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**Testimony of the Department of Commerce and Consumer Affairs**

**Before the  
House Committee on Intrastate Commerce  
Tuesday, February 5, 2019  
9:30 a.m.  
State Capitol, Conference Room 430**

**On the following measure:  
H.B. 112, RELATING TO TAXATION**

Chair Ohno and Members of the Committee:

My name is Charlene Tamanaha, and I am the Acting Licensing Administrator of the Department of Commerce and Consumer Affairs' (Department) Professional and Vocational Licensing Division (PVL). The Department offers comments on this bill.

The purpose of this bill is to improve tax compliance by requiring a tax clearance before a professional or vocational license may be issued or renewed.

Currently, tax clearances are required for four professional and vocational business entities: cemeteries; pre-need funeral authorities; contractors; and pest control operators. The statutory and rule requirements of these entities require that they maintain financial integrity. A tax clearance is not required for the 123 remaining license types regulated by the PVL. The merits of imposing this requirement on all PVL applicants and licensees should be thoroughly discussed with affected licensing boards, licensing programs, and other stakeholders to address the possible impacts on the respective professions and the unintended consequences of this requirement.

In addition, the Department has concerns about the following issues:

- The majority of PVL licensees are individuals who are licensed based on their competency to practice. Competency is demonstrated through satisfying such requirements as education, experience, and passing a licensing exam. No nexus appears to exist between a tax clearance for these individuals and their competency to practice; therefore, it would be inappropriate to impose this requirement for licensing purposes.
- Of the 123 license types that would be subject to the new tax clearance requirement, shortages already exist in many of these areas. Adding this additional requirement could disincentivize an individual from becoming licensed and practicing in Hawaii. Should the Committee pass this bill, many professionals may see this requirement as a deterrent to licensure.
- PVL applicants for licensure and current licensees include practitioners who reside out-of-state and who may or may not actually work in Hawaii. The ability for these applicants and licensees to obtain a tax clearance, or to minimally obtain a meaningful tax clearance, is questionable.

Thank you for the opportunity to testify on this bill.

DAVID Y. IGE  
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To: The Honorable Takashi Ohno, Chair  
and Members of the House Committee on Intrastate Commerce

Date: Tuesday, February 5, 2019  
Time: 9:30 A.M.  
Place: Conference Room 430, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 112, Relating to Taxation

The Department of Taxation (Department) offers the following comments for the Committee's consideration.

H.B. 112 adds a new requirement for all applicants of new or renewed professional or vocational license issued by the Department of Commerce and Consumer Affairs (DCCA) to present a tax clearance from the Department. The measure is effective upon approval and applies to taxable year beginning after December 31, 2020.

The Department notes that paragraph (3) of Sections 2 and 3 of the bill allows the Department to issue a tax clearance certificate if an applicant of a professional or vocational license issued by DCCA is not subject to income tax in Hawaii. Generally, income earned from business activities in Hawaii is subject to Hawaii income tax. Therefore, if the Committee wishes to advance this bill, the Department requests that subsection (3) of Sections 2 and 3 be deleted.

Thank you for the opportunity to provide comments on this measure.

PETER L. FRITZ

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HOUSE OF REPRESENTATIVES  
THE THIRTIETH LEGISLATURE  
REGULAR SESSION OF 2019

COMMITTEE ON INTRASTATE COMMERCE

Testimony on H.B. 112  
Hearing: February 5, 2015

(RELATING TO TAXATION)

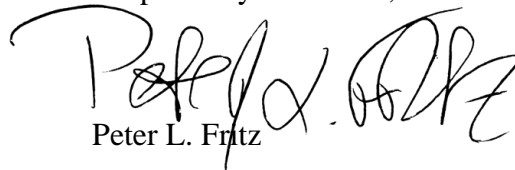
Chair Ohno, Vice Chair Kobayashi, and members of the Committee. My name is Peter Fritz. I am an attorney and a former rules specialist with the Department of Taxation. I am testifying **in support**.

This bill creates a requirement for a tax clearance to renew a professional or vocational license that is similar to the requirement for contractors bidding on state contracts.

I offer the following for the Committee's consideration:

- Contractors are currently required to submit tax clearances when bidding on state contracts. The Hawaii legislature recognized that individuals and businesses should not receive benefits from the State if they are not complying with state tax laws when it amended 103D-310 in 2004.
- A professional or vocational license ("PVL") authorizes someone to engage in a particular profession. An individual that does not hold a license can be prosecuted. Why should a holder of a PVL enjoy the benefits from holding a license while flaunting state tax laws?
- The update to the Tax System Modernization ("TSM") has automated the issuance of tax clearances according to testimony by the DOTAX Director at the Information before the Senate Wage and Means committee. The concern expressed in prior years by DOTAX that this requirement must wait until the TSM system is operational is no longer applicable.
- Self-identification facilitates the administration of tax laws. A PVL license holder must contact DOTAX to resolve outstanding tax issues. DOTAX does not find the individual.
- Upon information and belief DOTAX is currently using the new TSM system to cross check GET licenses against income tax and other tax filings. However, if someone holding a PVL does not have a GET license, how will the TSM system not identify such an individual.
- DCCA license renewals are primarily online. Licenses are renewed at different times of the year. All 80,000 or more licenses are not due on the same date. Requiring a compliance certificate is no different than requiring payment of fees for a license. It is just another document required for license renewal.
- The state data portal used by the DCCA is updated. The SPO is preparing to release and RFP for a new portal. This portal can be designed to issue a certificate of compliance.

Respectfully submitted,



Peter L. Fritz



## HAWAII ASSOCIATION OF PUBLIC ACCOUNTANTS

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**LATE**



### Committee on Intrastate Commerce

Tuesday, February 5, 2019 at 9:30 a.m.

Conference Room 430

State Capitol

### Re: Support for HB112 Relating to Taxation

#### Chair Ohno, Vice Chair Kobayashi and Committee Members:

The Hawaii Association of Public Accountants (HAPA) is the only statewide public accounting organization with chapters on Oahu, Maui, Big Island, and Kauai. It has approximately 650 members, consisting primarily of small to mid-sized CPA firm owners and employees. The Hawaii consumer relies heavily upon our members to provide financial, tax, and consulting services for their businesses and personal affairs.

**HAPA supports HB112 as a measure to improve tax compliance by Hawaii licensed professionals.**

**Please do not hesitate to contact us with any questions or concerns. Thank you for considering the above.**

Respectfully submitted,

**Brian M. Iwata, CPA, President, Hawaii Association of Public Accountants (telephone (808) 935-5404), [www.brian@tihcpa.com](mailto:brian@tihcpa.com), and**

**Marilyn M. Niwao, M.S.P.H., J.D., CPA, CGMA, Legislative Committee Chair, Hawaii Association of Public Accountants, (telephone (808) 242-4600, ext. 224), [niwao@mauicpa.com](mailto:niwao@mauicpa.com)**