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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. 2396, H.D. 1, Relating to Tax Administration

The Department of Taxation (Department) strongly supports H.B. 2396, H.D. 1, an Administration measure, and provides the following comments for the Committee's consideration.

H.B. 2396, H.D. 1, increases the amount of revenues collected by the Department's Special Enforcement Section (SES) that are retained the Tax Administration Special Fund from \$700,000 to \$1,000,000. The remainder of the revenue collected by SES is deposited into the general fund. For Fiscal Year 2017, SES transferred more than \$4.2 million to the General Fund. SES is a unique unit within the Department in that it is funded solely through its tax revenue collections. This measure will increase SES's operational budget by \$300,000 annually. H.D. 1 has a defective effective date of July 1, 2030.

SES contributes significantly to the Department's compliance efforts, particularly its efforts at promoting voluntary compliance. Since its inception, SES has consistently generated tax revenue in excess of its budget. In FY 2017, SES generated approximately \$9 for every \$1 expended. These results can be improved upon with the increased budget and expanded workforce that this bill would provide.

Departmental exposure and visibility to the public has an outsized impact on voluntary compliance. At the Department, SES is unique in its level of public exposure and visibility to the business community. With an increased budget and workforce SES will further increase its public profile by conducting more field visits and attending more public events, leading to increased voluntary compliance.

An expanded workforce will also enable SES to better investigate and assess taxpayers who are not voluntarily complying. In FY 2017, SES began using data analytics to identify

potential cases, specifically in the transient accommodations industry. The use of data analytics, especially from Internal Revenue Service sources, has generated large numbers of potential cases. An expanded workforce will enable SES to investigate more of these potential cases identified, leading to increased assessment and collection. In addition, increasing the number of investigations and audits conducted will provide further incentive for voluntary compliance.

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