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

Date: Thursday, March 27, 2014  
Time: 2:00 p.m.  
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: S.B. No. 2895, S.D. 1 Relating to Taxpayer Education

The Department of Taxation (Department) strongly **supports** S.B. 2895, S.D. 1, an Administration measure, which amends section 235-20.5, Hawaii Revised Statutes, to allow the Department to use the Tax Administration Special Fund monies for taxpayer education programs, including tax publications.

Taxpayer education is crucial to support and increase voluntary taxpayer compliance with the State's tax laws. Greater and more accurate voluntary compliance significantly assists the Department in its mission to enforce the State's tax laws.

Thank you for the opportunity to testify.

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SUBJECT: INCOME, Expand tax administration special fund

BILL NUMBER: SB 2895, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 235-20.5 to provide that moneys in the tax administration special fund shall be used to develop, implement, and provide taxpayer education programs including taxpayer publications.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This is an administration measure submitted by the department of taxation TAX-10 (14). Act 215, SLH 2004, established a tax administration special fund into which are deposited fees collected for the issuance of comfort letters and costs for certifying tax credit claims under HRS section 235-9 (high technology business investment tax credit) and HRS section 235-110.91 (research activities). This measure proposes to expand the use of the special fund to allow the department of taxation to provide taxpayer education programs including taxpayer publications.

It should be noted that the 1989 Tax Review Commission noted that use of special fund financing is a “departure from Hawaii’s sound fiscal policies and should be avoided.” It also noted that special funds are appropriate where the revenues to the funds maintain some direct connection between a public service and the beneficiary of that service. The Commission found that special funds which merely set aside general funds cannot be justified as such actions restrict budget flexibility, create inefficiencies, and lessen accountability. It recommended that such programs can be given priority under the normal budget process without having to resort to this type of financing. In addition, since the moneys are deposited directly into the special funds and do not pass through the general fund, they are not subject to the constitutional ceiling on general fund expenditures.

While it may be desirable to establish taxpayer education programs, it would be preferable to fund these through the appropriation process to promote transparency and openness in government finances.

Digested 3/24/14