Raise the Hotel Room Tax Again? Are You Kidding?

By Dr. Richard Kelley

Some readers may have seen an article I was invited to submit for this week’s edition of Honolulu’s Pacific Business News (PBN) to help in that publication’s celebration of its 50th anniversary. In my article I discussed the way PBN’s founder, my good friend George Mason, would probably have reacted to the recent proposal to raise Hawai’i’s transient accommodations tax (TAT – better known as the hotel room tax) by two points, to 11.25 percent.

In a nutshell, George would have strongly opposed the increase. I do too. Here’s why:

(1) The proponents of increasing the TAT say, “It’s only a couple of points. Who will feel the difference?” Actually, the visitor industry will! And our visitors and would-be visitors will too!

Why will they feel it? Because the proposed increase is not as modest as “just two percentage points” might sound. When you compare those two points to the current 9.25 percent TAT, the increase represents a jump of nearly 22 percent in the tax dollars visitors have to shell out. Just do the math.

Can you imagine the outcry if an oil company jacked up the price of gas 22 percent overnight? What costs $4 a gallon today would set you back nearly $5 tomorrow. Why should we limit our outrage against big price hikes only to private sector companies that raise prices? Why shouldn’t we also be outraged when government makes a grab for our wallet?

(2) If this increase is enacted and added to our insidious general excise tax (GET), it will tack nearly 16 percent onto the pre-tax price of a hotel room. Because Hawai’i has one of the nation’s highest costs of doing business, hotel rooms here are more expensive than almost anywhere in the country. So that 16 percent, applied to Hawai’i’s average daily room rate of almost $205, would add nearly $33 to the bill for every night of a visitor’s stay. A family of four staying here for a week, occupying two rooms (one for the parents, one for the kids), would pay nearly $460 in taxes on their rooms alone. And this is money a family has to have at its disposal after personal federal and state income taxes are paid. How much more will Mom and Dad have to earn to have an extra $460 after taxes available for that trip to Hawai’i?

(3) Hawai’i has enjoyed growing visitor numbers in recent years, which is what has attracted the government’s attention. But few understand that much of our current good fortune comes from two factors we can’t always count on. One is that many foreign currencies have gained value against the dollar. This means that for travelers from, for example, Japan, Korea and Australia, a visit to the United States is a real bargain.

A second reason for Hawai’i’s good fortune is fear of violence in Mexico. This has brought us many visitors from the U.S. mainland who would otherwise vacation in generally lower-cost Baja or Cancun.

We can’t count on favorable exchange rates or violence in Mexico to last forever. (And we can only pray that the bloodshed in Mexico ends soon!) When either or both of these factors shift, Hawai’i will again struggle harder for market share. It would be foolish to saddle our economic workhorse, the visitor industry, with burdens that drive visitors to our competitors.

(4) Visitors to Hawai’i are taxed not only for their stay in a hotel or condo, the government’s hand is deep in their pocket again when they rent a car. On top of the 4.712 percent GET, they also pay a rental motor vehicle tax. A family of four staying here for a week, occupying two rooms (one for the parents, one for the kids), would pay nearly $11 for every rental day. Again, money a family has to have at its disposal after personal federal and state income taxes are paid.

Tourism is the goose that produces golden eggs for Hawai’i. If we don’t want it to become an endangered species like this nene, we must nurture and care for it.

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A surcharge of $3 a day, a vehicle registration fee of between 50 cents and $1.25 a day, and – if they rent at an airport location, as most do – an airport concession recovery fee of 11.11 percent plus a customer facility charge of $4.50 a day! The number of taxes and fees, when enumerated on a bill, would make most customers feel “nickel and dimed to death,” but these are not exactly nickels and dimes.

“But wait,” as the TV pitchmen say, “there’s more!” On July 1, that $3-a-day rental motor vehicle surcharge is scheduled to skyrocket to $7.50 a day! Part of this 250-percent increase will fund a much-needed car rental facility at Honolulu International Airport, but why inflate the surcharge beyond what is needed for this purpose?

How much money can our government extract from visitors before they begin to feel like suckers, write about it all over the Internet, tell their friends and family that Hawaii has no aloha for vacationers, and book their next trip to a place where the government is more farsighted and less greedy?

(5) But wait again, there’s even more! Built into every hotel bill, as part of the cost of doing business, are property taxes. On O’ahu, the property tax rate for hotels (and other commercial properties) is $12.40 per $1,000 in valuation, over three and a half times the residential rate of $3.50. On the neighbor islands, the hotel rate is higher than the rate for other commercial activities. In the end, our guests pay those taxes too.

(6) Moreover, taxes designed to hit tourists hurt kama’aina too. That trip to Maui to see Auntie Malia is going to cost a lot more if you stay in a hotel and rent a car. When the baseball team from Kealakehe High School on the Big Island wants to come to O’ahu to play in a tournament, the parents are going to have to do a lot more fundraising to cover the costs.

(7) Finally, let’s look at the history of the TAT. Following lengthy discussions between hotel industry representatives and the Legislature, it was first levied in 1987 at 5 percent. This was considerably higher than the 3 percent the hotel industry had agreed to and, rather than the TAT proceeds being used to fund tourism marketing and a convention center, as the hotel industry had been promised, the Legislature poured it all into the state’s general fund. Later, a portion of those proceeds was reallocated to the four county governments, which still rely heavily on this source of revenue.

In 1994, the Legislature raised the TAT to 6 percent. In 1999, it raised it again to 7.25 percent, and for the first time earmarked 37.9 percent of TAT revenue – approximately $60 million a year at the time – to fund tourism marketing. There was an agreement to increase the level of marketing funds each year to keep pace with inflation.

Since 1999, the share of TAT proceeds dedicated to tourism marketing has been cut from 37.9 percent to 34.2 percent and capped at only $69 million annually. Moreover, $1 million of that $69 million maximum must now be used, not for tourism marketing, but for special funds for state parks and for a statewide trail and access program. The remaining $68 million is the equivalent of only $51 million in 1998 constant dollars – 15 percent less than the $60 million, protected against inflation, that was contemplated. An additional 17.3 percent of TAT proceeds, capped at $33 million, is dedicated to the Hawai’i Convention Center.

In 2009 the Legislature again raised the TAT, to 8.25 percent. This was the first stage of a “temporary” (or so they optimistically said!) revenue enhancement measure passed to deal with the state government’s huge budget deficit as the Great Recession hit.

In 2010, the second stage of that “temporary” measure took effect, raising the TAT to its current level of 9.25 percent. The two-point boost is theoretically scheduled to expire in July 2015. But experience tells me that taxes, once raised, hardly ever go back down. Sure enough, over at the state Capitol everyone is now saying that two-point hike should be made permanent. Surprise! Surprise!

The continual piling on of taxes and fees, as described above, makes Hawai’i less affordable and less attractive for a family vacation each year. Taxes are already too high and we may have already passed the point of no return, where the industry is irreparably damaged.

It may surprise many, but a recent analysis by noted economist Paul Brewbaker clearly shows that when adjusted for inflation, Hawai’i’s earnings from tourism peaked nearly a quarter of a century ago (in 1989) at $17.23 billion (in 2012 dollars). They have been trending downward since then.

The visitor industry – the goose that lays golden eggs for Hawai’i – needs our support, not higher taxes.

A wise man once pointed out that when the government favors something and wants more of it, it provides subsidies. When the government opposes something and wants less of it, it imposes a tax. That’s why we see generous subsidies for “green” initiatives and high taxes on tobacco, to name just two examples.

Surely our legislators do not want less tourism. Surely they understand that tourism produces the most jobs and provides a living for – by the most conservative calculation – one out of every three members of Hawai’i’s workforce.

Let’s hope our legislators connect the dots between tourism, taxes and jobs … and kill the proposal to raise the TAT.

If you agree, let our legislators know how you feel.