L E G I S L A T I V E

TAXBILLSERVICE

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SUBJECT: ADMINISTRATION, Partial payment of taxes

BILL NUMBER: SB 2237; HB 2148 (Identical)

INTRODUCED BY: SB by Fukunaga, Baker, Slom, Solomon, Wakai; HB by Chong

BRIEF SUMMARY: Amends HRS section 231-27 to provide that a partial payment of an assessment of taxes shall be credited to principal, penalties, then interest.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: Currently, when the department of taxation receives a partial payment for an assessment of taxes due, the payment is applied to interest, penalties, then principal. The proposed measure would allow payments to be applied to principal, penalties, then interest. Since this proposal would mirror the federal provisions relating to partial payment of taxes, the adoption of this measure appears justifiable.

It should be noted that on the federal level, the IRS implemented an additional payment option on January 17, 2005 known as the Partial Payment Installment Agreement (PPIA) for taxpayers who have outstanding federal tax liabilities. This payment option became possible with the passage of the American Jobs Creation Act of 2004 and allows the IRS to enter into installment agreements that result in full or partial payment of tax liability.

Taxpayers who are being considered for a PPIA must provide complete and accurate financial information that will be reviewed and verified. Taxpayers will also be required to address equity in assets that can be utilized to reduce or fully pay the amount of the outstanding liability.

In addition, taxpayers granted PPIAs will be subject to a subsequent financial review every two years. As a result of this review, the amount of the installment payments could increase or the agreement could be terminated if the taxpayer's financial condition improves.

Digested 2/3/12