TAX FOUNDATION OF HAWAII

Weekly Commentary

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OVERTAXED ALREADY, COUNTY RETAIL SALES TAX MIGHT BE NEXT

By Lowell L. Kalapa

If taxpayers think they have just had it up to here in taxes as they prepare their 2008 federal and state income tax returns, the legislature has another surprise for them.

Just like the state, the counties are hard pressed for money and are reluctant to raise property taxes in the midst of the current recession. On the other hand, the transient accommodations tax revenues that the counties currently enjoy are a very tempting target for the state to take back in its efforts to fill the state budget gap. To this latter proposal, the counties are crying foul! How dare the state take back the TAT revenues that have been earmarked for county use, especially, the counties argue, since that money is supposed to be used to provide services to visitors such as maintenance of the beaches and parks and providing public safety for the visitor industry.

As a result, the legislature is floating a proposal that would authorize the counties to impose a county retail sales tax. Unlike the state's general excise tax which is levied on both goods and services and at all levels of transactions, the retail sales tax would be imposed only on tangible personal property or goods, and then only when they are purchased for final consumption. Although no rate is currently specified in the proposal under consideration, discussions have focused on a rate up to one percent.

However, lawmakers were cautioned that because the proposed retail sales tax would be collected at the same time the state's general excise tax is collected on those same purchases, there may be a blurring of the lines of accountability. In other words, even though county officials may adopt the new retail sales tax for their county, consumers will see both taxes as one additional charge and ascribe responsibility to just one level of government, be it the state or county. This is the very point made by the 1989 Tax Review Commission about the sharing of a tax resource, or in this case taxing the same transaction by two levels of government. It blurs the accountability for the imposition of the tax as well as the expenditures made from the taxes collected.

From an administrative and compliance point of view, if the legislature is going to give this power to the counties, it needs to set a specific rate that can be adopted so that at least if all counties adopt the retail sales tax, the rate will be the same for all counties. In fact, if the legislature moves forward on this idea, they perhaps should consider making the retail sales tax effective only if all four counties adopt the new tax.

However, requiring unanimity will not address other problems that will arise. What does a business do when a sale is made across county lines? To which county should the business remit the retail sales tax? If one were being logical and perceive the retail sales tax as a tax on the consumer, then the tax should be paid to the county where the consumer is located. For businesses that do business in more than one county, it means keeping track of where the sale is consummated in order to remit the tax to the correct county that is due the tax. All of this will involve additional paperwork and tracking of sales, especially if the business does business in more than one county or has customers throughout the state.

Why give the counties the power to levy a retail sales tax? Well, it becomes part of the discussion about whether or not the state can take back the revenues of the TAT that have been earmarked for the counties since the early 1990=s. If the state takes back the TAT revenues currently shared with the counties, it could mean as much as a $100 million to help span the current budget shortfall. Of course, that would leave the counties with an equally large shortfall in their budgets.

Despite receiving the largesse of TAT revenues, the counties have returned on a regular basis to the legislature for additional assistance to help balance their budgets. And the legislature recalls that the counties announced that if they were given complete control over the real property tax in 1978, they would never again bother the state for money.

So those famous last words have stuck in the craw of the legislature each year as the counties beg for state funds. So apparently this year lawmakers, under pressure to find money to fund the state budget, are telling county officials to go ahead and raise their own moneys by granting the counties an additional taxing power. Unfortunately, the loser in this whole scenario is the taxpayer who will just end up paying higher and higher taxes.

So as lawmakers head into the homestretch, taxpayers need to hang on to their wallets and pocketbooks because it is becoming more and more apparent that elected officials at both the state and county level want some more of your hard-earned dollars.

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