



**Testimony to the House Committee on Finance
Friday, February 5, 2010
1:30 p.m.
Conference Room 308**

RE: HOUSE BILL 2169 HD1 RELATING TO EMPLOYMENT SECURITY

Chair Oshiro, Vice Chair Lee and Members of the Committee:

My name is Jim Tollefson and I am the President and CEO of The Chamber of Commerce of Hawaii ("The Chamber"). The Chamber fully supports the efforts of this Legislative body in preserving jobs and work for our community.

The pending legislation, HB 2169 HD 1 is an appropriate first step in addressing an unprecedented tax increase on Hawaii employers that would put an over 5,000 more employees out of work. However, because the Chamber believes significant relief in 2011 is critical to saving jobs, we respectfully request that the committee amend the bill to reduce the tax rate to Schedule F rather than G in 2011 and to set the taxable wage base at no more than 90%.

The Chamber is the largest business organization in Hawaii, representing more than 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

Unless every effort is made to mitigate the impact on jobs, a dramatic tax increase over the next few years, the largest ever in Hawaii or in the United States, will likely lead to more loss of jobs, more business failures, a weakening of any recovery and a further depletion of the unemployment trust fund. The non-profit and non-partisan organization, Urban Institute, has noted in review of our situation that the high tax rate schedules in store for the next few years have not been operative for more than 30 years and that increased taxes will increase unemployment, but the magnitude is uncertain.

Three years ago this body could not foresee the worldwide recession that was coming in the last quarter of 2008. That recession has depleted an unusually rich trust fund and triggered the repeal of legislation that reduced the taxable wage base that provided nearly \$100 million in stimulus monies into the state economy and arguably provided a small cushion to what could have been a much worse economic impact on Hawaii. Even if Act 110 had not been enacted, employers would still be facing a tax increase to Schedule F as over \$570 million in benefits were paid out in the past two years.

The result is that our Unemployment Trust Fund will be replenished with employer dollars that takes needed wages and purchasing power out of the economy. Some of these payments must be used to fund current benefits and some used to replenish the Fund. The issue for the business community is how can we replenish the Fund and avoid the negative impact on jobs?

The Chamber believes its option to extend a reduced tax rate schedule into 2011 and hold the Taxable Wage Base to 90% reduces the tax shock and helps preserve and create jobs. The Chamber's proposal, HB 2201, keeps \$105 million more in the economy during 2011 than HB 2169, HD1, which will then be spent and generate increased tax revenues for the State. Only one other state, Idaho, taxes 100% of the AAW and its TWB is much lower than Hawaii. At 90% of the AAW it is estimated employers will still pay tax on the first \$34,900 of wages per employee rather than \$38,800. We urge this Committee to amend HB 2169 HD 1 to extend the period of tax relief for all employers, and those especially hit hard by the recession who have had to make significant reductions in personnel and as a result may be at the maximum tax rate under any proposal.

1. Reducing the Taxable Wage Base (TWB) to 90% does not affect the Tax Rate Schedule for anyone.
2. Small businesses are just as likely to benefit from a reduction in then TWB as large employers.
3. A 5 employee accounting firm paying the average tax rate in 2009 (2.75%) with that lays off 1 employee in 2009 who collects maximum benefits for 26 weeks (\$14,000) will push that employer under schedule F to a 5.0% tax rate. A tax break for wages over \$34,900 (90% of AAW in 2010) is a modest savings for even a small company like this example..
4. The difference between the 100% AAW and 90% does not result in any significant delay in replenishment to the Fund but does provide significant tax relief per employee. For example, in 2011, $5.4\% \times \$3,900 (39,100 - 35,200) = \210 per employee in 2010.
5. While many small businesses do not pay wages greater than the Average Annual Wage, many do. That is how you get an "average" annual wage.
6. Many large businesses do not pay many of their employees more than the AAW either, e.g., restaurants, fast food...
7. The AAW is roughly equal to \$17.50 and hour full time. According to the Hawaii Employers Council wage survey, this is below what most cooks, tractor trailer drivers, clerks, secretaries and cashiers made in 2009.

8. Our version of Tax relief for those at the maximum tax rate is less than half the relief for an average business in 2010 and 2011.
9. Without a TWB reduction, the economy will lose the \$100 million over the next 2 years that will circulate in the economy and provide additional tax revenues to the state.
10. Without holding the TWB to 90%, those hardest hit by the economy will not see any relief in their taxes, and will get hit the hardest by the increase even if the TWB is 90%.
11. The industries that have suffered most during this recession have been construction and hospitality, both heavily unionized and both necessary engines for growth in the coming years.

The Chamber and its members support legislation that would authorize the Director of the Department of Labor and Industrial Relations to assess employers to pay any interest incurred to maintain benefits to unemployed workers in the state by borrowing from the federal government. However, we suggest that the language from HB 2210 be considered in place of that in Section 1 of HB 2169, HD 1. There is existing monies paid by employers within the DLIR sufficient to pay this debt, but should there not be, employers would be taxed sufficient to pay this expense.

It is critical to our employees, workers and business owners to mitigate the impact of an unprecedented tax increase by gradually bringing the Trust Fund back to adequate reserve levels without imperiling a fragile economy, causing greater job losses and possible business failures.

We urge the Committee to adopt the amendments suggested by HB 2201 supported by the Chamber of Commerce which adjusts the Tax Schedules to F in 2011 and keeps the TWB at 90%.

Thank you very much for the opportunity to testify and for your hard work in coming up with legislation that is important to employers, employees, and the economy and for your efforts in fast-tracking a bill.