

HB 418, HD1

EDT

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SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

**TESTIMONY OF THE DEPARTMENT OF TAXATION
REGARDING HB 418, HD 1
RELATING TO THE GENERAL EXCISE TAX LAW**

TESTIFIER: **FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR
DESIGNEE)**

COMMITTEE: **EDT**

DATE: **MARCH 21, 2011**

TIME: **1:15PM**

POSITION: **SUPPORT**

This measure lowers the thresholds of annual taxable income and tax liability at which the Department of Taxation (Department) is authorized to require the remittance of taxes via an approved electronic funds transfer method.

The Department supports this measure.

The Department believes that wholesale electronic filing is an attainable goal, and one which will be given greater priority under the current administration. This measure shows the Legislature is equally committed to the goal of increasing electronic filing in the State.

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SUBJECT: ADMINISTRATION, Electronic funds transfer

BILL NUMBER: HB 418, HD-1

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Amends HRS section 231-9.9 to lower the tax liability threshold for taxpayers required to remit taxes by electronic funds transfer from \$100,000 to \$50,000. Also reduces the threshold to remit income tax withholding taxes by electronic funds transfer from \$40,000 to \$20,000.

EFFECTIVE DATE: July 1, 2030

STAFF COMMENTS: While Act 121, SLH 1995, authorized the department of taxation to require taxpayers with tax liability of \$100,000 or more to pay or remit the taxes due by electronic funds transfer, this measure proposes to lower the threshold to \$50,000. This measure also lowers the threshold to remit withholding taxes electronically from \$40,000 to \$20,000.

While this measure would require more taxpayers to file electronically by electronic funds transfer, consideration should also be given to also allow taxpayers to file by phone similar to the federal government in the event that taxpayers do not have access to a computer or internet access.

While the current draft of this bill has a defective effective date, should this bill go forward, sufficient time should be allowed for the department to accommodate the changes in the filing thresholds and sufficient time for taxpayers to adjust their procedures to accommodate the new requirements.

It should be noted, an earlier version of this bill would have allowed taxpayers to pay their tax liability to a financial institution in the state, thereby decreasing the lag time between the time the payment is received by the department and the time the remittance is actually deposited into a financial institution. While the financial institutions opposed the measure pointing out that they were being asked to undertake a task without being compensated, state administrators should work with the financial institutions to reach a compromise wherein payments can be deposited in financial institutions on a more timely basis. It should be noted that payments of real property taxes made to the City & County of Honolulu are usually debited from the taxpayer's account within 48 hours of the receipt of the payment even if it is a bank holiday. To merely reject a proposal that would increase the efficiency of a government operation because the financial institutions believe that they would not be compensated does the taxpayer an injustice. If the financial institutions believe they should be compensated for this task, there is no doubt a point where the money earned on the payments would more than cover the cost of the services provided by the financial institutions.

Digested 3/16/11