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# A BILL FOR AN ACT

RELATING TO TAXATION.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The purpose of this Act is to provide revenue  
2 generating initiatives that will be benefits-funded, meaning the  
3 vendor will only be paid when measurable increases in revenues  
4 resulting from the initiatives are collected by the State. The  
5 revenues will be used by the department of taxation to enhance  
6 its computer system, called the integrated tax information  
7 management system, and to streamline related operational  
8 procedures. This Act shall be known as the "Integrated Tax  
9 Information Management System Post-Implementation Revenue-  
10 Generating Initiatives Act of 2006."

11           SECTION 2. (a) The department of taxation shall enter  
12 into performance-based contracts to enhance or acquire automated  
13 tax systems, or both, including computer hardware and software,  
14 for the implementation and administration of the amendments to  
15 the taxes imposed under title 14 of the Hawaii Revised Statutes  
16 to conform to the Streamlined Sales and Use Tax Agreement  
17 identified in chapter 255D, Hawaii Revised Statutes, and for the  
18 implementation and administration of the city and county of



1 Honolulu surcharge authorized under section 46-16.8, Hawaii  
2 Revised Statutes, and adopted by ordinance.

3 (b) For the purposes of this Act:

4 "Performance-based contract" means a contract under which  
5 compensation to the vendor shall be computed according to  
6 performance standards established by the department of taxation.

7 Any performance-based contract entered into by the department of  
8 taxation for the purposes established under subsection (a) shall  
9 provide for the payment of fees:

10 (1) Based on a contractually specified amount of the  
11 increase in the amount of taxes, interest, and  
12 penalties collected and attributable to the  
13 implementation of the integrated tax information  
14 management system post-implementation  
15 revenue-generating initiatives; or

16 (2) On a fixed-fee contract basis to be paid from the  
17 increase in the amount of taxes, interest, and  
18 penalties collected and attributable to the  
19 implementation of integrated tax information  
20 management system post-implementation  
21 revenue-generating initiatives.



1 (c) The State shall receive a permanent license to use the  
2 enhanced or automated tax systems upon full payment to the  
3 vendor.

4 (d) Notwithstanding any other law to the contrary, the  
5 department shall award the performance-based contract pursuant  
6 to the requirements of chapter 103D, Hawaii Revised Statutes.

7 SECTION 3. The director of taxation shall report to the  
8 legislature no later than twenty days prior to the convening of  
9 every regular session with respect to the status of the  
10 performance-based contract and shall provide an accounting of  
11 all moneys appropriated. The report shall include:

12 (1) Detailed information on the costs and benefits of  
13 implementing the integrated tax information management  
14 system post-implementation revenue-generating  
15 initiatives;

16 (2) The amount of increased tax, interest, and penalties  
17 collected that is attributable to the integrated tax  
18 information management system post-implementation  
19 revenue-generating initiatives; and

20 (3) The amount paid to the vendor or vendors contracted  
21 under section 2 of this Act.



1 The report shall also include information from the  
2 preceding fiscal year, beginning with the fiscal year  
3 immediately preceding the fiscal year commencing on the  
4 effective date of this Act, and shall continue until two  
5 complete fiscal years have elapsed following the full  
6 implementation of the integrated tax information management  
7 system post-implementation revenue-generating initiatives.

8 SECTION 4. Chapter 231, Hawaii Revised Statutes, is  
9 amended by adding a new section to be appropriately designated  
10 and to read as follows:

11 **"§231- Integrated tax information management systems**  
12 **special fund.** (a) There is established in the state treasury  
13 the integrated tax information management systems special fund,  
14 into which shall be deposited appropriations made by the  
15 legislature to the special fund each fiscal year.

16 (b) Notwithstanding any other law to the contrary, the  
17 source of funding of any appropriations to the integrated tax  
18 information management systems special fund shall come from the  
19 tax revenues collected pursuant to chapters 235, 237, and 238  
20 that represent the increase over the average of the total amount  
21 of tax revenues collected under each of those respective



1 chapters in each of the three years preceding the execution of  
2 the performance based contract.

3 (c) Moneys in the special fund shall be expended by the  
4 department to pay for the integrated tax information management  
5 systems performance-based contracts and administrative and  
6 operating expenses related to the integrated tax information  
7 management system post-implementation revenue-generating  
8 initiatives; provided that any unexpended moneys shall lapse to  
9 the credit of the general fund at the end of each fiscal year."

10 SECTION 5. Section 36-27, Hawaii Revised Statutes, is  
11 amended to read as follows:

12 **"§36-27 Transfers from special funds for central service**  
13 **expenses.** Except as provided in this section, and  
14 notwithstanding any other law to the contrary, from time to  
15 time, the director of finance, for the purpose of defraying the  
16 prorated estimate of central service expenses of government in  
17 relation to all special funds, except the:

- 18 (1) Special out-of-school time instructional program fund  
19 under section 302A-1310;
- 20 (2) School cafeteria special funds of the department of  
21 education;
- 22 (3) Special funds of the University of Hawaii;

- 1 (4) State educational facilities improvement special fund;
- 2 (5) Convention center enterprise special fund under
- 3 section 201B-8;
- 4 (6) Special funds established by section 206E-6;
- 5 (7) Housing loan program revenue bond special fund;
- 6 (8) Housing project bond special fund;
- 7 (9) Aloha Tower fund created by section 206J-17;
- 8 (10) Funds of the employees' retirement system created by
- 9 section 88-109;
- 10 (11) Unemployment compensation fund established under
- 11 section 383-121;
- 12 (12) Hawaii hurricane relief fund established under chapter
- 13 431P;
- 14 (13) Hawaii health systems corporation special funds;
- 15 (14) Tourism special fund established under section 201B-
- 16 11;
- 17 (15) Universal service fund established under chapter 269;
- 18 (16) Integrated tax information management systems special
- 19 fund under section [~~231-3.2+~~] 231- ;
- 20 (17) Emergency and budget reserve fund under section 328L-
- 21 3;



- 1 (18) Public schools special fees and charges fund under  
2 section 302A-1130(f);
- 3 (19) Sport fish special fund under section 187A-9.5;
- 4 (20) Neurotrauma special fund under section 321H-4;
- 5 (21) Deposit beverage container deposit special fund under  
6 section 342G-104;
- 7 (22) Glass advance disposal fee special fund established  
8 by section 342G-82;
- 9 (23) Center for nursing special fund under section 304D-5;
- 10 (24) Passenger facility charge special fund established by  
11 section 261-5.5;
- 12 (25) Solicitation of funds for charitable purposes special  
13 fund established by section 467B-15;
- 14 (26) Land conservation fund established by section 173A-5;  
15 [+ ]and[+ ]
- 16 [+ ](27)[+ ] Court interpreting services revolving fund established  
17 by [+ ]section 607-1.5[+ ],
- 18 shall deduct five per cent of all receipts of all other special  
19 funds, which deduction shall be transferred to the general fund  
20 of the State and become general realizations of the State. All  
21 officers of the State and other persons having power to allocate  
22 or disburse any special funds shall cooperate with the director



1 in effecting these transfers. To determine the proper revenue  
 2 base upon which the central service assessment is to be  
 3 calculated, the director shall adopt rules pursuant to chapter  
 4 91 for the purpose of suspending or limiting the application of  
 5 the central service assessment of any fund. No later than  
 6 twenty days prior to the convening of each regular session of  
 7 the legislature, the director shall report all central service  
 8 assessments made during the preceding fiscal year."

9 SECTION 6. Section 36-30, Hawaii Revised Statutes, is  
 10 amended by amending subsection (a) to read as follows:

- 11 "(a) Each special fund, except the:
- 12 (1) Transportation use special fund established by section
  - 13 261D-1;
  - 14 (2) Special out-of-school time instructional program fund
  - 15 under section 302A-1310;
  - 16 (3) School cafeteria special funds of the department of
  - 17 education;
  - 18 (4) Special funds of the University of Hawaii;
  - 19 (5) State educational facilities improvement special fund;
  - 20 (6) Special funds established by section 206E-6;
  - 21 (7) Aloha Tower fund created by section 206J-17;



- 1 (8) Funds of the employee's retirement system created by
- 2 section 88-109;
- 3 (9) Unemployment compensation fund established under
- 4 section 383-121;
- 5 (10) Hawaii hurricane relief fund established under chapter
- 6 431P;
- 7 (11) Convention center enterprise special fund established
- 8 under section 201B-8;
- 9 (12) Hawaii health systems corporation special funds;
- 10 (13) Tourism special fund established under section 201B-
- 11 11;
- 12 (14) Universal service fund established under chapter 269;
- 13 (15) Integrated tax information management systems special
- 14 fund under section [~~231-3.2,~~] 231- ;
- 15 (16) Emergency and budget reserve fund under section 328L-
- 16 3;
- 17 (17) Public schools special fees and charges fund under
- 18 section 302A-1130(f);
- 19 (18) Sport fish special fund under section 187A-9.5;
- 20 (19) Neurotrauma special fund under section 321H-4;
- 21 (20) Center for nursing special fund under section 304D-5;



1 (21) Passenger facility charge special fund established by  
2 section 261-5.5; and

3 (22) Court interpreting services revolving fund established  
4 by [†]section 607-1.5[†];

5 shall be responsible for its pro rata share of the  
6 administrative expenses incurred by the department responsible  
7 for the operations supported by the special fund concerned."

8 SECTION 7. Section 237-8.6, Hawaii Revised Statutes, is  
9 amended by amending subsection (c) to read as follows:

10 "(c) The county surcharge on state tax, if adopted, shall  
11 be imposed on the gross proceeds or gross income of all written  
12 contracts [~~that require the passing on of the taxes imposed~~  
13 ~~under this chapter; provided that if the gross proceeds or gross~~  
14 ~~income are received as payments beginning in the taxable year in~~  
15 ~~which the taxes become effective, on contracts entered into~~  
16 ~~before June 30 of the year prior to the taxable year in which~~  
17 ~~the taxes become effective, and the written contracts do not~~  
18 ~~provide for the passing on of increased rates of taxes, the~~  
19 ~~county surcharge on state tax shall not be imposed on the gross~~  
20 ~~proceeds or gross income covered under the written contracts.~~  
21 ~~The county surcharge on state tax shall be imposed on the gross~~  
22 ~~proceeds or gross income from all contracts entered into on or~~

1 ~~after June 30 of the year prior to the taxable year in which the~~  
2 ~~taxes become effective,~~], including written contracts in effect  
3 at the time the county surcharge on the state general excise tax  
4 becomes effective, regardless of whether the contract allows for  
5 the passing on of any tax or any tax increases."

6 SECTION 8. Section 237-31, Hawaii Revised Statutes, is  
7 amended to read as follows:

8 "**§237-31 Remittances.** All remittances of taxes imposed by  
9 this chapter shall be made by money, bank draft, check,  
10 cashier's check, money order, or certificate of deposit to the  
11 office of the department of taxation to which the return was  
12 transmitted. The department shall issue its receipts therefor  
13 to the taxpayer and shall pay the moneys into the state treasury  
14 as a state realization, to be kept and accounted for as provided  
15 by law; provided that:

- 16 (1) The sum from all general excise tax revenues realized  
17 by the State that represents the difference between  
18 \$45,000,000 and the proceeds from the sale of any  
19 general obligation bonds authorized for that fiscal  
20 year for the purposes of the state educational  
21 facilities improvement special fund shall be deposited  
22 in the state treasury in each fiscal year to the



1 credit of the state educational facilities improvement  
2 special fund;

3 (2) A sum, not to exceed \$5,000,000, from all general  
4 excise tax revenues realized by the State shall be  
5 deposited in the state treasury in each fiscal year to  
6 the credit of the compound interest bond reserve  
7 fund[ ~~and~~

8 ~~(3) A sum, not to exceed the amount necessary to meet the~~  
9 ~~obligations of the integrated tax information~~  
10 ~~management systems performance-based contract may be~~  
11 ~~retained and deposited in the state treasury to the~~  
12 ~~credit of the integrated tax information management~~  
13 ~~systems special fund. The sum retained by the~~  
14 ~~director of taxation for deposit to the integrated tax~~  
15 ~~information management systems special fund for each~~  
16 ~~fiscal year shall be limited to amounts appropriated~~  
17 ~~by the legislature. This paragraph shall be repealed~~  
18 ~~on July 1, 2005].~~

19 SECTION 9. Section 238-2.6, Hawaii Revised Statutes, is  
20 amended by amending subsection (a) to read as follows:

21 "(a) The county surcharge on state tax, upon the adoption  
22 of a county ordinance and in accordance with the requirements of

1 section 46-16.8, shall be levied, assessed, and collected as  
 2 provided in this section on the value of property [~~and~~],  
 3 services, and contracting taxable under this chapter. No county  
 4 shall set the surcharge on state tax at a rate greater than one-  
 5 half per cent of the value of property taxable under this  
 6 chapter. All provisions of this chapter shall apply to the  
 7 county surcharge on state tax. With respect to the surcharge,  
 8 the director shall have all the rights and powers provided under  
 9 this chapter. In addition, the director of taxation shall have  
 10 the exclusive rights and power to determine the county or  
 11 counties in which a person imports or purchases tangible  
 12 personal property and, in the case of a person importing or  
 13 purchasing tangible property in more than one county, the  
 14 director shall determine, through apportionment or other means,  
 15 that portion of the surcharge on state tax attributable to the  
 16 importation or purchase in each county."

17 SECTION 10. Section 231-3.2, Hawaii Revised Statutes, is  
 18 repealed.

19 [~~"§231-3.2 Integrated tax information management systems~~  
 20 ~~special fund.~~ (a) ~~There is established in the state treasury~~  
 21 ~~the integrated tax information management systems special fund~~  
 22 ~~into which shall be deposited general excise tax revenues as~~



1 ~~provided by section 237-31. The director of taxation may retain~~  
2 ~~and deposit the amounts necessary to meet the obligations of the~~  
3 ~~integrated tax information management systems performance-based~~  
4 ~~contract. The amounts transferred by the director of taxation~~  
5 ~~to the integrated tax information management systems special~~  
6 ~~fund for a fiscal year shall be limited to the amounts~~  
7 ~~appropriated by the legislature.~~

8 ~~(b) Moneys in the fund shall be expended by the department~~  
9 ~~to pay for the integrated tax information management systems~~  
10 ~~performance-based contracts authorized by Act 273, Session Laws~~  
11 ~~of Hawaii 1996.~~

12 ~~(c) The department shall submit an annual report to the~~  
13 ~~legislature no later than twenty days prior to the convening of~~  
14 ~~each regular session, providing an accounting of the receipts~~  
15 ~~of, and expenditures from, the fund.~~

16 ~~(d) This section shall be repealed on July 1, 2005." ]~~

17 SECTION 11. Act 273, Session Laws of Hawaii 1996, is  
18 repealed.

19 SECTION 12. The department of taxation shall execute its  
20 performance-based contracts and work assignments authorized  
21 under this Act as follows:



1 (1) For executing the department of taxation's integrated  
2 tax information management systems enhancements and  
3 related services contract - October 1, 2006;

4 (2) For implementing the requirements of the county  
5 surcharge on the state general excise tax as  
6 authorized under Act 247, Session Laws of Hawaii 2005  
7 - January 1, 2007; and

8 (3) For implementing the requirements of the Streamlined  
9 Sales Tax as identified under chapter 255D, Hawaii  
10 Revised Statutes - October 1, 2007.

11 SECTION 13. Statutory material to be repealed is bracketed  
12 and stricken. New statutory material is underscored.

13 SECTION 14. This Act shall take effect upon its approval,  
14 and shall be repealed on June 30, 2011; provided that sections  
15 36-27, 36-30, 237-8.6(c), 237-31, and 238-2.6, Hawaii Revised  
16 Statutes, shall be reenacted in the form in which they existed  
17 on June 30, 2006.



**Report Title:**

Integrated Tax Information Management Systems; Special Fund

**Description:**

Establishes Integrated Tax Information Management Systems Special Fund (Fund) to receive revenues from the integrated tax information management systems post-implementation revenue-generating initiatives. Provides that moneys in the fund will be used to pay for the integrated tax information management systems. (SD1)

