

General excise tax exacts a deep toll on state's economy

THE CHAMBER VIEW

by Pamela Tumpap



With the beginning of the new year and state legislators talking about simply increasing the

general excise tax as a way out of our economic woes and to avoid budget cuts, it is important to know what this really means.

Despite living with this tax on a daily basis, many are not familiar with how this tax differs from a sales tax used in other states and the negative impacts that raising the general excise tax would bring. However, Hawaii's business leaders understand the economic and personal hardships that such a tax increase would create, and they are opposing such a move and making that a top priority for the next legislative session.

While both sales and general excise taxes are calculated based on a percentage of a sales transaction, they are different. A sales tax is imposed on consumers who purchase goods at retail and is usually a percentage of the retail sales price. However, Hawaii's general excise tax is a tax on businesses, levied on the businesses' gross income (the total amount taken in before expenses are deducted).

Many businesses elect to show the cost of this tax on customer receipts, which in essence is "visibly" passing on the general excise tax to the customer. But it is still a tax that each business must pay and one that does get passed on to consumers in one way or another.

It is also different from a sales tax in that the general ex-

cise tax is imposed on a much broader base of sales transactions, beyond retail (including wholesaling and services) and can "pyramid."

Businesses first shell out general excise taxes on the materials, supplies and services they purchase to run their businesses — a cost that gets rolled up into their pricing. This higher price is then passed on to consumers, along with the general excise tax for the price of the sale. The tax is paid again by businesses when their products and services are sold.

It has a tremendous multiplier effect that is often not well understood. But, we as consumers should comprehend it as our costs and expenses go up when the general excise tax goes up, with the money coming out of our pockets. Nobody in Hawaii is immune — it hits us all!

Raising the general excise tax can also slow the state's economy recovery, as higher costs can equate to less spending. And, it will increase the cost of doing business, further fueling the negative perception that Hawaii is not "business friendly."

Additionally, as a straight percentage of each sales transaction that hits consumers equally, regardless of their level of income or ability to contribute, it is considered a "regressive" tax that is more burdensome to those least able to afford it.

Please join us and tell lawmakers you oppose a general excise tax increase. It may be an easy way to raise revenue, but it is not the right thing to do for residents, businesses or our economic recovery.

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