Taxing Tourism Hurts Everybody
Don’t Raise the TAT

As the current legislative session rapidly approaches its end, the Legislature and Governor Linda Lingle are battling over how to close the anticipated $1.8 billion gap between government expenditures and tax revenues. Unfortunately, the Legislature views raising the Transient Accommodations Tax (TAT or “hotel room tax”) as part of the solution to the budget problem. That would be a mistake—perhaps disastrous for the state and its No. 1 industry. Let’s take a closer look.

Last week, when I addressed the Island Business Opportunities conference, I pointed out to our friends from U.S.-affiliated island groups in the Pacific and Caribbean how important Travel & Tourism is for economic growth and job opportunity. This is particularly true for island economies located miles from sources of energy and manufacturing centers because it is visitors who bring in the money we need to pay for all the products and services we cannot produce ourselves and must, therefore, import—that is, most of the things we buy every day.

I described the enormous impact of Travel & Tourism in Hawaii. As economist Leroy Laney points out in his latest research report, Travel & Tourism is related to some 40 percent of the state’s Gross Domestic Product (GDP) and up to 75 percent of all jobs.

Based on the more than six decades I’ve been in this business, I also gave the attendees several suggestions, “do’s and don’ts,” for developing their visitor industry and keeping it healthy.

My most important point was Don’t Discriminatorily Tax Visitors.

Visitors are happy to pay local taxes like everyone else, but when it is clear that they are being singled out and soaked—with hotel taxes, car rental taxes, airport fees, visitor attraction fees, etc.—it is a big turn-off.

Politicians think they can get away with it because visitors don’t vote. But they do. Not at the ballot box, but with their pocketbooks. And they let the whole world know, flashing information about rip-off taxes on tourists on the Internet.

High local taxes also play a role in making a destination less competitive. The market is very price-sensitive. We watch our pricing very closely, not only in comparison with other Hawaii hotels, but also destinations such as the Caribbean and Mexico.

A quick check of the per-person cost of a flight from Los Angeles and a six-night hotel package beginning June 1 booked on Expedia.com shows what Hawaii’s competition is doing these days. I compared the per-person total cost at several four-star hotels in both Waikiki and Acapulco.

Waikiki Package:
$754, $709, $678, $723, $812 = average $733.80
Acapulco Package:
$657, $550, $687, $676, $736 = average $661.20

In other words, a comparable vacation for a family of four with two teen-aged kids utilizing two rooms is currently an average of $290 (11 percent) more expensive in Waikiki than Acapulco. Particularly in today’s economy, that is significant.

Nonetheless, some legislators want to increase the TAT by as much as 5 percentage points, which they think could produce up to $150 million in new tax revenue for the state. One legislator quoted in the Honolulu Star-Bulletin said, “for the most part it [the TAT increase] is exported, it is paid by people who come here. So we are trying to eliminate the hurt for our residents.”

That sounds good, but in real life there will be serious consequences. Tax collections may actually go down, and jobs may be lost. Here’s why: Raising the TAT will further increase the cost of a trip to Hawaii. And, until the gods repeal the laws of economics, increasing the cost of a vacation will decrease travel and visitor spending in our state, particularly in these tough, price-sensitive times.

This means fewer outside dollars coming into our community. And that translates into fewer jobs in hotels, restaurants, and visitor attractions. The companies that supply hotels will need fewer workers and less warehouse space. Taxi drivers will drive fewer miles, and there will be less demand for hula dancers. All those people will have less to spend at Foodland, Longs, and every other shop in our state. Unemployment, bankruptcies, and foreclosures will rise. Home values will fall. Local charitable organizations will receive less support.
And government revenues—from property tax, income tax, General Excise Tax (GET), vehicle registration fees, and a host of others—will go down. That’s right. Raising the TAT may actually lead to a decrease in total tax collections. It’s paradoxical, but true.

The “hurt” will really not be “exported” or “paid by people who come here” but felt by the local residents the politicians want to protect.

The long-term effects of an increase in the TAT can also be very damaging. Some hotels might go out of business! Really? Yes, it has already happened.

If hotels cannot attract enough tourists, they look for other customers, perhaps students and residents on long-term rentals. Do you remember the Outrigger Surf and Outrigger Hobron hotels? They employed several hundred members of our ‘ohana—many in tipping-category jobs—and every year we ran them as hotels, they generated hundreds of thousands of dollars in taxes, most of which was particularly associated with hotel operations (hotel-rate property taxes – and that rate is significantly higher than the rates for residential or commercial real estate – TAT, GET, liquor license fees, and taxes, etc.). Our employees, in turn, generated lots of taxes and additional job opportunities, as they spent their paychecks throughout Honolulu.

When we sold those hotels, the new owners converted them into residential properties. Rental rates are way below hotel room rates. For the state and city governments, all the hotel-related tax revenues are gone. Nada. Zip. Pau! And so are most of the jobs. Each property might now employ 10 or 15 people at the most, and those who work there receive very few tips from the new apartment dwellers.

Is that what we want in Hawaii?

Call your legislator today and tell him or her to protect jobs in Hawaii by voting NO on any proposal to raise Hawaii’s TAT! (To find your legislators’ contact information go to www.capitol.hawaii.gov/site1/house/members/members.asp and http://www.capitol.hawaii.gov/site1/senate/members/members.asp)

And get your friends and neighbors to do the same.

Your voices will be heard.

You can make a difference.

Taxing tourism is taxing everybody’s business.

Taxing tourists hurts local people too.