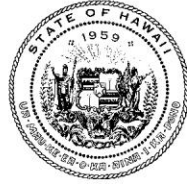


NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
FAX NO: (808) 587-1584

FREDERICK D. PABLO
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. 1197, S.D. 1 Relating to the Department of Taxation Special Enforcement Section

The Department of Taxation (Department) **strongly supports** S.B. 1197 S.D. 1, and provides the following information and comments for your consideration.

This measure will aid the Department in its mission to enforce the State's tax laws by removing the sunset date on the Department's Special Enforcement Section and the State's Cash Economy Enforcement laws.

The Special Enforcement Section is a valuable enforcement and education tool for the Department. Through its efforts, the section has generated almost \$1,000,000 in taxes, penalties and interest, with a reduced staffing level of three employees. More importantly, the staff has educated over 2,500 cash-based businesses about their tax obligations and the requirement that all taxpayers should pay their fair share of taxes. This is especially important in a state which is mostly composed of small businesses, as many small businesses start off as a cash-based business.

The staff has brought over 150 taxpayers into tax compliance through investigation and educational efforts. Many of these taxpayers have been identified for investigation from site visits and public complaints. An additional 500 taxpayers have been identified as non-filers who are in need of investigation to get them into compliance.

In addition to the promoting tax education among the small businesses, the section has helped to identify other issues and cases for enforcement by the Department. The continued activity of the Special Enforcement Section will further educate taxpayers on their responsibilities under the law and will increase taxes collected by the Department.

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: ADMINISTRATION, Department of taxation special enforcement section

BILL NUMBER: SB 1197, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends Act 134, SLH 2009, to make the special enforcement section of the department of taxation permanent by repealing the sunset provisions of its establishment.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This is an administration measure submitted by the department of taxation TAX-16 (13). The legislature by Act 134, SLH 2009, established a special enforcement section of the department of taxation to investigate “cash-based” businesses that are not paying their fair share of taxes. It appears that since its establishment, the special enforcement section has been instrumental in educating local businesses about their tax obligations and has been successful in generating an additional \$1 million in tax revenues.

While the proposed measure would make the special enforcement section of the department of taxation a permanent part of the department, it should be remembered that critical to taxpayer compliance is education and awareness of the changes in tax laws. The initial efforts of this team were solely enforcement without education which failed miserably, eliciting angry taxpayers. However, with education, taxpayers understood what was required of them in order to comply with the law. Understanding what is required of them through educational efforts encourages greater taxpayer compliance, generating additional tax revenues.

Digested 2/12/13