

Honolulu, Hawaii

APR 04 2008

RE: H.B. No. 1412
H.D. 1
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Madam:

Your Committees on Economic Development and Taxation and Ways
and Means, to which was referred H.B. No. 1412, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO THE DEPARTMENT OF TAXATION'S
BENEFITS-FUNDED REVENUE-GENERATING COMPUTER INITIATIVES,"

beg leave to report as follows:

The purpose of this measure is to create revenue-generating
initiatives that will be used by the Department of Taxation
(Department) to:

- (1) Enhance the capabilities of the Department's computer system;
- (2) Improve the efficiency and operational procedures for collection of tax revenues;
- (3) Provide a source of funds for the Department to enter into performance-based contracts that relate to automated tax systems; and
- (4) Establish an Integrated Tax Information Management Systems (ITIMS) Special Fund to financially carry out the administrative and operational expenses related to this measure.



Testimony in support of this measure was submitted by the Department. Comments on this measure were submitted by the Tax Foundation of Hawaii.

Your Committees find that the 2008 Legislature must seek solutions to offset the impacts of a troubled national economy, as well as recent events in Hawaii that will have both short and long-term ramifications for state residents. The projected revenue gains in this measure will contribute significantly to those solutions.

Act 273, Session Laws of Hawaii 1996, authorized the Department to enter into a performance-based contract to acquire the ITIMS. In this case, the "performance" consisted of the State collecting more tax revenue than it would have without the vendor's services - more than \$252,000,000 during the five-year project. It also represents a three hundred seventy-five per cent return on investment.

This measure would enable the Department to continue to "work smarter, not just harder" to further expand the revenue stream and the successful delinquent collections project. The enhanced electronic filings and payments, internet portals of tax accounts, and online tax clearances will streamline the process for both taxpayers and the Department. The additional information available to the Department will assist in delinquent collections through more efficient matching of federal and state data and crosschecking with other relevant business data.

Your Committees further find that, like the five-year ITIMS project, the benefits funding in this measure establishes mandatory performance targets that the vendor must achieve to be paid. As measurable revenues attributable to the new initiatives are realized and certified, these revenues will be distributed between the Integrated Tax Services and Management Special Fund and the general fund. The benefit is two-fold:

- (1) A self-sufficient model to fund Integrated Tax Services and Management revenue-generating initiatives and related tax processing and capacity improvements; and
- (2) Additional general fund revenues of an estimated \$125,000,000 over five years, through 2013.



Clearly, this will contribute to the stability of the State's economy, and provide a revenue stream for many initiatives that may otherwise face curtailed budgets, such as the innovative education programs established statewide in 2007. Your Committees believe that providing a substantial and consistent revenue source, without additional appropriations, is the most significant benefit of all.

Your Committees have previously heard and approved a similar measure, S.B. No. 3115, S.D. 2. Your Committees have amended this measure by deleting and replacing the contents of this measure with S.B. No. 3115, S.D. 2, as amended by your Committees. As such, this measure:

- (1) Renames the Special Fund as the Integrated Tax Services and Management Special Fund and expands the uses of the Special Fund to include improved tax collection capabilities and efficiencies and to support any committees established in conjunction with the Streamlined Sales and Use Tax Agreement;
- (2) Adds a requirement for the Department to execute performance-based contracts and work assignments in a timely manner;
- (3) Adds the requirement that the Department shall utilize the performance-based contracts to implement and administer taxes such as:
 - (A) The City and County of Honolulu Surcharge under Act 247, Session Laws of Hawaii 2005; and
 - (B) The Streamlined Sales and Use Tax Agreement under Act 3, Special Session Laws of Hawaii 2005;
- (4) Adds the requirement that, upon full payment to the automated tax systems vendor, the State shall receive a permanent license for the use of the automated tax systems;
- (5) Adds the requirement for the Director of Taxation to report to the Legislature on any additional staffing needs, or savings in the Department's resource requirements, due to the implementation of the



Integrated Tax Services and Management System beginning with the 2009 Regular Session;

- (6) Provides a specific appropriation that reflects the Department's cost estimates to administer and implement the purposes of this measure for the first year of the project; provided that the Department repays the general fund for the 2008-2009 fiscal year appropriation made from the general fund to the Integrated Tax Services and Management Special Fund within the same fiscal year;
- (7) Adds a section that amends section 231-8.5, Hawaii Revised Statutes, relating to the rules applicable to filing electronic tax returns, to require the Department to adopt rules pursuant to chapter 91, Hawaii Revised Statutes;
- (8) Adds a section that amends section 231-9.9(a), Hawaii Revised Statutes, relating to the taxpayers that are required to file electronic tax returns, to require, if required by rule, those taxpayers with a tax liability of \$100,000 or less to file their tax return electronically;
- (9) Makes the effective date June 29, 2008; and
- (10) Makes technical, nonsubstantive amendments for the purposes of clarity and style.

As affirmed by the records of votes of the members of your Committees on Economic Development and Taxation and Ways and Means that are attached to this report, your Committees are in accord with the intent and purpose of H.B. No. 1412, H.D. 1, as amended herein, and recommend that it pass Second Reading in the form attached hereto as H.B. No. 1412, H.D. 1, S.D. 1, and be placed on the calendar for Third Reading.



Respectfully submitted on
behalf of the members of the
Committees on Economic
Development and Taxation and
Ways and Means,



ROSALYN H. BAKER, Chair



CAROL FUKUNAGA, Chair



The Senate
Twenty-Fourth Legislature
State of Hawai'i


Record of Votes
Committee on Economic Development and Taxation
EDT

Bill / Resolution No.:*	Committee Referral:	Date:		
HB 1412 HD1	EDT/WAM	4/2/08		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is:				
<input type="checkbox"/> Pass, unamended 2312	<input checked="" type="checkbox"/> Pass, with amendments 2311	<input type="checkbox"/> Hold 2310		
<input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
ESPERO, Will (VC)	✓			
BAKER, Rosalyn H.	✓			
ENGLISH, J. Kalani	✓			
IGE, David Y.	✓			
SLOM, Sam			✓	
TOTAL	5		1	
Recommendation:				
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
<i>Will Espero</i>				
Distribution:				
Original File with Committee Report	Yellow Clerk's Office	Pink Drafting Agency	Goldenrod Committee File Copy	

*Only one measure per Record of Votes

The Senate
Twenty-Fourth Legislature
State of Hawaii

Record of Votes
Committee on Ways and Means
WAM

Bill / Resolution No.:* H B 1412, HDI	Committee Referral: GDT/WAM	Date: 4/2/08		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: (<input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
BAKER, Rosalyn H. (C)	/			
TSUTSUI, Shan S. (VC)	/			
CHUN OAKLAND, Suzanne	/			
ENGLISH, J. Kalani	/			
FUKUNAGA, Carol	/			
HOOSER, Gary L.	/			
INOUYE, Lorraine R.	/			
KIM, Donna Mercado	/			
MENOR, Ron				/
TOKUDA, Jill N.	/			
HEMMINGS, Fred	/			
WHALEN, Paul	/			
TOTAL	11	0	0	1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

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