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February 20, 2018

TO: The Honorable Donovan M. Dela Cruz, Chair
Senate Committee on Ways and Means

FROM: Mike White
Council Chair

A handwritten signature in black ink, appearing to read "Mike White", is written over the printed name and title.

SUBJECT: **DECISION MAKING HEARING OF FEBRUARY 21, 2018; TESTIMONY IN SUPPORT AND OFFERING COMMENTS ON SB 2615, SD 1, RELATING TO TRANSIENT ACCOMMODATIONS TAX**

Thank you for the opportunity to testify in **support and offer comments** on this important measure. The purpose of this bill is to clarify that the transient accommodations tax ("TAT") shall be calculated based on the gross rental price paid by a visitor and specifies that the TAT is to be collected from operators or transient accommodations intermediaries that collect whole or partial payment for transient accommodations.

The Maui County Council has not had the opportunity to take a formal position on this proposed bill. Therefore, I am providing this testimony in my capacity as an individual member of the Maui County Council.

I **support** this measure for the following reasons:

1. When chapter 237D, Hawaii Revised Statutes ("HRS") was originally passed, it did not contemplate the variety of methods that would be developed to market and sell transient accommodations, or the number of parties involved. The proposed bill brings the HRS up to date with current technology, including online websites and booking methods.
2. As a result, the State does not collect the full amount of TAT from accommodation remarketers like Expedia, Pleasant Hawaiian Holidays, Delta Vacations, VRBO, Travelocity, or Orbitz. If an accommodation sells for \$200 per night, for example, the remarketer will generate their portion of the revenue by negotiating a net rate of say, \$150. While remarketers are required to pay the general excise tax on their \$50 share, they are not responsible for collecting or paying TAT on their share. Some companies collect the TAT from the visitor and keep it, and others do not collect TAT.

3. Through the way the law is currently written, TAT only needs to be paid to the State on the hypothetical wholesale price of \$150, not the \$200 market rate, despite consumers paying taxes on the higher amount. Remarketers currently pocket the difference between taxes collected and what is required to be paid to the State.
4. Rough calculations indicate the State is likely missing out on upwards of \$1,100 of revenue per hotel room, per year. The proposed bill taxes gross proceeds collected from consumers, including applicable fees, thus closing the current loophole for remarketers.
5. The proposed bill rightfully holds each party involved in a transaction explicitly accountable for the payment of the TAT on their portion of proceeds, whether it be local operators, travel agents, wholesale travel companies, or online booking agencies or platforms. This brings fairness to the applicability of the TAT in such transactions.
6. The proposal requires transient accommodations intermediaries to register a name and physical address of each place of business within the State. This could potentially aid enforcement efforts related to illegal transient accommodations, which has been an ongoing problem across the State.

For the foregoing reasons, I **support** this measure. However, I offer the following **comments**:

1. From Fiscal Year 2007 to 2017, the four counties collectively received a mere \$2.2 million increase in TAT, while expenses for fire, police, and park services alone have increased by more than \$260 million. The proposed bill fails to provide additional revenue to the counties to help support services and infrastructure vital to the booming visitor industry.
2. During the same period, the State's annual share of TAT revenue has increased by more than \$220 million. Collecting an increased amount of TAT revenue without providing an increased share to the Counties worsens an already unfair apportionment of TAT revenues.