

# HAWAII GENERAL EXCISE TAX (GET)



What is the GET?

What is pyramiding?

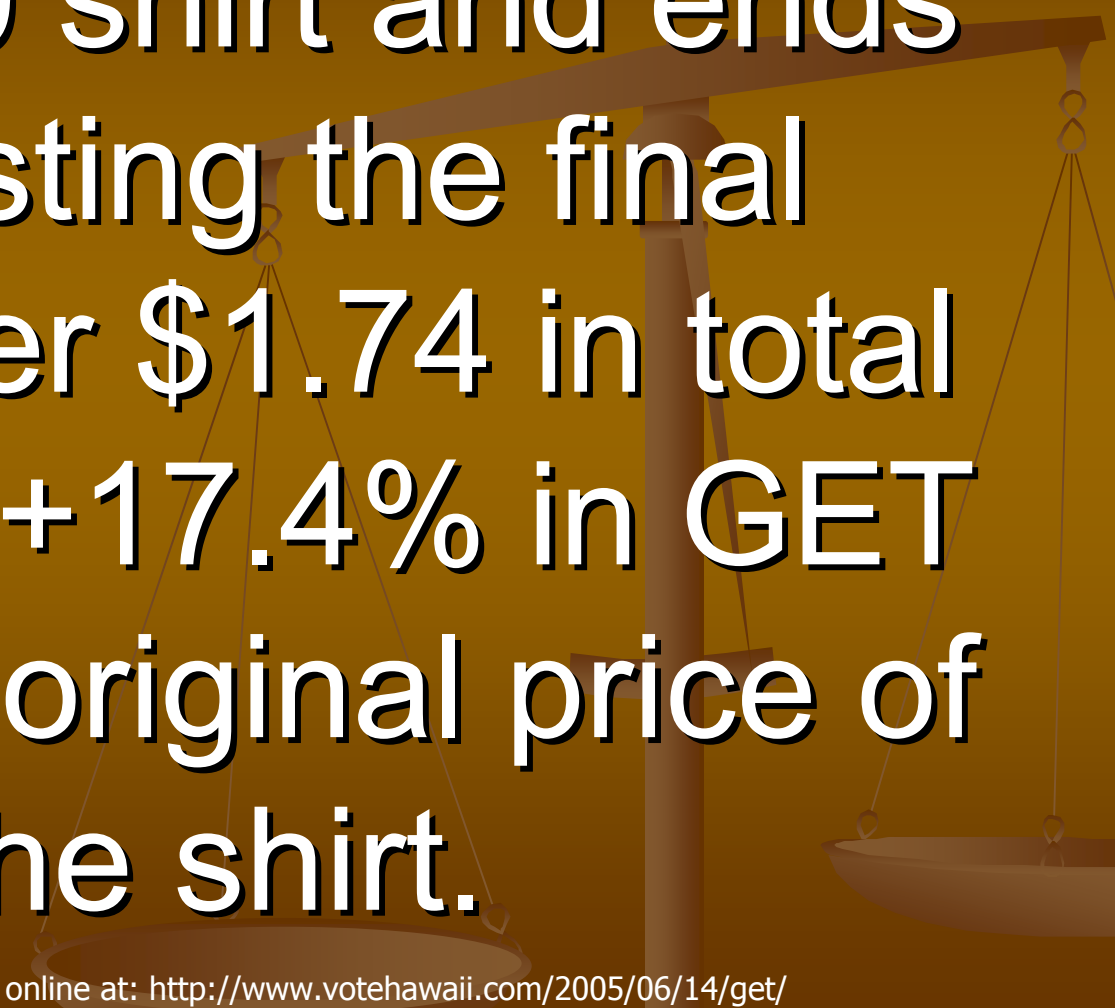
What are bills 1309 & 40?

# GET is a transaction gross receipts tax - NOT a sales tax.

- GET applies to every transaction at either a wholesale rate of 0.05% or a retail rate of 4%;
- GET applies to goods and services such as food, medicine, rent, prof. services, cable and telephone, gasoline, etc.
- GET is paid by the recipient of the goods or services and is income to the collector.

# GET PYRAMIDS

- GET is calculated on transaction value;
- As a service or product value increases so does the tax on the transaction;
- The ultimate consumer of the service or product pays the most tax since they are at the bottom of the pyramid;
- A shirt imported at \$10 pyramids to a GET tax paid by the final consumer of **17.4%** over the original shirt imported value.



GET starts at 5 cents tax on a \$10 shirt and ends up costing the final consumer \$1.74 in total taxes or +17.4% in GET over the original price of the shirt.

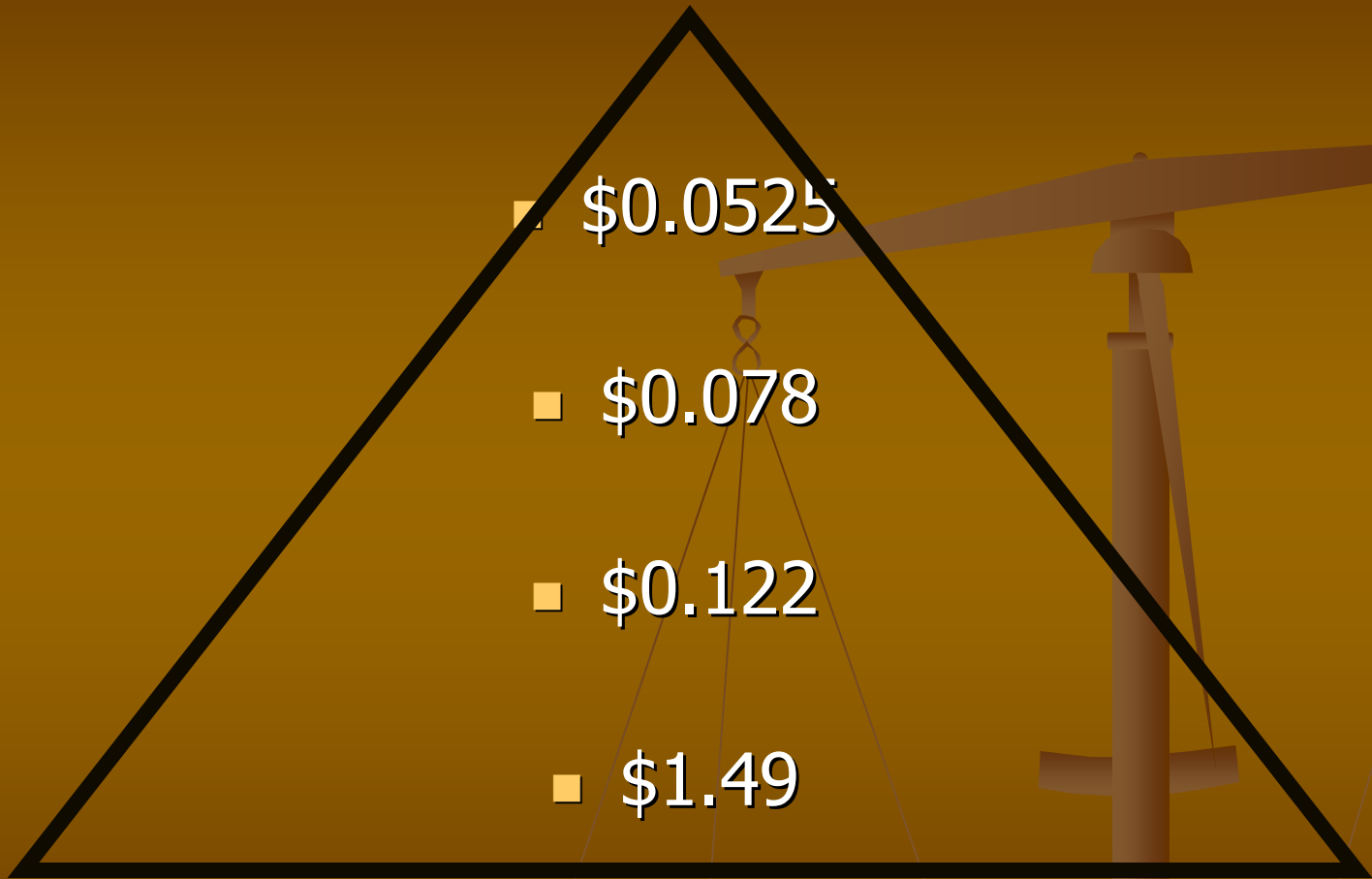
# Transaction

# Value

# GET

Importer	\$10	\$0.0525*
Sale wholesale	\$15.08	\$0.078*
Sale to retailer	\$23.79	\$0.122*
Consumer buys	\$35.87	\$1.49
GET on shirt	original value	\$1.74 <b>(17.4%)</b>
Note: assumes	50% markup by	each seller.
*includes GET	paid on rent etc	@ \$0.0025/shirt

# PYRAMID



■ TOTAL PAID \$1.74

# GET is a Tax on a Tax

- 4% is current GET rate;
- Retailers must count the 4% tax collected as taxable income, therefore;
- Consumer is charged 4.16% tax with the .16% contributing to the retailers tax liability;
- If GET goes to 4.5% charge to consumer will be  $4.5\% + 0.29\% = \mathbf{4.79\%}$

# HB 1309

- Awaiting Governor's veto or approval;
- Grants authority to Counties to add a surcharge of 0.05% to GET raising the GET to 4.5%;
- Restricts counties to use funds for transportation expenses only; and
- State would collect the tax and charge the counties 10% collection fee;

# HB 1309 continued

- Increase in GET to 4.5% would result in a GET tax on the shirt going from 17.4% to 19.7% cumulative tax impact;
- Additional GET paid by the average family would be +\$450 per year; and
- GET is not a deductible tax on State or Federal tax returns.

# HB 1309 continued

- Only Oahu has announced an interest in approving the surcharge authorized by HB 1309;
- Hawaii, Kauai, & Maui have indicated they do not now seek authority to impose the surcharge;
- Any Oahu tax, however, will impact all state consumers regardless of county.

# GE TAX IS REGRESSIVE

- A tax is regressive when it impacts lower income consumers more severely than higher income consumers;
- A tax is progressive when it impacts higher income consumers more severely than lower income consumers;
- GET taxes consumption so it hits hardest those who consume 100% of their income

# City Council Bill 40

- Implements HB1309 for Oahu only;
- Would increase GET on Oahu to 4.5% effective January 2007;
- City must use the money raised for a preferred transit project (not yet identified);
- City gets 90% of the money raised since state charges a collection fee of 10%.

# City Council Bill 40 continued

- Oahu GET increase would impact every other county since shipping, warehousing, and professional services tend to originate on Oahu;
- Neighbor island counties would not benefit from Oahu tax collections;

# HB1309 schedule

Governor must announce by June 27 an intention to veto.

If there is a veto the Legislature will return on July 12 to consider an override of the veto.

Interested consumers should contact their Legislator and/or the Governor.

# Honolulu City Council Bill 40

Second reading July 6.

Final hearing before the end of  
July.

Consumers on Oahu should call or  
write their City Council person  
ASAP.

# SUMMARY

- Consumption GE tax rate could go from 4.16% to 4.79% if HB1309 or CB40 is passed;
- GET at 4.16% equals sales tax of 17.4%;
- GET at 4.79% equals sales tax of 19.7%;
- The entire state will see costs go up; and
- Call or write State Legislators and Oahu Council members to stop this increase.

# GE TAX WARNING

- MAYOR HANNEMANN HAS INDICATED THAT A ONE-HALF PERCENT INCREASE IS NOT ENOUGH TO PAY FOR THE TRANSIT OPTIONS ON OAHU.
- THEREFORE, IF THE INCREASE TO 4.5% PASSES; EXPECT HONOLULU CITY AND COUNTY TO COME BACK IN A FEW YEARS AND RAISE THE GET TO 5%!