The famous American cowboy, comedian and social commentator Will Rogers once gave this advice: “If you find yourself in a hole, stop digging.”

Apparently, Hawai’i’s state Legislature did not get Rogers’ memo and, in its efforts earlier this year to get the state’s economy out of a very deep hole, it broke out the shovels and started digging again! One of the shovels it used is called Act 105 (Senate Bill 754). In theory, it will add $400 million to Hawai’i’s already heavy tax burden by “temporarily” (if you believe any tax increase is truly temporary, I have a list of psychiatrists I can recommend to you) suspending long-established exemptions from the state’s General Excise Tax (GET). Unfortunately, one of the exemptions deleted was a very important tool in the work belt of the Hawai’i Convention Center, which allowed the Center to successfully compete for a share of the multi-billion dollar Meetings, Incentives, Conventions and Exhibitions (MICE) business.

SB 754 started innocently enough as a bill to clarify how tax payments are applied to principal, interest and penalties. However, in the legislative process, its original language was “gutted and replaced” with a list of income and activities previously exempted from the GET, which are now subject to GET, effective July 1, 2011.

Included in this list of things that are now to be taxed is the income of nonprofit organizations from conventions, conferences, and trade show exhibits or displays. Loading and unloading of cargo for such events is also now to be taxed for the first time.

These new taxes hit right at the heart of the MICE segment of Hawai’i’s vital travel industry. Almost everything associations and organizations do in Hawai’i and at the Hawai’i Convention Center (HCC) has suddenly become subject to Hawai’i’s GET of 4.712 percent, Oahu surcharge included.

The response from leaders in the MICE industry was immediate and forceful. Steve Hacker, president of the International Association of Exhibitions and Events (IAEE), wrote to Governor Neil Abercrombie saying:

“While travel and tourism is essential to the state’s economic and sustainable growth, Hawai’i suffers from some very unique and challenging circumstances. The additional costs associated with the imposition of the General Excise Tax are virtually certain to result in a substantial loss of travel and tourism related revenue, taxation, and jobs as organizers of events will seek alternative venues.

“The Hawai’i Convention Center is not a standard stop in the circuit, and many events are being held for the first time at this venue, thus it is difficult to maintain adequate occupancy levels, rental income, concession revenue, union labor calls, transportation revenue, and occupied hotel rooms. For these reasons, there is a high probability that Hawai’i will not be considered [as a venue by meeting and convention organizers] if the exemption from the General Excise Tax is not restored.”

Hacker understands the economics of meetings and exhibitions. Groups coming to Hawai’i bring a lot of money with them and spend it all over town. Unfortunately, it is already hard to attract meetings to Hawai’i because costs here are high compared to, say, Chicago, San Francisco, Denver and, of course Las Vegas. Airfares are expensive. Shipping exhibits requires a lot of planning and logistics and is also very costly.

In addition, Hawai‘i has to do a better job of selling itself as a valid place to do business. Even before the Hawai‘i Convention Center opened, I had seen articles in mainland newspapers criticizing local government figures for attending otherwise bona fide business meetings merely because they were in Honolulu. One headline read, “Kiss Your Tax Dollars Aloha!” To that I respond, “Are your tax dollars any safer when meetings are held in Las Vegas or New Orleans?”

Those trying to convince associations and organizations to pick Hawai‘i for their next event already have a tough row to hoe. Competing cities will be sure to tell meeting planners, “And, by the way, Hawai‘i just raised taxes on convention groups like yours.”

So far this year, Hawai‘i has been doing very well in the group business market. In May, meetings such as the American Psychiatric Association with 10,000 attendees

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strengthened hotel occupancies, packed restaurants and provided lots of business for lei sellers, musicians and hula dancers, among many other local residents.

However, the meetings outlook for the next two years is rather bleak. As it stands right now, these may be the worst 24 months since the Hawai‘i Convention Center opened in 1998. As reported in Pacific Business News, only 10 events with 314,804 room nights are currently booked for 2012 and just nine events with 323,721 room nights are confirmed for 2013. That is far below the Center’s target of booking 30 or more events with enough delegates to generate 700,000 room nights annually.

Everyone involved with the HCC and the Hawai‘i Tourism Authority (HTA) is scrambling to attract groups from the Pacific Rim, including South Korea and China. But the newly imposed tax on association income from convention activities and the loading and unloading of cargo is not making it any easier to book business. The national and international competition is enormous.

According to the HCC, two major citywide conventions currently holding space on a tentative basis have informed the HCC and HTA that, based on their initial review of the changes in the GET rules, they will not confirm their bookings.

The loss to Hawai‘i of even one convention a year will result in the loss of other taxes that attendees would have generated around town in hotels, restaurants, taxi cabs, shops and, of course, the tips and income earned by bellmen, waiters and waitresses, singers and Hawai‘i’s wonderful hula hālau (troupes).

The Hawai‘i Tourism Authority and Hawai‘i Convention Center have been working with the Hawai‘i Department of Taxation to see if there is any way to minimize the damage from Act 105. So far, they have determined that registration fees and exhibitor fees may be exempt from the GET if they are related to the association’s convention — i.e., educational purposes. The issue of taxes due for income received from advertisers and sponsors is yet to be resolved. In any case, associations will have to jump through considerable paperwork hoops and file applications to qualify for exemption. That still leaves open a lot of questions and fails to address the new tax levied on loading and unloading cargo.

Convention planners avoid uncertain outcomes, rulings, costs and paperwork. Unless the Legislature immediately repeals the sections of Act 105 that damage Travel & Tourism, they will take their business elsewhere.

During his colorful life, Will Rogers took on businessmen, doctors and lawyers but reserved some of his most satirical remarks for government and politicians. “Be thankful we’re not getting all the government we’re paying for,” he once said.

In their eagerness to balance Hawai‘i’s budget, our legislators created a fine example of the “law of unintended consequences.” They would do well to recall that “In Hawai‘i, Tourism is Everybody’s Business” and promptly repeal the harmful provisions of Act 105.