

SB 756

WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 756, S.D. 1

February 24, 2011

RELATING TO TAXATION

Senate Bill No. 756, S.D. 1, creates an Integrated Tax Services and Management special fund to be administered by the Department of Taxation to improve customer services and taxpayer fairness and increase cost savings with the emphasis on electronic filing. The special fund will receive moneys from the integrated tax services and management system's post-implementation revenue-generating initiatives.

As a matter of general policy, the Department of Budget and Finance does not support the creation of any special fund or revolving fund that does not meet the requirements of Sections 37-52.3 and 37-52.4, Hawaii Revised Statutes. Special and revolving funds should: 1) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program; 2) provide an appropriate means of financing for the program or activity; and 3) demonstrate the capacity to be financially self-sustaining. In regards to Senate Bill No. 756, S.D. 1, it is difficult to determine whether the Integrated Tax Services and Management special fund would be financially self-sustaining.

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SUBJECT: ADMINISTRATION, GENERAL EXCISE, Filing of tax returns

BILL NUMBER: SB 756, SD-1

INTRODUCED BY: Senate Committee on Economic Development and Technology

BRIEF SUMMARY: Adds a new section to HRS chapter 231 to establish an integrated tax information management systems special fund for the department of taxation into which shall be deposited tax revenues provided by HRS chapters 235, 237, and 238. The fund shall be used to pay for: (1) the integrated tax services and management system's performance-based contracts and administrative and operating expenses; (2) the improvement of tax collection capabilities and achievement of the operational efficiencies that are the department's responsibilities; (3) the department's implementation, administration, and compliance of the Streamlined Sales and Use Tax Agreement when state legislation mandating implementation, administration, and compliance is enacted; and (4) the improvement of the department's operation and staffing requirements.

Makes conforming amendments to HRS sections 235-119 and 238-114.

Directs the department of taxation to utilize performance-based contracts to enhance, acquire, or enhance and acquire automated tax systems including computer hardware and software, for the implementation and administration of the taxes under HRS title 14, including the Streamlined Sales Tax Project under Act 3, SSLH 2005, and related software upgrades.

Requires the director of taxation to report to the legislature, prior to the convening of every regular session, beginning with the 2012 regular session, on the status of performance-based contracts pursuant to this act and shall provide an accounting of all moneys appropriated.

Appropriates general funds of \$_____ for fiscal 2012 to be deposited into the integrated tax services and management special fund.

Appropriates out of the integrated tax services and management special fund \$_____ for fiscal 2012 for the purposes of the integrated tax services and management special fund. The sum appropriated shall be expended by the department of taxation for the purposes of this act. The department of taxation shall repay the general fund for the general fund appropriation.

Amends HRS section 231-8.5 to require the department of taxation to establish a system to allow taxpayers to file all required tax returns, applications, reports, and other documents electronically, telephonically, or by optical means at no additional cost to the taxpayer by July 1, 2011.

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.

Repeals Act 22, SLH 2010, to reestablish the last day of the month as the deadline for the filing and payment of miscellaneous taxes and the quarterly filing period for insurance premiums taxes.

EFFECTIVE DATE: July 1, 2011

STAFF COMMENTS: The proposed measure provides for the creation of the integrated tax information management systems special fund. This measure would restore the special fund that had been set up for the initial integrated tax information management contract that was to integrate the information reported on the gross income tax or general excise tax return with the information reported on the net income tax return. That performance-based contract has proven to be highly successful. Apparently, the department has learned of other initiatives implemented in other states that have also yielded very good results and wishes to embark on the next phase to update the department's technology. Given the successful track record of the department's first project, lawmakers should give serious consideration to further modernizing the department's integrated tax information management systems.

That said, lawmakers should be aware that while the project brought changes to the information technology system of the department of taxation; however, because department personnel were resistant to change, it was difficult to provide all of the deliverables on the contract because staff would not attend the training. Lawmakers should make it clear that such resistance is unacceptable and is not the fault of the vendor.

The legislature by Act 176, SLH 1997, permitted taxpayers to file any tax return, application, report or other document required under Title 14 administered by the department of taxation, by electronic, telephonic, or optical methods. The proposed measure would require the department of taxation, by July 1, 2011, to establish a system to allow taxpayers to file all required tax returns, applications, reports, and other documents electronically, telephonically, or by optical means at no additional cost to the taxpayer. While it would be desirable to require taxpayers to utilize "electronic" means of filing such returns and documents, the system developed by the department of taxation should also be "user friendly" so that taxpayers can easily file electronically as compared to some of the existing electronic filing programs of the federal government.

While Act 121, SLH 1995, authorized the department 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.

While Act 22, SLH 2010, requires taxpayers subject to sections 237D, 238, 243, 244D, 245, 251 and 431:7 to file annual, monthly, quarterly, or semiannual returns or any other return that is due on the 20th day of the month, this measure repeals Act 22 and provides that the returns shall be filed by the last day of the month.

Digested 2/23/11