
A BILL FOR AN ACT

RELATING TO COUNTY SURCHARGE ON STATE TAX.

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

1 SECTION 1. Section 248-2.6, Hawaii Revised Statutes, is
2 amended by amending subsection (a) to read as follows:
3 "(a) If adopted by county ordinance, all county surcharges
4 on state tax collected by the director of taxation shall be paid
5 into the state treasury quarterly, within ten working days after
6 collection, and shall be placed by the director of finance in
7 special accounts. Out of the revenues generated by county
8 surcharges on state tax paid into each respective state treasury
9 special account, the director of finance shall deduct [~~ten~~] _____
10 per cent of the gross proceeds of a respective county's
11 surcharge on state tax to reimburse the State for the costs of
12 assessment, collection, and disposition of the county surcharge
13 on state tax incurred by the State. Upon any increase in the
14 costs of assessment, collection, and disposition of the county
15 surcharge on state tax, the State may amend its deduction, by
16 adoption of rules pursuant to chapter 91, to a percentage no
17 greater than ten per cent. Amounts retained shall be general
18 fund realizations of the State."



1 SECTION 2. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 3. This Act shall take effect on July 1, 2050.

4



Report Title:

County Surcharge on State Tax

Description:

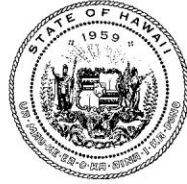
Changes the State's automatic deduction of 10% of the gross proceeds of a county's surcharge on state tax to a deduction of an unspecified percentage to reimburse the State for costs associated with handling the assessments, collection, and disposition of the county surcharge on state tax. Allows the State, by rule, to change the unspecified percentage to an amount not exceeding 10% if the costs of assessment, collection, and disposition increase. Effective 7/1/2050. (SD2)

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



NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
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FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

To: The Honorable Ryan Yamane, Chair
and Members of the House Committee on Transportation

Date: Monday, March 18, 2013
Time: 10:45 a.m.
Place: Conference Room 309, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 571, S.D. 2, Relating to County Surcharge on State Tax

The Department of Taxation (Department) **appreciates the intent** of S.B. 571, S.D. 2, but has concerns regarding the proposal as drafted.

S.B. 571, S.D. 2, reduces the amount to be deducted from the gross proceeds of the county surcharge on state tax paid, from 10% to an unknown percentage, to reimburse the State for the costs of assessment, collection, and disposition of the county surcharge on state tax incurred by the State. This measure also allows the State to recover any increase in costs, by adoption of administrative rules pursuant to chapter 91, up to ten per cent.

The Department has concerns about the change in the reimbursement provisions as written. First, it is unclear as to what "...the State may amend its deduction..." means. It is unclear whether the Department would be able to recover the additional costs incurred, dollar-for-dollar, or whether the Department would simply be allowed to increase the percentage rate to be applied against the gross proceeds. Further, the Department has concerns whether the Legislature can delegate authority to the Department to increase the percentage of costs recovered via administrative rules and the practical implications regarding how it would implement any new cost recovery amount.

Thank you for the opportunity to provide comments.

OFFICE OF THE MAYOR
CITY AND COUNTY OF HONOLULU

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KIRK CALDWELL
MAYOR

EMBER LEE SHINN
MANAGING DIRECTOR DESIGNATE

GEORGETTE T. DEEMER
DEPUTY MANAGING DIRECTOR

TESTIMONY OF KIRK CALDWELL, MAYOR
CITY AND COUNTY OF HONOLULU
BEFORE THE HOUSE
COMMITTEE ON TRANSPORTATION
Monday, March 18, 2013, 10:45 a.m., Conference Room 309

SENATE Bill 571 SD 2, "RELATING TO THE COUNTY SURCHARGE OF STATE TAX"

Position: In Support

To: The Honorable Ryan I. Yamane, Chair
and Members of the Committee on Transportation

The City & County of Honolulu supports Senate Bill 571 SD2, "Relating to the County Surcharge of State Tax", which proposes to change the State's automatic deduction of 10% of the gross proceeds of a county's surcharge on state tax to a deduction of an unspecified percentage to reimburse the State for costs associated with handling the assessments, collection, and disposition of the county surcharge on state tax. This proposal also allows the State, by rule, to change the unspecified percentage to an amount not exceeding 10% if the costs of assessment, collection, and disposition increase.

In order to build rail better, the City needs to be able to rely on timely and accurate payments from the State for the 0.5% general excise tax (GET) surcharge collected from businesses doing business in the City & County of Honolulu.

The enabling law which authorized the City to adopt a GET surcharge specifies that the 10% fee shall be used "to reimburse the State for the costs of assessment, collection, and disposition of the county surcharge on state tax incurred by the State ... the costs of assessment, collection, and disposition ... shall include any and all costs, direct or indirect, that are deemed **necessary and proper** to effectively administer this section..." (HRS Section 248-2.6(a)(c))(emphasis added).

In 2012, the fees collected (\$21.2 Million) amounted to nearly the entire budget to operate the State Department of Taxation (\$23.7 Million). The Legislature could not have intended to pay for nearly the entire operation of its Department of Taxation through the imposition of the 10% administrative fee taken off the top of the 0.5% GET surcharge. Senate Bill 571 SD 2 facilitates a more proper use of taxpayers' money, as the GET surcharge was originally intended. As such, the City & County of Honolulu respectfully requests that unspecified percentage in the bill be changed to "5%", which represents a fair and equitable amount.

We also respectfully request the deletion of the underlined portion of the bill, which reads, "Upon any increase in the costs of assessment, collection, and disposition of the county surcharge on state tax, the State may amend its deduction, by adoption of rules pursuant to

chapter 91, to a percentage no greater than ten per cent.” It has been empirically demonstrated that State Tax Department routinely collects excessive fees for its assessment, collection, and disposition of the GET surcharge.

Finally, we respectfully request that the effective date be changed to July 1, 2013, which will allow for a more timely payment of our share of the GET surcharge, which is much needed for our county’s rail project.

Mahalo for the opportunity to testify on this bill. Should you have any questions or concerns, please feel free to contact me at 768-4141.

City & County of Honolulu General Excise Tax Surcharge Pays for 89% of DOTAX Operations

