

Businesses fear debate will turn to G.E.T. hike

No word of unpopular tax during State of State speech

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It may have been absent from Gov. **Neil Abercrombie**'s proposals to plug Hawaii's \$844 million budget deficit, but the option of raising the state's general excise tax is front and center as an issue among local business groups.

Except for the one-half percentage point surcharge for Oahu's rail transit project, enacted in 2005, it has been 46 years since lawmakers raised the pervasive tax levied on practically everything that moves on the Islands.

While the idea of raising the G.E.T. by 1 percentage point was put on the table in the form of bills during the past two legislative sessions, it is not being pushed on anyone's agenda this year.

Still, it remains a possibility as the pressure builds to solve the state's projected budget shortfall.

And it's on the collective minds of groups such as the [Chamber of Commerce of Hawaii](#), the Hawaii Association of Retail Merchants and the [Hawaii Association of Realtors](#), which lists the G.E.T. as one of the three issues they're following during this year's session.

"From our standpoint, we're being proactive in preparing ourselves. If it should go down to the edge of the table ... we'll be prepared to bring together a coalition to really lobby against that," said **Berton Hamamoto**, the Realtors association's 2011 president.

The concern stems from the multiplier effect the tax has on everything from milk and T-shirts to paper clips and computers, as well as the cost of doing business. Hawaii's G.E.T., currently 4 percent, is not a sales tax that is paid by a customer. It is a tax levied on business at every transaction point, and typically passed on to a customer at the end of the chain.

But businesses must pay the G.E.T. for everything in between, which includes overhead.

"You have to remember, because it's all encompassing, all of the purchases made by the business are going to be subject to the G.E.T.," said **Lowell Kalapa**, president and executive director of the [Tax Foundation of Hawaii](#). "Their offices, factories, warehouses, their rent is subject to the G.E.T."

Accounting services, legal services and other professional services, including doctor visits, are also taxed by the G.E.T.

So, any increase in the G.E.T. would make the cost of doing business higher across the board by making rent, inventory, transportation and services more expensive.

“It’s those overhead costs that are most difficult to recover because the customer determines the worth of the goods or services,” Kalapa said.

Hawaii’s general excise tax was created in 1935, and has stood at 4 percent since 1965, when lawmakers voted to raise it from 3.5 percent.

“That was largely the need for public infrastructure as a result of becoming a state and the blossoming of the visitor industry,” said Kalapa, who doesn’t think there is much of a chance for the G.E.T. to increase this year.

But, if lawmakers were to take the step of raising it this time, it would be to cover the shortfall caused by the downturn in the economy that started three years ago in early 2008 with the departures of [Aloha Airlines](#), ATA, and two cruise ships, and was exacerbated by the world financial crisis brought on by the Lehman Brothers’ bankruptcy later that year.

“It would be an increase at a time when businesses are struggling to dig their way out of the great recession,” said **Jim Tollefson**, president and CEO of the Chamber of Commerce of Hawaii. “So, now is not the time to increase the general excise tax.”

Bills already have been introduced to raise other taxes, and one, House Bill 567, also would raise the G.E.T. temporarily. Other bills would create new exemptions for the G.E.T., one for small-business manufacturers and another for locally grown agricultural products.

Abercrombie, in his State of the State speech on Monday, said he plans to propose new taxes on soda and alcoholic beverages, which presumably would be on top of the G.E.T.

Raising the G.E.T., along with the proposed beverage taxes, takes away from consumers’ disposable income, said **Mark Storfer**, executive vice president and chief operating officer of the retailer and manufacturer Hilo Hattie.

If a customer has a budget of \$100, he or she will spend \$95 on products, he noted. If the tax goes up, that same customer will spend less on products, he said.

“It’s going to be an interesting session,” said **Carol Pregill**, executive director of the Retail Merchants of Hawaii.

Pregill also noted that the net result of a G.E.T. increase would not only affect the visible portion that retailers pass along to customers, but the operating costs as well.

“It’s a quick fix, but it’s an expensive fix,” she said. “But, it will have unintended consequences of harming the segment of our society that we’re trying to help with other programs.”

