
A BILL FOR AN ACT

RELATING TO ELECTRONIC TAX ADMINISTRATION.

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

1

PART I

2

SECTION 1. The purpose of this Act is to improve the
3 department of taxation's collection capabilities through the
4 efficient allocation of resources, simplified taxpayer filings,
5 and a more user friendly interface with the public.

6

The legislature finds that in 2006, the department of
7 taxation collected \$4,400,000,000. Of that amount, almost
8 \$2,500,000,000 was generated through the general excise tax,
9 \$1,600,000,000 from individual income taxes, \$216,000,000
10 through the transient accommodations tax, and the balance is
11 collected from miscellaneous taxes.

12

In 2006, only twenty seven per cent of all individual
13 income tax returns were filed electronically, leaving
14 seventy-three per cent as paper forms and payments to be
15 processed manually. During tax season, it is not unusual for
16 the department of taxation to receive one ton of mail a day.

17

The legislature further finds that in 2006, only four per
18 cent (or 60,000) of all business returns processed were filed



1 electronically, with an astounding ninety-six per cent requiring
2 manual processing of paper forms and payments. Business returns
3 may also require further monthly income tax withholding and
4 general excise and transient accommodations tax payments,
5 resulting in over 1,500,000 filings by businesses in Hawaii,
6 again ninety-six per cent being processed manually.

7 Overall, only fifteen per cent of Hawaii tax returns are
8 filed electronically, and the \$2.50 convenience fee imposed by
9 the eHawaii.gov portal is perceived as a barrier for many people
10 who might consider filing electronically.

11 The legislature finds that in other states, electronic
12 filing grew by roughly twenty-five to thirty per cent from
13 2000-2004, and those states with electronic filing mandates have
14 experienced higher growth rates than those without mandates. As
15 a result, many states have used electronic filing applications
16 as an opportunity to improve taxpayer services and reduce their
17 operating costs (e.g., electronic payments, online account
18 access, electronic forms and instructions), as well as
19 increasing their collections without undue burdens to taxpayers.

20 **PART II**

21 SECTION 2. The purpose of this part is to provide revenue
22 generating initiatives that will be benefits-funded, meaning the



1 vendor will be paid when measurable increases in revenues
2 resulting from the initiatives are collected by the State. The
3 revenues will be used by the department of taxation to enhance
4 its computer system, called the integrated tax services and
5 management system, and to streamline related operational
6 procedures.

7 SECTION 3. Chapter 231, Hawaii Revised Statutes, is
8 amended by adding a new section to be appropriately designated
9 and to read as follows:

10 "§231- Integrated tax services and management special
11 fund. (a) There is established in the state treasury the
12 integrated tax services and management special fund to improve
13 customer services, improve taxpayer fairness, and increase cost
14 savings, with an emphasis on electronic filings.

15 (b) Notwithstanding any other law to the contrary, the
16 source of funding of any appropriations to the integrated tax
17 services and management special fund for the purposes of funding
18 initiatives under subsection (c) shall come from the tax
19 revenues collected pursuant to chapters 235, 237, and 238.

20 (c) Moneys in the special fund may be expended upon
21 legislative appropriation by the department to pay for the
22 integrated tax services and management systems performance-based



1 contracts and administrative and operating expenses related to
2 the integrated tax services and management systems post-
3 implementation revenue-generating initiatives; provided that the
4 department may expend up to \$ annually to improve the
5 tax collection capabilities and achieve the operational
6 efficiencies that are the department's responsibilities under
7 this section."

8 SECTION 4. Section 36-27, Hawaii Revised Statutes, is
9 amended to read as follows:

10 **"§36-27 Transfers from special funds for central service**

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

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



- 1 (5) Convention center enterprise special fund under
- 2 section 201B-8;
- 3 (6) Special funds established by section 206E-6;
- 4 (7) Housing loan program revenue bond special fund;
- 5 (8) Housing project bond special fund;
- 6 (9) Aloha Tower fund created by section 206J-17;
- 7 (10) Funds of the employees' retirement system created by
- 8 section 88-109;
- 9 (11) Unemployment compensation fund established under
- 10 section 383-121;
- 11 (12) Hawaii hurricane relief fund established under chapter
- 12 431P;
- 13 (13) Hawaii health systems corporation special funds and
- 14 the subaccounts of its regional system boards;
- 15 (14) Tourism special fund established under section
- 16 201B-11;
- 17 (15) Universal service fund established under chapter 269;
- 18 (16) Emergency and budget reserve fund under section
- 19 328L-3;
- 20 (17) Public schools special fees and charges fund under
- 21 section 302A-1130(f);
- 22 (18) Sport fish special fund under section 187A-9.5;



- 1 (19) Neurotrauma special fund under section 321H-4;
- 2 (20) Deposit beverage container deposit special fund under
- 3 section 342G-104;
- 4 (21) Glass advance disposal fee special fund established by
- 5 section 342G-82;
- 6 (22) Center for nursing special fund under section
- 7 304A-2163;
- 8 (23) Passenger facility charge special fund established by
- 9 section 261-5.5;
- 10 (24) Solicitation of funds for charitable purposes special
- 11 fund established by section 467B-15;
- 12 (25) Land conservation fund established by section 173A-5;
- 13 (26) Court interpreting services revolving fund under
- 14 section 607-1.5;
- 15 (27) Trauma system special fund under section 321-22.5;
- 16 (28) Hawaii cancer research special fund;
- 17 (29) Community health centers special fund; [~~and~~]
- 18 (30) Emergency medical services special fund; and
- 19 (31) Integrated tax services and management special fund
- 20 under section 231- ;

21 shall deduct five per cent of all receipts of all other special
 22 funds, which deduction shall be transferred to the general fund



1 of the State and become general realizations of the State. All
2 officers of the State and other persons having power to allocate
3 or disburse any special funds shall cooperate with the director
4 in effecting these transfers. To determine the proper revenue
5 base upon which the central service assessment is to be
6 calculated, the director shall adopt rules pursuant to chapter
7 91 for the purpose of suspending or limiting the application of
8 the central service assessment of any fund. No later than
9 twenty days prior to the convening of each regular session of
10 the legislature, the director shall report all central service
11 assessments made during the preceding fiscal year."

12 SECTION 5. Section 36-30, Hawaii Revised Statutes, is
13 amended by amending subsection (a) to read as follows:

14 "(a) Each special fund, except the:

- 15 (1) Transportation use special fund established by section
16 261D-1;
- 17 (2) Special out-of-school time instructional program fund
18 under section 302A-1310;
- 19 (3) School cafeteria special funds of the department of
20 education;
- 21 (4) Special funds of the University of Hawaii;
- 22 (5) State educational facilities improvement special fund;



- 1 (6) Special funds established by section 206E-6;
- 2 (7) Aloha Tower fund created by section 206J-17;
- 3 (8) Funds of the employees' retirement system created by
- 4 section 88-109;
- 5 (9) Unemployment compensation fund established under
- 6 section 383-121;
- 7 (10) Hawaii hurricane relief fund established under chapter
- 8 431P;
- 9 (11) Convention center enterprise special fund established
- 10 under section 201B-8;
- 11 (12) Hawaii health systems corporation special funds and
- 12 the subaccounts of its regional system boards;
- 13 (13) Tourism special fund established under section
- 14 201B-11;
- 15 (14) Universal service fund established under chapter 269;
- 16 (15) Emergency and budget reserve fund under section
- 17 328L-3;
- 18 (16) Public schools special fees and charges fund under
- 19 section 302A-1130(f);
- 20 (17) Sport fish special fund under section 187A-9.5;
- 21 (18) Neurotrauma special fund under section 321H-4;



- 1 (19) Center for nursing special fund under section
2 304A-2163;
- 3 (20) Passenger facility charge special fund established by
4 section 261-5.5;
- 5 (21) Court interpreting services revolving fund under
6 section 607-1.5;
- 7 (22) Trauma system special fund under section 321-22.5;
- 8 (23) Hawaii cancer research special fund;
- 9 (24) Community health centers special fund; ~~and~~
- 10 (25) Emergency medical services special fund; and
- 11 (26) Integrated tax services and management special fund
12 under section 231- ;

13 shall be responsible for its pro rata share of the
14 administrative expenses incurred by the department responsible
15 for the operations supported by the special fund concerned."

16 SECTION 6. Section 235-119, Hawaii Revised Statutes, is
17 amended to read as follows:

18 "**§235-119 Taxes, state realizations.** ~~[All]~~ (a) Except as
19 provided in subsection (b), all income taxes shall be for the
20 use of the State and shall be paid into the state treasury at
21 such times as the director of finance shall direct.



1 (b) The director of taxation shall pay the income taxes
2 into the state treasury as a state realization; provided that a
3 sum, not to exceed the amount necessary to meet the obligations
4 of integrated tax services and management systems
5 performance-based contracts, may be retained and deposited into
6 the state treasury to the credit of the integrated tax services
7 and management special fund. The sum retained by the director
8 of taxation for deposit into the integrated tax services and
9 management special fund shall be limited to amounts appropriated
10 by the legislature."

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

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

21 (1) The sum from all general excise tax revenues realized
22 by the State that represents the difference between



1 \$90,000,000 and the proceeds from the sale of any
2 general obligation bonds authorized for that fiscal
3 year for the purposes of the state educational
4 facilities improvement special fund shall be deposited
5 in the state treasury in each fiscal year to the
6 credit of the state educational facilities improvement
7 special fund for public school capital improvement
8 program needs; [and]

9 (2) A sum, not to exceed \$5,000,000, from all general
10 excise tax revenues realized by the State shall be
11 deposited in the state treasury in each fiscal year to
12 the credit of the compound interest bond reserve
13 fund[-]; and

14 (3) A sum, not to exceed the amount necessary to meet the
15 obligations of integrated tax services and management
16 systems performance-based contracts, may be retained
17 and deposited into the state treasury to the credit of
18 the integrated tax services and management special
19 fund. The sum retained by the director of taxation
20 for deposit into the integrated tax services and
21 management special fund shall be limited to amounts
22 appropriated by the legislature."



1 SECTION 8. Section 238-14, Hawaii Revised Statutes, is
2 amended to read as follows:

3 **"§238-14 Taxes state realizations.** [~~All~~] (a) Except as
4 provided in subsection (b), all taxes collected under this
5 chapter shall be state realizations.

6 (b) The director of taxation shall pay the use taxes into
7 the state treasury as a state realization; provided that a sum,
8 not to exceed the amount necessary to meet the obligations of
9 integrated tax services and management systems performance-based
10 contracts, may be retained and deposited into the state treasury
11 to the credit of the integrated tax services and management
12 special fund. The sum retained by the director of taxation for
13 deposit into the integrated tax services and management special
14 fund shall be limited to amounts appropriated by the
15 legislature."

16 SECTION 9. The department of taxation shall execute the
17 performance-based contracts and work assignments authorized
18 under this part in a timely manner; provided that the integrated
19 tax services and management systems enhancements and services
20 authorized by this measure shall be executed no later than
21 October 1, 2008.



1 **PART III**

2 SECTION 10. (a) Notwithstanding any other law to the
3 contrary, including any law requiring oversight of an executive
4 department's decisions relating to on-line portals or
5 internet-based access, the department of taxation shall utilize
6 performance-based contracts to enhance or acquire automated tax
7 systems, or both, including computer hardware and software, for
8 the implementation and administration of the taxes under title
9 14, Hawaii Revised Statutes, including the city and county of
10 Honolulu surcharge authorized under section 46-16.8, Hawaii
11 Revised Statutes, and adopted by ordinance.

12 (b) For the purposes of this part:

13 "Performance-based contract" means a contract under which
14 compensation to the vendor shall be computed according to
15 performance standards established by the department of taxation.
16 Any performance-based contract entered into by the department of
17 taxation for the purposes established under subsection (a) shall
18 provide for the payment of fees:

19 (1) Based on a contractually specified amount of the
20 increase in the amount of taxes, interest, and
21 penalties collected and attributable to the
22 implementation of the integrated tax services and



1 management system post-implementation revenue-
2 generating initiatives; or
3 (2) On a fixed-fee contract basis to be paid from the
4 increase in the amount of taxes, interest, and
5 penalties collected and attributable to the
6 implementation of integrated tax services and
7 management system post-implementation revenue-
8 generating initiatives.

9 (c) The State shall receive a permanent license to use the
10 enhanced or automated tax systems upon full payment to the
11 vendor.

12 (d) Notwithstanding any other law to the contrary, the
13 department of taxation shall award the performance-based
14 contract pursuant to the requirements of chapter 103D, Hawaii
15 Revised Statutes.

16 SECTION 11. The director of taxation shall report to the
17 legislature, no later than twenty days prior to the convening of
18 every regular session, beginning with the 2009 regular session,
19 with respect to the status of the performance-based contract and
20 shall provide an accounting of all moneys appropriated. The
21 report shall include:



- 1 (1) Detailed information on the costs, benefits, and
2 features of implementing the integrated tax services
3 and management system post-implementation
4 revenue-generating initiatives;
- 5 (2) The amount of increased tax, interest, and penalties
6 collected that is attributable to the integrated tax
7 services and management system post-implementation
8 revenue-generating initiatives;
- 9 (3) The amount paid to the vendor or vendors contracted
10 under this Act; and
- 11 (4) Any additional staffing or staffing shifts
12 necessitated by the implementation of the integrated
13 tax services and management system post-implementation
14 revenue generating initiatives.

15 The report shall also include any other information from
16 the preceding fiscal year that may assist the legislature in
17 determining the efficacy of a contract executed under this Act,
18 beginning with the fiscal year immediately preceding the fiscal
19 year commencing on the effective date of this Act and continuing
20 until two complete fiscal years have elapsed following the full
21 implementation of the integrated tax services and management
22 system post-implementation revenue-generating initiatives.



1 SECTION 12. There is appropriated out of the general
2 revenues of the State of Hawaii the sum of \$ or so
3 much thereof as may be necessary for fiscal year 2008-2009 to be
4 deposited into the integrated tax services and management
5 special fund established pursuant to section 231- , Hawaii
6 Revised Statutes, contained in section 3 of this Act.

7 SECTION 13. There is appropriated out of the integrated
8 tax services and management special fund the sum of \$
9 or so much thereof as may be necessary for fiscal year 2008-2009
10 for the purposes of the integrated tax services and management
11 special fund established pursuant to section 231- , Hawaii
12 Revised Statutes, contained in section 3 of this Act.

13 The sum appropriated shall be expended by the department of
14 taxation; provided that the department of taxation shall repay
15 the general fund for the general fund appropriation for fiscal
16 year 2007-2008 to section 231- , Hawaii Revised Statutes, no
17 later than June 30, 2009.

18 **PART IV**

19 SECTION 14. The increased use of computers for personal
20 purposes and in daily business operations has led to an increase
21 in electronic and computer-based interactions with government.
22 The department of taxation interacts with nearly every person in



1 Hawaii on a regular basis. The department of taxation also
2 regularly interacts with nonresident taxpayers and mainland-
3 based businesses that routinely file tax information.

4 In response to the increase in interactions with
5 out-of-state taxpayers and the increase in electronic tax
6 filings, the legislature, in 1997, made electronic filing an
7 acceptable means of carrying out a taxpayer's obligations under
8 the law. Since this law was enacted, the ability to interact
9 electronically has grown considerably, especially for
10 businesses, nearly all of which have a computer and access to
11 the Internet.

12 Within the next decade, a majority, if not all, of tax
13 filings are predicted to be filed electronically. This will
14 result in greater efficiencies for both the taxpayer and the
15 State. In addition, the legislature, which is charged with the
16 responsibility of overseeing the effectiveness of tax incentives
17 and the efficacy of the tax system as a whole, will have access
18 to more specific data on Hawaii taxes if the tax data is
19 captured electronically.

20 The amendments in this part will also ensure that taxpayers
21 will be provided with sufficient notice and an opportunity to



1 comment by requiring compliance with chapter 91, Hawaii Revised
2 Statutes.

3 The purpose of this part is to increase electronic filing
4 by requiring that the department of taxation, by rule, require
5 electronic filing. It is the intent of the legislature, that
6 within this broader mandate, the department of taxation shall:

7 (1) Focus its initial rulemaking on those taxes paid by
8 businesses that the Internal Revenue Service requires
9 to be filed electronically; and

10 (2) Address increased voluntary electronic filing through
11 the integrated tax services and management software
12 upgrades.

13 SECTION 15. Section 231-8.5, Hawaii Revised Statutes, is
14 amended to read as follows:

15 "[+]§231-8.5[+] **Electronic filing of tax returns.** (a)
16 The department [~~may allow filing~~], by rules, adopted pursuant to
17 chapter 91, shall require taxpayers who must file their taxes
18 electronically with the Internal Revenue Service to file by
19 electronic, telephonic, or optical means [ef] any tax return,
20 application, report, or other document required under [the
21 provisions of] title 14 administered by the department[-];
22 provided that a service fee shall not be required. The date of



1 filing shall be the date the tax return, application, report, or
2 other document is transmitted to the department in a form and
3 manner prescribed by departmental rules adopted pursuant to
4 chapter 91.

5 (b) The department [~~may~~] shall determine alternative
6 methods for the signing, subscribing, or verifying [~~of~~] a tax
7 return, application, report, or other document that shall have
8 the same validity and consequences as the actual signing by the
9 taxpayer. The department shall increase voluntary electronic
10 filing through integrated tax services and management, free
11 software, and software upgrades; provided that a service fee
12 shall not be required for businesses and individual taxpayers;
13 provided further that the emphasis of voluntary electronic
14 filing shall be on withholding taxes, general excise taxes, use
15 taxes, and transient accommodations taxes.

16 (c) A filing under this section shall be treated in the
17 same manner as a filing subject to the penalties under section
18 231-39.

19 (d) The director of taxation may adopt any rules under
20 chapter 91 and forms necessary to carry out this section."

21 **PART V**



1 SECTION 16. There is appropriated out of the general
2 revenues of the State of Hawaii the sum of \$ or so much
3 thereof as may be necessary for fiscal year 2008-2009 for
4 assisting the department of taxation in upgrading its
5 operations, workforce, or skills of its employees.

6 The sum appropriated shall be expended by the department of
7 taxation for the purposes of this Act.

8 SECTION 17. Statutory material to be repealed is bracketed
9 and stricken. New statutory material is underscored.

10 SECTION 18. This Act shall take effect on July 1, 2008;
11 provided that the amendments to section 237-31, Hawaii Revised
12 Statutes, made in section 7 of this Act, shall not be repealed
13 upon the repeal of section 2, Act 304, Session Laws of Hawaii
14 2006.



Report Title:

Department of Taxation; Special Fund; Electronic Filing

Description:

Establishes integrated tax services and management special fund to receive revenues from the integrated tax services and management systems post-implementation revenue-generating initiatives; provides that moneys in the fund will be used to pay for the integrated tax services and management systems; requires that the department of taxation, by rule adopted pursuant to chapter 91, Hawaii Revised Statutes, shall require the electronic, telephonic, or optical filing of tax returns under certain conditions; provides that a service fee shall not be required. (SD1)

