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To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: Tuesday, February 7, 2017
Time: 9:30 A.M.
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 1004, Relating to Electronic Payment of Taxes

The Department of Taxation (Department) strongly supports S.B. 1004, an administration measure, and provides the following comments for your consideration.

S.B. 1004 lowers the threshold for mandatory electronic payment of taxes from \$100,000 in tax liability per tax year to \$40,000 in tax liability per tax year. The measure also clarifies that the threshold is to be applied by tax type, meaning that the mandatory electronic payment would only apply to the tax type that meets the threshold. The bill becomes effective upon approval and applies to taxable years beginning after December 31, 2017.

First, the Department notes that electronic payment of taxes, codified at section 231-9.9, Hawaii Revised Statutes, has been mandated for certain taxpayers since the mid-1990s. Since the requirement was first enacted, the threshold to trigger mandatory electronic payment has been \$100,000 in tax liability. The electronic payment has become the most efficient and safest form of payment for both the Department and taxpayers. The Department believes this justifies the lower threshold proposed by this measure.

Second, through the Tax System Modernization (TSM) program, the Department is able to accept electronic payments of taxes at no cost to taxpayers. Taxpayers can simply log into their respective Hawaii Tax Online (HTO) accounts and make an electronic payment free of charge. Currently, taxpayers are able to file and pay their general excise; use; and rental motor vehicle, tour vehicle, and car-sharing vehicle surcharge taxes through HTO. Previously, electronic filing of returns for these taxes had been free in the old computer system, but the cost to make an electronic payment was \$1 per transaction. The improved efficiencies and the fact that electronic payment of taxes is now free of charge further justifies lowering the threshold for mandatory electronic payment of taxes.

Third, the Department notes that this measure would make the mandatory electronic payment thresholds consistent across tax types. Currently, the threshold is only \$40,000 for withholding taxes on both the federal and state level, but is \$100,000 for all other tax types. By making the thresholds consistent, this measure will simplify tax administration of the mandatory electronic payment system. The Department believes lowering this threshold would not present an undue burden for most entities with tax liabilities of \$40,000 or more, as most are likely already using some means of electronic funds transfer. For perspective, taxpayers with \$40,000 in GET tax liability are taxpayers that have \$1,000,000 or more in gross revenues.

Finally, the Department notes that the exemption from mandatory electronic payment of taxes for “good cause” will remain in the law. This will allow the Department to continue to use discretion when mandating electronic payment to avoid any undue hardship to taxpayers.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

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SUBJECT: ADMINISTRATION, Lower Threshold for Electronic Payment of Tax Requirement

BILL NUMBER: SB 1004; HB 1138 (Identical)

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

EXECUTIVE SUMMARY: Requires electronic payment of tax if the annual tax is more than \$40,000 per tax type. This appears to be a reasonable means of cutting the time required for payment processing.

BRIEF SUMMARY: Amends HRS section 231-9.9 to require electronic payment of any tax when the annual amount of the tax type is more than \$40,000.

Provides that a taxpayer who is required to file but doesn't is penalized 2% of the amount of the tax required to be shown on the return.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This is an administration measure submitted by the department of taxation TAX-03 (17). The point of the bill is to require electronic payment if the amount of the tax type is more than \$40,000, as is now provided for payroll withholding. The threshold for other tax types is \$100,000. Electronic payment does seem to be the way of the future, with the potential for slashing the wait times and confusion generated by manual processing of checks attached to returns.

Digested 2/5/2017

From: mailinglist@capitol.hawaii.gov
Sent: Friday, February 3, 2017 3:47 PM
To: WAM Testimony
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for SB1004 on Feb 7, 2017 09:30AM*

SB1004

Submitted on: 2/3/2017

Testimony for WAM on Feb 7, 2017 09:30AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Support	No

Comments:

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