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To: The Honorable Glenn Wakai, Chair  
and Members of the Senate Committee on Economic Development, Tourism, and  
Technology

Date: Wednesday, March 21, 2018  
Time: 2:00 P.M.  
Place: Conference Room 414, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 2011, H.D. 1, Relating to Transient Accommodations Tax

The Department of Taxation (Department) offers the following comments on H.B. 2011, H.D. 1, for the committee's consideration.

H.B. 2011, H.D. 1, increases the ceiling on revenues collected by the Department's Special Enforcement Section (SES) that are retained in the Tax Administration Special Fund from \$700,000 to \$1,000,000. This measure also requires that the first \$300,000 deposited into the Tax Administration Special Fund be deposited into a separate account to be used exclusively by the SES for enforcement of the transient accommodations tax (TAT). The measure is effective July 1, 2050.

The Department notes that SES is funded solely through the share of its tax collections that are deposited into the special fund, therefore, this proposed increase is effectively a budget increase for SES. The SES contributes significantly to the Department's compliance efforts, especially in TAT enforcement and in promoting voluntary compliance. Since its inception, the SES has consistently generated tax revenue in excess of its budget. In FY2017, the SES generated approximately \$9 for every \$1 expended. These results can be improved upon with the increase in budget proposed by this bill. For these reasons, the Department supports the intent of the bill to increase the SES's budget.

However, the Department has concerns regarding the earmarking of funds specifically for TAT enforcement. The Department notes that SES is already sharply focused on TAT. Approximately 50% of SES's time and resources is currently devoted to TAT enforcement projects. Because such a share of SES resources is already being used for TAT enforcement, the Department believes the proposed separate account for TAT enforcement will only complicate the special fund without affecting the actual use of resources. Therefore, the Department believes the separate account is unnecessary.

The Department prefers the language adopted in H.B. 2396, H.D. 1, S.D. 1, which increases the ceiling on revenues collected by the SES that are retained in the Tax Administration Special Fund to

\$2,000,000 and authorizes an additional 5 positions for the SES. The increased ceiling and authorization of an additional 5 positions will allow the Department to better meet requirements under Act 204, SLH 2015 related to Transit Accommodations Tax and General Excise Tax compliance.

Thank you for the opportunity to provide comments.