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LATE TESTIMONY

To: The Honorable Angus L.K. McKelvey, Chair
and Members of the House Committee on Economic Revitalization and Business

Date: Thursday, March 15, 2012
Time: 9:45 a.m.
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 2226, S.D. 2, Proposed H.D. 1, Relating to Taxation

The Department of Taxation (Department) appreciates the merits of S.B. 2226, S.D. 2, Proposed H.D. 1, and provides the following comments for your consideration.

Unless preempted by federal law, this measure provides a mechanism for internet and catalog sellers to collect the use tax owed by Hawai'i purchasers, provided that the seller both sells more than \$20,000 per year to Hawai'i purchasers, and more than \$10,000 per year of such sales occurred where the purchasers were referred to the seller by persons in this State, and such persons are paid a commission based upon the sales generated by the referral.

The sale of tangible personal property over the internet has grown dramatically over the last several years. Currently, if the internet retailer has not remitted the general excise tax to the state for the sale of the tangible personal property, the use tax under chapter 238 would apply to the end user or purchaser. In many cases, the end user of internet purchases is an individual consumer; in most cases, they are unaware of their tax liability obligations.

While Proposed HD1, does not eliminate the end user's tax obligation, the provision strengthens the state's tax laws and provides the Department with the ability to collect the use tax from the internet retailer, as an alternative to enforcing remittance of the tax on the end user. Having another tool to enforce the collection of taxes owed to the State would be welcome by the Department.

Thank you for the opportunity to provide comments.