

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LIEUTENANT GOVERNOR



GARY S. SUGANUMA
DIRECTOR

KRISTEN M. R. SAKAMOTO
DEPUTY DIRECTOR

DEPT. COMM. NO. 297

STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

December 29, 2022

The Honorable Ronald D. Kouchi
President and Members of the Senate
Thirty-Second State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Scott K. Saiki
Speaker and Members of the
House of Representatives
Thirty-Second State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the Department of Taxation's 2021-2022 Annual Report, as required by section 231-3.8, Hawaii Revised Statutes (HRS).

In accordance with section 93-16, HRS, I am also informing you that the report may be viewed electronically at: http://tax.hawaii.gov/stats/a5_1annual/.

If you have any questions or concerns, please feel free to call me at (808) 587- 1540.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary S. Suganuma".

Gary S. Suganuma
Director

C: Josh Green, M.D., Governor
Sylvia Luke, Lieutenant Governor
Legislative Reference Bureau (Attn: Karen Mau)
Leslie H. Kondo, State Auditor
Luis Salaveria, Director of Finance, Department of Budget and Finance
Stacey A. Aldrich, State Librarian, Hawaii State Public Library System
David Lassner, Ph.D., President, University of Hawai'i

Enclosure

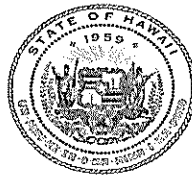
**ANNUAL
REPORT
2021-2022**



**DEPARTMENT OF TAXATION
STATE OF HAWAII**

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

November 18, 2022

The Honorable David Y. Ige
Governor, State of Hawaii
Executive Chambers, State Capitol

Dear Governor, Ige:

The fiscal year period from July 1, 2021 to June 30, 2022 has been memorable for its unexpected and record revenue collections. Finishing the year with approximately \$1.65 billion more revenues than expected was a testament to the men and women of our Tax Department and the computer modernization project. As a team, we were able to take on additional tasks and produce the outcomes that helped the people of the State move beyond the COVID-19 pandemic. The challenge for next year is establishing a new normal and surpassing expectations after such a banner year. I am confident that we will meet these goals and challenges.

Departmental Organization

The Department of Taxation is reorganizing to maximize the capabilities of our new IT systems and meet the challenges of the changing compliance landscape. Other government entities can have a hard time keeping up with us, particularly when it comes to the recruitment and retention of personnel.

Operational Highlights

What a year! Everyone in the State of Hawaii will remember the record tax revenue collections achieved this year. The Department collected a record \$1.65 billion more than expected (that's a lot!). These collections were done during a period of record unemployment and the raging COVID-19 virus. The Department of Taxation was the only department in the State whose workers came to work daily.

We accomplished the mission of "Protecting the Revenues of our State" despite severe staffing shortages due to prior budget cuts and shortages. This allowed our policy makers to appropriate monies in a fashion that did not add to the stress brought forth by the pandemic.

We increased revenues by \$190.7 million in FY 2022 through enhanced compliance efforts that reduced the amount of exemptions incorrectly claimed against the General Excise and Use Tax. We

expect that this will be a recurring event going forward, representing over a \$1 billion of additional revenues over the next decade.

The Special Enforcement Section effectively ramped up efforts to deal with non-compliant short-term vacation rentals, an issue that long plagued our community. The initiative collected over \$30 million in unpaid taxes. We also started to aggressively engage some of the biggest national and international companies who need our help in paying their fair share of taxes.

Efforts like these demonstrate that strategic compliance efforts play a critical role in overall tax collections for the State.

The Tax Department's ability to succeed in its mission of protecting the revenues of the State is dependent on other areas of government. A lack of support from other departments, particularly when it comes to legal and human resource functions, limits the potential of the Tax Department.

Operational Profit Center Goals

The concept of profit centers is a standard organizational approach used in the private sector. The Department is implementing this concept for all sections, tasking them to take a proactive role in generating revenues for the State.

Our Tax Research and Planning office is tasked with the identification of two to three compliance initiatives that increase collections this year. This will be done using advanced techniques in data analytics and machine learning. Our Taxpayer Service division will improve customer service by automating services, adding personal touches that increase taxpayer compliance, and collecting over \$7.5 billion.

Our Office Audit branch is expected to conduct simple compliance audits that generate \$100 million of assessments. Our Field Audit branch will take on the most complicated, sophisticated, international, and multi-state cases. This branch will generate \$95 million in assessments. Our Collections office is tasked with collecting accounts receivables and new assessments.

Our Criminal Investigations Section has the goal of charging one criminal indictment a month. Our Special Enforcement Section is responsible for generating \$50 million a year, up from \$37 million in the prior year. Our ITSO Division is charged with initiating several compliance audits using data analytics that generate \$10 million this year. Finally, our tax Rules Office, under new leadership, will provide legal support and assist the other sections to achieve their goals.

New Initiatives

Two new legislative initiatives are going to be developed during the coming year. The first one is the oversight of the film production industry that uses the Motion Picture, Digital Media and Film Production Income Tax Credit. There have been abuses in the administration and application of this credit. The Department welcomes this opportunity in helping the industry take advantage of this credit and ensuring that the people of Hawaii get value in return for this tax incentive.

The second initiative is changing our voluntary Board of Review to one that is paid. Over the years tax controversies have gotten very complex especially with the changing environment of the Internet. Volunteer board members were spending a tremendous amount of time learning new concepts and deciding how to apply our new laws on e-commerce by national and international companies. This created a situation where qualified individuals could no longer volunteer their valuable time to provide this service and created a very big back log of cases. We would be remiss if we did not thank the volunteers who made this program successful from the beginning of Statehood. Their very valuable service will serve to set a solid foundation for this new Board.

Finally, the Hawaii State Tax Department can only be successful with qualified and motivated employees. The Department is reinventing itself with training in the areas of taxation and personal growth. The initiative is called the “whole person” concept, which encourages our employees to contribute to the State on a personal level by getting involved in their communities and spending quality time with their families.

Collections

State tax collections increased in FY 2022 as the economy recovered from the COVID-19 pandemic. The State collected \$10.46 billion in tax revenue in FY 2022, a 28.0% increase from FY 2021. The largest tax type by revenue is the General Excise Tax (GET). In FY 2022, the State collected \$4.0 billion from this tax, a 30.2% increase from the previous year. The Individual Income Tax (IIT), the second largest tax type increased by 12.1% in FY 2022 relative to FY 2021.

	FY 2022 (\$ thousands)	FY 2021 (\$ thousands)	% Change
GET	4,009,909	3,080,194	30.2%
Individual Income	3,761,269	3,355,452	12.1%
Corporate Income	256,033	186,680	37.2%
Trans. Accom. Tax	738,663	215,316	243.1%
All Other	1,695,963	1,330,981	27.4%
Total Tax Collections	10,461,837	8,168,623	28.1%

Sincerely,

/s/

Isaac W. Choy
 Director of Taxation

DOTAX by the Numbers

	FY 2022	FY 2021	Change
Total Taxes Collected (billions)	\$10.46	\$8.17	\$2.29
DOTAX (billions)	\$9.93 (95% of total taxes)	\$7.77 (95% of total taxes)	\$2.16
Other Departments (billions)	\$0.53	\$0.40	\$0.13
DOTAX Taxes Collected¹¹			
General Excise (billions)	\$4.01	\$3.08	\$0.93
Individual Income (billions)	\$3.76	\$3.36	\$0.40
Other (billions)	\$2.16	\$1.33	\$0.83
Returns Processed (#)			
Paper	419,783	567,639	-147,856
Electronic	2,500,707	2,416,028	84,679
Taxpayers Served (#)			
Phone	202,275	211,014	-\$8,739
Answer Rate	60%	78%	-18%
Licenses Processed (#)	44,350	35,155	9,195
Audit			
Audits Issued (#)	19,588	32,773	-13,185
Assessments (millions)	\$195	\$182	\$13
Collections			
New Debts (millions)	\$234	\$319	-\$85
Recoveries (millions)	\$185	\$215	-\$30
Uncollectible (millions)	\$26.10	\$6.80	\$19
Ending Delinquent Balance (millions)	\$1,223	\$1,153	\$70
Operating Costs (millions)	\$28.4 (\$0.29/ \$100 collected)	\$27.1 (0.35/ \$100 collected)	\$1.30
Staffing	415	382	33

DEPARTMENT OF TAXATION

VISION

The Department of Taxation will efficiently and effectively collect the revenue for funding programs and services for the people of Hawaii

MISSION

Our mission is to protect the revenues of our State

GOALS

1. To *"Increase Voluntary Compliance"* by
 - a. Increasing oversight utilizing various branches/areas of our Compliance Division
 - b. Developing procedures to ensure a more effective, efficient, and timely audit process
2. To *"Reduce Tax Fraud,"* through
 - a. Identification and enforcing tax fraud statues
3. To *"Improve customer service to all stakeholders"* by
 - a. Providing services to taxpayers by electronically, correspondence, and direct taxpayer contact
 - b. Providing specialized service and a liaison to the tax practitioner community
4. To *"Improve technology and efficiencies through the Tax System Modernization (TSM)"* by
 - a. Using technology to effectively administer tax compliance
5. *"Actively address tax receivable balances"* by
 - a. Collaboration with the Attorney General's office
 - b. Utilization of third parties to improve collections
6. To *"Foster and empower staff"* by
 - a. Providing training and career opportunities so each employee can achieve their full potential

TABLE OF CONTENTS

LETTER OF TRANSMITTAL TO THE GOVERNOR

1.0 COLLECTION AND DISTRIBUTION OF TAXES	1
1.1 OVERVIEW	1
1.2 GENERAL EXCISE AND USE TAXES.....	4
1.3 INDIVIDUAL INCOME TAX.....	7
1.4 CORPORATE INCOME TAX.....	9
1.5 TRANSIENT ACCOMMODATIONS TAX	11
1.6 FUEL AND ENVIRONMENTAL RESPONSE TAXES	14
1.7 MOTOR VEHICLE AND RENTAL VEHICLE TAXES AND FEES	21
1.8 CIGARETTE AND TOBACCO TAX	22
1.9 PUBLIC SERVICE COMPANY TAX	24
1.10 UNEMPLOYMENT INSURANCE TAX.....	25
1.11 INSURANCE PREMIUM TAX.....	26
1.12 LIQUOR TAX	27
1.13 CONVEYANCE TAX.....	28
1.14 TAX ON BANKS AND OTHER FINANCIAL CORPORATIONS.....	30
1.15 ESTATE AND TRANSFER TAX	32
1.16 COUNTY SURCHARGE TAX	33
1.17 TOTAL TAX COLLECTIONS.....	34
1.18 DISTRIBUTION OF TAXES	36
1.19 TRENDS IN TAX COLLECTIONS	38
2.0 TAX ADMINISTRATION.....	40
2.1 OVERALL PERFORMANCE	40
2.2 TAX SERVICES AND PROCESSING DIVISION	40
2.3 COMPLIANCE DIVISION	43
2.4 STAFF OFFICES	55
2.5 MANAGEMENT PERSONNEL	61
2.7 DISTRICT OFFICES	63
3.0 APPEALS AND LITIGATION.....	65
3.1 ADMINISTRATIVE APPEALS OFFICE.....	65
3.2 BOARDS OF TAXATION REVIEW	66
3.3 CIVIL DECISIONS, SETTLEMENTS AND OTHER LEGAL MATTERS	66
4.0 ADMINISTRATIVELY ATTACHED ENTITIES	81
COUNCIL ON REVENUES	81
BOARDS OF TAXATION REVIEW	81

1.0 COLLECTION AND DISTRIBUTION OF TAXES

1.1 OVERVIEW

The Department of Taxation (Department) is responsible for the revenue collection of most taxes levied by the State. In addition, the Department collects the fuel taxes imposed by the counties, and the county surcharges imposed by the City and County of Honolulu, the County of Hawaii, and the County of Kauai. In fiscal year (FY) 2022, the Department collected a total of \$9.93 billion in net tax revenues, up from \$7.77 billion collected in FY 2021.

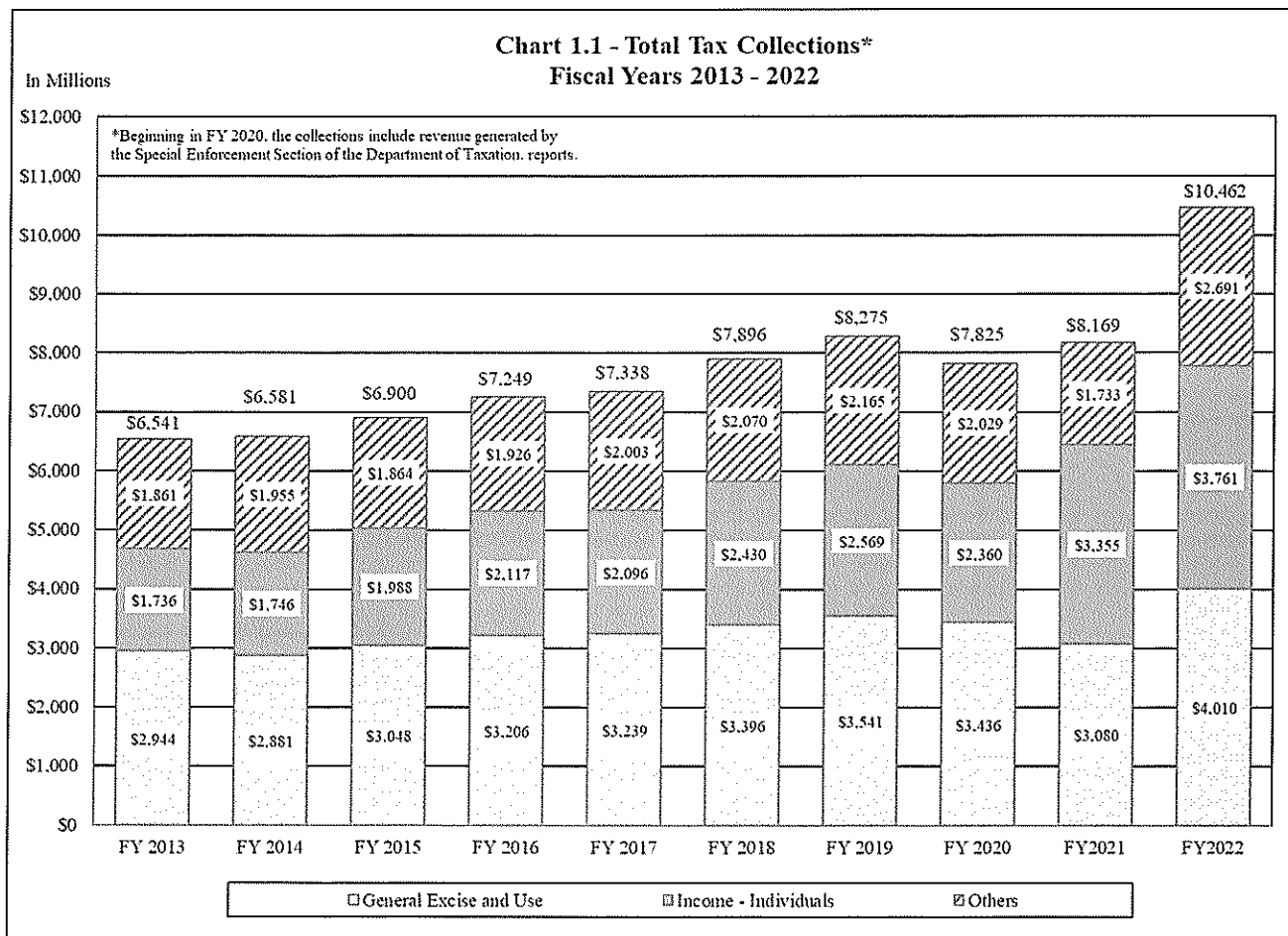
The Department's Office of Tax Research and Planning (TRP) tracks revenues from taxes collected by the Department as well as other taxes that are administered by other state and local agencies. Henceforth, revenues from the taxes tracked by TRP will be referred to as "total tax collections."

Total tax collections were \$10.46 billion in FY 2022, up from \$8.17 billion in FY 2021. Tax collections increased steadily from FY 2012 until FY 2019 due to an improving economy, better tax administration, and new tax measures. In the last quarter of FY 2020, Hawaii's economy suffered from the effects of the COVID-19 pandemic and was impacted by the deferred tax payments. Total tax collections for FY 2020 declined 5.4% from FY 2019. In FY 2021, Hawaii experienced a 4.4% increase in tax collections from FY 2020. The growth in tax revenues was primarily related to the shift in net income filing deadlines. In FY 2022, Hawaii tax revenues showed robust growth, rising by 28.1% from FY 2021. The recovery of the tourism industry, renewed consumer spending, and inflation surge caused the strong revenue growth. Chart 1.1 shows the main components of the total tax collections for FY 2013 through FY 2022.

The 2019 income tax filing deadline extension resulted in overstating tax revenues in FY 2021, while understating the tax revenues in FY 2020. The delay in filing deadline shifted \$308.3 million worth of net income tax revenues (individual and corporate) that would normally have been reported in FY 2020 to FY 2021. In recognition of the shifts in income tax filing deadlines that distorted revenue trends, the reported tax collections for FY 2020 and FY 2021 were adjusted for the deferred tax payments as shown below.

Adjusted Tax Collections (\$billions)

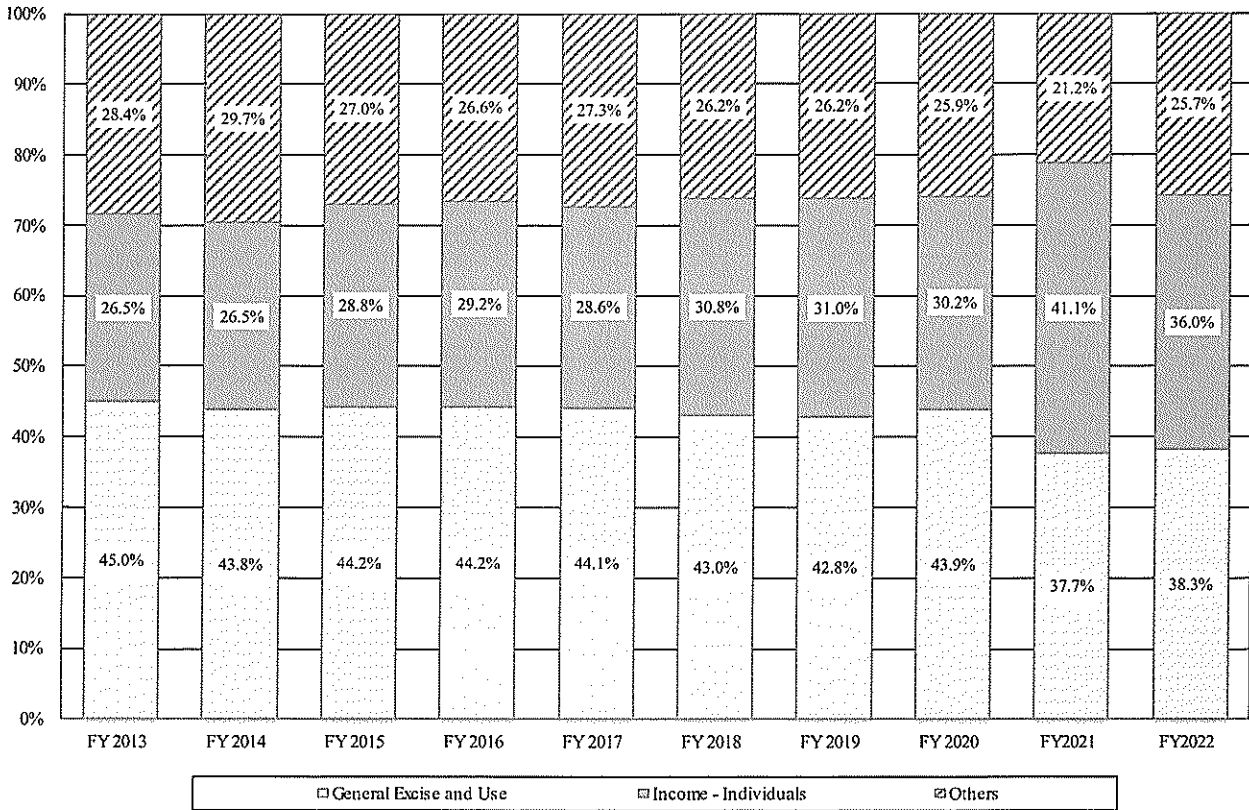
Fiscal Year	Reported		Adjusted	
	Amount	Growth Rate	Amount	Growth Rate
FY 2020	\$7.83	-5.4%	\$8.13	-1.7%
FY 2021	\$8.17	4.4%	\$7.86	-3.4%
FY 2022	\$10.46	28.1%	\$10.46	33.1%



The composition of the State’s revenue collections followed trends seen in previous years. The State's biggest sources of tax revenue are the general excise tax (GET)¹ and the individual income tax (IIT). In FY 2022, net GET collections amounted to \$4.01 billion and accounted for 38.3% of total tax collections, and net collections of the IIT amounted to \$3.76 billion and accounted for 36.0% of total tax collections. Chart 1.2 shows the shares of total tax collections accounted for by the GET and the IIT for FY 2013 through FY 2022.

¹ Throughout this report, the term "GET" will be used to include collections from both the general excise tax and the use tax. The use tax complements the general excise tax and is levied on imports into the State from an unlicensed seller.

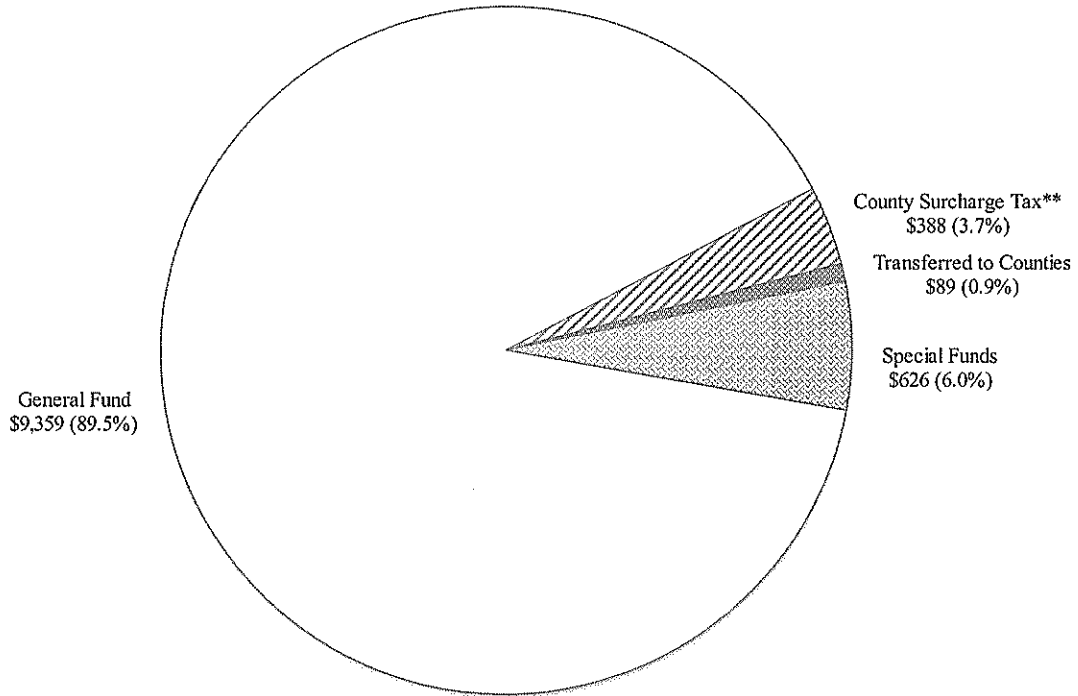
Chart 1.2 - Tax Revenue Composition*
Fiscal Years 2013- 2022



*Details may not add totals due to rounding.

Of the total tax collections in FY 2022, \$9.36 billion, or 89.5%, was deposited into the State's General Fund. The tax revenues deposited into the General Fund are used to pay most of the State's operating expenses. An additional \$477.0 million, or 4.6% of the total tax collections, was transferred to the counties, including transfers of the fuel taxes imposed by the counties, county surcharges imposed by the City and County of Honolulu, the County of Hawaii and the County of Kauai, and revenues from the transient accommodations tax that were allocated to the counties. The remaining \$626.0 million, or 6.0%, was transferred to various other State special funds. Chart 1.3 shows how the total tax collections were distributed in FY 2022.

Chart 1.3 - Fiscal Year 2022 Distribution of Tax Revenues*
(In millions of dollars)



*Details may not add to totals due to rounding

**Includes amounts allocated as of June 30, 2022 from the general excise tax surcharges imposed by the City and County of Honolulu, by the County of Hawaii, and by the County of Kauai.

1.2 GENERAL EXCISE AND USE TAXES

1.2.1 Overview

The GET normally produces more revenues than any other tax type. Unlike the sales taxes imposed by many states and localities, Hawaii's GET is imposed on the business rather than on the customer. The GET covers virtually all forms of business activity: It is imposed at the rate of 0.50% on wholesaling, wholesale services, producing and manufacturing; at the rate of 0.15% on insurance commissions received by general agents, subagents and solicitors; and at the rate of 4.00% on most other activities, including retailing, business and professional services, contracting, theatre, amusement, radio, interest, commissions, and rentals. The fee for a GET license is a one-time charge of \$20. Despite the relatively low tax rates, the GET generates substantial revenue because the tax base is very broad.

1.2.2 Revenue

Revenue from the GET increased from \$3.08 billion in FY 2021 to \$4.01 billion in FY 2022, a rise of 30.2%. Chart 1.4 shows the total revenues from the GET and from the tax levied on the various categories of income for FY 2013 through FY 2022. Table 1.1 shows collection of the GET in greater detail for FY 2021 and FY 2022.

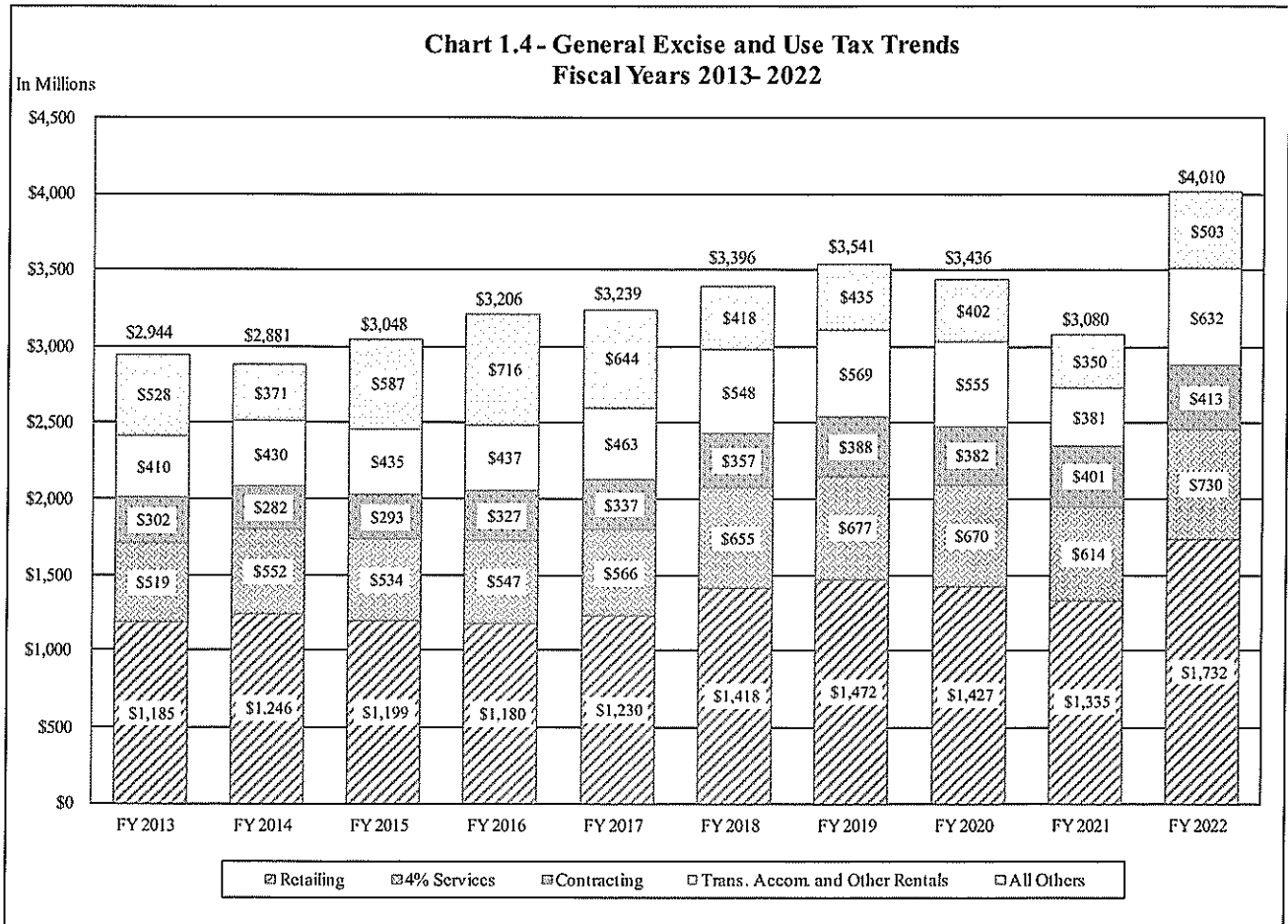


TABLE 1.1 - GENERAL EXCISE AND USE TAX BASE AND TAXES
FOR FISCAL YEARS ENDING JUNE 30, 2022 AND 2021 ²
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	FY 2022	FY 2021	Difference	
				Amount	% Change
TAX BASE					
Retailing		\$ 43,306,889	\$ 33,367,883	\$ 9,939,007	29.8
Services		18,256,450	15,344,766	2,911,684	19.0
Contracting		10,326,923	10,028,538	298,384	3.0
Trans. Accom. Rentals		6,658,019	1,989,439	4,668,581	234.7
All Other Rentals		9,133,589	7,533,035	1,600,554	21.2
All Others (4%)		6,874,117	4,492,870	2,381,247	53.0
Subtotal		<u>\$ 94,555,987</u>	<u>\$ 72,756,530</u>	<u>\$ 21,799,456</u>	<u>30.0</u>
Producing		\$ 381,904	\$ 342,331	\$ 39,573	11.6
Manufacturing		440,522	522,448	(81,926)	(15.7)
Wholesaling		22,501,348	16,836,562	5,664,786	33.6
Use (1/2%)		8,280,464	6,511,936	1,768,528	27.2
Services (Wholesale)		1,079,042	864,857	214,184	24.8
Insurance Solicitors		671,669	663,974	7,695	1.2
Subtotal		<u>\$ 33,354,948</u>	<u>\$ 25,742,108</u>	<u>\$ 7,612,840</u>	<u>29.6</u>
TOTAL - ALL ACTIVITIES		<u>\$ 127,910,935</u>	<u>\$ 98,498,639</u>	<u>\$ 29,412,296</u>	<u>29.9</u>
TAX					
Retailing	4.00%	\$ 1,732,276	\$ 1,334,715	\$ 397,560	29.8
Services	4.00%	730,258	613,791	116,467	19.0
Contracting	4.00%	413,077	401,142	11,935	3.0
Trans. Accom. Rentals	4.00%	266,321	79,578	186,743	234.7
All Other Rentals	4.00%	365,344	301,321	64,022	21.2
All Others (4%)	4.00%	274,965	179,715	95,250	53.0
Subtotal		<u>\$ 3,782,239</u>	<u>\$ 2,910,261</u>	<u>\$ 871,978</u>	<u>30.0</u>
Producing	0.50%	\$ 1,910	\$ 1,712	\$ 198	11.6
Manufacturing	0.50%	2,203	2,612	(410)	(15.7)
Wholesaling	0.50%	112,507	84,183	28,324	33.6
Use (1/2%)	0.50%	41,402	32,560	8,843	27.2
Services (Wholesale)	0.50%	5,395	4,324	1,071	24.8
Insurance Solicitors	0.15%	1,008	996	12	1.2
Subtotal		<u>\$ 164,424</u>	<u>\$ 126,387</u>	<u>\$ 38,037</u>	<u>30.1</u>
Unallocated ¹		<u>\$ 63,245</u>	<u>\$ 43,546</u>	<u>\$ 19,699</u>	<u>45.2</u>
TOTAL - ALL ACTIVITIES		<u>\$ 4,009,909</u>	<u>\$ 3,080,194</u>	<u>\$ 929,714</u>	<u>30.2</u>

¹ Includes collections from penalty and interest, assessments and corrections, delinquent collections, refunds, protested payments, settlements and business activities of disabled persons.

² Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

NOTE: Details may not add to totals due to rounding.

1.2.3 Recent Legislation

Act 80, SLH 2022, clarifies the amounts received or accrued for stevedoring services, wharfage, and demurrage services are exempt under the general excise tax law within section 237-24.3, HRS. The Act became effective on June 27, 2022.

1.3 INDIVIDUAL INCOME TAX

1.3.1 Overview

Hawaii's individual income tax (IIT) generally follows the federal definitions for determining net taxable income, but has its own exemptions, tax credits, and tax rates. For taxable years beginning after December 31, 2017, the IIT has twelve tax brackets, with rates ranging from 1.40% to 11.00%.

1.3.2 Revenue

Collections of IIT increased in FY 2022 due to a healthy increase in the tax base. Net IIT collections in FY 2022 were \$3.76 billion, up by 12.1% from the \$3.36 billion collected in FY 2021. The biggest part of IIT collections is taxes withheld on employee wages. In FY 2022, withholding tax collections were \$2.39 billion, an increase of 10.6% over the \$2.16 billion withheld in FY 2021. Total IIT refunds in FY 2022 were \$608.3 million, up from \$555.7 million in FY 2021. Chart 1.5 shows total collections of the IIT, along with wage withholding, payments with returns, estimated taxes, and refunds, for FY 2013 through FY 2022. Table 1.2 shows the figures for total collections of the IIT, broken down by its components, in FY 2021 and FY 2022.

Due to the pandemic and to changes in the timing for net income tax receipts, a total of \$281.6 million worth of delayed IIT revenues for tax year 2019 were allocated from FY 2020 to FY 2021. Thus, the year over year comparison of tax collections is misleading without taking into account the shifted tax receipts. If the reported IIT collections were adjusted for the deferred tax payments, the tax collections for FY 2021 would have been \$3.07 billion, a 16.4% increase from FY 2020, and the tax collections for FY 2022 would have increased by 22.4% from FY 2021.

1.3.3 Recent Legislation

Act 114, SLH 2022, makes the State Earned Income Tax Credit (EITC) refundable and permanent. The State EITC becomes refundable beginning with the 2023 tax year. All carryforwards of nonrefundable EITC expire at the end of the 2024 tax year. The Act also adds new incremental increases to both minimum wages and tip credits beginning on October 1, 2022, and increasing through January 1, 2028. The Act became effective on June 27, 2022.

Act 115, SLH 2022, provides a tax refund of either \$100 or \$300, depending on federal adjusted gross income, per qualifying exemption to which a resident taxpayer is entitled. The Act also makes deposits to the Emergency and Budget Reserve Fund and Pension Accumulation Fund, pursuant to article VII, section 6, of the Hawaii State Constitution. Funding for the deposits is appropriated out of the general revenues of the State in an amount as may be necessary for FY 2023. The Act became effective on July 1, 2022.

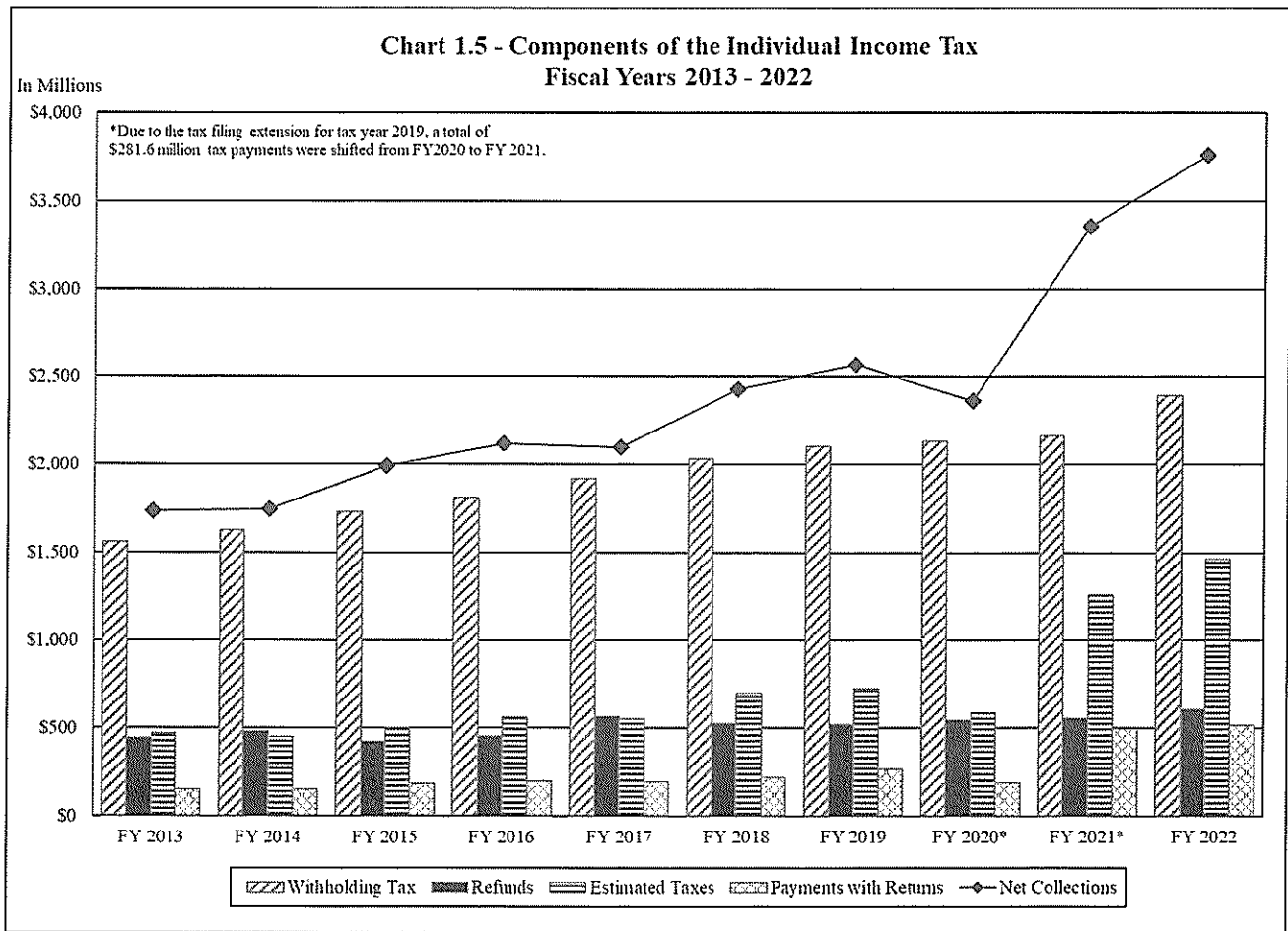


TABLE 1.2 - TAXES PAID BY INDIVIDUALS ¹
(In Thousands of Dollars)

	FY 2022	FY 2021	Difference	
			Amount	% Change
Declaration of Estimated Taxes	\$ 1,463,867	\$ 1,258,773	\$ 205,094	16.3
Payment with Return	514,956	491,227	23,729	4.8
Withholding Tax on Wages	2,390,776	2,161,103	229,673	10.6
Subtotal	\$ 4,369,598	\$ 3,911,103	\$ 458,496	11.7
Refunds	608,329	555,651	52,678	9.5
NET	\$ 3,761,269	\$ 3,355,452	\$ 405,818	12.1

¹ Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

NOTE: Due to rounding, details may not add to totals.

1.4 CORPORATE INCOME TAX

1.4.1 Overview

Corporate income tax (CIT) collections are highly cyclical, and they are a small part of Hawaii's total tax collections. Hawaii's CIT has three tax brackets. The brackets and the corresponding tax rates are as follows: 4.4% on taxable income up to \$25,000; 5.4% on taxable income over \$25,000 but not over \$100,000; and 6.4% on taxable income over \$100,000. The tax rate for corporate capital gains is 4.0%.

1.4.2 Revenue

Net CIT collections totaled \$256.0 million in FY 2022, an increase of 37.2% from the previous year's total of \$186.7 million. The large increase in CIT collections was partly due to the rise of 21.6% in Corporate estimated taxes, increasing from \$268.5 million in FY 2021 to \$326.4 million in FY 2022. In FY 2022, the CIT accounted for just 2.4% of total tax collections. Chart 1.6 shows total collections of the CIT, broken down by its components, for FY 2013 through FY 2022. Table 1.3 shows data on collections of the CIT for FY 2021 and FY 2022.

Because of the pandemic and change in net income tax filing deadline, a total of \$26.7 million worth of delayed CIT revenues for tax year 2019 were shifted from FY 2020 to FY 2021. Thus, the year over year comparison of tax collections is misleading without adjustments. If the reported CIT collections were adjusted for the deferred tax payments, the tax collections for FY 2021 would have been \$160.0 million, a 355.6% increase from FY 2020, and the tax collections for FY 2022 would have increased by 60.0% from FY 2021.

1.4.3 Recent Legislation

Act 139, SLH 2022, extends the sunset date for the refundable Important Agricultural Land Qualified Agricultural Cost Tax Credit from January 1, 2022 through December 31, 2030. The Act became effective on July 1, 2022, and applies to taxable years beginning after December 31, 2021.

Act 216, SLH 2022, reinstates the nonrefundable Renewable Fuels Production Tax Credit (RFPTC). The Act allows the RFPTC to be refunded under certain conditions. The Act also amends the annual aggregate cap on the tax credit claimed from \$3 million to \$20 million. The Act became effective on June 27, 2022, and applies to taxable years beginning after December 31, 2021.

Act 217, SLH 2022, makes several changes to the Motion Picture, Digital Media, and Film Production Income Tax Credit (film credit). Beginning January 1, 2023, The Act requires every person making payment to a loan-out company and claiming the film credit to withhold and remit to the Department of Taxation (Department) a portion of all payments to the loan-out company. It also increases the amount of the tax credit by two percent in each category of qualified costs. The Act further amends the requirements to claim the tax credit, including reducing the amount of qualified production costs from \$200,000 to \$100,000, and removing the requirement for productions to submit a verification review by a qualified certified public accountant when applying for the tax credit. The cap on total tax credits claimed per qualified production is raised from \$15 million to \$17 million, and the period during which excess income tax credits may be claimed is extended from December 31, 2025, to December 31, 2032.

The Act also changes requirements for the Department of Business, Economic Development, and Tourism (DBEDT). DBEDT’s annual report to the Legislature on film credit claims and expenditures must now include the dollar amount claimed, name of the company, and name of the qualified production of the taxpayers claiming the credit. There is also a new seven-month time limit for DBEDT to issue response letters to claimant taxpayers. Additionally, taxpayers are now required to submit a fee of 0.2 percent of the tax credit claimed to DBEDT, which shall be deposited into the Hawaii Film and Creative Industries Development Special Fund. The Act also provides clarification of the definition of "qualified production costs" to note that it “does not include any costs funded by any grant, forgivable loan, or other amounts not included in gross income[.]”

Finally, the Act authorizes and appropriates funds for the Department to establish 2 full-time equivalent (FTE) tax auditor positions and for DBEDT to establish 1 FTE program specialist position to accomplish the many changes enacted by this Act. The portions of the Act relating to the creation of FTE positions and appropriations became effective on July 1, 2022, with the changes to the film credit and other tax provisions taking effect on January 1, 2023.

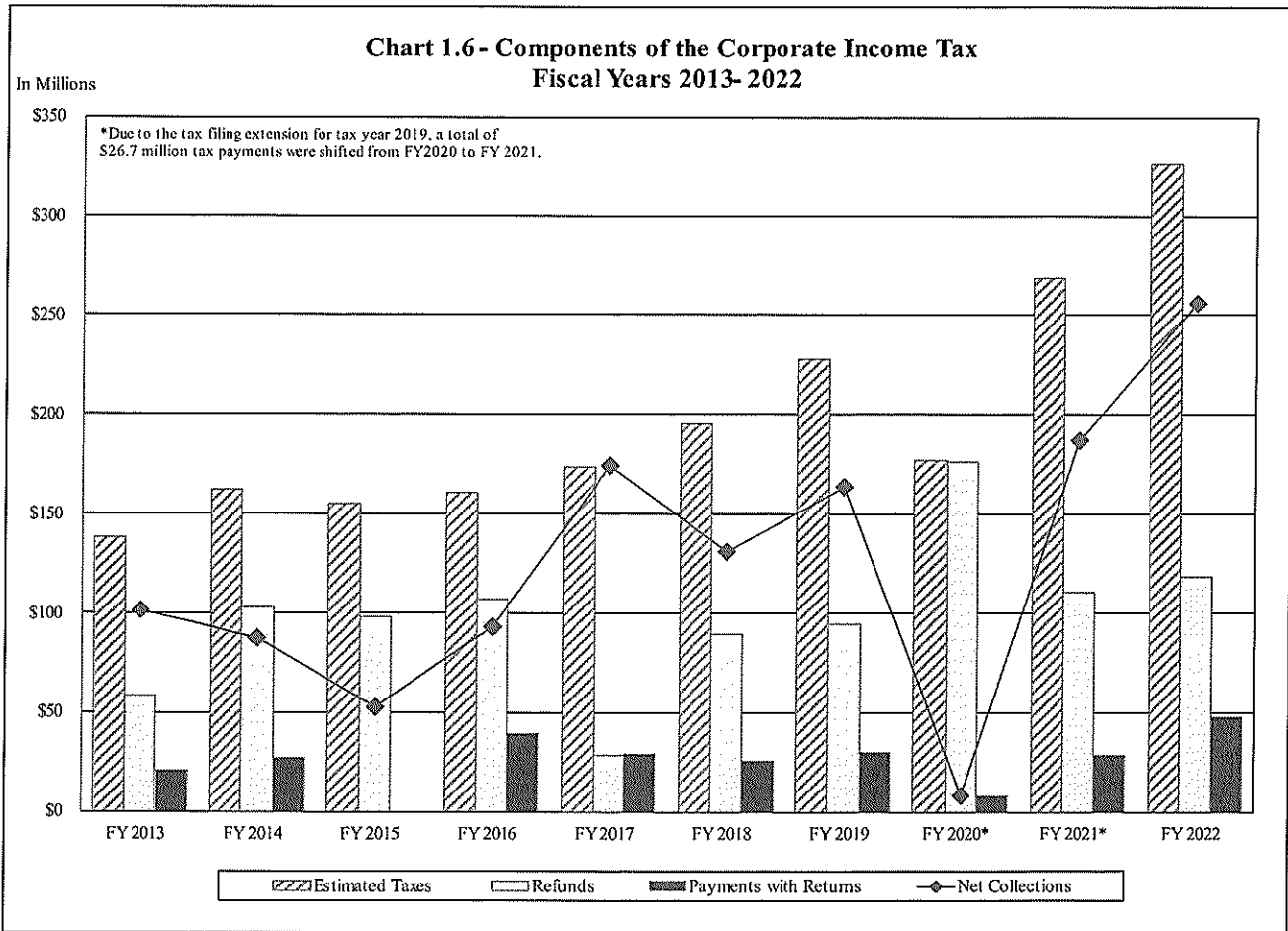


TABLE 1.3 - TAXES PAID BY CORPORATIONS ¹
(In Thousands of Dollars)

	FY 2022	FY 2021	Difference	
			Amount	% Change
Declaration of Estimated Taxes	\$ 326,416	\$ 268,539	\$ 57,878	21.6
Payment with Return	47,516	28,768	18,748	65.2
Subtotal	\$ 373,932	\$ 297,307	\$ 76,625	25.8
Refunds	117,899	110,627	7,272	6.6
NET	\$ 256,033	\$ 186,680	\$ 69,353	37.2

¹ Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

NOTE: Due to rounding, details may not add to totals.

1.5 TRANSIENT ACCOMMODATIONS TAX

1.5.1 Overview

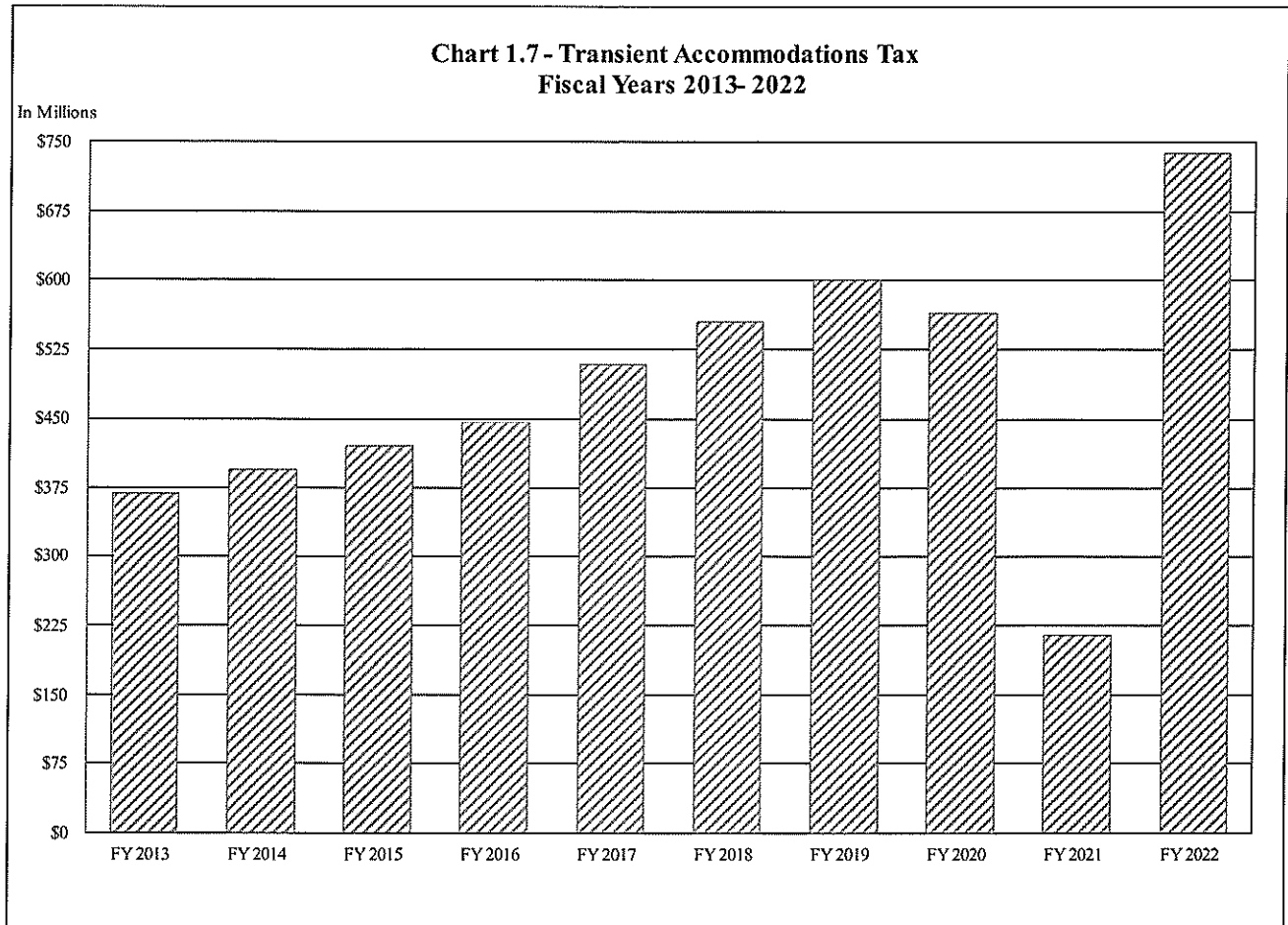
The transient accommodation tax (TAT) is the third largest source of tax revenues in the state. TAT is levied on the furnishing of a room, apartment, suite, or the like, which is customarily occupied by the transient for less than 180 consecutive days. Starting January 1, 2018 through December 31, 2030, the TAT rate was increased from 9.25% to 10.25%. The registration fee for transient accommodations operators is a one-time fee of \$5 for each registration consisting of 1 to 5 units and \$15 for each registration of 6 or more units. The one-time registration fee for timeshare occupancy units is \$15 for each time share plan. For a transient accommodations broker, travel agency or tour packager that arranges to provide transient accommodations at noncommissioned negotiated contract rates, there is a one-time registration fee of \$15.

1.5.2 Revenue

TAT collections increased significantly in FY 2022 due to the end of the State of Hawaii Safe Travel restrictions on March 25, 2022. TAT collections totaled \$738.7 million for FY 2022, an increase of 243.1% from the \$215.3 million collected in FY 2021. In FY 2022, collections from the TAT were distributed as follows: \$1.5 million went to the Turtle Bay Conservation Easement Special Fund; \$11.0 million went to the Convention Center Enterprise Special Fund; \$0.0 million went to the Tourism Emergency Special Fund; \$3.0 million went to the Special Land and Development Fund; \$70.0 million went to the Mass Transit Fund; \$7.7 million went to the Tax Administration Fund; and the remainder (\$645.5 million) went to the General Fund. Chart 1.7 shows collections of the TAT for FY 2013 through FY 2022. Chart 1.8 shows the allocations of the tax among the various funds. Table 1.4 shows TAT collections and allocations in FY 2021 and FY 2022.

1.5.3 Recent Legislation

Act 1, 1st SSLH 2021, authorizes the counties to establish and administer their own TAT at a maximum rate of 3%. The Act reduces the allocation to the convention center special fund from \$16.5 million to \$11 million. The Act also eliminates the \$79 million allocation to the tourism special fund and the \$103 million allocation to the counties. The Act became effective on July 1, 2021.



**Chart 1.8 - Transient Accommodations Tax Distributions
Fiscal Years 2013- 2022**

In Millions

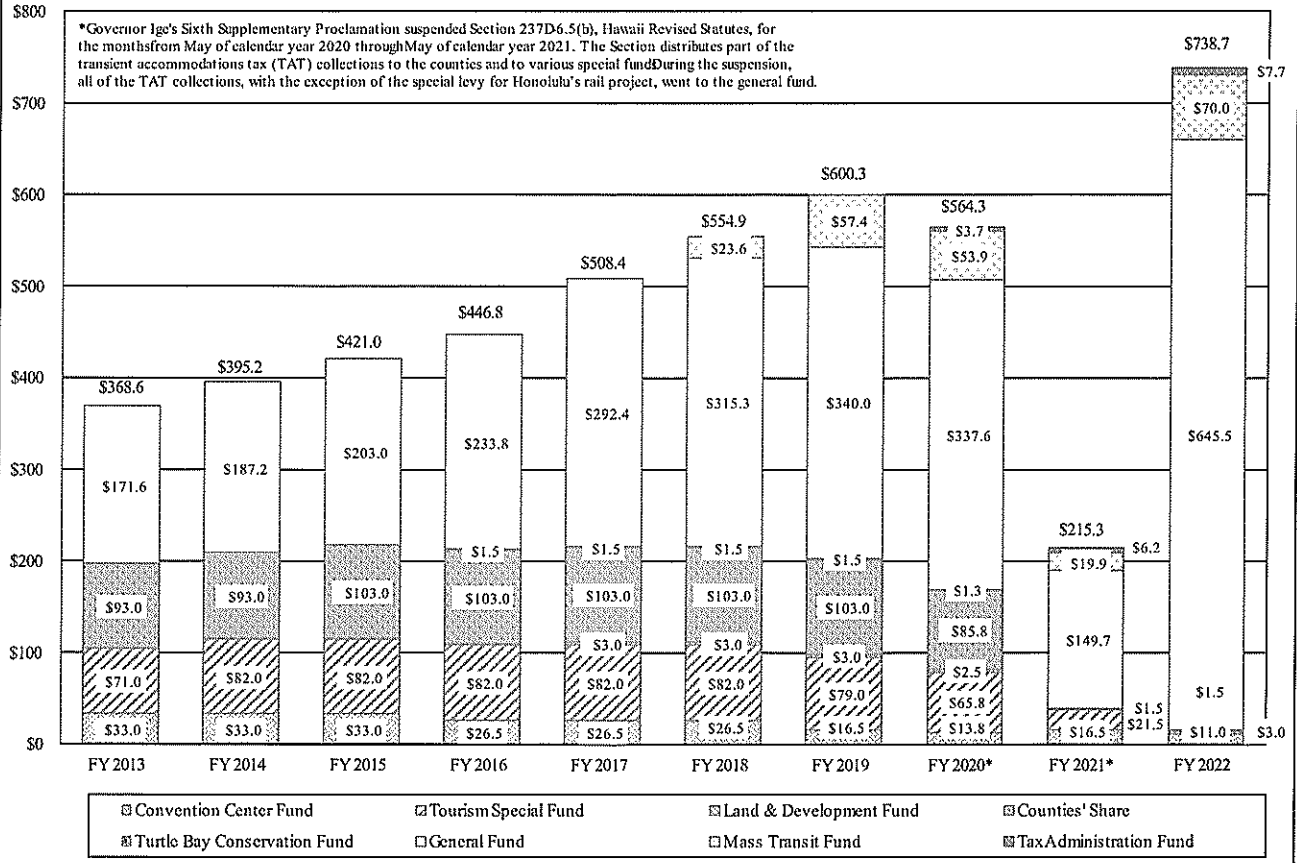


TABLE 1.4 - TRANSIENT ACCOMMODATIONS TAX ²
(In Thousands of Dollars)

	FY 2022	FY 2021	Difference	
			Amount	% Change
Collection				
Trans. Accom./Time Share Occ. Tax	\$ 738,634	\$ 215,293	\$ 523,341	243.1
Trans. Accom./Time Share Occ. Fees	29	23	5	23.5
Total	\$ 738,663	\$ 215,316	\$ 523,346	243.1
Distribution ¹				
Turtle Bay Special Fund ³	\$ 1,500	\$ 1,500	\$ (1,500)	-
Convention Center Fund ³	11,000	16,500	(5,500)	(33.3)
Tourism Special Fund ³	-	21,505	(21,505)	(100.0)
Tourism Emergency Special Fund	-	-	-	n/m
Counties Share ³	-	-	-	n/m
Land & Development Fund ³	3,000	-	-	n/m
Mass Transit Fund	69,992	19,935	50,057	251.1
Tax Administration Fund	7,713	6,207	1,506	24.3
General Fund	645,458	149,669	495,788	331.3
Total	\$ 738,663	\$ 215,316	\$ 518,846	243.1

¹ For details on distribution see section 237D-6.5, HRS.

² Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

³ Governor Ige's Sixth Supplementary Proclamation suspended Section 237D-6.5(b), Hawaii Revised Statutes, for the months from May of calendar year 2020 through May of calendar year 2021. The Section distributes part of the transient accommodations tax (TAT) collections to the counties and to various special funds. During the suspension, all of the TAT collections, with the exception of the special levy for Honolulu's rail project, went to the general fund.

NOTE: Due to rounding, details may not add to totals.

n/m - not meaningful.

1.6 FUEL AND ENVIRONMENTAL RESPONSE TAXES

1.6.1 Overview

The State and county fuel taxes are imposed on the distributors. The State Legislature sets the State fuel tax rates, whereas county councils set the county rates. There is also an environmental response tax (officially renamed as the "environmental response, energy and food security tax" by Act 73, SLH 2010) that is levied on each barrel of petroleum products and each million British thermal units (MMBtu) of non-petroleum fossil fuels sold by a distributor to any retail dealer or end user. The effective rates for the fuel taxes and for the environmental response tax are shown on page 17. There is a \$5 liquid fuel retail dealer permit that must be renewed by December 31 each year.

1.6.2 Revenue

For FY 2022, fuel tax collections increased due to the recovery of economic activity. Fuel tax collections amounted to \$170.6 million in FY 2022, an increase of 14.7% from the \$148.7 million collected in FY 2021. Total taxable fuel consumption increased from 711.5 million gallons in FY 2021 to 964.3 million gallons in FY 2022. The biggest consumption of taxable fuel was gasoline (422.3 million gallons). The second biggest consumption was aviation fuel (311.4 million gallons). Together, gasoline and aviation fuel accounted for 76.1% of the total consumption of taxable fuel in FY 2022.

Collections of the environmental response tax amounted to \$25.9 million in FY 2022, an increase of 11.1% from the \$23.3 million collected in FY 2021. The environmental response tax rate on each barrel of petroleum product was \$1.05. The tax was levied on 23.7 million barrels of petroleum in FY 2022, up from 21.4 million barrels in FY 2021. The environmental response tax rate on each MMBtu of non-petroleum fossil fuels was nineteen cents. The tax was levied on 5.4 million MMBtu of non-petroleum fossil fuels in FY 2022, up from 4.7 million MMBtu in FY 2021. Chart 1.9 shows collections of the fuel taxes and the gallons consumed of the various fuel types, for FY 2013 through FY 2022. Data for taxable gallons consumed in FY 2021 and FY 2022 are given in Table 1.5.

The revenues from fuel taxes are distributed to several special funds. One percent of the fuel taxes paid on liquid fuel, not including aviation fuel, are deposited into the Boating Special Fund. Fuel taxes paid on sales of aviation fuel are deposited into the Airport Revenue Fund. Remaining revenues from the State fuel taxes are deposited into the State Highway Fund, whereas remaining revenues from county fuel taxes are deposited into the counties' highway funds.

Revenues from the environmental response tax were distributed as follows in FY 2022. For each barrel taxed at \$1.05: five cents went to the Environmental Response Revolving Fund administered by the Department of Health for oil spill prevention and remediation programs; four cents went to the Energy Security Special Fund administered by the Department of Business, Economic Development, and Tourism to support the Hawaii clean energy initiative program; eight cents went to the Energy Systems Development Special Fund; three cents went to the Electric Vehicle Charging System Special Fund and the remainder (eighty-five cents) went to the General Fund. For each MMBtu taxed at nineteen cents, one cent went to the Environmental Response Revolving Fund, three cents went to the Energy Security Special Fund, three cents went to the Agricultural Development and Food Security Special Fund, two cents went to the Energy Systems Development Special Fund, and the remainder (ten cents) went to the General Fund.

Table 1.6 shows how the fuel taxes and the environmental response tax were allocated in FY 2021 and FY 2022. The table also shows allocations of motor vehicle taxes and fees, and rental motor vehicle taxes to the State Highway Fund.

1.6.3 Recent Legislation

Act 75, SLH 2021, allocates three cents of the tax on each barrel to the Electric Vehicle Charging System (EVCS) Subaccount of the Public Utilities Commission Special Fund. The Act also reduces the distribution to the Energy Security Special Fund from five cents to four cents and reduces the distribution to the Energy Systems Development Special Fund from ten cents to eight cents. The Act became effective on July 1, 2021.

Act 9, 1st SSLH 2021, repeals the distribution of the environmental response tax to the Agriculture Development and Food Security Fund. The Act became effective on July 1, 2021.

Act 241, SLH 2022, establishes the Zero-Emission Vehicle Fueling System Rebate Program. Under the rebate program, an eligible entity may claim a rebate of \$200,000 for the installation or upgrade of a hydrogen fueling system that stores or dispenses only renewable hydrogen. The Act also establishes the Hydrogen Fueling System Subaccount within the Public Utilities Commission Special Fund. The Act allocates three cents of the tax on each barrel to the Hydrogen Fueling System Subaccount. The Act reduces the distribution to the Energy Systems Development Special Fund from eight cents to five cents. The Act became effective on July 1, 2022.

SCHEDULE OF FUEL TAX RATES PER GALLON ⁴
(Effective July 1, 2020)

TYPE OF FUEL	STATE TAX	COUNTY TAX	TOTAL TAX
GASOLINE AND DIESEL OIL (HIGHWAY):			
City & County of Honolulu	16.0 ¢	16.5 ¢	32.5 ¢
County of Maui ³	16.0	24.0	40.0
County of Hawaii	16.0	23.0	39.0
County of Kauai	16.0	17.0	33.0
LIQUEFIED PETROLEUM GAS (HIGHWAY):			
City & County of Honolulu	5.2 ¢	5.4 ¢	10.6 ¢
County of Maui	5.2	11.5	16.7
County of Hawaii	5.2	7.6	12.8
County of Kauai	5.2	5.6	10.8
ETHANOL (HIGHWAY):			
City & County of Honolulu	2.4 ¢	2.4 ¢	4.8 ¢
County of Maui	2.4	11.5	13.9
County of Hawaii	2.4	3.3	5.7
County of Kauai	2.4	2.5	4.9
METHANOL (HIGHWAY):			
City & County of Honolulu	1.9 ¢	1.8 ¢	3.7 ¢
County of Maui	1.9	11.5	13.4
County of Hawaii	1.9	2.5	4.4
County of Kauai	1.9	1.9	3.8
BIODIESEL (HIGHWAY):			
City & County of Honolulu	4.0 ¢	8.3 ¢	12.3 ¢
County of Maui	4.0	0.0	4.0
County of Hawaii	4.0	0.0	4.0
County of Kauai	4.0	0.0	4.0
NAPHTHA (Power-Generating Facility): All Counties	2.0 ¢	0.0 ¢	2.0 ¢
COMPRESSED NATURAL GAS (HIGHWAY):			
City & County of Honolulu	4.0 ¢	8.2 ¢	12.2 ¢
County of Maui ³	4.0	11.9	15.9
County of Hawaii	4.0	11.4	15.4
County of Kauai	4.0	8.4	12.4
LIQUEFIED NATURAL GAS (HIGHWAY):			
City & County of Honolulu	4.0 ¢	8.2 ¢	12.2 ¢
County of Maui ³	4.0	11.9	15.9
County of Hawaii	4.0	11.4	15.4
County of Kauai	4.0	8.4	12.4
BIODIESEL BLEND (HIGHWAY):			
County of Maui	3.9 ¢	6.0 ¢	9.9 ¢
ENVIRONMENTAL RESPONSE, ENERGY, & FOOD SECURITY TAX			
All Counties, per barrel of petroleum products ¹	105.0 ¢	0.0 ¢	105.0 ¢
All Counties, per million BTU of fossil fuels ²	19.0	0.0	19.0

¹ Does not include aviation fuel.

² Does not include petroleum products. BTU = British thermal unit.

³ Effective July 1, 2020, pursuant to Maui County Resolution No. 20-82.

⁴ Gasoline used for agricultural equipment off highways, aviation fuel, and diesel oil used off highways are taxed by the State at 1 cent per gallon.

**Chart 1.9 - Fuel Tax and Trends in Fuel Consumption
Fiscal Years 2013- 2022**

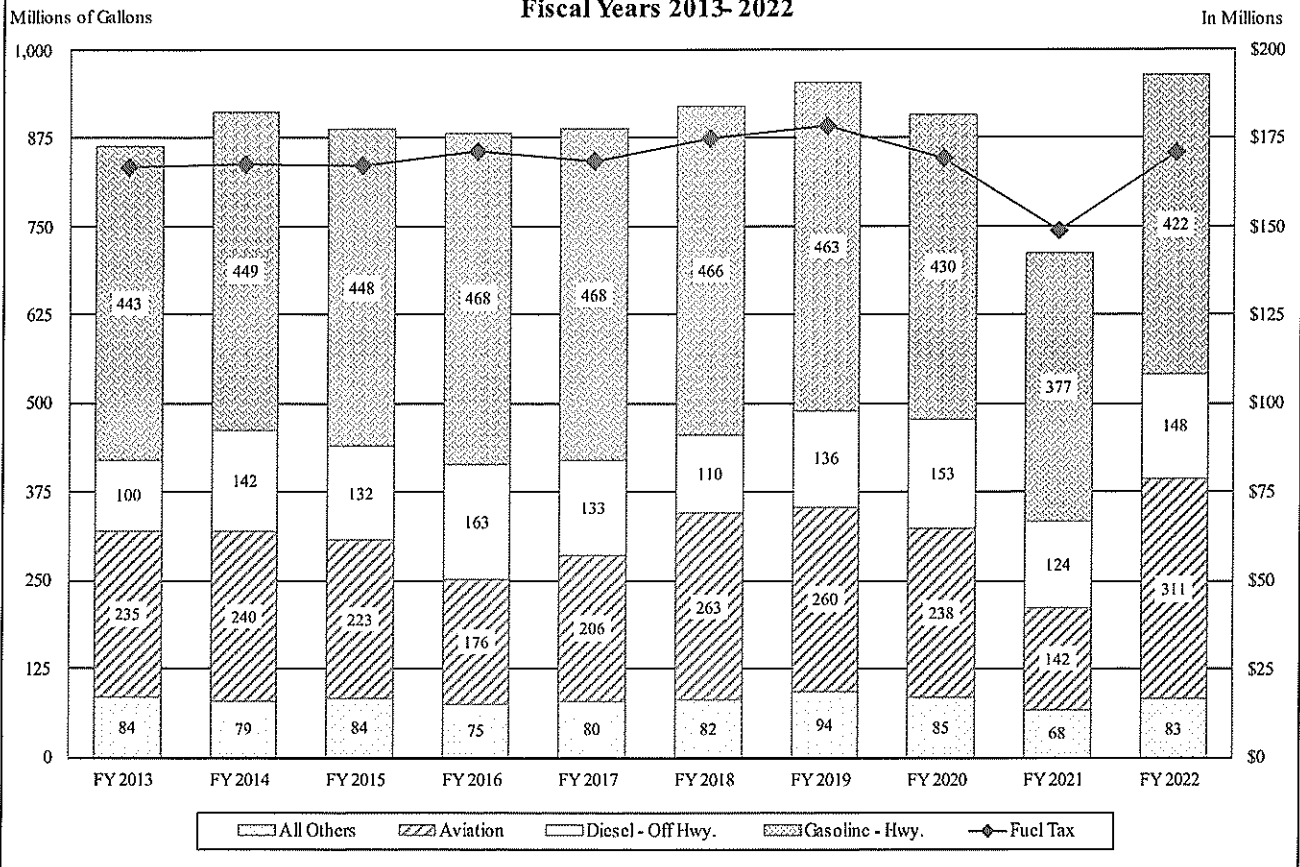


TABLE 1.5 - TAXABLE GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

	FY 2022	FY 2021	Difference	
			Amount	% Change
Gasoline	422,327	377,363	44,965	11.9
Diesel Oil - Off Highway	147,816	123,825	23,991	19.4
Diesel Oil - Highway	50,814	39,895	10,919	27.4
Liq. Pet. Gas - Highway	23	15	8	53.6
Small Boats - Gasoline	1,100	786	314	40.0
Small Boats - Diesel Oil	4,332	4,618	(286)	(6.2)
Aviation Fuel	311,432	142,130	169,302	119.1
Other Fuel ¹	26,450	22,892	3,558	15.5
Total Gallons	964,294	711,523	252,771	35.5
Environmental Response Tax				
Petroleum Products (Barrel) ²	23,739,083	21,390,515	2,348,568	11.0
Fossil Fuels (MMBtu) ³	5,383,257	4,671,398	711,859	15.2

¹ Other fuel includes ethanol, methanol, biodiesel, naphtha, compressed natural gas, and liquefied natural gas.

² Barrel = 42 U.S. gallons of petroleum products.

³ MMBtu = 1 million British thermal units.

NOTE: Due to rounding, details may not add to totals.

TABLE 1.6 - ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 2022 ¹	FY 2021 ²	Difference	
			Amount	% Change
STATE HIGHWAY FUND				
Gasoline	\$ 66,889	\$ 59,799	\$ 7,090	11.9
Diesel Oil - Off Highway	1,506	1,272	235	18.5
Diesel Oil - Highway	8,049	6,319	1,730	27.4
Liq. Pet. Gas - Highway	1	1	0 ⁴	53.6
Other Fuel ³	554	487	67	13.7
Subtotal	\$ 77,000	\$ 67,878	\$ 9,122	13.4
Motor Vehicle	142,806	138,513	4,292	3.1
Rental Vehicle	79,560	32,201	47,359	147.1
TOTAL	\$299,365	\$238,593	\$ 60,773	25.5
COUNTY HIGHWAY FUNDS				
City and County of Honolulu	\$ 45,383	\$ 41,226	\$ 4,157	10.1
County of Maui	16,434	13,549	2,884	21.3
County of Hawaii	21,547	18,763	2,783	14.8
County of Kauai	5,402	4,404	998	22.7
TOTAL	\$ 88,767	\$ 77,943	\$ 10,823	13.9
BOATING SPECIAL FUND	\$ 1,674	\$ 1,473	\$ 201	13.7
STATE AIRPORT FUND				
Aviation Fuel	\$ 3,114	\$ 1,421	\$ 1,693	119.1
ENVIRONMENTAL RESPONSE REVOLVING FUND	\$ 1,241	\$ 1,116	\$ 125	11.2
ENERGY SECURITY FUND	\$ 1,111	\$ 1,210	\$ (99)	(8.2)
ENERGY SYSTEMS DEVELOPMENT FUND	\$ 2,007	\$ 2,232	\$ (226)	(10.1)
AGRICULTURAL DEVELOPMENT AND FOOD SECURITY FUND	\$ -	\$ 3,349	\$ (3,349)	(100.0)
ELECTRIC VEHICLE CHARGING SYSTEM SUBACCOUNT	\$ 712	\$ -	\$ 712	n/m
GENERAL FUND	\$ 20,878	\$ 15,441	\$ 5,438	35.2

¹ Fuel tax collections were \$172,946 thousand for fiscal year 2022, of which \$2,391 thousand could not be distributed because the required tax returns were not available.

² Fuel tax collections were \$148,462 thousand for fiscal year 2021. A total of \$253 thousand in undistributed fuel taxes from previous years were included in several monthly reports in fiscal year 2021.

³ Other fuel includes ethanol, methanol, biodiesel, naphtha, compressed natural gas, and liquefied natural gas.

⁴ Less than \$500.

NOTE: Due to rounding, details may not add to totals.

n/m - not meaningful.

1.7 MOTOR VEHICLE AND RENTAL VEHICLE TAXES AND FEES

1.7.1 Overview

Motor vehicle and rental vehicle taxes consist of vehicle registration taxes and taxes on motor vehicle rentals, on tour vehicles, and on car-sharing services. The State levies an annual registration fee per vehicle and a tax based on vehicle weight. The State also levies the rental motor vehicle, tour vehicle, and car-sharing vehicle surcharge tax (RVST). The tax on rentals of motor vehicles is imposed on the lessor. The rate of the tax was increased from \$5.00 per day to \$5.50 per day after December 31, 2021, and before January 1, 2023. The tax on tour vehicles is imposed on the tour vehicle operator. The rate of the tax is \$66 per month for each tour vehicle in the 26-passenger seat and over category, and \$16 per month for each tour vehicle in the 8 to 25 passenger seat categories. The tax on motor vehicles that are rented or leased by a car-sharing organization is imposed on the car-sharing organization. The rate of the tax is 25 cents per half-hour. There is a one-time \$20 registration fee for those subject to any part of the RVST.

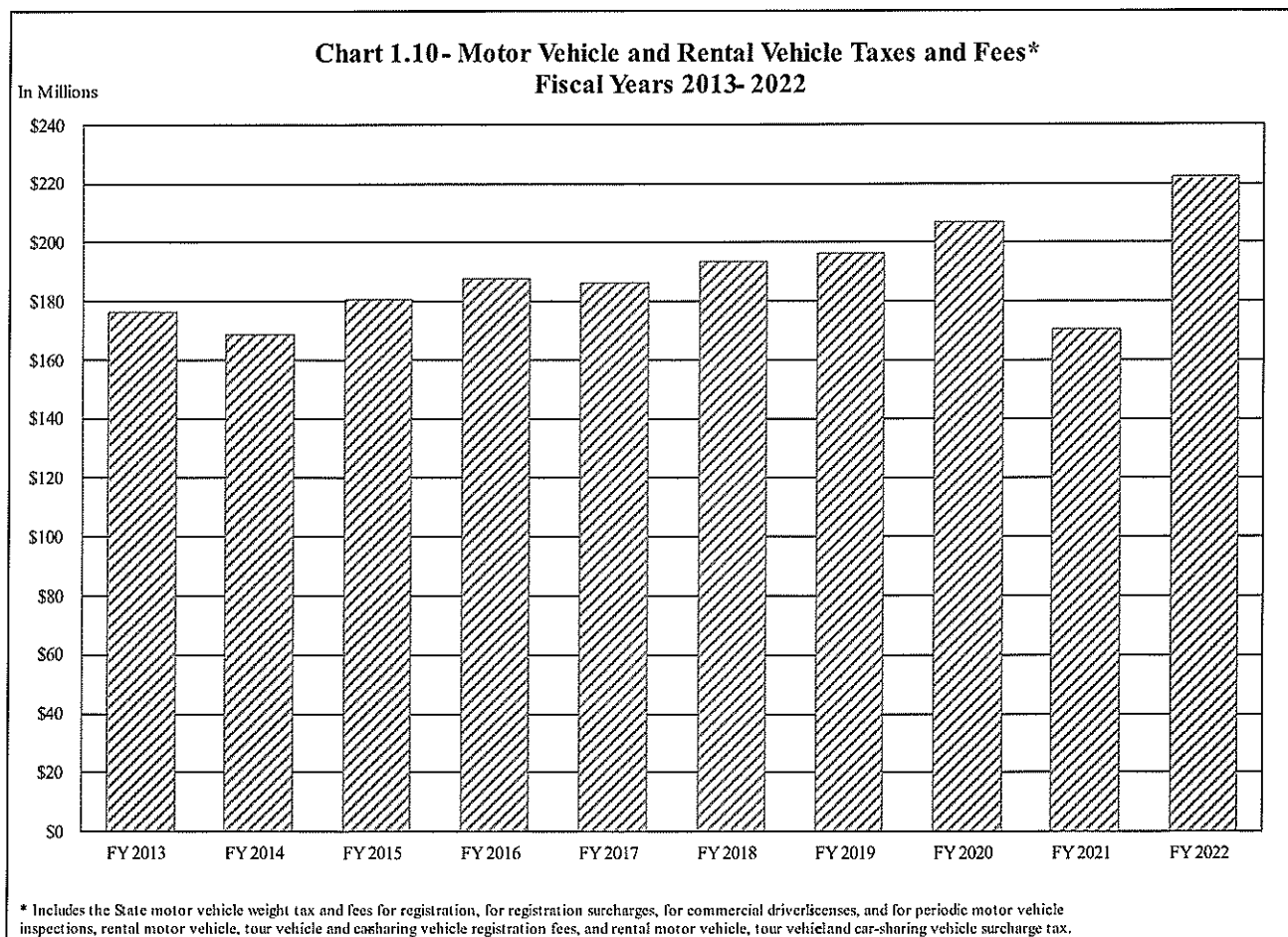
1.7.2 Revenue

Revenues from the State's motor vehicle taxes were up modestly in FY 2022, whereas revenues from the State's rental vehicle taxes were up markedly. The State's motor vehicle taxes and fees totaled \$142.8 million, up from \$138.5 million in FY 2021, an increase of 3.1%. The State's RVST amounted to \$79.6 million in FY 2022, up from \$32.2 million in FY 2021, an increase of 147.1%. The increase in RVST collection was caused by the continued recovery in tourism.

The Chart 1.10 shows the total motor vehicle taxes and fees for FY 2013 through FY 2022. The tax collections for FY 2013 reflect one month of collections at the higher tax rate due to a temporary increase in the rate of the RVST to \$7.50 per day, which was in place from July 1, 2011 through June 30, 2012, and the collections lag the liabilities incurred by one month,

1.7.3 Recent Legislation

Act 237, SLH 2021, increases the rate of the rental motor vehicle surcharge tax by 50 cents per year beginning January 1, 2022 through December 31, 2027. Act 237 also exempts the imposition of the surcharge tax for persons whose vehicles have been stolen and are unrecovered or will not be repaired due to a total loss. The Act is effective July 6, 2021, the date of its approval, without the Governor's signature.



1.8 CIGARETTE AND TOBACCO TAX

1.8.1. Overview

A range of tobacco taxes are levied on wholesalers and retail merchants of tobacco products. Wholesalers and dealers, as those terms are defined in section 245-1, Hawaii Revised Statutes (HRS), must pay an excise tax on the sale or use of tobacco products and on each cigarette or little cigar sold, used, or possessed. The tax per cigarette or little cigar was increased to 16 cents for sales on and after July 1, 2011. The excise tax on large cigars is 50% of the wholesale price and the excise tax on all other tobacco products (tobacco in any form except cigarettes, little cigars, or large cigars) is 70% of the wholesale price. A \$2.50 tobacco tax license is required and must be renewed before July 1 each year. Cigarette wholesalers and dealers are required to affix a stamp to each individual cigarette package as proof that the tax has been paid. Every retailer engaged in the retail sale of cigarettes and other tobacco products is required to obtain a \$20 retail tobacco permit that must be renewed before December 1 each year.

1.8.2 Revenue

Collections from the cigarette and tobacco tax were down in FY 2022. Collections of the cigarette and tobacco tax (including tobacco licenses) totaled \$96.9 million in FY 2022, down from \$108.5 million in FY 2021, a decrease of 10.7%. Chart 1.11 shows the total collections of the tax for FY 2013 through FY 2022. The 16 cent tax per cigarette was distributed as follows in FY 2022: 2.000 cents went to the Hawaii Cancer Research Special Fund, 1.125 cents went to the Trauma System Special Fund, 1.250 cents went to the Community Health Centers Special Fund, and 1.250 cents went to the Emergency Medical Services Special Fund. Additionally, a total of \$1.4 million went to the Cigarette Stamp Administrative Fund and the Cigarette and Stamp Enforcement Fund. The remainder of the cigarette and tobacco tax went to the General Fund. Table 1.7 shows collections of the tobacco taxes and how the revenues were allocated in FY 2021 and FY 2022.

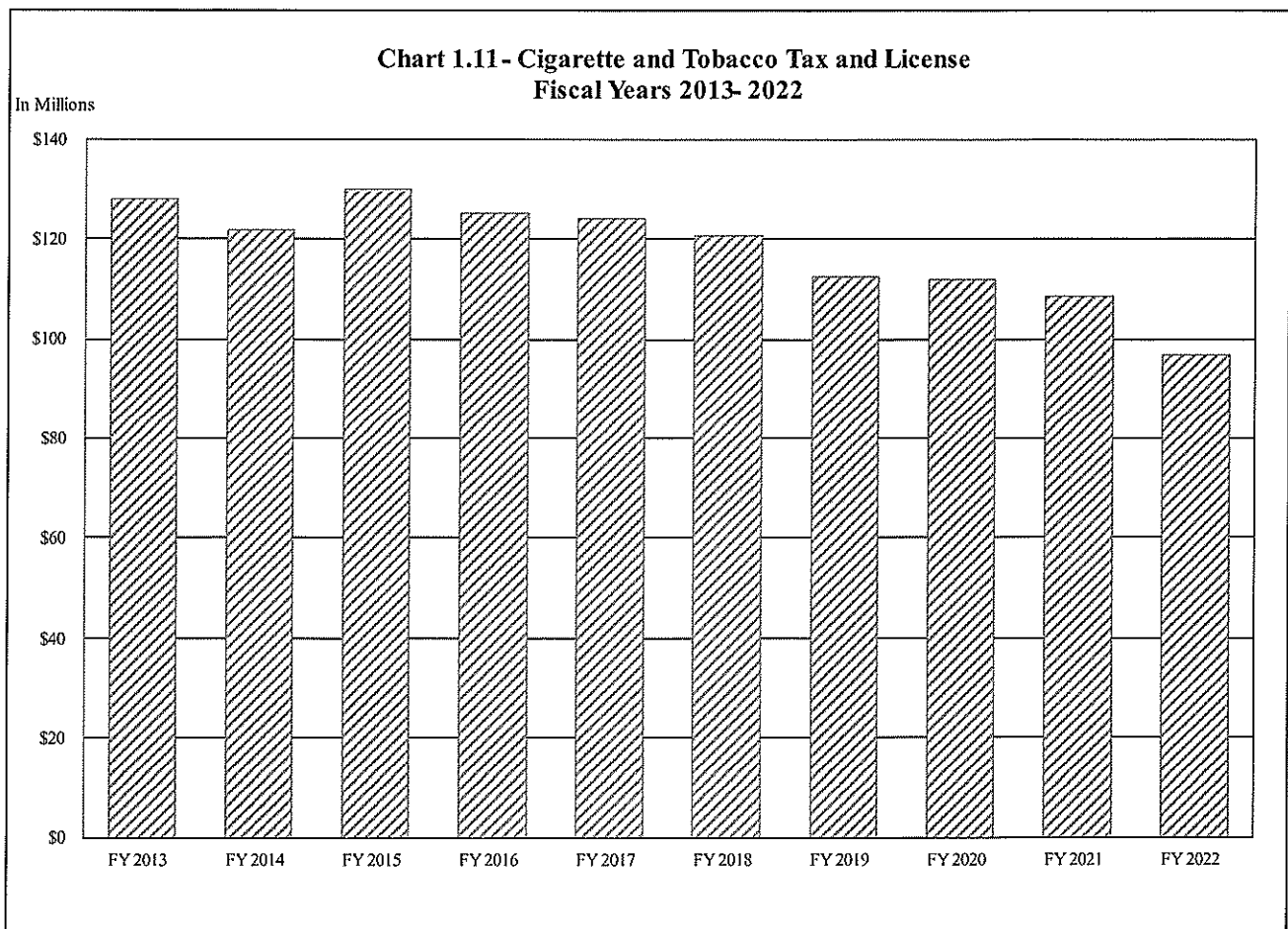


TABLE 1.7 - CIGARETTE AND TOBACCO TAX ²
(In Thousands of Dollars)

	FY 2022	FY 2021	Difference	
			Amount	% Change
Collection				
Tobacco and Licenses	\$ 96,863	\$ 108,454	\$(11,591)	(10.7)
Distribution ¹				
Hawaii Cancer Research Fund	\$ 10,583	\$ 12,110	\$ (1,527)	(12.6)
Trauma System Fund	5,953	6,812	(859)	(12.6)
Emergency Medical Services Fund	6,615	7,569	(954)	(12.6)
Community Health Centers Fund	6,615	7,569	(954)	(12.6)
Cigarette Stamp Administrative and Enforcement Funds	1,439	1,647	(208)	(12.6)
Tax Administration Fund	-	-	-	n/m
General Fund	65,658	72,747	(7,089)	(9.7)
Total	\$ 96,863	\$ 108,454	\$(11,591)	(10.7)

¹ Details on distributions of the revenues are given in section 245-15, HRS.

² Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

NOTE: Due to rounding, details may not add to totals.

n/m - not meaningful.

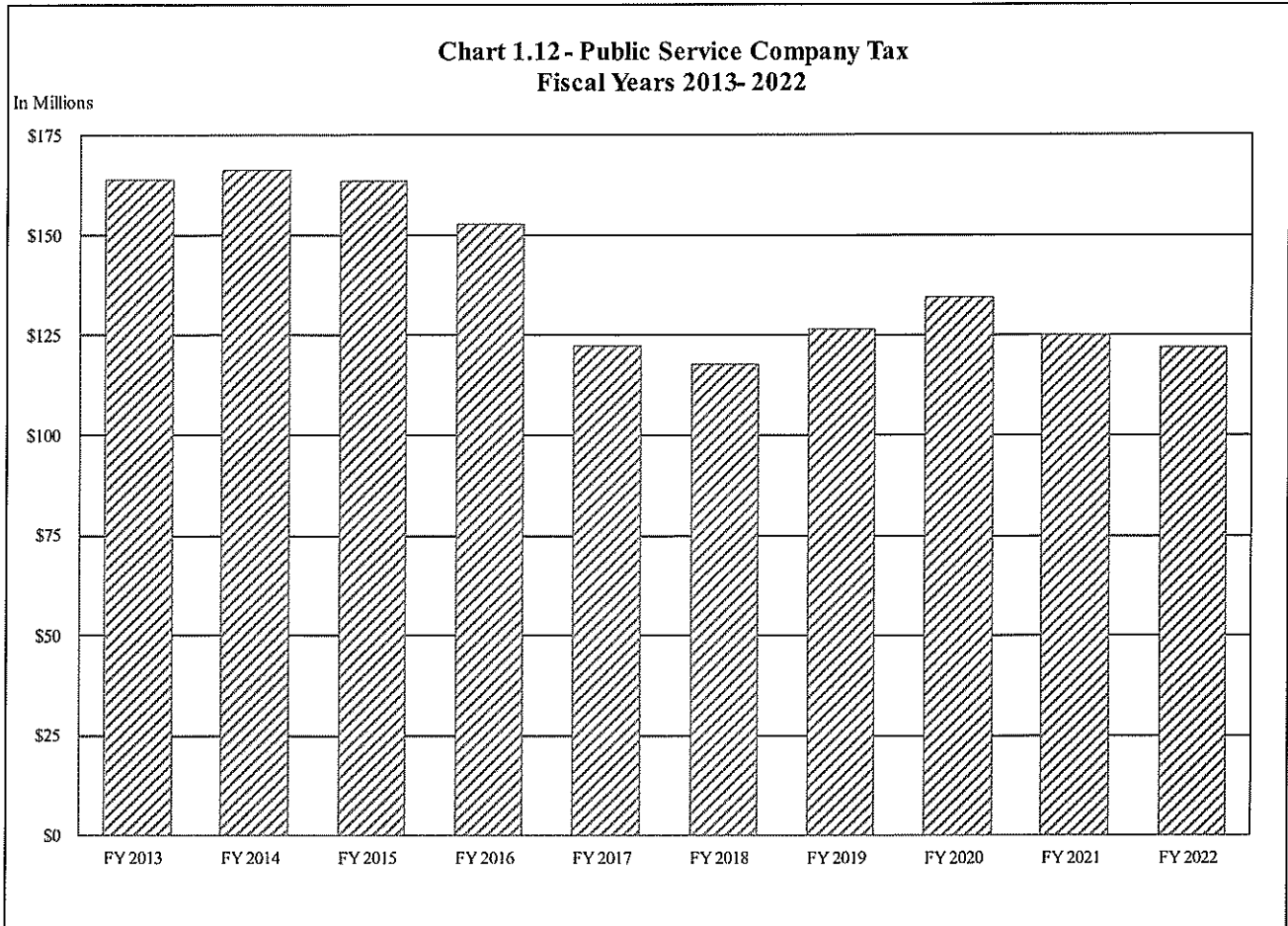
1.9 PUBLIC SERVICE COMPANY TAX

1.9.1 Overview

The public service company (PSC) tax is levied on public utility businesses in lieu of all taxes except income taxes, vehicular taxes imposed under chapter 249, HRS, the franchise tax on public utilities imposed under chapter 240, HRS, and the use tax imposed under chapter 238, HRS. Generally, the tax is applied to gross income from the business of public utilities for the preceding calendar year. The tax rates on the PSC's range from 0.50% (levied on sales for resale) to 8.20%. For a public utility, only the first 4.0% is realized by the State; any excess over 4.0% is distributed to counties that provide a real property tax exemption for property used by the public utility in its business. For a carrier of passengers by land between points on a scheduled route, the gross income from passenger fares is taxed at 5.35%, all of which is realized by the State.

1.9.2 Revenue

PSC tax collections decreased slightly in FY 2022. The PSC tax yielded \$122.1 million in tax, penalty, and interest in FY 2022, a decrease of 2.5% from the \$125.2 million collected in FY 2021. All the revenues from the PSC tax are allocated to the General Fund. Chart 1.12 shows the total collections of the tax for FY 2013 through FY 2022.



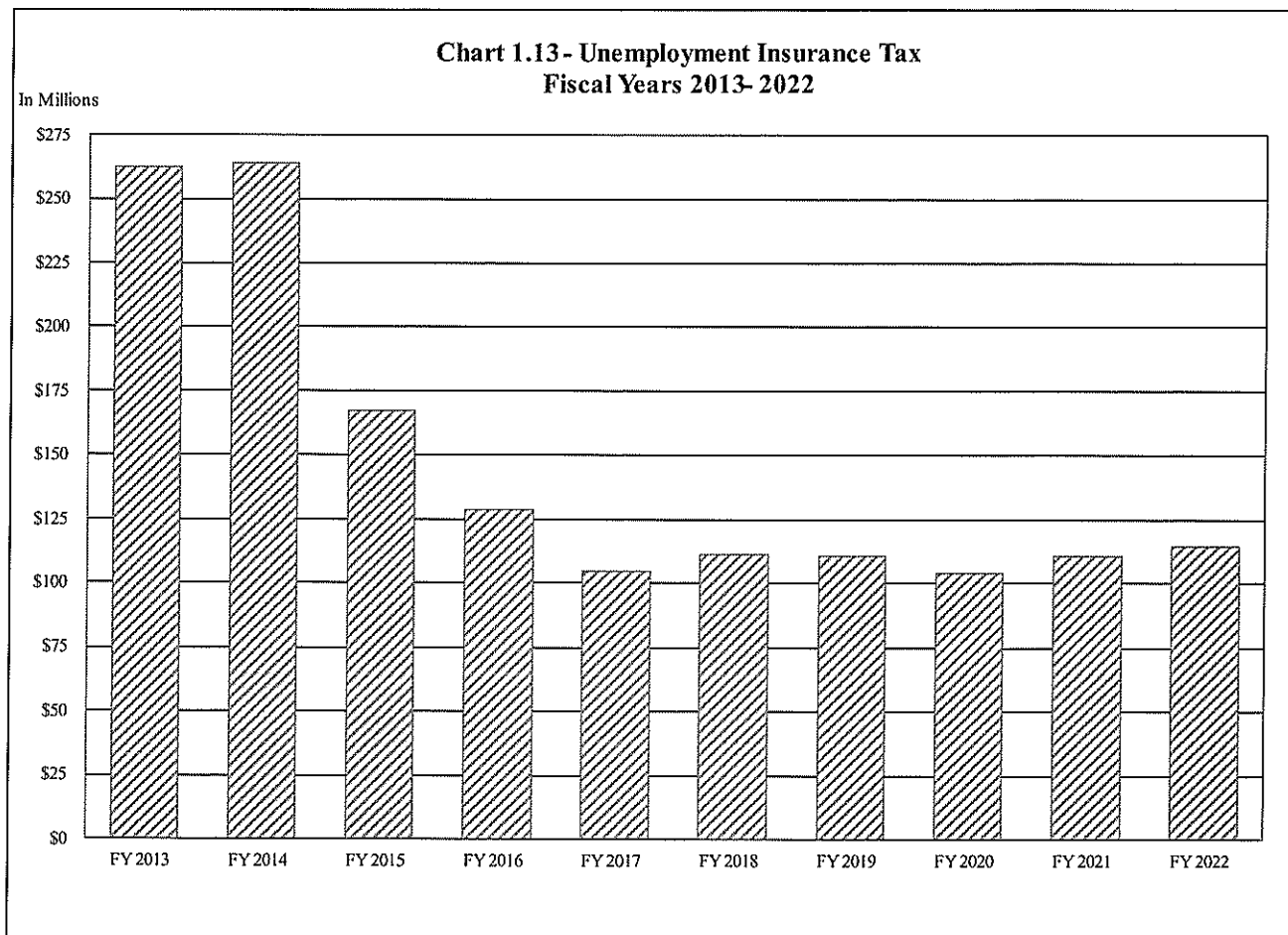
1.10 UNEMPLOYMENT INSURANCE TAX

1.10.1 Overview

The unemployment insurance (UI) tax (officially "employment security contributions") is imposed on wages paid by employers with one or more employees, with certain exemptions. The tax is experience rated, which means the UI tax rate for each year depends on the condition of the UI Trust Fund. The tax base represents the state's average annual wages reported by employers contributing to the Unemployment Trust Fund. For FY 2022, the tax base ranged from \$47,400 in CY 2021 to \$51,600 in CY 2022 and the contribution rate for new employers was 3.0% in both CY 2021 and CY 2022. Revenues from the tax go to the Unemployment Trust Fund. The Department of Labor and Industrial Relations administers the UI tax, and the Department of Taxation collects the tax.

1.10.2 Revenue

Revenues from the UI tax increased in FY 2022. For FY 2022, revenue from the UI tax totaled \$114.4 million, up by 3.5% from \$110.6 million collected in FY 2021. Chart 1.13 shows collections of the UI tax for FY 2013 through FY 2022.



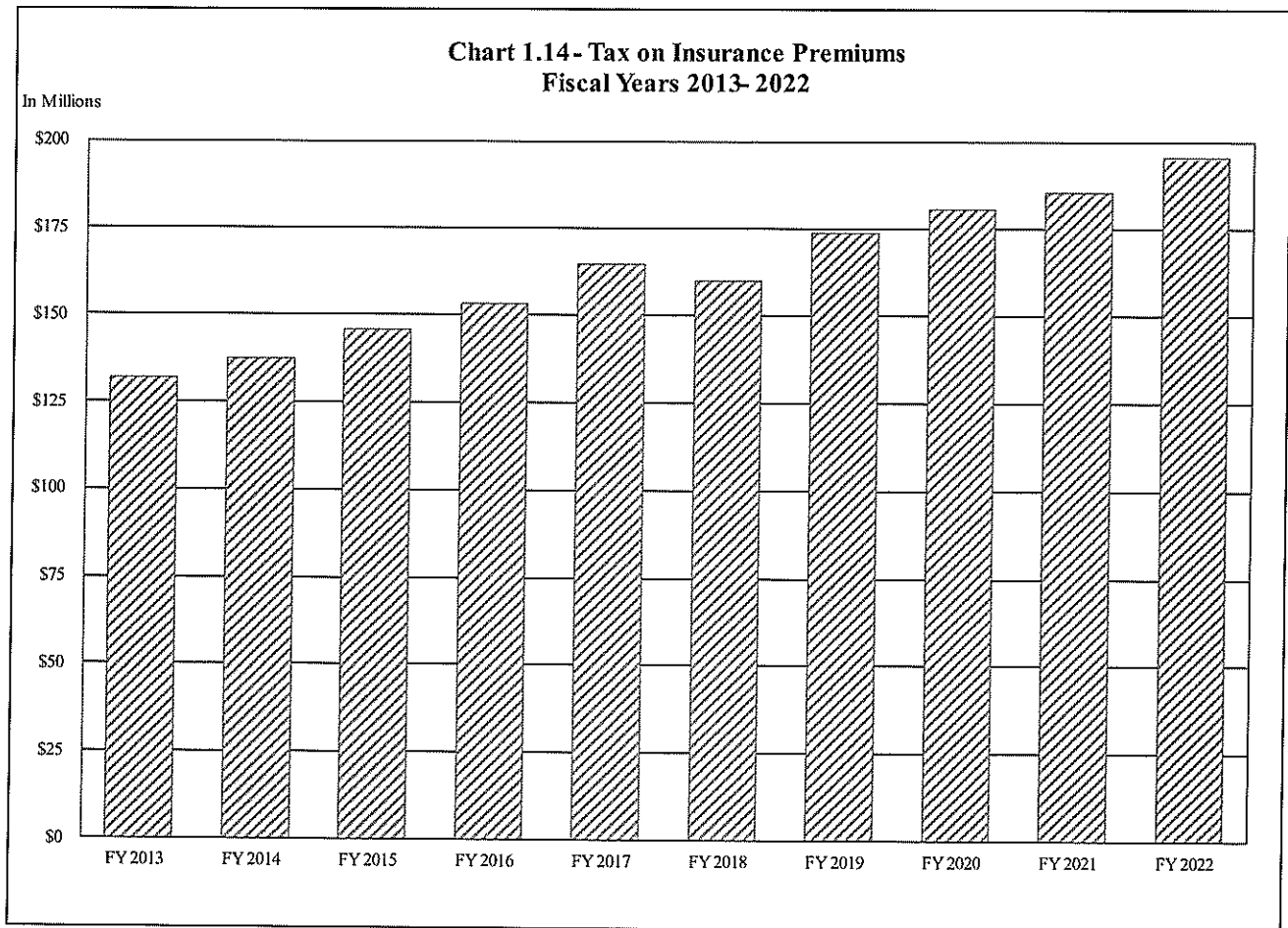
1.11 INSURANCE PREMIUM TAX

1.11.1 Overview

The tax on insurance premiums applies to insurance companies (underwriters) for premiums written in Hawaii. The insurance premium tax is in lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. The tax rates are as follows: (1) Life Insurance, 2.75%; (2) Surplus Lines, 4.68%; (3) Ocean Marine, 0.8775% on gross underwriting profit; and (4) Other Insurance, 4.265%. To insurers who qualify, there is a 1.0% tax credit to facilitate regulatory oversight. The tax is administered and collected by the Insurance Commissioner, who is required to report to the Director of Taxation the amounts of all taxes collected under chapter 431, HRS.

1.11.2 Revenue

Insurance premium tax collections increased in FY 2022, a total of \$195.6 million, compared to \$185.3 million in FY 2021, an increase of 5.5%. Chart 1.14 shows collections of the tax for FY 2013 through FY 2022.



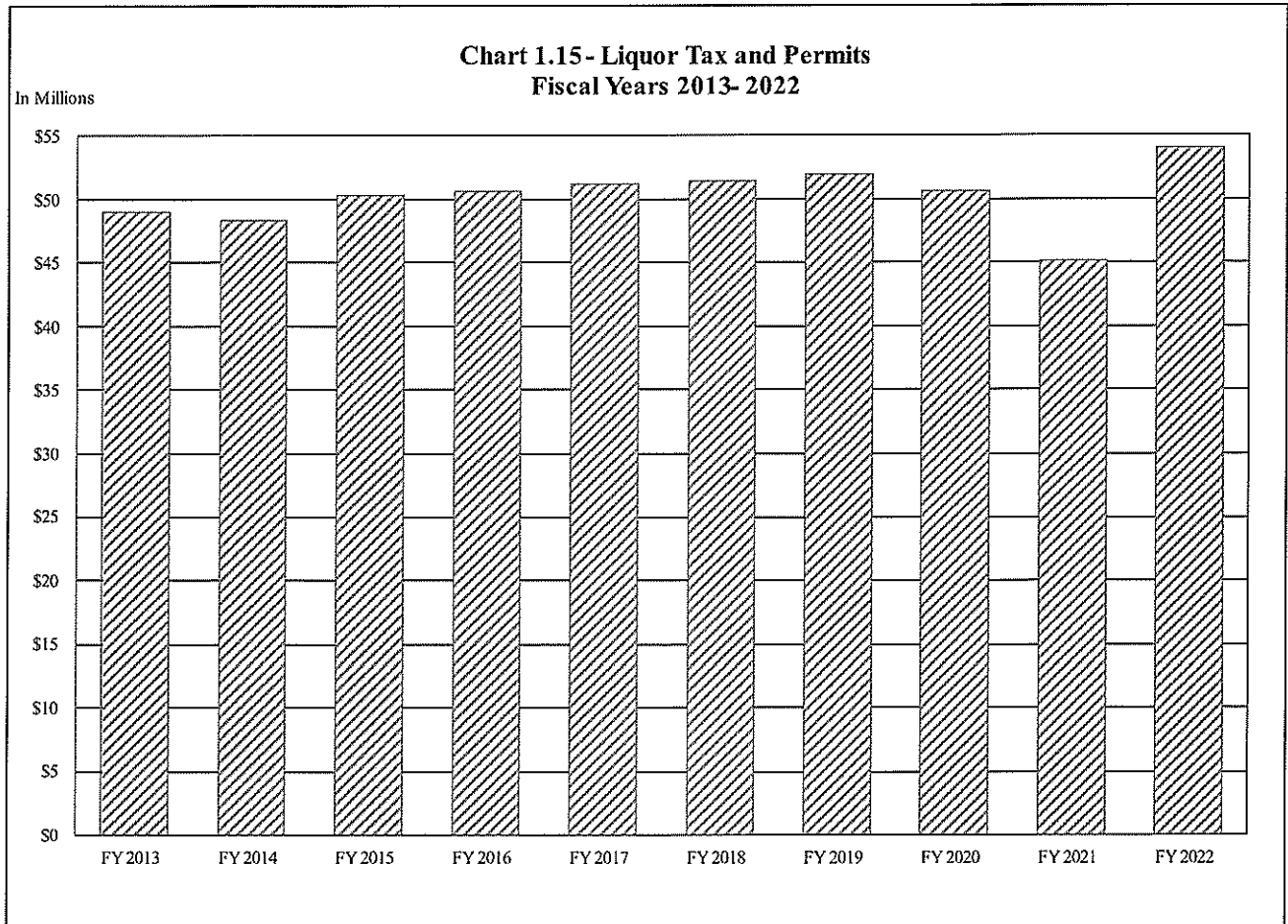
1.12 LIQUOR TAX

1.12.1 Overview

The tax on liquor is a gallonage tax imposed on dealers as defined in section 244D-1, HRS, and upon certain others who sell or use liquor. A \$2.50 liquor tax permit is required and must be renewed before July 1 each year. See section 244D-4, HRS, for exemptions from the tax. The tax rates per wine gallon are \$5.98 on distilled spirits, \$2.12 on sparkling wine, \$1.38 on still wine, \$0.85 on cooler beverages, \$0.93 on beer other than draft beer, and \$0.54 on draft beer.

1.12.2 Revenue

Liquor tax collections increased in FY 2022, a total of \$54.0 million, an increase of 19.5% from the \$45.2 million collected in FY 2021. Chart 1.15 shows collections of the liquor tax and permit fees for FY 2013 through FY 2022.



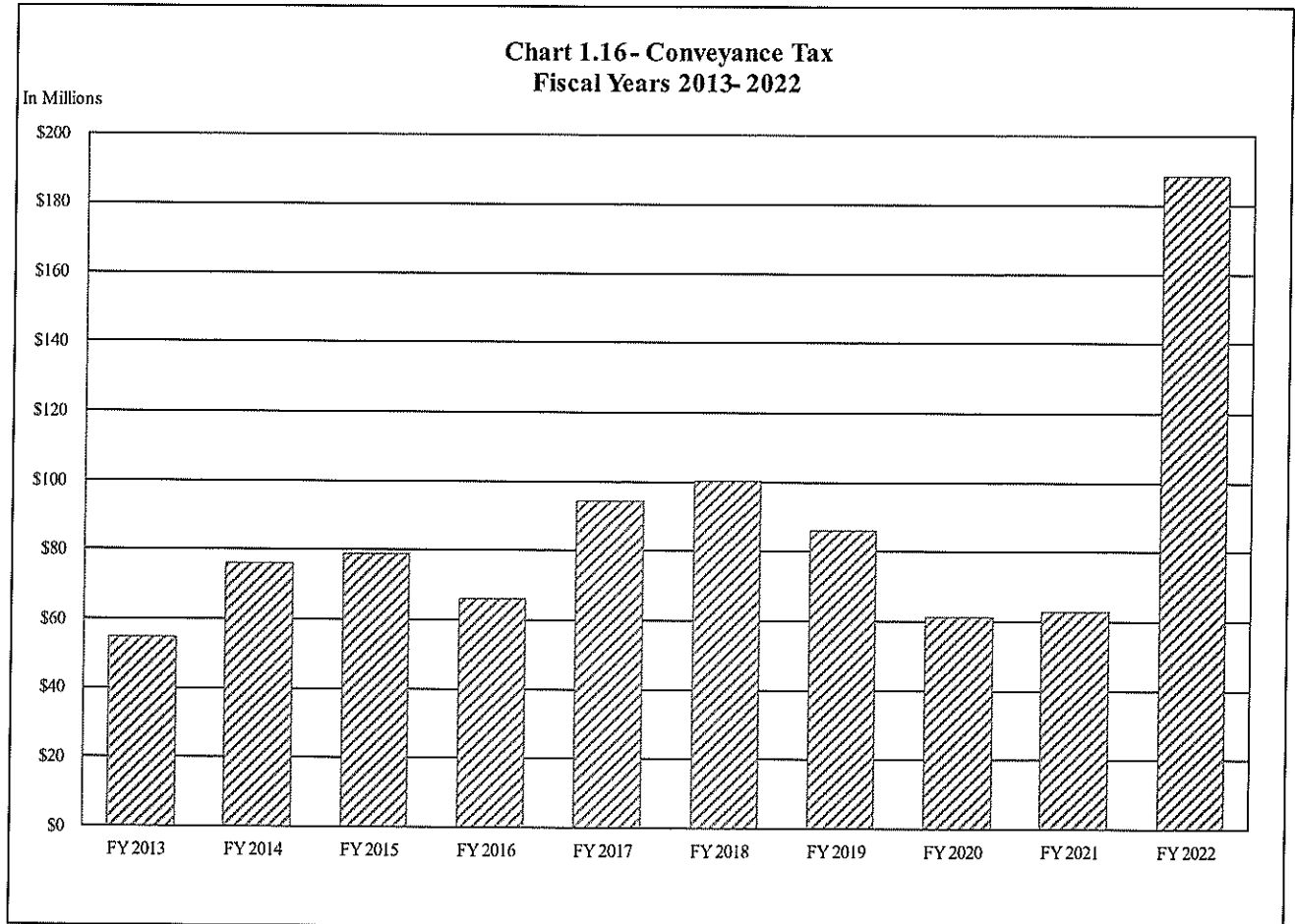
1.13 CONVEYANCE TAX

1.13.1 Overview

The conveyance tax is imposed on all documents transferring ownership or interest in real property and is based on the actual and full consideration paid or to be paid. For a sale of a condominium or single-family residence, the rate of the conveyance tax depends on whether the purchaser is eligible for a county homeowner's exemption from the real property tax. If the purchaser is eligible for the exemption, or if the sale is of real property other than a condominium or single-family residence, then the tax rate ranges from 10 cents per \$100 for properties with a value of less than \$600,000 to \$1 per \$100 for properties with a value of \$10,000,000 or more. If the purchaser is ineligible for the exemption, the tax rate for a sale of a condominium or single-family residence ranges from 15 cents per \$100 for properties with a value of less than \$600,000 to \$1.25 per \$100 for properties with a value of \$10,000,000 or more. The conveyance tax is administered by the Department of Taxation, but it is collected by the Bureau of Conveyances in the Department of Land and Natural Resources.

1.13.2 Revenue

For FY 2022, revenue from the conveyance tax totaled \$188.4 million, up from \$62.7 million in FY 2021, a significant increase of 200.4%. The revenues for FY 2022 were distributed as follows: 10% went to the Land Conservation Fund, provided that the amount in excess of \$5.1 million in any fiscal year is deposited into the General Fund; 50% went to the Rental Housing Trust Fund, provided that the amount in excess of \$38.0 million in any fiscal year is deposited into the General Fund; and the remaining 40% went to the General Fund. Chart 1.16 shows collections of the conveyance tax for FY 2013 through FY 2022.



1.14 TAX ON BANKS AND OTHER FINANCIAL CORPORATIONS

1.14.1 Overview

The tax on banks and other financial corporations (the franchise tax) is levied on net income of banks, building and loan associations, development companies, financial corporations, financial services loan companies, trust companies, mortgage loan companies, financial holding companies, small business investment companies, and subsidiaries not subject to the tax imposed by chapter 235, HRS. The tax is in lieu of the net income tax imposed under chapter 235, HRS, and of the GET, but it uses the definition of net income from chapter 235, with modifications. The tax is levied on net income at the rate of 7.92%. The assessment date is January 1 of each year.

1.14.2 Revenue

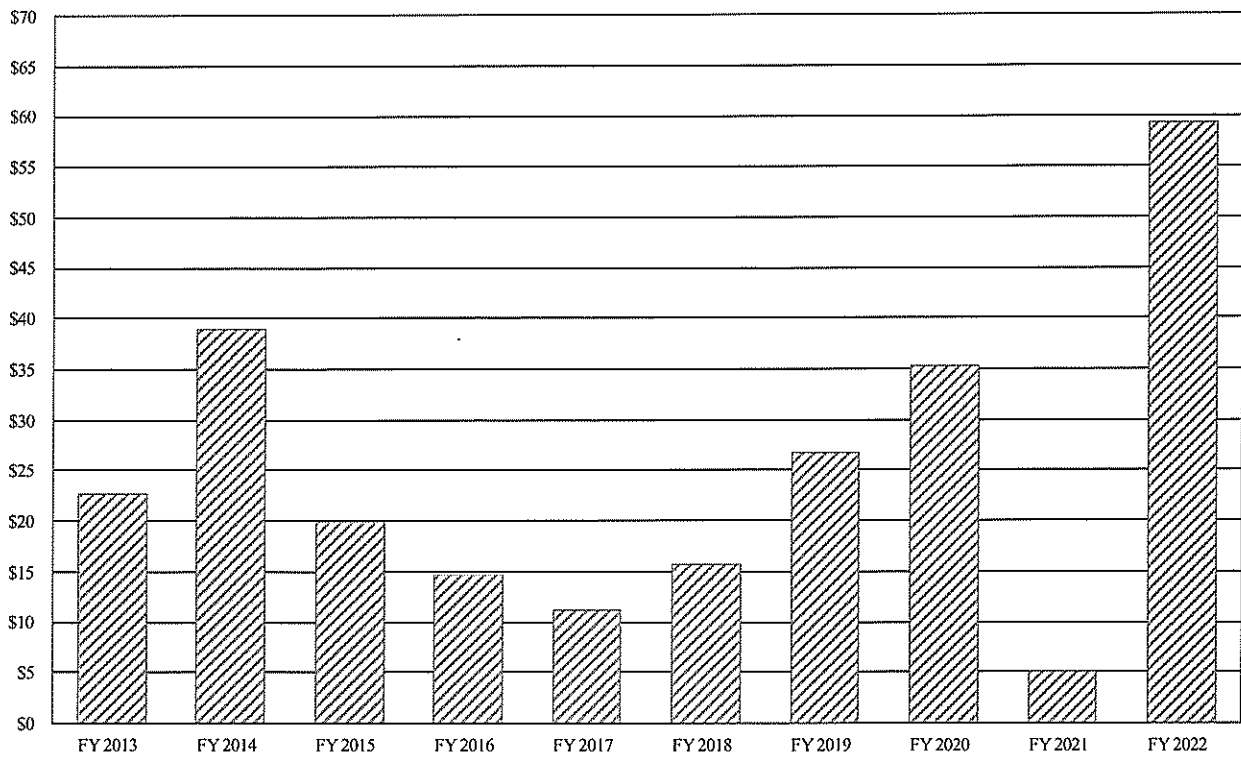
For FY 2022, franchise tax collections totaled \$59.3 million, up from \$5.1 million in FY 2021, a considerable increase of 1066.6%. Collections of the tax were low in FY 2021, due partly to a \$51.8 million of tax refunds as well as the delay in the 2019 tax year filing deadline to July 2020. Chart 1.17 shows collections of the franchise tax for FY 2013 through FY 2022.

1.14.3 Recent Legislation

Act 226, SLH 2021, relaxes the rules on allocating the low-income housing tax credit (LIHTC). Act 226 also relaxes the installment method, at-risk, and passive activity loss rules and allows the Hawaii LIHTC to be claimed in the initial year even if federal Form 8609 has not been received by the taxpayer. Act 226 prohibits the deductions and expenses claimed by all Hawaii taxpayers to exceed the deductions and expenses claimed by all taxpayers on federal returns. Act 226 extends the shortened credit period provided by Act 129, SLH 2016, from tax year 2022 through tax year 2027. The Act is effective July 1, 2021 and applies to taxable years beginning after December 31, 2020.

**Chart 1.17- Franchise Tax
Fiscal Years 2013- 2022**

In Millions



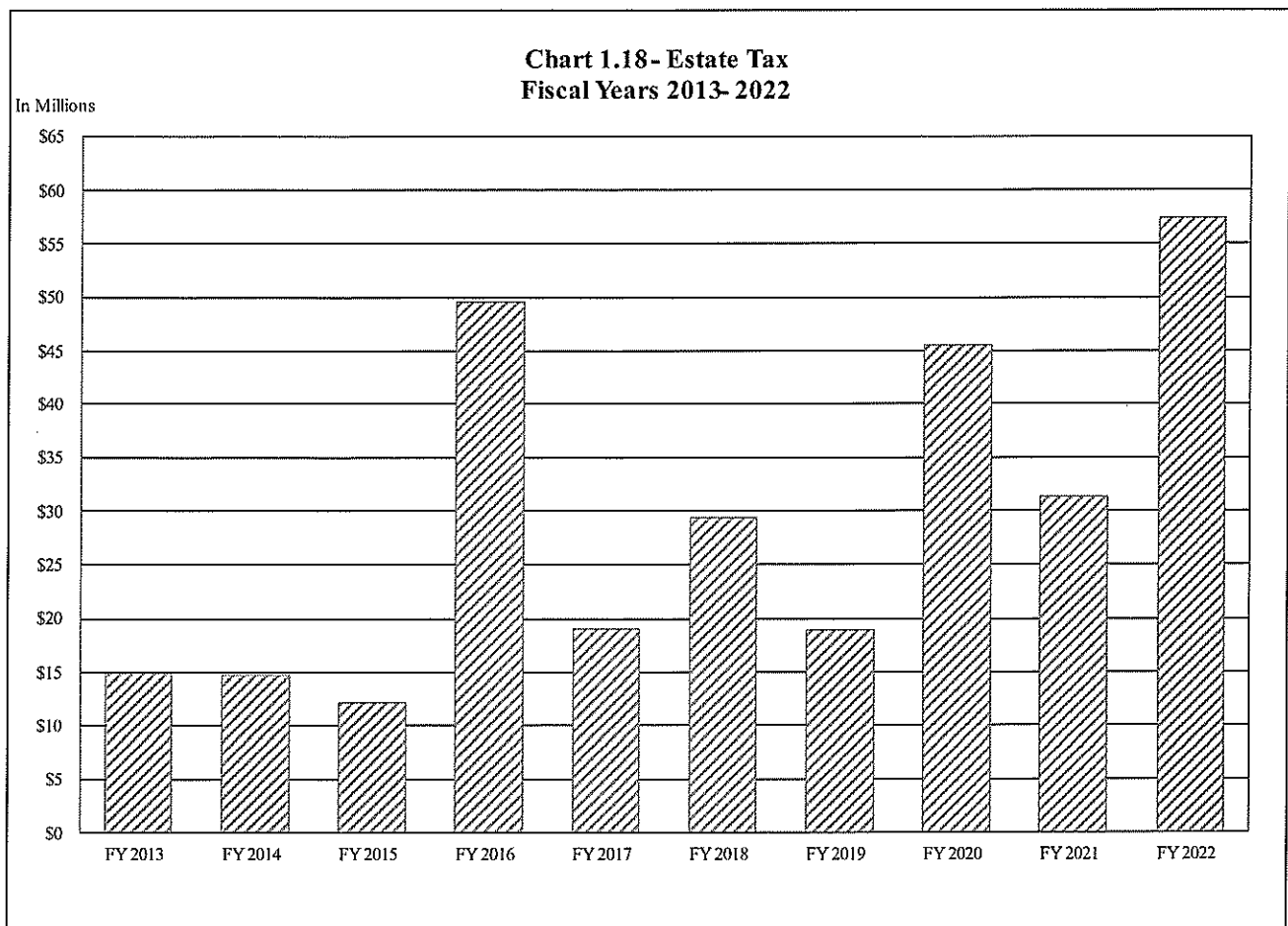
1.15 ESTATE AND TRANSFER TAX

1.15.1 Overview

Hawaii's estate and transfer tax is levied on the transfer of a taxable estate. The taxable estate is based on the federal definition (with adjustments for nonresidents), but the State has its own tax rate schedule, with tax rates varying from 10.0% to 20.0%. Hawaii's generation skipping tax is also based on the federal taxable transfer but has its own tax rate (currently 2.25%).

1.15.2 Revenue

For FY 2022, estate tax collections totaled \$57.4 million, up from \$31.3 million collected in FY 2021. Chart 1.18 shows collections of the estate and transfer tax for FY 2013 through FY 2022.



1.16 COUNTY SURCHARGE TAX

1.16.1 Overview

The county surcharge is a tax applied on top of the State's 4.0% GET, and their revenues destined for use by local governments. Act 1, SSLH 2017, authorized the City and County of Honolulu to extend the sunset of its county surcharge from December 31, 2027 to December 31, 2030, which the County did by ordinance. The Act also authorized the other counties to establish a county surcharge, which may be levied from January 1, 2019 to December 31, 2030. New county surcharges were established by ordinance by Hawaii County (0.50%, from January 1, 2020 to December 31, 2030) and by Kauai County (0.50%, from January 1, 2019 to December 31, 2030). The Act reduced the amount that is deducted from the county surcharge collections to reimburse the State for administrative costs from 10% to 1%. The Act took effect September 5, 2017.

Act 11, SLH 2018, extends the period in which a county may adopt a surcharge on state tax, under certain conditions, from March 31, 2018 to March 31, 2019.

Act 247, SLH 2005, granted counties the authority to impose a county surcharge of no more than 0.5% on gross income that is subject to the State's GET at the rate of 4.0% to fund county public transportation systems. The Department of Taxation is required to administer and collect the surcharge for the counties.

The following counties have adopted the surcharge:

City and County of Honolulu: The county surcharge rate is 0.5% and is effective from January 1, 2007 through December 31, 2030.

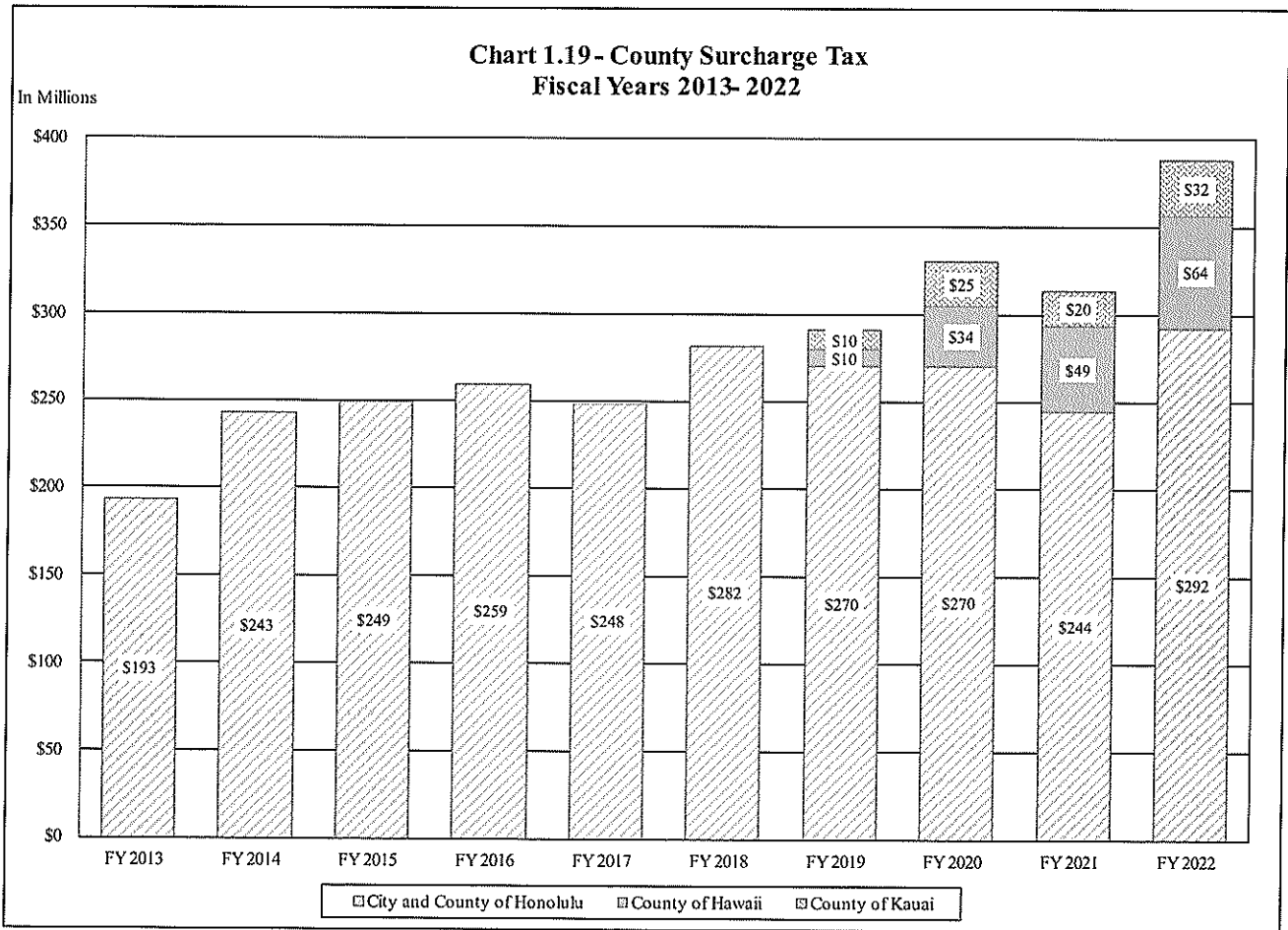
County of Hawaii: The county surcharge rate is 0.25% for the period from January 1, 2019 through December 31, 2019 and 0.5% for the period from January 1, 2020 through December 31, 2030.

County of Kauai: The county surcharge rate is 0.5% and is effective from January 1, 2019 through December 31, 2030.

Starting September 5, 2017, the amount deducted from the county surcharge collections to reimburse the State for administrative costs declined from 10% to 1%.

1.16.2 Revenue

For FY 2022, collections of county surcharges totaled \$388.2 million, an increase of 23.8% from the \$313.5 million collected in FY 2021. Starting in January 2019, the new surcharges imposed by the County of Hawaii and the County of Kauai were included to the county surcharge collections. In FY 2022, collections from the county surcharges were distributed as follows: \$292.0 million went to the City and County of Honolulu; \$64.0 million went to the County of Hawaii; and \$32.2 million went to the County of Kauai. Chart 1.19 shows collections of the county surcharges for FY 2013 through FY 2022.



1.17 TOTAL TAX COLLECTIONS

Total tax collections in FY 2022 amounted to \$10.46 billion, up by 28.1% from the \$8.17 billion collected in FY 2021. The Department collected the great majority of the total taxes (\$9.93 billion), but the counties collected \$142.8 million in State motor vehicle weight taxes and registration fees, the Insurance Commissioner (in the Department of Commerce and Consumer Affairs) collected \$195.6 million in insurance premium taxes, and the Bureau of Conveyances (in the Department of Land and Natural Resources) collected \$188.4 million in conveyance taxes. The total tax collections are shown in Table 1.8.

TABLE 1.8 - TAX COLLECTIONS ⁶
(In Thousands of Dollars)

SOURCE OF REVENUE	FY 2022		FY 2021	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corps.	\$ 59,252	0.57	\$ 5,079	0.06
Conveyance	188,418	1.80	62,725	0.77
Employment Security Contributions	114,431	1.09	110,591	1.35
Fuel ^{3, 4}	170,555	1.63	148,716	1.82
Environmental Response	25,949	0.25	23,348	0.29
General Excise and Use	4,009,909	38.33	3,080,194	37.71
County Surcharge ⁵	388,211	3.71	313,545	3.84
Income - Corporations	256,033	2.45	186,680	2.29
Income - Individuals	3,761,269	35.95	3,355,452	41.08
Inheritance and Estate	57,405	0.55	31,275	0.38
Insurance Premiums	195,607	1.87	185,337	2.27
Liquor and Permits	53,983	0.52	45,178	0.55
Motor Vehicle Tax and Fees ¹	142,806	1.37	138,513	1.70
Rental Vehicle Tax and Fees	79,576	0.76	32,210	0.39
Public Service Companies	122,068	1.17	125,201	1.53
Tobacco and Licenses	96,863	0.93	108,454	1.33
Trans. Accom. Fees	29	0.00	23	0.00
Trans. Accom. Tax	738,634	7.06	215,293	2.64
All Others ²	840	0.01	808	0.01
TOTAL	\$10,461,837	100.00	\$ 8,168,623	100.00

¹ Includes the State motor vehicle weight tax and fees for registration, for registration surcharges, for commercial driver's licenses, and for periodic motor vehicle inspections.

² Includes fuel retail dealer's permits, fuel penalty and interest, and general excise tax licenses.

³ Fuel tax collections were \$172,946 thousand for fiscal year 2022, of which \$2,391 thousand could not be distributed because the required tax returns were not available.

⁴ Fuel tax collections were \$148,462 thousand for fiscal year 2021. A total of \$253 thousand in undistributed fuel taxes from previous years were included in several monthly reports in fiscal year 2021.

⁵ Includes amounts allocated as of June 30, 2022 from the general excise tax surcharges imposed by the City and County of Honolulu, by the County of Hawaii, and by the County of Kauai.

⁶ Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

NOTE: Due to rounding, details may not add to totals.

1.18 DISTRIBUTION OF TAXES

Of the \$10.64 billion in total tax collections in FY 2022, \$9.36 billion or 89.5% was deposited into the State's General Fund. The four counties received \$88.8 million from county fuel taxes. In addition, \$388.2 million of county surcharge was collected for the City and County of Honolulu, the County of Hawaii, and the County of Kauai (before deducting the administrative fee imposed by the State). The remaining tax revenues not deposited into the General Fund or transferred to the counties were distributed among various State special funds. The State Highway Fund received the largest portion, \$299.4 million. All the unemployment insurance tax (the employment security contributions) went into the Unemployment Trust Fund for unemployment benefits. Due to Governor Ige's Sixth Supplementary Proclamation that suspended Section 237D-6.5(b), Hawaii Revised Statutes, the four counties didn't not receive any allocations from the TAT in FY 2021. Table 1.9 shows allocations of taxes to the State's General Fund in FY 2021 and FY 2022. The distributions of the total tax collections among all funds in FY 2021 and FY 2022 are shown in Table 1.10.

TABLE 1.9 - STATE GENERAL FUND
(In Thousands of Dollars)

SOURCE OF REVENUE	FY 2022		FY 2021	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corps.	\$ 57,252	0.61	\$ 3,079	0.04
Conveyance	145,318	1.55	26,259	0.36
General Excise and Use	3,978,993	42.52	3,054,356	42.13
Income - Corporations	255,621	2.73	186,347	2.57
Income - Individuals	3,759,753	40.17	3,354,561	46.27
Inheritance and Estate	57,405	0.61	31,275	0.43
Insurance Premiums	195,607	2.09	185,337	2.56
Liquor and Permits	53,983	0.58	45,178	0.62
Public Service Companies	122,068	1.30	125,201	1.73
Tobacco and Licenses	65,658	0.70	72,747	1.00
Trans. Accom. Tax	645,429	6.90	149,647	2.06
Environmental Response Tax	20,878	0.22	15,441	0.21
All Others *	882	0.01	834	0.01
TOTAL	\$ 9,358,848	100.00	\$ 7,250,261	100.00

* Includes fuel retail dealer permits, fuel penalty and interest, general excise fees, trans accom fees and rental vehicle fees.

NOTE: Due to rounding, details may not add to totals.

TABLE 1.10 - DISTRIBUTION OF COLLECTIONS
(In Thousands of Dollars)

	FY 2022		FY 2021	
	Amount Distributed	% of Total	Amount Distributed	% of Total
STATE FUND				
State General Fund	\$ 9,358,848	89.46	\$ 7,250,261	88.76
State Highway Fund	299,365	2.86	238,593	2.92
State Airport Fund	3,114	0.03	1,421	0.02
Boating Special Fund	1,674	0.02	1,473	0.02
Environmental Fund	1,241	0.01	1,116	0.01
Cigarette Stamp Admin/Enf. Fund	1,439	0.01	1,647	0.02
Compliance Resolution Fund	2,000	0.02	2,000	0.02
Election Campaign Fund	102	0.00	129	0.00
Unemployment Trust Fund	114,431	1.09	110,591	1.35
Rental Housing Fund	38,000	0.36	31,366	0.38
Convention Center Fund ²	11,000	0.11	16,500	0.20
Land Conservation Fund	5,100	0.05	5,100	0.06
Tourism Special Fund ²	-	-	21,505	0.26
School Repairs and Maintenance Fund	62	0.00	75	0.00
Public Libraries Fund	134	0.00	163	0.00
Domestic Violence\Child Abuse Neglect Fund	138	0.00	167	0.00
Cancer Research Fund	10,583	0.10	12,110	0.15
Trauma System Fund	5,953	0.06	6,812	0.08
Emergency Medical Service Fund	6,615	0.06	7,569	0.09
Community Health Centers Fund	6,615	0.06	7,569	0.09
Energy Security Fund	1,111	0.01	1,210	0.01
Energy Systems Development Fund	2,007	0.02	2,232	0.03
Agricultural Development and Food Security Fund	712	0.01	3,349	0.04
Turtle Bay Conservation Easement Fund ²	1,500	0.01	1,500	0.02
Land and Development Fund ²	3,000	0.03	-	-
Mass Transit Special Fund	69,992	0.67	19,935	0.24
Tax Administration Fund	40,122	0.38	32,742	0.40
Subtotal - State	\$ 9,984,860	95.44	\$ 7,777,134	95.21
COUNTY SURCHARGE ¹	\$ 388,211	3.71	\$ 313,545	3.84
REVENUES TRANSFERRED TO COUNTIES				
Other County Revenues				
Fuel Tax	\$ 88,767	0.85	\$ 77,943	0.95
Trans. Accom. Tax ²	-	-	-	-
Subtotal - Counties	\$ 88,767	0.85	\$ 77,943	0.95
TOTAL	\$10,461,837	100.00	\$ 8,168,623	100.00

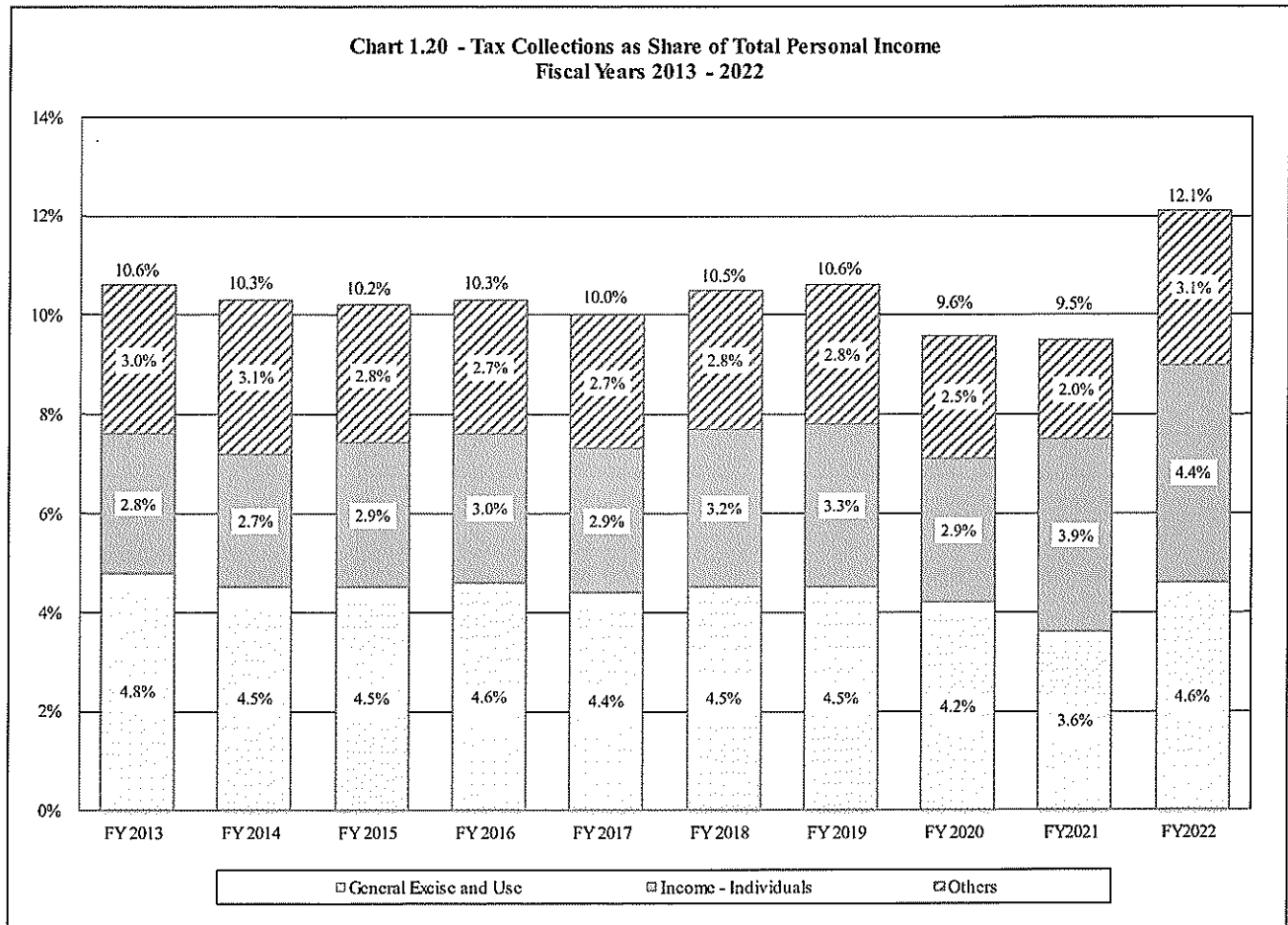
¹ Includes amounts allocated as of June 30, 2022 from the general excise tax surcharges imposed by the City and County of Honolulu, by the County of Hawaii, and by the County of Kauai.

² Governor Ige's Sixth Supplementary Proclamation suspended Section 237D-6.5(b), Hawaii Revised Statutes, for the months of May and June in 2020. The Section distributes part of the transient accommodations tax (TAT) collections to the counties and to various special funds. With the suspension, all of the TAT collections for May and June in 2020, with the exception of the special levy for Honolulu's rail project, went to the general fund.

NOTE: Due to rounding, details may not add to totals.

1.19 TRENDS IN TAX COLLECTIONS

Tax collections as a share of total personal income increased in FY 2022. Table 1.11 provides data on total tax collections for FY 2013 through FY 2022. Chart 1.20 shows total tax collections relative to total personal income (TPI) in the State for FY 2013 through FY 2022.² The ratio fell from FY 2013 to FY 2014 but stayed roughly the same from FY 2014 to FY 2016. The ratio decreased from FY 2016 to FY 2017 but increased from FY 2017 to FY 2019. The ratio fell from FY 2019 to FY 2021 but went up from FY 2021 to FY 2022. Article VII, Section 9 of the 1978 Hawaii State Constitution imposes a ceiling on appropriations from the General Fund, exclusive of federal funds: the appropriations are not allowed to grow faster than the estimated growth in total personal income. The ceiling is based on the ceiling in the prior year.



² The chart uses the most recent figures from the Bureau of Economic Analysis (BEA) for TPI. The Bureau periodically updates TPI figures, and the updates often extend back for a number of years.

TABLE 1.11 - HISTORICAL COLLECTIONS FOR SELECTED TAXES, FY 2013 THROUGH FY 2022
(In Thousands of Dollars)

SOURCE OF REVENUE	Fiscal Year				
	2013	2014	2015	2016	2017
General Excise and Use	\$2,944,487	\$2,880,541	\$3,048,207	\$3,206,154	\$3,239,225
Income - Individuals	1,736,007	1,745,810	1,988,194	2,116,859	2,095,898
Transient Accom. Tax and Fees	368,576	395,242	420,981	446,794	508,377
Unemployment Insurance	262,290	264,178	167,248	128,577	104,313
Motor and Rental Vehicle ¹	176,295	168,726	180,755	187,704	186,490
Fuel and Environmental ⁴	193,949	193,550	193,082	198,136	194,761
Public Service Companies	163,930	166,179	163,481	152,760	122,159
Tobacco and Licenses	127,881	121,742	129,851	125,093	124,066
Insurance Premiums ²	131,906	137,179	145,679	153,173	164,688
Income - Corporations	100,988	87,021	52,319	93,036	173,666
Liquor and Permits	48,962	48,305	50,281	50,590	51,167
Conveyance	54,686	75,831	78,702	66,083	94,537
Banks - Financial Corporations	22,673	38,983	19,930	14,691	11,174
Total Collections ³	\$6,541,300	\$6,581,424	\$6,900,042	\$7,249,205	\$7,338,382

SOURCE OF REVENUE	Fiscal Year				
	2018	2019	2020	2021	2022
General Excise and Use	\$3,395,566	\$3,541,389	\$3,436,138	\$3,080,194	\$4,009,909
Income - Individuals	2,430,356	2,568,616	2,359,816	3,355,452	3,761,269
Transient Accom. Tax and Fees	554,912	600,334	564,318	215,316	738,663
Unemployment Insurance	110,885	110,309	104,068	110,591	114,431
Motor and Rental Vehicle ¹	193,241	196,120	206,714	170,723	222,381
Fuel and Environmental ⁴	201,778	206,345	195,259	172,063	196,504
Public Service Companies	117,641	126,691	134,639	125,201	122,068
Tobacco and Licenses	120,522	112,518	111,983	108,454	96,863
Insurance Premiums ²	159,814	173,844	180,753	185,337	195,607
Income - Corporations	131,119	163,676	8,407	186,680	256,033
Liquor and Permits	51,383	51,913	50,674	45,178	53,983
Conveyance	100,603	85,965	61,110	62,725	188,418
Banks - Financial Corporations	15,712	26,808	35,271	5,079	59,252
Total Collections ³	\$7,895,708	\$8,275,024	\$7,825,208	\$8,168,623	\$10,461,837

¹ Includes the State motor vehicle weight tax and fees for registration, for registration surcharges, for commercial driver's licenses, and for periodic motor vehicle inspections, rental motor vehicle, tour vehicle and car-sharing vehicle registration fees, and rental motor vehicle, tour vehicle and car-sharing vehicle surcharge tax.

² Excludes Insurance Fees allocated to the General Fund, which were included in previous reports.

³ Includes the Inheritance and Estate Tax, the County Surcharge, Fuel Permits, Interest and Penalties on Fuel Taxes, General Excise Fees, and Permitted Transfers Tax.

⁴ Fuel tax collections were \$171,454 thousand for fiscal year 2016, of which \$268 thousand could not be distributed because the required tax returns were not available. Fuel tax collections were \$168,659 thousand for fiscal year 2017, of which \$390 thousand could not be distributed because the required tax returns were not available. Fuel tax collections were \$174,313 thousand for fiscal year 2018. A total of \$475 thousand in undistributed fuel taxes from previous years were included in several monthly reports in fiscal year 2018. Fuel tax collections were \$178,211 thousand for fiscal year 2019. A total of \$183 thousand in undistributed fuel taxes from previous years were included in several monthly reports in fiscal year 2019. Fuel tax collections were \$169,413 thousand for fiscal year 2020, of which \$258 thousand could not be distributed because the required tax returns were not available. Fuel tax collections were \$148,462 thousand for fiscal year 2021. A total of \$253 thousand in undistributed fuel taxes from previous years were included in several monthly reports in fiscal year 2021. Fuel tax collections were \$172,946 thousand for fiscal year 2022, of which \$2,391 thousand could not be distributed because the required tax returns were not available.

2.0 TAX ADMINISTRATION

2.1 OVERALL PERFORMANCE

The Department of Taxation consists of two divisions and four staff offices. The two divisions are the Tax Services and Processing Division and the Compliance Division. The four staff offices, which report to the Director, are the Administrative Services Office, the Rules Office, the Tax Research and Planning Office, and the Information Technology Services Office. A Tax Advocate and Tax Practitioner Priority Specialist are managed directly by the Director's Office.

The Department's operating budget is a small fraction of total tax revenue. The total number of authorized permanent positions in the Department was 415 in FY 2022. The Department's operating expenses were \$28.4 million. The Department collected \$10.46 billion in taxes in FY 2022. This implies that the cost of collecting each \$100 of taxes was about 28.4 cents.

The Department has continued to encourage taxpayers to use electronic transmissions rather than paper returns. There has been an increase in electronic filing of tax returns and payments, 89% of all returns processed in the fiscal year were processed electronically.

The Compliance Division's Tax Collections program collected \$232 million in delinquent taxes in FY 2022, compared to \$275 million for FY 2021, a decrease of \$43 million. Field and Office audit issued assessments worth \$195 million in FY 2022, from which \$47 million was collected.³

2.2 TAX SERVICES AND PROCESSING DIVISION

2.2.1. Overview

The Tax Services and Processing Division (TSP) is comprised of three branches: Taxpayer Services, Document Processing, and Revenue Accounting. Aside from providing various services to both individual and business taxpayers, the Taxpayer Services Branch (TPS) performs functions relating to tax registration and taxpayer account management. The Document Processing Branch (DP) manages the receiving, editing and centralized processing of tax information and processes payments received from both paper and electronic filings, and is further responsible for securing and depositing tax payments. The Revenue Accounting Branch (RA) maintains revenue control and reconciliation functions for all State tax revenues. RA is also responsible for the preparation of various revenue related reports, such as the monthly Preliminary Report (on revenues collected) and the Statement of Tax Operations (STO).

In FY22, 89% of all GET, TAT, and other non-income taxpayers used Hawaii Tax Online (HTO) for filing returns. This is an increase of 5% over FY21. HTO offers efficiencies for both the taxpayer and the Tax Services and Processing Division.

³ The amounts collected may include assessments and settlements from prior fiscal years.

2.2.2 Taxpayer Services Branch

The Taxpayer Services (TPS) Branch is made up of three main sections:

- (1) Customer Inquiry – provides information and taxpayer assistance pertaining to all taxes administered by DOTAX
- (2) Account Management – performs error correction activities to allow expedient processing, posting, and updating of tax returns and payments
- (3) Tax Registration – processes, issues, and updates all licenses and permits issued by DOTAX

Customer Inquiry

Customer Inquiry provides taxpayer assistance by phone and at the windows. The volume of walk-in taxpayers was limited in FY2022 due to the COVID19 pandemic causing the office to be closed to the public until the month of December 2021.

Total Incoming Calls include those calls handled by the interactive voice recognition system and attendants (staff) in the call center. Total Calls to Attendants is the number of callers attempting to talk to an attendant. Total Answer Rate is the percentage of calls requesting to speak to a person.

FY	Total Incoming Calls	Total Calls to Attendants	Total Calls Answered	Answer Rate
2022	202,275	159,401	94,853	60%
2021	211,014	173,097	134,192	78%
2020	233,582	154,549	126,287	82%
2019	270,290	170,168	127,092	75%
2018	346,644	158,414	116,697	74%
2017	671,606	131,299	90,786	69%

Account Management

The primary function of Account Management is to review, analyze, and correct errors or other inconsistencies on returns and payments. These inconsistencies were identified by our computer system during processing and placed on a work list for manual review.

In FY 2022, the team reviewed and posted 205,574 returns, payments, and other documents to the system that the system was initially unable to process. Corrections have increased by 2% this year. The table below reflects monthly average postings of documents work-listed since FY 2016:

FY	# of Postings
2022	17,131
2021	16,708
2020	18,841
2019	17,444
2018	23,843
2017	22,135
2016	18,162

Tax Registration

The Tax Registration Section process business license applications and renewals. In FY2022, 44,350 business license applications were processed, compared to 35,155 applications the previous fiscal year. 25,075 or 57% of the applications were filed online versus 75% in FY 2021. Taxpayers are using DOTAX's online business license application options: Hawaii Business Express and HTO. Additionally, this section processes powers of attorney, change of address for taxpayers and verified practitioner registrations.

2.2.3 Document Processing Branch

The main function of the Document Processing Branch (DP) is to accurately and efficiently process all tax returns and documents; to receive, secure, deposit, and account for tax payments; and to ensure proper electronic storage and retrieval of documents. DP is comprised of five sections: Receiving and Sorting, Data Preparation, Imaging and Data Entry, Quality Assurance and Monetary Control.

There has been an increase in electronic filing of tax returns and payments, less than 500,000 paper returns processed by DP. The decline of paper returns appears to be leveling at this number over the past two years.

For FY2022, there were 419,783 (14%) paper tax returns, and 2,500,707 (86%) electronic tax returns processed. There was over \$9.82 billion in tax-related payments received, an increase of nearly \$2.15 billion from FY 2021. 95% of the payments were processed in 7 days or less.

2.2.4 Revenue Accounting Branch

The main function of the Revenue Accounting Branch (RA) is to maintain accounting records for all tax revenues, refunds and adjustments, district transfers and closing adjustments, and preparation of all Journal Vouchers and Summary Warrant Vouchers. RA is also responsible for error resolution, reconciliation and reporting functions for all State tax revenues. Specific tasks include the preparation of the Daily Cash Collection Report (Oahu District), the Preliminary Report, the Statement of Tax Operations (STO).

The monthly Preliminary Report, which is released by the fifth working day of each month, is a summary of all revenues received by DOTAX, less the amount of tax refunds paid. The STO is a formal, detailed report of State revenues that is based on the Preliminary Report and is prepared by the tenth working day of each month. The RA Branch has consistently and diligently met the critical deadlines for these reports throughout this fiscal year, as well as in past years.

The RA Branch also performs manual accounting activities for all miscellaneous tax collections (with the exception of the estate and transfer tax), prepares journal entries associated with the various administratively-established trust accounts and for other legislatively mandated purposes, maintains the manual accounting system for all protested payments and tax appeals, provides allocation reports to the Department of Accounting & General Services (DAGS) and the Department of Budget & Finance (B&F), accounts for all tax refunds, and handles all refund exception activities, such as returned checks, tracers, or forgeries.

2.3 COMPLIANCE DIVISION

2.3.1 Overview

The objective of the Compliance Division is to maximize taxpayer compliance with Hawaii's tax laws by civil and criminal enforcement of tax laws in a fair, consistent, and efficient manner. The Compliance Division is composed of the Oahu Office Audit Branch, the Oahu Field Audit Branch, the Oahu Collections Branch, and the Maui, Hawaii, and Kauai District Tax Offices. In addition to these branches and districts, there are also the Criminal Investigation Section (CIS), Special Enforcement Section (SES) and the Tax Fraud Unit (TFU). The Division has the following four programs to meet the objectives of the voluntary compliance, self-assessment tax system: (1) auditing/assessment, (2) collection, (3) civil and criminal investigation, and (4) taxpayer services.

Due to COVID-19's impact to the State, the Compliance Division focused on remote taxpayer services, such as helping taxpayers use the Hawaii Tax Online (HTO) portal to make payments, payment plans, tax clearances and account corrections for most of the fiscal year. In-person services resumed March 2022.

The Compliance Division increased efforts to investigate non-filers to bring them into compliance. Towards this end, Compliance issued more penalties and fines for failure to file returns, failure to obtain GET or TAT licenses, and failure to report Transient Accommodations Tax numbers on short term rental advertisements. In addition, criminal cases were referred for prosecution for taxpayers refusing to produce books and records when requested.

The Compliance Division had a surprisingly productive year in FY 2022 given the handicaps of COVID restrictions and a 25% vacancy rate. The omicron variant hit Compliance hard as many employees were absent under COVID protocols last year. In FY 2022, the Special Enforcement Section (SES) collected \$40.8 million in impact revenue, compared to \$33.8 million in FY 2021 (see Section 2.3.9), an increase of \$7 million or 20%. The Office Audit program assessed \$95.1 million in FY 2022, compared to \$116.1 million in FY 2021, a decrease of \$21 million or 18.1%. The Field Audit program assessed \$99.7 million in FY 2022, compared to \$66.0 million in FY 2021, an increase of \$33.7 million or 51%. The Tax Collections program collected \$184.7 million in delinquent taxes, compared to \$215 million in FY 2021, a decrease of \$30.3 million or 14.1%. The Criminal Investigation Section recovered \$1 million in restitution, assessments, penalties, and interest generated through its efforts. The Voluntary Disclosure Program brought in revenue of \$20 million. The Refund Review Team stopped \$10.2 million of incorrect refunds from being issued. Last, but not least, the Taxpayer Services on the Neighbor Islands (Kauai, Maui, Molokai, Kona, and Hilo), helped taxpayers with 104,286 taxpayer service contacts in FY 2022, compared to 110,437 in FY 2021.

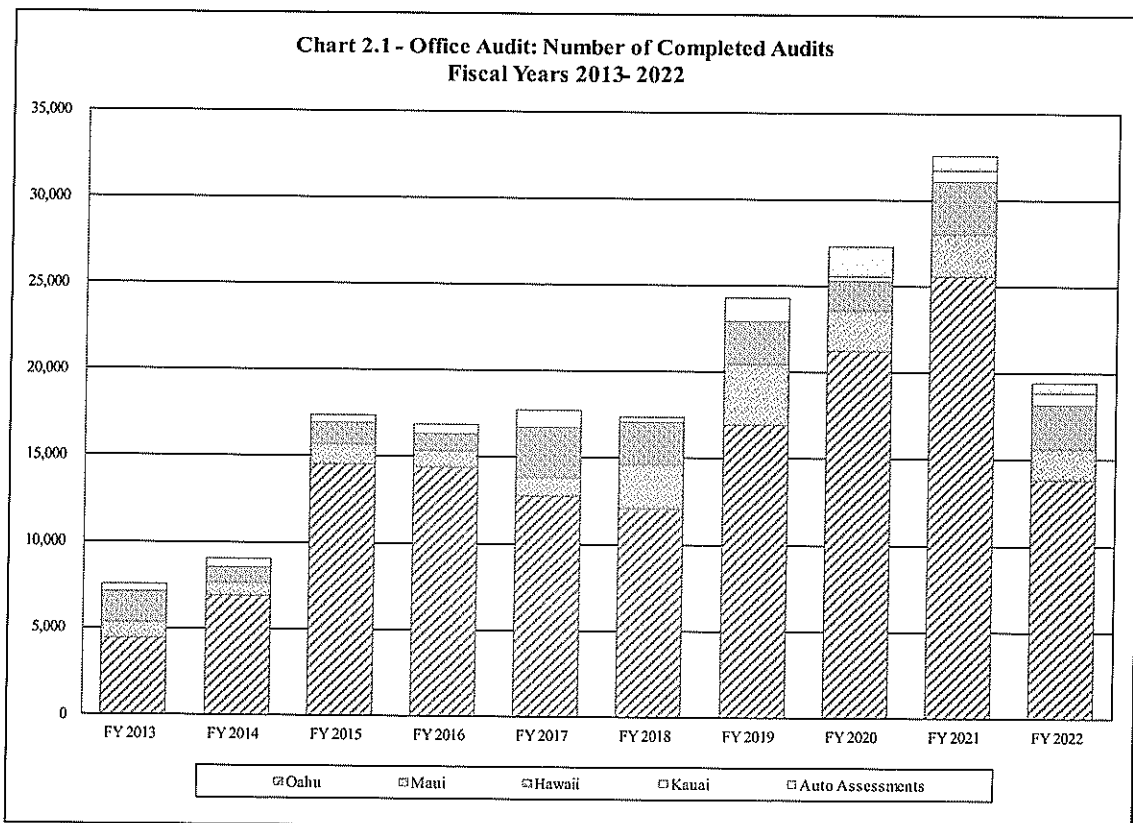
2.3.2 Office Audit Branch

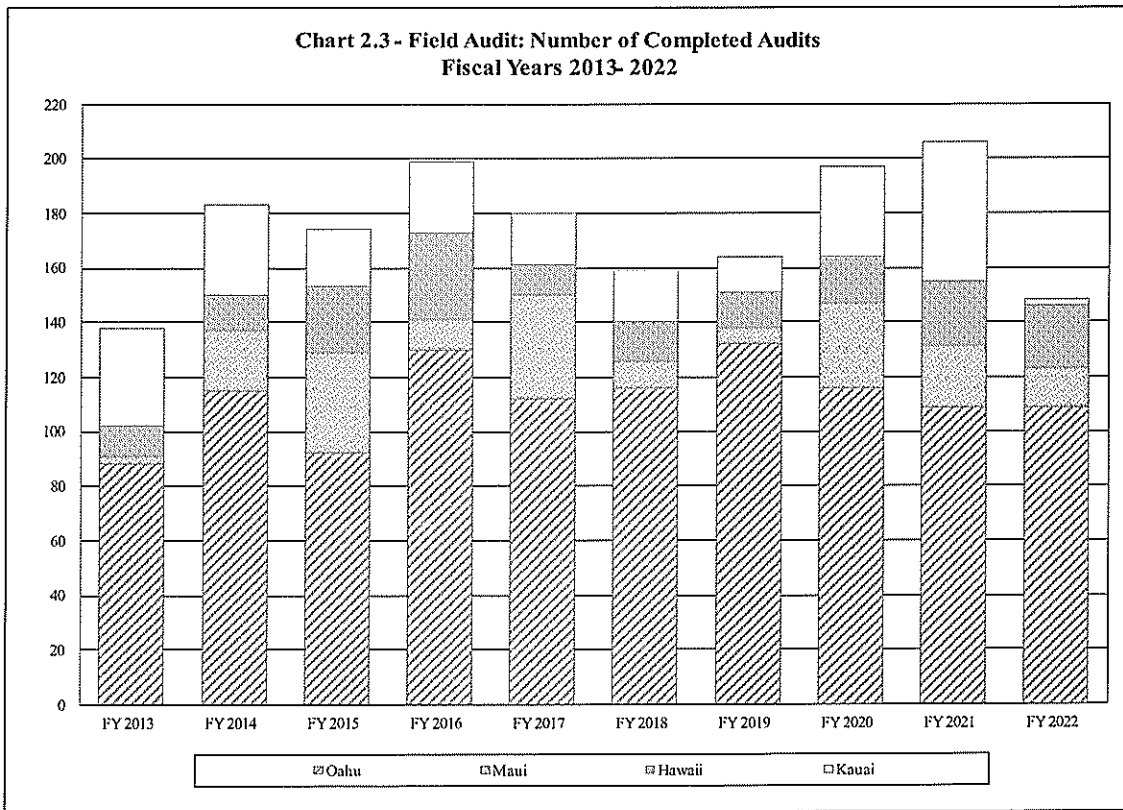
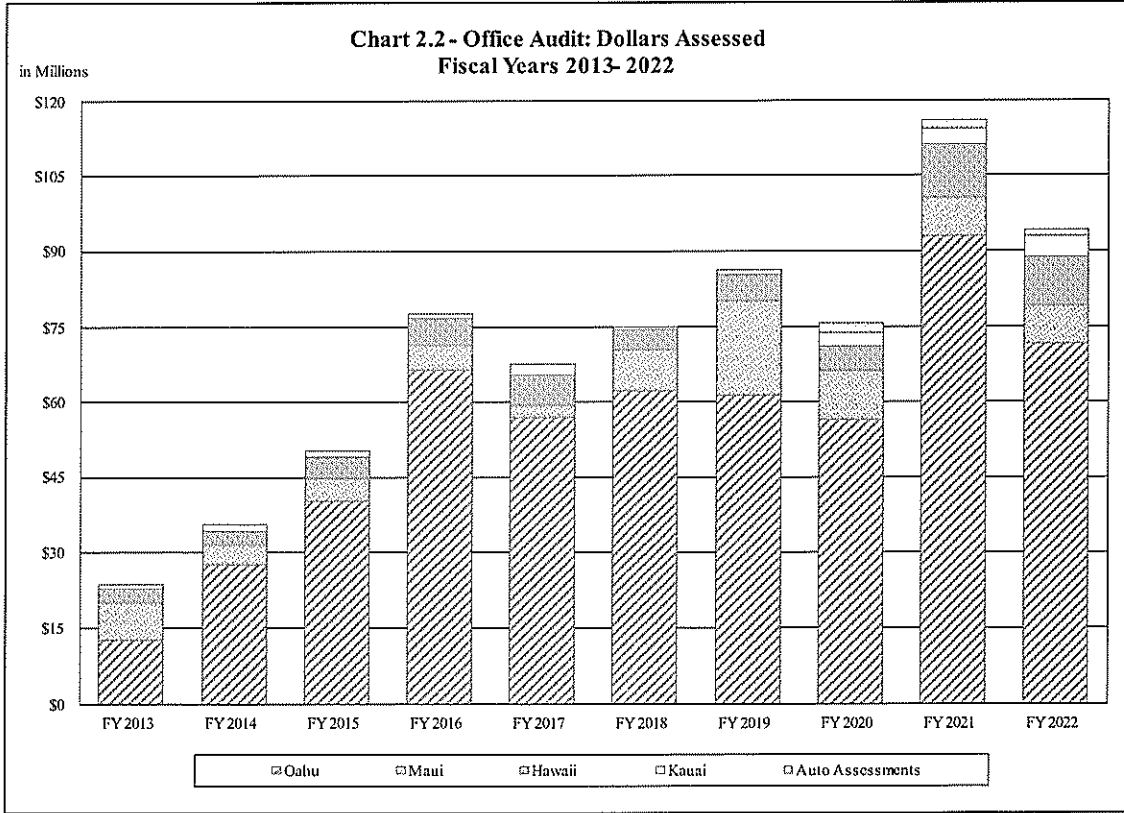
The Office Audit Branch performed examinations and audits to enhance voluntary compliance. In FY 2022, the Office Audit Branch completed 19,440 cases, a decrease of 40% (13,127 cases) compared to FY 2021, the total dollars assessed was \$95.1 million, a decrease of 18.1% (\$21 million) compared to FY 2021. The main reason for the decrease is due to Office Audit performing more audits, rather than simple tax return examinations

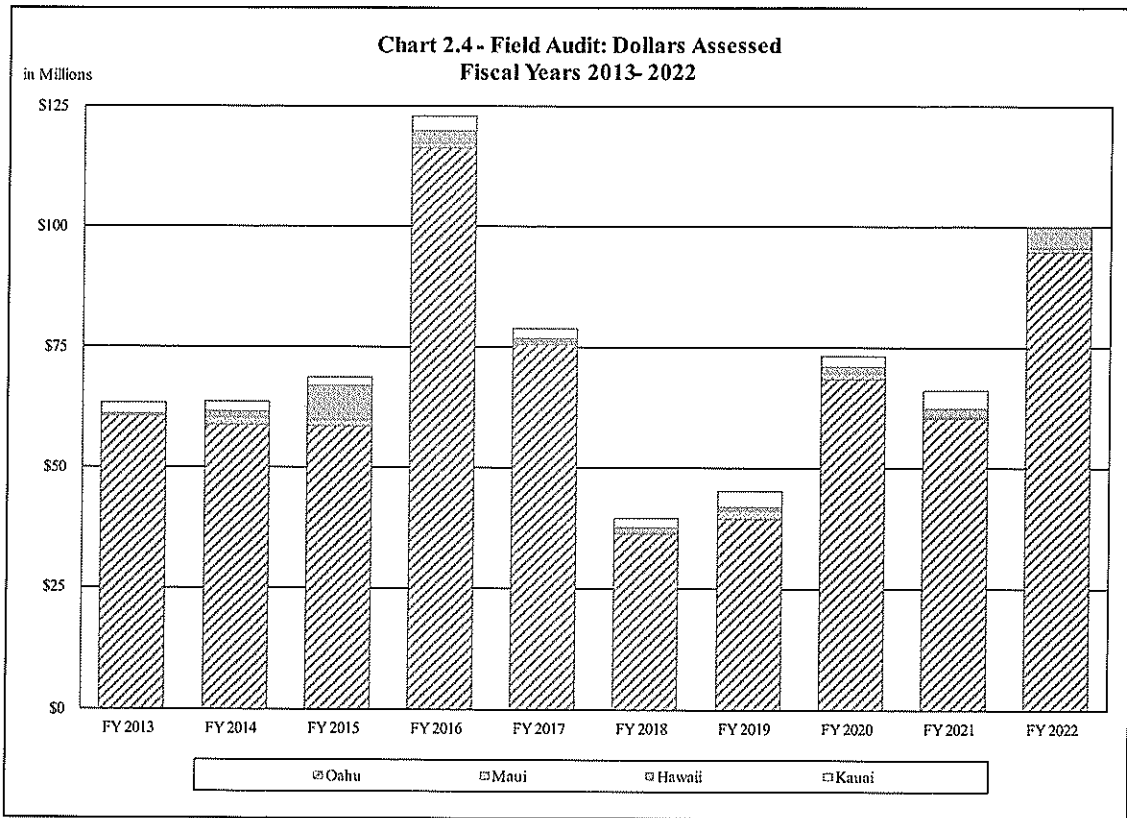
Most audits were performed by Oahu Office Audit Branch, followed by the Hawaii District Office. In FY 2022, the Office Audit Branch collected \$18 million from assessments. Estate and Transfer Tax returns processed resulted in \$47 million in revenues. The Oahu Office Audit also made \$1.27 million in N288C HARPTA refund adjustments. Charts 2.7 and 2.8 (on the following page) show the number of audits completed and the dollars assessed by Office Audit for FY 2011 through FY 2022.

2.3.3 Field Audit Branch

The Field Audit Branch performed audits involving intricate auditing procedures to enhance voluntary compliance. In FY 2022, the number of audits completed by Field Audit Branch was 148 cases, a decrease of 28.2% (58 cases), and the total dollar assessed was \$99.7 million, an increase of 51% (\$33.7 million). Charts 2.9 and 2.10 show the number of audits completed and the dollars assessed by Field Audit for FY 2011 through FY 2022. The Field Audit Branch collected \$28.9 million from assessments.







2.3.4 Revenue - Office and Field Audit Assessments

The amount recovered as of the end of FY 2022 from audit assessments issued during FY 2022 totaled \$47 million. The amount recovered as of end of FY 2021 from assessments issued during FY 2021 totaled \$59.5 million. Chart 2.11 shows the amount collected from assessments.

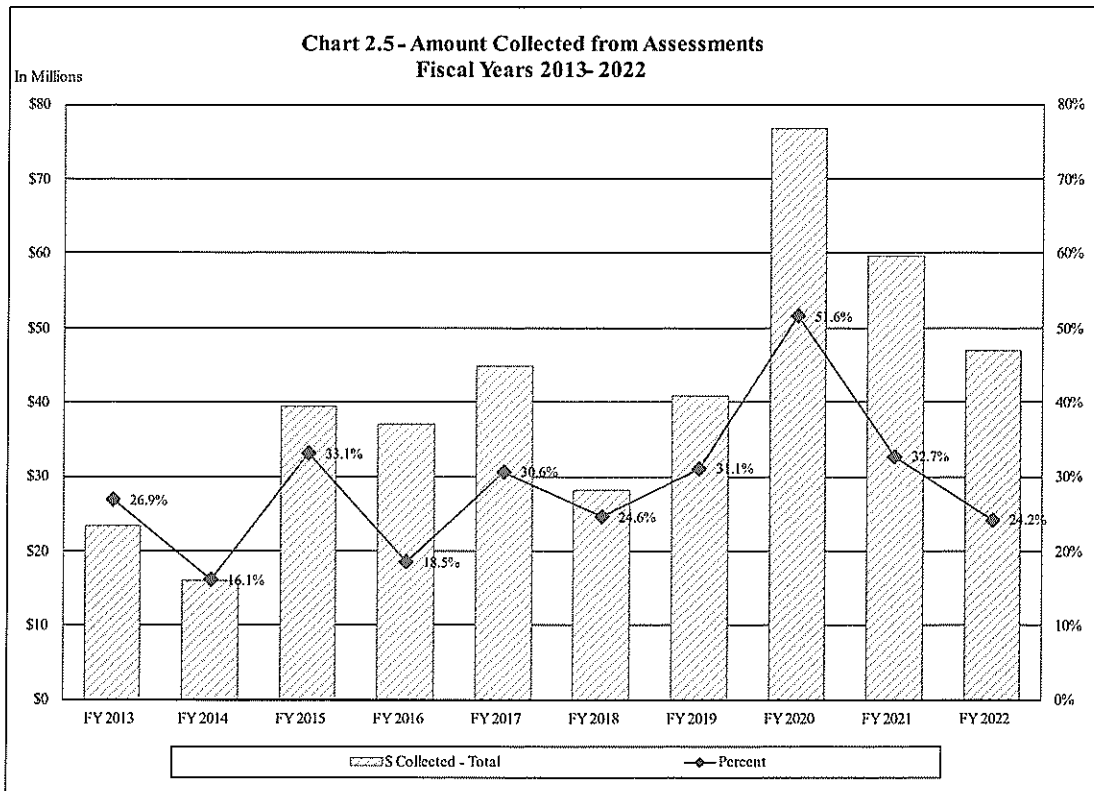


TABLE 2.1 - AMOUNTS ASSESSED FOR FY 2022

	<u>Office Audit</u>		<u>Field Audit</u>	
	Number of Audits	Dollars Assessed	Number of Audits	Dollars Assessed
Oahu	13,840	\$ 72,569,382	109	\$ 94,550,153
Maui	1,759	\$ 7,591,164	14	\$ 787,712
Hawaii	3,568	\$ 9,516,955	23	\$ 4,336,318
Kauai	722	\$ 4,267,657	2	\$ 21,775
Automated Assessments	551	\$ 1,188,247		
Total FY 2022	19,440	\$ 95,133,405	148	\$ 99,695,958
Total FY 2021	32,567	\$ 116,098,643	206	\$ 66,030,848
Difference	(13,127)	\$ (20,965,238)	(58)	\$ 33,665,110

2.3.5 Special Projects

Included in the fiscal year results the Oahu Office Audit Branch conducted the following highlighted special projects during fiscal year 2022:

- Non-Filers: The examination of non-filer tax accounts resulted in \$17.3 million in assessments and adjustments.
- Special Enforcement, Fraud & Criminal Sections: The examination of tax accounts inclusive of correspondence, review of tax information and preparation of assessments resulted in \$10.6 million in assessments and adjustments.
- Supplemental Audit Scope: Examination of unreported and under-reported income as well as overstated deductions pertaining to general excise tax and net income taxes are inclusive and highlighted below:
 1. Audit adjustments of Hawaii Real Property Tax Act (HARPTA) resulted in an aggregate \$1.27 million reduction of refunds claimed.
 2. Adjustments of net operating losses deducted amounted to \$6.81 million in additional taxes assessed.
 3. Specific augmented focused audits amounted to \$4.4 million in assessments.

The Oahu Field Audit Branch conducted the following special projects during the fiscal year:

- Federal Contractors Project: This project, which targets unlicensed contractors working on federal installations, was started in 1983 and is an ongoing activity. This fiscal year, four audits were completed and resulted in \$15.2 million in assessments.
- Renewable Energy Tax Credit: During the fiscal year, two audit cases involving the renewable energy tax credit were completed resulting in \$1.8 million in assessments.
- Motion Picture, digital media and Film Production Income Tax Credit: During this fiscal year, twelve audit cases were completed resulting in \$6.0 million in assessments.
- Multistate Tax Commission (MTC) Audits: During the fiscal year, four multistate audit cases initially examined by the MTC were audited and assessed for Hawaii tax adjustments resulting in \$6.0 million in assessments.
- Online Sales Audits: During this fiscal year, eight audit cases were completed resulting in \$29.25 million in assessments.
- Foreign Trade Zone Audits: During this fiscal year, eighteen audit cases were completed resulting in \$1.48 million in assessments.
- Other Refund Projects: During this fiscal year, two audit cases involving other refunds were completed resulting in \$487 thousand in assessments.

The Maui Office Audit Section conducted the following special projects during the fiscal year:

- Non-filers: The examinations in this area resulted in \$4.3 million in assessments and adjustments.

The Maui Field Audit section:

- Completed 14 audits, resulting in \$787,712 in assessments and recovered 72.35% or \$583,448 of those assessments.

The Hawaii District Office Audit Section conducted the following special projects during the fiscal year:

- HARPTA Reviews: audit adjustments of Hawaii Real Property Tax Act (HARPTA) resulted in \$1.9 million reduction of refunds claimed. These reviews also provided leads for GET and TAT assessments and adjustments or resulted in taxpayer filing returns amounting to \$754,000.
- Non-Filers: The examinations in this area resulted in \$4.4 million in assessments and adjustments.

The Hawaii District Field Audit Section conducted the following special projects during the fiscal year:

- Multistate Tax Commission (MTC) Audits: During the fiscal year, two multistate audit cases initially examined by the MTC were audited and assessed for Hawaii tax adjustments resulting in \$327,000 in assessments.
- General Excise Tax Exemptions: Hawaii Field Audit Section conducted audits of general excise tax exemptions that totaled \$168 million, which resulted in the disallowance of \$37.0 million of those exemptions and approximately \$1.6 million in assessments.

The Kauai Office Audit Section conducted the following special projects during the fiscal year:

- HARPTA: The examination of 87 tax returns resulted in adjustments and assessments of \$200,853.
- 1099 Misc/Non-filer: The examination of 85 tax returns resulted in adjustments and assessments of \$362,000.

2.3.6 Taxpayer Assistance Provided

During FY 2021, the personnel in neighbor island district tax offices helped taxpayers properly file numerous tax returns and other documents over the telephone, at the service counter, through Hawaii Tax Online (HTO) and via correspondence. The Oahu Office Audit, Field Audit, and Collection units also provided support services to the neighbor island district tax offices and to the Oahu Taxpayer Services Branch when requested. Table 2.2 summarizes the number of times that taxpayer assistance was provided by the Maui, Hawaii, and Kauai District Tax Offices.

**TABLE 2.2 - TAXPAYER ASSISTANCE PROVIDED BY
MAUI, HAWAII, AND KAUAI DISTRICT OFFICES**

	FY2022	FY2021	Difference	
			Number	Percentage
Counter	12,439	2,138	10,301	482%
Phone Services	76,096	80,746	(4,650)	(6%)
Tax Clearances	1,703	2,510	(807)	(32%)
Correspondence	13,732	24,161	(10,429)	(43%)
Web Notices	316	882	(566)	(64%)
Total Service	104,286	110,437	(13,474)	(6%)

The Compliance Division’s taxpayer services sections in the districts routinely provide telephone and counter services for the neighbor islands. As the Department suspended walk-in services due to the COVID-19 pandemic, our staff concentrated resources and efforts to answer phones, respond to correspondences, and help taxpayers use the Hawaii Tax Online portal. Limited walk-in services for taxpayer assistance were available by appointment only at some of our neighbor island offices. Commonly used tax forms were made available to taxpayers outside of our office locations. Tax returns and payments submitted to the district offices continued to be imaged and processed at the respective district office. In addition, our taxpayer services staff were able to provide additional resources to help with the processing of tax returns and payments that were work-listed for review and manual posting to taxpayer accounts.

Helping taxpayers is part of the Compliance Division’s mission to educate and empower taxpayers. The Compliance Division encourages taxpayers to comply accurately and voluntarily with the State’s tax laws. The Division will continue to engage in activities that promote compliance.

2.3.7 Collection Branch

The Compliance Division’s Tax Collections program consists of the Oahu collection branch and the collection sections in the Maui, Hawaii, and Kauai District Tax Offices. Collections of delinquent taxes totaled \$184.7 million for FY 2022, compared to \$215 million for FY 2021, a decrease of \$30.3 million or 14.1%.

The Oahu collection branch accounted for 70% of the statewide delinquent tax collections in FY 2022. During this period, the Collections program operated at less than full capacity due to the pandemic and the hiring freeze. Chart 2.12 shows delinquent collections for FY 2011 through FY 2022. For comparison, Table 2.3 shows major performance measures for FY 2022 and FY 2021, including penalty and interest on outstanding tax delinquencies. With the challenges of the ongoing pandemic, the Collections program performed well as it faced the difficulty of working remotely with taxpayers for most of the fiscal year while operating with less resources.

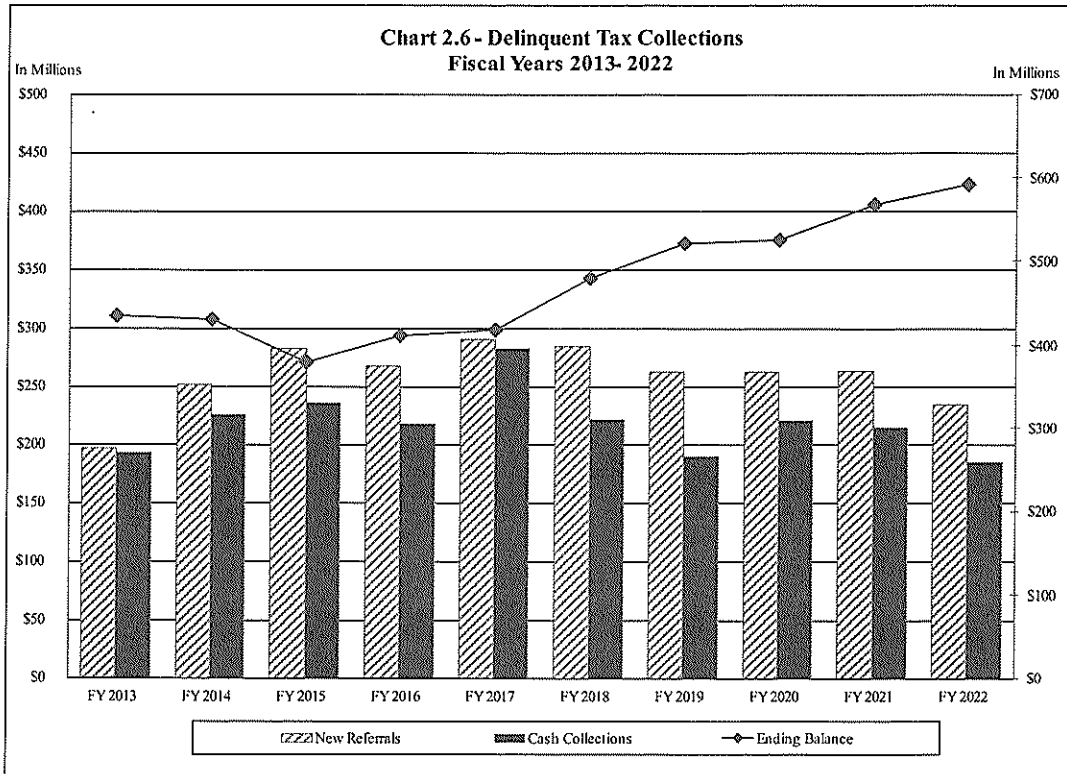


TABLE 2.3 - MAJOR PERFORMANCE MEASURES FOR FY 2022 AND FY 2021

Measure	FY 2022	FY 2021	Difference	
			Amount	Percentage
Delinquent Taxes (\$ Millions)	\$ 591.3	\$ 567.7	\$ 23.6	8.0%
Delinquent Penalties, Interest, Other (\$ Millions)	\$ 631.9	\$ 585.1	\$ 46.8	10.5%
Total New Delinquent Referrals (\$ Millions)	\$ 234.4	\$ 319.2	\$(84.8)	(18.6%)
Total Cash Collected (\$ Millions)	\$ 184.7	\$ 215.0	\$(30.3)	(2.4%)
Uncollectible Tax Write-Offs (\$ Millions)	\$ 26.1	\$ 6.8	\$ 19.3	86.1%
Payment Plan Initiated	12,150	15,377	(3,227)	(21.0%)
Tax Liens Filed	5,923	3,727	2,196	58.9%
Levies Served	23,624	16,624	7,000	42.1%

2.3.8 Criminal Investigation Section

During FY 2022, the Criminal Investigation Section (CIS) continued to work on criminal investigation cases despite the COVID health situation and the fact that CIS was only operating with one out of six investigator positions filled. CIS is currently conducting nine criminal tax investigations into entities with legitimate sources of income. CIS worked with the U.S. Attorney's Office and the Internal Revenue Service (IRS-CI) on a joint tax investigation. The joint investigation led to a Kauai woman pleading guilty to three counts of wire fraud and one count of aggravated identity

theft relating to multiple long-running fraudulent schemes on July 21, 2021. During FY 2022, the CIS referred three cases for prosecution to the State of Hawaii Department of Attorney General. The CIS also has two additional cases pending adjudication for felony and misdemeanor tax violations for prior years referrals.

In FY 2022, 76 referrals were made to the Oahu Office Field/Office Audit Branches resulted in \$482,150 in additional assessments for CIS. Audit referrals attributed to completed or closed investigations were referred to Field Audit, Oahu Office Audit, or Outer Island District Offices for further civil examinations.

An additional \$506,818 in criminal collections and secured returns were made in FY 2022. It is estimated that CIS investigative efforts will have yielded approximately \$1 million in restitution, assessments, penalties, and interest that would not have been realized by the State of Hawaii.

The Criminal Investigation Section is an important component of the Department of Taxation. By investigating potential criminal violations of the State of Hawaii tax laws, the public will have more confidence in the Department of Taxation, and that will have a positive effect on voluntary compliance.

2.3.9 Special Enforcement Section

The Special Enforcement Section (SES) was established in 2009, through the *Cash Economy Enforcement Act*. Its goal is to ensure that all sectors of Hawaii's economy, especially those that conduct a significant portion of business transactions in cash ("cash economy"), pay their fair share of taxes. In FY 2016, SES was given additional responsibilities for ensuring that short-term vacation rental operators comply with the state's transient accommodations tax laws, and in FY2022 the authority of SES to examine any sector of Hawaii's economy for non-compliance was clarified and codified.

SES has broad legal authority to conduct civil investigations of suspected violations of tax laws. It conducts complex financial investigations to determine correct income subject to tax by securing and examining books, records and other corroborating evidence. It executes a wide range of activities which include investigating complaints, developing leads through various sources, obtaining evidence, securing delinquent and amended tax returns and payments from taxpayers, conducting site visits, inspections, surveys, and training sessions at various events, business locations and short-term rental sites throughout the state for the purpose of educating the public and business operators about their tax obligations and verifying tax compliance.

In FY2022, SES continued the revenue gains it made in the previous fiscal year. SES Total Impact Revenue⁴ grew to \$40.7 million in FY2022, as compared with \$33.7 million in FY 2021. This represents a 20.7% increase in total revenue over the previous fiscal year. Of the GET revenue collected, \$28,4 million derived from non-TA related source like online retail and service companies, a sector that has received increasing focus from SES.

⁴ SES Measures its accomplishments by determining the actual tax collections that were remitted by taxpayers on delinquent returns secured by SES. In addition, SES is credited with tax collections remitted by taxpayers for a post compliance period of 18 months after they were brought into tax compliance. This is because had SES not brought the taxpayer into tax compliance, there is a strong likelihood that their non-compliance would have continued indefinitely. Delinquent period tax collections and post compliance period collections aggregate to Impact Revenue.

With regard to TAT revenue, SES’s efforts this past fiscal year resulted in \$7.7 million collected, a 24% over the previous year. When \$4.6 million of GET collections related to transient accommodations are added in, total revenue attributable to SES’s efforts with regard to transient accommodations amounts to \$12.3 million.

SES initiated enforcement of HRS §237-4D requiring host/operators or transient accommodations display their tax registration number in on-line advertisements for the accommodations they rented, resulting in 97 citations for violations.

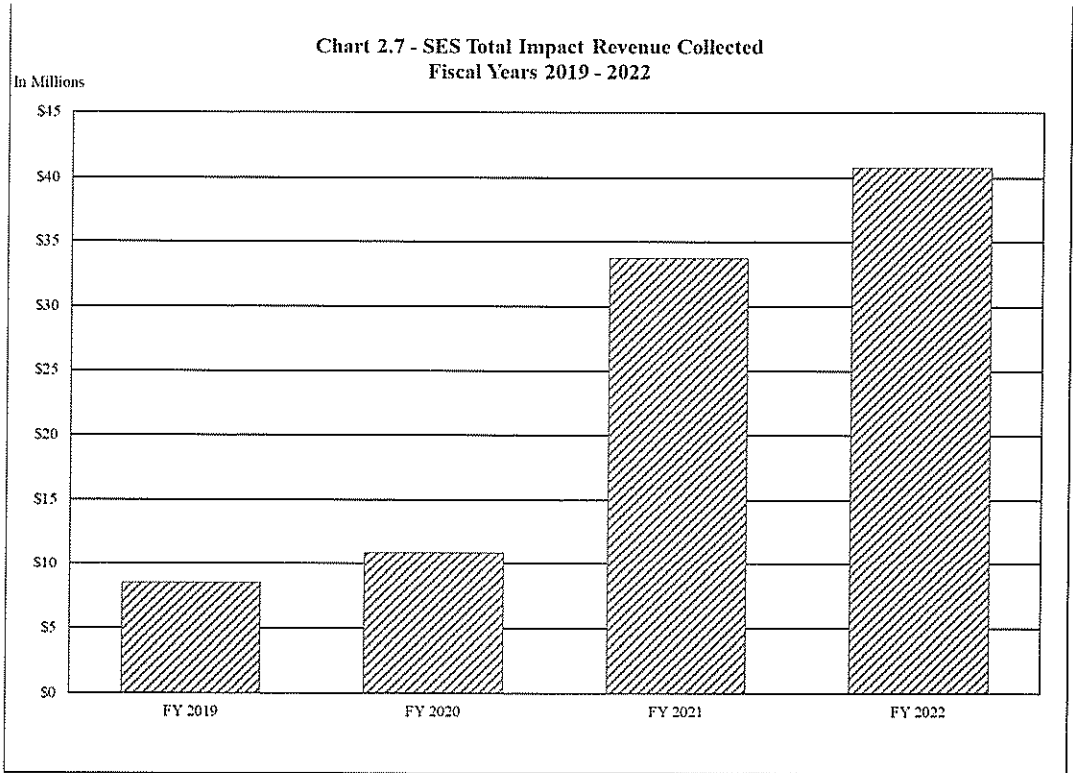


TABLE 2.4 - MAJOR SES PERFORMANCE MEASURES

	FY 2022 ⁵	FY 2021 ⁵	FY 2020
Complaints Received	142	271	349
Businesses Educated on Tax Compliance	0	0	698
Number of Site Visits Throughout the State	0	0	94
GET Impact Revenue Collected	\$33,031,764	\$27,533,247	\$7,189,003
TAT Impact Revenue Collected	<u>7,737,168</u>	<u>6,239,863</u>	<u>3,674,285</u>
Total Impact Revenue Collected from Taxpayers	\$40,768,932	\$33,773,110	\$10,863,288
Total Tax Collected from Secured Delinquent	\$15,178,904	\$10,570,924	\$6,051,938

⁵ In FY2022 and FY2021, the numbers for Businesses Educated on Tax Compliance, and the Number of Site Visits Throughout the State, are reflective of the continued suspension of SES site visits to businesses and vendor events due to the Covid-19 pandemic.

2.3.10 Tax Fraud Unit (Ad Hoc)

Fraudulent tax filings have increased over the years, creating a significant threat to the State's tax revenues. The Tax Fraud Unit (TFU) was created in 2013 to address this growing problem resulting from identity theft and other related tax frauds. Tax fraud promoters and return preparers have grown increasingly bolder and more sophisticated, utilizing the internet to gain access to a wide audience, causing various tax schemes to grow at an exponential rate.

The TFU researches, develops, and identifies investigative leads for the Criminal Investigation Section and audit leads for the Field and Office Audit Sections. The TFU is also responsible for detecting, investigating, and stopping fraudulent refunds. TFU continued to utilize tools like the Tax System Modernization (TSM) data and the related Fraud Manager program to identify fraudulent returns. They performed in-depth, technical analyses of the identified tax returns to determine whether the tax return is legitimate or fraudulent. The TFU stopped approximately 1,843 of these fraudulent returns, totaling more than \$5.2 million in refund claims.

TABLE 2.5 – FRAUD UNIT PERFORMANCE MEASURES

<u>FY</u>	<u>Fraudulent Refunds Stopped</u>	<u>Amount</u>
2018	230	\$ 547,956
2019	651	\$1,871,519
2020	552	\$2,033,848
2021	1,682	\$3,790,228
2022	1,843	\$5,200,932

The TFU will continue to be innovative in trying to detect and prevent fraudulent tax return schemes by using all resources available to the Department of Taxation.

2.3.11 Compliance TSM Team (Ad hoc)

The Refund Review Team is an ad hoc team of employees from various parts of the Compliance Division tasked with review of large tax refunds. This team of full and part-time employees reviewed large refunds, stopped incorrect amount from being refunded, and improved the TSM accounting system and business analytics. During FY 2022, they reviewed 2,176 refunds and corrected \$10.2 million in refunds.

2.3.12 Refund Review Team (Ad Hoc)

The Refund Review Team is an ad hoc team of employees from various parts of the Compliance Division tasked with review of large tax refunds. This team of full and part-time employees reviewed large refunds, stopped incorrect amount from being refunded, and improved the TSM accounting system and business analytics. During FY 2022, they reviewed 1,755 refund and corrected \$9.7 million in refunds.

2.3.13 Voluntary Disclosure Program

Pursuant to Tax Information Release No. 2020-03 Re: Voluntary Disclosure Practice, Compliance Division reviewed 167 cases which resulted in revenue of \$8.2 million through the program. In

addition, the voluntary disclosure team also concluded 47 voluntary disclosure cases received from the Multi-State Commission, resulting in revenue of \$1.8 million.

2.4 STAFF OFFICES

2.4.1 Administrative Services Office

The Administrative Services Office (ASO) provides general internal assistance to the Director and all programs in the areas of fiscal and budget, procurement and contract, human resources, facility and property management, etc.

2.4.1.2 Fiscal & Budget

The Department incurred operating expenses of \$28.4 million for the year. The Department collected \$9.82 billion in net tax revenues in FY 2022. The cost to collect \$100.00 of taxes was about \$0.29. For FY 2022, \$31.9 million was appropriated for the Department which includes \$3.2 million of the Federal American Rescue Plan Act (ARPA) Coronavirus State Fiscal Recovery Funds (CSFRF). The ASO submitted the FY 2023 supplemental budget (Fiscal Biennium 2021-2023) to the Legislature. The Legislature appropriated \$30.5 million for FY 2023.

2.4.1.3 Human Resources

The Department has 415 full time positions at the beginning of FY 2022 but due to budget restrictions, vacant positions could be abolished by the end of FY 2022. Under the ASO, the Human Resources Office serves as Department's support in personnel management functions such as recruitment, classification, employee relations, employee training and development, personnel transactions and maintenance of personnel records. In FY 2022, the Human Resources Office continued to focus on filling vacant positions, and the Department filled 10 positions (not including promotions, transfers, or seasonal hires).

2.4.1.5 Facility and Property Management

The ASO also assists all programs in the areas of facility and property management. The following projects were completed in FY 2022:

- Installation of security station for security guards by the main entrance of the office building (Oahu)
- Reconfiguration of office and installation of furniture for Tax Research & Planning Office, Tax Clearance Room, Mailroom, Monetary Control, Quality Assurance, and Data Preparation
- Conversion of a storage room to ASO Training Room
- Replacement of cypher locks in DOTAX offices that show sign of deterioration
- Deep cleaning of offices of all programs

The following projects were initiated in FY 2022 and still on-going:

- Relocation and office rearrangement of ITSO staff and SES staff
- Blinds replacement for Oahu offices

2.4.2 Rules Office

The function of the Rules Office is to serve as a resource for complex policy recommendations and internal support. The Rules Office is comprised of the Rules staff and the Technical Section. The Rules Office also assists in the Department's implementation of new legislation and in creating and maintaining the Department's tax forms, form instructions, and publications.

2.4.2.1 Rules Staff

The Rules staff serves as the Department's internal advisory arm to the Director of Taxation on tax policy and advises the Director's Office and the Department on legislative and tax policy issues. The Rules staff also provided training for Department personnel and did presentations at the Department's annual workshops for tax practitioners. Litigation and other external legal matters are handled exclusively by the Tax & Charities Division of the Department of the Attorney General.

In addition, the Rules staff assists, counsels, and represents the Department's compliance personnel with tax disputes and other administrative tax controversies. For example, the Rules staff helps the Department's compliance function in interpreting issues under audit, settlement negotiations and closings, and appeared on behalf of the Department before the Boards of Review. The Rules staff also assisted the Tax & Charities Division of the Department of the Attorney General with the judicial tax appeals and provided support to the Department's Tax System Modernization project.

For the 2022 legislative session, the Rules staff drafted and submitted five bills that were introduced as part of the Administration's legislative package. Prior to the start of the legislative session, the Rules staff also reviewed and commented on proposed tax legislation submitted by other executive branch agencies.

After sorting through all bills introduced to the Legislature, the Rules staff determined that there were approximately 198 measures proposing tax law changes and analyzed them in depth. The measures were tracked throughout the legislative session and written testimonies were prepared each time a tax measure was heard by the Legislature. The Rules staff also drafted numerous responses to legislative committee chairs to respond to specific questions raised during hearings or to address specific concerns of committee members. Fifteen of those became law, and three others passed but were vetoed by the Governor per our recommendation. We issued Tax Announcement guidance to the public on the changes.

The Rules staff also prepared Tax Announcements, Tax Information Releases, letter rulings, Administrative Directives, and other publications. During FY 2022, nine Tax Announcements and four Tax Information Releases were issued.

During FY2022 four sets of administrative rules adopted:

- Administrative rules relating to revocation of tax licenses due to abandonment effective August 21, 2021.
- Administrative rules relating to information to be furnished upon claim for refund of fuel tax for operating vehicles or equipment in areas other than upon the public highways of the State effective August 21, 2021.
- Administrative rules relating to peer-to-peer car-sharing effective April 14, 2022. These made Temporary expiring Rules discussed in last year's Report permanent.

- Administrative rules relating to GET definition of employee effective April 14, 2022.

2.4.2.2 Technical Section

The main function of the Technical Section is to provide outward facing assistance to taxpayers and tax professionals, as well as internal support to divisions within the Department regarding complex tax matters and detailed procedural questions of the tax forms.

In FY 2022, Technical Section staff responded to 2,473 emails and 4,764 telephone calls, answering questions about the application of the tax laws. Some of the questions came directly from taxpayers or tax practitioners; others were forwarded by other sections of the Department, requesting assistance with difficult questions. The Technical Section also responded to requests for formal letter rulings, information letters, determinations of tax status, and answers for tax questionnaires submitted by other government agencies, by educational institutions, or by major tax research database providers.

The Technical Section staff is also responsible for revising or creating the state's tax forms and instructions each year to incorporate changes in federal and state tax law. In FY 2022, they reviewed or revised 464 tax forms, 58 tax form instructions, 13 letter templates for the Tax Modernization System, and 45 Tax Publications. For FY 2022, three new forms and one new instruction were created and zero of the existing forms were made obsolete.

The Technical Section also analyzes and reviews certain applications for tax exemptions. In FY 2022, the Technical Section received 189 applications from organizations requesting exemption from the general excise tax under section 237-23(b), HRS. Of the 189 applications received and 26 applications pending since FY 2021, 140 were reviewed and approved, 33 were pending further action, 37 were cancelled because the organization failed to respond to a request for additional information or were duplicate applications, and five were denied because the organization did not qualify for the exemption. In addition, the Technical Section received and processed 2,477 applications for exemption from the conveyance tax.

Other duties of the Technical Section include reviewing, providing comments, and developing recommendations on legislative bills, administrative rules, Tax Announcements, and Tax Information Releases.

2.4.3 Tax Research and Planning Office

The Tax Research and Planning Office (TRP) produces statistical reports and provides research support and policy analysis. The main functions of the Tax Research and Planning (TRP) Office include: (1) prepare reports on data collected by the Department, including monthly reports of the State's various taxes; (2) provide administrative and technical support to the Council on Revenues; (3) provide economic and statistical analyses to help the Department execute its policies and programs; (4) prepare reports on the revenue consequences of proposed tax legislation; (5) conduct economic analysis on the State's tax system; and (6) provide administrative and technical support to the Tax Review Commission when it is in session.

The TRP Office prepares the following reports on a monthly, fiscal year, and calendar year

basis. These include the: (1) State Tax Collections and Distributions; (2) General Excise and Use Tax Collections; (3) Liquid Fuel Tax Base and Collections; (4) Liquid Fuel Tax Allocations by Fund; (5) Liquor Tax Collections and Permits; (6) Tobacco Tax Collections and Licenses, (7) Preliminary Comparative Statement of General Fund Tax Revenues, (8) the General Excise and Use Tax Liability Report by District, (9) the Transient Accommodation Tax Liability by District, and (9) the Liquor report.

In FY 2022, the TRP Office produced six annual reports including the Department of Taxation's Annual Report. The Office published reports on Tax Credits Claimed by Hawaii taxpayers, Hawaii Individual Income Tax Statistics, Hawaii Business Income Tax Statistics, Hawaii General Excise and Use Tax Exemptions, and Earned Income Tax Credits.

For the 2021 Legislative session, TRP staff reviewed tax-related legislative bills and prepared more than 300 revenue estimates for drafted legislation. Revenue estimates were also prepared for various proposals in response to requests from the administration, legislators, and others. The Office also responded to requests from the public regarding statistics and trends of the Hawaii tax system.

An important function of the TRP Office is to provide administrative and technical support to the Council on Revenues. The seven members of the Council are responsible for forecasting General Fund revenues and the State's Total Personal Income. The Council provides revenue forecasts for the current and six subsequent fiscal years. The forecasts are used by the Governor and by the Legislature to develop and administer the State's budget. The Council also forecasts Total Personal Income (TPI) for the current and immediately following calendar years. The growth in Hawaii Total Personal Income is used to set the ceiling for expenditures from the State's General Fund, as required by the State's Constitution.

The TRP Office operates as the department liaison to the Tax Review Commission (TRC). The TRC meets every five years to offer recommendations to improve the State's revenue system. TRP provides administrative and technical support. This includes conducting advanced economic analysis for ideas and proposals under consideration from the TRC.

2.4.5 Information Technology Services Office (ITSO)

The Information Technology Services Office (ITSO) is responsible for providing technical support for the Department's computerized tax systems and applications, local area network, and network-related components and infrastructures. In FY 2022 the System Administration office officially moved under ITSO. The Quality Control office is in the process of moving under ITSO as well. The System Administration (SA) Office and Quality Control (QC) Office are responsible for providing support for design, development, deployment, and testing of the GenTax Tax System Modernization (TSM) systems. SA and QC Offices ensure that the tax processing systems are configured to meet business requirements, coordinate technical changes, and complete internal inspections.

During FY 2022, ITSO focused on improving the availability, security, and sustainability of the IT infrastructure. ITSO continued modernizing the GenTax application by implementing application upgrades and developing additional solutions to automate and streamline tax processing and collections. ITSO also made significant enhancements to the online services available to taxpayers.

ITSO developed, tested, and implemented over 400 enhancements or corrections to the GenTax application.

Enhancements implemented in FY 2022 include:

- Completed the GenTax v12 upgrade with the following improvements to Hawaii Tax Online (HTO):
 - Home page redesign to improve site navigation
 - Responsive design for mobile devices and tablets
 - Two step verification for user logins to increase HTO account security
 - Improved layout for logged in users to view tax accounts and information
 - Implemented 2021 form and tax law changes
 - Analyzed and incorporated changes of 21 major State tax forms and 15 tax bills from the 2021 legislative session.
 - Developed system updates to administer Act 115 refunds for qualifying 2021 tax return.
 - Developed the following solutions for GenTax:
 - Wage levy enhancement and automation: Developed new solution to simplify the issuance, tracking, releasing, and reporting of wage levies which resulted in \$1.3 million in levy payments from 05/25/22 to 08/30/22.
 - Enforce electronic filing of Form W-2/HW-2: Implemented tracking and reminder letters to enforce the electronic filing requirement.
 - Developed and implemented new features to validate dependents and prevent multiple taxpayers from claiming the same dependent.
 - Implemented fraud enhancements to address new fraud schemes.
 - E-recording of lien releases: Automated filing of tax liens releases with the Bureau of Conveyances (BOC) which streamlined the lien release process and reduced time spent on paperwork.

Key initiatives in FY 2022 include:

1. Migrated the Interactive Voice Response (IVR) application supporting the call center to the cloud
2. Implemented network redundancy for the neighbor island district offices
3. Upgraded the data center network switch.
4. Upgraded the GenTax SMS service for two step verification
5. Deployed new Service Desk application for internal user IT support
6. Automated data sharing with counties for TAT administration
7. Addressed IRS audit findings

System Administration Office and Quality Control Office

System Administration Office and Quality Control Office is responsible for providing support for design, development, deployment, and test changes to the GenTax Tax System Modernization (TSM) systems. System Administration Office and Quality Control Office ensure that the tax processing systems are configured to meet business requirements, coordinate technical changes, and complete internal inspections.

Activities supported in FY 2021 include:

- Simple file import method of filing General Excise Tax and Transient Accommodations Tax: This new functionality allows for multiple returns to be filed at once using a simple spreadsheet format that is uploaded through Hawaii Tax Online and ingested into the TSM system
- Annual license abandonment process: This will ensure that taxpayer's open accounts are active
- GenTax version 12 upgrade: Planning, resources requests and management, definitions, testing, CBT training, and deskside support provided
- 2020 year-end change: Form and tax law changes and tracking of tax credits
- DOTAX service desk: Worked with managers/supervisors in solving issues that requires tax systems modifications or changes to meet business needs
- Migrated GenTax infrastructure to FAST Hosted Services: Testing and verification
- Assist with IRS assessment

2.4.6 Taxpayer Advocate

The Taxpayer Advocate assisted taxpayers in working to resolve systemic problems within the Department. Examples of issues addressed include processing, inter-departmental and workflow problems which affect taxpayers. Other accomplishments of this office included speaking, teaching, and participating in tax workshops and educational outreaches to tax professionals and the public.

The Taxpayer Advocacy Program assists taxpayers who do not have a resolution to their tax related issue after going through normal channels. This program provided assistance to 922 taxpayers during the Fiscal Year ending June 30, 2022.

The Taxpayer Advocate indirectly assisted taxpayers in working to resolve systemic problems within the Department. Examples of issues addressed include processing, inter-Departmental and workflow problems which affect taxpayers. Other accomplishments of this office included speaking, teaching and participating in tax workshops and educational outreaches to tax professionals and the general public.

2.4.7 Tax Practitioner Priority Specialist

The Practitioner Priority Specialist (PPS) provides tax practitioners a separate and dedicated connection to the Department's Taxpayer Services functions. The PPS office has assisted verified tax practitioners via telephone, email, and fax to resolve tax account issues such as locating and applying payments, explaining notices and letters, providing procedural guidance, and assisting with other taxpayer account inquiries.

The PPS also assisted verified tax practitioners by working within the Department to improve services (including online) and workflows based on their input. Other accomplishments of this office included speaking, teaching, and participating in tax workshops and educational outreaches to tax professionals.

2.5 MANAGEMENT PERSONNEL
As of June 30, 2022

OFFICE OF THE DIRECTOR

Director of Taxation Isaac W. Choy
Deputy Director of Taxation Vacant

STAFF OFFICES

Public Information Officer Vacant
Rules Officer Ted Shiraishi
 Technical Section Supervisor Denise Inouye
Tax Research & Planning Officer Seth Colby
 Senior Economist Yvonne Chow
Information Technology Services Officer Corey Higa
Administrative Services Officer Min Meng
 Personnel Officer Jennifer Egami
Taxpayer Advocate Jaysen Morikami
Administrative Appeals Officer Adriane Aarona
Tax Practitioner Priority Specialist Wendy Yoshioka-Moore

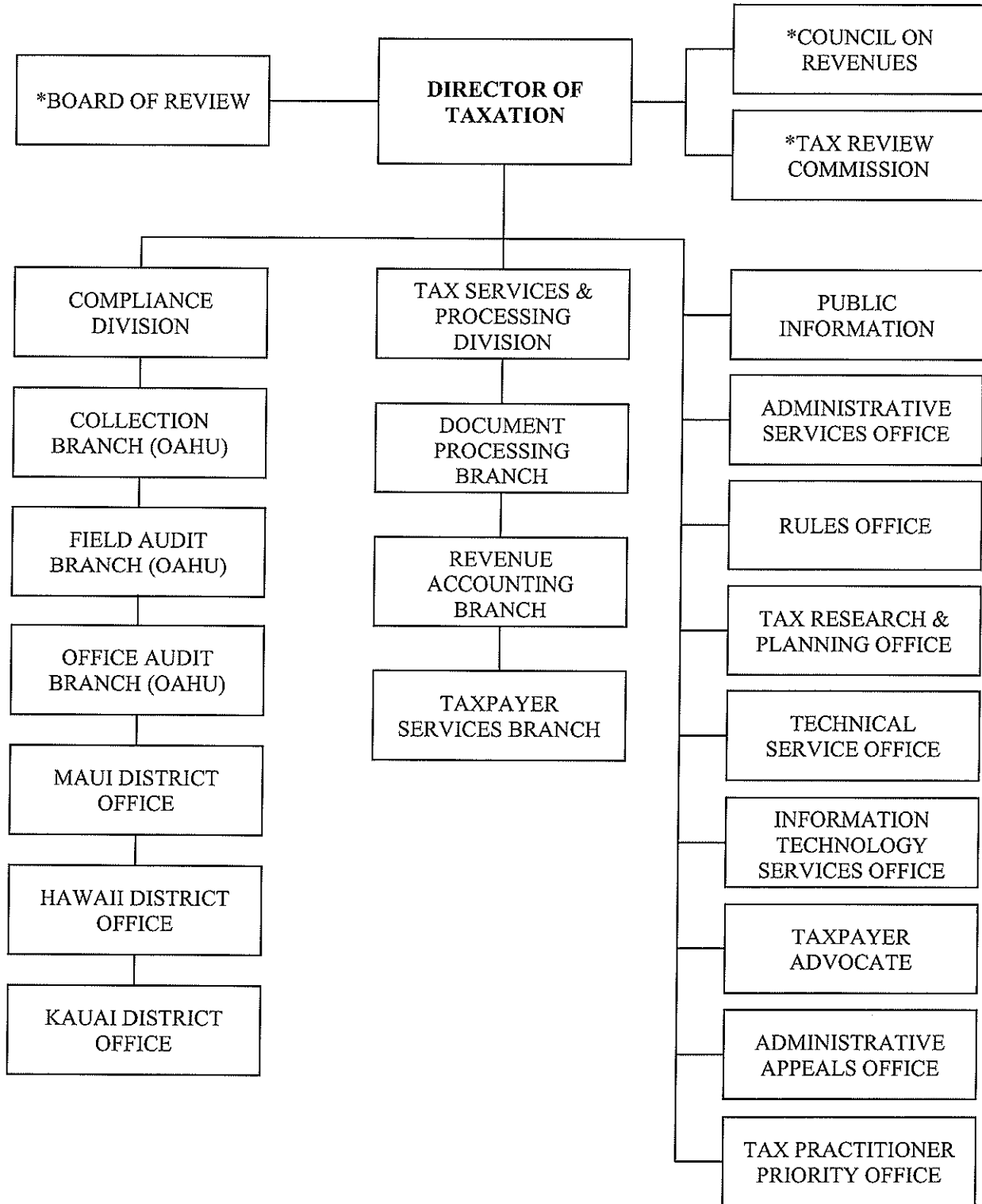
OPERATIONS STAFF

Taxation Compliance Administrator Kevin Wakayama
 Tax Compliance Coordinator Regina Yuen
 Oahu Field Audit Branch Chief Madelaina Lai
 Oahu Office Audit Branch Chief Donald Kuriki
 Oahu Collection Branch Chief Lynn Araki-Regan
 Maui District Tax Manager Tricia Oftana
 Hawaii District Tax Manager Duquesne Hulihee
 Kauai District Tax Manager Connie Balisacan

Taxation Services Administrator Nicki Ann Thompson
 Document Processing Operations Manager Todd Kuromoto
 Revenue Accounting Branch Chief Jennifer Oshiro
 Taxpayer Services Branch Chief Gale Magee

2.6 ORGANIZATION CHART

Department of Taxation
State of Hawaii



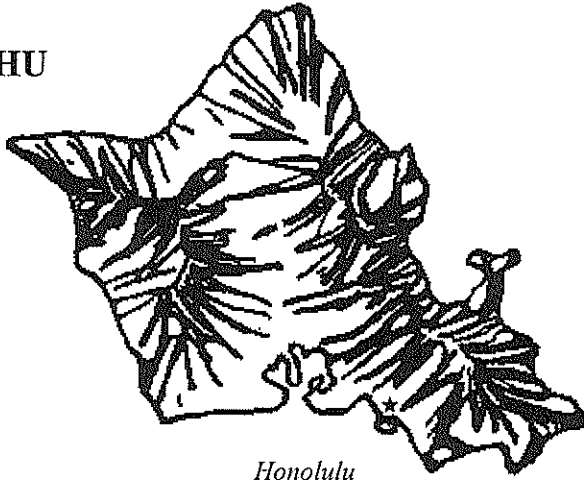
*For Administrative Purposes.

2.7 DISTRICT OFFICES

FIRST TAXATION DISTRICT

City & County of Honolulu

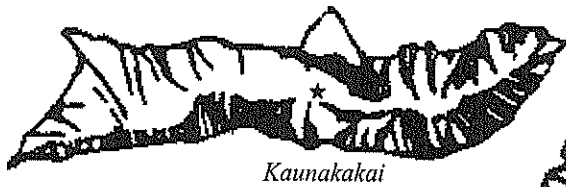
OAHU



Oahu Office
830 Punchbowl Street
Honolulu, Hawaii 96813

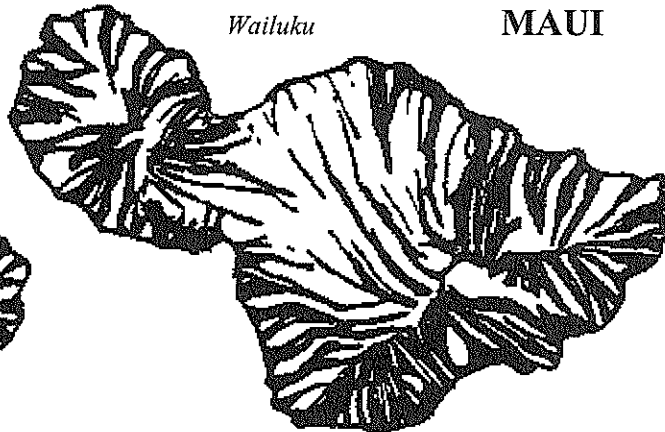
SECOND TAXATION DISTRICT

Counties of Maui and Kalawao



MOLOKAI

LANAI



Maui Office
54 South High Street
Wailuku, Hawaii 96793

Molokai Office
35 Ala Malama Street #101
Kaunakakai, Hawaii 96748

KAHOOLAWE

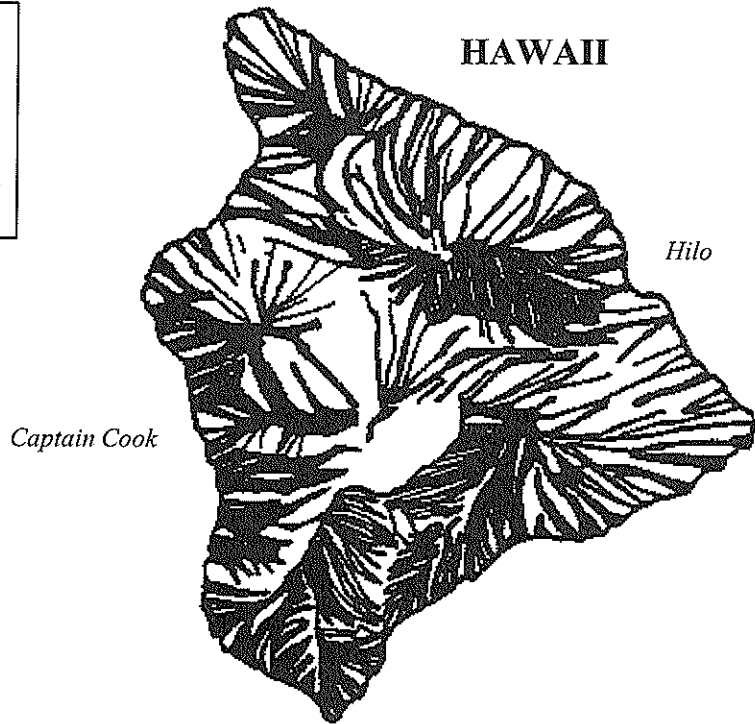


THIRD TAXATION DISTRICT

County of Hawaii

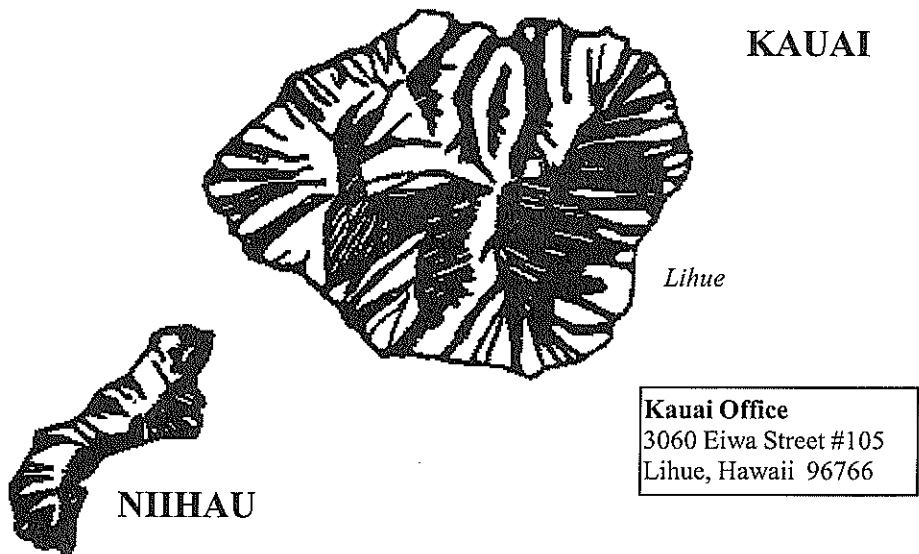
Hilo Office
75 Aupuni Street
Hilo, Hawaii 96720

Kona Office
82-6130 Mamalahoa Highway #8
Captain Cook, Hawaii 96704



FOURTH TAXATION DISTRICT

County of Kauai

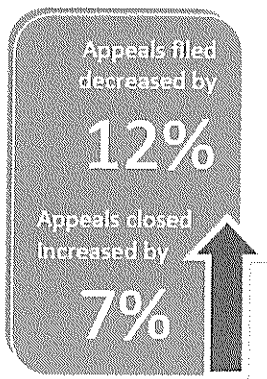
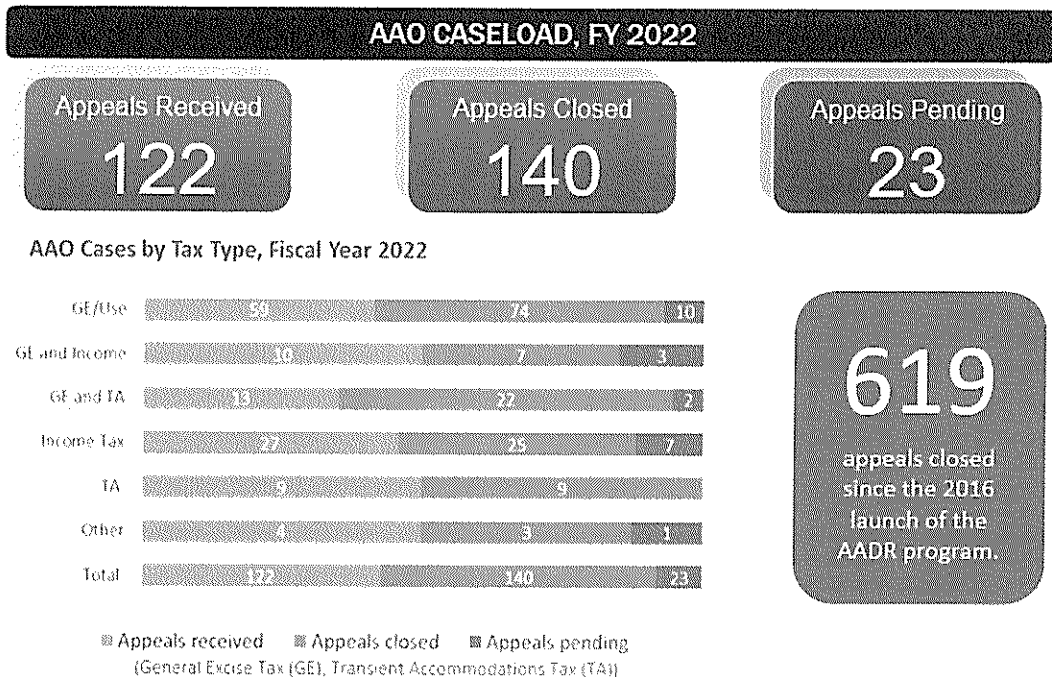


3.0 APPEALS AND LITIGATION

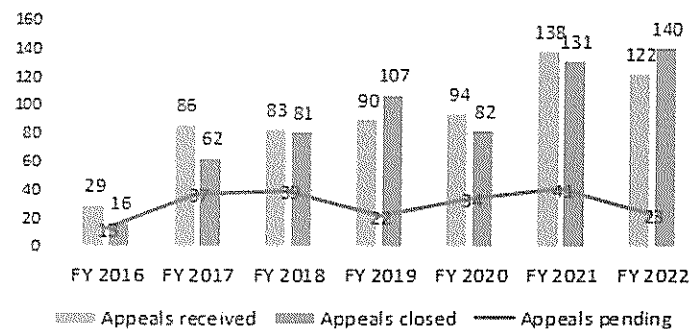
3.1 ADMINISTRATIVE APPEALS OFFICE

The Administrative Appeals Office (AAO) operates the Administrative Appeals and Dispute Resolution (AADR) program. AADR is a streamlined appeals process that assists taxpayers and return preparers with disputes involving proposed assessments, final assessments, and return preparer penalty assessments. Our mission is to help people resolve tax disputes fairly, expeditiously, and without litigation. The AAO is separate and independent of the Compliance Division that performs audit examinations and issues assessments. For more information, please visit our website at tax.hawaii.gov/appeals.

In FY 2022, the AAO received 122 appeal applications and closed 140 cases. There were 23 cases pending as of June 30, 2022. The appeals received by the AAO decreased by 12% from fiscal year 2021 while the appeals closed by the AAO increased by 7%.



AAO Caseload, Fiscal Years 2016 - 2022



3.2 BOARDS OF TAXATION REVIEW

The Statewide Board of Taxation Review was established on June 28, 2021, pursuant to Hawaii Revised Statutes (HRS) sections 26-10(d) and 232-6 (as amended by Act 118, Session Laws of Hawaii 2021). The Board consists of ten members. Prior to June 28, 2021, separate Boards existed for each taxation district. The Board began the fiscal year with 125 pending tax appeals. In FY 2022, 27 new appeals were filed, 19 appeals withdrawn, and 13 appeals settled. A total of 120 appeals to the Boards of Taxation Review were pending at the end of the fiscal year.

The following table details appeals to the Boards of Taxation Review by taxation district:

Taxation District	First		Second	Third	Fourth	TOTAL
	Field	Office				
Appeals Pending (Beginning)	88	21	2	3	11	125
New Appeals	8	10	0	9	0	27
Appeals Withdrawn	9	8	0	2	0	19
Appeals Settled	7	3	2	1	0	13
BOR Appeals Pending (Ending)	80	20	0	9	11	120

3.3 CIVIL DECISIONS, SETTLEMENTS AND OTHER LEGAL MATTERS

I. CONCLUDED MATTERS

During the last fiscal year, and up to the present, the Tax and Charities Division (“Division”) concluded 554 Department of Taxation (“Department”) matters (excluding legislative matters).

Tax Appeals	-	11
Miscellaneous cases	-	3
Bankruptcies	-	311
Contracts	-	9
Foreclosures	-	54
Quiet Title	-	2
Subpoenas	-	2

II. AMOUNTS COLLECTED

In fiscal year 2022, the Division collected the following amounts for the Department:

Tax Appeals	\$ 2,534,885.90
Foreclosures	\$ 1,832.46
Bankruptcies	\$ 786,261.20
Trust	\$ <u>11,177.90</u>
TOTAL:	\$ <u>3,334,157.46</u>

* The total collections reflected above from tax appeal cases includes amounts received or to be received by the Department pursuant to settlement, as well as amounts that the Department is entitled to collect, or does not have to refund, pursuant to court order or judgment.

III. COURT CASES

Concluded Tax Appeal Court Cases

In the Matter of the Tax Appeal of Hawaiian Airlines, Inc., Case No. 1 T.X. 14-1-0258, Tax Appeal Court, State of Hawaii.

Taxpayer claimed a use tax refund alleging that it paid use tax on purchases of jet fuel for use and consumption during its inter-island flights. The Department filed a motion to dismiss or, in the alternative, for summary judgment. The tax appeal court granted the Department’s motion and entered judgment in favor of the Department.

In the Matter of the Tax Appeal of Adrienne P. Sweeney, Case No. 1 T.X. 18-1-0316, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the final assessment of income taxes after receiving notification that Taxpayer’s administrative appeal had been closed. The final assessment disallowed a deduction for repayment of trustee fees claimed on her 2014 Individual Income Tax Return. This case was dismissed by stipulation.

In the Matter of the Tax Appeal of Dillingham Plaza Associates, LLC, Case No. 1 CTX 20-1-0075, Tax Appeal Court, State of Hawaii.

Taxpayer appealed assessment of additional general excise taxes, penalties, and interest due to the disallowance of the sublease deduction provided under section 237-16.5, Hawaii Revised Statutes (“HRS”). The Department claimed Taxpayer failed to provide timely proof of entitlement to the deduction. This case was settled.

In the Matter of the Tax Appeal of William J. Flohrs, Case No. 1 CTX 20-0000111, Tax Appeal Court, State of Hawaii.

Taxpayer’s appeal related to an Audit Adjustment Agreement seeking payments due under the agreement and asking for a return of all documents provided by Taxpayer as part of the audit. Taxpayer received the amounts requested and, pursuant to Court Order, hard copies of all documents submitted by Taxpayer were returned. Taxpayer’s motion for summary judgment was denied and this matter was dismissed with prejudice by stipulation.

In the Matter of the Tax Appeal of John Dotten, Case No. 1 CTX 21-0000058, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessment of additional general excise taxes, penalties, and interest on additional taxable income for 2011 claiming he was due a refund. This case was settled.

In the Matter of Diane L. Cline, Case No. 1CTX-21-0001522, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the Department's assessment of general excise tax and/or use tax for tax years 2011 through 2018 and transient accommodations tax for tax years 2015 through 2019 for the resale of transient accommodations. This case was settled.

In the Matter of the Tax Appeal of Kenneth R. Bunce and Kathleen B. Bunce, Case No. 1 CTX 21-00490, Tax Appeal Court, State of Hawaii.

Taxpayer appealed denial of net income tax refund claim that was disallowed by the Department. Taxpayer claimed a payment received was a nontaxable pension distribution. The Department claimed the payment was taxable income and issued a final assessment denying Taxpayer's refund claim. The court granted the Department's motion to dismiss this case.

Hawaiian Airlines, Inc. v. Department of Taxation, Case No. 1 CTX 21-0000493, Tax Appeal Court, State of Hawaii.

Taxpayer alleged it paid under protest general excise taxes assessed against The Boeing Company in accordance with a contract and filed this action under section 40-35, HRS. Taxpayer claimed that the amounts in question are exempt under section 237-24.9, HRS. The court granted the Department's Motion to Dismiss for lack of subject matter jurisdiction and Taxpayer has appealed to the Intermediate Court of Appeals ("ICA") and the appeal is proceeding.

In the Matter of the Tax Appeal of Activend Hawaii, LLC, Case Nos. 1 CTX 21-0000494, 1 CTX 21-0000495, 1 CTX 21-0000496, 1 CTX 21-0000497, 1 CTX 21-0000498, 1 CTX 21-0000499, 1 CTX 21-0000500 and 1 CTX 21-0000501, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessments of general excise taxes for tax years 2012 through 2019, inclusive. Taxpayer claimed that it was entitled to income splitting pursuant to HRS § 237-18(a). This case was resolved through the administrative appeals and dispute resolution program (AADR) and dismissed.

In the Matter of the Tax Appeal of R and A Inc., Case No. 1 CTX 21-0000516, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from final assessment of general excise tax. Taxpayer claimed that the assessment was incorrect and included amounts from internet sales occurring outside the State. This case was resolved through the AADR and dismissed.

In the Matter of the Tax Appeal of Rock Salt Media, Inc., Case No. 1 CTX 21-0000562, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessments of income taxes for tax years 2017, 2018, and 2019. Taxpayer claimed that the Department erroneously disallowed its film credit exemption. This case was settled.

In the Matter of the Tax Appeal of SecurityHunter, Inc., Case No. 1 CTX 22-0000125, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessment of income taxes on the grounds that it was issued less than 30 days after the mailing date of the Notice of Proposed Assessment. Taxpayer also appealed for lack of Taxpayer physical presence in Hawaii for years 2013 to 2017. Taxpayer also appealed for the disallowance of exemptions under HRS §237-28.1 for Taxpayer's income from building or repairing vessels owned by the US Navy and HRS § 237-25 for Taxpayer's income from selling tangible personal property, or prewritten software to the US Navy. Taxpayer also appealed to the Administrative Appeals Office. Final assessment was rescinded. Case was dismissed.

Concluded Miscellaneous Tax Cases

Booking.com v. Isaac Choy, in his official capacity as Director of Taxation, and State of Hawaii Department of Taxation, Case No. 1 CC 19-1-0107-01 JHA. Circuit Court of the First Circuit, State of Hawaii.

Plaintiff Booking.com filed a complaint for declaratory relief alleging Hawaii Administrative Rules § 18-237-29.53-10(a)(3) was invalid and violated the Internet Tax Freedom Act, 47 U.S.C. § 151, by imposing tax in a discriminatory manner. The Court granted Defendants' Motion to Dismiss for lack of subject matter jurisdiction over a case affecting the assessment and collection of taxes. Plaintiff appealed to the ICA and the appeal is proceeding.

Zucker v. Fidelity National Title & Escrow of Hawaii, Inc., et al., Case No. 2CCV-21-0000120, Circuit Court of the Second Circuit, State of Hawaii.

The Department was named as a third-party defendant by Fidelity National Title & Escrow of Hawaii ("Fidelity") in an action brought by a seller of real property against Fidelity. The plaintiff-seller claims that Fidelity submitted a tax form to the Department in connection with the sale of the property that contained erroneous information, which caused the Department to transfer funds to a third party. Fidelity claimed that the Department was liable for transferring the funds to the third party. The Department asserted sovereign immunity and was dismissed from the case.

Kenneth G. Kraemer v. Hawaii State Department of Taxation, Civ. No. 1 DSC-21-0000357, Small Claims Court, State of Hawaii.

Taxpayer filed a Notice and Statement of Claim for return of his income tax refund. The Internal Revenue Service (IRS) levied Taxpayer's 2018 state refund to pay an outstanding 2007 federal tax obligation. Taxpayer claimed that the refund belonged to his wife and should not have been given to the IRS. At a hearing on October 20, 2021, the Court granted the Department's motion and dismissed the case with prejudice.

Pending Tax Appeal Court Cases

In the Matter of the Tax Appeals of TMI Management, Inc., Case Nos. 1 T.X. 09-0071 and 1 T.X. 09-0072, Tax Appeal Court, State of Hawaii.

Taxpayer appeals assessment of additional general excise taxes on amounts received for performing work for the federal government. Taxpayer argues, among other things, that the

disputed income was exempt because Taxpayer was an employee leasing company and the disputed income was for salaries and expenses of leased employees. There is no trial date.

In the Matter of the Tax Appeals of Bernard & Ellen Fuller and South Pacific Builders, Ltd., Case Nos. 1 T.X. 09-0087, 1 T.X. 09-0088 and 1 T.X. 09-0089, Tax Appeal Court, State of Hawaii.

Taxpayers appeal assessment of additional general excise and net income taxes on amounts received for performing work within the State. Taxpayers argue, among other things, that the disputed income was exempt because Taxpayers paid certain amounts to other contractors. Taxpayers' counsel withdrew from this case and Taxpayers are seeking new counsel. There is no trial date.

In the Matter of the Tax Appeal of Kalani M. Rodrigues, Case No. 1 T.X. 12-1-0238, Tax Appeal Court, State of Hawaii.

Taxpayer appeals assessment of additional GET and/or use tax, penalties and interest based on: (1) the denial of the 0.5% wholesale rate; and (2) unreported imports of goods for consumption. Trial is 3/13/23.

In the Matter of the Tax Appeal of Julie A. Dunham, Case No. 1 T.X. 12-1-0390, Tax Appeal Court, State of Hawaii.

Taxpayer appeals assessment of general excise and income taxes on non-filed returns for 1999 through 2010, inclusive. Taxpayer argues that the Department's income figures are incorrect. There is no trial date.

In the Matter of the Tax Appeal of William A. Bartenstein, Case No. 1 T.X. 13-1-0228, Tax Appeal Court, State of Hawaii.

Taxpayer appeals assessment of additional general excise and/or use taxes and penalties and interest on goods imported for resale. Taxpayer argues that the Department's income figures are incorrect and the stacking of the negligence and underpayment penalties is erroneous. There is no trial date.

In the Matter of the Tax Appeal of Skydiving School, Inc., Case Nos. 1 T.X. 14-1-0217 and 1 T.X. 14-1-0218, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from the denial of a refund claim and assessments of general excise taxes related to its skydiving business. Taxpayer's major issue is that its gross receipts from skydiving activities is not subject to the general excise tax because of federal preemption under the federal Anti-Head Tax Act. Trial briefs have been submitted and we are awaiting the Tax Appeal Court's ruling.

In the Matter of the Tax Appeal of Darren Truitt, Case No. 1 T.X. 14-1-0228, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the Department's assessment of additional income taxes, and penalties and interest for income attributed to his wholly owned LLC. Taxpayer's counsel withdrew from this case and Taxpayer is seeking new counsel. There is no trial date.

In the Matter of the Tax Appeal of Construction Servs. & Management LLC, Case No. 1 T.X. 14-1-0229, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the Department's assessment of general excise taxes, penalties and interest for underreported gross receipts. Taxpayer's counsel withdrew from this case and Taxpayer is

seeking new counsel. There is no trial date.

In the Matter of the Tax Appeal of Home Depot U.S.A., Inc., Case No. 1 T.X. 15-1-0218, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the Department's disallowance of the wholesale rate on general excise taxes due on sales to customers at its retail stores as well as the Department's denial of the subcontractor deduction related to work performed for customers. Settlement negotiations are ongoing. Trial is set for November 7, 2022.

In the Matter of the Tax Appeal of Dan S. Tetsutani, Case No. 1 T.X. 15-1-0219, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from a final assessment of additional general excise tax and/or use taxes stating the assessments were improper, or in the alternative, that Taxpayer should pay the wholesale rate. Trial is set for January 9, 2023.

Maria E. Zielinski v. Blake and Bianca Goodman, Case No. 1 T.X. 15-1-0221; Tax Appeal Court, State of Hawaii.

The Department denied Taxpayers' fully refundable Renewable Energy Technologies tax credits under Haw. Rev. Stat. § 235-12.5 because Taxpayers' adjusted gross income exceeded the statutory threshold entitling them to a fully refundable credit. The Board of Review ruled that Taxpayers could revoke their elections to receive refundable tax credits. Cross motions for summary judgment were heard and we are awaiting a ruling from the Tax Appeal Court.

In re Tax Appeal of Thomas Aki, Case No. 1 T.X. 16-1-0291, Tax Appeal Court, State of Hawaii.

Taxpayer appeals income tax assessments for tax years 2012 through 2014 in which the disallowed business expenses and deductions, disallowed the personal exemption deduction, and disallowed the application of losses from prior years. Settlement negotiations are ongoing. Trial set for November 14, 2022.

In re Tax Appeal of Jeffrey Scott Lindner, Case No. 1 T.X. 16-1-0300, Tax Appeal Court, State of Hawaii.

Taxpayer appeals income taxes for tax years 2012 through 2014, inclusive. Taxpayer claims that he properly filed returns to qualify for High Technology Business Investment Tax Credits per Haw. Rev. Stat. § 235-110.9; however, the Department claims that it did not receive the returns. Trial is set for December 13, 2021.

In the Matter of the Tax Appeal of Janice P.C. Hori, Case No. 1 T.X. 17-1-1340, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of general excise taxes that were made based on information obtained from Taxpayer's income tax return. Taxpayer did not file general excise tax returns for the years listed on her income tax return. Trial is set for June 19, 2023.

In the Matter of the Tax Appeal of Certified Erosion Control Hawaii LLC., Case No. 1 T.X. 17-1-1341, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of general excise tax claiming it was entitled to the wholesale rate. Taxpayer was a non-filer and submitted unfiled returns with the auditor during the audit phase. Although Taxpayer qualified for the wholesale rate, the rate was disallowed because of Haw. Rev. Stat. § 237-41.5. Taxpayer also argues that he did not receive the

proposed assessment. Trial is set for January 23, 2023.

In the Matter of the Tax Appeal of Michelle Richardson, Case No. 1 T.X. 17-1-1349, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of income and general excise taxes that were based on federal data because Taxpayer is a non-filer. Taxpayer's whereabouts is currently unknown. Trial is not set.

In the Matter of the Tax Appeal of Diamond Resorts Hawaii Collection Members Ass'n, Case Nos. 1 T.X. 18-1-0318, 1 T.X. 19-1-0180, 1 T.X. 19-1-0182, and 1 T.X. 19-1-0183, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the denial of refund claim for general excise taxes for tax years 2014 through 2017, inclusive. Taxpayer claims that it operates timeshares in Hawaii and across the mainland United States and that for the tax years in question, it incorrectly included income from timeshares on the mainland that should not have been reported on its Hawaii return. Trial for 1 T.X. 18-1-0318 is set for September 11, 2023. Trial is not set in the other cases.

In the Matter of the Tax Appeal of Colorado Personnel Resources, Inc., Case No. 1 T.X. 18-1-0334, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments for general excise taxes for tax years 2004 through 2011, inclusive. Taxpayer challenges the assessments claiming that it lacks nexus with Hawaii. Trial is set for the week of December 5, 2022.

In the Matter of the Tax Appeal of Dolphin K. Pawn, Case No. 1 T.X. 19-1-0190, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments of income taxes for tax years 2014 through 2017, inclusive. Taxpayer claims that he may be entitled to deductions and adjustments. Trial is not set.

In the Matter of the Tax Appeal of George Hochman, Case No. 1 T.X. 19-1-0197, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments of general excise and withholding taxes for tax years 2003 and 2004 and 2008 through 2018, inclusive. Taxpayer claims, among other things, that the assessments improperly hold him personally liable for the general excise and withholding taxes of six corporations. Trial is not set.

In the Matter of the Tax Appeal of Guy C. Smith, Case No. 1 T.X. 19-1-0203, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments of general excise and transient accommodations taxes for tax years 2008 through 2017, inclusive. Taxpayer claims that the assessments are incorrect. Trial is not set.

In the Matter of the Tax Appeals of Brian and Lisa Pestana, Case Nos. 1 T.X. 19-1-0210 and 1 T.X. 19-1-0211, Tax Appeal Court, State of Hawaii.

Taxpayers were personally assessed for general excise tax incurred by a corporation they owned. The general excise tax assessments are related to the denial of wholesale rates and out-of-state sales exemptions by the tax benefit rule in Haw. Rev. Stat. § 237-9.3. Trial is not set.

In the Matter of the Tax Appeal of Diamond Resorts Hawaii Collection Development LLC aka Club Sunterra Development Hawaii, LLC., Case Nos. 1 T.X. 19-1-0222, 1 T.X. 19-1-0223, 1 T.X. 19-1-0224, 1 T.X. 19-1-0225, 1 CTX 20-000059, 1 CTX 21-0001553, and 1 CTX 22-0000090, Tax Appeal Court, State of Hawaii.

Taxpayer appeals denial of refund claim for general excise taxes for tax years 2013 through 2020, inclusive. Taxpayer claims that its refund claims were erroneously denied because the timeshare interests being sold and subject to tax are held in a Hawaii Land and Trust, and, as such, is the sale of real property that is not subject to general excise tax. Taxpayer further claims that the closing costs on the sale of the time share interests and the interest income earned on a financed sale are not subject to general excise tax under the Commerce Clause of the United States Constitution because there is insufficient nexus between the activities and the State and that, in the event that any such taxes are due, such taxes are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of TW Telecom Inc. and Subs, Case No. 1 T.X. 19-1-0257, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of income taxes for tax years 2008 through 2012, inclusive. Taxpayer claims that it qualifies for the capital goods excise tax credit. Trial is not set.

In the Matter of the Tax Appeal of Sheryl Sihavong, Case No. 1 T.X. 19-1-0000500, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments of general excise and withholding taxes for tax years 2010 through 2018, inclusive. Taxpayer claims, among other things, that the assessments improperly hold her personally liable for the general excise and withholding taxes of a wholly owned corporation. Trial is not set.

In the Matter of the Tax Appeal of Naret Sihavong, Case No. 1 T.X. 19-1-0000501, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments of general excise and withholding taxes for tax years 2010 through 2018, inclusive. Taxpayer claims, among other things, that the assessments improperly hold him personally liable for the general excise and withholding taxes of a wholly owned corporation. Trial is not set.

In the Matter of the Tax Appeal of Stanley Global LLC, Case No. 1 CTX 20-0000053, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments of general excise taxes for tax years 2014 through 2017, inclusive. Taxpayer claims, among other things, that the assessments improperly include tax on activities conducted and/or sales made outside the State of Hawaii. Trial is not set.

In the Matter of the Tax Appeal of S&K Sales Co., Case No. 1 CTX 20-0000058, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final general excise tax assessments for tax years 2005 through 2009 and 2013 through 2017 for underreported commissions, retailing, wholesaling, other rentals, interest, county surcharge, penalties, and interest. Taxpayer claims the assessments are incorrect. Trial is not set.

In the Matter of the Tax Appeals of Uber Technologies, Inc. and Rasier, LLC, Case Nos. 1 T.X. 21-0000063, 1 T.X. 20-1-0065 and 1 T.X. 20-1-0066, Tax Appeal Court, State of Hawaii.

Taxpayers were assessed additional general excise taxes, penalties, and interest on services provided in Hawaii. Trial is not set.

In the Matter of the Tax Appeal of DePuy Synthes Sales, Inc., Case No. 1 T.X. 20-1-0067, Tax Appeal Court, State of Hawaii.

Taxpayer appeals assessment of additional general excise taxes, penalties, and interest on sales of medical equipment. Taxpayer was levied on these assessments and appeals the Department's denial of refund claim on the levied amounts. Taxpayer claims the assessed amounts were paid on returns filed by its parent company but has not substantiated these amounts. Trial is not set.

In the Matter of the Tax Appeal of Wings to Wisdom, LLC, Case No. 1 CTX 20-0000068, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessment of transient accommodations tax, penalties, and interest on unreported gross rental or gross rental proceeds. Trial is not set.

In the Matter of the Tax Appeal of Wings to Wisdom, LLC, Case No. 1 CTX 20-0000069, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessment of general excise tax, penalties, and interest on underreported services and/or underreported transient accommodations rentals. Trial is not set.

In the Matter of the Tax Appeal of Rickey and Emilou Mikami, Case No. 1 CTX 20-0000070, Tax Appeal Court, State of Hawaii.

Taxpayers appeal from final assessments in general excise taxes for tax years 2016 through 2018. Taxpayers claim, among other things, that they were not allowed an opportunity for a hearing before the Administrative Appeals Officer to prove their underlying claim and that the Department disallowed proper business expenses and deductions. Trial is not set.

Hawaiian Airlines, Inc. v. Department of Taxation, Case No. 1 CTX 20-0000074, Tax Appeal Court, State of Hawaii.

Taxpayer appeals Final Assessment of Income Tax disallowing Taxpayer's filing of a combined return and use of a combined reporting method with non air carrier entities. This is an action under section 40-35, HRS. Trial is not set.

In the Matter of the Tax Appeal of Level 3 Communications Inc & Subs., Case No. 1 CTX 20-0000102, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of income taxes for tax years 2014 through 2017, inclusive. Taxpayer claims that it qualifies for the capital goods excise tax credit. Trial is not set.

Michael Neely v. Department of Taxation, Inc., Case No. 1 CTX 20-00106, Tax Appeal Court, State of Hawaii.

Taxpayer appeals assessment of additional general excise taxes, penalties, and interest on payments received from a partnership. The assessments were based on Taxpayers net income returns that characterized the payments from the partnership as guaranteed payments. Taxpayer claims the payments were actually partnership distributions not subject to GET. Taxpayer paid

the disputed amount under protest and filed a complaint under section 40-35, HRS. Trial is not set.

In the Matter of the Tax Appeal of Pacific Consultants & Construction Inc., Case No. 1 CTX 20-0000108, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of general excise taxes for tax years 2012 through 2019, inclusive. Taxpayer claims that services provided in a foreign trade zone are exempt from general excise tax. Trial is not set.

In the Matter of the Tax Appeals of Island Production Services I, Case Nos. 1 CTX 21 00003 and 1 CTX 21-00004, Tax Appeal Court, State of Hawaii.

Taxpayers appeal final assessment of additional net income taxes, penalties, and interest due to the disallowance of the Motion Picture, Digital Media, and Film Production Income Tax Credit provided under section 235-17, HRS, based on the failure to provide adequate substantiation to support their claims for the credit. Taxpayers were also assessed GET, penalties, and interest based on: (1) the denial of Taxpayers' use of the wholesale rate; and/or (2) the denial of the exemption for exported services under section 237-29.53, HRS. Trial is not set.

In the Matter of the Tax Appeal of JTU, Inc., Case No. 1 CTX 21-0000050, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments of general excise taxes for tax years 2012 through 2017. Taxpayer claims that the Department improperly disallowed the splitting of gross income from real estate commissions. Trial is not set.

In the Matter of the Tax Appeal of Daniel O Nelson, Case No. 1 CTX 21-0000055, Tax Appeal Court, State of Hawaii.

Taxpayer appeals a Final Notice of Personal Liability for General Excise Tax determining that Taxpayer is personally liable for unpaid general excise taxes of Global Stone Hawaii, Inc. Trial is not set.

In the Matter of the Tax Appeals of Kelvin Ching and Associates, Inc. and Kelvin K. Ching, Case Nos. 1 CTX 21-00056 and 1 CTX 21-00057, Tax Appeal Court, State of Hawaii.

Taxpayers appeal final assessment of additional general excise taxes due to the disallowance of the lower tax rate afforded to licensed insurance producers under section 237-13(7), HRS. In addition, Taxpayers claims they reasonably relied on the representations of a tax professional and have reasonable cause for late filed tax returns and payment. Trial is not set.

In the Matter of the Tax Appeal of Brian Toker, Case No. 1 T.X. 21-1-0000059, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from notices of personal liability of general excise and withholding taxes for tax years 2018 through 2020, inclusive. Taxpayer claims, among other things, that the notices improperly hold him personally liable for the general excise and withholding taxes of a corporation he did not control. Trial is not set.

In the Matter of the Tax Appeal of Pasha Hawaii Holdings LLC, Case Nos. 1 CTX 21-0000065, 1 CTX 21-0000066, 1 CTX 21-0000067, 1 CTX 21-0000068, 1 CTX 21-0000069 and 1 CTX 21-0000070, 1 CTX 21-0001555, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessment of general excise tax, penalties, and interest for unreported

services and county surcharge for tax years 2010, 2015, 2016, 2017, 2018, and 2019, respectively. Trial is not set.

In the Matter of the Tax Appeal of Alicia Andra, Case No. 1 CTX 21-0000491, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of general excise and transient accommodations taxes for tax years 2016 through 2018, inclusive. Taxpayer claims that the income is attributable to another taxpayer and that the amounts assessed are overstated. Trial is not set.

In the Matter of the Tax Appeal of KMK, LLC, Case Nos. 1 CTX 21-0000502, 1 CTX 21-0000503, 1 CTX 21-0000504, 1 CTX 21-0000505, 1 CTX 21-0000506, 1 CTX 21-0000507 and 1 CTX 21-0000508, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of general excise taxes for tax years 2013 through 2019, inclusive. Taxpayer claims that it is entitled to income splitting pursuant to HRS § 237-18(a). The parties entered into a stipulation to allow Taxpayer to participate in the Administrative Appeals Program. Trial is not set.

Isaac W. Choy. V. Green Vision Hale Mohalu Solar, LLC, Yuka Nawano, and Michael M. Chen, Case No. 1 CTX 21-00514, Tax Appeal Court, State of Hawaii.

The Department appeals a Board of Review decision allowing Taxpayers to claim a portion of the Renewable Energy Technologies Income Tax Credit provided under section 235-12.5, HRS. The Department claims Taxpayers did not provide adequate documentation to claim the credit. Trial is not set.

In the Matter of the Tax Appeals of Island Production Services II and III, Case Nos. 1 CTX 21-00517, 1 CTX 21-00518, 1 CTX 21-00519 and 1 CTX 21-00520, Tax Appeal Court, State of Hawaii.

Taxpayers appeal final assessment of additional net income taxes, penalties, and interest due to the disallowance of the Motion Picture, Digital Media, and Film Production Income Tax Credit provided under section 235-17, HRS. Taxpayers did not provide adequate substantiation to the Department to support their claims for the credit. Taxpayers were also assessed GET, penalties, and interest based on: (1) the denial of Taxpayers' use of the wholesale rate; and/or (2) the denial of the exemption for exported services under section 237-29.53, HRS. Trial is not set.

In the Matter of the Tax Appeal of Christopher Bonner, Case No. 1 CTX 21-0000555 Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessment of general excise and transient accommodations taxes, penalties, and interest for tax years 2019 on unreported gross rental or gross rental proceeds. Taxpayer claims he did not operate a transient accommodation in 2019. Trial is not set.

In the Matter of the Tax Appeal of ECO Lawn and Landscape LLC, Case No. 1 CTX-21-0000920, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessment of general excise tax. Taxpayer asserts that income received was misclassified as payments to an independent contractor instead of wages. The parties are in settlement discussions and trial is not set.

In the Matter of the Tax Appeal of Nathan E. Rhodes, Case No. 1 CTX-21-0000942, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessment of general excise tax. Taxpayer asserts that income received

was misclassified as payments to an independent contractor instead of wages. The parties are in settlement discussions and trial is not set.

In the Matter of the Tax Appeal of James S. Sparkman, 1 CTX-21-0001502, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from a Final Notice of Personal Liability for General Excise Tax for the unpaid general excise taxes of Mercury Mo-Dyne LLC for tax years 2010-2018, and from a Notice of Final Assessment of Withholding Tax for unpaid withholding tax for tax years 2018 and 2019. Taxpayer claims, among other things, that the notice and assessment improperly hold him personally liable for the general excise and withholding taxes of a corporation he did not control. Trial is not set.

In the Matter of the Tax Appeal of W Steak Waikiki, LLC, Case No. 1 CTX 21-0001533 Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessment of general excise and/or use tax, penalties, and interest for tax years 2017 through 2019 on unreported or underreported gross income. Taxpayer claims tips to servers should not be included in gross income and DOTAX failed to account for some credit card fees. Trial is not set.

In the Matter of the Tax Appeal of Turo Inc., Case No. 1 CTX-21-0001547, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the final assessment of general excise tax for tax year 2020. Taxpayer alleges that (1) the Department overstated its income, (2) section 237-4.5, HRS, does not apply, (3) section 237-18(f), HRS, applies, and (4) the application of penalties under section 231-36.6, HRS, and interest is not appropriate. Trial is not yet set.

In the Matter of the Tax Appeal of PEMCO, LTD., Case No. 1 CTX-21-0001554, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessment of general excise tax. Taxpayer asserts that the final assessment incorrectly included income from services exported out of state. Trial is not set.

In the Matter of the Tax Appeal of DLMC, Inc., dba Kama'aina Health Care Services, 1 CTX 21-0001598, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from a final assessment of additional general excise tax, penalties, and interest for overreporting wholesale services and underreporting professional services for tax years 2016-2020. Trial is not set.

In the Matter of the Tax Appeal of Turo Inc., Case No. 1 CTX-21-0001599, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the final assessment of general excise tax for tax years 2012-2019. Taxpayer alleges that (1) it lacked physical presence in Hawaii; (2) the imposition of the general excise tax violates the Due Process Clauses of the U.S. and Hawaii Constitutions and is inconsistent with the Department's policies (3) the Department overstated its income, (4) penalties under sections 231-39(1), 237-8.6, HRS, and 231-36.6, HRS, are not proper, and (5) imposition of interest is not proper. Trial is not yet set.

In the Matter of the Tax Appeal of Booking.com B.V., Case No. 1CTX-21-0001613, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessment of general excise tax. Taxpayer asserts that it has no taxable nexus and that the assessment discriminates against interstate commerce in violation of the commerce clause and violates equal protection under the United States Constitution. Trial is not set.

In the Matter of the Tax Appeals of Michelle Harris, Case Nos. 1 CTX 22-0000127, 1 CTX 22-0000128, 1 CTX 22-0000129, 1 CTX 22-0000130, 1 CTX 22-0000131 and 1 CTX 22-0000132, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of transient accommodations tax, penalties, and interest for tax years 2015 through 2020 on unreported gross rental or gross rental proceeds. Taxpayer claims amounts assessed are not owed and proceeds are from long-term rentals. Trial is not set.

In the Matter of the Tax Appeal of Ricardo and Lauri Galindez, Case No. 1 CTX 22-00147, Tax Appeal Court, State of Hawaii.

Taxpayers appealed final assessment of income taxes due to disallowance of losses and deductions for changes that are directly connected with Taxpayers' entities, including Island Productions, LLC, which are currently under appeal. Trial is not set.

In the Matter of the Tax Appeal of Isaac W. Choy, Director of Taxation, State of Hawaii v. Lester Toma, dba Pacific Pallet and Pacific Pallet, Inc., 1CTX-22-0000237, Tax Appeal Court, State of Hawaii

The Department appeals a Board of Review decision allowing Taxpayers to claim a wholesale general excise tax rate for the sale of pallets instead of at the retail sales general excise tax rate as required by HRS 237-13(2)(A), HRS. Trial is not set.

Director of Taxation v. Macy's West Stores, Inc., 1CTX-22-0000238, Tax Appeal Court States of Hawaii.

The Department appeals a Board of Review decision in Taxpayer's favor. The Department asserts discounts for retail goods sold in its stores were the equivalent of income for advertising services performed on the retailer's behalf. Taxpayer claims the amounts were a nontaxable discount not subject to GET. Trial is not set.

In the Matter of the Tax Appeal of Isaac W. Choy, Director of Taxation, State of Hawaii vs. George and Raenae Baily, Case No. 1 CTX-22-0000244, Tax Appeal Court, State of Hawaii.

The Department appeals the Board of Review decision of general excise and income taxes owed following taxpayers' bankruptcy proceedings. Trial has not been set.

In the Matter of the Tax Appeal of Andy's Bush Sales Corp, Case No. 1CTX-22-0000246, Tax Appeal Court, State of Hawaii.

Taxpayer purports to appeal from a collection referral related to a previously issued final assessment of general excise tax. Taxpayer asserts that the sales of goods shipped out of state are not subject to the general excise tax, however, taxpayer failed to timely appeal the final assessment. Trial is not set.

In the Matter of the Tax Appeal of Security Hunter, Inc., Case No. 1 CTX 22-00248, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessment of income taxes due to disallowance of exemptions under HRS §237-25 for Taxpayer's income from selling tangible personal property, or prewritten software to the United States Navy. Taxpayer appealed to the Administrative Appeals Office. Trial is not set.

In the Matter of the Tax Appeal of Decoder Films, Inc., 1CTX-22-0000327, Tax Appeal Court, State of Hawaii.

Taxpayers was assessed additional GET, penalties and interest on income it received related to the production of films for Netflix. Taxpayer claims the gross receipts were for exported services and exempt from GET or, alternatively, the income received must be apportioned between the other states Taxpayer operates within. Trial is not set.

In the Matter of the Tax Appeal of R & KA Equipment LLC, Case No. 1CTX-22-0000424, Tax Appeal Court, State of Hawaii

Taxpayer appeals the Board of Review decision for general excise taxes owed for 2010. Taxpayer argues it is entitled to the wholesale rate of 0.5% for activities performed. Notice of Appeal recently filed on August 18, 2022. Trial not set.

Director of Taxation v. WBC Solar, LLC, 1CTX-22-0000XXX, Tax Appeal Court, State of Hawaii

The Department will be appealing a Board of Review decision filed on August 18, 2022, in favor of Taxpayer regarding claims of the renewable energy credit provided under section 235-12.5, HRS. Part of the dispute regards whether the renewable energy system was for commercial use only or included partly residential use. The Department's appeal will be filed within 30 days of the Board of Review decision.

In the Matter of the Tax Appeal of Roy J. Tjioe, 1CTX-22-0000431, Tax Appeal Court, State of Hawaii

Taxpayer appeals the denial of deductions claimed on his income tax returns. Taxpayer claims that his issues are related to the issues in Island Production Services and related entities' tax appeals that have yet to be litigated or settled. Trial is not set.

Pending Miscellaneous Tax Cases

United States of America v. Camela Marshall, et al., Case No. 1:21-cv-00328-LEK-RT, In the United States District Court for the District of Hawaii.

The Department was named as a defendant in this action to reduce to judgment federal income tax assessment and penalties against Defendant Camela Marshall and enter declaratory judgment as to Defendant Marshall's real property. The parties stipulated to the priority of liens and that the Department is excused from further participation in the case until and if the Court permits a sale of the subject property.

State of Hawaii Ex Rel. Theodore Metrose v. Par Hawaii Refining, LLC, et al., Case No. 1CCV-21-0000632 GWBC, Circuit Court of the First Circuit, State of Hawaii.

Relator filed the instant action pursuant to Chapter 661, HRS, on behalf of the State alleging that Taxpayer has improperly underpaid or has failed to pay taxes relating to its business activities within the Hawaii Foreign Trade Zone and/or subzones. The State has intervened in the action. Trial is not set.

Pending Appellate Court Cases

Booking.com v. Isaac Choy, in his official capacity as Director of Taxation, and State of Hawaii Department of Taxation, CAAP 22-0000441, Intermediate Court of Appeals, Case No. 1 CC 19-1-0107-01 JHA. Circuit Court of the First Circuit, State of Hawaii.

Plaintiff Booking.com filed a complaint for declaratory relief alleging Hawaii Administrative Rules § 18-237-29.53-10(a)(3) is invalid and violates the Internet Tax Freedom Act, 47 U.S.C. § 151, by imposing tax in a discriminatory manner. The Court granted Defendants' Motion to Dismiss for lack of subject matter jurisdiction over a case affecting the assessment and collection of taxes. Plaintiff appealed to the ICA and the appeal is proceeding.

Hawaiian Airlines, Inc. v. Department of Taxation, CAAP-22-0000349, Intermediate Court of Appeals of the State of Hawaii/Case No. 1 CTX 21-0000493, Tax Appeal Court, State of Hawaii.

Taxpayer alleged it paid under protest general excise taxes assessed against The Boeing Company in accordance with a contract and filed the complaint under section 40-35, HRS. Taxpayer claimed that the amounts in question are exempt under section 237-24.9, HRS. The tax appeal court granted the Department's motion to dismiss the case for lack of subject matter jurisdiction. Taxpayer appealed the tax appeal court's final judgment pursuant to the order dismissing the case.

4.0 ADMINISTRATIVELY ATTACHED ENTITIES

As of June 30, 2022

COUNCIL ON REVENUES

Kurt Kawafuchi, Chair

Marilyn M. Niwao, Vice-Chair

Carl S. Bonham

Scott W. Hayashi

Kristi L. Maynard

Jack P. Snyderhoud

Wendell K. Lee

BOARDS OF TAXATION REVIEW

Glenn Sakuda, Chair

Richard Rovelstad, Vice-Chair

Francis Imada

Neil Hirasuna

Valerie Peralto

Darryl Komo
