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

Date: Wednesday, February 6, 2019
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 1042, Relating to Tax Reporting

The Department of Taxation (Department) strongly supports H.B. 1042, an Administration measure, and offers the following comments for the Committee's consideration.

H.B. 1042 amends Hawaii Revised Statutes (HRS) sections 237-30.5 and 237D-8.5 to revise the way persons who collect rents or gross rental proceeds on behalf of owners of real property or operators of transient accommodations report such collection to the Department.

Under current law, persons collecting rent or gross rental proceeds on behalf of others must report information identifying each owner or operator on whose behalf they collect. However, they are not required to report the total amount of money collected on behalf of each owner or operator. Current law also requires the person to provide the owner or operator a copy of a tax liability notice. Under current law, there is no penalty for noncompliance with the reporting requirements.

H.B. 1042 would require persons who collect rents or gross rental proceeds on behalf of others to report to the Department the total amount of rent or gross rental proceeds collected on behalf of the owner or operator during the previous calendar year. The bill would maintain reporting of the identifying information required under current law as well as the requirement to provide a tax liability notice to the owner or operator. Finally, H.B. 1042 imposes a penalty for noncompliance with the reporting requirements. The penalty is \$500 per violation per month.

The Department believes this bill will improve compliance in two ways. First, the increased reporting requirements will lead to increased voluntary compliance. If taxpayers know that the Department has information detailing how much rent they received, they will be more likely to complete returns and pay their taxes voluntarily. This will lead to both better collections and a reduced administrative burden.

Second, reporting of the total amount of rent and gross rental proceeds collected will provide an independent measure of a taxpayers' receipts. This will simplify and improve the accuracy of any eventual audit of the taxpayer.

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

TAX FOUNDATION OF HAWAII

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SUBJECT: GENERAL EXCISE, TRANSIENT ACCOMMODATIONS, Reporting Rental Activity

BILL NUMBER: HB 1042; SB 1268 (Identical)

INTRODUCED BY: HB by SAIKI by request; SB by KOUCHI by request

EXECUTIVE SUMMARY: Updates the manner in which persons authorized to collect rent for others provide information to the Department of Taxation and establishes penalties for noncompliance.

SYNOPSIS: Rewrites section 237-30.5 and 237D-8.5, HRS, that now provides for notice to the property managers' clients. Imposes penalties of \$500 a month for noncompliance unless it is shown that the failure was due to reasonable cause and not to neglect.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This is an Administration bill sponsored by the Department of Taxation and designated TAX-02 (19).

Under current law, property managers and similar businesses who collect rent for another are supposed to provide their clients with specific notices and are supposed to provide the Department specific information. However, since current law does not provide penalties for failure to do so, compliance with this provision appears to be spotty at best.

This bill attempts to address this problem.

Digested 2/4/2019