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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. 2868 Relating to Tax Clearance Fees

The Department of Taxation (Department) supports the adoption of S.B. 2868 and offers the following information for the Committee's consideration.

S.B. 2868 authorizes the Department to charge a \$20 fee at the time a request for a tax clearance is made. Thereafter, an additional fee of \$5 may be charged for certified copies of the tax clearance certificate. The request to charge a fee is part of the Department's strategy to move toward more e-filing of tax forms and payments.

A tax clearance certificate is issued by the Department to certify that a taxpayer has filed all tax returns due, and paid all amounts owed, as of the date the certificate is issued. Tax clearance certificates are valid for six months from the date of issuance.

Currently, taxpayers may obtain tax clearances without paying a fee for the tax clearance. On average, the Department processes approximately 30,000 tax clearance requests per year and issues approximately 60,000 certified copies of tax clearance. Each tax clearance request takes approximately 15-30 minutes of staff time, depending on the number and complexity of the taxpayer's accounts. These requests include tax clearances needed for bi-annual license renewals of contractors (approximately 8000) and annual liquor license renewals.

State and county vendors with contracts valued at \$2500 or more are now required to register through Hawaii Compliance Express (HCE). This requirement has reduced the number of tax clearances requested via paper form. However, since the verification process leading to issuing a "compliant" or "non-compliant" designation for HCE purposes still requires a manual review of a taxpayer's account, the HCE process has not significantly reduced the workload for processing tax clearances.

At this time, the Department's intention is to move toward electronic filing and issuance of tax clearances to expedite and the process automate the process. Testing is currently being done and the Department is hoping to offer this service to the public in the coming months.

Once the automated tax clearance system is available for public use, the Department would then consider whether to impose the fee for paper filed tax clearance requests, since these transactions take more staff time to process. E-filing tax clearance requests could continue to be free to encourage more taxpayers to use this service. We believe that providing the electronic service for free will encourage most taxpayers to use this process without having to mandate e-filing for tax clearances.

Thank you for the opportunity to provide comments.



February 9, 2011

Senator David Ige  
Chair, Committee on Ways and Means  
Hawaii State Senate  
State Capitol, Room 211  
Honolulu, HI 96813

**RE: SB 2868, RELATING TO TAX CLEARANCE FEES**

Dear Chair Ige and members of the Senate Ways and Means Committee:

The Hawai'i Alliance of Nonprofit Organizations (HANO) opposes SB 2868, which imposes fees for tax clearance requests.

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.

Why then, would state government further inhibit its nonprofit partners from providing these needed services on which it so heavily relies? 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, along with other expenses like unemployment insurance costs. Nonprofits often do not have the disposable unrestricted income to pay for these escalating business expenses.

Thank you for the opportunity to express opposition to SB 2868.

Mahalo,

Lisa Maruyama  
President and CEO