

TAXBILLSERVICE

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SUBJECT: ADMINISTRATION, Tax clearance fees

BILL NUMBER: SB 2868, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Adds a new section to HRS chapter 231 to allow the department of taxation to charge a fee of \$20 for each tax clearance application submitted by a taxpayer and \$5 for each certified copy of a tax clearance provided that electronic tax clearance requests may be submitted by taxpayers online at no charge. Permits the department to charge additional fees relating to the issuance of tax clearances.

This act shall be applicable to requests for tax clearances and requests for certified copies of tax clearances received on or after June 30, 2012.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This is an administration measure submitted by the department of taxation TAX-02 (12). Currently, tax clearances requested by taxpayers are provided by the department of taxation at no cost to the taxpayer. If a taxpayer needs a tax clearance from the Internal Revenue Service, the same form that is submitted to the department of taxation can be used and there is no fee for the federal tax clearance.

While this measure proposes a fee of \$20 for each tax clearance application and \$5 for each certified copy, it should be noted that as compared to the fees charged by other state departments, these appear to be rather high. The department of health charges a fee of \$10 for the first copy of each certified copy of a birth, death, civil union, marriage and divorce certificate, and \$4 for each additional copy of the same certificate ordered at the same time.

Given that taxpayers are required to comply with the tax laws of the state and pay what is due, a tax clearance is merely a validation on the department of taxation that the taxpayer is compliant. Inasmuch as a tax clearance is a requirement for bidding on or securing a state or county contract, those tax clearances should be made available without cost to the taxpayer. It should be noted that taxpayers can obtain tax clearances from both the department of taxation and the Internal Revenue Service as well as clearances from the departments of labor and commerce and consumer affairs by using the department of accounting and general services' (DAGS) Hawaii Compliance Express HCE program that charges a \$12 annual registration fee.

Apparently the department views this proposed charge as a disincentive to taxpayers to request a paper tax clearance preferring taxpayers request an electronic tax clearance. Given the ability to secure a tax clearance through the HCE program, imposing a charge for a tax clearance seems redundant. All future requests should be referred to the on-line DAGS program.

Digested 3/27/12



March 27, 2012

Representative Marcus Oshiro
Chair, Committee on Finance
Hawaii State House of Representatives
State Capitol, Room 309
Honolulu, HI 96813

RE: SB 2868, SD 1, RELATING TO TAX CLEARANCE FEES

Dear Chair Oshiro, Vice-Chair Lee and members of the House Finance Committee:

The Hawai'i Alliance of Nonprofit Organizations (HANO) supports the SD 1 amendment to SB 2868, which imposes fees for tax clearance requests in hardcopy form only if there is an option to obtain these clearances free online. HANO is a statewide, sector-wide professional association for nonprofits. HANO members provide essential services to every community in the state. Our mission is to unite and strengthen the nonprofit sector as a collective force to improve the quality of life in Hawai'i.

Many nonprofits partner with state government to provide critical services that provide enhanced health and safety and improve our quality of life in communities across the state. These nonprofit providers deliver services in good faith and are bound legally by their government contracts to deliver the service. It is important to note that these services are often provided by nonprofit organizations because state government is unable to deliver these services as quickly or cost-effectively as its nonprofit partners.

For those nonprofits that have multiple contracts with the state and need to provide tax clearances frequently throughout the year, a \$20 fee for each online tax clearance, or \$5 for each hardcopy certification could be very costly in the aggregate to nonprofits.

The cost of doing business, for for-profit and nonprofit organizations alike is rising, with fuel and energy costs increases. Nonprofits often do not have the disposable unrestricted income to pay for these escalating business expenses. The free online option to obtain tax clearances has worked very efficiently for nonprofits.

Thank you for the opportunity to express comments on SB 2868 and to support the SD 1 version.

Mahalo,

Lisa Maruyama
President and CEO

Natalie J. Iwasa, CPA, Inc.
1331 Lunalilo Home Road
Honolulu, HI 96825
808-395-3233

TO: Committee on Finance

FROM: Natalie Iwasa, CPA

HEARING

DATE: 10 a.m. Wednesday, March 28, 2012

RE: SB 2868, SD1 Tax Clearance Fees - **OPPOSED**

Aloha Chair and Members of the Committee,

Thank you for allowing me to testify in opposition to SB 2868, SD1, which would allow the Department of Taxation to charge \$20 for each tax clearance and \$5 for a certified tax clearance, except that electronic requests may be submitted at no charge.

The bill also allows the department to charge additional fees related to the issuance of tax clearances. **This language appears to allow the state to charge fees for tax clearances regardless of whether requests are made via paper or electronically.** I therefore oppose this bill and ask you to vote "no."