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Rail Tax a Mistake
by Ron Heller

Adding a county surcharge to the general excise tax is a bad idea for a number of reasons.

First, the combined state and local tax burden in Hawaii is already very high. Whether you look at total dollars per capita, percentage of personal income paid in taxes, or any other measure, Hawaii is already in the top four or five states in the country in terms of total state and local tax burden. Raising already-high taxes would discourage new investment and hurt our economy. A tax increase sends the wrong message to the rest of the world. We want to project an image of Hawaii as a good place to do business – a tax increase says exactly the opposite.

Second, existing businesses that are already struggling would have to pay significantly more GE tax. Since the GE tax is a tax on gross receipts – not net income – even businesses that are losing money would have to pay more. Businesses that are barely surviving now would be hit with a substantial tax increase.

Third, the GE tax is regressive, with a proportionately higher burden on lower-income individuals and families. Increasing the tax would magnify this effect.

Fourth, the real property tax that currently funds county operations is deductible for federal income tax purposes – in effect, the federal government picks up a share of the taxpayer's cost. If a taxpayer is in the 25% income tax bracket, each dollar of real property tax has a net cost of 75 cents. That advantage does not apply to the GE tax. <u>If</u> we must have a tax increase – and I'm not advocating <u>any</u> tax increase – it makes more sense to increase a tax that the federal government subsidizes.

Fifth, each county would be free to enact, or not enact, its own tax. The counties could potentially have different tax rates, or end up with different definitions and/or exemptions. This would complicate business for any taxpayer operating in more than one county. Moreover, Hawaii has already joined many other states in the Streamlined Sales Tax Project, an effort to simplify state taxes and to promote greater uniformity among states. Adding a new and separate county tax is a step in exactly the opposite direction.

Sixth, enforcement and administration of the new surcharge would be a burden on the Department of Taxation. The Department has already gone on record opposing the proposed surcharge.

Seventh, we are already hearing calls for more revenue for other purposes: education, health care, etc. Once we have a county tax in place, there will inevitably be suggestions to increase it because of some urgent need for funding of some vital program.

Finally, the idea that we can "export" part of our tax burden by collecting tax from tourists is a myth. Although tourists pay taxes, those taxes raise the cost of Hawaii as a destination. In the long run, if we make Hawaii more expensive, more people will choose to vacation in Mexico or the Caribbean. Like it or not, Hawaii is competing in a world-wide market; raising taxes makes us less competitive.

We need to stimulate economic growth and business development in Hawaii. A county surcharge added to the GE tax would do just the opposite.