



May 8, 2009

An Open Letter to the Hawaii Legislature: Uphold Gov. Lingle's Tax-Hike Vetoes!

Dear Legislator,

On behalf of the more than 1,800 Hawaii members of the National Taxpayers Union (NTU), I urge you to support Gov. Lingle's vetoes of tax increases on small businesses, tourists, and home buyers. The hundreds of millions of dollars in new taxes would have devastating effects on Hawaii's already-hurting economy. Thankfully, it is not too late to stand up for taxpayers and reject these recessionary tax increases.

Government spending in Hawaii has grown at an unsustainable rate, up 61 percent in the past decade. Rather than addressing the spending problem, the Legislature passed a variety of tax increases to fill the revenue gap. Evaluating these proposals dynamically, it is likely that the resulting drain on economic growth will take a bite out of projected tax receipts, leading to a similar budget balancing crisis in the near future. After all, the proposals now before you have targeted almost every productive sector of the economy for a shakedown.

It's no secret that tourism is the backbone of the state's economy. The industry is in a state of crisis as potential tourists are tightening their belts and staying home. Rather than subjecting itself to the same fiscal prudence in these tough times, the state is actually making Hawaii a less attractive destination by making it more expensive to visit. Tourists are like any other consumer: They respond to price incentives. Higher taxes will only further damage the tourism sector and the hundreds of thousands of jobs attached to it.

The income tax increase wallops the more than 20,000 S-corporations in the state who report their activities on the personal tax form. Small businesses are vitally important to any state's economy, and they are already being forced to make tough decisions in order to keep their doors open. This tax increase would hasten these unpleasant choices, such as raising prices or cutting payrolls and putting more of Hawaii's citizens out of work. Unemployment is already at its highest level in 31 years, at 7.1 percent. Lawmakers can expect that number to swell if Gov. Lingle's veto is not upheld.

As if these tax increases are not enough, a real estate conveyance tax increase would make it more expensive to buy a house. This proposal would raise the tax by up to 257 percent. Home prices have already dropped 8.5 percent. People simply aren't purchasing homes. This will only exacerbate that problem.

Despite the opportunity the Governor's vetoes have given the Legislature to protect taxpayers, we note with disappointment that yet another tax on cigarettes will be enacted into law. The majority of smokers make less than the state's median income. They've been hit with cigarette tax hikes in 6 of the last 7 years in Hawaii, and soon they will be paying a tax higher than anywhere else in the country, at \$3 per pack. Furthermore, the revenues associated with tobacco tax increases routinely fall below projections, leaving the state with long-term spending obligations with no way to fund them. In New Jersey, the state actually *lost* money after a cigarette tax hike, with revenue coming up 181 percent short of expectations. In 2006, 80 percent of states that enacted a cigarette tax increase were forced to subsequently raise other taxes to make up for the resulting deficit. Hawaii will likely be confronting this problem in the near future.

Gov. Lingle had the good sense to veto at least four short-sighted tax increases, including a regressive tax on other tobacco products. Now it's your turn to fight overtaxation and get government under control. Please vote to uphold the Governor's veto, and work to find responsible ways to balance the budget. Otherwise, the same fiscal chaos will return year after year in Honolulu.

Sincerely,

A handwritten signature in black ink, appearing to read 'JC', with a stylized flourish at the end.

Joshua Culling
State Government Affairs Manager