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**LATE**

To: The Honorable David Y. Ige, Chair  
and Members of the Senate Committee on Ways and Means

Date: Friday, February 10, 2012

Time: 9:00 a.m.

Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: S.B. 2237 Relating to Taxation

The Department of Taxation (Department) understands that the intent of S.B.2237, but is unable to implement this proposal due to the lack of budget and staffing resources, if adopted.

S.B. 2237 amends the distribution priorities set under section 231-27, Hawaii Revised Statutes when a taxpayer makes only a partial payment of taxes owed. Currently, the law requires that payments are credited to interest first, then penalties, and then to principal. This measure would apply payments to the principal first, then penalties, and then interest in the same manner as the federal government.

Although the Department agrees with the intent of this measure as it mirrors the federal tax provisions, the Department has serious concerns about its ability to implement the changes necessary to carry out this proposal. Even with sufficient budgetary and staffing resources, the Department estimates that it would take a minimum of one year to develop the software and testing resources to accomplish this change.

The Department also notes that changing the penalties and interest calculation formulas is the most difficult and labor-intensive programming for the existing computer system. For these reasons, the Department does not recommend making this change at this time.

Thank you for the opportunity to provide comments.