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To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Friday, February 22, 2013
Time: 1:30 p.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 563 Relating to Taxation

The Department of Taxation (Department) appreciates the merits of H.B. 563, and provides the following information for the Committee's consideration.

H.B. 563 amends the date of filing of monthly, quarterly, and semiannual general excise tax (GET) returns from the twentieth day of the calendar, quarterly, or semiannual month to the last day (changes the date of filing to dates prior to Act 196, Session Laws of Hawaii 2009). The effective date of the bill is upon approval and applies to returns and payments due after July 1, 2013.

The Department has serious concerns about whether it would be able to implement the requirements of this measure. At the time Act 196 was adopted, the Department needed over two years to complete the implementation. Additionally, the Department had an additional ten contractors to assist the Department's Information Technology Services Office with the implementation; this contract has since expired.

In addition to imposing significant implementation issues for the Department, H.B. 563 will result in an estimated revenue loss of \$40 million in fiscal year 2014. The measure will also create a "weekend effect" on tax revenues. That is, tax returns and payments made on or near the 30th day of the month will not be reported and collected until the following month; at the end of a fiscal year, the revenue is shifted into the next fiscal year.

If this bill were to be adopted, the Department requests that the effective date be extended to January 1, 2017.

Thank you for the opportunity to provide comments.

**Testimony to the House Committee on Finance
Friday, February 22, 2013 at 1:30 P.M.
Conference Room 308, State Capitol
Agenda #2**

RE: HOUSE BILL NO. 563 RELATING TO TAXATION

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee:

The Chamber of Commerce of Hawaii (“Chamber”) **supports HB 563** Relating to Taxation. We appreciate the committee for scheduling this bill.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the “Voice of Business” in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state’s economic climate and to foster positive action on issues of common concern.

This measure reestablishes the last of the month as the deadline for filing and payment of general excise taxes.

In the 2009 Legislature, the Chamber did not support Act 196 because of the impact it would have had on small businesses. We believed the measure would have essentially amount to a one-time tax increase and create additional administrative burdens for business, which in turn, will impose additional costs.

Businesses are already struggling to stay afloat during this slow economic recovery. Merely keeping up with operating expenses is difficult, especially for small businesses. Therefore, we appreciate the committee for considering a measure that will reestablish the end of the month as the filing deadline as it will remove an unnecessary administrative complexity. Furthermore, we believe electronic filing will make it more efficient for businesses to timely file and pay their taxes.

Thank you for the opportunity to provide testimony.

TAXBILLSERVICE

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SUBJECT: GENERAL EXCISE, Amend filing date; filing of tax returns

BILL NUMBER: SB 350; HB 563 (Identical)

INTRODUCED BY: SB by Gabbard, Ruderman and 6 Democrats; HB by Har, Choy, Coffman, Evans, Hashem, Ichiyama, Ito, Jordan, Kawakami, Takayama, Tsuji, Yamane, Yamashita and 2 Democrats

BRIEF SUMMARY: Amends HRS section 237-30 providing that general excise tax returns be filed by the last day of the month following the period in which the general excise tax liability accrues rather than the 20th day of the month.

EFFECTIVE DATE: Returns and payments due after July 1, 2013

STAFF COMMENTS: Act 196, SLH 2009, accelerated the filing and payment of general excise taxes to the 20th day rather than the last day of the month following the business activity. This was done to create a one-time cash infusion to the state. A return to the last day, rather than the 20th day of the month, will greatly assist taxpayers in filing their general excise tax returns on a timely basis. Therefore, the adoption of this provision is welcomed. It should be noted that the last day of the month or the tax period following was the day that general excise tax returns were required to be filed since the inception of the general excise tax.

Since the change to the 20th day of the month following the period of activity, a number of taxpayers have reported difficulty in meeting that deadline as the twenty-day period is insufficient to reconcile financial records such as accounting for returns, discounts, and losses. For multi-district taxpayers, such as a chain of department stores, it is a matter of gathering records from the different outlets and reconciling sales that may have occurred between different retail outlets.

It should be noted that Act 22, SLH 2010, requires taxpayers subject to sections 237D, 238, 243, 244D, 245, 251 and 431:7 to file annual, monthly, quarterly, or semiannual returns or any other return that is due on the 20th day of the month, this measure only applies to general excise tax returns. Consideration should be given to requiring all tax returns to be filed by the last day of the month following the period of activity.

Finally, this measure takes effect on 7/1/13. If adopted, taxpayers should be given ample notice of the change in filing days before this act takes effect to insure compliance.

Digested 1/28/13



The Hawaii Business League

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February 22, 2013

Testimony To: House of Representatives
Representative Sylvia Luke, Chair

Presented By: Tim Lyons
President

Subject: H.B. 563 – RELATING TO TAXATION

Chair Luke and Members of the Committee:

I am Tim Lyons, President of the Hawaii Business League, a small business service organization. We support this bill.

We have had just an incredible number of complaints by small businesses complaining about the new 20th of the month deadline for filing the payment for general excise tax. The problem is that for many small businesses it is the owner who acts as the promoter, the janitor, the bookkeeper and the production line person for many of these businesses. Should they go out of town for a week, it makes it very difficult to get these payments in on time particularly since banks provide their monthly statement at

terribly close to the same deadline. Typically you would not want to calculate your GET until you have balanced your checking account.

We also note that we have received a lot of complaints from contractors to say that it is awfully sad that the state cannot pay them for three (3) months, six (6) months or even two (2) years but yet the state wants them to pay their general excise tax ten (10) days earlier than they used to.

Based on the unintended consequences and negative reaction to this law, we would urge this Committee to return the filing deadline to the end of the month.

Thank you.



Representative Sylvia Luke, Chair
Representative Scott Y. Nishimoto, Vice Chair
Representative Aaron Ling Johanson, Vice Chair
Committee on Finance

HEARING Friday, February 22, 2013
 1:30 pm
 Agenda #2
 Conference Room 308
 State Capitol, Honolulu, Hawaii 96813

RE HB563, Relating to Taxation

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee:

Retail Merchants of Hawaii (RMH) is a not-for-profit trade organization representing 200 members and over 2,000 storefronts, and is committed to support the retail industry and business in general in Hawaii. The retail industry is one of the largest employers in the state, employing 25% of the labor force.

RMH supports HB563, which amends the date of filing of monthly, quarterly, and semi-annual general excise tax returns from the twentieth day of the calendar, quarterly, or semi-annual month to the last day.

In 2009 while the Legislature was considering SB1461 (Act 196), which accelerated GET filing and payment dates, RMH polled our members for input. From one of RMH's small retailers:

These are challenging times and we should be looking for ways to ease the burdens of small business rather than add to or accelerate the demands placed on a business owner's time. Our business does not have additional resources to apply to new or accelerated requirements.

Reinstating the end-of-month schedule most assuredly will assist businesses more effectively manage their operations and hasten our economic recovery. I'm looking forward to being able to report our success with this measure to my members.

We respectfully request that you pass HB563. Thank you for your consideration and for the opportunity to comment on this measure.

Carol Pregill, President