

SB 571

RELATING TO COUNTY SURCHARGE ON STATE TAX.

Requires the Honolulu authority for rapid transit to collect the county surcharge on state tax established by the city and county of Honolulu pursuant to section 46-16.8, Hawaii Revised Statutes. Requires a county that establishes a county surcharge on state tax pursuant to section 46-16.8, Hawaii Revised Statutes, to reimburse the state for costs incurred or expended to assist that county to plan for a rapid transit system.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

To: The Honorable J. Kalani English, Chair
and Members of the Senate Committee on Transportation and International Affairs

The Honorable Will Espero, Chair
and Members of the Senate Committee on Public Safety, Intergovernmental and
Military Affairs

Date: Monday, February 11, 2013
Time: 1:17 p.m.
Place: Conference Room 224, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

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

The Department of Taxation (Department) defers to the Department of Budget and Finance, City and County of Honolulu, and the Honolulu Authority for Rapid Transportation regarding the merits of S.B.571. The Department offers the following information and comments for the committee's consideration.

S.B. 571 requires the Honolulu Authority for Rapid Transportation to collect the county surcharge on state tax as established in sections 237-8.6 and 238-2.6, Hawaii Revised Statutes (HRS). The measure also converts the surcharge into a reimbursement for certain costs expended by the state in assisting the county with planning for a rapid transit system.

The Department notes the following concerns with S.B. 571 as written. First, the Department has jurisdiction over the administration of all tax matters under Title 14 of the Hawaii Revised Statutes. For clarity, the Department recommends that if HART is granted authority to collect the surcharge, that the enabling language be placed in a new chapter separate from Title 14.

Second, if HART is provided authority to collect the surcharge separately, the Department notes that taxpayers would need to complete, file and remit taxes to two separate agencies. Moreover, without proper education of the new process, the chance for reporting errors is likely.

Third, removing the authority for enforcement and collection of the county surcharge will require substantial modifications to the Department's computer, tax forms and instructions. Given the Department's current system, the Department will not be able to implement these changes upon approval as required the bill. Prior to implementation in 2007, the Department had approximately two years' notice to implement the changes.

The Department also notes that the time it implemented the surcharge, the Department had ten additional contractors to assist with the conversion of the computer software changes. At this time, the Department does not have those resources. Furthermore, the Department anticipates commencing the development of the Tax System Modernization (TSM) project before the end of the year. The TSM project is the Department's highest priority and will require all of our available staff resources. For these reasons, implementing the changes to remove the application of the surcharge from our current computer system and processes will be difficult at this time.

Thank you for the opportunity to provide comments.

OFFICE OF THE MAYOR
CITY AND COUNTY OF HONOLULU

530 SOUTH KING STREET, ROOM 300 * HONOLULU, HAWAII 96813
PHONE: (808) 768-4141 * FAX: (808) 768-4242 * INTERNET: www.honolulu.gov



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 SENATE
COMMITTEE ON TRANSPORTATION AND INTERNATIONAL AFFAIRS &
COMMITTEE ON PUBLIC SAFETY, INTERGOVERNMENTAL AND MILITARY AFFAIRS
Monday, February 11, 2013, 1:17 p.m., Conference Room 224

SENATE Bill 571 RELATING TO THE COUNTY SURCHARGE OF STATE TAX

Position: In Support

To: The Honorable J. Kalani English, Chair
and Members of the Committee on Transportation and International Affairs

The Honorable Will Espero, Chair
and Members of the Committee on Public Safety, Intergovernmental & Military Affairs.

The City & County of Honolulu supports the SD1 as proposed by Senator Kidani to Chairs English and Espero regarding Senate Bill 571, "Relating to County Surcharge on State Tax".

Senate Bill 571 SD1 proposes to change to State's automatic deduction of 10% of the gross proceeds of a county's surcharge on state tax to a deduction of 6% 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 administrative rule to change the six per cent to an amount not exceeding 10% if the costs of assessment, collection, and disposition increase.

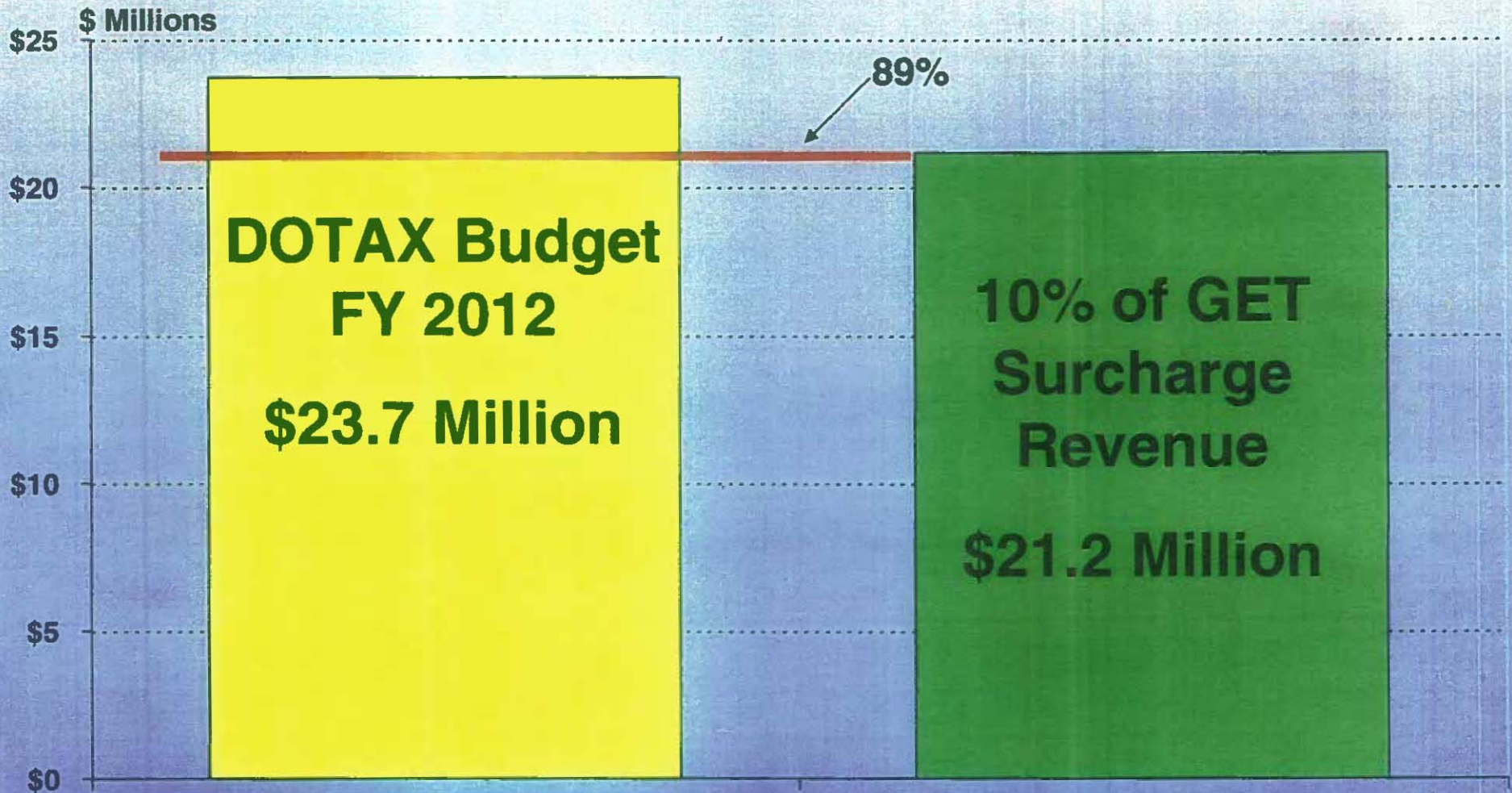
In order to build rail better, the City needs to be able to rely on timely and accurate payments from the State for the one half percent general excise tax (GET) surcharge collected from businesses doing business in the City & County of Honolulu.

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 Tax Department (\$23.7 Million). The Legislature could not have intended to pay for nearly the entire operation of its Tax Department through the imposition of the 10% administrative fee taken off the top of the one-half percent GET surcharge. As such, the amendments proposed by SB 571 SD1 facilitate a more proper use of taxpayers' money, as the GET surcharge was originally intended.

Mahalo for the opportunity to testify on 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



TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, County surcharge reimbursement

BILL NUMBER: SB 571

INTRODUCED BY: Kidani by request

BRIEF SUMMARY: Adds a new section to HRS chapter 46 to provide that in lieu of the administrative deduction by the state of 10% for administrative costs under HRS section 248-2.6, a county that establishes a surcharge on state taxes shall reimburse the state for any costs incurred or expended to assist that county to plan for a rapid transit system as a locally preferred alternative for mass transit including costs of transportation planning and historic preservation.

Makes conforming amendments to HRS sections 46-16.8, 237-8.6, 238-2.6 and 248-2.6.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: Act 247, SLH 2005, allowed the counties to adopt a county surcharge on the state general excise tax. However, only the city and county of Honolulu adopted the surcharge at the rate of 0.5%. Although the surcharge is a county imposition, it appeared that the legislature always intended that the surcharge was to be piggybacked onto the state's general excise tax rate of 4%. Perhaps believing the state should be reimbursed for the cost of collecting the surcharge, lawmakers specified that 10% of the surcharge collections be paid to the state to cover those costs.

While the proposed measure would provide that in lieu of the reimbursement of costs to administer the surcharge, the proposed measure requires the city and county of Honolulu to pay for any planning costs incurred by the state for the rapid transit system. While the measure does not clearly delineate what such costs specifically include, it is conceivable that the costs to be reimbursed under this proposed measure may exceed the amount of the allowable reimbursement allotment adopted by Act 247. On the other hand and, without knowing whether or not the state assisted in the planning of the transit system, one would have to ask what sort of assistance was provided by the state in planning the system?

Since the surcharge has been in place since 2006, consideration might be given to providing that the city reimburse the state for the actual cost of administering the 0.5% surcharge for the city and county of Honolulu. Such blanket earmarking of revenues for a program is inefficient and lacks accountability as the costs could be more or less than the amount earmarked. In other words, the 10% charge has no basis and was determined with no idea of the true cost of collecting the surcharge.

It should be noted that, as drafted and adopted by Act 247, the money does not go toward the department of taxation's budget, but accrues to the state general fund. Thus, there is no way of ascertaining the true cost of administering the surcharge as the amount taken by the state is buried in the state general fund and appropriations made to the department for its operations are not specifically designated for administering the surcharge. It would seem only fair that the amount retained by the state be a true reimbursement of the additional costs incurred in administering and collecting the surcharge and be appropriated to the department for that purpose.

Digested 2/8/13

SB571

Friday, February 08, 2013

6:37 AM

Subject	*Submitted testimony for SB571 on Feb 11, 2013 13:17PM*
From	mailinglist@capitol.hawaii.gov
To	TIATestimony
Cc	tabraham08@gmail.com
Sent	Thursday, February 07, 2013 9:28 PM

SB571

Submitted on: 2/7/2013

Testimony for TIA/PSM on Feb 11, 2013 13:17PM in Conference Room 224

Submitted By	Organization	Testifier Position	Present at Hearing
Troy Abraham	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov

SB571

Sunday, February 10, 2013

12:45 PM

Subject	*Submitted testimony for SB571 on Feb 11, 2013 13:17PM*
From	mailinglist@capitol.hawaii.gov
To	TIATestimony
Cc	pamelapcm@gmail.com
Sent	Friday, February 08, 2013 2:03 PM

SB571

Submitted on: 2/8/2013

Testimony for TIA/PSM on Feb 11, 2013 13:17PM in Conference Room 224

Submitted By	Organization	Testifier Position	Present at Hearing
Pamela Williams	Individual	Oppose	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov