

Honolulu, Hawaii

FEB 15 2008

RE: S.B. No. 3115
S.D. 1

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

Madam:

Your Committee on Economic Development and Taxation, to which was referred S.B. No. 3115 entitled:

"A BILL FOR AN ACT RELATING TO ELECTRONIC TAX
ADMINISTRATION,"

begs leave to report as follows:

The purpose of this measure is to provide the Department of Taxation with the authority to require, by rule, electronic filing of tax returns and electronic payment of taxes owed for taxpayers whose tax liability is \$100,000 or less for any one taxable year.

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

Your Committee finds that electronic and computer-based interactions between government agencies, businesses, and individuals are on the rise. Your Committee agrees with the Department of Taxation that the combined use of a revenue-generating, benefits-funded integrated tax services and management system with the authorization to pursue electronic tax filing is a practical means of improving taxpayer services and reducing the Department's operating costs. An April 2007 Council of State Governments study entitled "Acceptance and Use of Electronic Payments for State Taxes and Fees" made the following findings:

- (1) Citizens will take advantage of electronic payment options if state government agencies accept electronic



payments and establish policies and procedures which encourage and facilitate such payments. They appreciate the convenience, flexibility (including credit card payments to meet timelines of tax payments), security and efficiency of these payment options.

- (2) There are major financial management benefits for states associated with accepting electronic payments, including reducing processing costs, accelerating funds availability and reducing delinquent payments.
- (3) A potential barrier to expansion of electronic payments is managing the transactions costs associated with such payments (e.g., convenience fees or surcharges).

The Council of State Governments study identified six basic policies and "best practices" for states to utilize. They include:

- (1) Marketing the credit and/or debit card payment option and educating citizens and taxpayers on the availability of these payment options;
- (2) Refraining from charging convenience fees or surcharges that may detract from the use of credit or debit cards;
- (3) Using a third party service provider and contracting with one primary service provider for all agencies;
- (4) Maintaining a standardized payment processing system or platform across all agencies;
- (5) Providing citizens and taxpayers with the option to pay online using credit or debit cards; and
- (6) Making credit and debit card payment options available across a variety of taxes and fees.

In 2006, the Department collected \$4,400,000,000 in taxes, with almost \$2,500,000,000 generated through the general excise tax, and \$1,600,000,000 billion generated through individual income taxes. At that time, the Department processed seventy-three per cent of all individual tax returns manually, with ninety-six per cent of all business returns requiring manual processing of paper forms and payments. During the tax season, it



is not uncommon for the Department to receive a ton of mail -- requiring manual opening, sorting, processing, scanning and payment processing -- per day. Your Committee has therefore determined that authorizing the Department to pursue a combination of benefits-funded Integrated Tax Information Management Systems software upgrades that shift the Department's tax collections into an electronic payment model, and removing the perceived impediment of the \$2.50 convenience fee imposed by the eHawaii.gov portal, will give the Department the tools it needs to achieve the kind of twenty-first century taxpayer services its employees are committed to provide.

To that end, this measure has been amended to include an early trigger date requirement for the Department to enter into an Integrated Tax Information Management Systems software upgrade contract because the appropriations authorized in the measure are intended to be reimbursed to the general fund prior to the close of the next fiscal year. Providing individual and business taxpayers with a means of filing their tax information electronically would result in an efficient, timely, and effective means of carrying out the various tax obligations of taxpayers under the law.

Accordingly, your Committee has amended this measure by:

- (1) Establishing an Integrated Tax Services and Management Special Revenue Fund;
- (2) Appropriating funds in an unspecified amount to improve the tax collection capabilities of the Department of Taxation and to also enable the integrated tax services and management system to be implemented on a wide-spread basis for the next three to five years;
- (3) Requiring electronic filing to be a free service for businesses and individual taxpayers;
- (4) Permitting the Department of Taxation to adopt rules pursuant to chapter 91, Hawaii Revised Statutes, to implement electronic filings;
- (5) Creating an annual appropriation to assist the Department of Taxation in upgrading its operations, workforce, or the skills of its employees; and



- (6) Making technical, nonsubstantive amendments for the purpose of clarity.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 3115, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 3115, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Taxation,



CAROL FUKUNAGA, Chair



The Senate
Twenty-Fourth Legislature
State of Hawaii

Record of Votes
Committee on Economic Development and Taxation
EDT

Bill / Resolution No.:* <i>SB 3115</i>	Committee Referral: <i>EDT, WAM</i>	Date: <i>2/7/08</i>		
<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	<i>4</i>		<i>1</i>	<i>1</i>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <div style="text-align: center; font-family: cursive; font-size: 1.2em;"><i>Will Espero</i></div>				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes