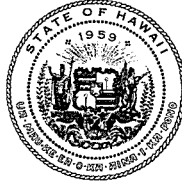


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



LINDA CHU TAKAYAMA
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

DEPT. COMM. NO. 332

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

January 10, 2019

The Honorable Ronald D. Kouchi,
President and Members of the Senate
Thirtieth Legislature
State of Hawaii
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Scott Saiki,
Speaker and Members of the House
of Representatives
Thirtieth Legislature
State of Hawaii
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the Department of Taxation's Annual Report for Fiscal Year 2018, as required by Section 231-3(8), Hawaii Revised Statutes. In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at http://tax.hawaii.gov/stats/a5_1annual/.

Sincerely,

A handwritten signature in black ink, appearing to read "Linda Chu Takayama".

LINDA CHU TAKAYAMA
Director of Taxation

Enclosure

**ANNUAL
REPORT
2017-2018**



**DEPARTMENT OF TAXATION
STATE OF HAWAII**

DEPARTMENT OF TAXATION

VISION

"The Department of Taxation will efficiently and effectively collect the revenue for funding programs and services for the people of Hawaii."

MISSION

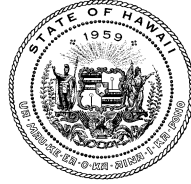
"Our mission is to administer the tax laws for the State of Hawaii in a consistent, fair and uniform manner."

GOALS

1. To *"Increase Voluntary Compliance"* by
 - a. Increasing oversight utilizing various branches/areas of our Compliance Division
 - b. Developing procedures to ensure a more efficient and timely audit process
2. To *"Reduce Tax Fraud,"* through
 - a. Identification and preventing payment of fraudulent funds
3. To *"Improve customer service to all stakeholders"* by
 - a. Providing services to taxpayers whose issues/concerns cannot be resolved through normal channels
 - b. Providing specialized service to the tax practitioner community
4. To *"Improve technology and efficiencies through the successful implementation of the Tax System Modernization (TSM) project during this period"*
 - a. Complete Rollout 5 of the TSM project
 - b. Re-engineer business processes
5. *"Actively address tax receivable balances"* by
 - a. Collaboration with the Attorney General's office
 - b. Utilization of third parties to improve collections
6. To *"Foster and empower staff"* by
 - a. Developing each employee to his/her full potential

DAVID Y. IGE
GOVERNOR

DOUGLAS S. CHIN
LT. GOVERNOR



LINDA CHU TAKAYAMA
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

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DEPARTMENT OF TAXATION
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January 4, 2019

The Honorable David Y. Ige
Governor, State of Hawaii
Executive Chambers, State Capitol

Dear Governor Ige:

Thank you for the opportunity to present the attached Annual Report summarizing the operations of the Department of Taxation (Department) for the fiscal year (FY) ending June 30, 2018. Total State tax collections in FY 2018 were \$7.90 billion, a 7.6% increase from FY 2017 which were \$7.34 billion. The Department collected \$7.49 billion in tax revenue in FY 2018, or 95% of all taxes administered by the State. The General Excise Tax (GET) is Hawaii's largest source of revenue, accounting for 43% of the State's total tax collections. Revenue from the GET rose to \$3.40 billion in FY 2018 from \$3.24 billion in FY 2017, an increase of 4.9%. Revenue from Hawaii's Individual Income Tax (IIT), Hawaii's second largest tax, increased 11.0% to \$2.43 billion in FY 2018 from \$2.19 billion in FY 2017, accounting for 31% of the State's total tax collections.

During FY 2018, the Department continued with the Tax System Modernization (TSM) project. The TSM project is a multi-year project with five rollout phases that will completely replace the existing system. The project will expand electronic services, providing taxpayers with online access to accounts and enabling full electronic filing and payment. The project will also automate the licensing, tax clearance, and compliance processes. Additionally, TSM will provide the State with critical data capture capabilities, metrics, and cross-check controls that are not available in the legacy system. The Department has been able to increase taxpayer compliance utilizing TSM tools to identify non-filers, industry segment comparisons, and identity theft to name a few. Likewise, TSM increased data availability and improved the analytical capabilities of the Department's research branch. With the adoption of online tax filing, which can be done at no-cost, the Department expects to see an increase in electronic filing in future years.

During FY 2018, the Department completed Rollout 3 and prepared for Rollout 4. The Department completed Rollout 3 on time as of August 14, 2017 which covered the corporate income, franchise, public service, and withholding taxes. The Department also prepared for Rollout 4, scheduled for November 2018, which includes tax types: individual income, partnerships, fiduciary, and estate & transfer tax. The Department expects to complete the implementation of the entire project by the end of calendar year 2019.

In order to increase oversight and efficiencies, the Department created the Technical Service Office

in March 2018 to manage the TSM project. The Office incorporated the TSM Program Management staff that were previously located in DAGS and the Office of Enterprise Technology Services.

The Department continues to achieve significant goals while using minimal resources. The cost of collecting each \$100 dollars of taxes was only 32 cents. In FY 2018, the Department's operating expenses were \$23.7 million down from \$24.3 million in FY 2017.

The Department processed 5.3 million tax returns in FY 2018, 2,592,896 (49%) paper and 2,701,280 (51%) electronic. Fifty percent of general excise and transient accommodation taxpayers registered and used the Hawaii Tax Online web portal.

The Department continues to improve service to taxpayers and tax practitioners. This is important for maintaining and improving voluntary compliance. The answer rate of incoming calls increased to 74% in FY 2018 from 69% in FY 2017.

The Compliance Division completed 17,515 cases audit cases in FY2018, a decrease of 2.3% from 17,936 cases in FY2017. The Special Enforcement Section (SES) continued its efforts to pursue non-compliant taxpayers in special sectors of the economy. In FY 2018, SES launched a new initiative to identify non-compliant taxpayers with short-term rentals in the State, and it has already yielded over \$1 million in additional collections.

The Department aggressively recruited to fill vacancies. The Department's total vacancy rate for permanent positions decreased by 10% due to an increase in the selection of external applicants over that of internal promotions.

The Department continues to pursue its goals of increased voluntary compliance, improved processing, enhanced productivity, and improved customer service for all of our stakeholders. We are proud and appreciative of all that our staff has accomplished during the past year. Empowered with new tools and technological enhancements, our Department has increased the efficiency and effectiveness of revenue collection that pay for the public services that the citizens of Hawaii enjoy.

Sincerely,

/s/

LINDA CHU TAKAYAMA
Director of Taxation

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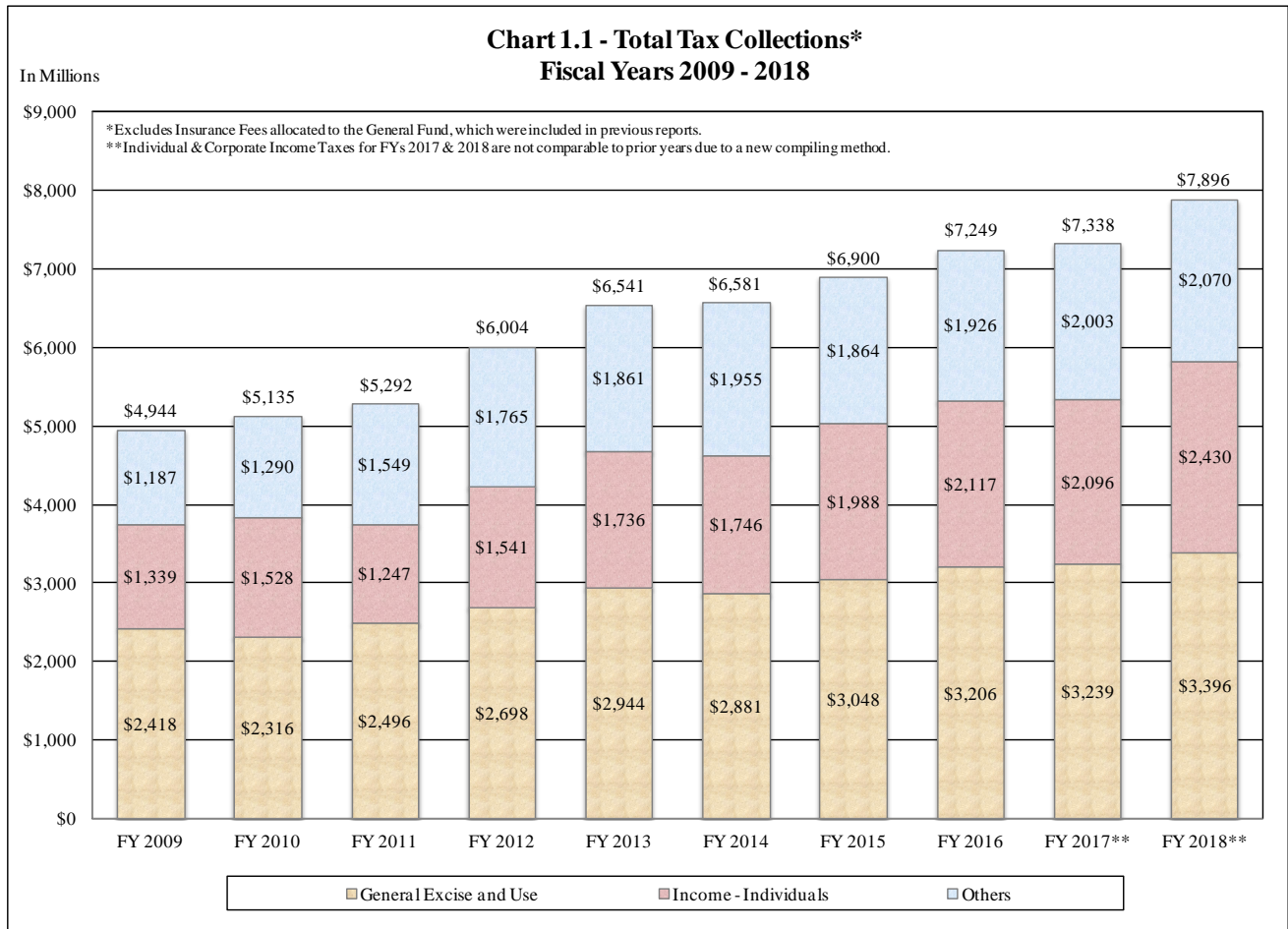
1.0 COLLECTION AND DISTRIBUTION OF TAXES

1.1 OVERVIEW

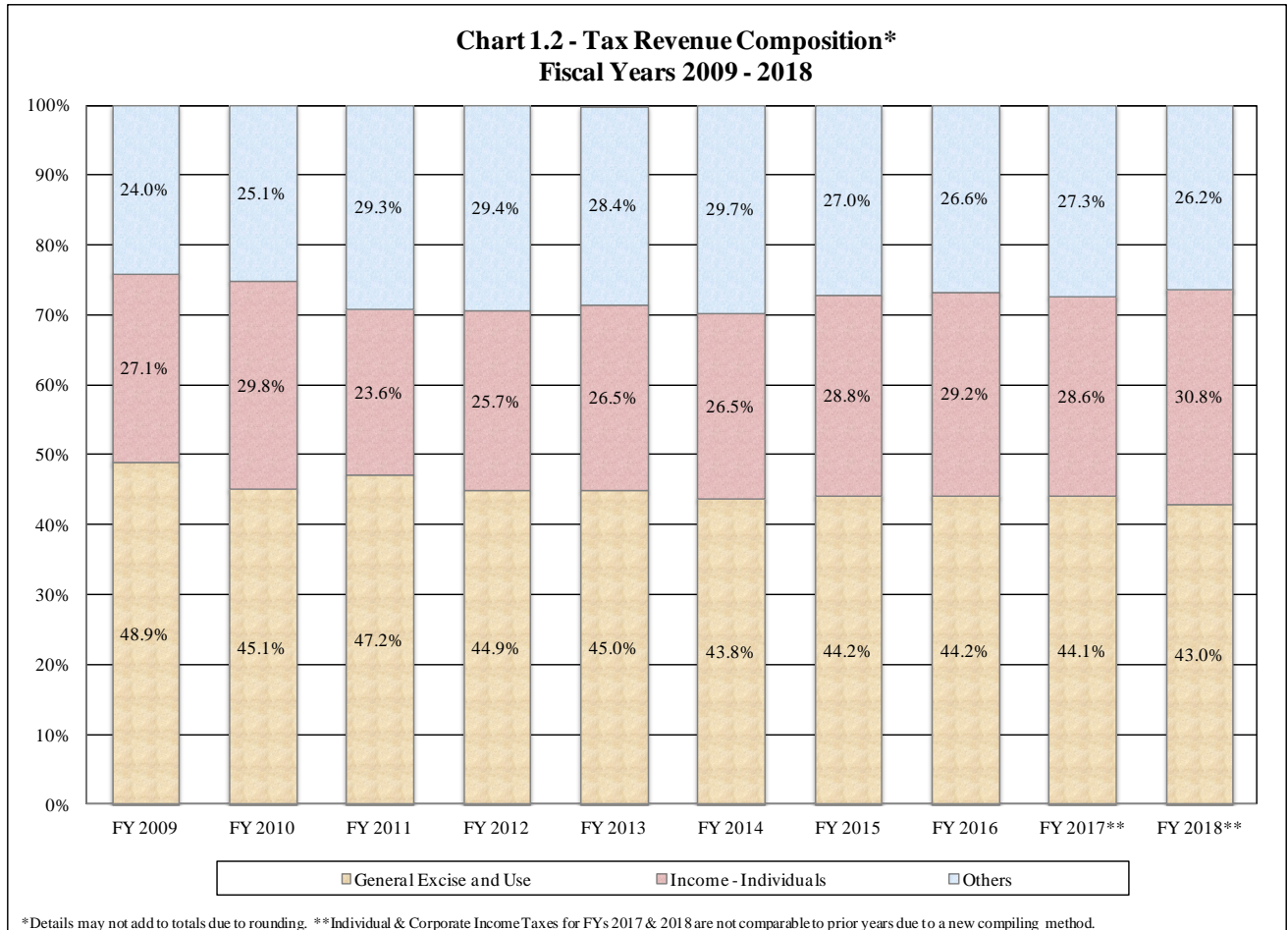
The Department of Taxation (Department) collects revenues from the large majority of taxes imposed by the State. In addition, the Department collects the county surcharge imposed by the City and County of Honolulu and fuel taxes imposed by the counties. In fiscal year (FY) 2018, the Department collected a total of \$7.49 billion in net tax revenues, up from \$6.94 billion collected in FY 2017.

The Department's Office of Tax Research and Planning (TRP) tracks revenues from taxes collected by the Department as well as other taxes that are administered by the State but which are collected by other State agencies or the counties. Henceforth, revenues from the taxes tracked by TRP will be referred to as "total tax collections."

Total tax collections were \$7.90 billion in FY 2018, up from \$7.34 billion in FY 2017. In FY 2009, Hawaii experienced a decline in total tax collections as the Great Recession reduced incomes and spending of consumers and businesses. Since then, total tax collections have risen steadily due to temporary tax measures, an improving economy, and better tax administration. Chart 1.1 shows the main components of the total tax collections for FY 2009 through FY 2018.



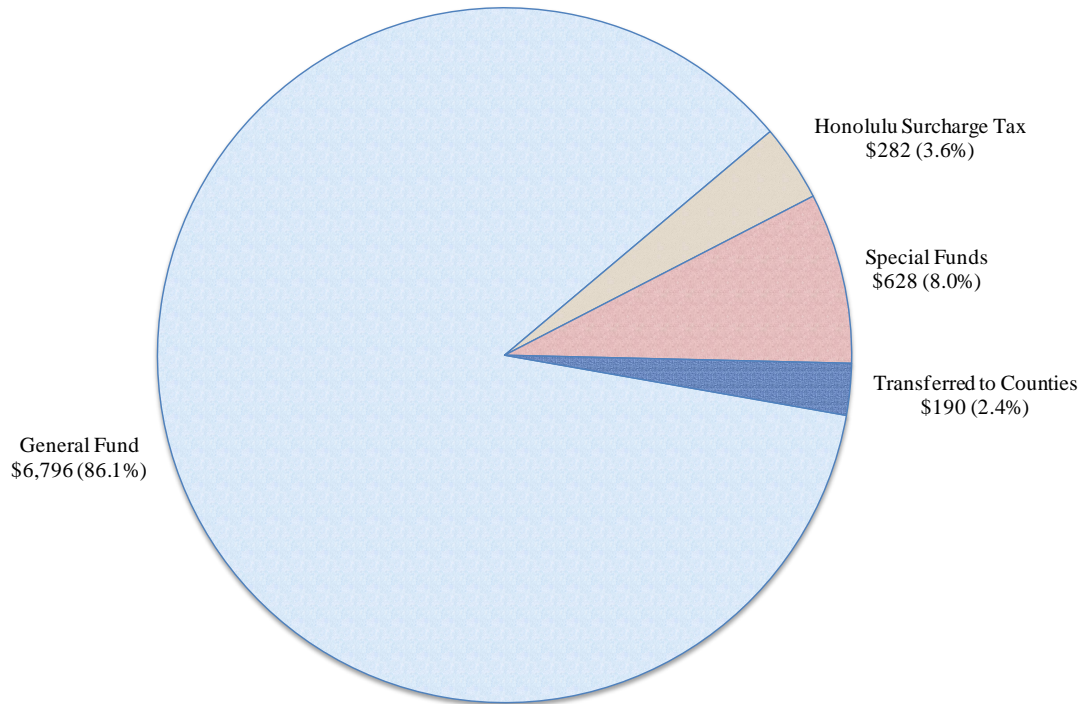
The State's biggest sources of tax revenue are the general excise tax (GET)¹ and the individual income tax (IIT). In FY 2018, net GET collections amounted to \$3.40 billion and accounted for 43.0% of total tax collections, and net collections of the IIT amounted to \$2.43 billion and accounted for 30.8% of total tax collections. Chart 1.2 shows the shares of total tax collections accounted for by the GET and the IIT for FY 2009 through FY 2018.



Of the total tax collections in FY 2018, \$6.80 billion, or 86.1%, was deposited into the State's General Fund. The tax revenues deposited into the General Fund are used to pay most of the State's operating expenses. An additional \$471.5 million, or 6.0% of the total tax collections, was transferred to the counties, including transfers of the county surcharge imposed by the City and County of Honolulu, fuel taxes imposed by the counties, and revenues from the transient accommodations tax that were allocated to the counties. The remaining \$628.1 million, or 8.0%, was transferred to various other State special funds. Chart 1.3 shows how the total tax collections were distributed in FY 2018.

¹ Throughout this report, the term "GET" will be used to include both the general excise tax and the use tax. The use tax complements the general excise tax and is levied on imports into the State from an unlicensed seller.

Chart 1.3 - Fiscal Year 2018 Distribution of Tax Revenues*
(In millions of dollars)



*Details may not add to totals due to rounding.

1.2 GENERAL EXCISE AND USE TAXES

1.2.1 Overview

Unlike the sales taxes imposed by many States and localities, Hawaii's general excise and use taxes (GET) are imposed on the business rather than on the customer. The GET covers virtually all forms of business activity, including services. Despite the relatively low tax rates, the GET generates substantial revenue because the tax base is very broad.

The GET is imposed at the rate of 0.50% on wholesaling, wholesale services, producing and manufacturing; at the rate of 0.15% on insurance commissions received by general agents, subagents and solicitors; and at the rate of 4.00% on most other activities, including retailing, business and professional services, contracting, theatre, amusement, radio, interest, commissions, and rentals. The fee for a GET license is a one-time charge of \$20.

1.2.2 Revenue

Revenue from the GET rose from \$3.24 billion in FY 2017 to \$3.40 billion in FY 2018, a rise of 4.8%. Chart 1.4 shows the total revenues from the GET and from the tax levied on the various categories of income for FY 2009 through FY 2018. Table 1.1 shows collection of the GET in greater detail for FY 2017 and FY 2018.

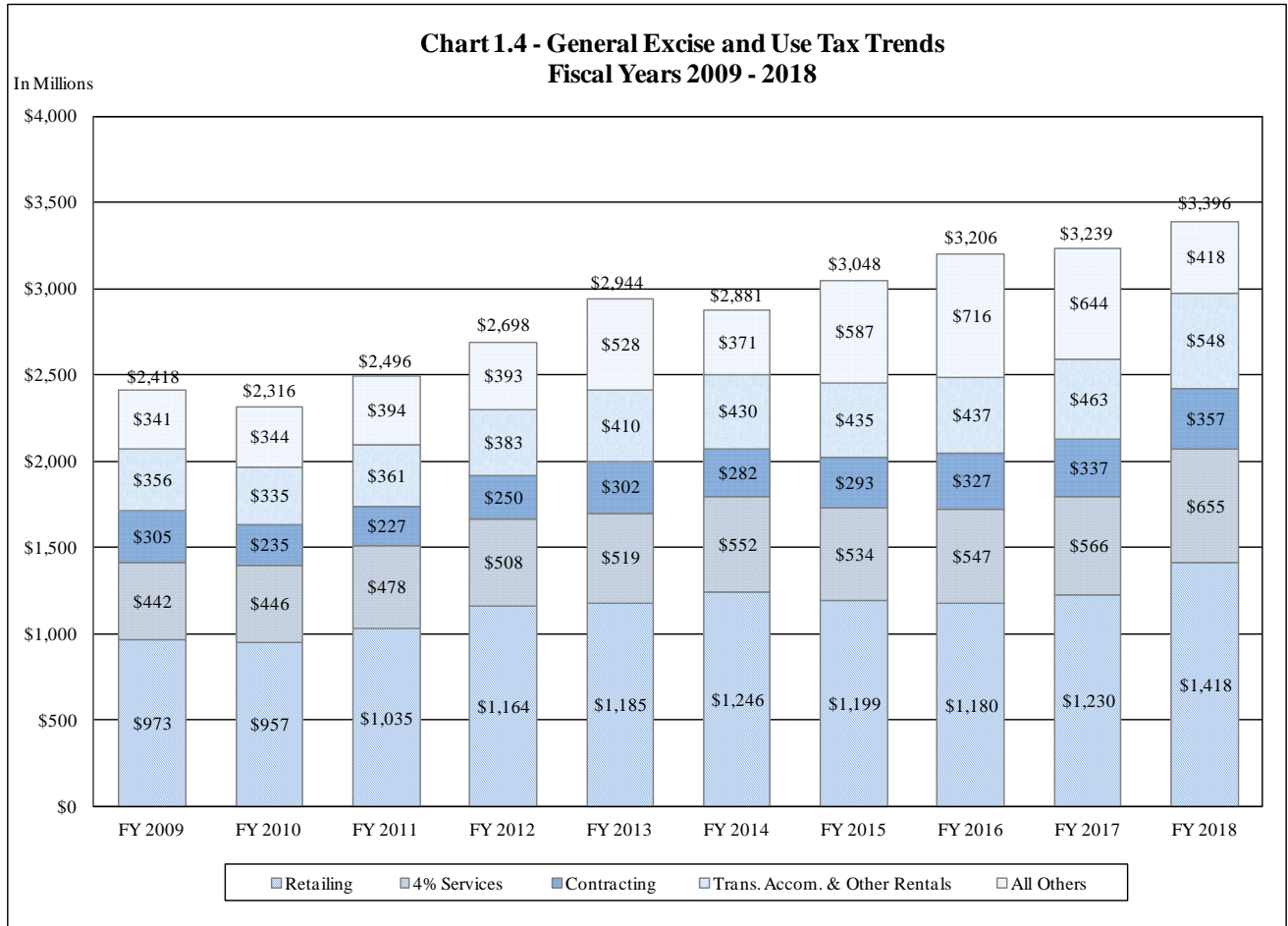


TABLE 1.1 - GENERAL EXCISE AND USE TAX BASE AND TAXES
FOR FISCAL YEARS ENDING JUNE 30, 2018 AND 2017
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	FY 2018	FY 2017	Difference	
				Amount	% Change
<u>TAX BASE</u>					
Retailing		\$ 35,454,397	\$ 30,746,503	\$ 4,707,895	15.3
Services		16,375,168	14,161,644	2,213,524	15.6
Contracting		8,914,402	8,417,926	496,475	5.9
Trans. Accom. Rentals		5,527,107	4,897,966	629,142	12.8
All Other Rentals		8,170,571	6,668,941	1,501,630	22.5
All Others (4%)		6,544,068	5,918,583	625,485	10.6
Subtotal		\$ 80,985,714	\$ 70,811,563	\$ 10,174,151	14.4
Producing		\$ 358,827	\$ 323,829	\$ 34,997	10.8
Manufacturing		640,143	731,315	(91,173)	(12.5)
Wholesaling		17,590,486	14,461,903	3,128,583	21.6
Use (1/2%)		7,640,150	6,799,232	840,918	12.4
Wholesale Services		902,755	870,497	32,259	3.7
Insurance Commissions		650,223	495,059	155,164	31.3
Subtotal		\$ 27,782,584	\$ 23,681,836	\$ 4,100,749	17.3
TOTAL - ALL ACTIVITIES		\$108,768,298	\$ 94,493,398	\$ 14,274,899	15.1
<u>TAX</u>					
Retailing	4.00%	\$ 1,418,176	\$ 1,229,860	\$ 188,316	15.3
Services	4.00%	655,007	566,466	88,541	15.6
Contracting	4.00%	356,576	336,717	19,859	5.9
Trans. Accom. Rentals	4.00%	221,084	195,919	25,166	12.8
All Other Rentals	4.00%	326,823	266,758	60,065	22.5
All Others (4%)	4.00%	261,763	236,743	25,019	10.6
Subtotal		\$ 3,239,429	\$ 2,832,463	\$ 406,966	14.4
Producing	0.50%	\$ 1,794	\$ 1,619	\$ 175	10.8
Manufacturing	0.50%	3,201	3,657	(456)	(12.5)
Wholesaling	0.50%	87,952	72,310	15,643	21.6
Use (1/2%)	0.50%	38,201	33,996	4,205	12.4
Wholesale Services	0.50%	4,514	4,352	161	3.7
Insurance Commissions	0.15%	975	743	233	31.3
Subtotal		\$ 136,637	\$ 116,676	\$ 19,961	17.1
Unallocated*		\$ 19,500	\$ 290,086	\$ (270,586)	(93.3)
TOTAL - ALL ACTIVITIES		\$ 3,395,566	\$ 3,239,225	\$ 156,341	4.8

*Includes collections from penalty and interest, assessments and corrections, delinquent collections, refunds, protested payments, settlements and business activities of disabled persons.

NOTE: Details may not add to totals due to rounding.

1.2.3 Recent Legislation

Act 54, SLH 2017, adds a new category of affordable housing projects that qualifies for the GET exemption. The exemption for the new category is limited to contractors. The Act also limits the total amount of the exemption to \$7 million per year. The Act applies to taxable years beginning after December 31, 2017, and ending before July 1, 2022.

Act 39, SLH 2018, increases the aggregate amount of the GET exemption for developing affordable rental housing from \$7 million to \$30 million per year. The Act also extends the exemption from June 30, 2022, to June 30, 2030. The Act is effective July 1, 2018, and applies retroactively to taxable years beginning after December 31, 2017.

Act 41, SLH 2018, provides that a person is engaging in business in the State for the purpose of the general excise tax law if, in the current or immediately preceding calendar year, the person has \$100,000 or more in gross income, or two hundred or more separate transactions, from the sale of tangible personal property delivered in the State, services used or consumed in the State, or intangible property used in the State. The Act is effective July 1, 2018, and applies to taxable years beginning after December 31, 2017.

Act 183, SLH 2018, creates a GET exemption for intangible property used outside the State. The Act also imposes a 4% use tax on intangible property imported into the State. The Act is effective July 10, 2018 and applies to taxable years beginning after December 31, 2018.

1.3 INDIVIDUAL INCOME TAX

1.3.1 Overview

Hawaii's individual income tax (IIT) generally follows the federal definitions for determining net taxable income, but has its own exemptions, tax credits, and tax rates. At the beginning of FY 2018, the IIT had nine tax brackets, with rates ranging from 1.40% to 8.25%. However, for taxable years beginning after December 31, 2017, the IIT has twelve tax brackets, with rates ranging from 1.40% to 11.00%.

1.3.2 Revenue

The IIT is the State's second largest source of tax revenue. The biggest part of IIT collections is taxes withheld on employee wages. In FY 2018, withholding tax collections were \$2.03 billion, an increase of 6.1 % over the \$1.92 billion withheld in FY 2017. Total IIT refunds in FY 2018 were \$522.5 million, down from \$564.6 million in FY 2017. Net IIT collections in FY 2018 were \$2.43 billion, up by 16.0% over the \$2.10 billion collected in FY 2017. Chart 1.5 shows total collections of the IIT, along with wage withholding, payments with returns, estimated taxes, and refunds, for FY 2009 through FY 2018. Table 1.2 shows the figures for total collections of the IIT, broken down by its components, in FY 2017 and FY 2018.

1.3.3 Recent Legislation

Act 230, SLH 2016 (Act 230), allows taxpayers engaged in medical marijuana businesses to deduct business expenses and claim tax credits on their income taxes. Act 230 is effective for taxable years beginning after December 31, 2015.

Act 235, SLH 2016 (Act 235), amends the income tax credit for dependent care expenses by increasing the amount that certain taxpayers may claim for the dependent care expenses. Act 235 is effective for taxable years beginning after December 31, 2015.

Act 258, SLH 2016, provides a new tax credit for organic food production. The tax credit applies to taxable years beginning after December 31, 2016 and is repealed December 31, 2021.

Act 7, SLH 2017, makes the filing frequency for withholding tax quarterly for all taxpayers, effective January 1, 2018. However, the Act does not affect the frequency of withholding tax payments.

Act 107, SLH 2017, reinstates the three top tax brackets (with rates of 9%, 10%, and 11%) for high-income taxpayers that had previously been imposed temporarily by Act 60, SLH 2009. The new top tax brackets take effect for taxable years beginning after December 31, 2017. The Act repeals the sunset date (December 31, 2017) for the amendments made to the food/excise tax credit by Act 223. The Act also establishes a state nonrefundable earned income tax credit (EITC) equal to 20 percent of the federal EITC. The tax credit applies to tax years 2018 through 2022.

Act 125, SLH 2017, broadens the eligibility criteria for the cesspool tax credit, and is effective on July 1, 2017.

Act 27, SLH 2018, selectively conforms Hawaii income tax laws to the Internal Revenue Code as of February 9, 2018. The Act applies to taxable years beginning after December 31, 2017.

Act 43, SLH 2018, establishes a new tax credit for healthcare preceptors (physicians, advanced practice registered nurses, and pharmacists). The amount of credit per taxpayer is limited to \$5,000 per year. The tax credit is subject to an aggregate cap of \$1.5 million per year and applies to taxable years beginning after December 31, 2018.

Act 122, SLH 2018, increases the withholding on the amount realized from the disposition of Hawaii real property by nonresidents (HARPTA) from 5% to 7.25%. The Act is effective July 5, 2018, and applies to real estate dispositions that occur on or after September 15, 2018.

Act 170, SLH 2018, amends the income tax check-off for the libraries special fund. The Act increases the amount of a state income tax refund that the taxpayer may donate to the fund, from \$2 to \$5 for a single return and from \$4 to \$10 for a joint return.

**Chart 1.5 - Components of the Individual Income Tax
Fiscal Years 2009 - 2018**

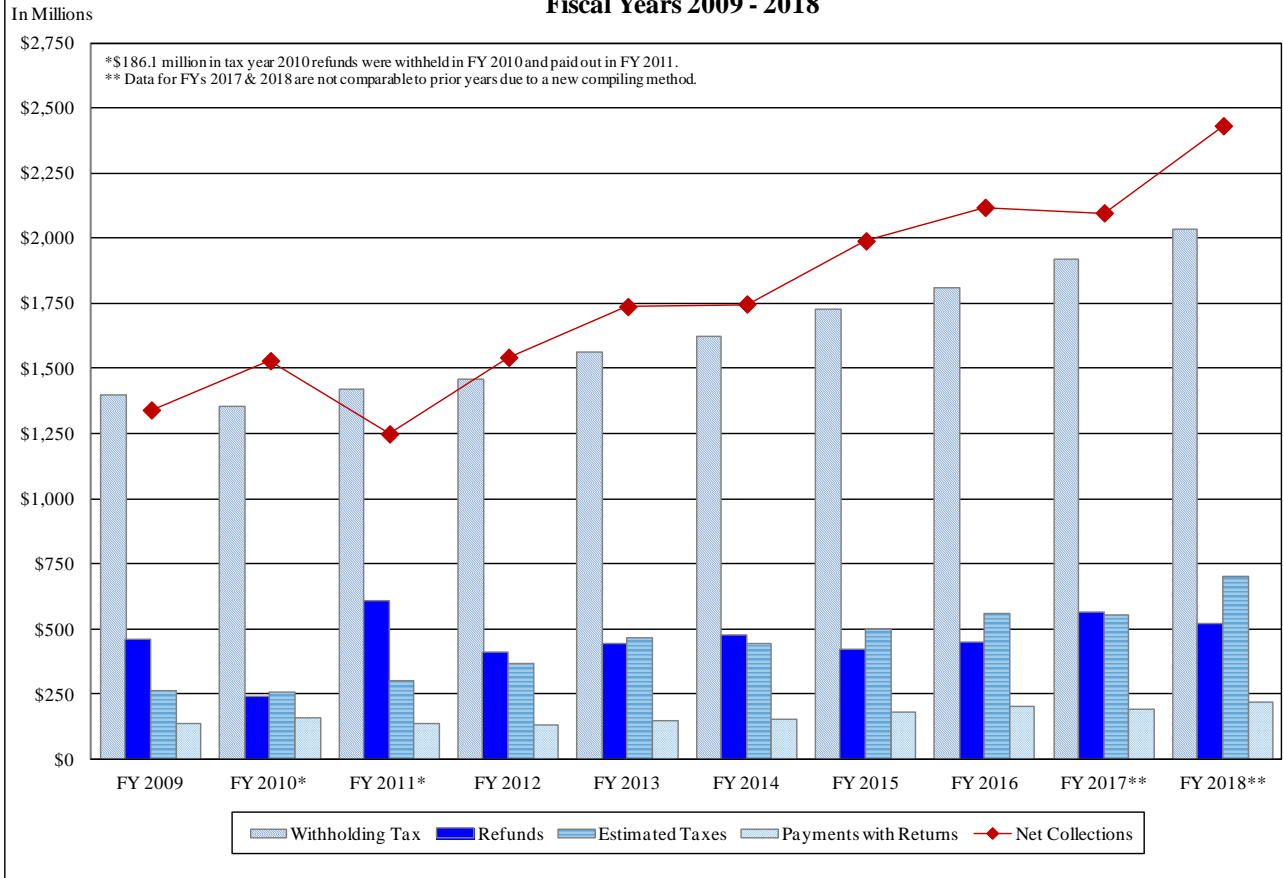


TABLE 1.2 - TAXES PAID BY INDIVIDUALS*
(In Thousands of Dollars)

	FY 2018	FY 2017	Difference	
			Amount	% Change
Declaration of Estimated Taxes	\$ 700,017	\$ 552,236	\$ 147,780	26.8
Payment with Return	219,989	191,898	28,091	14.6
Withholding Tax on Wages	<u>2,032,879</u>	<u>1,916,350</u>	<u>116,529</u>	<u>6.1</u>
Subtotal	\$2,952,885	\$2,660,484	\$292,401	11.0
Refunds	<u>522,528</u>	<u>564,586</u>	<u>(42,058)</u>	<u>(7.4)</u>
NET	\$2,430,356	\$2,095,898	\$334,459	16.0

NOTE: Due to rounding, details may not add to totals.

*Data for FYs 2017 & 2018 are not comparable to prior years due to a new compiling method.

1.4 CORPORATE INCOME TAX

1.4.1 Overview

Hawaii's corporate income tax (CIT) has three tax brackets. The brackets and the corresponding tax rates are as follows: 4.4% on taxable income up to \$25,000; 5.4% on taxable income over \$25,000 but not over \$100,000; and 6.4% on taxable income over \$100,000. The tax rate for corporate capital gains is 4.0%.

1.4.2 Revenue

Net CIT collections totaled \$131.1 million in FY 2018, a decrease of 24.5% from the previous year's total of \$173.7 million. CIT collections are highly cyclical, but they are a relatively small part of Hawaii's total tax collections. In FY 2018, the CIT accounted for just 1.7% of total tax collections. Chart 1.6 shows total collections of the CIT, broken down by its components, for FY 2009 through FY 2018. Table 1.3 shows data on collections of the CIT for FY 2017 and FY 2018.

1.4.3 Recent Legislation

Act 142, SLH 2017, changes the certification process for the renewable fuels production tax credit. Taxpayers must file a third-party certified statement with the Department of Business, Economic Development, and Tourism (DBEDT) within 30 days of the close of the calendar year. DBEDT will then issue a certificate to taxpayers. The Act applies to taxable years beginning after December 31, 2017.

Act 143, SLH 2017, amends the film tax credit by imposing an aggregate cap of \$35 million per year, provided that any excess in claims above the cap can be applied in a subsequent year until December 31, 2025. The Act also extends the sunset date for the tax credit from January 1, 2019 to January 1, 2026. The Act is effective for taxable years beginning after December 31, 2018.

Act 213, SLH 2017, expands the categories of purchases that qualify for the capital infrastructure tax credit. The Act also increases the amount of the tax credit that can be claimed for costs incurred by any qualified infrastructure tenant during a tax year from \$1.25 million to \$2.50 million. The Act is effective on July 12, 2017.

Act 27, SLH 2018, selectively conforms Hawaii income tax laws to the Internal Revenue Code as of February 9, 2018. The Act is effective June 7, 2018, and applies to taxable years beginning after December 31, 2017.

**Chart 1.6 - Components of the Corporate Income Tax
Fiscal Years 2009 - 2018**

In Millions

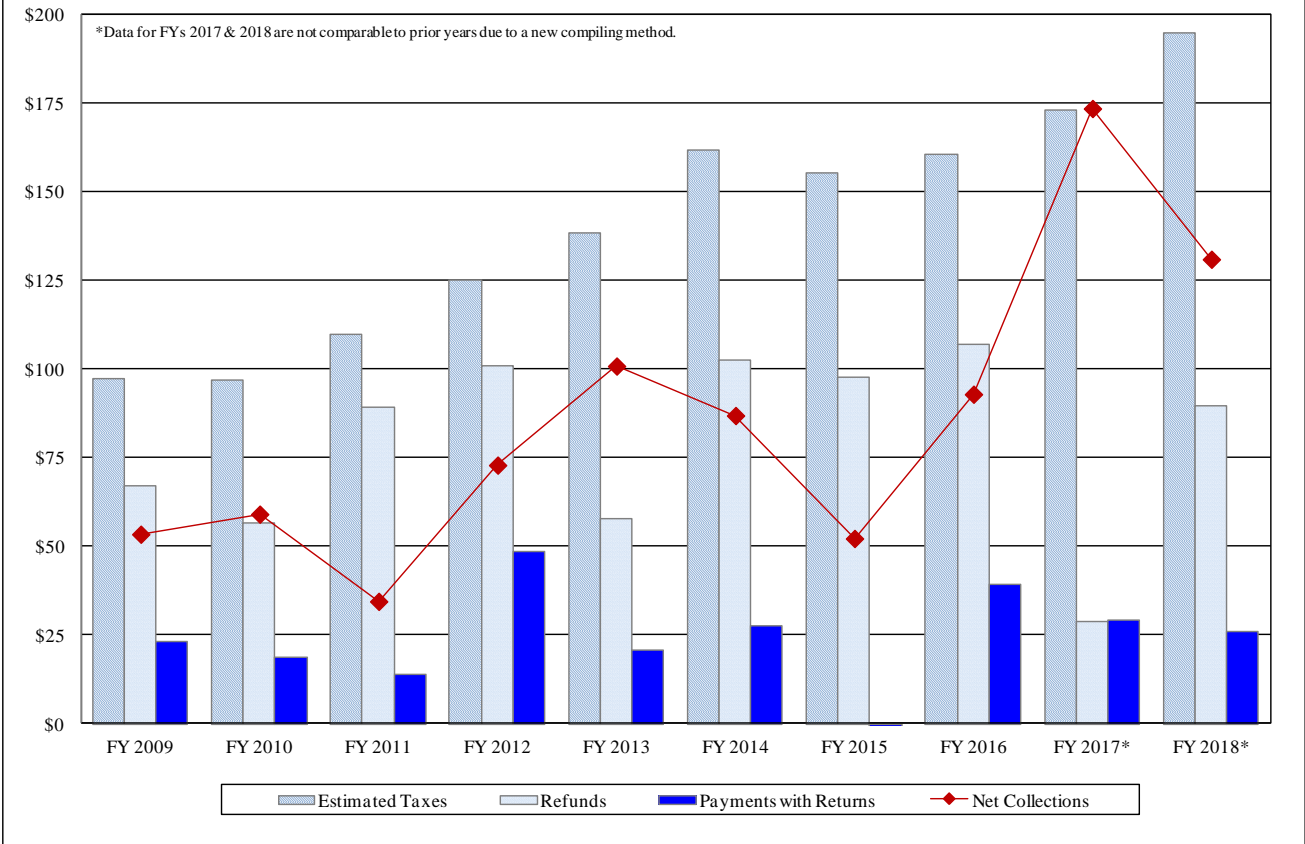


TABLE 1.3 - TAXES PAID BY CORPORATIONS*
(In Thousands of Dollars)

	FY 2018	FY 2017	Difference	
			Amount	% Change
Declaration of Estimated Taxes	\$ 194,966	\$ 173,258	\$ 21,708	12.5
Payment with Return	25,812	29,212	(3,400)	(11.6)
Subtotal	\$ 220,778	\$ 202,470	\$ 18,309	9.0
Refunds	89,660	28,804	60,856	211.3
NET	\$ 131,119	\$ 173,666	\$ (42,547)	(24.5)

NOTE: Due to rounding, details may not add to totals.

*Data for FYs 2017 & 2018 are not comparable to prior years due to a new compiling method.

1.5 TRANSIENT ACCOMMODATIONS TAX

1.5.1 Overview

The transient accommodations tax (TAT) is levied on the furnishing of a room, apartment, suite, or the like, which is customarily occupied by the transient for less than 180 consecutive days. Starting January 1, 2018 through December 31, 2030, the TAT rate is increased from 9.25% to 10.25%. The registration fee for transient accommodations operators is a one-time fee of \$5 for each registration consisting of 1 to 5 units and \$15 for each registration of 6 or more units.

1.5.2 Revenue

TAT collections totaled \$554.9 million for FY 2018, an increase of 9.2% from the \$508.4 million collected in FY 2017. In FY 2018, collections from the TAT were distributed as follows: \$103.0 million went to the counties; \$26.5 million went to the Convention Center Enterprise Special Fund; \$82.0 million went to the Tourism Special Fund; \$1.5 million went to the Turtle Bay Conservation Easement Special Fund; \$3.0 million went to the Special Land and Development Fund; \$23.6 million went to the Mass Transit Fund; and the remainder (\$315.3 million) went to the General Fund. Chart 1.7 shows collections of the TAT for FY 2009 through FY 2018. Chart 1.8 shows the allocations of the tax among the various funds. Table 1.4 shows TAT collections and allocations in FY 2017 and FY 2018.

1.5.3 Recent Legislation

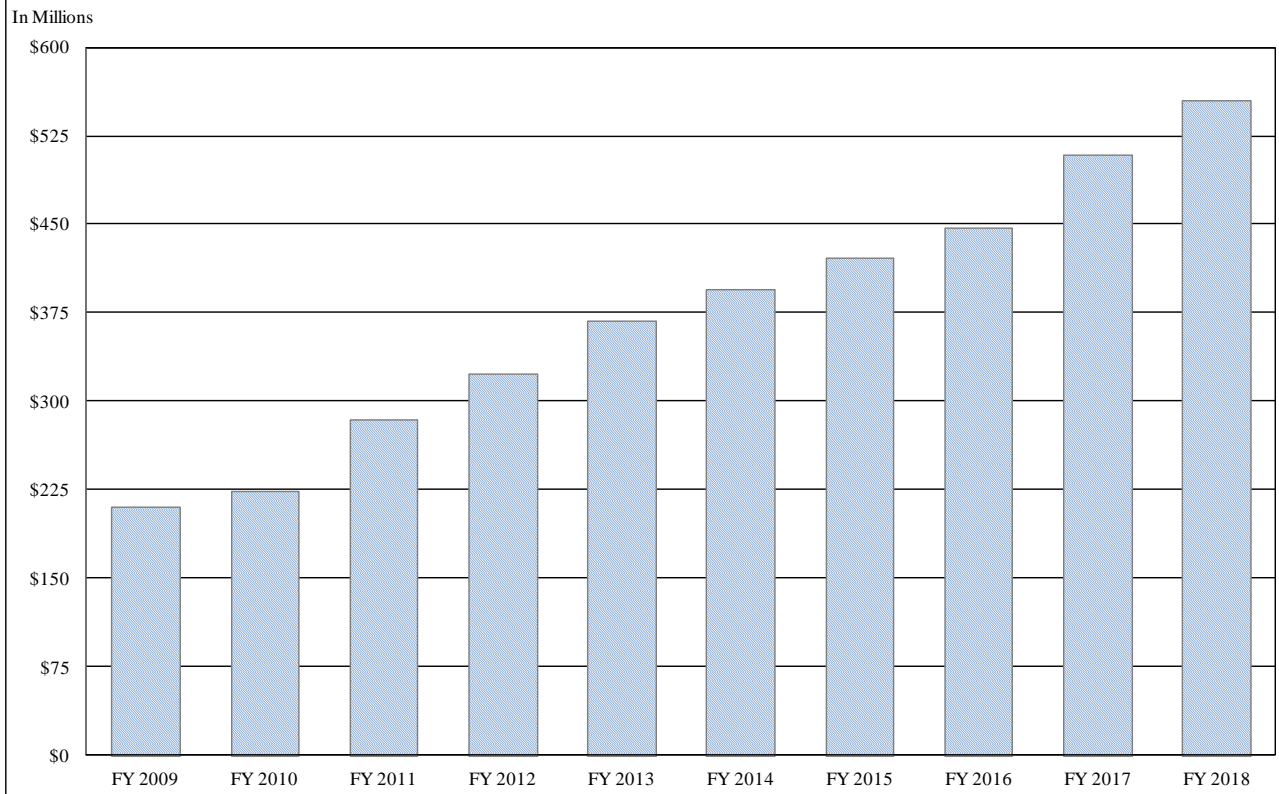
Act 223, SLH 2016, extends the TAT allocation of \$103.0 million to the counties to FY 2017.

Act 1, SSLH 2017, increases the TAT rate from 9.25% to 10.25%, effective January 1, 2018, through December 31, 2030, and allocates the tax revenue generated from the increase to the Mass Transit Special Fund. The Act also increases the annual allocation to the counties from \$93 million to \$103 million, beginning with FY 2018.

Act 86, SLH 2018, reduces the allocations of TAT to the Convention Center Special Fund from \$26.5 million to \$16.5 million and the Tourism Special Fund from \$82 million to \$79 million. The Act is effective July 1, 2018.

Act 211, SLH 2018, imposes the TAT on transient accommodations brokers, travel agencies, and tour packagers that enter into arrangements to furnish transient accommodations at noncommissioned negotiated contract rates on their share of the proceeds. The Act is effective July 1, 2018, and applies to taxable years beginning after December 31, 2018.

**Chart 1.7 - Transient Accommodations Tax
Fiscal Years 2009 - 2018**



**Chart 1.8 - Transient Accommodations Tax Distributions
Fiscal Years 2009 - 2018**

In Millions

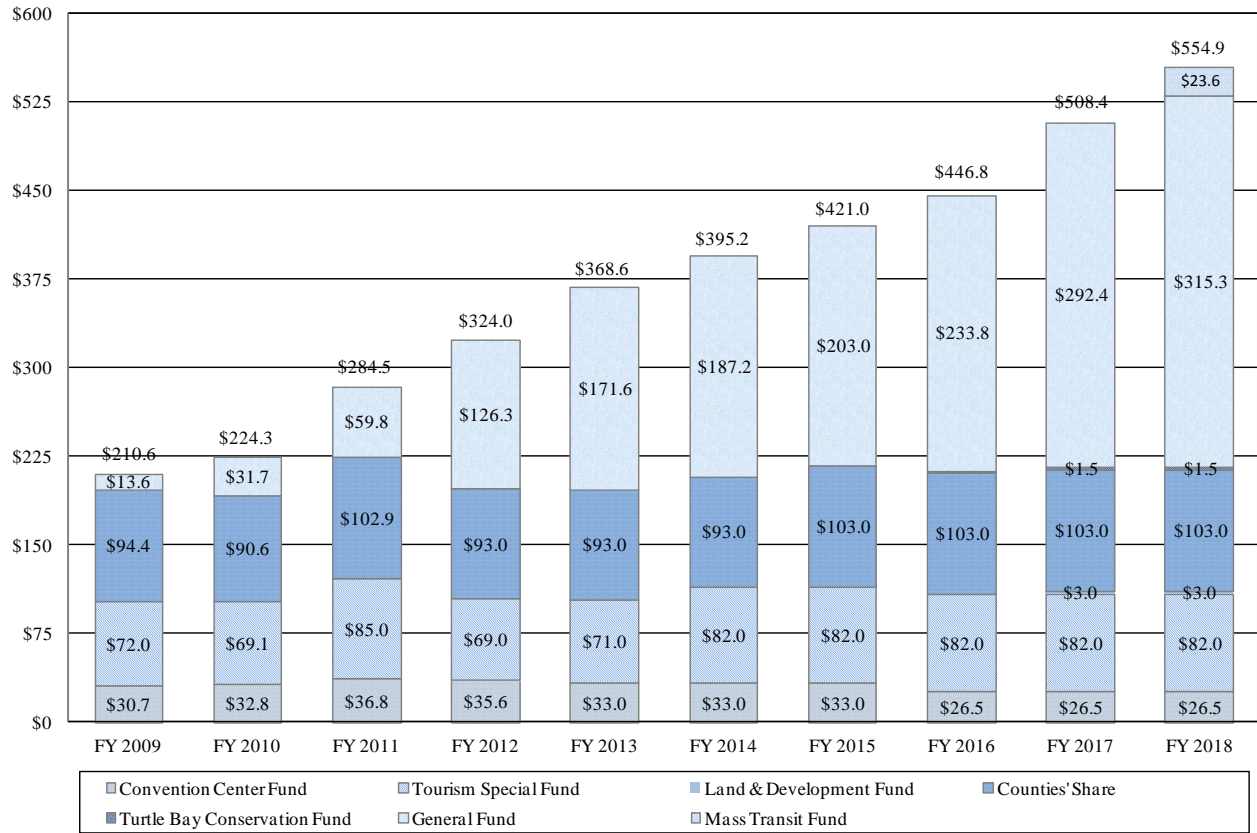


TABLE 1.4 - TRANSIENT ACCOMMODATIONS TAX
(In Thousands of Dollars)

	FY 2018	FY 2017	Difference	
			Amount	% Change
Collection				
Trans. Accom./Time Share Occ. Tax	\$ 554,890	\$ 508,357	\$ 46,533	9.2
Trans. Accom./Time Share Occ. Fees	22	20	2	10.3
Total	\$ 554,912	\$ 508,377	\$ 46,535	9.2
Distribution*				
Counties Share	\$ 103,000	\$ 103,000	\$ -	-
Convention Center Fund	26,500	26,500	-	-
Tourism Special Fund	82,000	82,000	-	-
Turtle Bay Special Fund	1,500	1,500	-	-
Land & Development Fund	3,000	3,000	-	-
Mass Transit Fund	23,626	-	23,626	n/m
General Fund	315,286	292,377	22,909	7.8
Total	\$ 554,912	\$ 508,377	\$ 46,535	9.2

*For details on distribution see section 237D-6.5, HRS.
NOTE: Due to rounding, details may not add to totals.
n/m = not meaningful.

1.6 FUEL TAXES

1.6.1 Overview

The State and county fuel taxes are imposed on the distributors. The State Legislature sets the State fuel tax rates, whereas county councils set the county rates. There is also an environmental response tax (officially renamed as the "environmental response, energy and food security tax" by Act 73, SLH 2010) that is levied on each barrel of petroleum products and each million British thermal units (MMBtu) of non-petroleum fossil fuels sold by a distributor to any retail dealer or end user. The effective rates for the fuel taxes and for the environmental response tax are shown on page 15.

1.6.2 Revenue

Fuel tax collections (including the environmental response tax) amounted to \$201.8 million in FY 2018, an increase of 3.6% from the \$194.8 million collected in FY 2017. Total taxable fuel consumption increased from 887.4 million gallons in FY 2017 to 920.5 million gallons in FY 2018. The biggest consumption of taxable fuel was gasoline (466.0 million gallons) and the second biggest consumption was aviation fuel (263.2 million gallons). Together, gasoline and aviation fuel accounted for 79.2% of the total consumption of taxable fuel in FY 2018.

Collections of the environmental response tax amounted to \$27.0 million in FY 2018, an increase of 1.9% from the \$26.5 million collected in FY 2017. The environmental response tax rate on each barrel of petroleum product was \$1.05. The tax was levied on 24.7 million barrels of petroleum in FY 2018, up from 24.2 million barrels in FY 2017. The environmental response tax rate on each MMBtu of non-petroleum fossil fuels was nineteen cents. The tax was levied on 5.8 million MMBtu of non-petroleum fossil fuels in FY 2018, up from 5.6 million MMBtu in FY 2017. Chart 1.9 shows collections of the fuel taxes and the gallons consumed of the various fuel types, for FY 2009 through FY 2018. Data for taxable gallons consumed in FY 2017 and FY 2018 are given in Table 1.5.

The revenues from fuel taxes are distributed to several special funds. One percent of the fuel taxes paid on liquid fuel, not including aviation fuel, are deposited into the Boating Special Fund. Fuel taxes paid on sales of aviation fuel are deposited into the Airport Revenue Fund. Remaining revenues from the State fuel taxes are deposited into the State Highway Fund, whereas remaining revenues from county fuel taxes are deposited into the counties' highway funds.

Revenues from the environmental response tax were distributed as follows in FY 2018: For each barrel taxed at \$1.05, five cents went to the Environmental Response Revolving Fund administered by the Department of Health for oil spill prevention and remediation programs; fifteen cents went to the Energy Security Special Fund administered by the Department of Business, Economic Development, and Tourism to support the Hawaii clean energy initiative program; fifteen cents went to the Agricultural Development & Food Security Special Fund administered by the Department of Agriculture to fund activities intended to increase agricultural production or processing that may lead to reduced importation of food, fodder, or feed from outside the state; ten cents went to the Energy Systems Development Special Fund, and the remainder (sixty cents) went to the General Fund. For each MMBtu taxed at nineteen cents, one cent went to the Environmental Response Revolving Fund, three cents went to the Energy Security Special Fund, three cents went to the Agricultural Development & Food Security Special Fund, two cents went to the Energy Systems Development Special Fund, and the remainder (ten cents) went to the General Fund.

Table 1.6 shows how the fuel taxes and the environmental response tax were allocated in FY 2017 and FY 2018. The table also shows allocations of motor vehicle taxes and fees, and rental motor vehicle taxes to the State Highway Fund.

SCHEDULE OF FUEL TAX RATES PER GALLON ⁴
(Effective August 1, 2017)

TYPE OF FUEL	STATE TAX	COUNTY TAX	TOTAL TAX
GASOLINE AND DIESEL OIL (HIGHWAY):			
City & County of Honolulu	16.0 ¢	16.5 ¢	32.5 ¢
County of Maui	16.0	23.0	39.0
County of Hawaii ³	16.0	15.0	31.0
County of Kauai	16.0	17.0	33.0
LIQUEFIED PETROLEUM GAS (HIGHWAY):			
City & County of Honolulu	5.2 ¢	5.4 ¢	10.6 ¢
County of Maui	5.2	11.5	16.7
County of Hawaii ³	5.2	5.0	10.2
County of Kauai	5.2	5.6	10.8
ETHANOL (HIGHWAY):			
City & County of Honolulu	2.4 ¢	2.4 ¢	4.8 ¢
County of Maui	2.4	11.5	13.9
County of Hawaii ³	2.4	2.2	4.6
County of Kauai	2.4	2.5	4.9
METHANOL (HIGHWAY):			
City & County of Honolulu	1.9 ¢	1.8 ¢	3.7 ¢
County of Maui	1.9	11.5	13.4
County of Hawaii ³	1.9	1.7	3.6
County of Kauai	1.9	1.9	3.8
BIODIESEL (HIGHWAY):			
City & County of Honolulu	4.0 ¢	8.3 ¢	12.3 ¢
County of Maui	4.0	0.0	4.0
County of Hawaii	4.0	0.0	4.0
County of Kauai	4.0	0.0	4.0
NAPHTHA (Power-Generating Facility): All Counties	2.0 ¢	0.0 ¢	2.0 ¢
COMPRESSED NATURAL GAS (HIGHWAY):			
City & County of Honolulu	4.0 ¢	8.2 ¢	12.2 ¢
County of Maui	4.0	11.4	15.4
County of Hawaii ³	4.0	7.4	11.4
County of Kauai	4.0	8.4	12.4
LIQUEFIED NATURAL GAS (HIGHWAY):			
City & County of Honolulu	4.0 ¢	8.2 ¢	12.2 ¢
County of Maui	4.0	11.4	15.4
County of Hawaii ³	4.0	7.4	11.4
County of Kauai	4.0	8.4	12.4
ENVIRONMENTAL RESPONSE, ENERGY, & FOOD SECURITY TAX			
All Counties, per barrel of petroleum products ¹	105.0 ¢	0.0 ¢	105.0 ¢
All Counties, per million BTU of fossil fuels ²	19.0	0.0	19.0

¹ Does not include aviation fuel.

² Does not include petroleum products. BTU = British thermal unit.

³ Effective August 1, 2017, pursuant to Hawaii County Resolution 212-17 (Draft 2).

⁴ Gasoline used for agricultural equipment off highways, aviation fuel, and diesel oil used off highways are taxed by the State at 1 cent per gallon.

**Chart 1.9 - Fuel Tax and Trends in Fuel Consumption
Fiscal Years 2009 - 2018**

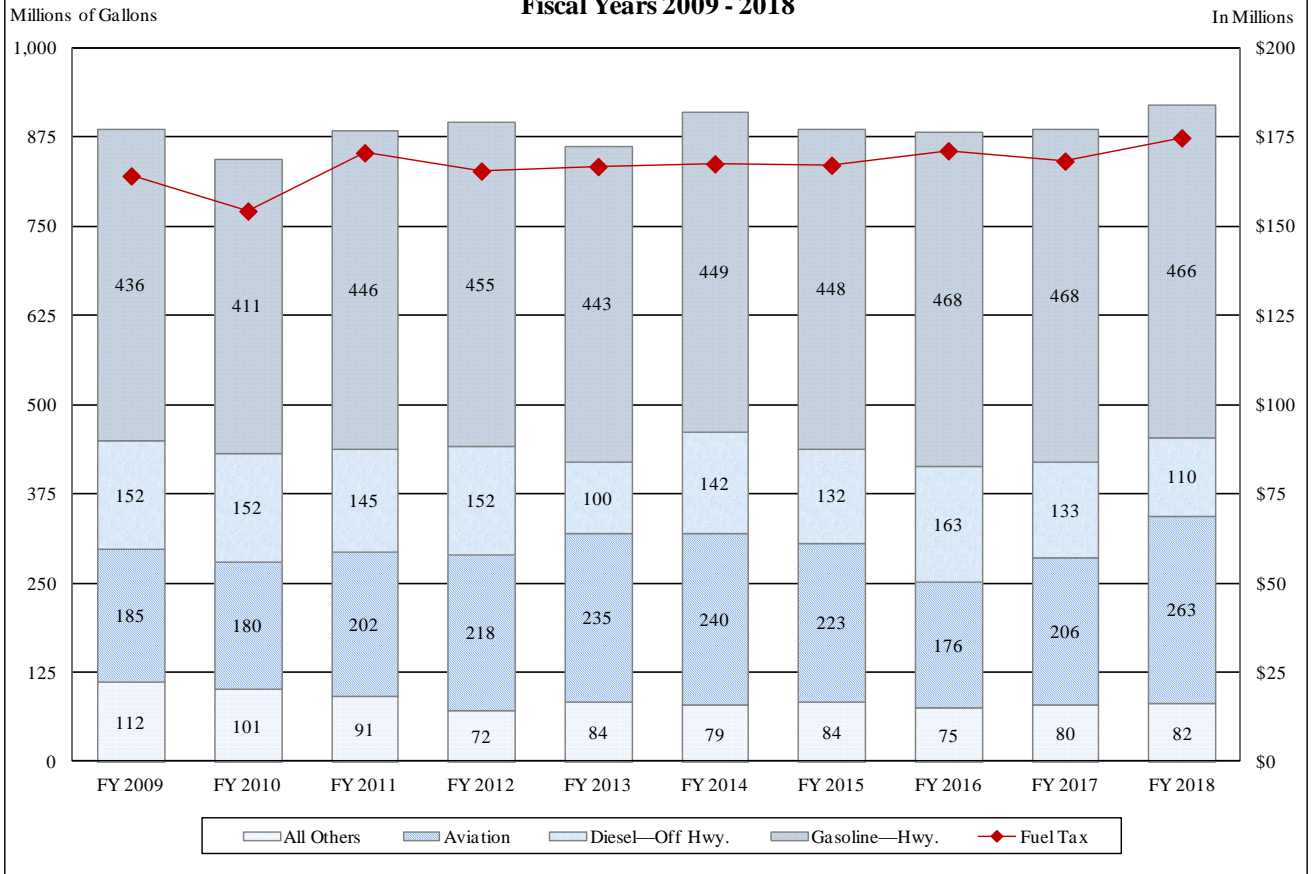


TABLE 1.5 - TAXABLE GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

	FY 2018	FY 2017	Difference	
			Amount	% Change
Gasoline	465,973	468,009	(2,036)	(0.4)
Diesel Oil - Off Highway	109,612	133,425	(23,813)	(17.8)
Diesel Oil - Highway	49,108	44,747	4,361	9.7
Liq. Pet. Gas - Highway	26	9	17	198.4
Small Boats - Gasoline	1,403	376	1,027	272.9
Small Boats - Diesel Oil	3,001	3,326	(326)	(9.8)
Aviation Fuel	263,192	205,910	57,281	27.8
Other Fuel ¹	28,172	31,601	(3,429)	(10.9)
Total Gallons	920,486	887,404	33,082	3.7
Environmental Tax				
Petroleum Products (Barrel) ²	24,652,884	24,209,274	443,610	1.8
Fossil Fuels (MMBtu) ³	5,812,564	5,643,391	169,173	3.0

¹ Other fuel includes ethanol, methanol, biodiesel, naphtha, compressed natural gas, and liquefied natural gas.

² Barrel = 42 U.S. gallons of petroleum products.

³ MMBtu = 1 million British thermal units.

NOTE: Due to rounding, details may not add to totals.

TABLE 1.6 - ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 2018 ¹	FY 2017 ²	Difference	
			Amount	% Change
STATE HIGHWAY FUND				
Gasoline	\$ 73,957	\$ 74,157	\$ (200)	(0.3)
Diesel Oil - Off Highway	1,129	1,354	(225)	(16.6)
Diesel Oil - Highway	7,779	7,088	691	9.7
Liq. Pet. Gas - Highway	1	0	1	198.7
Other Fuel ³	623	672	(48)	(7.2)
Subtotal	\$ 83,489	\$ 83,270	\$ 218	0.3
Motor Vehicle	138,395	133,302	5,093	3.8
Rental Vehicle	54,844	53,187	1,657	3.1
TOTAL	\$276,727	\$269,759	\$ 6,968	2.6
COUNTY HIGHWAY FUNDS				
City & County of Honolulu	\$ 51,790	\$ 51,992	\$ (202)	(0.4)
County of Maui	16,450	15,655	795	5.1
County of Hawaii	12,988	7,994	4,994	62.5
County of Kauai	5,718	5,636	82	1.5
TOTAL	\$ 86,946	\$ 81,278	\$ 5,668	7.0
BOATING SPECIAL FUND	\$ 1,722	\$ 1,662	\$ 59	3.6
STATE AIRPORT FUND				
Aviation Fuel	\$ 2,632	\$ 2,059	\$ 573	27.8
ENVIRONMENTAL RESPONSE REVOLVING FUND	\$ 1,291	\$ 1,267	\$ 24	1.9
ENERGY SECURITY FUND	\$ 3,872	\$ 3,801	\$ 72	1.9
ENERGY SYSTEMS DEVELOPMENT FUND	\$ 2,582	\$ 2,534	\$ 48	1.9
AGRICULTURAL DEVELOPMENT & FOOD SECURITY FUND	\$ 3,872	\$ 3,801	\$ 72	1.9
GENERAL FUND	\$ 15,373	\$ 15,090	\$ 283	1.9

¹ Includes amounts totaling \$475 thousand in undistributed fuel tax from previous years that were included in several monthly reports in fiscal year 2018. Fuel tax collections were \$201,303 thousand for fiscal year 2018.

² Fuel tax collections were \$195,151 thousand for fiscal year 2017. Of the collections, \$390 thousand could not be distributed because the corresponding tax returns were not yet available.

³ Other fuel includes ethanol, methanol, biodiesel, naphtha, compressed natural gas, and liquefied natural gas.

NOTE: Due to rounding, details may not add to totals.

1.7 MOTOR VEHICLE TAXES AND FEES

1.7.1 Overview

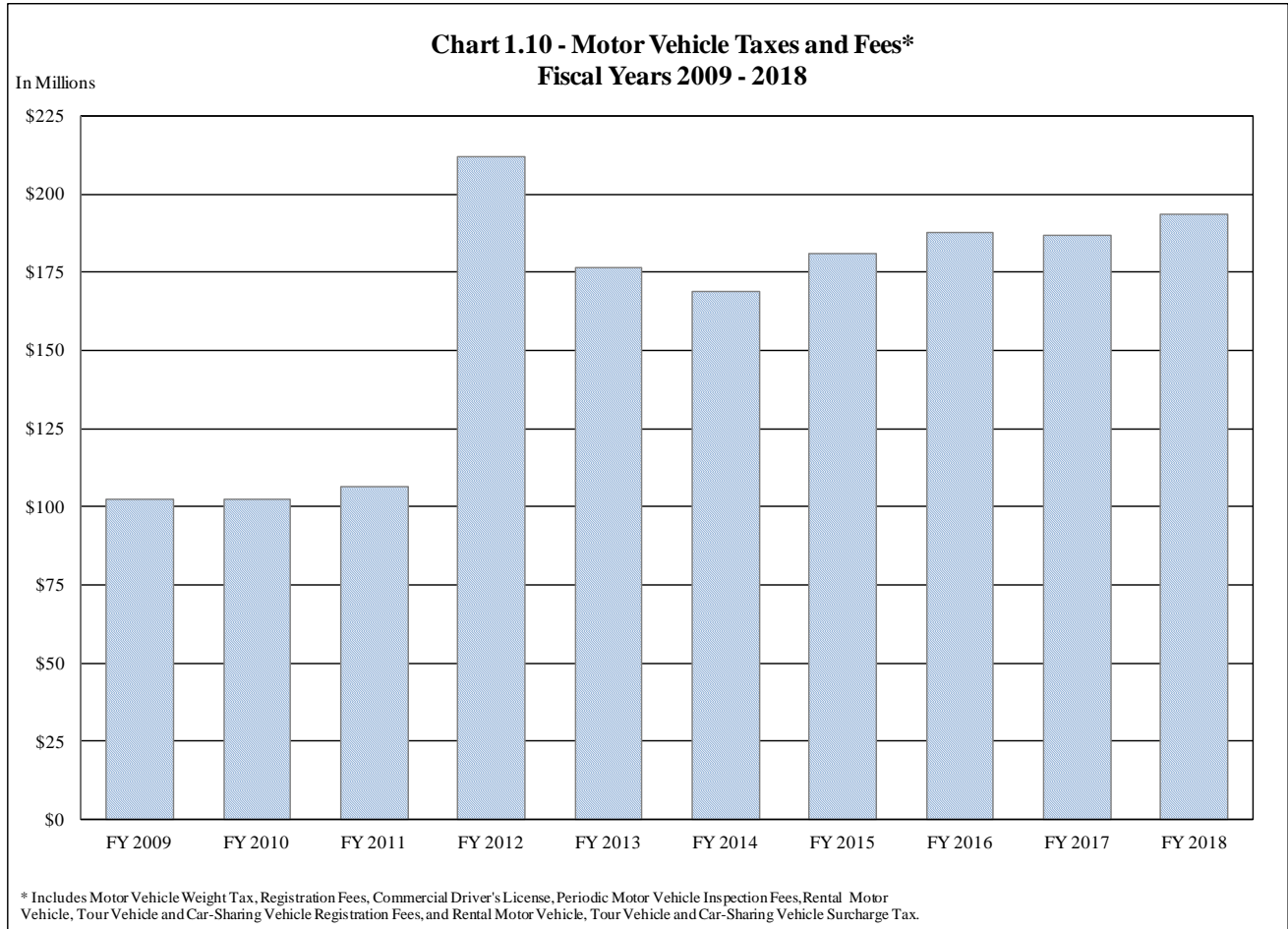
The State levies an annual registration fee per vehicle and a tax based on vehicle weight. The State also levies the rental motor vehicle, tour vehicle, and car-sharing vehicle surcharge tax (RVST). The tax on rentals of motor vehicles is imposed on the lessor. The rate of the tax is \$3.00 per day. The tax on tour vehicles is imposed on the tour vehicle operator. The rate of the tax is \$65 per month for each tour vehicle in the 26 passenger seat and over category, and \$15 per month for each tour vehicle in the 8 to 25 passenger seat category. The tax on motor vehicles that are rented or leased by a car-sharing organization is imposed on the car-sharing organization. The rate of the tax is 25 cents per half-hour. There is a one-time \$20 registration fee for those subject to any part of the RVST.

1.7.2 Revenue

For FY 2018, the State's motor vehicle taxes and fees (including the RVST) totaled \$193.2 million, compared to \$186.5 million in FY 2017, an increase of 3.6%. Chart 1.10 shows the total motor vehicle taxes and fees for FY 2009 through FY 2018. The large increase in FY 2012 was caused by a temporary increase in the rate of the RVST to \$7.50 per day, which was in place from July 1, 2011 to June 30, 2012. The collections for FY 2013 also reflect one month of collections at the higher tax rate, since the collections lag the liabilities incurred by one month.

1.7.3 Recent Legislation

Act 215, SLH 2018, imposes an additional \$2 per day surcharge tax on rental motor vehicles when the lessee does not have a valid Hawaii driver's license. The Act also increases the tour vehicle surcharge tax by \$1 per month. The Act takes effect January 1, 2019.



1.8 CIGARETTE AND TOBACCO TAX

1.8.1 Overview

Wholesalers and dealers, as those terms are defined in section 245-1, Hawaii Revised Statutes (HRS), must pay an excise tax on the sale or use of tobacco products and on each cigarette or little cigar sold, used, or possessed. The tax per cigarette or little cigar was increased to 16 cents for sales on and after July 1, 2011. The excise tax on large cigars is 50% of the wholesale price and the excise tax on all other tobacco products (tobacco in any form except cigarettes, little cigars or large cigars) is 70% of the wholesale price. A \$2.50 tobacco tax license is required and must be renewed before July 1 each year. Cigarette wholesalers and dealers are required to affix a stamp to each individual cigarette package as proof that the tax has been paid. Every retailer engaged in the retail sale of cigarettes and other tobacco products is required to obtain a \$20 retail tobacco permit that must be renewed before December 1 each year.

1.8.2 Revenue

During FY 2018, collections of the cigarette and tobacco tax (including tobacco licenses) totaled \$120.5 million, compared to \$124.1 million in FY 2017, or a decrease of 2.9%. Chart 1.11 shows the total collections of the tax for FY 2009 through FY 2018. The 16 cent tax per cigarette was

distributed as follows in FY 2018: 2.000 cents went to the Hawaii Cancer Research Special Fund, 1.125 cents went to the Trauma System Special Fund, 1.250 cents went to the Community Health Centers Special Fund, and 1.250 cents went to the Emergency Medical Services Special Fund. Additionally, a total of \$1.9 million went to the Cigarette Stamp Administrative Fund and the Cigarette and Stamp Enforcement Fund. The remainder of the cigarette and tobacco tax went to the General Fund. Table 1.7 shows collections of the tobacco taxes and how the revenues were allocated in FY 2017 and FY 2018.

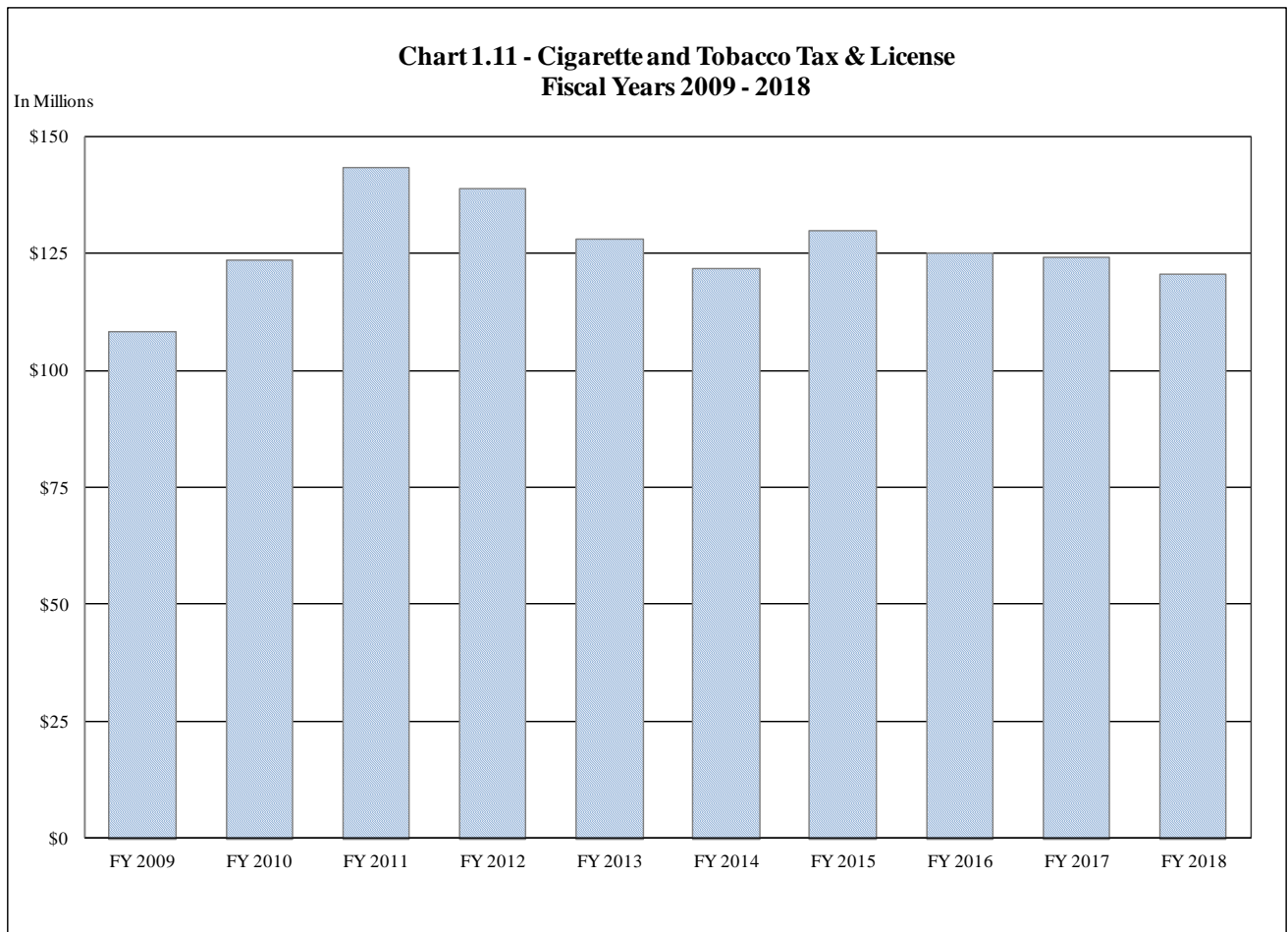


TABLE 1.7 - CIGARETTE & TOBACCO TAX
(In Thousands of Dollars)

	FY 2018	FY 2017	Difference	
			Amount	% Change
Collection				
Tobacco & Licenses	\$ 120,522	\$ 124,066	\$ (3,544)	(2.9)
Distribution*				
Hawaii Cancer Research Fund	\$ 13,917	\$ 14,326	\$ (409)	(2.9)
Trauma System Fund	7,400	7,400	-	-
Emergency Medical Services Fund	8,700	8,800	(100)	(1)
Community Health Centers Fund	8,700	8,800	(100)	(1)
Cigarette Stamp Administrative & Enforcement Funds	1,892	1,947	(56)	(2.9)
General Fund	79,914	82,792	(2,879)	(3.5)
Total	\$ 120,522	\$ 124,066	\$ (3,544)	(2.9)

*Details on distributions of the revenues are given in section 245-15, HRS.

NOTE: Due to rounding, details may not add to totals.

1.9 PUBLIC SERVICE COMPANY TAX

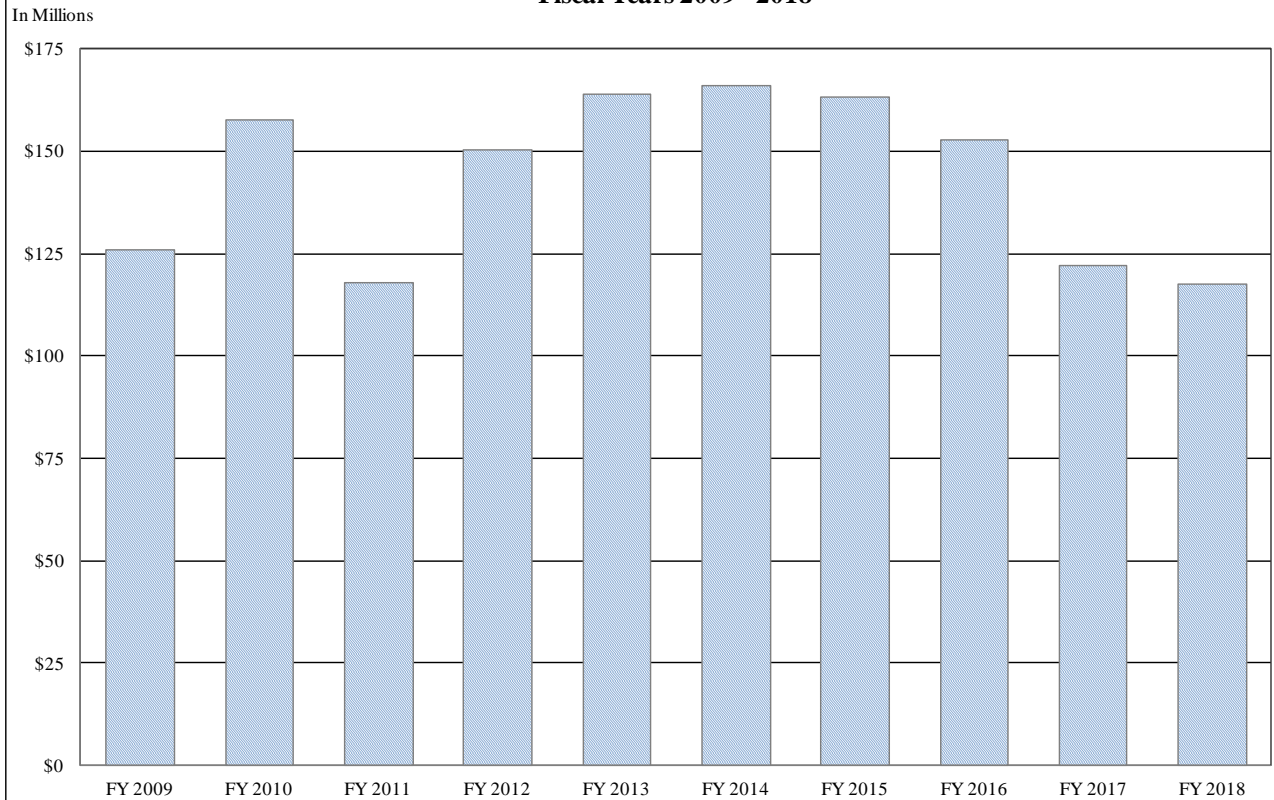
1.9.1 Overview

The public service company (PSC) tax is levied on public utility businesses in lieu of all taxes except income taxes, vehicular taxes imposed under chapter 249, HRS, the franchise tax on public utilities imposed under chapter 240, HRS, and the use tax imposed under chapter 238, HRS. Generally, the tax is applied to gross income from the business of public utilities for the preceding calendar year. The tax rates on the PSC's range from 0.50% (levied on sales for resale) to 8.20%. For a public utility, only the first 4.0% is realized by the State; any excess over 4.0% is distributed to counties that provide a real property tax exemption for property used by the public utility in its business. For a carrier of passengers by land between points on a scheduled route, the gross income from passenger fares is taxed at 5.35%, all of which is realized by the State.

1.9.2 Revenue

The PSC tax yielded \$117.6 million in tax, penalty, and interest in FY 2018, a decrease of 3.7% from the \$122.2 million collected in FY 2017. All of the revenues from the PSC tax are allocated to the General Fund. Chart 1.12 shows the total collections of the tax for FY 2009 through FY 2018.

**Chart 1.12 - Public Service Company Tax
Fiscal Years 2009 - 2018**



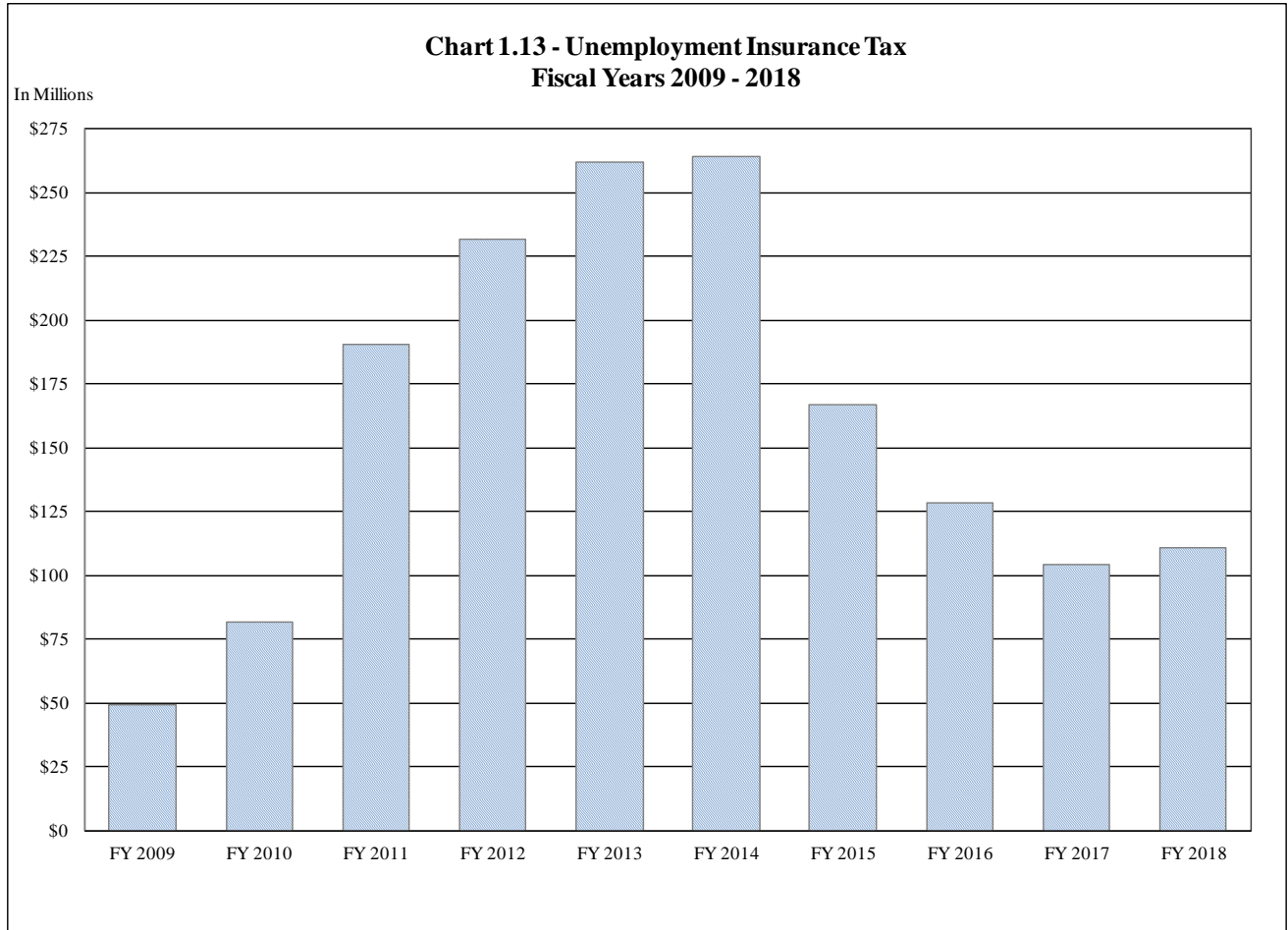
1.10 UNEMPLOYMENT INSURANCE TAX

1.10.1 Overview

The unemployment insurance (UI) tax (officially "employment security contributions") is imposed on wages paid by employers with one or more employees, with certain exemptions. The tax is experience rated. The UI tax rate for each year depends on the condition of the UI Trust Fund. The tax base represents the state's average annual wages reported by employers contributing to the Unemployment Trust Fund. For FY 2018, the tax base ranged from \$44,000 in CY 2017 to \$45,900 in CY 2018 and the contribution rate for new employers was 2.4% in both CY 2017 and CY 2018. Revenues from the tax go to the Unemployment Trust Fund. The Department of Labor and Industrial Relations administers the UI tax and the Department of Taxation collects the tax.

1.10.2 Revenue

For FY 2018, revenue from the UI tax totaled \$110.9 million, up by 6.3% from \$104.3 million collected in FY 2017. Chart 1.13 shows collections of the UI tax for FY 2009 through FY 2018.



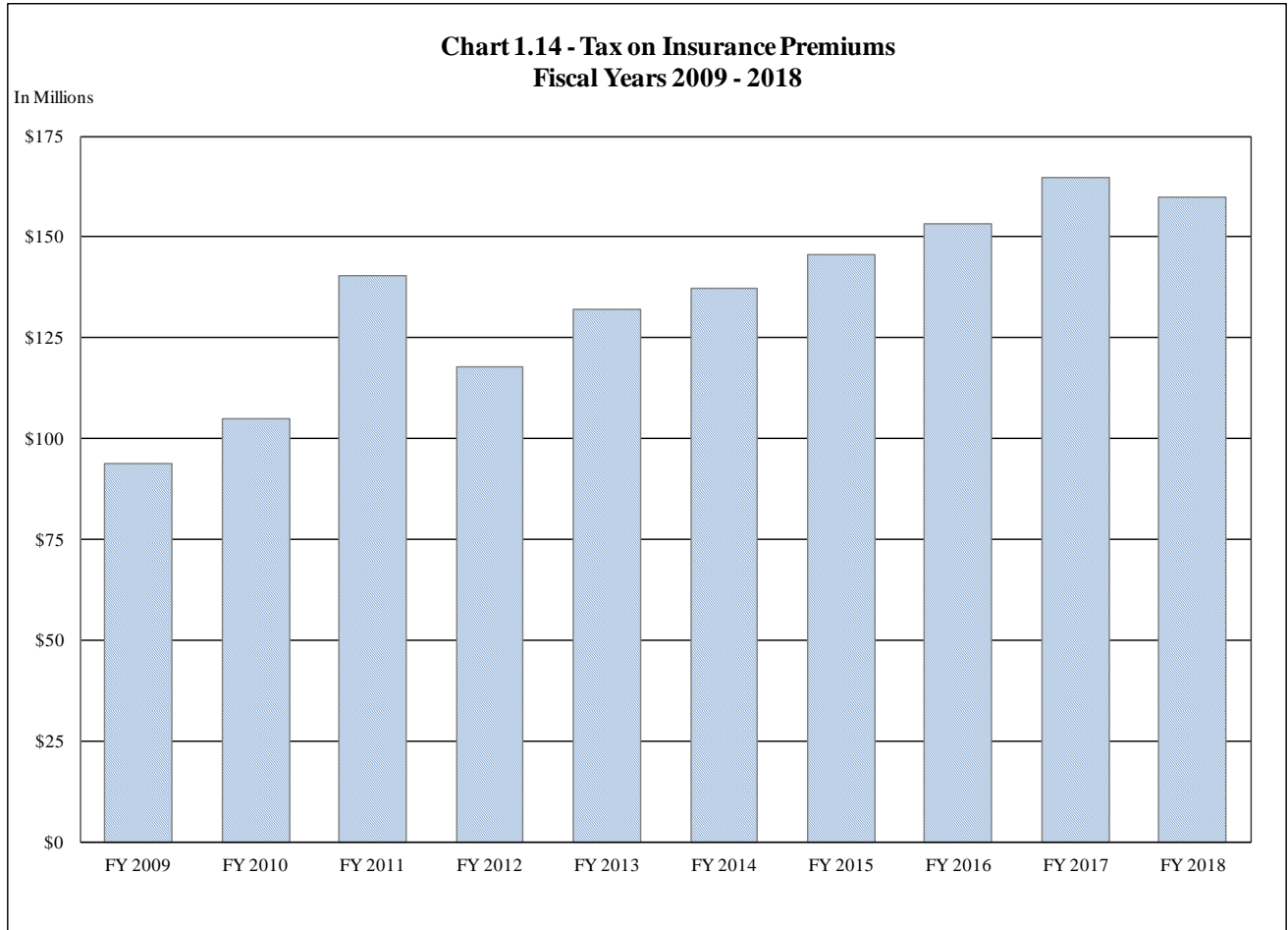
1.11 INSURANCE PREMIUM TAX

1.11.1 Overview

The tax on insurance premiums applies to insurance companies (underwriters) based on premiums written in Hawaii. The insurance premium tax is in lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. The tax rates are as follows: (1) Life Insurance, 2.75%; (2) Surplus Lines, 4.68%; (3) Ocean Marine, 0.8775% on gross underwriting profit; and (4) Other Insurance, 4.265%. To insurers who qualify, there is a 1.0% tax credit to facilitate regulatory oversight. The tax is administered and collected by the Insurance Commissioner, who is required to report to the Director of Taxation the amounts of all taxes collected under chapter 431, HRS.

1.11.2 Revenue

For FY 2018, the tax on insurance premiums totaled \$159.8 million, compared to \$164.7 million in FY 2017, a decrease of 3.0%. Chart 1.14 shows collections of the tax for FY 2009 through FY 2018.



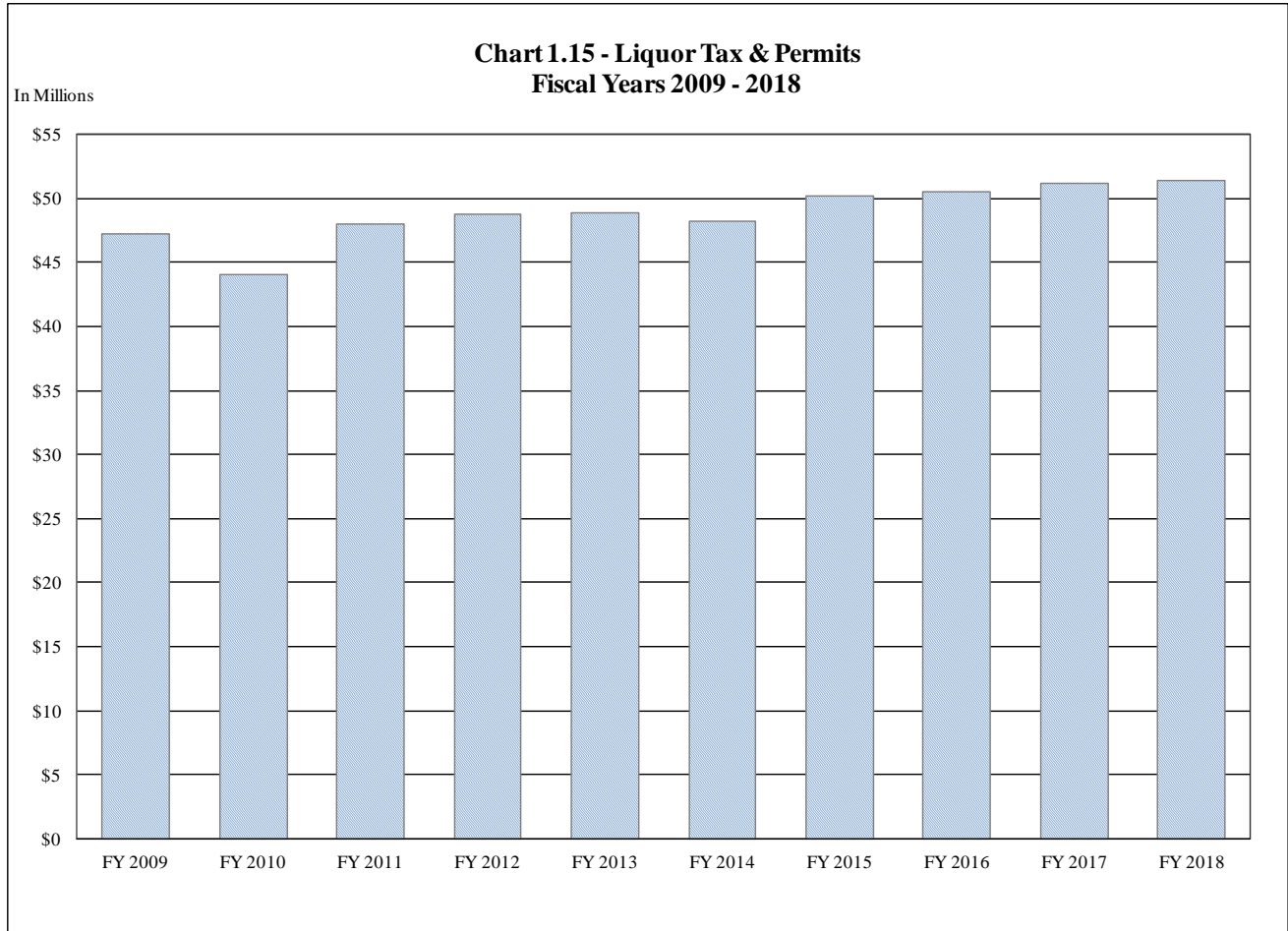
1.12 LIQUOR TAX

1.12.1 Overview

The tax on liquor is a gallonage tax imposed on dealers as defined in section 244D-1, HRS, and upon certain others who sell or use liquor. A \$2.50 liquor tax permit is required and must be renewed before July 1 each year. See section 244D-4, HRS, for exemptions from the tax. The tax rates per wine gallon are \$5.98 on distilled spirits, \$2.12 on sparkling wine, \$1.38 on still wine, \$0.85 on cooler beverages, \$0.93 on beer other than draft beer, and \$0.54 on draft beer.

1.12.2 Revenue

For FY 2018, the liquor tax and permit fees totaled \$51.4 million, an increase of 0.4% from the \$51.2 million collected in FY 2017. Chart 1.15 shows collections of the liquor tax and permit fees for FY 2009 through FY 2018.



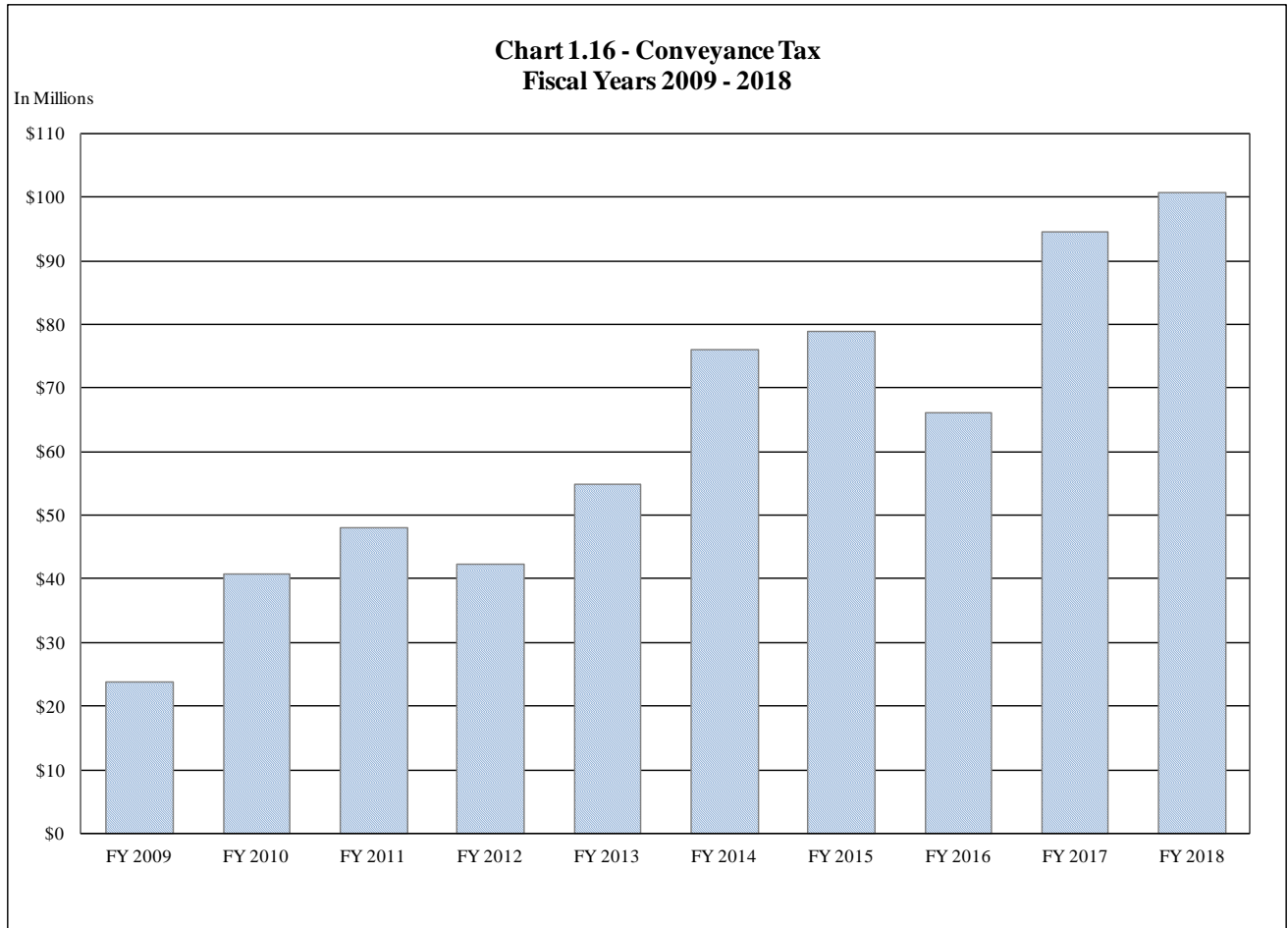
1.13 CONVEYANCE TAX

1.13.1 Overview

The conveyance tax is imposed on all documents transferring ownership or interest in real property and is based on the actual and full consideration paid or to be paid. For a sale of a condominium or single family residence, the rate of the conveyance tax depends on whether the purchaser is eligible for a county homeowners' exemption from the real property tax. If the purchaser is eligible for the exemption, or if the sale is of real property other than a condominium or single family residence, then the tax rate ranges from 10 cents per \$100 for properties with a value of less than \$600,000 to \$1 per \$100 for properties with a value of \$10,000,000 or more. If the purchaser is ineligible for the exemption, the tax rate for a sale of a condominium or single family residence ranges from 15 cents per \$100 for properties with a value of less than \$600,000 to \$1.25 per \$100 for properties with a value of \$10,000,000 or more. The conveyance tax is administered by the Department of Taxation, but it is collected by the Bureau of Conveyances in the Department of Land and Natural Resources.

1.13.2 Revenue

For FY 2018, revenue from the conveyance tax totaled \$100.6 million, compared to \$94.5 million in FY 2017, an increase of 6.4%. The revenues for FY 2018 were distributed as follows: 10% went to the Land Conservation Fund, provided that the amount in excess of \$6.8 million in any fiscal year is deposited into the General Fund; 50% went to the Rental Housing Trust Fund, provided that the amount in excess of \$38.0 million in any fiscal year is deposited into the General Fund; and the remaining 40% went to the General Fund. Chart 1.16 shows collections of the conveyance tax for FY 2009 through FY 2018.



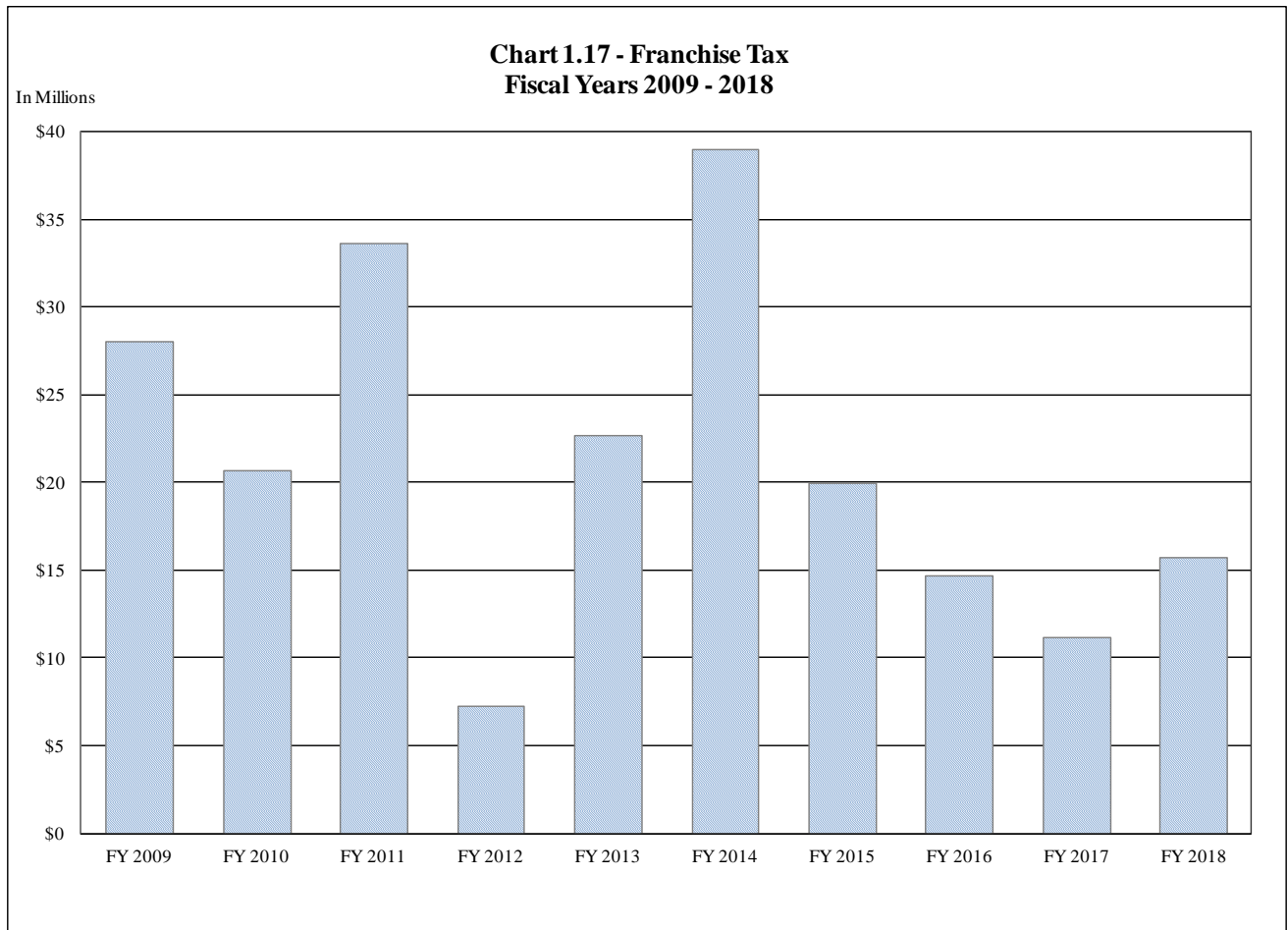
1.14 TAX ON BANKS AND OTHER FINANCIAL CORPORATIONS

1.14.1 Overview

The tax on banks and other financial corporations (the franchise tax) is levied on net income of banks, building and loan associations, development companies, financial corporations, financial services loan companies, trust companies, mortgage loan companies, financial holding companies, small business investment companies, and subsidiaries not subject to the tax imposed by chapter 235, HRS. The tax is in lieu of the net income tax imposed under chapter 235, HRS, and of the GET, but it uses the definition of net income from chapter 235, with modifications. The tax is levied on net income at the rate of 7.92%. The assessment date is January 1 of each year.

1.14.2 Revenue

For FY 2018, franchise tax collections totaled \$15.7 million, compared to \$11.2 million in FY 2017, an increase of 40.6%. Chart 1.17 shows collections of the franchise tax for FY 2009 through FY 2018. Collections of the tax were low in FY 2012, due partly to a one-time transfer of \$16.5 million to the Litigated Claims Fund.



1.15 ESTATE AND TRANSFER TAX

1.15.1 Overview

Hawaii's estate and transfer tax is levied on the transfer of a taxable estate. The taxable estate is based on the federal definition (with adjustments for nonresidents), but the State has its own tax rate schedule, with tax rates varying from 10.0% to 15.7%. The generation skipping tax is also based on the federal taxable transfer, but has its own tax rate (currently 2.25%).

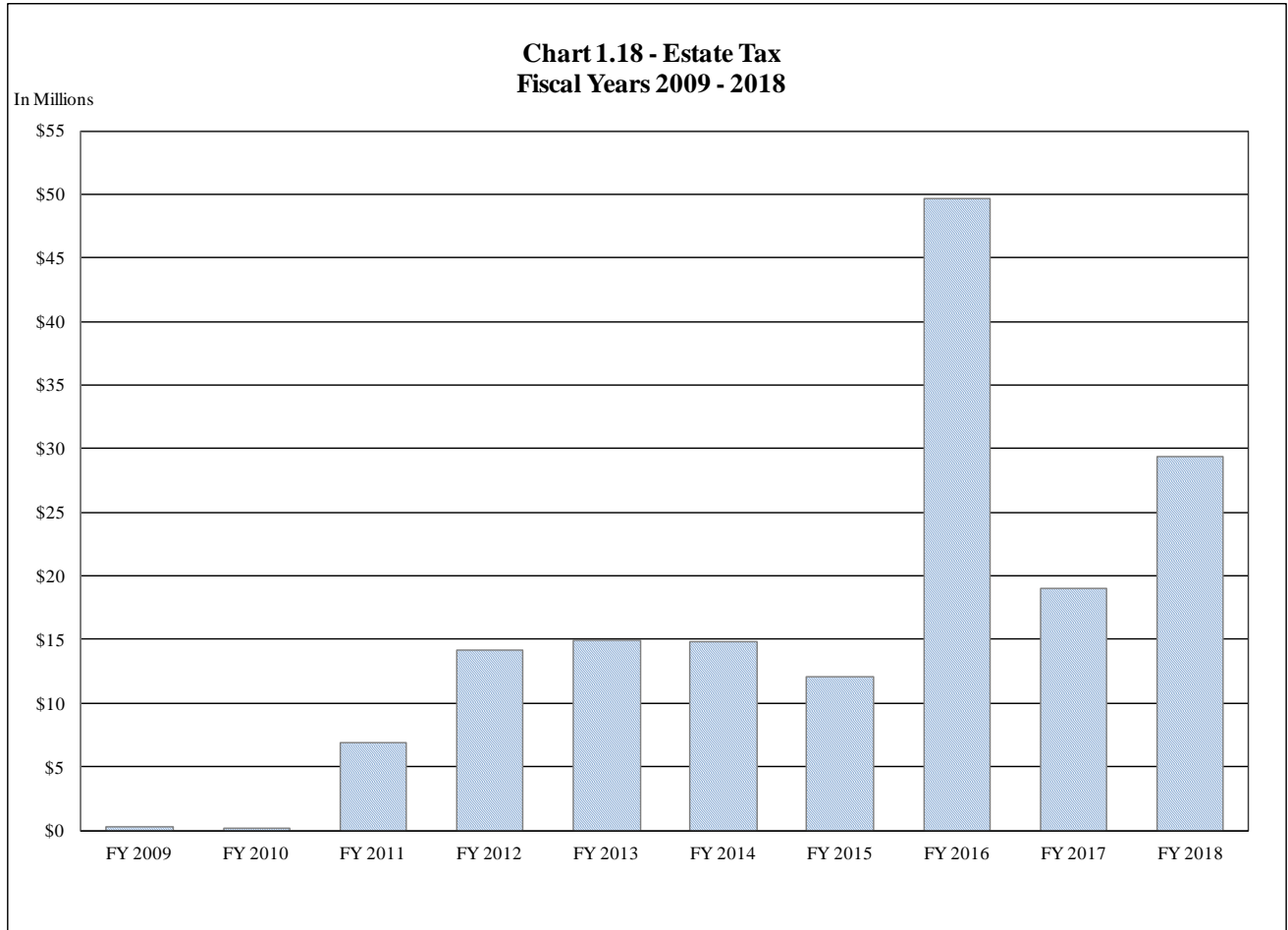
1.15.2 Revenue

For FY 2018, estate tax collections totaled \$29.4 million, compared to \$19.0 million collected in FY 2017. Chart 1.18 shows collections of the estate and transfer tax for FY 2009 through FY 2018.

1.15.3 Recent Legislation

Act 156, SLH 2017, applies the estate and generation-skipping transfer tax to single member limited liability companies that do not elect to be taxed as corporations. The Act applies to decedents dying or taxable transfers occurring after December 31, 2016.

Act 27, SLH 2018, selectively conforms Hawaii estate tax laws to the Internal Revenue Code as of December 31, 2017. Notably, however, the Act failed to adopt the new higher federal exclusion amount of \$10.00 million, keeping the exclusion amount for Hawaii's estate tax at \$5.49 million. The Act is effective June 7, 2018, and applies to decedents dying after December 31, 2017.



1.16 CITY AND COUNTY OF HONOLULU SURCHARGE TAX

1.16.1 Overview

Act 247, SLH 2005, granted counties the authority to impose a county surcharge of no more than 0.5% on gross income that is subject to the State's GET at the rate of 4.0% to fund county public transportation systems. The Department of Taxation is required to administer and collect the surcharge for the counties.

The following counties have adopted the surcharge:

City and County of Honolulu: The county surcharge rate is 0.5% and is effective from January 1, 2007 through December 31, 2030.

County of Kauai: The county surcharge rate is 0.5% and is effective from January 1, 2019 through December 31, 2030.

County of Hawaii: The county surcharge rate is 0.25% and is effective from January 1, 2019 through December 31, 2020.

Starting September 5, 2017, the amount deducted from the county surcharge collections to reimburse the State for administrative costs declined from 10% to 1%.

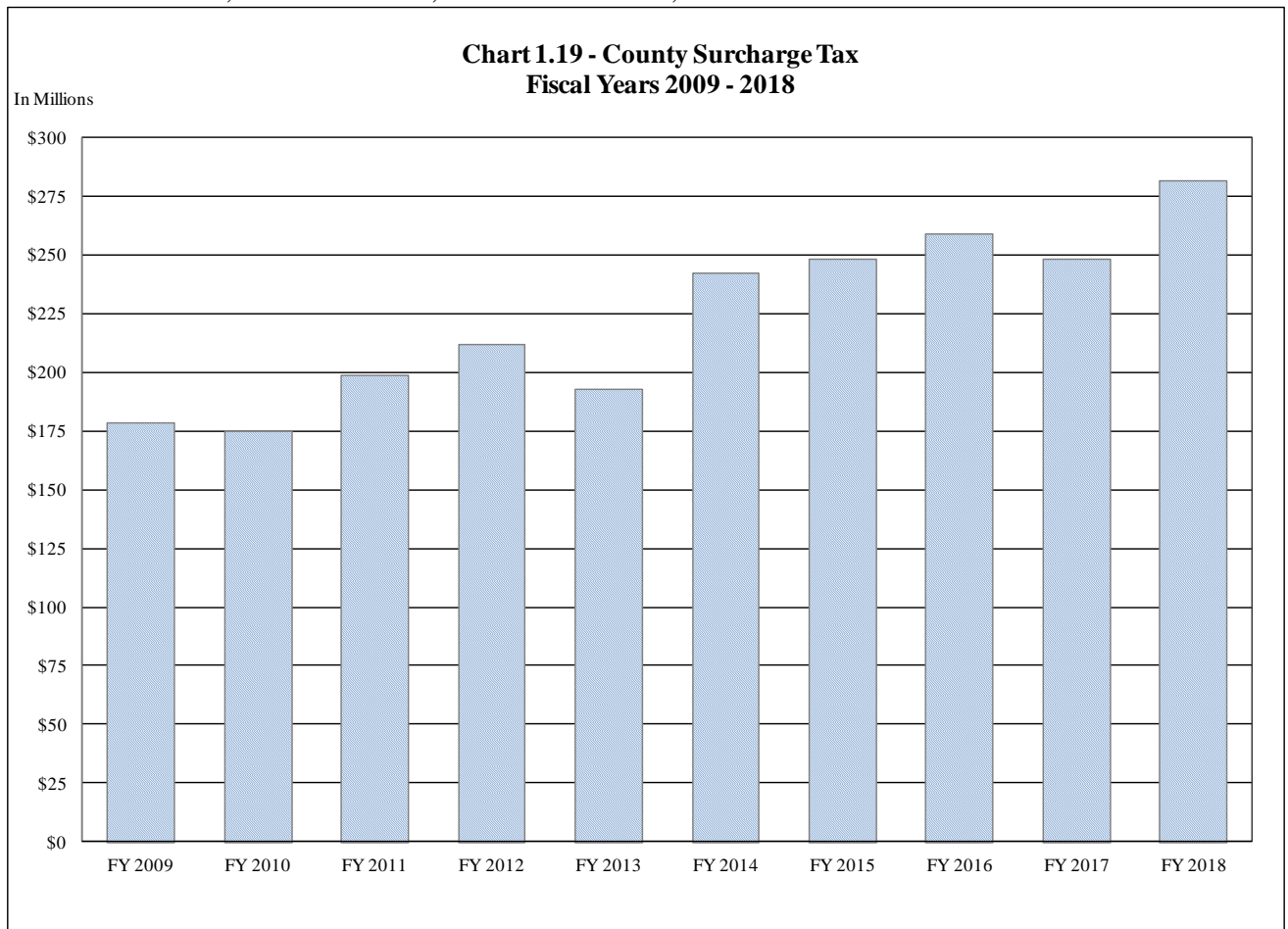
1.16.2 Revenue

For FY 2018, collections of Honolulu's county surcharge totaled \$281.6 million, an increase of 13.5% from the \$248.2 million collected in FY 2017. Chart 1.19 shows collections of the county surcharge for FY 2009 through FY 2018.

1.16.3 Recent Legislation

Act 1, SSLH 2017, authorized the City and County of Honolulu to extend the sunset of its county surcharge from December 31, 2027 to December 31, 2030, which the County did by ordinance. The Act also authorized the other counties to establish a county surcharge, which may be levied from January 1, 2019 to December 31, 2030. New county surcharges were established by ordinance by Hawaii County (0.25%, from January 1, 2019 to December 31, 2020) and by Kauai County (0.50%, from January 1, 2019 to December 31, 2030). The Act reduced the amount that is deducted from the county surcharge collections to reimburse the State for administrative costs from 10% to 1%. The Act took effect September 5, 2017.

Act 11, SLH 2018, extends the period in which a county may adopt a surcharge on state tax, under certain conditions, from March 31, 2018 to March 31, 2019.



1.17 TOTAL TAX COLLECTIONS

Total tax collections in FY 2018 amounted to \$7.90 billion, up by 7.6% from the \$7.34 billion collected in FY 2017. The Department collected the great majority of the total taxes (\$7.49 billion), but the counties collected \$138.4 million in State motor vehicle weight taxes and registration fees, the Insurance Commissioner (in the Department of Commerce and Consumer Affairs) collected \$159.8 million in insurance premium taxes, and the Bureau of Conveyances (in the Department of Land and Natural Resources) collected \$100.6 million in conveyance taxes. The total collections are shown in Table 1.8.

TABLE 1.8 - TAX COLLECTIONS ⁴
(In Thousands of Dollars)

SOURCE OF REVENUE	FY 2018		FY 2017	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corps.	\$ 15,712	0.20	\$ 11,174	0.15
Conveyance	100,603	1.27	94,537	1.29
Employment Security Contributions	110,885	1.40	104,313	1.42
Fuel & Environmental ³	201,778	2.56	194,761	2.65
General Excise & Use	3,395,566	43.01	3,239,225	44.14
Honolulu County Surcharge	281,589	3.57	248,158	3.38
Income - Corporations	131,119	1.66	173,666	2.37
Income - Individuals	2,430,356	30.78	2,095,898	28.56
Inheritance and Estate	29,351	0.37	18,968	0.26
Insurance Premiums	159,814	2.02	164,688	2.24
Liquor & Permits	51,383	0.65	51,167	0.70
Motor Vehicle Tax ¹	193,241	2.45	186,490	2.54
Public Service Companies	117,641	1.49	122,159	1.66
Tobacco & Licenses	120,522	1.53	124,066	1.69
Trans. Accom. Fees	22	0.00	20	0.00
Trans. Accom. Tax	554,890	7.03	508,357	6.93
All Others ²	1,236	0.02	734	0.01
TOTAL	\$ 7,895,708	100.00	\$ 7,338,382	100.00

¹ Includes motor vehicle weight tax, registration fees, commercial driver's license, periodic motor vehicle inspection fees, rental motor vehicle, tour vehicle and car-sharing vehicle registration fees, and rental motor vehicle, tour vehicle and car-sharing vehicle surcharge tax.

² Includes fuel retail dealer permits, fuel penalty and interest, permitted transfers tax, and general excise fees.

³ Includes amounts totaling \$475 thousand in undistributed fuel tax from previous years that were included in several monthly reports in fiscal year 2018. Fuel tax collections were \$201,303 thousand for fiscal year 2018. Fuel tax collections were \$195,151 thousand for fiscal year 2017. Of the collections, \$390 thousand could not be distributed because the corresponding tax returns were not yet available.

⁴ Individual & corporation income taxes for FYs 2017 & 2018 are not comparable to prior years due to a new compiling method.

NOTE: Due to rounding, details may not add to totals.

1.18 DISTRIBUTION OF TAXES

Of the \$7.90 billion in total tax collections in FY 2018, \$6.80 billion or 86.1% was deposited into the State's General Fund. The four counties received \$189.9 million from county fuel taxes and the TAT. In addition, \$281.6 million of county surcharge was collected for the City and County of Honolulu (before deducting the administrative fee imposed by the State). The remaining tax revenues not deposited into the General Fund or transferred to the counties were distributed among various State special funds. The State Highway Fund received the largest portion, \$276.7 million. All of the unemployment insurance tax (the employment security contributions) went into the Unemployment Trust Fund for unemployment benefits. Table 1.9 shows allocations of taxes to the State's General Fund in FY 2017 and FY 2018. The distributions of the total tax collections among all funds in FY 2017 and FY 2018 are shown in Table 1.10.

TABLE 1.9 - STATE GENERAL FUND **
(In Thousands of Dollars)

SOURCE OF REVENUE	FY 2018		FY 2017	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corps.	\$ 13,712	0.20	\$ 9,174	0.15
Conveyance	55,803	0.82	49,737	0.79
General Excise & Use	3,395,566	49.96	3,239,225	51.29
Income - Corporations	131,119	1.93	173,666	2.75
Income - Individuals	2,429,836	35.75	2,095,436	33.18
Inheritance and Estate	29,351	0.43	18,968	0.30
Insurance Premiums	159,814	2.35	164,688	2.61
Liquor & Permits	51,383	0.76	51,167	0.81
Public Service Companies	117,641	1.73	122,159	1.93
Tobacco & Licenses	79,914	1.18	82,792	1.31
Trans. Accom. Tax	315,264	4.64	292,357	4.63
Environmental Tax	15,373	0.23	15,090	0.24
All Others *	1,260	0.02	755	0.01
TOTAL	\$ 6,796,036	100.00	\$ 6,315,215	100.00

* Includes fuel retail dealer permits, fuel penalty and interest, permitted transfers tax, general excise fees, trans accom fees and rental vehicle fees.

** Individual & corporation income taxes for FYs 2017 & 2018 are not comparable to prior years due to a new compiling method.

NOTE: Due to rounding, details may not add to totals.

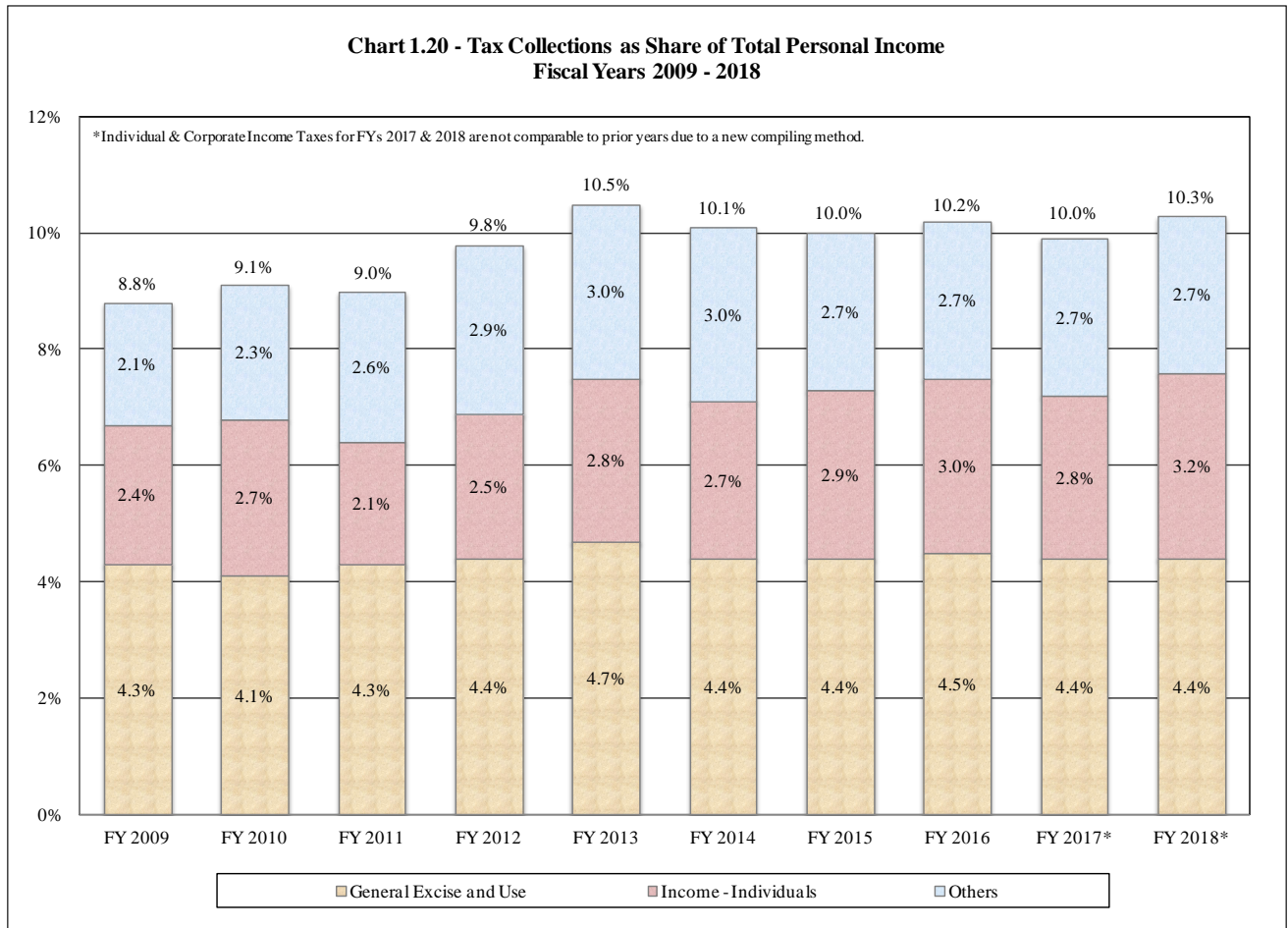
TABLE 1.10 - DISTRIBUTION OF COLLECTIONS
(In Thousands of Dollars)

	FY 2018		FY 2017	
	Amount Distributed	% of Total	Amount Distributed	% of Total
<u>STATE FUND</u>				
State General Fund	\$ 6,796,036	86.07	\$ 6,315,215	86.06
State Highway Fund	276,727	3.50	269,759	3.68
State Airport Fund	2,632	0.03	2,059	0.03
Boating Special Fund	1,722	0.02	1,662	0.02
Environmental Fund	1,291	0.02	1,267	0.02
Cigarette Stamp Admin/Enf. Fund	1,892	0.02	1,947	0.03
Compliance Resolution Fund	2,000	0.03	2,000	0.03
Unemployment Trust Fund	110,885	1.40	104,313	1.42
Election Campaign Fund	195	0.00	164	0.00
Tourism Special Fund	82,000	1.04	82,000	1.12
Rental Housing Fund	38,000	0.48	38,000	0.52
Convention Center Fund	26,500	0.34	26,500	0.36
Public Libraries Fund	75	0.00	68	0.00
School Repairs & Maintenance Fund	80	0.00	74	0.00
Land Conservation Fund	6,800	0.09	6,800	0.09
Domestic Violence\Child Abuse Neglect Fund	170	0.00	155	0.00
Cancer Research Fund	13,917	0.18	14,326	0.20
Trauma System Fund	7,400	0.09	7,400	0.10
Emergency Medical Service Fund	8,700	0.11	8,800	0.12
Community Health Centers Fund	8,700	0.11	8,800	0.12
Energy Security Fund	3,872	0.05	3,801	0.05
Energy Systems Development Fund	2,582	0.03	2,534	0.03
Agricultural Development & Food Security Fund	3,872	0.05	3,801	0.05
Land and Development Fund	3,000	0.04	3,000	0.04
Turtle Bay Conservation Easement Fund	1,500	0.02	1,500	0.02
Mass Transit Special Fund	23,626	0.30	-	-
Subtotal - State	\$ 7,424,174	94.03	\$ 6,905,946	94.11
<u>HONOLULU COUNTY SURCHARGE</u>	\$ 281,589	3.57	\$ 248,158	3.38
<u>REVENUES TRANSFERRED TO COUNTIES</u>				
Other County Revenues				
Fuel Tax	\$ 86,946	1.10	\$ 81,278	1.11
Trans. Accom. Tax	103,000	1.30	103,000	1.40
Subtotal - Counties	\$ 189,946	2.41	\$ 184,278	2.51
TOTAL	\$ 7,895,708	100.00	\$ 7,338,382	100.00

NOTE: Due to rounding, details may not add to totals.

1.19 TRENDS IN TAX COLLECTIONS

Table 1.11 provides data on total tax collections for FY 2009 through FY 2018. Chart 1.20 shows total tax collections relative to total personal income (TPI) in the State for FY 2009 through FY 2018.² The ratio grew from FY 2009 to FY 2013, but fell from FY 2013 to FY 2014. The ratio stayed roughly the same from FY 2014 to FY 2018.



² The chart uses the most recent figures from the Bureau of Economic Analysis (BEA) for TPI. The Bureau periodically updates TPI figures and the updates often extend back for a number of years.

TABLE 1.11 - HISTORICAL COLLECTIONS FOR SELECTED TAXES
(In Thousands of Dollars)

SOURCE OF REVENUE	Fiscal Year				
	2009	2010	2011	2012	2013
General Excise and Use	\$2,417,580	\$2,316,434	\$2,495,807	\$2,697,951	\$2,944,487
Income - Individuals	1,339,056	1,528,110	1,247,153	1,541,051	1,736,007
Transient Accom. Tax & Fees	210,622	224,252	284,472	323,951	368,576
Unemployment Insurance	49,071	82,017	190,511	231,669	262,290
Motor Vehicle Tax ¹	101,991	102,319	106,166	211,742	176,295
Fuel and Environmental ⁴	165,717	155,703	195,336	193,101	193,949
Public Service Companies	126,069	157,661	117,940	150,528	163,930
Tobacco and Licenses	108,164	123,489	143,293	138,798	127,881
Insurance Premiums ²	93,720	104,721	140,456	117,617	131,906
Income - Corporations	53,522	59,186	34,573	73,026	100,988
Liquor and Permits	47,242	44,074	48,054	48,854	48,962
Conveyance	23,772	40,634	47,906	42,106	54,686
Banks - Financial Corporations	28,075	20,666	33,677	7,229	22,673
Total Collections ³	\$4,944,133	\$5,134,807	\$5,292,193	\$6,004,268	\$6,541,300

SOURCE OF REVENUE	Fiscal Year				
	2014	2015	2016	2017 ⁵	2018 ⁵
General Excise and Use	\$2,880,541	\$3,048,207	\$3,206,154	\$3,239,225	\$3,395,566
Income - Individuals	1,745,810	1,988,194	2,116,859	2,095,898	2,430,356
Transient Accom. Tax & Fees	395,242	420,981	446,794	508,377	554,912
Unemployment Insurance	264,178	167,248	128,577	104,313	110,885
Motor Vehicle Tax ¹	168,726	180,755	187,704	186,490	193,241
Fuel and Environmental ⁴	193,550	193,082	198,136	194,761	201,778
Public Service Companies	166,179	163,481	152,760	122,159	117,641
Tobacco and Licenses	121,742	129,851	125,093	124,066	120,522
Insurance Premiums ²	137,179	145,679	153,173	164,688	159,814
Income - Corporations	87,021	52,319	93,036	173,666	131,119
Liquor and Permits	48,305	50,281	50,590	51,167	51,383
Conveyance	75,831	78,702	66,083	94,537	100,603
Banks - Financial Corporations	38,983	19,930	14,691	11,174	15,712
Total Collections ³	\$6,581,424	\$6,900,042	\$7,249,205	\$7,338,382	\$7,895,708

¹ Includes State Motor Vehicle Weight Tax, Registration Fees, Commercial Driver's License, Periodic Motor Vehicle Inspection Fees, Rental Motor Vehicle, Tour Vehicle and Car-Sharing Vehicle Registration Fees, and Rental Motor Vehicle, Tour Vehicle and Car-Sharing Vehicle Surcharge Tax.

² Excludes Insurance Fees allocated to the General Fund, which were included in previous reports.

³ Includes the Inheritance and Estate Tax, the Honolulu County Surcharge, fuel permits, interest and penalties on fuel taxes, general excise fees, and permitted transfers tax.

⁴ Fuel tax collections were \$198,404 thousand for fiscal year 2016. Of the collections, \$268 thousand could not be distributed because the corresponding tax returns were not yet available. Fuel tax collections were \$195,151 thousand for fiscal year 2017. Of the collections, \$390 thousand could not be distributed because the corresponding tax returns were not yet available. Fuel tax collections were \$201,303,036.27 for fiscal year 2018. A total of \$474,691.91 in undistributed fuel tax from previous years were included in several monthly reports in fiscal year 2018.

⁵ Individual and Corporate Income Taxes for FYs 2017 & 2018 are not comparable to prior years due to a new compiling method.

2.0 TAX ADMINISTRATION

2.1 OVERALL PERFORMANCE

The Department of Taxation consists of two divisions, six staff offices, a Senior Tax System Modernization (TSM) Project Manager, a Public Information Officer, and a Taxpayer Advocate. The two divisions are the Tax Services and Processing Division and the Compliance Division. The six staff offices are the Administrative Services Office, the Rules Office, the Tax Research and Planning Office, the Information Technology Services Office, the Administrative Appeals Office and the Tax Practitioner Priority Office.

The total number of authorized permanent positions in the Department changed from 432 positions in FY 2017 to 425 positions in FY 2018. The Department's operating budget is a small fraction of total tax revenue. In FY 2018, the Department's operating expenses were \$23.7 million, down from \$24.3 million in FY 2017. The Department collected \$7.49 billion in taxes in FY 2018, so the cost of collecting each \$100 dollars of taxes was about 32 cents.

The Department has continued to encourage taxpayers to use electronic transmissions rather than paper returns. Although there has been a significant increase in electronic filing of tax returns and payments, over 2.5 million paper tax returns and other documents were manually processed by the Department in FY 2018.

The total number of audit cases completed by the Compliance Division (the Office Audit Branch and Field Audit Branch combined) decreased by 2.3%, from 17,936 in FY 2017 to 17,515 in FY 2018. Total assessments decreased by 21.7%, from \$146.4 million in FY 2017 to \$114.6 million in FY 2018.

2.2 TAX SERVICES AND PROCESSING DIVISION

2.2.1 Overview

The Tax Services and Processing Division (TSP) is comprised of three branches: Taxpayer Services, Document Processing and Revenue Accounting. Aside from providing various services to both individual and business taxpayers, the Taxpayer Services Branch (TPS) performs functions relating to licensing and taxpayer account management. The Document Processing Branch (DP) manages the receiving, editing and centralized processing of tax information and processes payments received from both paper and electronic filings, and is further responsible for securing and depositing tax payments. The Revenue Accounting Branch (RA) maintains revenue control and reconciliation functions for all State tax revenues. RA is also responsible for the preparation of various revenue related reports, such as the monthly Preliminary Report (on revenues collected) and the Statement of Tax Operations (STO).

the TSP Division continues to support initiatives that improve efficiency, effectiveness, and accountability. In FY 2017, the second rollout of the Tax System Modernization Project (TSM) was implemented to include processing of general excise tax, transient accommodations tax, use tax, rental motor vehicle and tour vehicle surcharge and county surcharge. This phase covered over 40% of State revenue collections. In FY 2018, the third rollout of the TSM was implemented adding corporate income, franchise, public service company and withholding taxes. Additionally, Hawaii Tax Online (HTO), the department's web portal for payments and filing of tax returns, was

enhanced in rollout three to include these tax types. In FY2018, 46% of all taxpayers used HTO for the tax types allowed. 50% of the general excise and transient accommodations tax payers registered and used this web portal. HTO offers efficiencies for both the taxpayer and the Tax Services and Processing Division.

Key individuals from TSP continue to participate in the entire process of testing and implementation of the TSM. The fourth rollout, planned for November 2018, includes processing of individual income, partnership, fiduciary and estate and transfer tax types. This rollout will complete the implementation of the majority of all tax types.

For the upcoming years, the Division will continue to include the ongoing promotion of electronic filing and electronic payment transactions. These options make processing more efficient while minimizing reliance on staffing resources, particularly during peak filing periods. Electronic data further ensures accuracy and allows flexibility in reporting. With TSM underway, the Division looks forward to utilizing new technology and transforming business processes in order to shift focus toward higher levels of customer service to the taxpayer and precision in reporting, which helps fulfill our fundamental goals of increasing voluntary compliance and modernizing processing. The Division has begun organizational change management to bring forth an efficient and productive operation.

2.2.2 Taxpayer Services Branch

The Taxpayer Services (TPS) Branch is made up of three main sections:

- (1) Customer Inquiry – provides information and taxpayer assistance pertaining to all taxes administered by the Department
- (2) Account Management – performs computer-based error correction activities to allow expedient processing, posting and updating of tax returns and payments, and
- (3) Licensing – processes, issues and updates all licenses and permits issued by the Department

Customer Inquiry

The Division has continued to recruit and train appropriate candidates for vacant positions in Taxpayer Services during FY 2018. For both incoming calls and walk-in taxpayers, the volume decreased in FY2018. One reason for this decline is the option for taxpayers to use HTO to view their accounts.

The Total Incoming Calls include those calls handled by the interactive voice recognition system. The Total Calls to Attendants is the number of callers attempting to talk to an attendant. The Total Answer Rate is the percentage of calls requesting to speak to a person.

Below is a summary of incoming calls for past three fiscal years:

FY	Total Incoming Calls	Total Calls To Attendants	Total Calls Answered	Answer Rate
2018	346,644	158,414	116,697	74%
2017	671,606	131,299	90,786	69%
2016	232,785	83,154	65,723	79%

For the same reasons as stated with the incoming call statistics, the number of taxpayers walking into the office has decreased for FY 2018. The average number of taxpayers served each month by fiscal year is as follows:

FY	# of Taxpayers
2018	4,193
2017	4,529
2016	3,582
2015	3,558
2014	4,290

Account Management

The primary function of Account Management is to review, analyze and correct errors or other inconsistencies on returns and payments that were identified by our computer system during processing and placed on a work list for manual review. In FY 2018, the team reviewed and posted 286,111 returns, payments, and other documents to the system that the automated system was initially unable to process. The number of corrections has increased the past two years due to the tax types being in two systems. The corrections should decrease in FY2019 and following since the Department will be operating with one system.

The chart below reflects monthly average postings of documents work-listed since FY 2014:

FY	# of Postings
2018	23,843
2017	22,135
2016	18,162
2015	16,434
2014	18,222

Licensing

The Licensing Section processed 37,978 business license applications in FY 2018, compared to 36,361 applications the previous fiscal year. However, 65% of the applications were filed online (24,487) versus 64% in FY 2017. This is a result of a continued effort by the Division to encourage taxpayers to utilize the Department’s online business license application option, Hawaii Business

Express (36%), and HTO (64%). The Section also processed 4,731 cancellations, a 21% decrease from FY 2017, which was inflated due to the clean-up preparing for the TSM Rollouts.

2.2.3 Document Processing Branch

The main function of the Document Processing Branch (DP) is to quickly and efficiently process all tax returns and documents; to receive, secure, deposit, and account for tax payments; to ensure proper electronic storage and retrieval of documents; and to perform various functions relating to electronic filing. DP is comprised of six sections: Receiving and Sorting, Data Preparation, Imaging and Data Entry, Monetary Control, File Maintenance, and Electronic Processing.

Although there has been an increase in electronic filing of tax returns and payments, over 2.59 million paper tax returns and other documents were manually processed by the DPB.

For FY 2018, there were 2,592,896 (49%) paper tax returns, and 2,701,280 (51%) electronic tax returns processed. There was over \$7.89 billion in tax-related payments received, an increase of nearly \$300 million from FY 2017.

2.2.4 Revenue Accounting Branch

The main function of the Revenue Accounting Branch (RA) is to maintain accounting records for all tax revenues, refunds and adjustments, district transfers and closing adjustments, and preparation of all Journal Vouchers and Summary Warrant Vouchers. RA is also responsible for error resolution, reconciliation and reporting functions for all State tax revenues. Specific tasks include the preparation of the Daily Cash Collection Report (Oahu District), the Preliminary Report, the Statement of Tax Operations (STO).

The monthly Preliminary Report, which is released by the fifth working day of each month, is a summary of all revenues received by the Department, less the amount of tax refunds paid. The STO is a formal, detailed report of State revenues that is based on the Preliminary Report and is prepared by the tenth working day of each month. The RA Branch has consistently and diligently met the critical deadlines for these reports throughout this fiscal year, as well as in past years.

The RA Branch also performs manual accounting activities for all miscellaneous tax collections (with the exception of the estate and transfer tax), prepares journal entries associated with the various administratively-established trust accounts and for other legislatively mandated purposes, maintains the manual accounting system for all protested payments and tax appeals, provides allocation reports to the Department of Accounting & General Services (DAGS) and the Department of Budget & Finance (B&F), accounts for all tax refunds, and handles all refund exception activities, such as returned checks, tracers, or forgeries.

2.3 COMPLIANCE DIVISION

2.3.1 Overview

The objective of the Compliance Division is to maximize taxpayer compliance with Hawaii's tax laws in a consistent, uniform, and fair manner. The Compliance Division is composed of the Oahu Office Audit Branch, the Oahu Field Audit Branch, the Oahu Collections Branch, and the Maui, Hawaii, and Kauai District Tax Offices. In addition to these branches, there are also the Special Enforcement Section (SES) and the Criminal Investigation Section (CIS). The Division has the following three programs to meet the objectives of the voluntary compliance, self-assessment tax system: (1) auditing/examination, (2) collection, and (3) taxpayer services (information dissemination).

Summary of Major Accomplishments: The major accomplishments of this year are the increased assessments generated by the Field Audit Branch via referrals from the Multistate Tax Commission (see Section 2.3.5); the \$3.8 million in restitution, assessments, penalties, and interest generated through the efforts of the Criminal Investigation Section (see Section 2.3.8); and the 51.3% increase in revenue impact (from \$5.3 million in FY 2017 to \$7.9 million in FY 2018) resulting from the efforts of the Special Enforcement Section (see section 2.3.9). These accomplishments are noteworthy in a year when the focus of the Compliance Division has been on Rollout 4 of the Tax System Modernization ("TSM") project, which is the largest phase of the TSM project in terms of overall number of taxpayers affected, and significant resources have been dedicated to this effort.

2.3.2 Office Audit Branch

The Office Audit Branch performed examinations and audits to enhance voluntary compliance. In FY 2018, the Office Audit Branch completed 17,356 cases, a decrease of 2.3% (400 cases) compared to FY 2017. The majority of the audits were performed by Oahu Office Audit Branch, followed by the Maui District Office. In FY 2018, the Office Audit Branch processed the Estate and Transfer Tax returns and collected \$6.0 million for estate tax returns. Chart 2.7 shows the number of audits completed and the dollars assessed by Office Audit for FY 2007 through FY 2018.

2.3.3 Field Audit Branch

Similar to the Office Audit Branch, the Field Audit Branch performed examinations and audits to enhance voluntary compliance. The Field Audit Branch handled audits involving intricate auditing procedures. In FY 2018, the number of audits completed by Field Audit Branch completed was 159 cases, a decrease of 11.7% (21 cases) compared to FY 2017. The decline in the number of audit cases in the Field Audit Branch was attributable to the demanding assignment of staff to work on TSM. Chart 2.8 shows the number of audits completed and the dollars assessed by Field Audit for FY 2007 through FY 2018.

Chart 2.7 - Office Audit: Number of Completed Audits

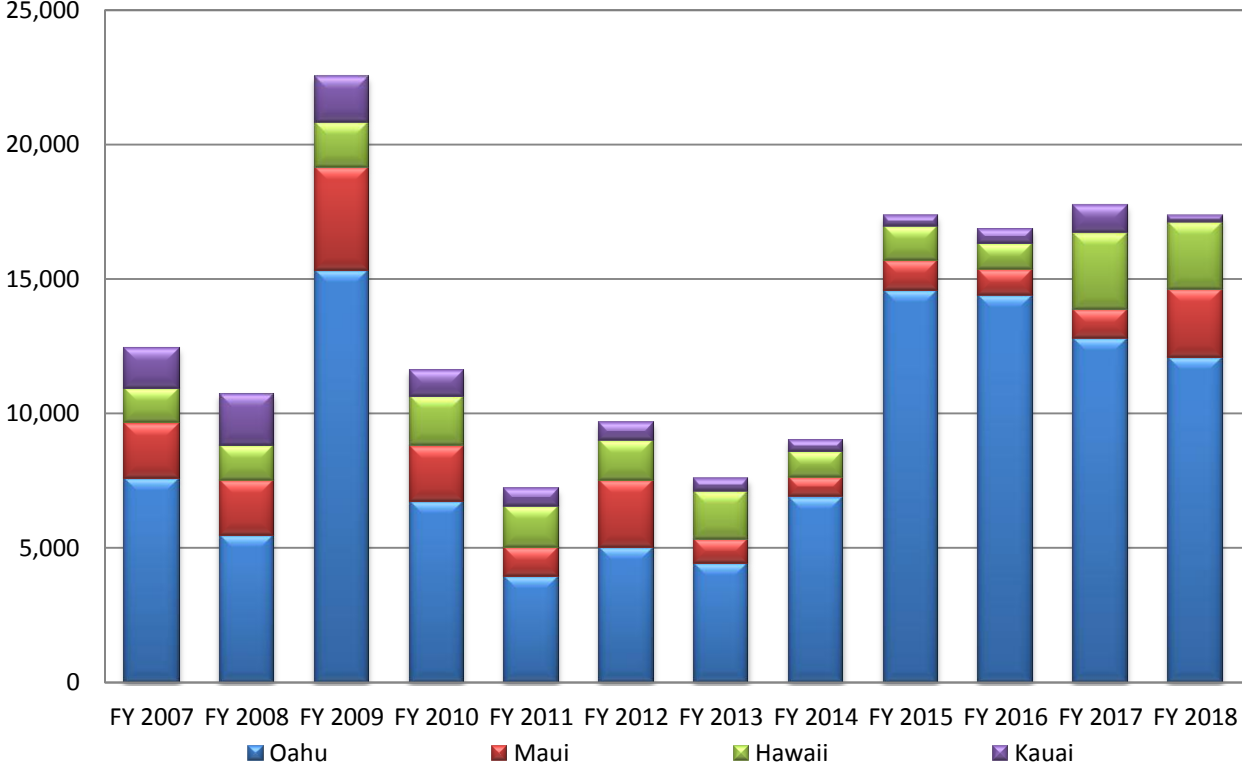
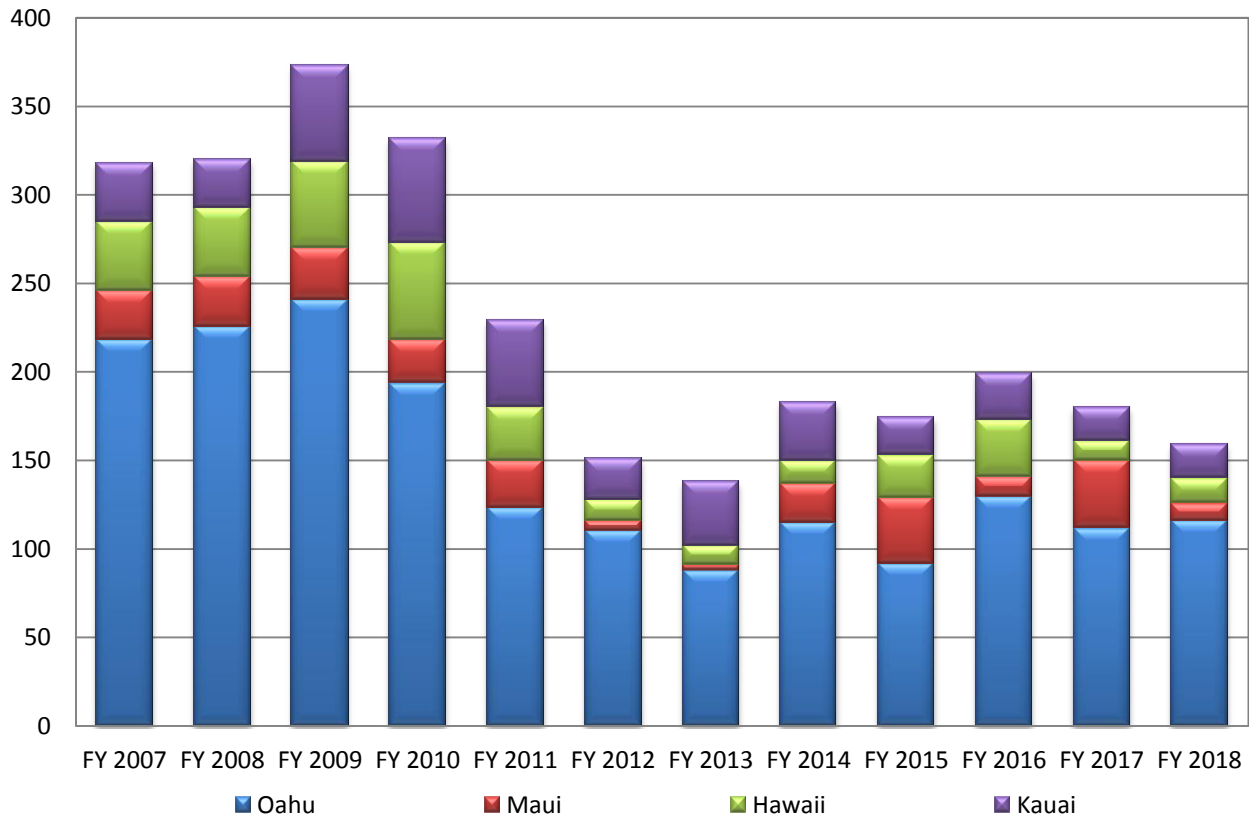


Chart 2.8 - Field Audit: Number of Completed Audits



2.3.4 Revenue - Office and Field Audit Assessments

The amount collected at the time the audits were closed and prior to the mailing of any billing notices decreased from \$44.8 million in FY 2017 to \$28.2 million in FY 2018³ (see chart 2.9).

³ The amounts assessed are the assessments generated during FY 2018. The amounts collected during FY 2018 may include assessments and settlements from prior fiscal years.

Chart 2.9 - Amount Collected from Assessments

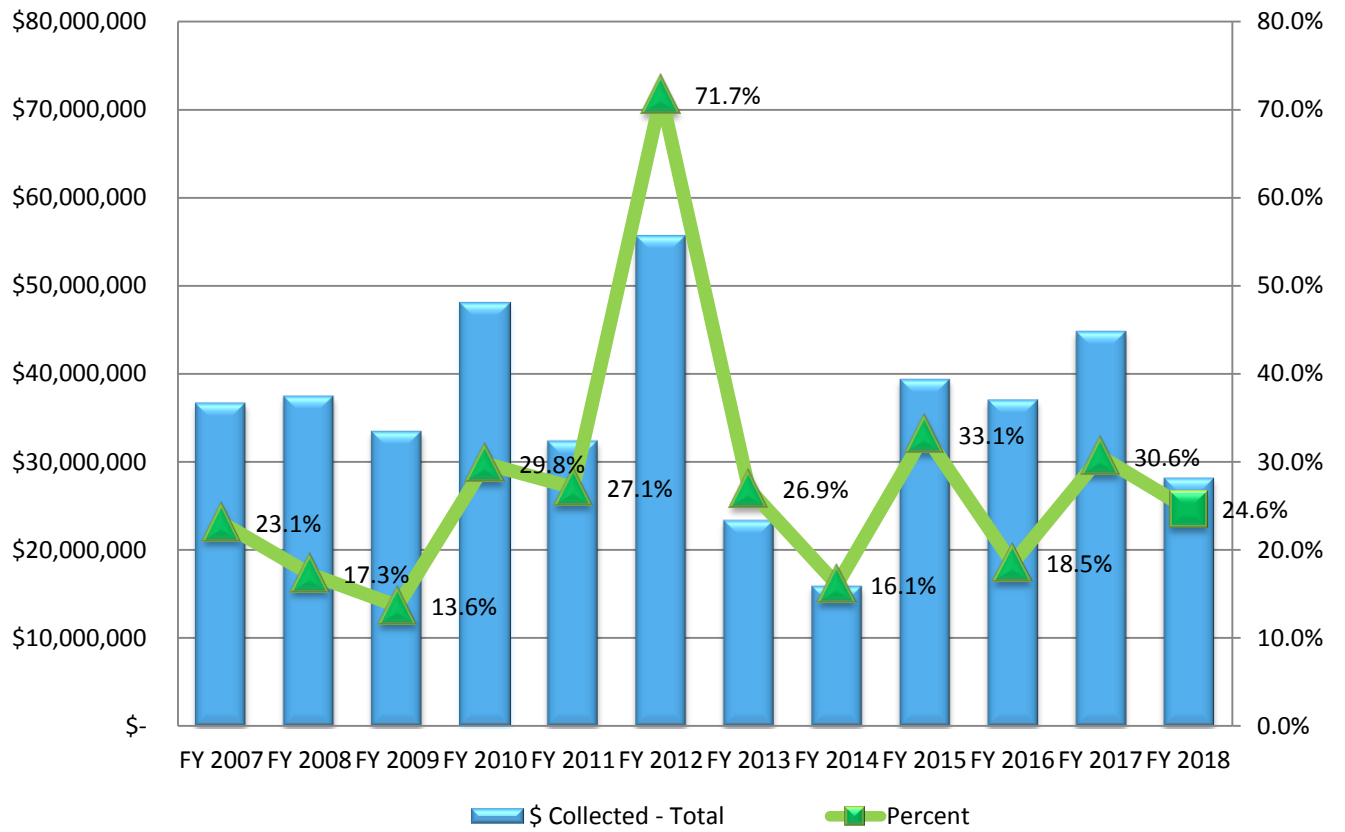


TABLE 2.1 - AMOUNTS ASSESSED FOR FY 2018

	<u>Office Audit</u>		<u>Field Audit</u>	
	Number of Audits	Dollar Assessed	Number of Audits	Dollar Assessed
Oahu	12,065	\$ 62,215,256	116	\$ 36,282,816
Maui	2,559	\$ 8,135,156	10	\$ 122,680
Hawaii	2,485	\$ 4,171,859	14	\$ 1,135,682
Kauai	247	\$ 435,445	19	\$ 2,023,541
Total FY 2018	17,356	\$ 74,957,716	159	\$ 39,564,719
Total FY 2017	17,756	\$ 67,536,473	180	\$ 78,905,836
Difference	(400)	\$ 7,421,243	(21)	\$ (39,341,117)

2.3.5 *Special Projects*

The Oahu Office Audit Branch conducted the following special projects during the fiscal year:

- Non-Filers: The examination of tax returns resulted in \$30.4 million in assessments and adjustments.
- 1099-MISC: The examination of tax returns resulted in \$2.9 million in assessments and adjustments.
- Itemized Deductions: The examination of tax returns resulted in \$425,101 in assessments and adjustments.
- HARPTA: During the fiscal year Oahu office audit examined gain computations inclusive of reviewing basis of properties resulting in \$201,996 in assessments.
- Renewable Energy Tax Credit: The review of tax credits claimed resulted in \$169,532 in assessments and adjustments.

The Oahu Field Audit Branch conducted the following special projects during the fiscal year:

- Federal Contractors Project: This project, which targets unlicensed contractors working on federal installations, was started in 1983 and is an ongoing activity. This fiscal year, 3 audits were completed and resulted in \$357,194 in assessments.
- Referral Cases from Criminal Investigation Unit: During this fiscal year, 2 cases that were either originally considered for possible criminal prosecution or arose pursuant to a criminal investigation were completed, resulting in \$60,004 in assessments.
- Renewable Energy Tax Credit: During this fiscal year, 3 audit cases involving the renewable energy tax credit were completed resulting in \$453,342 in assessments.

- Multistate Tax Commission audits: During this fiscal year, 15 audit cases examined by the MTC were followed through for Hawaii tax adjustments resulting in \$2.2 million in assessments, an increase from the FY 2017 total of \$1.5 million in assessments.

The Maui District Office Audit Section conducted the following special projects during the fiscal year:

- Miscellaneous Deduction Project: Maui Office Audit assessed 64 taxpayers a total of \$124,567 in tax, \$10,740 in late filing penalties, and \$16,992 in interest.
- Renewable Energy Technologies Income Tax Credits: Maui Office Audit examined renewable energy income tax credits claimed in the amount of \$256,962, which resulted in the disallowance/assessments of credits in the amount of \$229,071.
- HARPTA Reviews: Maui Office Audit examined 901 HARPTA exemption claims with total selling prices of \$283,717,617, which resulted in 82 disapproved HARPTA exemption claims with total selling prices of \$50,139,000.

The Maui District Field Audit Section conducted the following special project during the fiscal year:

- Renewable Energy Technologies Income Tax Credits: Maui Field Audit reviewed renewable energy income tax credits claimed in the amount of \$1,716,168 which resulted in the disallowance of credits in the amount of \$0.
- HARPTA Reviews: Maui Field Audit examined 1 HARPTA/capital gains case with a total selling price of \$2,000,000 which resulted in no assessment or adjustment.

The Hawaii District Office Audit Section conducted the following special projects during the fiscal year:

- Enterprise Zone Tax Credit: The examinations resulted in \$449,875 in assessments and adjustments.
- Itemized Deductions: The examinations of tax returns resulted in \$677,187* in assessments and adjustments (*FY2017 assessments not previously shown).
- HARPTA Review: The examinations resulted in \$146,029 in assessments and adjustments of net income, general excise, and transient accommodations taxes.
- Non-Fileers: The examinations in this area resulted in \$2.3 million in assessments and adjustments.

The Hawaii District Field Audit Section conducted the following special project during the fiscal year:

- Selected General Excise Tax Exemptions: The Field Audit Section audited \$7,618,535 in exemptions claimed that resulted in tax assessments of \$226,515.

The Kauai District Office Audit Section conducted the following special projects during the fiscal year:

- 1099-MISC: The examination of tax returns resulted in \$277,655 in assessments and adjustments

The Kauai District Field Audit Section conducted the following special projects during the fiscal year:

- Renewable Energy Tax Credits: The review of renewable energy tax credits claimed totaling \$1,574,000 resulted in the disallowance of credits of \$197,100.
- Capital Goods Excise Tax Credit: The review of capital goods excise tax credits claimed totaling \$569,000 resulted in the disallowance of credits of \$500,000.

2.3.6 Taxpayer Assistance Provided

During FY 2018, the personnel in neighbor island district tax offices helped taxpayers properly file numerous tax returns and other documents over the telephone, at the service counter, and via correspondence. The Oahu Office Audit, Field Audit, and Collection units also provided support services to the neighbor island district tax offices and to the Oahu Taxpayer Services Branch when requested. Table 2.2 summarizes the number of times that taxpayer assistance was provided by the Maui, Hawaii, and Kauai District Tax Offices.

TABLE 2.2 – TAXPAYER ASSISTANCE PROVIDED BY MAUI, HAWAII AND KAUAI DISTRICT OFFICES

	FY2018	FY2017	<u>Difference</u>	
			Number	Percentage
Counter	67,764	70,942	(3,178)	(4.5)
Phone Services	46,504	45,988	516	1.1
Tax Clearances	3,619	5,589	1,970	(35.2)
Correspondence	21,189	15,041	6,148	40.9

The taxpayer services sections in the districts provide telephone and counter services, supplementing the centralized customer services provided by the Oahu TSP Division. The districts continue to receive a steady flow of telephone inquiries, and can use the statewide tax data system to assist with any tax inquiry.

Providing assistance to taxpayers is part of the Compliance Division’s continuing emphasis on taxpayer education and problem resolution. The Compliance Division believes that it is important to maintain taxpayers’ willingness to accurately and voluntarily comply with the State’s tax laws, so it will continue to emphasize its “taxpayer enabling and empowering activity.”

2.3.7 Collection Branch

The Compliance Division’s Tax Collections program consists of the Oahu collection branch and the collection sections in the Maui, Hawaii, and Kauai District Tax Offices. Collections of delinquent taxes totaled \$222.0 million for FY 2018, compared to \$282.7 million in FY 2017, a decrease of \$60.6 million or 21.5%. The Oahu collection branch accounted for 78% of the statewide delinquent tax collections in FY 2018. During this period the Oahu collection branch operated in less than full capacity due to attrition and special project assignments, of which a significant amount of resources were spent on the TSM project. New delinquency referrals were down \$6.2 million or 2.1%. Chart 2.12 shows delinquent collections for FY 2007 through FY 2018. For comparison, Table 2.3 shows major performance measures for FY 2018 and FY 2017, including penalty and interest on outstanding tax delinquencies. With the change in tax system and eventual consolidation into one system, the Collection Branch plans to use the new reporting features and functionalities in this new system to analyze and improve collection efforts.

**Chart 2.10 - Delinquent Tax Collections
(In Millions)**

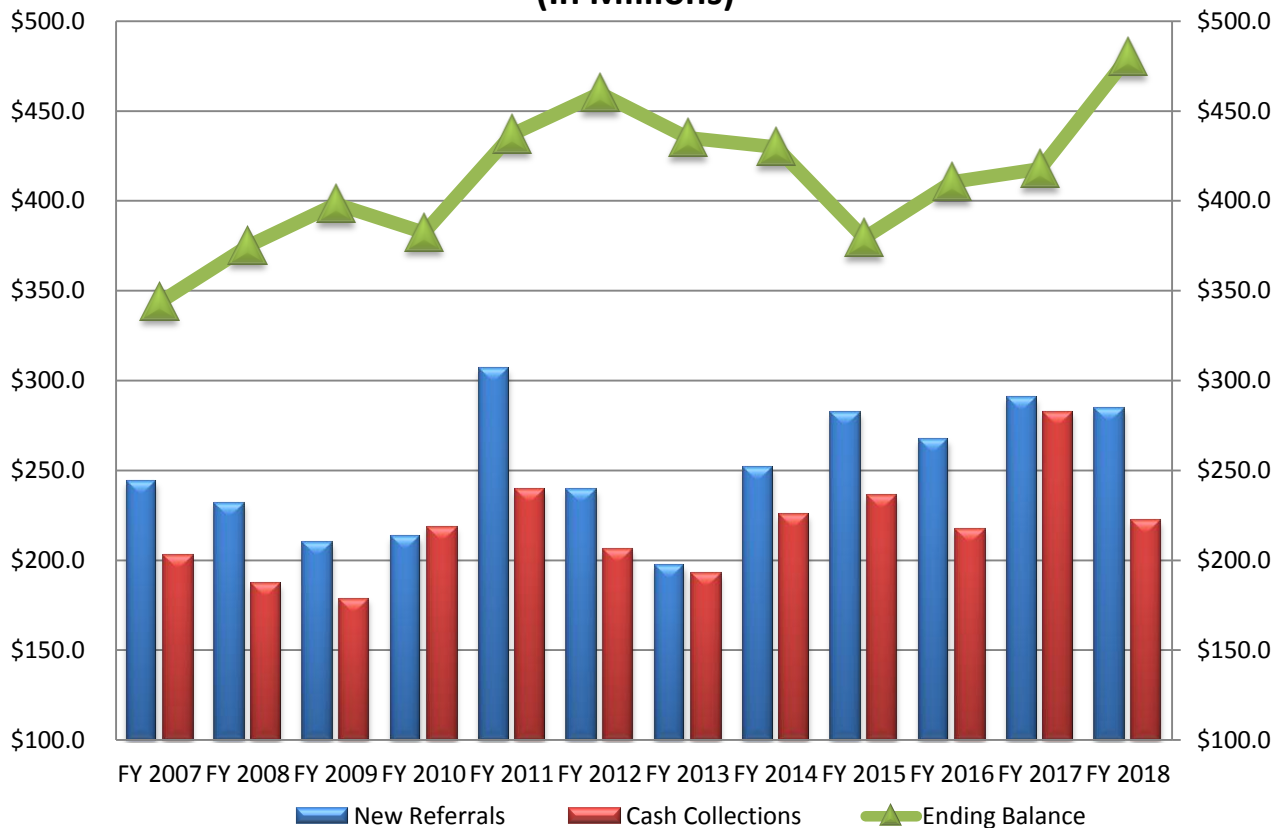


TABLE 2.3 - MAJOR PERFORMANCE MEASURES FOR FY 2018 AND FY 2017

Measure (Dollars in Millions)	FY 2018	FY 2017	Difference	
			Amount	Percentage
Total Delinquent Tax Balance	\$ 480.0	\$ 417.8*	\$ 62.2	14.9
Total Delinquent Penalties, Interest & Other	\$ 491.4	\$ 428.5	\$ 62.8	14.7
Total New Delinquent Referrals	\$ 284.4	\$ 290.5*	\$ (6.2)	(2.1)
Total Cash Collected	\$ 222.0	\$ 282.7	\$ (60.6)	(21.5)
Uncollectible Tax Write-Offs	\$ 0.2	\$ 0.5	\$ (0.4)	(67.9)
Payment Plans Initiated	20,997	27,267	(6,270)	(23.0)
Tax Liens Filed	1,720	1,564	156	10.0
Levies Served	14,769	14,397	372	2.6

*FY 2017 Total Delinquent Tax Balance and Total New Delinquent Referrals have been restated to exclude penalty, interest, and other charges. The penalty, interest, and other charges that accrued on the Total Delinquent Tax Balance are shown on the row below the Total Delinquent Tax Balance. The purpose of this change in reporting format is to be consistent with the reporting formats used prior to FY 2017, while also providing information on the value of penalties, interest, and other charges to give a comprehensive view of the total liability owed to the State.

2.3.8 Criminal Investigation Section

During FY 2018, the Criminal Investigation Section (CIS) continues to achieve substantial outcomes in pursuing its investigative priorities. CIS conducted sixty-six (66) investigations on entities with legitimate sources of income; and on individuals and criminal groups involved in illegal activities, such as narcotics trafficking, gambling, prostitution and other financial frauds. One additional investigation relating to threats made against DOTAX employees was conducted.

CIS continues to work with the U.S. Attorney's Office for review and federal prosecutions of its investigations. During FY 2018, two abusive tax preparers were adjudicated guilty and ordered to pay \$999,014 in restitution to the State of Hawaii. One other tax preparer case was also charged by the U.S. Attorney's Office during this period.

Moreover, CIS actively works with the County Prosecutor's Offices. During FY 2018, the Honolulu Prosecutor's Office adjudicated one case with the guilty pleas of two individuals for tax evasion and their failure to file tax returns as required. \$337,554 in restitution will be requested for the State of Hawaii. The actual amount will be determined at the time of sentencing in FY 2019. An additional civil assessment of \$351,568 will also be made in FY 2019.

During FY 2018, the State of Hawaii Department of Attorney General charged four individuals and three businesses for felony and misdemeanor tax violations. The individuals were allowed to self surrender and/or were arrested by CIS Special Agents. There are nine business entities and three individuals pending at the Department of Attorney General with felony and misdemeanor tax violations. One tax protester case is pending trial. The successful adjudication of the above referenced investigations will yield an anticipated \$936,286 in restitution and \$2,502,401 in additional civil assessments during FY 2019.

Completed investigations that were not referred for criminal prosecution were turned over to the appropriate Oahu Office Audit Branch, Field Audit Branch or Outer Island District Offices for further civil examination. For FY 2018, 203 referrals were made to the Oahu Office Audit Branch that resulted in \$1,542,427 in additional assessments. The Outer Island District Offices made \$22,460 in additional assessments for CIS.

These assessments were mutually exclusive to those made for prior year adjudicated criminal cases. An additional \$1,257,154 in criminal collections and secured returns were made in FY 2018. It is estimated that CIS investigative efforts will have yielded approximately \$3,821,055 in restitution, assessments, penalties, and interest that would have otherwise not been realized by the State of Hawaii.

The Criminal Investigation Section will continue to be innovative in its investigative approach and strive to improve its processes for the Department of Taxation.

2.3.9 Special Enforcement Section

The Special Enforcement Section (SES) was established in 2009 through the *Cash Economy Enforcement Act*. Its goal is to ensure that all sectors of Hawaii's economy, especially those that conduct a significant portion of business transactions in cash ("cash economy"), pay their fair share of taxes. In FY 2016, SES was given additional responsibilities for ensuring that short-term vacation rental operators comply with the state's transient accommodations tax laws.

The SES has broad legal authority to conduct civil investigations of suspected violations of tax laws. It conducts complex financial investigations to determine correct income subject to tax by securing and examining books, records and other corroborating evidence. It executes a wide range of activities which include investigating complaints, developing leads through various sources, securing delinquent and amended tax returns and payments from taxpayers, conducting site visits, inspections, surveys, and training sessions at various events, business locations, and short-term rental sites throughout the state for the purpose of educating the public and business operators about their tax obligations and verifying tax compliance.

In FY 2018, SES implemented a project that utilizes publicly available and confidential database sources to develop leads on taxpayers who are potentially not compliant with transient accommodations and general excise tax laws. The project utilizes new resources made available by TSM to evaluate large amounts of data. The project got off to a flying start generating a significant numbers of leads indicative of unreported and under-reported income subject to tax and resulted in over \$1M in additional TAT and related GET collections. It is anticipated that the project will result in substantial additional tax collections in FY 2019 and beyond.

SES continues to bring positive change by educating and bringing taxpayers into compliance and in collecting tax revenues. SES measures its accomplishments by determining the actual tax collections that were remitted by taxpayers on delinquent returns secured by SES. In addition, as taxpayers who were brought into tax compliance by SES were largely non-filers, an estimation of SES's potential impact to future tax revenues was asserted. This is because had SES not brought the taxpayer into tax compliance, there is a strong likelihood that their non-compliance would have continued indefinitely. The potential tax revenues were based on tax collections remitted by taxpayers for a post compliance period of 18 months after they were brought into tax compliance. Delinquent period tax collections and post compliance period collections aggregate to Impact Revenue. Accordingly, SES Total Impact Revenue grew to \$7,973,436 in FY 2018, as compared with \$5,268,362 in FY 2017, and \$3,505,618 in FY 2016.

In an acknowledgment of these accomplishment, the Legislature has allocated an additional \$2 million for SES and five additional stave.

Additional details of SES's accomplishments are as follows:

	<u>FY 2018</u>	<u>FY 2017</u>
Complaints Received	419	307
Businesses Educated on Compliance of Tax Laws	2,359	1,331
Number of Events Visited Throughout the State	46	25
GET Impact Revenue Collected	\$5,754,966	\$4,242,496
TAT Impact Revenue Collected	\$2,218,470	\$1,025,866
Total Impact Revenue Collected from Taxpayers	<u>\$7,973,436</u>	<u>\$5,268,362</u>
Total Tax Collected from Secured Delinquent Returns	\$3,867,116	\$2,528,814

2.4 STAFF OFFICES

2.4.1 Administrative Services Office

2.4.1.1 Fiscal Office

The Administrative Services Office submitted the supplemental budget for FY 2019 to the 2018 Legislature. The Legislature appropriated \$31.0 million for FY 2019 for operating expenses. The Legislature approved the requested \$16.5 million CIP funding for the Department's Tax System Modernization Project (TSM), which will ultimately result in faster processing, improved taxpayer services and enforcement of tax laws.

For fiscal year 2018, \$28.0 million was appropriated for the Department. In discharging its duties and responsibilities, the Department incurred operating expenses of \$23.7 million for the year. The Department collected \$7.49 billion in net tax revenues in fiscal year 2018, so the cost to collect \$100 of taxes was about 32 cents.

2.4.1.2 Personnel Management

In FY 2018 the Personnel Department's focused on filling vacancies, outside recruitment, internal promotions and retention programs. Personnel staff also participated in the development of the new payroll system, reviewing and organizing files to transition into the new payroll system.

During that fiscal year, the Department's total vacancy rate for permanent positions decreased 10.0% or 6 positions attributed to an increase in the selection of external applicants over that of internal promotions. Vacancies in the Staff Offices decreased by 50.0%, Compliance Division decreased by 10.0% and Tax Services & Processing increased by 16.7%. The Department has a total of 427 authorized permanent positions: 355 Oahu, 29 Hawaii (Hilo/Kona), 25 Maui/Molokai, and 18 Kauai.

2.4.2 Rules Office

The Rules Office is comprised of the Rules staff and the Technical Section. The function of the Rules Office is to serve as a resource for complex policy recommendations and internal support. The Rules Office also assists in the Department's implementation of new legislation and in creating and maintaining the Department's tax forms, form instructions, and publications.

2.4.2.1 Rules Staff

The Rules staff serves as the Department's internal advisory arm to the Director of Taxation on tax policy and advises the Director's Office and the Department on legislative and tax policy issues. The Rules staff also provided training for Department personnel and did presentations at the Department's annual workshops for tax practitioners. Litigation and other external legal matters are handled exclusively by the Tax & Charities Division of the Department of the Attorney General.

In addition, the Rules staff assists, counsels, and represents the Department's compliance personnel with tax disputes and other administrative tax controversies. For example, the Rules staff provides assistance to the Department's compliance function in interpreting issues under audit, settlement negotiations and closings, and appeared on behalf of the Department before the Boards of Review. The Rules staff also assisted the Tax & Charities Division of the Department of the Attorney General with the judicial tax appeals and provided support to the Department's Tax System Modernization project.

For the 2018 legislative session, the Rules staff drafted and submitted 4 bills that were introduced as part of the Administration's legislative package. Prior to the start of the legislative session, the Rules staff also reviewed and commented on proposed tax legislation submitted by other executive branch agencies.

After sorting through all bills introduced to the Legislature, the Rules staff determined that there were approximately 404 measures proposing tax law changes and analyzed them in depth. The measures were tracked throughout the legislative session and written testimonies were prepared each time a tax measure was heard by the Legislature. The Rules staff also drafted numerous responses to legislative committee chairs to respond to specific questions raised during hearings or to address specific concerns of committee members.

The Rules staff also prepared Tax Announcements, Tax Information Releases, letter rulings, Administrative Directives, and other publications. During FY 2018, 13 Tax Announcements and 6 Tax Information Releases were issued. Since 2009, when it became the Department's policy to publicly release taxpayer letter rulings in redacted form, 60 redacted letter rulings have been released.

In FY 2018, the Department promulgated administrative rules relating to automatic income tax filing extensions for non-individual taxpayers, electronic funds transfer, revocation of tax licenses due to abandonment, registration of representatives, exported services and contracting, and county surcharge.

Finally, the Rules staff also reviewed and certified 55 requests for the credit for research activities pursuant to section 235-110.91, HRS.

2.4.2.2 Technical Section

The Technical Section is tasked with varying responsibilities to carry out the Department's projects, goals and initiatives, and to support the Department's operational needs. Specifically, the Technical Section assists and advises all divisions within the Department, as well as outside parties such as individual and corporate taxpayers and tax professionals, on complex areas of the state tax laws. For FY 2018, the Technical Section responded to 1,314 email inquiries and 3,713 telephone inquiries. They also responded to formal requests which includes requests for letter rulings or information letters, determinations of tax status (such as for eligibility for the general excise tax exemptions for air-pollution control facilities), and multi-level marketing agreements as well as tax surveys and questionnaires from other government agencies, educational institutions, and major tax service product providers.

The Technical Section also reviews, researches, analyzes, and provides comments and recommendations on the technical and procedural aspects of legislative bills, administrative rules, and tax information releases. The staff is responsible for revising or creating the State's tax forms and instructions, incorporating all applicable federal and state tax law changes. For FY 2018, the Technical Section reviewed 307 tax forms, 56 tax form instructions, 57 Tax Modernization System letter templates and 29 Tax Publications. The Technical Section also developed 5 new tax forms and 2 new tax form instructions, and made obsolete 2 tax forms. As part of the forms process, the department has a Forms Reproduction Policy under which companies who reproduces state tax forms, such as tax preparation software companies, must submit their facsimiles for review and for testing applicable forms through the department's tax return scanning machines. For FY 2018, 739 tax forms were submitted to the Technical Section for review, testing and approval.

Other duties of the Technical Section include analyzing and reviewing certain applications for tax exemptions. In FY 2018, 172 applications for an exemption from the general excise tax were received, 152 applications were reviewed and approved, 69 applications are pending further action and 24 applications were cancelled due to lack of response to a request for additional information or the organization did not qualify as exempt under section 237-23(b), HRS. In addition, 2,687 applications for conveyance tax exemptions were reviewed and processed.

2.4.3 Tax Research and Planning Office

The main functions of the Tax Research and Planning (TRP) Office include: (1) prepare reports on data collected by the Department, including monthly reports on collections of the State's various taxes and annual reports on the income patterns of individual and business taxpayers, tax credits claimed by taxpayers, general excise and use tax exemptions claimed; (2) provide administrative and technical support to the Council on Revenues, assisting in the preparation of forecasts for General Fund tax revenues and total personal income; (3) provide economic and statistical analyses to help the Department execute its policies and programs; (4) prepare reports on the revenue consequences of proposed tax legislation for the Legislature, the Governor, and other agencies in the Administration; (5) conduct economic analysis and educate the Legislature, the Governor, and other State agencies regarding the state's tax system; and (6) provide administrative and technical support to the Tax Review Commission when it is in session.

The TRP Office prepares the following reports on a monthly, fiscal year, and calendar year basis: (1) State Tax Collections and Distributions; (2) General Excise and Use Tax Collections; (3) Liquid Fuel Tax Base and Collections; (4) Liquid Fuel Tax Allocations by Fund; (5) Liquor Tax Collections and Permits; (6) Tobacco Tax Collections and Licenses, (7) Preliminary Comparative Statement of General Fund Tax Revenues, (8) the General Excise and Use Tax Liability Report by District, (9) the Transient Accommodation Tax Liability by District, and (9) the Liquor report.

In FY 2018, the TRP Office worked on the Department of Taxation's Annual Report: 2016–2017, which was completed and submitted in December of 2017. The Office published reports on tax credits claimed by Hawaii taxpayers in tax year 2015 and statistics on Hawaii Individual Income Tax Statistics for 2015. The TRP Office published the Hawaii Business Income Tax Statistics report for the first time since 2002. It also published an entirely report called the Hawaii General Excise and Use Tax Exemptions report, using data from the state's new TSM computer system that was previously unavailable.

For the 2018 Legislative session, TRP staff reviewed and tracked tax-related legislative bills and resolutions, and prepared more than 404 revenue estimates for various drafts of the bills. Revenue estimates were also prepared for various proposals in response to requests from the Administration, legislators, and others. The Office also responds to requests from the general public regarding statistics and trends of the Hawaii tax system.

An important function of the TRP Office is to provide administrative and technical support to help the Council on Revenues produce its forecasts of tax revenues. The seven members of the Council are responsible for forecasting State General Fund revenues and the State's total personal income. The Council provides forecasts of State revenue for the current and six subsequent fiscal years. The forecasts are due on September 10, January 10, March 15, and June 1 of each year. The forecasts are used by the Governor and by the Legislature to develop and administer the State's budget. The Council also forecasts total personal income (TPI) for the current and immediately following calendar years. The TPI forecasts are due on August 5 and November 5 of each year. The growth in Hawaii total personal income is used to set the ceiling for expenditures from the State's General Fund, as required by the State's Constitution.

TRP staff applied econometric modeling techniques to data on State tax collections and to data on other economic variables to help the Council produce its forecasts. The Council's last General Fund

forecast for FY 2018 was produced on May 30, 2018. The forecast called for tax collections dedicated to the Fund to grow by 7.3% compared with FY 2017. Tax collections actually grew by 7.6%. The Council's last forecast for total personal income for calendar year 2017 was produced on October 25, 2017 and called for growth of 3.0% over calendar year 2016.

The TRP Office updated its econometric models that were developed to predict General Fund tax collections based on the Council's forecasts for economic variables, including its original model, the model that was developed under a contract with UCLA Anderson Forecast, and the single-equation model that the Office developed at the request of the Council on Revenues.

The TRP officer served as the co- Executive Director of the 2015-2017 Tax Review Commission, which submitted their final report to the Legislature in February 2018. The office provided information and research needed to support the Commission's activities, delivering several presentations and preparing a report on the State's revenue system.

2.4.4 Technical Services Office

The Technical Services Office was created in March 1, 2018 and incorporated the Tax System Modernization (TSM) Program Management staff (positions were at the DAGS, Office of Enterprise Technology Services and returned to DOTAX by the 2018 Legislature, effective July 1, 2018).

In March 2018, the Technical Services Office managed the Internal Revenue Service (IRS) Security Safeguards tri-annual on-site review at DOTAX. The IRS identified security improvements that needed to be addressed by DOTAX to continue to receive Federal Tax Information (FTI) from the IRS. As a result, the Technical Services Office has been deploying a series of improvements to DOTAX technical resources, such as completing regular security scans; improving network, server, and personal computer infrastructure; upgrading software; and deploying additional policies and procedures.

The Technical Services Office also took over the management TSM project:

- The third rollout of the TSM project was successfully deployed as scheduled on August 14, 2017. This entailed the deployment of functionality for Corporate Income, Franchise, Public Service, and Withholding taxes.
- The 2018 Legislature provided the Capital Improvement Project (CIP) funding needed to complete the final functional phases of work and the warranty period.
- The fourth rollout of the TSM Program will provide functionality for Individual Income, Partnership, Fiduciary, and Estate & Transfer taxes. The functionality developed as part of this rollout will go live in November 2018.

In Fiscal Year 2019, the Technical Services Office is focused on the following:

1. Address the IRS Safeguards improvements;
2. Addressing the bug fixes and enhancements related to functionality deployed under the TSM project;
3. Completing the fifth rollout of the final functionality under the TSM project; and
4. Preparing for the warranty and post-warranty phases of the TSM project.

2.4.5 Information Technology Services Office

The Information Technology Services Office (ITSO) is responsible for providing technical support for the Department's computerized tax systems and applications, local area network, and network-related components and infrastructures.

During FY 2018, ITSO continued to focus on managing, administering, and maintaining the Integrated Tax Information Management System (ITIMS) and supporting network-related components and infrastructures. The ITS Office also supported the multi-year Tax System Modernization (TSM) Program, which will eventually replace all the Department's current information technology systems and applications.

In FY 2018, ITSO supported DOTAX users and the ITPS and TSM Annual Tax Law Changes development.

In FY 2019, ITSO will continue to provide (1) production support for TSM functionality already deployed and (2) annual Tax Law Changes.

2.4.6 Taxpayer Advocate

The Taxpayer Advocacy Program assists taxpayers who do not have a resolution to their tax related issue after going through normal channels. In directly, the Taxpayer Advocate also assisted taxpayers in working to resolve systemic problems within the Department. Examples of issues addressed include processing, inter-Departmental and workflow problems which affect taxpayers.

Other accomplishments of this office included speaking, teaching and participating in tax workshops and educational outreaches to tax professionals and the general public.

2.4.7 Tax Practitioner Priority Office

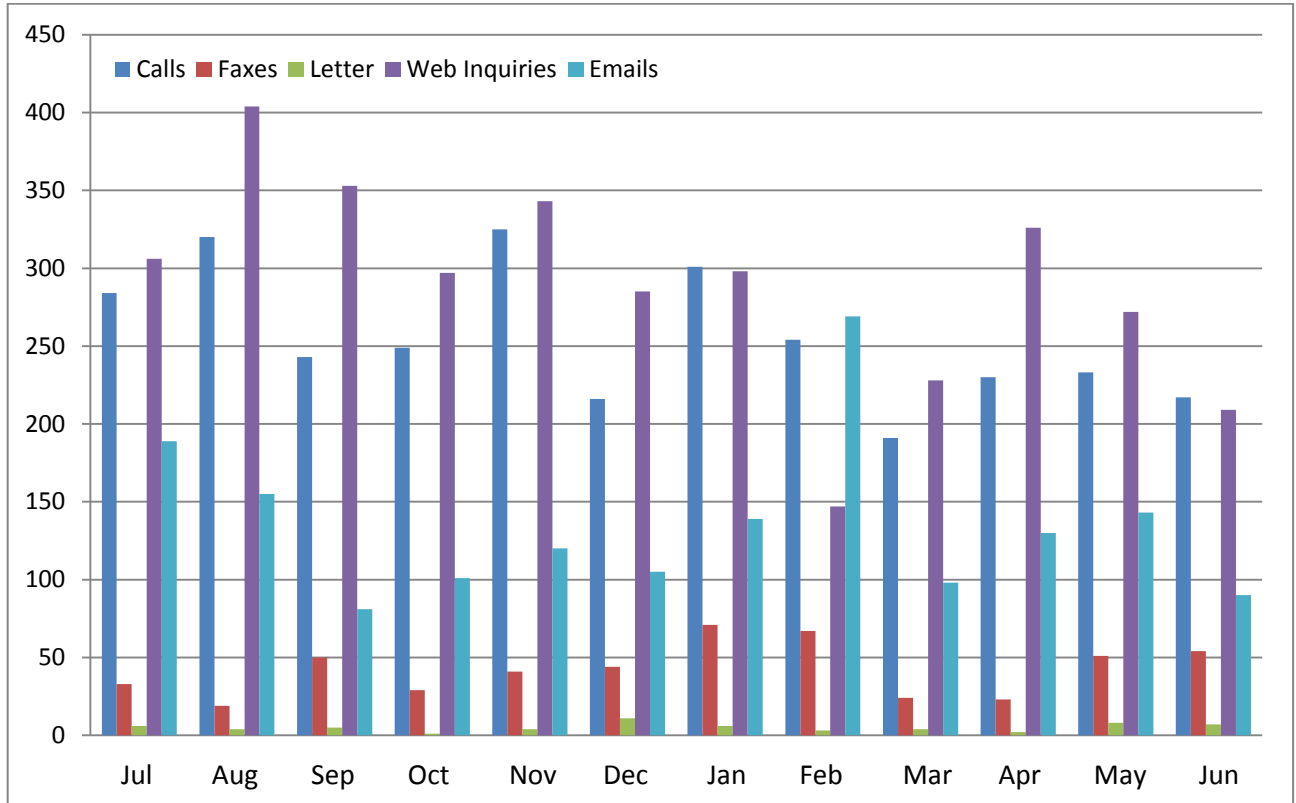
The Practitioner Priority Specialist (PPS) office provides tax practitioners a separate and dedicated connection to the Department's Taxpayer Services functions.

The PPS office has assisted around 2,000 verified tax practitioners via telephone, email, and fax to resolve tax account issues such as locating and applying payments, explaining notices and letters, providing procedural guidance, and assisting with other taxpayer account inquiries. Tax issues outside these parameters were referred for follow up to the appropriate functions within the Department.

In directly, the PPS also assisted verified tax practitioners by working within the Department to improve services (including online) and workflows based on their input.

Other accomplishments of this office included speaking, teaching and participating in tax workshops and educational outreaches to tax professionals.

In fiscal year ending June of 2018, the PPS office resolved and/or referred for resolution 8,718 inquiries (see inquiry chart below):



2.5 MANAGEMENT PERSONNEL

As of June 30, 2018

OFFICE OF THE DIRECTOR

Director of Taxation..... Linda Chu Takayama
Deputy Director of Taxation..... Damien Elefante

STAFF OFFICES

Public Information Officer Deborah Kwan
Rules Officer Ted Shiraishi
 Technical Section Supervisor..... Denise Inouye
Tax Research & Planning Officer Seth Colby
 Senior Economist..... Yvonne Chow
Senior TSM Project Manager..... Rona Suzuki
Information Technology Services Officer..... Robert Su
Administrative Services Officer..... Dexter Suzuki
 Acting Personnel Officer Dean Arashiro
Taxpayer Advocate Jaysen Morikami
Administrative Appeals Officer Adriane Aarona
Tax Practitioner Priority Specialist Jenny Xu

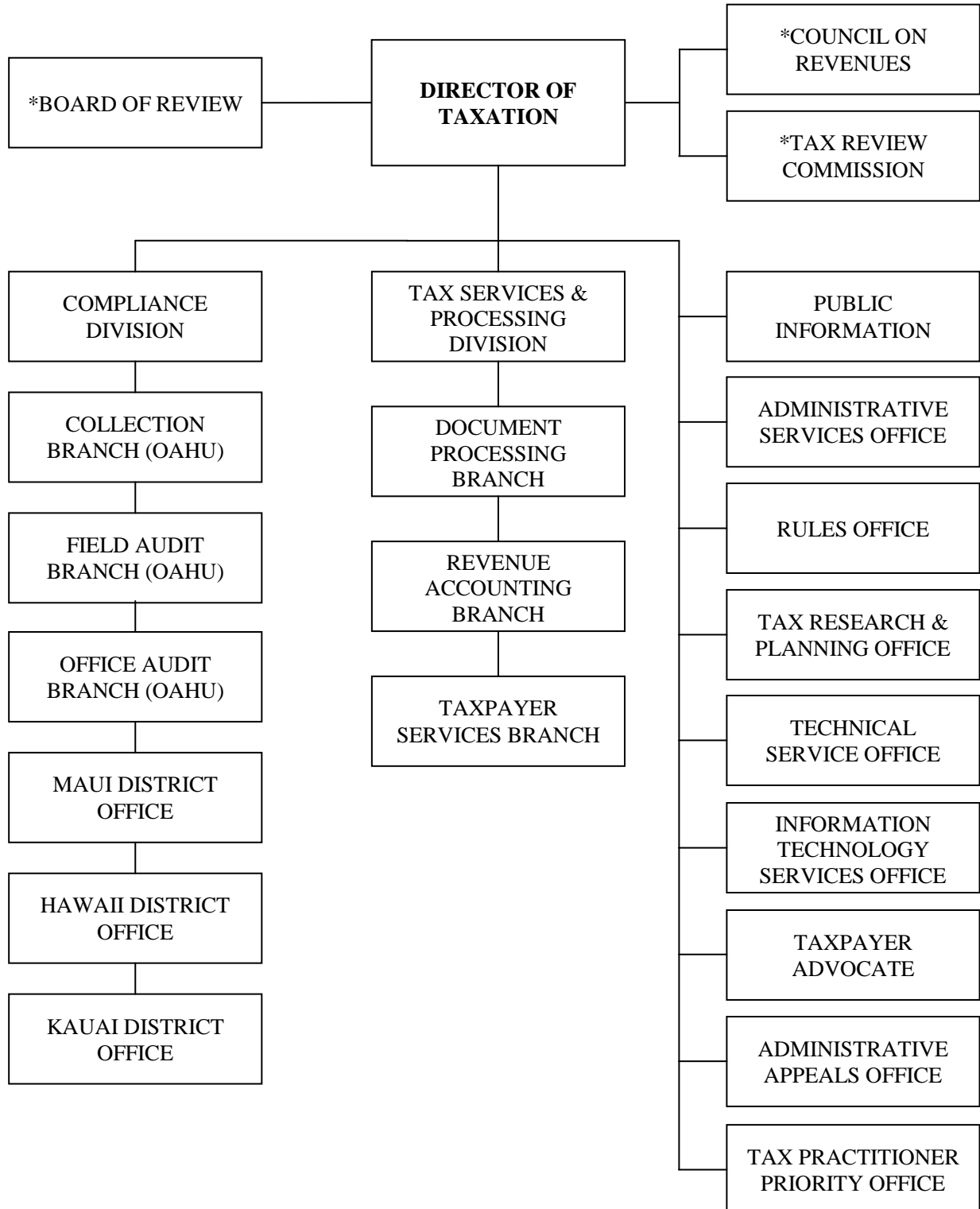
OPERATIONS STAFF

Taxation Compliance Administrator..... Kevin Wakayama
 Tax Compliance Coordinator..... Ikaika Rawlins
 Oahu Field Audit Branch Chief Madelaina Lai
 Oahu Office Audit Branch Chief Donald Kuriki
 Oahu Collection Branch Chief..... Janessa Bonifacio
 Maui District Tax Manager..... John Higgins
 Hawaii District Tax Manager..... Duquesne Hulihee
 Kauai District Tax Manager..... Erin Tsuda

Taxation Services Administrator..... Nicki Ann Thompsom
 Document Processing Operations Manager..... Todd Kuromoto
 Revenue Accounting Branch Chief..... Jennifer Oshiro
 Taxpayer Services Branch Chief..... John Pacheco

2.6 ORGANIZATION CHART

Department of Taxation
State of Hawaii



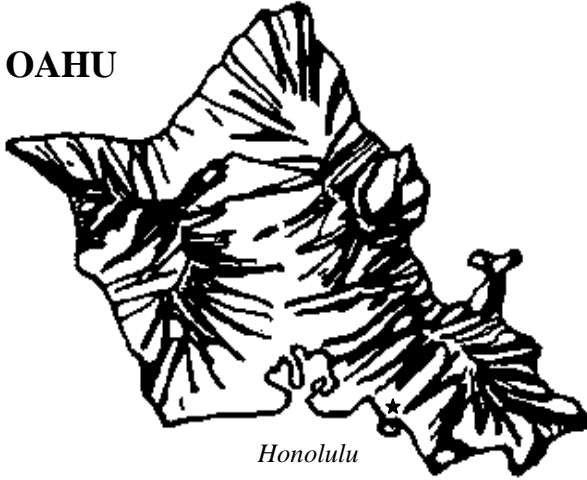
*For Administrative Purposes.

2.7 DISTRICT OFFICES

FIRST TAXATION DISTRICT

City & County of Honolulu

OAHU



Honolulu

Oahu Office
830 Punchbowl Street
Honolulu, Hawaii 96813

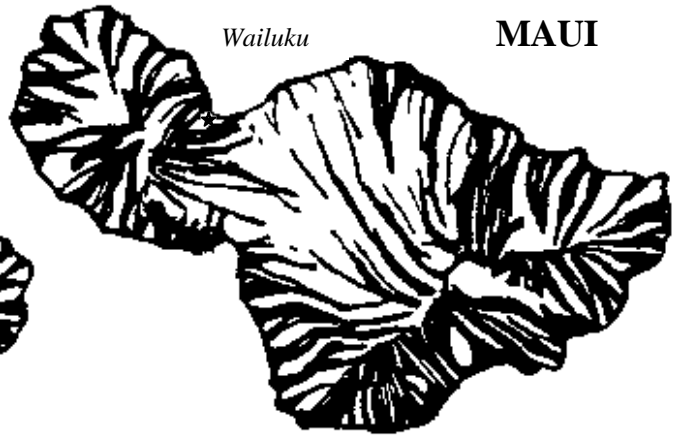
SECOND TAXATION DISTRICT

Counties of Maui and Kalawao



Kaunakakai

MOLOKAI



Wailuku

MAUI

LANAI



KAHOOLAWE

Maui Office
54 South High Street
Wailuku, Hawaii 96793

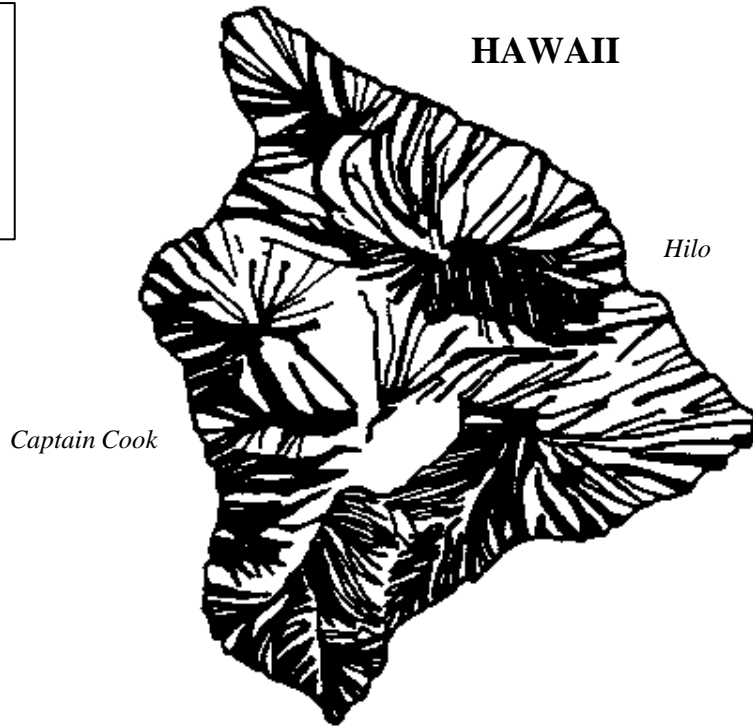
Molokai Office
35 Ala Malama Street #101
Kaunakakai, Hawaii 96748

THIRD TAXATION DISTRICT

County of Hawaii

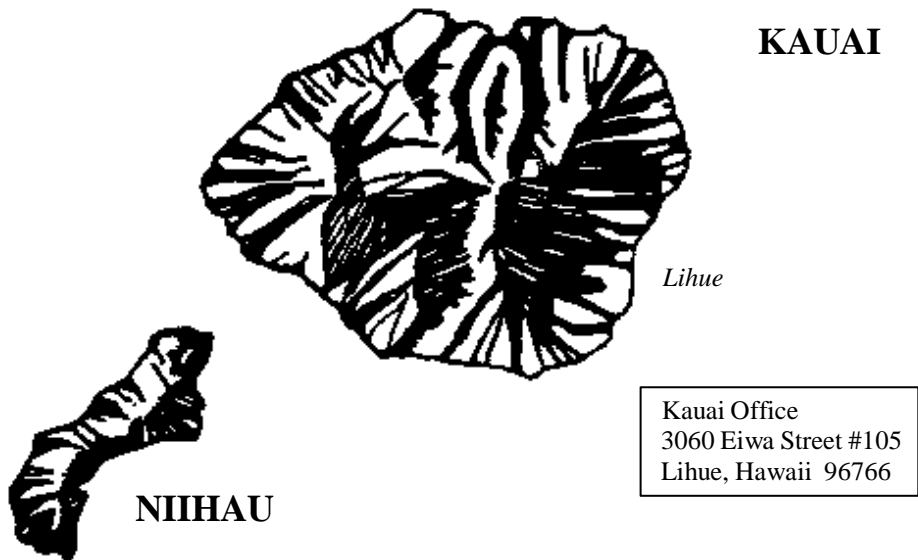
Hilo Office
75 Aupuni Street
Hilo, Hawaii 96720

Kona Office
82-6130 Mamalahoa Highway #8
Captain Cook, Hawaii 96704



FOURTH TAXATION DISTRICT

County of Kauai



3.0 TAX APPEALS AND LITIGATION

3.1 ADMINISTRATIVE APPEALS OFFICE

The Administrative Appeals Office administers the Administrative Appeals and Dispute Resolution (AADR) program. AADR is a streamlined appeals process that assists taxpayers and return preparers in resolving their disputes involving proposed assessments, final assessments, and return preparer penalty assessments issued as a result of a Department audit. Our mission is to help people resolve tax disputes fairly, expeditiously, and without litigation. The AAO is separate and independent of the Department offices that conduct audits and issue assessments. For more information about the program, please visit our website at tax.hawaii.gov/appeals.

In FY 2018, 83 appeals were filed and 81 cases closed. There were 40 cases pending as of June 30, 2018. The AAO's caseload data is described in further detail in the table below. As part of the Department's Tax System Modernization (TSM) project, taxpayers can now electronically file an appeal application to appeal proposed or final assessments for the following tax types: corporate income, general excise/use, transient accommodations, rental motor vehicle, franchise, withholding, and public service company taxes.

AAO Caseload for Fiscal Year 2018

Type of Case	Cases Received	Cases Closed ¹	Cases Pending June 30, 2018
General Excise/Use Tax	48	36	27
Income Tax	29	38	12
Other ²	6	7	1
Total Cases	83	81	40

¹Cases closed includes cases received in prior fiscal years.

²"Other" cases involve miscellaneous tax types such as franchise tax and transient accommodations tax and cases where multiple tax types were appealed.

3.2 BOARDS OF TAXATION REVIEW

Each taxation district has an administrative (i.e., non-judicial) Board of Taxation Review consisting of five members. Tax disputes that are not resolved at the district tax office level may be appealed to a Board of Taxation Review unless the dispute involves the Constitution or laws of the United States. Statewide, the boards began the fiscal year with 206 pending tax appeals. In FY 2018, 19 new appeals were filed, 5 appeals withdrawn, and 25 appeals settled; a total of 185 appeals to the Boards of Taxation Review were pending at the end of the fiscal year.

The following table details appeals to the Boards of Taxation Review by taxation district:

	Taxation District					Total
	First		Second	Third	Fourth	
	Field Audit	Office Audit				
Appeals Pending (Beginning)	91	42	42	12	9	196
New Appeals	4	10	1	1	3	19
Appeals Withdrawn	3	1	0	1	0	5
Appeals Settled	7	9	6	3	0	25
Appeals Pending (Ending)	85	42	37	9	12	185

3.3 CIVIL DECISIONS, SETTLEMENTS AND OTHER LEGAL MATTERS

Matters Closed

During the last fiscal year, the Tax & Charities Division (“Division”) closed 680 Tax Department-related legal matters (excluding legislative matters in our case management system that the Department’s Legislative Division has not closed).

Appeals	-	18
Bankruptcies	-	501
Contracts	-	4
Foreclosures	-	132
Legislation (None closed yet)		
Miscellaneous	-	20
Opinions	-	1
Quiet Title	-	0
Subpoenas	-	4

Amounts Collected

Last fiscal year, the Division collected the following amounts:

Tax Appeals	\$	677,541.54
Foreclosures	\$	30,275.40
Bankruptcies	\$	2,198,646.80
Trusts	\$	0.00
Miscellaneous	\$	0.00
TOTAL:	\$	<u>2,906,463.74</u>

3.2.1 Resolved Tax Appeal Cases

In the Matter of the Tax Appeal of JN Group, Inc., Case No. 10-1808, Tax Appeal Court, State of Hawaii.

Taxpayer appealed general excise assessments for tax years ending March 31, 1998 through March 31, 2006, inclusive. Taxpayer claimed that the amounts assessed constituted reimbursements that were exempt under Haw. Rev. Stat. § 237-20; the assessments of penalties were erroneous because any non-filing or underpayment was not due to negligence or intentional disregard of rules; the assessments violated the due process, commerce, and/or equal protection clauses of the United States Constitution and the Constitution of the State of Hawaii. This case was settled.

In the Matter of the Tax Appeal of Ronald Au, Case No. 11-1-0144, Tax Appeal Court, State of Hawaii.

Taxpayer appealed general excise tax assessments for the period 2002 through 2005, inclusive. The Tax Appeal Court granted the Department of Taxation's motion to dismiss the appeal for lack of subject matter jurisdiction by order filed February 29, 2012; however, the Court granted Taxpayer's motion for reconsideration of the dismissal. The Court then took the State's motion for summary judgment under advisement and has never issued a ruling. This case was settled.

In the Matter of the Tax Appeal of Ronald Au, Case No. 1 T.X. 12-1-0393, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the Department's income tax assessments on unreported income received for tax years 2008 and 2009. This case was settled.

In the Matter of the Tax Appeal of Ronald Au, Case No. 1 T.X. 14-1-0216, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from assessments of general excise taxes for 2009 and 2010. The Department moved to dismiss the tax appeal because it was not timely filed and because Taxpayer failed to pay the assessment in his appeal from the Board of Review. The motion was heard on March 17, 2014 and taken under advisement. This case was settled.

In the Matter of the Tax Appeal of BAE Systems Holdings, Inc. & Subs, Case No. 1 T.X. 14-1-0234, Tax Appeal Court, State of Hawaii.

Taxpayer's claims for the High Tech Credit provided under Haw. Rev. Stat. § 235-110 were denied because Taxpayer did not make an investment as defined by statute. Taxpayer prevailed at the Board of Review and the Department appealed. This case was settled.

In the Matter of Charles Mixon, Case No. 1 T.X. 15-1-0281, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from a final assessment of general excise tax for underreported income under Haw. Rev. Stat. § 237-13(6)(A). Taxpayer withdrew his appeal and filed a Stipulation to Dismiss on December 19, 2017.

In re Tax Appeal of WC Maui Coast, LLC, Case No. 1 T.X. 16-1-0271, Tax Appeal Court, State of Hawaii.

Taxpayer appealed transient accommodations tax assessments for tax years 2012 and 2013 pursuant to Haw. Rev. Stat. § 237D-2. Taxpayer claimed that amounts received from long term contracts with airlines were exempt from transient accommodations taxes based on AG Opinion 90-6. This case was settled.

In re Tax Appeal of Editha C. Doctolero, Case No. 1 T.X. 16-1-0292, Tax Appeal Court, State of Hawaii.

Taxpayer ran a wholesale flower-selling business and failed to fully pay general excise taxes on tax years 2001, 2003, and 2005 through 2013, inclusive. Taxpayer argues that the twelve-month limitation under Haw. Rev. Stat. § 237-9.3, HRS, does not apply because the wholesale rate is not a tax benefit subject to denial under Haw. Rev. Stat. § 237-9.3, but rather the regular rate of tax on wholesale sales. This case was settled.

In the Matter of the Tax Appeal of Howard T. Chang and Jenifer M. Chang, Case No. 1 T.X. 16-1-0318, Tax Appeal Court, State of Hawaii.

Taxpayers appealed final assessments of income taxes based on gambling winnings without offset of gambling losses. This case was settled.

In the Matter of the Tax Appeal of Fung Yang, Case No. 1 T.X. 16-1-0325, Tax Appeal Court, State of Hawaii.

Taxpayer claimed the solar credit for a photovoltaic system used to operate chillers for his farming operation. The Department disallowed the credit because (1) the credit was improperly claimed for equipment not related to the photovoltaic system; and (2) it was not clear that the system was installed for nonresidential use. This case was settled.

In the Matter of the Tax Appeal of Amerisourcebergen Drug Corporation, Case Nos. 1 T.X. 17-1-0218 - 1 T.X. 17-1-0222, Tax Appeal Court, State of Hawaii.

Taxpayer sold drugs to non-profit hospitals for resale and paid general excise tax on the transactions at the wholesale rate. The Department assessed Taxpayer at the retail rate because the non-profit hospitals did not pay four percent on their retail sales of the drugs. This case was settled.

In the Matter of the Tax Appeal of Robert E. Atkinson, MD, Inc., Case No. 1 T.X. 17-1342, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessments of general excise tax of partnership payments. This case was settled.

In the Matter of the Tax Appeal of Steven J. Bookatz and Debra S. Bookatz, Case No. 1 T.X. 17-1347, Tax Appeal Court, State of Hawaii.

Taxpayers appealed final assessments of income based on gambling winnings that were not set off by itemized deductions due to the cap set forth in Act 97, Session Laws of Hawaii 2011. This case was settled.

In the Matter of the Tax Appeal of SMB I LLC, Case No. 1 T.X. 17-1-1343, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessments for the disallowance of the renewable energy technologies income tax credit and the capital goods excise tax credit because the credits were not properly claimed under Haw. Rev. Stat. §§ 235-12.5 and 235-110.7. The Department's Administrative Appeals Office settled this case.

In the Matter of the Tax Appeal of Samuel Fujikawa, Case No. 1 T.X. 17-1-1344, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessments for the disallowance of the renewable energy

technologies income tax credit and the capital goods excise tax credit because the credits were not properly claimed under Haw. Rev. Stat. §§ 235-12.5 and 235-110.7. The Department's Administrative Appeals Office settled this case.

In the Matter of the Tax Appeal of Robert and Kimberli Fujikawa, Case No. 1 T.X. 17-1-1345, Tax Appeal Court, State of Hawaii.

Taxpayers appeal final assessments for the disallowance of renewable energy technologies income tax credit and the capital goods excise tax credit because the credits were not properly claimed under Haw. Rev. Stat. §§ 235-12.5 and 235-110.7. The Department's Administrative Appeals Office settled this case.

In the Matter of the Tax Appeal Marc Unowitz and Ann Unowitz, Case No. 1 T.X. 17-1-1346, Tax Appeal Court, State of Hawaii.

Taxpayers appeal final assessments for the disallowance of the renewable energy technologies income tax credit and the capital goods excise tax credit because the credits were not properly claimed under Haw. Rev. Stat. §§ 235-12.5 and 235-110.7. The Department's Administrative Appeals Office settled this case.

In the Matter of the Tax Appeal of Hawaii & Lighting Rentals, Inc., Case No. 1 T.X. 17-1350, Tax Appeal Court, State of Hawaii.

Taxpayer appealed a final assessment of general excise taxes/use tax claiming it was entitled to wholesale rate. Taxpayer would have qualified for wholesale rate but audit revealed that Taxpayers customers either did not have a general excise license or did not file returns. This case was settled.

In the Matter of the Tax Appeal of Saturn Development I, LLC fka PDC I, Inc., Case No. 1 T.X. 17-1-1362, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Saturn Development, LLC fka Property Development Centers, LLC, Case No. 1 T.X. 17-1-1363, Tax Appeal Court, State of Hawaii.

In these cases, Taxpayers appealed the denial of their conveyance tax refund claim. Taxpayers alleged that they entered into a tentative agreement to sell properties, some of which were still under construction. It is claimed that the parties' tentative purchase price reflected anticipated construction costs, and that this estimated purchase price was used in the original Conveyance Tax Certificate and was subject to adjustment. Taxpayers later filed an amended Conveyance Tax Certificate claiming the actual sales prices for some of the parcels were lower than estimated and requested refunds for the overpayment of conveyance tax, which the Department denied. These cases were settled.

In the Matter of the Tax Appeal of Penny G. Ordonez, Case No. 1 T.X. 17-1-1375, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessments for general excise and transient accommodations taxes for tax years 2003 through 2013, inclusive. Taxpayer claimed that her mainland-based accountant was not familiar with Hawaii tax laws and challenged the assessed penalties and interest as being excessive. This case was settled.

In the Matter of the Tax Appeal of Judith Graybeal Eagle for the Judith Graybeal Eagle Trust, Case No. 1 T.X. 17-1-1388, Tax Appeal Court, State of Hawaii.

Taxpayer appealed denial of a property tax exemption from the County of Maui. The

Department successfully moved to have the case dismissed.

In the Matter of the Tax Appeal of Petrochem Insulation, Inc., Case No. 1 T.X. 17-1-1407, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessments for general excise and use tax for tax years 2013 through 2016, inclusive. Taxpayer claimed that proceeds it received from contracting services provided entirely within a Hawaii Foreign Trade Zone ("FTZ") was exempt from general excise tax, and that amounts it paid for tangible personal property (construction materials, supplies, etc.) shipped by an unlicensed out-of-state seller directly into a FTZ and used in a FTZ as exempt from use tax. This case was settled.

In the Matter of the Tax Appeal of Mark A. Steigmeyer and Michelle R. Steigmeyer, Case No. 1 T.X. 18-1-0319, Tax Appeal Court, State of Hawaii.

Taxpayers appealed a final assessment of income taxes for installment sales in another state that was not included in their income when the installment payment was received. The Department's Administrative Appeals Office settled this case

3.2.2 Pending Tax Appeal Cases

Hawaii Supreme Court

In the Matter of the Tax Appeal of CompUSA Inc., SCAP No. 15-0000861, Supreme Court, State of Hawaii.

Taxpayer appealed from the disallowance of a use tax refund request for tax years 2006, 2007, and 2008. Taxpayer argued that under the commerce and equal protection clauses of the United States Constitution the imposition of Hawaii's use tax is unconstitutional. The Hawaii Supreme Court affirmed the Tax Appeal Court's determination that the use tax is constitutional under the commerce and equal protection clauses of the United States Constitution.

In the Matter of Priceline.com, SCAP No. 17-0000367, Supreme Court, State of Hawaii. (and consolidated cases).

These consolidated tax appeals are by online travel companies Priceline.com, Travelocity.com, Orbitz.com, Hotels.com ("OTCs") from assessments of general excise tax, penalties and interest for the OTCs' rental motor vehicle transactions in the State for tax years 2000 through 2013, inclusive. The Department assessed the OTCs for their "stand alone" car rentals as well as car rentals included as part of travel or tour packages. The Department and various taxpayers filed cross-appeals of the tax appeal court ruling. The Hawaii Supreme Court heard oral arguments on April 5, 2018 and has not issued a ruling to date.

Tax Foundation of the State of Hawaii, Inc. v. State of Hawaii, CAAP-16-0000462, Intermediate Court of Appeals, State of Hawaii.

In this case, the Tax Foundation of the State of Hawaii brought an action for injunctive and mandamus relief. At issue is the county surcharge on state tax, Haw. Rev. Stat. § 248-2.6, that requires the Department of Budget and Finance to transfer ten percent of the amount collected to the general fund to reimburse the Department of Taxation's costs of assessment

and collection of the surcharge. Plaintiff argued that amounts transferred to the general fund exceed the Department of Taxation's actual costs and expenses. Under these facts, Plaintiff alleges that the statute violates the due process and equal protection clauses of the United States Constitution. The complaint seeks refunds on Plaintiff's behalf and on behalf of the City and County of Honolulu. The Department moved to dismiss the complaint for lack of subject matter jurisdiction. The complaint was dismissed and Plaintiff appealed to the Hawaii Supreme Court. The Hawaii Supreme Court heard oral arguments on July 6, 2017 and has not issued a ruling to date.

Tax Appeal Court

In the Matter of the Tax Appeals of TMI Management, Inc., Case Nos. 09-0071 and 09-0072, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes on amounts received for performing work for the federal government. Taxpayer argues, among other things, that the disputed income was exempt because Taxpayer was an employee leasing company and the disputed income was for salaries and expenses of leased employees. This case has been taken off the trial ready calendar to give the parties time to work on settlement.

In the Matter of the Tax Appeals of Bernard & Ellen Fuller and South Pacific Builders, Ltd., Case Nos. 09-0087, 09-0088, and 09-0089, Tax Appeal Court, State of Hawaii.

Taxpayers were assessed additional general excise and net income taxes on amounts received for performing work within the state. Taxpayers argue, among other things, that the disputed income was exempt because Taxpayers paid certain amounts to other contractors. This case has been taken off the calendar to give the parties time to work on settlement.

In the Matter of Tax Appeal of James J. Richard & Rachael D. Richard, Case No. 10-1-1805, Tax Appeal Court, State of Hawaii.

Taxpayers were assessed additional income and general excise taxes. Taxpayers challenged the Department's reclassification and recalculation of its liability that was based on Taxpayers' IRC § 338(g) election on a sale of a business. The basis of Taxpayers' claim is that they made an election error on the Form 8023 and the parties to the sale intended a IRC § 338(h)(10) election instead of the IRC § 338(g) election. Taxpayers also challenged the Department's reclassification of income that changed the amount received as personal loans and/or advances from their business to wages. The case was taken off the trial ready calendar to give the parties time to work on settlement.

In the Matter of the Tax Appeal of Patrick O'Brien, Case No. 11-1-0013, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional income taxes for unreported schedule C income from a single member LLC the Taxpayer owned. Taxpayer denies the income is taxable to him. Taxpayer's counsel has withdrawn from this case and Taxpayer is seeking new counsel. Trial is set for August 5, 2019.

In the Matter of the Tax Appeal of Security Resources, LLC, Case No. 11-1-0014; Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes for underreporting the amount of gross receipts it received. Taxpayer claims the assessments are overstated and that it is entitled to be taxed at the wholesale rate of .5 percent. Taxpayer also claims some of its sales are exempt because they were sales of tangible personal property to the federal government. Taxpayer's counsel has withdrawn from this case and Taxpayer is seeking new counsel. Trial is set for August 5, 2019.

In the Matter of the Tax Appeal of Julie A. Dunham, Case No. 12-1-0390, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise and income taxes on non-filed returns for 1999 through 2010, inclusive. Taxpayer argues that the Department's income figures are incorrect. Trial is set for September 9, 2019.

In the Matter of the Tax Appeal of William A. Bartenstein, Case No. 13-1-0228, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise and/or use taxes, penalties and interest on goods imported for resale. Taxpayer argues that the Department's income figures were incorrect and the stacking of the negligence and underpayment penalties was erroneous. Trial is set for March 11, 2019.

In the Matter of the Tax Appeal of Skydiving School, Inc., Case Nos. 1 T.X. 14-1-0217 and 1 T.X. 14-1-0218, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from the denial of a refund claim and assessments of general excise taxes related to its skydiving business. Taxpayer's major issue is that its gross receipts from skydiving activities is not subject to the general excise tax because of federal preemption under the Anti-Head Tax Act, P.L. 103-272, 108 Stat. 1111, as amended, and as codified in 49 U.S.C. § 40116. Trial briefs were submitted in lieu of having a trial and we are awaiting the court's ruling.

In the Matter of the Tax Appeal of Edward A. Alquero, M.D., Inc., Case No. 1 T.X. 14-1-0219, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional income and general excise taxes, penalties, and interest for underreported income related to his medical practice. Taxpayer claims he is entitled to deductions for certain expenses that were disallowed by the Department. Trial is set for January 28, 2019.

In the Matter of the Tax Appeal of Avery B. Chumbley, Case No. 1 T.X. 14-1-0226, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise taxes and interest for underreported gross receipts of a non-profit organization's fund raising activities. Taxpayer was assessed personally as the president of the organization at the time. Taxpayer claims he was entitled to deductions for certain expenses that were disallowed by the Department. This case is in the process of being settled.

In the Matter of the Tax Appeal of Darren Truitt, Case No. 1 T.X. 14-1-0228, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the Department's assessment of additional income taxes, penalties, and interest for income attributed to his wholly-owned LLC. Taxpayer's counsel has withdrawn

and the court has taken this case off of the ready trial calendar to allow Taxpayer time to obtain new counsel.

In the Matter of the Tax Appeal of Construction Servs. & Management LLC, Case No. 1 T.X. 14-1-0229, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the Department's assessment of general excise taxes, penalties, and interest for underreported gross receipts. Taxpayer's counsel has withdrawn and the court has taken this case off of the ready trial calendar to allow Taxpayer time to obtain new counsel.

In the Matter of the Tax Appeal of Hawaiian Telcom Services Company, Inc., Case No. 1 T.X. 14-1-0231, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaiian Telcom Services Company, Inc., Case No. 1 T.X. 15-1-0245, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaiian Telcom Services Company, Inc., Case No. 1 T.X. 16-1-0321, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaiian Telcom Services Company, Inc., Case No. 1 T.X. 17-1-1386, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the denial of use tax refund claims. Taxpayer claims that Haw. Rev. Stat. §§ 238-2 and 238-2.3 impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution; the statutes discriminate against interstate commerce and are not fairly apportioned; and that Taxpayer erroneously paid use taxes with respect to services and/or contracting performed within the state by a licensed seller. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Telcom, Inc., Case No. 1 T.X. 14-1-0232, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaiian Telcom, Inc., Case No. 1 T.X. 15-1-0244, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaiian Telcom, Inc., Case No. 1 T.X. 16-0322, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaiian Telcom, Inc., Case No. 1 T.X. 17-1-1385, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the denial of use tax refund claims. Taxpayer claims that Haw. Rev. Stat. §§ 238-2 and 238-2.3 impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution; the statutes discriminate against interstate commerce and are not fairly apportioned; and that Taxpayer erroneously paid use taxes with respect to services and/or contracting performed within the state by a licensed seller. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Telcom Communications, Inc., Case No. 1 T.X. 16-1-0323, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaiian Telcom Communications, Inc., Case No. 1 T.X. 17-1-1384, Tax Appeal Court, State of Hawaii

Taxpayer appeals the denial of use tax refund claims. Taxpayer claims that Haw. Rev. Stat. §§ 238-2 and 238-2.3 impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution; the statutes discriminate against interstate commerce and are not fairly apportioned; and that Taxpayer erroneously

paid use taxes with respect to services and/or contracting performed within the state by a licensed seller. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Electric Company, Inc., Case No. 1 T.X. 14-1-0233, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaiian Electric Company, Inc., Case No. 1 T.X. 15-1-0296, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaiian Electric Company, Inc., Case No. 1 T.X. 16-1-0316, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaiian Electric Company, Inc., Case No. 1 T.X. 17-1-1376, Tax Appeal Court, State of Hawaii

Taxpayer appeals the denial of use tax refund claims. Taxpayer claims that Haw. Rev. Stat. §§ 238-2 and 238-2.3 impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution and that the statutes discriminate against interstate commerce and were not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Airlines, Inc., Case No. 1 T.X. 14-1-0258, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the denial of use tax refund claims. Taxpayer claims that Haw. Rev. Stat. §§ 238-2 and 238-2.3 impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of Hawaii Electric Light Company, Inc., Case No. 1 T.X. 14-1-0259, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaii Electric Light Company, Inc., Case No. 1 T.X. 15-1-0297, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaii Electric Light Company, Inc., Case No. 1 T.X. 16-1-0317, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Hawaii Electric Light Company, Inc., Case No. 1 T.X. 17-1-1377, Tax Appeal Court, State of Hawaii

Taxpayer appeals the denial of use tax refund claims. Taxpayer claims that Haw. Rev. Stat. §§ 238-2 and 238-2.3 impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of Maui Electric Company, Inc., Case No. 1 T.X. 14-1-260, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Maui Electric Company, Inc., Case No. 1 T.X. 15-1-0298, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Maui Electric Company, Inc., Case No. 1 T.X. 16-1-0315, Tax Appeal Court, State of Hawaii;

In the Matter of the Tax Appeal of Maui Electric Company, Inc., Case No. 1 T.X. 17-1-1378, Tax Appeal Court, State of Hawaii

Taxpayer appeals the denial of use tax refund claims. Taxpayer claims that Haw. Rev. Stat. §§ 238-2 and 238-2.3 impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In re Tax Appeal of Longs Drug Stores Ca., LLC, Case No. 1 T.X. 14-1-0240, Tax Appeal Court, State of Hawaii;

In re Tax Appeal of Longs Drug Stores Ca., LLC, Case No. 1 T.X. 15-1-0237, Tax Appeal Court, State of Hawaii; and

In re Tax Appeal of Longs Drug Stores Ca., LLC, Case No. 1 T.X. 16-1-0314, Tax Appeal Court, State of Hawaii.

These cases were on hold pending the outcome of In the Matter of the Tax Appeal of CompUSA Inc., Case Nos. 12-1-0264, 12-1-0265, Tax Appeal Court, State of Hawaii. Trial is not set.

In the Matter of the Tax Appeal of Home Depot U.S.A., Inc., Case No. 1 T.X. 15-1-0218, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the Department's disallowance of the wholesale rate on general excise taxes due on sales to customers at its retail stores as well as the Department's denial of the subcontractor deduction related to work performed for customers. Trial is set for October 7, 2019.

In the Matter of the Tax Appeal of Dan S. Tetsutani, Case No. 1 T.X. 15-1-0219, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from a final assessment of additional general excise tax and/or use taxes stating the assessments were improper or in the alternative that Taxpayer should pay the wholesale rate of .5 percent. Trial is set for December 3, 2018.

Maria E. Zielinski v. Blake and Bianca Goodman, Case No. 1 T.X. 15-1-0221; Tax Appeal Court, State of Hawaii;

The Department denied Taxpayers' fully refundable Renewable Energy Technologies tax credits under Haw. Rev. Stat. § 235-12.5 because Taxpayers' adjusted gross income exceeded the statutory threshold entitling them to a fully refundable credit. The Board of Review ruled that Taxpayers could revoke their elections to receive refundable tax credits. Cross motions for summary judgment were heard on July 17, 2017 but the court has not ruled yet. Trial was taken off the trial ready calendar.

In re Tax Appeal of Escal Institute of Advanced Technologies, Inc., Case No. 1 T.X. 15-1-0276, Tax Appeal Court, State of Hawaii.

In the Matter of the Tax Appeal of Escal Institute of Advanced Technologies, Inc., Case No. 1 T.X. 17-1-1374, Tax Appeal Court, State of Hawaii.

Taxpayer, for itself and its shareholders, appeals assessments on tax years 2008, 2010, 2012, and 2013 for income tax refunds denied; 2011 through 2013, inclusive, for income taxes assessed; and 2008, 2009, 2011 through 2013, inclusive, for general excise taxes assessed, alleging that refunds to shareholders were wrongly denied. Additionally, Taxpayer alleges that income taxes and general excise taxes were assessed on income from services performed outside Hawaii. This case is in the settlement process.

In re Tax Appeal of Pacific Isles Equipment Rental Inc., Case No. 1 T.X. 15-1-0315, Tax Appeal Court, State of Hawaii.

Taxpayer's President, a non-attorney, initially filed a Notice of Appeal of general excise taxes for tax years 2010, 2011, and 2012 and made payment "under protest." Taxpayer

hired an attorney who filed a Complaint for Refund of Taxes in the tax appeal case. A motion to dismiss was granted in part and denied in part. Taxpayer claims that pursuant to Haw. Rev. Stat. § 237-13, the 0.5 percent wholesale rate applies rather than the 4.5 percent contracting rate. Trial is set for October 1, 2018. Trial re-setting is set for September 17, 2018.

In re Tax Appeal of Jeffrey Scott Lindner, Case No. 1 T.X. 16-1-0300, Tax Appeal Court, State of Hawaii.

Taxpayer appeals income taxes for tax years 2012 through 2014, inclusive. Taxpayer claims that he properly filed returns to qualify for HTBITC credits per Haw. Rev. Stat. § 235-110.9; however, the Department claims that it did not receive the returns. Trial is set for December 9, 2019.

In the Matter of the Tax Appeal of Polynesian Cultural Center, Case No. 1 T.X. 16-1-0290, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the Department's assessment of additional general excise taxes based on the disallowance of the income splitting provisions allowed under Haw. Rev. Stat. § 237-18(f). Trial has been set for July 8, 2019.

In re Tax Appeal of Thomas Aki, Case No. 1 T.X. 16-1-0291, Tax Appeal Court, State of Hawaii.

Taxpayer appeals income tax assessments for tax years 2012, 2013, and 2014 in which the Department disallowed business expenses and deductions under Haw. Rev. Stat. chapter 235, disallowed the personal exemption deduction and disallowed the application of losses from prior years. Trial is set for April 29, 2019.

In the Matter of the Tax Appeal of Gary Takahashi Sports Marketing Inc., Case No. 1 T.X. 16-1-0319, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of general excise tax based on information obtained from the Internal Revenue Service. Taxpayer claims that assessments were improper because all sales occurred outside of Hawaii. Trial set for October 29, 2018.

In the Matter of the Tax Appeal of Gary K. Takahashi, Case No. 1 T.X. 16-1-0320, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of general excise tax based on information obtained from the Internal Revenue Service. Taxpayer claims that the assessments should have been made on Gary Takahashi Sports Marketing Inc. and not on him individually. Trial is set for October 29, 2018.

In the Matter of the Tax Appeal of Woodley L. Hunt; Gayle G. Hunt; Hunt ELP, Ltd.; Hunt Companies, Inc.; HB GP, LLC; Marion L. Hunt; and Norma H. Hunt, Case No. 1 T.X. 16-1-0340, Tax Appeal Court, State of Hawaii.

Taxpayers appeal income tax assessments for underreported taxable income due to understatement of partnership's capital gains received from sale of real property in Hawaii. Taxpayers argue that the capital gains in question should be excluded from the Hawaii sales factor numerator and denominator for apportionment purposes. Trial is set for the week of February 11, 2019.

In the Matter of the Tax Appeal of Janice P.C. Hori, Case No. 1 T.X. 17-1-1340, Tax Appeal Court,

State of Hawaii.

Taxpayer appeals final assessments of general excise taxes that were made based on information obtained from Taxpayer's income tax return. Taxpayer did not file general excise tax returns for the years listed on her income tax return. Trial is not set.

In the Matter of the Tax Appeal of Certified Erosion Control Hawaii LLC., Case No. 1 T.X. 17-1-1341, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of general excise tax claiming it was entitled to the wholesale rate. Taxpayer was a non-filer and submitted unfiled returns with the auditor during the audit phase. Although Taxpayer qualified for the wholesale rate, the rate was disallowed because of Act 155. Trial is not set.

In the Matter of the Tax Appeal of Michelle Richardson, Case No. 1 T.X. 17-1-1349, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of income and general excise taxes that were based on federal data because Taxpayer is a non-filer. Trial is not set.

In the Matter of the Tax Appeal of Maui Fresh Fish Investors, LLC, Case No. 1 T.X. 17-1361, Tax Appeal Court, State of Hawaii.

Taxpayer appeals a Board of Review's decision that agreed with the Director who disallowed credits that Taxpayer claimed for its investment in a Qualified High Technology Business. Trial is not set.

In the Matter of the Tax Appeal of Wavecom Solutions Corporation, Case No. 1 T.X. 17-1-1390, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the denial of use tax refund claims. Taxpayer claims that Haw. Rev. Stat. §§ 238-2 and 238-2.3 impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution; the statutes discriminate against interstate commerce and are not fairly apportioned; and that Taxpayer erroneously paid use taxes with respect to services and/or contracting performed within the state by a licensed seller. Trial is not set.

In the Matter of the Tax Appeal of Federal Business Council, Inc., Case No. 1 T.X. 18-1-0315, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments for general excise tax for tax years 2008 through 2013, inclusive. Taxpayer claims that much of its gross receipts are for services rendered on the mainland and should not be sourced to Hawaii for tax purposes. Trial is not set.

In the Matter of the Tax Appeal of Adrienne P. Sweeney, Case No. 1 T.X. 18-1-0316, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessment of income taxes after receiving notification that Taxpayer's administrative appeal had been closed. The final assessment disallows a deduction for repayment of trustee fees claimed on the 2014 Individual Income Tax Return. Trial is not set.

In the Matter of the Tax Appeal of Perigon Partners, LLC, Case No. 1 T.X. 18-1-0317.

Taxpayer appeals final assessments for general excise taxes for tax year 2015. Taxpayer claims that the assessed amounts are excessive because it improperly includes taxes on amounts for services rendered on the mainland. Trial is not set.

In the Matter of the Tax Appeal of Diamond Resorts Hawaii Collection Members Association, Case No. 1 T.X. 18-1-0318.

Taxpayer appeals the denial of its refund claim for general excise taxes for tax year 2016. Taxpayer claims that it operates timeshares in Hawaii and across the mainland United States and that in 2016, it incorrectly included income from timeshares on the mainland that should not have been reported on its Hawaii return. Trial is not set.

In the Matter of the Tax Appeal of Richard A. and Leony C. Wheelock, Case No. 1 T.X. 18-1-0326.

Taxpayers appeal final assessments of income taxes for tax years 2008 through 2010, inclusive. Taxpayers contend that the Department improperly disallowed deductible expenses for mortgage interest in each of the tax years in issue. The parties have submitted a stipulation to the Tax Court to allow the case to be placed into the Department's Administrative Appeals and Dispute Resolution Program and are awaiting the court's approval of the same. Trial is not set.

In the Matter of the Tax Appeal of Colorado Personnel Resources, Inc., Case No. 1 T.X. 18-1-0334.

Taxpayer appeals from final assessments for general excise taxes for tax years 2004 through 2011, inclusive. Taxpayer challenges the assessments claiming that it lacks nexus with Hawaii. Trial is not set.

In the Matter of the Tax Appeal of EPRODS, LLC, Case No. 1 T.X. 18-1-0360.

Taxpayer appeals from final assessments for general excise taxes for tax years 2013 through 2016, inclusive. Taxpayer challenges the assessments on the basis that it exports the majority of its services and goods out-of-state and therefore is not subject to the general excise tax. Trial is not set.

ADMINISTRATIVELY ATTACHED ENTITIES

As of June 30, 2018

COUNCIL ON REVENUES

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Marilyn M. Niwao, Vice-Chair
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