

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

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

To: The Honorable Rosalyn H. Baker, Chair;
The Honorable Stanley Chang, Vice Chair;
and Members of the Senate Committee on Commerce and Consumer Protection

From: Isaac W. Choy, Director
Department of Taxation

Date: February 10, 2021
Time: 9:30 A.M.
Place: Via Video Conference, State Capitol

Re: S.B. 1201, Relating to General Excise Tax Licenses

The Department of Taxation (Department) strongly supports S.B. 1232 and offers the following for your consideration.

S.B. 1201 requires General Excise Tax (GET) licenses to be renewed every two years. Under current law they remain valid until canceled. This measure also allows the Department to charge a fee for those renewals and to mandate that renewals be done electronically. S.B. 1201 is effective January 1, 2022.

The Department has found that many taxpayers fail to cancel their GET licenses, which leads to the Department's records being filled with defunct licenses. The Department has also found that taxpayers do not update their business registration information when it changes. This leads to a waste of State resources as correspondences are returned and, in most cases, requires Department personnel to manually search for taxpayers' current addresses.

The requirement to renew a license every two years will lead to an increase in compliance with GET return filing and payment requirements facilitate efficient tax administration.

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

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Require Biennial Relicensing

BILL NUMBER: SB 1201; HB 1047

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

EXECUTIVE SUMMARY: Requires that any license issued under section 237-9, Hawaii Revised Statutes, be renewed biennially; permits the department to charge a fee for biennial renewals; and permits the department to require biennial renewals be applied for electronically. The Department's very efforts eliminated the recurring license fees a quarter century ago, and now it seeks to turn back the clock. At a minimum its purported justification for doing this should be thoroughly scrutinized.

SYNOPSIS: Amends HRS section 237-9, which is the statute governing General Excise Tax licenses. Requires an initial payment of \$20 and an annual recurring payment of \$__ thereafter. Provides that the Department of Taxation may require license renewals to be submitted in electronic form.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This is an Administration bill sponsored by the Department of Taxation and identified as TAX-07 (21).

The legislature by Act 6, SLH 1989, established the present system of requiring a one-time payment of \$20 to obtain a general excise tax license. Prior to that, general excise tax license holders paid an annual fee of \$2.50 while exempt organizations paid an annual fee of \$1. At the time, the piddling annual fees represented an administrative burden for the Department, and the Department proposed the bill that became Act 6 in TAX-2 (89).

At the time, the Department, then led by Richard F. Kahle Jr., testified:

Currently, licenses that are not renewed by the statutory date of January 31 following the close of the preceding year are not strongly pursued for collection nor are there any effective consequences for taxpayer such as the loss of a license. The Department finds that it is not cost effective to expend resources to collect the delinquent the \$1.00, \$2.50 and \$3.00 license renewal fees.

A one-time licensing/registration procedure would also eliminate the need for the Department to send renewal notifications to the taxpayers that have not renewed their licenses or nonprofit registration. Similarly, the computer files relating to the license renewal process can be better utilized for updating license information. The one-time fee will result in cost savings to the Department.

Testimony on S.B. No. 677 Relating to the General Excise Tax Fees (Feb. 15, 1989).

The House Finance Committee, which at that time was chaired by Rep. Joe Souki, former Speaker of the House, wrote:

Currently, general excise tax licenses are renewed annually at a modest fee. Your Committee finds that the imposition of this larger one-time fee and removal of the provision requiring yearly renewal will save time in administration for both the State and the business community.

House Stand. Comm. Rep. 1095 (1989).

In the justification sheet accompanying this bill, the Department complains that its records are filled with defunct licenses, and states that it believes a requirement to annually renew a license will lead to an increase in compliance with general excise tax return filing and payment requirements.

The Department already has rules (HAR section 18-231-3-14.22) that permit defunct licenses to be cancelled or revoked because of abandonment. If the Department feels that the procedures contained there are too burdensome for it, it could amend its rules to provide for automatic revocation after a certain period of time.

With regard to the second point, it is not obvious at all how a small recurring charge would enhance tax compliance. And it strains credibility to think that the Department, which did not find it cost effective to chase taxpayers for \$2.50 annual renewal fees in 1989, would somehow find it efficient (even if it could find the resources) to chase taxpayers for \$20 biennial renewal fees in 2021. The Department's current position is completely at odds with the stance it took in 1989, so it should be incumbent upon the Department to produce adequate supporting data.

Digested 2/6/2021