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The Honorable Donovan M. Dela Cruz
Chairman, City Council
City & County of Honolulu
Honolulu, Hawaii 96813

Chairman Dela Cruz and Members of
the City Council:

Council Bill No. 40

Relating to Imposition of a City and County of Honolulu Excise and Use Tax

My name is Russel H. Yamashita, and I am testifying today in my capacity as the Legislative Committee Co-Chair of the Hawaii Association of Public Accountant (HAPA). HAPA represents over 210 (of 230+) Certified Public Accounting firms throughout the State of Hawaii, and is the only professional accounting organization to represent the interest of neighbor island CPAs and accountants.

In recent weeks as the debate on this bill and the related enabling state legislation has ensued, HAPA's members, and notably the neighbor island members, have received only limited detailed information on the mechanics relating to the imposition of this new tax. Given the opportunity to review this information the neighbor island members have requested that their and their clients concerns be voiced as to the effect this new tax will have.

In the legislative history of the enabling state legislation, the assumption was made that the neighbor islands would not be affected by the imposition of this tax because their respective counties would not be imposing this tax. However, in discussions with their clients and other CPAs and accountants, the neighbor island members of HAPA have concluded that the imposition of the Honolulu Excise and Use Tax would have an extremely detrimental effect on the residents and small businesses on the neighbor islands.

Neighbor island residents and small businesses conduct a significant amount of business in Honolulu where this new Honolulu Excise Tax is to be imposed. Neighbor islanders purchase significant goods and services FOB Honolulu which this new tax will be applied. Businesses, especially small businesses, will be at a significant disadvantage because much of their goods and services must flow through Honolulu and will be taxed at the higher rate. These additional costs cannot be merely absorbed and must be passed on to the consumers on the neighbor islands.

A significant advantage will be given to the so called Big Box retailers, like COSTCO and Home Depot, who will merely tranship their goods off the Honolulu docks to the Young Brother barges or direct ship to the neighbor islands. Thus, neighbor island, locally owned business will become an endangered species, unable to compete with Big Box retailer giants.

Given the regressive nature of the State General Excise Tax and the compounding effect it has on the final sales price, the gross up effect of the Honolulu Excise Tax of 4.711% will have an exponential effect on the cost of living for neighbor island residents by the time the final sale is made. The so called "Pyramiding Effect" of the State General Excise tax is calculated by the Hawaii Tax Foundation to have a four times multiple to give a fair comparison to a traditional "Sales Tax" which most states and counties impose. Given the situation for the neighbor island purchases of goods and services in Honolulu, the real effect is, in reality a compounding effect, which would have an exponential effect on neighbor island cost of living.

With the effective tax rate of 4.166% for the current State Excise Tax, a comparable Sales Tax would be 16.66%. Given the new Honolulu Excise Tax at 4.711%, a comparable Sales Tax would be 18.84%. Therefore, the real effect of the Honolulu Excise Tax will be in excess of 18.84% for goods and services on the neighbor islands.

Therefore, the Hawaii Association of Public Accountants would like to go on record to oppose the passage of Bill 40, in any form, due to the significant adverse impact it will have on the State's economy, and especially for neighbor island residents and businesses. Thank you for your consideration of our testimony.

Sincerely,

Russel H. Yamashita

cc: The Honorable Linda Lingle
Governor, State of Hawaii
State Senator Brian T. Taniguchi
State Representative Dwight Y. Takamine