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A BILL FOR AN ACT

RELATING TO UNAUTHORIZED INSPECTION OF TAX RETURNS AND TAX  
RETURN INFORMATION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1           SECTION 1. Chapter 231, Hawaii Revised Statutes, is  
2 amended by adding a new section to be appropriately designated  
3 and to read as follows:

4           "§231-           Unauthorized wilful inspection of returns and  
5 return information. (a) The unauthorized wilful inspection of:

6           (1) Any return;

7           (2) Return information; or

8           (3) Information which can identify a particular taxpayer

9           that is received by the department for the purposes of  
10           tax administration which is:

11           (A) Obtained from the Internal Revenue Service or

12           other taxing authority; or

13           (B) Derived by an employee of the State or a county

14           therein, an employee of another state, a person

15           under contract with the State or an officer,

16           director, or employee thereof;

1           (C) Derived by a person obtaining unauthorized access  
2           to a return, document, or information while the  
3           return, document, or information, including a  
4           return, document, or information stored in  
5           computer systems or computer files, is in the  
6           custody of the department or of any other person  
7           or entity described in this subsection; or

8           (D) Derived from any other source,  
9           by a State or other government employee is  
10           prohibited. A violation of this subsection shall  
11           be punished by a fine of not more than \$1,000 per  
12           return, document, or taxpayer, as the court  
13           determines, with respect to which information was  
14           inspected, or by imprisonment for not more than  
15           one year, or both.

16           (b) The determination by the director of taxation that an  
17           employee of the department, in contravention of this subsection,  
18           wilfully inspected information where the inspection was  
19           unauthorized and not protected by the good faith provision of  
20           this subsection, shall be grounds for dismissal of the employee.

21           (c) A violation, as determined by the director of  
22           taxation, of this subsection by any officer, director, or  
23           employee of any person under contract with the department shall

1 be grounds for prohibiting the officer, director, or employee  
2 from working on the contract. A violation, as determined by the  
3 director of taxation, of this subsection by a person under  
4 contract with the department, or an officer, director, or  
5 employee thereof, shall also be cause for terminating a current  
6 contract between the department and for prohibiting the  
7 contractor from entering into a future contract with the  
8 department.

9 (d) For the purpose of this section:

10 (1) "Inspection" means any examination of a return or  
11 return information.

12 (2) "Return" means any tax or information return,  
13 declaration of estimated tax, or claim for refund  
14 required by, or provided for or permitted under, the  
15 provisions of title 14 that is filed with the  
16 department by, on behalf of, or with respect to any  
17 person, and any amendment or supplement thereto,  
18 including supporting schedules, attachments, or lists  
19 that are supplemental to, or part of, the return so  
20 filed.

21 (3) "Return information" means a taxpayer's identity, the  
22 nature, source, or amount of the taxpayer's income,  
23 payments, receipts, deductions, exemptions, credits,

H. B. NO. 969

1 assets, liabilities, net worth, tax liability, tax  
2 withheld, deficiencies, overassessments, or tax  
3 payments, whether the taxpayer's return was, is being,  
4 or will be examined or subject to other investigation  
5 or processing, or any other data, received by,  
6 recorded by, prepared by, furnished to, or collected  
7 by the department with respect to a return or with  
8 respect to the determination of the existence, or  
9 possible existence, of liability (or the amount  
10 thereof) of any person under title 14 for any tax,  
11 penalty, interest, fine, forfeiture, or other  
12 imposition, or offense.

13 (4) "Unauthorized inspection" means any examination of a  
14 return or return information without official business  
15 purpose or when an inspection is not required to  
16 perform assigned duties. Unauthorized inspection  
17 includes, but is not limited to, the inspection of the  
18 returns or return information of friends, relatives,  
19 and the employee's own records."

20 SECTION 2. Statutory material to repealed is bracketed and  
21 stricken. New statutory material is underscored.

22 SECTION 3. This Act shall take effect upon its approval.

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H.B. NO. 969

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INTRODUCED BY:   
BY REQUEST

JAN 22 2013

# H. B. NO. 969

**Report Title:**

Taxation; Unauthorized Inspection of Tax Returns and Tax Return Information.

**Description:**

Codifies the Department of Taxation's current unauthorized inspection policies and procedures, which were adopted in conformance with the prohibitions of the Taxpayer Browsing Protection Act of 1997 and Internal Revenue Code section 7123A, including criminal penalty provisions.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

HB969

JUSTIFICATION SHEET

DEPARTMENT: Taxation

TITLE: A BILL FOR AN ACT RELATING TO UNAUTHORIZED INSPECTION OF TAX RETURNS AND TAX RETURN INFORMATION.

PURPOSE: The purpose of this bill is to amend chapter 231, Hawaii Revised Statutes, to codify and establish prohibited conduct regarding the unauthorized inspection of tax returns and tax return information.

MEANS: Add a new section to chapter 231, Hawaii Revised Statutes.

JUSTIFICATION: Unauthorized inspection violates each taxpayer's right to confidentiality of tax returns and tax return information. The Taxpayer Browsing Protection Act of 1997 codified in Internal Revenue Code section 7123A, which prohibits federal and state employees from the unauthorized inspection of tax returns and tax return information and sets forth criminal penalties upon conviction. Although unauthorized inspection is currently administratively prohibited, title 14 of the Hawaii Revised Statutes does not contain a statute codifying the prohibited conduct and setting forth criminal penalties.

Impact on the public: Supports the voluntary tax compliance system by preserving taxpayer trust through taking prudent steps to ensure the confidentiality of tax returns and tax return information.

Impact on the department and other agencies: Clarifies that unauthorized inspection is a criminal offense punishable by fines and/or imprisonment.

GENERAL FUND: None.

HB 969

OTHER FUNDS:                   None.

PPBS PROGRAM  
DESIGNATION:

OTHER AFFECTED  
AGENCIES:                   None.

EFFECTIVE DATE:           Upon approval.