5,644.3	50%
2007	12,578	5,977.8	48%
TOTALS	85,113	43,494	51%
Visitor/mil. surcharge	33%	X 51 =	16.8%
	38%	X 51 =	19.4%

When we consider **expenditures only on Oahu**, which on average have been 51% for the past seven years, **the rate of surcharge paid by visitors, military and federal government is less than 20%**, not 33% or more.

In addition, the surcharge tax is assessed on food, medical services and rent, and hits the lowest income people the most.

Please hold the mayor and HART accountable for the information they are giving to you and the public. Good decisions cannot be made when we are given poor or incorrect information.

http://tax.hawaii.gov/geninfo/a2_b2_7csurchg/

