

Honolulu, Hawaii

RE: H.B. No. 2419
H.D. 1
S.D. 1

Honorable Robert Bunda
President of the Senate
Twenty-Third State Legislature
Regular Session of 2006
State of Hawaii

Sir:

Your Committee on Media, Arts, Science, and Technology, to which was referred H.B. No. 2419, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to enhance the Department of Taxation's computer system and to streamline its related operational procedures.

Specifically, the measure establishes a new Integrated Tax Information Management Systems Special Fund to:

- (1) Receive revenues from the integrated tax information management systems post-implementation revenue-generating initiatives; and
- (2) Be expended to pay for integrated tax information management systems performance-based contracts and administrative and operating expenses.

The Department of Taxation testified in support of this bill. The Tax Foundation of Hawaii offered comments.

Your Committee has amended the measure by:



- (1) Taking the proposed provisions that enable the Department of Taxation to negotiate and enter into performance-based contracts with private contractors to enhance its automated tax systems capabilities out of the Hawaii Revised Statutes and placing these provisions in uncodified statutory law;
- (2) Expanding the Department of Taxation's authority to execute performance-based contracts to contracts for the collection of taxes related to the Streamlined Sales Tax Agreement identified in chapter 255D, Hawaii Revised Statutes, and any county surcharge on the state general excise tax imposed pursuant to section 46-16.8, Hawaii Revised Statutes;
- (3) Changing the amount of revenue that is to be deposited into the Integrated Tax Information Management Systems Special Fund from ninety per cent of the revenue received from the integrated tax information management systems post-implementation initiatives to an amount that represents the increase over the average of the total amount of tax revenues collected under chapters 235, 237, and 238 in each of the three years preceding the execution of the performance based contract;
- (4) Deleting, from the Hawaii Revised Statutes, the old Integrated Tax Information Management Systems Special Fund language that was established under section 231-3.2, Hawaii Revised Statutes, since that special fund has been statutorily inoperative since July 30, 2005;
- (5) Repealing the Department of Taxation's authority to enter into performance-based contracts as established under Act 273, Session Laws of Hawaii 1996, to avoid inconsistency between the two authorizations;
- (6) Deleting the section that appropriates moneys out of the Integrated Tax Information Management Systems Special Fund;
- (7) Requiring that the Department of Taxation shall execute its performance-based contracts and work assignments in accordance with this measure and the following timelines:



- (A) For executing the Department of Taxation's integrated tax information management systems enhancements and related services contract - October 1, 2006;
 - (B) For implementing the requirements of the county surcharge on the state general excise tax as authorized under Act 247, Session Laws of Hawaii 2005 - January 1, 2007; and
 - (C) For implementing the requirements of the Streamlined Sales Tax as identified under chapter 255D, Hawaii Revised Statutes - October 1, 2007.
- (8) Changing the effective date from July 1, 2020, to upon approval; and
- (9) Making technical, nonsubstantive amendments for clarity, consistency, and style.

Your Committee included two amendments to sections 237-8.6 and 238-2.6, Hawaii Revised Statutes, as amended by Act 247, Session Laws of Hawaii 2005, at the request of the Department of Taxation. These amendments authorize the Department of Taxation to apply the performance-based contracting authority in the measure to contracts executed in 2006 for services contracted to implement the county surcharge on the state general excise tax and use taxes on imported services. The Department of Taxation subsequently submitted additional recommendations for amendments, some of which your Committee believes may be addressed through the rulemaking process.

Your Committee notes that, with regard to the addition of the Streamlined Sales Tax Agreement provisions, preliminary information from members of the Streamlined Sales Tax Governing Board indicates that, among states that began implementing voluntary collections in October 2005, those with recent tax information system upgrades were in a strong position to make the Streamlined Sales Tax transition smoothly. The state of Kansas, whose tax information software system was one that Hawaii's Integrated Tax Information Management Systems project was based on, is one such example.



In March, Kansas reported that four hundred fifty of the remote retailers registering with the Streamlined Sales Tax Governing Board's registration system are now collecting its out-of-state sales taxes. Furthermore, Kansas estimates that it will collect an additional \$12,000,000 from this source in 2006.

Accordingly, your Committee believes that Kansas' experience demonstrates the value of combining proposed tax information system upgrades with upcoming Department of Taxation obligations like the county surcharge and streamlined sales and use tax implementation. Careful planning and implementation timetables will not only save time and money, but will ensure the best use of critical, time-sensitive resources.

As affirmed by the record of votes of the members of your Committee on Media, Arts, Science, and Technology that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2419, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2419, H.D. 1, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Media, Arts,
Science, and Technology,


CAROL FUKUNAGA, Chair



