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To: The Honorable Donovan M. Dela Cruz, Chair;
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

The Honorable Karl Rhoads, Chair;
The Honorable Jarrett Keohokalole, Vice Chair;
and Members of the Senate Committee on Judiciary

From: Isaac W. Choy, Director
Department of Taxation

Date: Wednesday, March 2, 2022
Time: 9:30 A.M.
Place: Via Video Conference, State Capitol

Re: S.B. 2379, S.D. 1, Relating to the Special Enforcement Section

The Department of Taxation (Department) strongly supports S.B. 2379, S.D. 1, and offers the following comments for the committee's consideration.

S.B. 2379, S.D. 1, amends sections 231-81 and 231-82, Hawaii Revised Statutes (HRS), to expand and clarify the authority of the Department's Special Enforcement Section (SES), which is charged with carrying out civil tax enforcement as authorized by the Director of Taxation. The measure authorizes SES to to examine any sector of Hawaii's economy and initiate civil investigations in order to ensure all taxpayers pay their fair share of taxes, and to prevent tax non-compliance through enforcement, education, and deterrence. It also empowers SES to refer cases dealing with any segment of the economy to the Department's Office Audit and Field Audit branches. The measure is effective upon approval.

The Department notes that the Committee on Government Operations amended the previous version of this measure by removing language prioritizing the investigation of cash-based business, in order to clarify that SES has the authority to investigate all matters pertaining to state tax law. The Department does not object to this change.

Clearly delineating and codifying the SES' legal authority would greatly help the Department's efforts to ensure compliance with state tax laws and promote fairness and transparency for Hawaii's taxpayers. The Department is in strong support of this bill and is able to implement the measure as drafted.

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

TAX FOUNDATION OF HAWAII

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SUBJECT: ADMINISTRATION, Special Enforcement Section; Powers

BILL NUMBER: SB 2379 SD 1

INTRODUCED BY: Senate Committee on Government Operations

EXECUTIVE SUMMARY: Allows the Special Enforcement Section to examine any sector of Hawaii's economy, initiate civil investigations, and refer and recommend cases or examinations of segments of the economy to the Office Audit and Field Audit branches of the Department of Taxation for auditing.

SYNOPSIS: Amends section 231-81, HRS, to add that the special enforcement section may examine any sector of Hawaii's economy and initiate civil investigations in order to ensure all taxpayers pay their fair share of taxes, and through enforcement, education, and deterrence prevent non-compliance with Hawaii's tax laws.

Amends section 231-82, HRS, to allow the special enforcement section to refer and recommend cases or examination of any segment of the economy to the office audit and field audit branches of the department of taxation for auditing. Repeals the priority given regarding the cash economy.

EFFECTIVE DATE: Upon Approval

STAFF COMMENTS: In our view, the "added powers" given to the special enforcement section by this bill are no different from the powers of the Department generally. It should be remembered that the Department is the dog and the special enforcement section is an appendage, like a tail. The dog wags the tail, not the other way around.

We fail to see the necessity for a bill such as this.

Digested: 2/27/2022