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

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 1152, Relating to Tax Administration.

BEFORE THE:

House Committee on Labor

DATE: Tuesday, February 11, 2025

TIME: 9:00 a.m.

LOCATION: State Capitol, Room 309

Chair Sayama, Vice-Chair Lee, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following testimony in support of H.B. 1152, an Administration measure.

H.B. 1152, amends section 76-16, Hawaii Revised Statutes (HRS) to permanently exempt the following positions in DOTAX from civil service: 1) software developer supervisor; 2) data privacy officer; and 3) tax business analysts. The measure is effective upon approval.

The software developer supervisor, data privacy officer, and tax business analysts are highly specialized positions requiring experience and knowledge beyond the civil service regime.

Data Privacy Officer

The Data Privacy Officer is needed to fulfill an IRS requirement (IRS Publication 1075) for DOTAX to appoint a senior agency official who will be responsible for coordinating, implementing, and developing privacy requirements and to oversee data sharing and exchanges. DOTAX does not have a position that can assume all responsibilities under IRS Publication 1075. Unauthorized disclosure could expose DOTAX to civil and criminal penalties, and it is imperative to maintain taxpayer privacy

and trust in voluntarily filing and the payment of taxes.

Tax Business Analyst

The Tax Business Analyst will be part of DOTAX's Tax System Modernization (TSM) Program Team within the Office of the Director. The TSM Program Team will be responsible for overseeing large updates to TSM, ensuring updates comply with applicable laws and user needs, interfacing with the Internal Revenue Service (IRS) and other stakeholders, and training DOTAX users and taxpayers on TSM changes.

Notably, the TSM Program Team will be vital in DOTAX's efforts to join the IRS Direct File program in 2026. Direct File is a free, web-based service that allows eligible taxpayers to file their federal income tax returns directly with the IRS. Direct File guides taxpayers through a series of questions to prepare their federal tax returns. Once taxpayers have completed their federal tax return, Direct File will automatically guide the taxpayer to the state tool to complete their state income tax return.

The Tax Business Analyst will support the implementation and ongoing maintenance for Direct File by ensuring Direct File and related changes meet current and future federal and state tax requirements. The Tax Business Analyst will also be responsible for creating materials to train DOTAX users and taxpayers on how to use the new program.

Software Developer Supervisor

The Software Developer Supervisor position is part of DOTAX's long-term goal to retain its experienced developers and reduce reliance on vendor professional services. It has been extremely challenging to recruit and retain experienced software developers who are able to perform complex system changes, as the experience and skillset needed to perform this type of work, and the commensurate salary, exceed what is currently provided by civil service.

Act 79, Session Laws of Hawaii (SLH) 2024, created a civil service exemption for Senior Software Developers in DOTAX as part of DOTAX's long-term goal. This bill seeks to build upon Act 79, SLH 2024, and create an exempt Software Developer Supervisor, who will oversee the complex TSM development work required to maintain and update TSM, and supervise the Senior Software Developers.

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

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SUBJECT: MISCELLANEOUS; Tax Administration; Civil Service; Exemptions

BILL NUMBER: HB 1152, SB 1471

INTRODUCED BY: HB by NAKAMURA by request, SB by KOUCHI by request (Governor's Package)

EXECUTIVE SUMMARY: Permanently exempts the software developer supervisor in the Department of Taxation and the data privacy officer and tax business analysts in the Director's office of the Department from civil service.

SYNOPSIS: Amends section 76-16(b)(38), HRS, to exempt from civil service, the software developer supervisor in the department of taxation.

Adds section 76-16(42), HRS, exemption for the data privacy officer and tax business analysts in the department of taxation from civil service.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This is an Administration bill sponsored by the Department of Taxation and designated TAX-08 (25).

The Department, in its justification sheet, asserts that “[t]hese exempt position will be crucial as the department enhances its operational capacity” but does not explain why the positions have to be exempt from civil service rules that apply to most government employees.

In a similar bill last year, TAX-06 (24) (now Act 79, SLH 2024), the Department stated that “it has been extremely challenging to recruit and retain experienced software developers to perform complex system changes, as the experience and skillset needed to perform this type of work, and commensurate salary, exceed what is currently provided by civil service.” If that is their justification, they should so state in testimony rather than through back room channels.

Digested: 2/10/2025