



STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Tuesday, March 13, 2018
Time: 10:00 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 2395, Relating to Electronic Filing

The Department of Taxation (Department) strongly supports H.B. 2395, an Administration measure, and provides the following comments for your consideration.

H.B. 2395 authorizes the Department to require certain taxpayers to file tax returns electronically. To require electronic filing, the Department must provide an electronic filing option and no less than 90 days prior written notice. The requirement is subject to a reasonable cause exception. The bill also imposes a 2% penalty for failure to file electronically. The bill is effective upon approval.

First, the Department notes that under this measure it may not require individual income taxpayers to file electronically. Only the following taxpayers may be required to file electronically:

- Employers with withholding tax liability of more than \$40,000;
 - These employers are currently subject to the electronic funds transfer requirement under section 231-9.9, Hawaii Revised Statutes.
- Taxpayers with annual general excise tax (GET) or transient accommodations tax (TAT) liability over \$4,000;
 - These taxpayers are monthly filers for GET and TAT; and
- All taxpayers for corporate income tax, estate tax, public service company tax (utilities), franchise tax (financial institutions), fuel tax, liquor tax, cigarette and tobacco tax, and rental motor vehicle, tour vehicle, and car-sharing tax.

Second, the Department notes that this measure will not mandate electronic filing outright, but merely allow the Department to use its discretion to require the taxpayers listed above to file electronically. Thus, the Department will be able to analyze and determine which situations warrant mandatory electronic filing and which do not, while considering its own

resources and the resources available to taxpayers. In addition, no less than 90 days prior to requiring electronic filing, the Department must provide a written notice of its intention to require electronic filing. This will provide taxpayers with sufficient time to make preparations for complying.

Third, the Department believes electronic filing of tax returns increases the efficiency of tax administration. The Department is updating its computer system and as a result is becoming better equipped to accept electronically filed tax returns at no cost to taxpayers. In addition, the Department believes that taxpayers are becoming receptive to electronic filing. The Department also notes that it already has authority to require certain taxpayers to pay electronically. Allowing the Department to require certain taxpayers to pay and file electronically will increase the efficiency of tax administration.

Finally, the Department recognizes that there may be legitimate situations in which a taxpayer will be unable to file electronically. For this reason, a reasonable cause exception has been included. This will allow the Department to waive the penalty for failure to file electronically if the failure due to reasonable cause. The Department believes this exception will prevent any unjust application of the proposed penalty.

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