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

Date: Tuesday, March 21, 2017
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 1007, S.D. 1, Relating to Withholding Tax

The Department of Taxation (Department) strongly supports S.B. 1007, S.D. 1, an Administration measure, and provides the following comments for your consideration. S.B. 1007, S.D. 1, is effective January 1, 2018.

Currently, pursuant to section 236-62(a), Hawaii Revised Statutes (HRS), employers are required to file withholding tax returns on a monthly basis. The Department has the authority to allow employers whose withholding tax liability is \$5,000 or less to file returns on a quarterly basis. The purpose of S.B. 1007, S.D. 1, is to allow all employers to file withholding tax returns on a quarterly basis. The Department believes that this will reduce the burden on employers, as well as promote effective tax administration.

S.B. 1007, S.D. 1, does not change the payment frequency of withholding taxes in any way. Employers whose annual tax liability is \$5,000 or less will continue to remit taxes on a quarterly basis, employers whose annual tax liability is more than \$5,000 but not more than \$40,000 will continue to remit taxes on a monthly basis, and employers whose annual tax liability exceeds \$40,000 will continue to remit taxes semi-weekly.

Finally, withholding taxes are scheduled to be completed in November of 2017 as part of Rollout 3 of the Tax System Modernization project. The Department intends to provide a simple and efficient electronic withholding tax filing system for employers. Accordingly, the Department strongly supports this measure, and will be able to implement the measure with the current effective date of January 1, 2018.

Thank you for the opportunity to provide testimony in support of this measure.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: INCOME, Change Withholding Return Filing Frequency to Quarterly

BILL NUMBER: SB 1007, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: This measure aligns federal and state income tax treatment by requiring withholding returns to be filed quarterly, while requiring no change in the frequency of payments (which are more often for larger employers).

SYNOPSIS: Amends HRS section 235-62 to allow Hawaii withholding returns to be filed quarterly rather than monthly. Does not change the frequency of payments.

EFFECTIVE DATE: January 1, 2018.

STAFF COMMENTS: This is an administration measure submitted by the department of taxation TAX-06 (17). The bill recites that quarterly returns of withheld income tax are more efficient than monthly reporting, that DOTAX can adequately reconcile withholding tax payments with quarterly filing, that the bill will change the reporting frequency from monthly reporting to quarterly reporting for all employers, and that the bill does not change the withholding tax payment frequency.

This measure aligns the reporting requirement with federal law, which requires quarterly filing of Forms 941.

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Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Tuesday, March 21, 2017 at 2:00 P.M.
Conference Room 308, State Capitol**

RE: SENATE BILL 1007 SD1 RELATING TO WITHHOLDING TAX

Chair Luke, Vice Chair Cullen, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** SB 1007 SD1, which changes the frequency of filing returns of taxes withheld on wages paid from monthly to quarterly for all employers.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 1,600+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

We support the idea of changing employment tax withholding reporting from monthly to quarterly. This lowers the administrative burden on employers as it translates into reporting only four times a year as opposed to twelve times.

Thank you for the opportunity to testify.