

**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON SENATE BILL NO. 2547, SENATE DRAFT 1,
RELATING TO TAXATION**

House Committee on Finance

March 22, 2016

Chair Luke and Members of the Committee:

Thank you for the opportunity to offer comments on this bill. SB 2547, SD1, would require the State Auditor to periodically review certain tax exemptions, exclusions, and credits under the general excise and use taxes, public service company tax, and insurance premium tax, among other purposes. This bill would also require the Director of Taxation to cooperate with the Auditor's request for information when the Auditor conducts a review of an exemption, exclusion, or credit.

Although this bill assures the Director of Taxation's cooperation with the Auditor, we have concerns that we would be unable to obtain the information needed to carry out these periodic reviews. The Attorney General's long-standing opinion is that Hawai'i's tax law deems all taxpayer information confidential, thus prohibiting Auditor access. The only information available to the Auditor on tax credits is published by the Department of Taxation (DoTAX) in its report, *Tax Credits Claimed by Hawai'i Taxpayers*. We would rely on this report for DoTAX data. We note that the data is presented in aggregated totals only, with some totals suppressed to prevent potential disclosure of confidential taxpayer information.

DoTAX's most recent report on tax credits claimed was published in December 2015 of tax credits claimed by Hawai'i taxpayers in tax year 2013. SB 2547, SD1, asks that our reviews begin in 2018. Given the two-year lag in DoTAX's reporting, this means that our 2018 review would be of 2015 tax credits claimed, the report for which will be released by DoTAX in December 2017. Our reporting will lag the year the tax credit was claimed by three years.

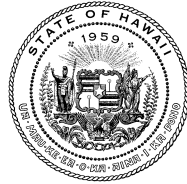
Additionally if your committee intends to advance this bill, we respectfully request that the Office of the Auditor be provided with seed money to establish this new function within our office. Subsequently, fees paid by taxpayers who file a tax return and benefit from a tax exemption, exclusion, or credit, would be deposited in our audit revolving fund and this function would become self-sufficient. However, we would rely on DoTAX to determine the number of taxpayers subject to the fee. I have contacted other legislative audit offices that conduct such reviews and can work with your committee to determine the resources needed to implement this function.

Also, to ensure we would receive seed money without delay, we request that the bill's effective date be changed to July 2, 2016, to give us ample time to set up this tax credit review function. We also suggest that Section 23.6, Hawai'i Revised Statutes, entitled Audit revolving fund, be amended to reflect that moneys in the fund are also to be used for reviews as contemplated by this bill.

Thank you again for the opportunity to provide comments on SB 2547, SD1. I am available to answer any questions you may have.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

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

Date: March 22, 2016

Time: 2:00 P.M.

Place: Conference Room 308, State Capitol

Re: S.B. 2547, S.D. 1, Relating to Taxation.

The Department of Taxation (Department) offers the following comments regarding S.B. 2547, S.D. 1, for your consideration.

S.B. 2547, S.D. 1, requires the Auditor to review certain exemptions and deductions from the general excise and use taxes, public service company tax, and insurance premium tax, and assess a fee on taxpayers claiming those exemptions and deductions to fund the audit revolving fund. The bill also authorizes the Auditor to recommend the removal of a tax exemption, exclusion, or credit from the review process. The bill is effective on July 1, 2017.

First, the Department notes that it will fully cooperate with the Auditor as proposed by this measure, provided that all disclosures to the Auditor are in compliance with applicable confidentiality statutes set forth in sections 23-5(a) and 237-34 of the Hawaii Revised Statutes (HRS).

Second, the Department appreciates the Senate Ways and Means (WAM) Committee's adoption of its suggested amendment to replace a surcharge of an unspecified amount per taxpayer who claims an exemption or a deduction with a fee of an unspecified amount per return to be added after calculating all taxes, penalties and interests. This is a funding mechanism for the audit revolving fund to perform the review set forth in this bill. The fees must be transmitted to the Director of Finance within thirty days of receipt. For consistency with the Department's accounting of all tax revenues, the Department suggests an amendment that "the fees be transmitted to the Director of Finance within ten business days after the closing of each month" (as opposed to within thirty days of receipt).

Third, the Department appreciates the Senate WAM Committee's adoption of the suggested amendment that the fee on the insurance premium tax be administered by the Insurance Division within Department of Commerce and Consumer Affairs (DCCA), rather the Department; chapter 431, HRS, insurance premium tax, is administered by the Insurance Division within the DCCA.

Finally, the Department appreciates an effective date of July 1, 2017, to provide the Department with sufficient time to implement the form, instruction and computer system changes necessary to implement the requirements in this bill.

Thank you for the opportunity to provide comments.

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, March 20, 2016 9:25 AM
To: FINTestimony
Cc: SherlBlod@aol.com
Subject: Submitted testimony for SB2547 on Mar 22, 2016 14:00PM

SB2547

Submitted on: 3/20/2016

Testimony for FIN on Mar 22, 2016 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Gladys Sherley Blodgett	Individual	Oppose	No

Comments: I have previously submitted comments regarding this bill in a prior hearing. I wish to make it clear that I oppose this measure and specifically oppose the provisions for reviewing the Disability exemption under 237-24(13) and Condo Maintenance Fees under 237-24.3(2) and 237-24(16).

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.

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TO: Members of the Committee on Finance



FROM: Natalie Iwasa, CPA, CFE
Honolulu, HI 96825
808-395-3233

HEARING: 2 p.m. Tuesday, March 22, 2016

SUBJECT: SB 2547, SD1 Relating to Taxation (Surcharge on Credits)
OPPOSED to Surcharge Fee

Aloha Chair and Committee Members,

Thank you for allowing me to provide testimony on SB 2947, SD1, which would require reviews of certain exemptions, exclusions and credits related to the general excise/use tax, public service tax and insurance premium tax. While I think it is a good idea to review costs associated with tax benefits, I **oppose instituting a surcharge for them.**

Please work toward simplifying our tax laws, and please amend the bill to remove the surcharge fee.