

## New Hawaii G.E.T. due date vexes firms

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Starting next month, Hawaii businesses will have to pay their general excise tax to the state 10 days earlier.

The move to tax collections on the 20th of every month is expected to generate a one-time revenue gain of \$40 million, according to the Hawaii Department of Taxation.

But while the state wants its money sooner, businesses say the 10-day advance creates a challenge, especially for businesses that do not receive immediate payment for goods and services.

“Ten days earlier is a real adjustment for us as far as outlay of cash,” said Audrey Hidano, office manager for Honolulu-based Hidano Construction, which is owned by her husband, Steven. “For me, the advanced due date could mean making payroll that week. If I have a choice, I’d have to pay my workers and take the penalty for paying my G.E.T. late.”

The company, which handles mostly residential work, pays its 15 employees every Friday. December was the first month Hidano started complying with the new rule, which became law last July without Gov. Linda Lingle’s signature. It provided a grace period through December for companies to adjust.

Hidano said the change is especially tough for companies like hers that use accrual basis accounting versus cash basis accounting.

Under the cash method, a company’s income is not counted until cash is actually received, and expenses are not counted until they are actually paid. Under the accrual method, income is counted when the sale occurs, or when a bill is issued.

“Sometimes we’ll be having to give the state money we don’t even have yet,” Hidano said. “For example, say I bill a client for \$400,000 in February. My books say I billed for it in February, so I have to pay the G.E.T. on the \$400,000 by March 20. The client might pay me by March, he might not. Can you see why I’m having a cow over this? This really hurts smaller guys just surviving billing to billing.”

The G.E.T. is 4 percent statewide, except on Oahu, where a surcharge began in 2007 to fund Honolulu's rail transit. That puts the Oahu G.E.T. at about 4.7 percent.

Companies that pay more than \$4,000 in G.E.T. annually are required to file and pay monthly. Those paying less than \$4,000, but more than \$2,000 annually are required to pay quarterly.

The Retail Merchants of Hawaii testified against the earlier due date when the measure was being considered by lawmakers.

Mari Ishii, a tax manager with the Honolulu office of Grant Thornton, also expects the new law will be a burden for many small businesses, especially those who bill customers.

"Everyone has a way and method of closing their books each month, and sometimes it takes more than a couple of days to get a handle on what was done in the month," Ishii said. "Just moving it up 10 days may not seem like a big deal, but sometimes even just one day can make a difference in a company's cash flow."

Adding to cash flow woes is a growing trend of late bill payments.

A national study this month by Sageworks, a financial information firm based in North Carolina, shows that privately held businesses waited longer for payments from customers in 2009 than in the two previous years.

Architectural and engineering companies went from waiting 45.4 days for payment in 2008 to 50.1 days in 2009, according to Sageworks. Accounting, bookkeeping and payroll companies waited about 10 days longer to receive their money in 2009 than in 2008.

On the accounting end of things, the earlier G.E.T. due date shouldn't be an issue for bookkeeping systems.

"Moving it up is purely a revenue accelerator for the state, but there's some justice to it because there's no particular reason to wait longer," said Henry Montgomery, founder and CEO of MontPac Outsourcing, a Honolulu-based outsourcing accounting firm. "In the past, we needed 30 days, but today we can deduce reports quickly and instantly."

General excise and use taxes make up the largest single category of tax collections that feed into the state's general fund. Fiscal year to date (July 1 to Dec. 31, 2009), general excise and use taxes have fallen 9.7 percent to \$1.1 billion compared to \$1.25 billion during the same period in 2008.