

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

HOUSE COMMITTEE ON FINANCE

TESTIMONY REGARDING SB 2838 SD 2 RELATING TO TAXATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: MARCH 26, 2008

TIME: 10:00AM

ROOM: 308

This bill proposes to allow taxpayers to split their refund for deposit into up to three bank accounts that were used to deposit a federal refund. The Department **opposes** this legislation.

The Department is opposed to this legislation because of the overwhelming administrative burden this would place on the Department's operations system-wide. Currently, the Department allows taxpayers to have any refund due and owing deposited into a single bank account that the taxpayer provides on their tax return. This process is a courtesy to taxpayers; however also saves the State money because the Department is not required to print a check and pay postage costs.

Though the Department is steadfastly seeking to streamline taxpayer processes, this requirement could effectively eliminate progress with these more important objectives.

This bill would have the following impact:

SPLIT AMONGST ACCOUNTS ALREADY AVAILABLE—The Department points out that this legislation is arguably unnecessary in principle because a taxpayer can divide the state and federal refunds among various accounts for purposes of saving and asset building through current practices. On the federal level, up to three accounts can be designated. And, using the direct deposit for the state refund allows a theoretical fourth account that a taxpayer can direct the deposit of a refund for various purposes. Amending the State law to require the same amount of deposits seems duplicative and unnecessary given the fact that up to four accounts that can segregate various amounts is currently possible.

FORMS—The tax forms would have to be modified substantially. Any more than the one account could add pages to the form.

ITSO—The Department's information technology division would be impacted with its

involvement with programming various aspects of the refund process. As has been experienced with the recent county surcharge implementation, computer costs are not inexpensive, and a third-party vendor may be necessary.

TAXPAYER SERVICES—The Department's Taxpayer Services division would likewise be impacted. It is this division that processes paper forms. Designating more than one bank account could have a negative impact on this division by slowing down the processing of returns. In addition, taxpayer errors could further hinder the processing, such as incorrectly designating the amounts to be deposited into the different accounts.

DAGS—The Department is not the agency charged with actually paying out refunds. The Department of Account & General Services pays out refunds on behalf of the Department of Taxation. Whether there is an additional cost associated with executing more than one electronic funds transfer is a matter for DAGS to resolve. The Department suggests verifying with DAGS to assure there are no unintended financial consequences of this legislation.

APPROPRIATION—Due to the likely high cost associated with this legislation, the Department will need an appropriation. If the Department does not receive an appropriation, it is unlikely this legislation can be implemented given other fiscal constraints within the Department's budget.

POTENTIAL ABUSE—The Department is also concerned above multiple account deposits used by tax return preparers for loans or fees for tax preparation services. On the federal level, the deposit of refunds is highly regulated. This is not the case under current state law. An abusive preparer or scheme promoter could deceive a taxpayer into directing the taxpayer's refund nefariously into the bank account of the tax preparer or scheme promoter. Without further regulation or study of the issue, the Department is reluctant to support multiple account deposits on this basis alone.

PROPOSED LANGUAGE—Although the Department does not support the use of multiple direct deposit accounts, the Department offers the following language for the Committee's consideration:

"235- **Refund splitting for electronic returns.** (a) Any individual taxpayer required to make a return under this chapter shall be entitled to direct the deposit of an income tax refund into a maximum of checking or savings accounts at a financial institution; provided that a taxpayer designating the direct deposit shall have electronically filed their return for federal and state income taxes and made a similar direct deposit electronic designation to the same checking or savings accounts on the electronic returns.

(b) The department of taxation shall be authorized to modify and revise its returns and computer systems to carry out the purposes of this section."

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Refund splitting

BILL NUMBER: SB 2838, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

STAFF COMMENTS: Adds a new section to HRS chapter 235 to require the department of taxation to allow an individual taxpayer who files electronically to designate up to three checking or savings accounts at financial institutions for direct deposit of a taxpayer's refund provided that the account is one that an electronic refund request has been received on the federal level.

EFFECTIVE DATE: Tax years beginning after December 31, 2007

STAFF COMMENTS: On the federal level, taxpayers are permitted to designate up to two or three accounts at financial institutions into which they can have their income tax refund deposited quicker than by opting to receive a check, thereby eliminating the additional processing time and resources it takes to process a paper check. On the state level, only one account may be designated.

The proposed measure would require the department of taxation to revise its individual income tax forms to allow taxpayers who file their tax forms electronically to have their income tax refunds directly remitted to up to three accounts at one or more financial institutions. While this may result in more processing time by the department of taxation since routing, depositing and tracking information must be verified, the additional time it takes to process the tax refund to be deposited at more than one financial institution may be lost, thereby eliminating any advantage to utilize a direct deposit. At the federal level, in order to split the refund, an additional form must be filed thereby increasing the amount of paperwork. Thus, there is additional cost incurred for the splitting of the refund. One must ask whether or not the cost of doing so at the state level is worth the convenience.

In addition, lawmakers need to consider the liability exposure of having the department assuming the responsibility to split a refund as requested should some error occur. At this point, the only exposure is to insure the amount of the refund is correct. Should the taxpayer dispute how much went into one bank versus a savings and loan or a credit union, that would raise the exposure of the state for being held responsible for the correct split of the refund. One also has to question the personal responsibility of the taxpayer of assuming the management of his or her funds. At this point, the only thing that the state tax department should be held responsible for is a correct amount of a refund.

This latest draft of the bill would allow the splitting of the tax refund only if the taxpayer has made a similar request on his/her federal tax return. The problem with that is how will the tax department determine that a similar request has been made on the taxpayer's federal return short of asking the taxpayer to file a copy of the federal return.

Digested 3/25/08

TESTIMONY IN SUPPORT OF SB2838 SD2
RELATING TO TAXATION

March 26, 2008 at 10:00 a.m.

The Legal Aid Society of Hawaii hereby provides testimony to the House Committee on Finance on SB2838 SD2 - Relating to Taxation, in support of the bill.

Founded in 1950, the Legal Aid Society of Hawaii is the oldest provider of legal services in the state. We provided civil legal assistance to low-income individuals through nine offices located in Lihue, Waianae, Honolulu, Kahaluu, Kaunakakai, Lanai City, Wailuku, Kona and Hilo. Over the years we have seen the benefit of linking community based economic development and asset building to legal services as critical to assisting our clients out of poverty.

We believe that the ability to split a tax return into multiple accounts is a small way in which the state can assist taxpayers in asset building. The federal government recently adopted tax refund splitting and the state should follow suit.

Thank you for this opportunity to testify.

Sincerely,

M. Nalani Fujimori
Deputy Director
527-8014