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

Date: Thursday, January 8, 2018  
Time: 2:00 P.M.  
Place: Conference Room 308, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 1652, Relating to Non-General Funds

The Department of Taxation (Department) supports H.B. 1652 and offers the following comments for the Committee's consideration.

H.B. 1652 abolishes various non-general fund and accounts as recommended by the Office of the Auditor in its Report No. 17-10 and transfers the unencumbered balances to the general fund. The bill is effective July 1, 2018.

Specifically, the bill abolishes the following fund and accounts:

- The est/adm license and permit tobacco and cigarette special fund;
- The IRS refund intercept trust account;
- The special enforcement section collections trust account; and
- The taxes payable to counties – fuel trust accounts.

The Department agrees with the Auditor's recommendation that this fund and these accounts should be closed as they are no longer used by the Department. The Department is able to administratively close them and is currently in the process of doing so. Any remaining balances will be transferred to the general fund.

Thank you for the opportunity to provide comments.

# TAX FOUNDATION OF HAWAII

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SUBJECT: MISCELLANEOUS, Repeal non-general funds

BILL NUMBER: HB 1652

INTRODUCED BY: LUKE, CULLEN

EXECUTIVE SUMMARY: Abolishes various non-general funds and accounts, in accordance with the State Auditor's recommendation in Report No. 17-10.

SYNOPSIS: Abolishes the following funds as described in Auditor's Report No. 17-10:

- The est/adm license and permit tobacco and cigarette special fund.
- The IRS refund intercept trust account.
- The special enforcement section collections trust account.
- The taxes payable to counties - fuel trust accounts.

Unencumbered balances in the above funds will lapse to the general fund.

EFFECTIVE DATE: July 1, 2018.

STAFF COMMENTS: This measure implements the state auditor's recommendation in Report No. 17-10 that reviewed special funds, revolving funds, trust funds, and trust accounts of the state.

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.

Because of the spotlight of monies in special funds, Hawaii Revised Statutes section 23-12 requires the State Auditor to review all existing special, revolving, and trust funds beginning in 2014 and at five-year intervals. This review assists in making government finances more transparent.

Digested 2/6/2018