

DAVID Y. IGE  
GOVERNOR

JOSH GREEN M.D.  
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA  
DIRECTOR

DAMIEN A. ELEFANTE  
DEPUTY DIRECTOR

**STATE OF HAWAII  
DEPARTMENT OF TAXATION**

830 PUNCHBOWL STREET, ROOM 221

HONOLULU, HAWAII 96813

<http://tax.hawaii.gov/>

Phone: (808) 587-1540 / Fax: (808) 587-1560

Email: Tax.Directors.Office@hawaii.gov

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

Date: Monday, February 25, 2019  
Time: 3:00 P.M.  
Place: Conference Room 308, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 1135, H.D. 1, Relating to Department of Taxation Operations

The Department of Taxation (Department) strongly supports H.B. 1135, H.D. 1, and provides the following comments for your consideration.

H.B. 1135, H.D. 1, provides additional funding for the Department's base budget for the fiscal year beginning July 1, 2019 and ending June 30, 2020 (FY20) and the fiscal year beginning July 1, 2020 and ending June 30, 2021 (FY21). H.D. 1 changed the appropriation amount to unspecified amounts has a defective date of July 1, 2022.

The original version of this measure reflects three (3) additions to the Department's base budget:

1. Adds appropriations for our Tax System Modernization (TSM) program: \$3.64 million and \$4.8 million in Program ID TAX107 for FY 20 and FY 21, respectively.
2. Adds Two (2) Managements Analysts for Program ID TAX105. There is a funding reduction of \$37,145 per year for TAX105 because we are also eliminating seven (7) positions in order to fund the two (2) requested positions.
3. Adds \$215,425 per year for TAX107 to provide the needed 6-month funding for five (5) positions authorized by the 2018 Legislature. Funding for this will come from the Special Enforcement Special Fund.

The Department respectfully requests restoration of the authorizations and appropriations in the original version of the measure.

Our most important budget request is to secure additional funding for our Tax System Modernization (TSM) project. This project started in 2015 and is in its final phase of functional deployments. We will finish the final functional deployment in September 2019 and shift to a warranty support phase.

The TSM project has enabled us to improve customer service, expedite processing, and support better management decision making:

- As part of the TSM project, we replaced our call center phone system. Our new phone system is providing better customer service and facilitating better management reporting.
- The TSM project enhanced our web presence. There are now more than 122,000 taxpayers signed up to use Hawaii Tax Online. In FY18, taxpayers submitted 872,000 returns and 881,000 payments using Hawaii Tax Online.
- In November 2018, we added individual income tax to our TSM system. As part of this, we made the N-11 (Hawaii Resident Income Tax form) available online to file for free.

Our staff has worked hard to configure the new systems, move data from our legacy system to our new system, and learn to use the new systems. We made a lot of progress but have a lot more to do. We are requesting additional funds in the amount of \$3.64 million for FY20 and \$4.8 million for FY21 to enable us to acquire additional professional services support for the next two years.

#### PROGRAM ID TAX107: Supporting Services/Revenue Collection

For ID TAX107, H.D. 1 appropriates an unspecified amount for operating expenses. The original version of the measure appropriates \$3,640,000 for FY 20 and \$4,800,000 for FY21 for professional IT services that were not included in the original scope of the TSM contract. These funds are necessary because the TSM project vendor support will end in July 2019, with limited warranty services (bug fixes) for an additional 12 months. Additional professional services for GenTax (tax processing software) and ibml/Captiva (imaging software) installed for this project are needed from contractors to address significant system changes (improvements and re-work) from what was put into production during the project and provide additional knowledge transfer to DOTAX staff. If not funded, this will limit the Department's ability to re-work and refine the configurations, such as rates, credits, exemptions or new programs, into production use.

The Department is currently in the final implementation phase (Rollout 5) of the TSM project, which began in July 2015. The TSM project is a multi-year project with five rollout phases designed to completely replace the legacy system. The project has expanded electronic services, providing taxpayers with online access to accounts and enabling more electronic filing and payment. The project has also automated many licensing, tax clearance, and compliance processes. Additionally, TSM has provided the Department with critical data capture capabilities, metrics, and cross-check controls that were 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 implementation of online tax filing and payments, which can be done at no-cost to taxpayers, the Department expects to see an increase in electronic filing and payments in future years.

Until the Department staff are fully versed in the new system, full utilization of its capabilities cannot be realized. The funding of consultants for ongoing training and knowledge transfer will enable us to use the system to its best.

H.D. 1 also appropriates an unspecified amount for Program ID TAX107 in *special funds*. The original version of the measure appropriates \$215,425 for FY20 and \$215,425 for FY21 in *special funds* for 6-month funding for the 5 new investigator positions that were created in the Department's Special Enforcement Section (SES) by the 2018 Legislature. SES is funded through the Tax Administration Special Fund codified at section 235-20.5 of the Hawaii Revised Statutes. If not funded, SES will not be able to hire and retain investigators that help to increase revenue by bringing noncompliant taxpayers in the cash economy and transient accommodation sectors into compliance.

#### PROGRAM ID TAX105: Tax Services and Processing

For Program ID TAX105, H.D. 1 appropriates an unspecified amount for operating expenditures. The original version of the measure appropriates \$105,912 for FY 20 and \$105,912 for FY 21 for 2 new Management Analyst IV positions and results in a net gain of \$37,145 for FY20 and \$37,145 for FY21 to the general fund because the Department proposed eliminating 7 temporary positions, resulting in a fiscal reduction of \$143,057 for FY20 and \$143,057 for FY21 to pay for the two new positions.

These two new Management Analyst IV positions are needed to help the Department in identifying and defining the most efficient and effective processes.

With the completion of the implementation of TSM near, the Department is beginning the reorganization of the functions and positions with the Taxation Services and Processing Division. The Department needs these new Management Analyst roles to enhance capture and purify the greater amounts of information as the Department moves to greater information processing and less paper processing.

As the Department grows into greater information processing, the new Management Analyst IV positions would assist with defining the most efficient and effective processes of the division. There is a need to hire a more skilled labor force, which these Management Analyst IV positions would satisfy. The Department intends on beginning to decrease lower level positions, such as Office Assistant III and IV positions and replace them with upgraded positions to attract and retain staff. More emphasis will be placed on closer supervision and more intensive training of line staff by these management analysts. Our pilot programs in this regard have already shown good results. If the new positions are not funded, we may continue to have difficulties in recruiting and retaining staff and the Department's efficiency and productivity will suffer.

In addition, the Department notes that 6-month funding for a permanent Management Analyst IV position, authorized by the Legislature in Act 53, Session Laws of Hawaii 2018, was inadvertently left out of its original budget and the Department now requests additional appropriations for Program ID TAX105 in the amount of \$26,478 in FY20 and \$26,478 in FY21 for the position. The position is currently filled and if not funded, the Department may suffer a loss in productivity in other areas of taxpayer services and processing in order to pay for the position.

Restoration of the Department's budget requests in original version of H.B. 1135 will support the Department in achieving its mission of administering the tax laws of the State of Hawaii in a consistent, uniform, and fair manner.

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