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

Date: Wednesday, February 12, 2014
Time: 2:00 p.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 2341 Relating to Electronic Filing and Payment of Taxes

The Department of Taxation (Department) stands in strong support of this Administration measure. Lowering the dollar thresholds for electronic funds transfers will enable the Department to expeditiously and efficiently collect tax payments owed to the State of Hawaii.

H.B. 2341 lowers the threshold dollar amount to require taxpayers, whose tax liability exceeds \$25,000 in one year, to transfer these amounts via electronic funds transfer. The measure is effective upon approval, and applies to taxable years beginning after December 31, 2014.

The Department finds that the electronic transfer of funds is the most efficient and safe method of tax payment. The taxpayers who are required to transfer funds electronically will have certainty that their payments were sent and received by the Department because they will receive electronic confirmation of the transfer of funds. The current thresholds are \$40,000 for withholding taxes and \$100,000 for all other taxes.

The Department is mindful of small businesses and other taxpayers who will be subject to this requirement, but believes that requiring electronic funds transfer at a threshold amount of more than \$25,000 will not be an unreasonable burden. In fact, electronic funds transfer can be arranged so that payments are sent directly from the taxpayer's bank to the Department.

As proposed in H.B. 2341, a taxpayer needs to have averaged gross receipts of \$50,000 per month, or over \$600,000 in a year, for this requirement to apply. For withholding taxes imposed under section 235-62, Hawaii Revised Statutes, the employer would need to have paid average total wages of \$34,000 per month, or over \$400,000 in a year. The Department believes that taxpayers at these income levels will be able to comply with the requirements of H.B.2341.

Thank you for the opportunity to testify.

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SUBJECT: ADMINISTRATION, Reduce threshold for electronic filing and payment of taxes

BILL NUMBER: SB 2891; HB 2341 (Identical)

INTRODUCED BY: SB by Kim by request; HB by Souki by request

BRIEF SUMMARY: Amends HRS section 231-9.9 to provide that taxpayers with tax liability exceeding \$25,000 rather than \$100,000 shall be required to remit the amount of tax due by electronic funds transfer. Also provides withholding tax liabilities of over \$25,000 rather than \$40,000 shall be subject to electronic funds transfer.

EFFECTIVE DATE: Tax years beginning after December 31, 2014

STAFF COMMENTS: This is an administration measure submitted by the department of taxation TAX-06 (14). The legislature by Act 121, SLH 1995, authorized the use of electronic funds transfer for those with tax liabilities over \$100,000. It appears that the threshold of \$100,000 was initially established as the Act was intended to address those businesses with large tax liabilities, especially those that were located out of state.

This measure proposes to reduce the filing threshold from \$100,000 to \$25,000, which would bring Hawaii's electronic funds transfer in line with the provisions of other states.

Digested 1/28/14