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GOVERNOR

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DIRECTOR OF TAXATION

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STATE OF HAWAII  
**DEPARTMENT OF TAXATION**

*Ka 'Oihana 'Auhau*

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December 13, 2024

The Honorable Ronald D. Kouchi  
President and Members of the Senate  
Thirty-Third State Legislature  
State Capitol, Room 409  
Honolulu, HI 96813

The Honorable Nadine K. Nakamura  
Speaker and Members of the  
House of Representatives  
Thirty-Third State Legislature  
State Capitol, Room 431  
Honolulu, HI 96813

Dear President Kouchi, Speaker Nakamura, and Members of the Legislature:

For your information and consideration, the Department of Taxation (Department) hereby transmits a copy of the Report on the Department's Special Enforcement Section for Fiscal Year 2024, as required by Section 231-81(c), Hawai'i Revised Statutes (HRS).

In accordance with section 93-16, HRS, the Department also informs you that the report may be viewed electronically at: [https://tax.hawaii.gov/stats/a5\\_1annual/a5\\_8cash\\_econ/](https://tax.hawaii.gov/stats/a5_1annual/a5_8cash_econ/)

If you have any questions or concerns, please feel free to contact me at (808) 587-1540.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary S. Suganuma". The signature is stylized and fluid, with a long horizontal stroke extending to the right.

Gary S. Suganuma  
Director of Taxation

Enclosure

**DEPARTMENT OF TAXATION**  
**ANNUAL REPORT REQUIRED BY ACT 134, SLH 2009, SECTION 9**  
**For the period from July 1, 2023 through June 30, 2024**

Act 134, Session Laws of Hawaii 2009, also known as the "Cash Economy Enforcement Act" (hereinafter sometimes referred to as the "Act"), requires at section 9 of the Act, that the Department of Taxation ("Department") report the following information to the Legislature:

- I) The state resources committed to implementing the Cash Economy Enforcement Act; and
- II) The additional tax revenues raised as a result of the Act.

The Special Enforcement Section (SES) was established to enforce the Act. Its goal is to ensure that all sectors of Hawaii's economy, especially those that conduct a significant portion of business transactions in cash ("cash economy"), pay their fair share of taxes. In fiscal year (FY) 2016, SES was given additional responsibilities for ensuring that short-term vacation rental operators comply with the state's transient accommodations tax laws and in FY 2022 the authority of SES to examine any sector of Hawaii's economy for non-compliance was clarified and codified.

**BACKGROUND**

The Cash Economy Enforcement Act provided the Department with unique resources to increase taxpayer compliance in the area of the "cash economy" by educating taxpayers about their tax obligations and by conducting civil tax investigations. The Act executes its mandate through SES, which is a specialized unit within the Department's Compliance Division comprised primarily of civil investigators and assistant investigators.

The Department was authorized at section 2 of the Act, codified as section 231-83(b), Hawaii Revised Statutes (HRS), to utilize new hires, as well as existing labor resources to staff the SES operations. Furthermore, section 2 of the Act authorized the Department to identify the proceeds of SES operations to substantially fund the unit. The SES is allowed to identify taxes collected from any taxpayer, assessment, investigation, or collection as a matter of the SES, which may then be deposited into the Tax Administration Special Fund, codified as section 231-85, HRS. Within the Tax Administration Special Fund's expenditure authority, the Department was initially allowed to retain the first \$500,000 to fund the Section's operations, with the remaining fiscal year collections being deposited into the General Fund.

Section 8 of the Act authorized establishing six new full-time equivalent (FTE) positions that may be filled by investigators, investigator assistants, licensed attorneys, or other support staff, in addition to using current personnel. In subsequent years, the legislature incrementally authorized the Department to retain additional funds and establish additional positions, currently up to \$2,000,000 and 13 FTE positions, to support SES's operations and help with enforcement of Transient Accommodations Tax laws, codified as section 235-20.5, HRS.

**ACTIVITIES AND ACCOMPLISHMENTS**

Highlights of SES's FY 2024 activities and accomplishments include:

- Reviewed complaints and referrals provided by the public and other departments and conducted investigative analyses to identify businesses potentially non-compliant with general excise tax (GET) and/or transient accommodations tax (TAT) laws, for investigation.
- Conducted tax investigations of varying complexities to identify income sources and determine the amount of income that was subject to taxation.
- Requested and obtained voluntarily filed GET and/or TAT returns and tax payments. When taxpayers would not voluntarily submit requested returns, the matter and evidence of income that was subject to tax was referred to the Office Audit Section for assessment.
- Advanced existing initiatives on vacation rental/transient accommodation businesses by using publicly available information and confidential sources to develop leads on taxpayers potentially non-compliant with GET and/or TAT laws. These initiatives include those where information was obtained from surveys of vacation rental platforms for Act 204 violations, as well as resources made available by the Tax System Modernization Program.
- Continued and expanded investigations of online retail and service companies to ensure they pay their fair share of taxes.
- Increased cooperation with other government agencies to develop leads and enforce Hawaii's tax laws.
- Explored use of artificial intelligence platforms to aid in investigations and the development of leads.

**I. STATE RESOURCES COMMITTED TO IMPLEMENTING THE CASH ECONOMY ENFORCEMENT ACT AND OTHER ACTIVITIES**

In FY 2024, SES incurred the following expenditures to support its compliance activities:

<b><u>Category</u></b>	<b><u>FY 2024</u></b>
Personnel Costs	<b><u>\$1,255,957</u></b>
Other Expenses	<b><u>175,224</u></b>
Total Expenditures	<b><u>\$1,431,181</u></b>
No. of Staff	<b>10</b>

**II. ADDITIONAL REVENUES RAISED BY THE CASH ECONOMY ENFORCEMENT ACT**

FY 2024 was a productive year for SES. Total revenue collections was **\$54.4 million**, surpassing last FY’s total by \$10.2 million, representing a 23% increase. Of the total revenue collected, TAT revenue amounted to \$17.6 million, representing a 73.2% increase over the previous year’s total of \$10.2 million.

FY 2024 was also significant in that educational site visits involving one-on-one engagement with owners or employees at businesses increased from 1,123 in FY 2023, to 1,610 in FY 2024. These visits resulted from SES's attendance at 40 different events and locations throughout the State, including eight team visits to the tax districts of Maui, Kaua‘i and Hawai‘i island.

Details of SES's performance compared with the previous fiscal year are noted below. SES measures its accomplishments by determining the actual tax collections that were remitted by taxpayers on delinquent returns secured by SES. In addition, SES is credited with the tax collections that were remitted by taxpayers for a post compliance period of 18 months after they were brought into tax compliance. This is because, had SES not brought the taxpayer into tax compliance, there is a strong likelihood that their non-compliance would have continued indefinitely. Delinquent period tax collections and post compliance period collections aggregate to Impact Revenue.

Details of SES’s performance compared with the previous fiscal year are as follows:

	<u>FY 2024</u>	<u>FY 2023</u>
Number of Events Visited Throughout the State	40	52
Businesses Educated on Compliance of Tax Laws	1,610	1,123
Complaints Received and Reviewed	37	61
Number of Investigations Completed	183	104
GET Impact Revenue Collected	\$36,813,210	\$34,080,740
No. of Taxpayers Remitting GET Payments	636	630
Average GET Impact Revenue Collected per T/P	\$57,882	\$54,096
TAT Impact Revenue Collected	\$17,604,866	\$10,164,931
No. of Taxpayers Remitting TAT Payments	192	261
Average TAT Impact Revenue Collected per T/P	\$91,692	\$38,946
Total Impact Revenue Collected from Taxpayers	\$54,418,076	\$44,245,671