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**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

S.B. No. 430, Relating to Taxation.

**BEFORE THE:**

Senate Committee on Ways and Means

**DATE:** Wednesday, February 12, 2025

**TIME:** 10:00 a.m.

**LOCATION:** State Capitol, Room 211

Chair Dela Cruz, Vice-Chair Moriwaki, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments on S.B. 430 for your consideration.

S.B. 430 amends section 231-23, Hawaii Revised Statutes (HRS), to change the interest rate for overpayments of tax not paid within 90 days after a taxpayer files a refund claim.

Interest on refunds is currently paid at a rate of 1/3 of one percent per month (4 percent over a year). This bill would make the interest rate equal to the rate set by section 6621(a)(1) of the Internal Revenue Code (IRC), compounded daily. Under IRC section 6621(a)(1), the interest rate would be:

Category	Rate	Rate as of 1/1/25
Non-corporate taxpayers	The federal short-term rate plus 3 percent	7 percent
Corporate taxpayers	The federal short-term rate plus 2 percent	6 percent
Overpayments by corporate taxpayers that exceed \$10,000	The federal short-term rate plus 0.5 percent	4.5 percent

The measure is effective upon approval and applies to taxable years beginning after December 31, 2024.

DOTAX requests that the applicable interest rate be set on an annual basis, as the federal rate is updated quarterly and would be difficult to administer. Establishing one rate per year will ease DOTAX's administration of the interest rate changes.

Specifically, DOTAX proposes sections 231-23(d)(1)(B) and 231-23(d)(2), HRS, read as follows:

At the rate set by title 26 United States Code section 6621(a)(1) applicable to the first day of January for each year of the refund amount compounded daily after the ninety-day period, until the refund and any applicable interest is paid to the taxpayer.

DOTAX also requests that the effective date of the bill be amended to apply to taxable years beginning after December 31, 2025 to allow sufficient time to make the necessary system changes.

DOTAX estimates that this bill will result in a revenue loss of \$2.2 million in fiscal year 2026 and \$2.2 million in fiscal year 2027.

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

# TAX FOUNDATION OF HAWAII

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SUBJECT: ADMINISTRATION; Interest Rate on Tax Refunds

BILL NUMBER: SB 430

INTRODUCED BY: RHOADS

EXECUTIVE SUMMARY: Requires the Department of Taxation to provide refunds to taxpayers at the same interest rate as the federal government.

SYNOPSIS: Amends section 231-23, HRS, to replace the 4% per annum interest rate for refunds with the rate determined under IRC section 6621(a)(1), compounded daily (as opposed to no compounding under current law).

EFFECTIVE DATE: Upon approval, shall apply to taxable years beginning after December 31, 2024.

STAFF COMMENTS: Historically, refund interest paid by the Department of Taxation was paid at the same rate as tax deficiencies, namely 8% per annum simple interest, until the rate was changed to 4% by Act 40, SLH 2009.

Section 231-39(b)(4)(D), HRS, provides that interest charged on tax deficiencies does not compound.

Under the federal system, IRC section 6622 provides that interest paid is compounded daily.

Digested: 2/10/2025

Feb. 12, 2025, 10 a.m.  
Hawaii State Capitol  
Conference Room 211 and Videoconference

**LATE**

**To: Senate Committee on Ways and Means**  
**Sen. Donovan Dela Cruz, Chair**  
**Sen. Sharon Moriwaki, Vice-Chair**

**From: Grassroot Institute of Hawaii**  
**Ted Kefalas, Director of Strategic Campaigns**

RE: SB430 — RELATING TO TAXATION

Aloha Chair Dela Cruz, Vice-Chair Moriwaki and other members of the Committee,

The Grassroot Institute of Hawaii **supports** [SB430](#), which would require the state Department of Taxation to provide refunds for tax overpayments at the same interest rate as the Internal Revenue Service.

Current law requires the department to give refunds at an interest rate of a mere one-third of 1%.

Meanwhile, the IRS provides refunds at a compounded daily rate that varies depending on the federal short-term interest rate.<sup>1</sup> Since 1974, the IRS' refund rate has never been lower than 3%, and is now 7%.<sup>2</sup>

Tying the state interest rate to the IRS rate will ensure that anyone who has overpaid on their Hawaii taxes will receive a fair return on any money they inadvertently "lent" to the state.

Thank you for the opportunity to testify.

Ted Kefalas  
Director of Strategic Campaigns  
Grassroot Institute of Hawaii

<sup>1</sup> [26 U.S. Code § 6621 - Determination of rate of interest](#), Legal Information Institute, accessed Feb. 10, 2025.

<sup>2</sup> ["Quarterly Internal Revenue Service Interest Rates Used in Calculating Interest on Overdue Accounts and Refunds of Customs Duties,"](#) Federal Register, Feb. 5, 2025.