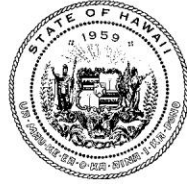


NEIL ABERCROMBIE
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LT. GOVERNOR



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DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

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

Date: Thursday, March 14, 2013
Time: 2:00 p.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 1187 S.D. 1 Relating to Delinquent Taxes

The Department of Taxation (Department) **strongly supports** S.B. 1187 S.D. 1 and provides the following information and comments for your consideration.

This measure establishes a reasonableness standard for when a tax is deemed uncollectible rather than a strict, fixed time period. The measure is effective upon approval, and takes effect on January 1, 2013.

At the present time, the Department must wait two years before deeming an account uncollectible. However, in many cases, this determination can be made much earlier, taking into consideration such factors as the bankruptcy of the taxpayer, catastrophic loss of health or property of the taxpayer, inability to locate the taxpayer, etc. Nevertheless, the statute as currently written requires that the Department keep the files open and from time to time review the case even though no change has occurred.

Maintaining this type of file as an open file has little to no benefit to the State. A reasonableness standard would allow clearly uncollectible case files to be closed pending some significant change of events. It should be noted that an uncollectible case file may be returned to collections if changes in circumstances indicate that the tax has become collectible.

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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SUBJECT: ADMINISTRATION, Collection of uncollectible taxes

BILL NUMBER: SB 1187, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 231-32 to delete the requirement that the department of taxation shall not close and delete an uncollectible tax account until it has been delinquent for at least two years. Allows the department to delete such an account due to the financial condition of the taxpayer, inability to locate a taxpayer, costs of collection, health of the taxpayer and future income prospects of the taxpayer.

EFFECTIVE DATE: Retroactive to January 1, 2013

STAFF COMMENTS: This is an administration measure submitted by the department of taxation TAX-05 (13). It appears that uncollectible delinquent tax accounts that remain on the books of the department of taxation cannot be deleted until the two-year period has elapsed. This results in an additional administrative burden for the department as it must track these accounts even though there is little or no chance of recovering any additional monies from these accounts.

The adoption of this measure would allow the department to purge these accounts and the additional administrative burden necessary to keep them open if it deems there is “reasonable cause, considering such factors as the financial condition of the taxpayer, inability to locate the taxpayer, costs of collection against the amount of the tax owed, health of the taxpayer, and future income prospects of the taxpayer.”

Digested 3/12/13