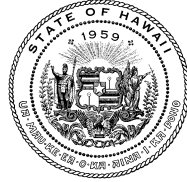


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To: The Honorable Donna Mercado Kim, Chair
and Members of the Senate Committee on Government Operations

Date: Thursday, February 9, 2017
Time: 3:05 P.M.
Place: Conference Room 224, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 851, Relating to Tax Administration

The Department of Taxation (Department) strongly supports S.B. 851 and provides the following comments for your consideration.

S.B. 851 authorizes the Department to require taxpayers to file tax returns by electronic or similar means, subject to a reasonable cause exception. The bill also imposes a fine of two percent of the amount of the tax required to be shown on the return for failure to file by electronic or similar means. S.B. 851 also lowers the threshold for mandatory electronic payment of taxes to \$40,000 in tax liability per year and clarifies that threshold is to be applied by tax type. The bill becomes effective immediately but applies to tax years beginning after December 31, 2017.

First, the Department believes that the best way to realize the full benefits of the Tax System Modernization (TSM) program is to expand electronic filing and electronic payment of taxes. Tax administration gains efficiency as electronic filing increases and TSM will enhance the Department's ability to accept electronic returns and payments. To achieve these efficiency gains, the Department must increase the proportions of electronic filing and payment. The Department believes this measure will accelerate the expansion of both electronic filing and electronic payment.

Furthermore, through TSM the Department will be able to accept electronic payments at no cost to taxpayers. Taxpayers can simply log into their respective Hawaii Tax Online (HTO) accounts and make electronic payments 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 was free, but electronic payment cost \$1 per transaction. The improved efficiencies and the fact that electronic payment of taxes is now also free further justifies lowering the threshold for mandatory electronic payment of taxes.

Second, 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. 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.

Third, the Department notes that this measure would make the mandatory electronic payment thresholds consistent across tax types. Currently, the threshold is \$40,000 for withholding taxes but only \$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 affected taxpayers. Most entities with tax liabilities of \$40,000 or more 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, both amendments proposed in this measure allow the Department to exercise discretion and grant exceptions for cause. The proposal to require electronic filing does not mandate electronic filing, but merely allows the Department to require electronic filing at its own discretion. The proposal also includes a "reasonable cause" exception to be defined by administrative rules. The Department acknowledges that lack of internet access would qualify as a reasonable cause. During the rulemaking process, the Department will gather public testimony regarding additional exceptions. Additionally, the "good cause" exception to mandatory electronic payment 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.

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 8, 2017 9:24 AM
To: GVO Testimony
Cc: tfh@tfhawaii.org
Subject: Submitted testimony for SB851 on Feb 9, 2017 15:05PM

SB851

Submitted on: 2/8/2017

Testimony for GVO on Feb 9, 2017 15:05PM in Conference Room 224

Submitted By	Organization	Testifier Position	Present at Hearing
Thomas Yamachika	Tax Foundation of Hawaii	Comments Only	Yes

Comments: Please see the attached.

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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From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 8, 2017 8:49 AM
To: GVO Testimony
Cc: rkailianu57@gmail.com
Subject: *Submitted testimony for SB851 on Feb 9, 2017 15:05PM*

SB851

Submitted on: 2/8/2017

Testimony for GVO on Feb 9, 2017 15:05PM in Conference Room 224

Submitted By	Organization	Testifier Position	Present at Hearing
Rachel L. Kailianu	Individual	Oppose	Yes

Comments:

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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