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To: The Honorable David 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. 2298 Relating to Taxation

The Department of Taxation (Department) understands the intent of S.B. 2298, but has concerns about its ability to implement the provisions of this measure, if adopted.

S.B. 2298 requires the Department of Taxation ("Department") to report to the Legislature the total tax revenues collected by island during the previous tax year by March 1 of each year. This bill is effective upon approval.

The Department currently reports monthly tax revenue collections according to the four taxation districts (Oahu, Maui, Hawaii, Kauai) established under Title 14, Hawaii Revised Statutes. These monthly collections reflect an aggregate amount based on the mailing address of the taxpayer, not the actual location where business activity occurred or resident lives.

Even if the Department were able to reprogram our computer system to separate the mailing address of the taxpayer by island, the data is reported to the Department in an imperfect manner. For example, companies with operations on neighbor islands that are headquartered on Oahu and file their taxes using an Oahu address, the entire collection from the company would be reflected in the collections for Oahu.

In order to get data more reflective of the actual location where business activities occurred, the Department would need to make substantial changes to its tax forms and require taxpayers with business in more than one location to report it separately on their tax returns.

Currently, the Department's existing budget and staff resources are wholly insufficient to tackle this request. Furthermore, the bill requires information to be reported by March 1 of the following tax year; tax returns are not due until April 20 of the following year. To meet the March 1st deadline, the deadline for **all** tax returns would need to be changed to meet this date.

Department of Taxation Testimony

SB 2947

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Additionally, taxpayer may request an extension of time to file their taxes, resulting in a large number of returns not being filed until October of the following tax year. For these reasons, it would be difficult to implement the provisions of this bill.

Thank you for the opportunity to provide comments.