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## A BILL FOR AN ACT

RELATING TO TAXES.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

**PART I**

1  
2 SECTION 1. The purpose of this Act is to improve the  
3 department of taxation's collection capabilities through  
4 efficient allocation of resources, simplified taxpayer filings,  
5 and a more user friendly interface with the public.

6 The legislature finds that in 2006, the department of  
7 taxation collected \$4,400,000,000. Of that amount, almost  
8 \$2,500,000,000 was generated through the general excise tax,  
9 \$1,600,000,000 from individual income taxes, \$216,000,000  
10 through the transient accommodations tax, and the balance is  
11 collected from miscellaneous taxes.

12 In 2006, only twenty seven per cent of all individual  
13 income tax returns were filed electronically, leaving  
14 seventy-three per cent as paper forms and payments to be  
15 processed manually. During tax season, it is not unusual for  
16 the department of taxation to receive one ton of mail a day.

17 The legislature further finds that in 2006, only four per  
18 cent (or 60,000) of all business returns processed were filed



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1 electronically, with an astounding ninety-six per cent requiring  
2 manual processing of paper forms and payments. Business returns  
3 may also require further monthly income tax withholdings and  
4 general excise and transient accommodations tax payments,  
5 resulting in over 1,500,000 filings by businesses in Hawaii,  
6 again ninety-six per cent being processed manually.

7 Overall, only fifteen per cent of Hawaii tax returns are  
8 filed electronically, and the \$2.50 convenience fee is perceived  
9 as a barrier for many people who might consider filing  
10 electronically.

11 The legislature finds that in other states, electronic  
12 filing grew by roughly twenty-five to thirty per cent from  
13 2000-2004, and those states with electronic filing mandates have  
14 experienced higher growth rates than those without mandates. As  
15 a result, many states have used electronic filing applications  
16 as an opportunity to improve taxpayer services and reduce their  
17 operating costs (e.g., electronic payments, online account  
18 access, electronic forms and instructions), as well as  
19 increasing their collections without undue burdens to taxpayers.

20 The purpose of this part is to provide revenue generating  
21 initiatives that will be benefits-funded, meaning the vendor  
22 will only be paid when measurable increases in revenues



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1 resulting from the initiatives are collected by the State. The  
2 revenues will be used by the department of taxation to enhance  
3 its computer system, called the integrated tax information  
4 management system, and to streamline related operational  
5 procedures.

6 SECTION 2. Chapter 231, Hawaii Revised Statutes, is  
7 amended by adding a new section to be appropriately designated  
8 and to read as follows:

9 "§231- Integrated tax services and management special  
10 fund. (a) There is established in the state treasury the  
11 integrated tax services and management special fund.

12 (b) Notwithstanding any other law to the contrary, the  
13 source of funding of any appropriations to the integrated tax  
14 services and management special fund for the purposes of funding  
15 initiatives under subsection (c) shall come from the tax  
16 revenues collected pursuant to chapters 235, 237, and 238.

17 (c) Moneys in the special fund may be expended upon  
18 legislative appropriation by the department to pay for the  
19 integrated tax services and management systems performance-based  
20 contracts and administrative and operating expenses related to  
21 the integrated tax services and management systems post-  
22 implementation revenue-generating initiatives."



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1 SECTION 3. Section 36-27, Hawaii Revised Statutes, is  
2 amended to read as follows:

3 "§36-27 Transfers from special funds for central service  
4 expenses. Except as provided in this section, and  
5 notwithstanding any other law to the contrary, from time to  
6 time, the director of finance, for the purpose of defraying the  
7 prorated estimate of central service expenses of government in  
8 relation to all special funds, except the:

- 9 (1) Special out-of-school time instructional program fund  
10 under section 302A-1310;
- 11 (2) School cafeteria special funds of the department of  
12 education;
- 13 (3) Special funds of the University of Hawaii;
- 14 (4) State educational facilities improvement special fund;
- 15 (5) Convention center enterprise special fund under  
16 section 201B-8;
- 17 (6) Special funds established by section 206E-6;
- 18 (7) Housing loan program revenue bond special fund;
- 19 (8) Housing project bond special fund;
- 20 (9) Aloha Tower fund created by section 206J-17;
- 21 (10) Funds of the employees' retirement system created by  
22 section 88-109;



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- 1 (11) Unemployment compensation fund established under
- 2 section 383-121;
- 3 (12) Hawaii hurricane relief fund established under chapter
- 4 431P;
- 5 (13) Hawaii health systems corporation special funds;
- 6 (14) Tourism special fund established under section
- 7 201B-11;
- 8 (15) Universal service fund established under chapter 269;
- 9 (16) Integrated tax [~~information~~] services and management
- 10 [~~systems~~] special fund under section [~~231-3-27~~]
- 11 231- ;
- 12 (17) Emergency and budget reserve fund under section
- 13 328L-3;
- 14 (18) Public schools special fees and charges fund under
- 15 section 302A-1130(f);
- 16 (19) Sport fish special fund under section 187A-9.5;
- 17 (20) Neurotrauma special fund under section 321H-4;
- 18 (21) Deposit beverage container deposit special fund under
- 19 section 342G-104;
- 20 (22) Glass advance disposal fee special fund established by
- 21 section 342G-82;



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- 1 (23) Center for nursing special fund under section  
2 [+]304A-2163 [+];
- 3 (24) Passenger facility charge special fund established by  
4 section 261-5.5;
- 5 (25) Solicitation of funds for charitable purposes special  
6 fund established by section 467B-15;
- 7 (26) Land conservation fund established by section 173A-5;
- 8 (27) Court interpreting services revolving fund under  
9 section 607-1.5;
- 10 (28) Trauma system special fund under section 321-22.5;
- 11 (29) Hawaii cancer research special fund;
- 12 (30) Community health centers special fund; and
- 13 (31) Emergency medical services special fund[+];
- 14 shall deduct five per cent of all receipts of all other special  
15 funds, which deduction shall be transferred to the general fund  
16 of the State and become general realizations of the State. All  
17 officers of the State and other persons having power to allocate  
18 or disburse any special funds shall cooperate with the director  
19 in effecting these transfers. To determine the proper revenue  
20 base upon which the central service assessment is to be  
21 calculated, the director shall adopt rules pursuant to chapter  
22 91 for the purpose of suspending or limiting the application of



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1 the central service assessment of any fund. No later than  
2 twenty days prior to the convening of each regular session of  
3 the legislature, the director shall report all central service  
4 assessments made during the preceding fiscal year. [†]"

5 SECTION 4. Section 36-30, Hawaii Revised Statutes, is  
6 amended by amending subsection (a) to read as follows:

7 "(a) Each special fund, except the:

- 8 (1) Transportation use special fund established by section  
9 261D-1;
- 10 (2) Special out-of-school time instructional program fund  
11 under section 302A-1310;
- 12 (3) School cafeteria special funds of the department of  
13 education;
- 14 (4) Special funds of the University of Hawaii;
- 15 (5) State educational facilities improvement special fund;
- 16 (6) Special funds established by section 206E-6;
- 17 (7) Aloha Tower fund created by section 206J-17;
- 18 (8) Funds of the employees' retirement system created by  
19 section 88-109;
- 20 (9) Unemployment compensation fund established under  
21 section 383-121;



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- 1 (10) Hawaii hurricane relief fund established under chapter  
2 431P;
- 3 (11) Convention center enterprise special fund established  
4 under section 201B-8;
- 5 (12) Hawaii health systems corporation special funds;
- 6 (13) Tourism special fund established under section  
7 201B-11;
- 8 (14) Universal service fund established under chapter 269;
- 9 (15) Integrated tax [~~information~~] services and management  
10 [~~systems~~] special fund under section [~~231-3-2,~~]  
11 231- ;
- 12 (16) Emergency and budget reserve fund under section  
13 328L-3;
- 14 (17) Public schools special fees and charges fund under  
15 section 302A-1130(f);
- 16 (18) Sport fish special fund under section 187A-9.5;
- 17 (19) Neurotrauma special fund under section 321H-4;
- 18 (20) Center for nursing special fund under section  
19 [~~+~~]304A-2163 [~~+~~];
- 20 (21) Passenger facility charge special fund established by  
21 section 261-5.5;



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- 1 (22) Court interpreting services revolving fund under  
2 section 607-1.5;
- 3 (23) Trauma system special fund under section 321-22.5;
- 4 (24) Hawaii cancer research special fund;
- 5 (25) Community health centers special fund; and
- 6 (26) Emergency medical services special fund[+];
- 7 shall be responsible for its pro rata share of the  
8 administrative expenses incurred by the department responsible  
9 for the operations supported by the special fund concerned.[+]"

10 SECTION 5. Section 235-119, Hawaii Revised Statutes, is  
11 amended to read as follows:

12 "~~§~~235-119 Taxes, state realizations. [~~All~~] (a) Except as  
13 provided in subsection (b), all income taxes shall be for the  
14 use of the State and shall be paid into the state treasury at  
15 such times as the director of finance shall direct.

16 (b) The director of taxation shall pay the income taxes  
17 into the state treasury as a state realization; provided that a  
18 sum, not to exceed the amount necessary to meet the obligations  
19 of integrated tax services and management systems  
20 performance-based contracts, may be retained and deposited into  
21 the state treasury to the credit of the integrated tax services  
22 and management special fund. The sum retained by the director



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1 of taxation for deposit into the integrated tax services and  
2 management special fund shall be limited to amounts appropriated  
3 by the legislature."

4 SECTION 6. Section 237-31, Hawaii Revised Statutes, is  
5 amended to read as follows:

6 "§237-31 Remittances. All remittances of taxes imposed by  
7 this chapter shall be made by money, bank draft, check,  
8 cashier's check, money order, or certificate of deposit to the  
9 office of the department of taxation to which the return was  
10 transmitted. The department shall issue its receipts therefor  
11 to the taxpayer and shall pay the moneys into the state treasury  
12 as a state realization, to be kept and accounted for as provided  
13 by law; provided that:

14 (1) The sum from all general excise tax revenues realized  
15 by the State that represents the difference between  
16 \$90,000,000 and the proceeds from the sale of any  
17 general obligation bonds authorized for that fiscal  
18 year for the purposes of the state educational  
19 facilities improvement special fund shall be deposited  
20 in the state treasury in each fiscal year to the  
21 credit of the state educational facilities improvement



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1 special fund for public school capital improvement  
2 program needs; [and]

3 (2) A sum, not to exceed \$5,000,000, from all general  
4 excise tax revenues realized by the State shall be  
5 deposited in the state treasury in each fiscal year to  
6 the credit of the compound interest bond reserve  
7 fund[-]; and

8 (3) A sum, not to exceed the amount necessary to meet the  
9 obligations of integrated tax services and management  
10 systems performance-based contracts, may be retained  
11 and deposited into the state treasury to the credit of  
12 the integrated tax services and management special  
13 fund. The sum retained by the director of taxation  
14 for deposit into the integrated tax services and  
15 management special fund shall be limited to amounts  
16 appropriated by the legislature."

17 SECTION 7. Section 238-14, Hawaii Revised Statutes, is  
18 amended to read as follows:

19 "**§238-14 Taxes state realizations.** [~~All~~] (a) Except as  
20 provided in subsection (b), all taxes collected under this  
21 chapter shall be state realizations.



1        (b) The director of taxation shall pay the use taxes into  
 2 the state treasury as a state realization; provided that a sum,  
 3 not to exceed the amount necessary to meet the obligations of  
 4 integrated tax services and management systems performance-based  
 5 contracts, may be retained and deposited into the state treasury  
 6 to the credit of the integrated tax services and management  
 7 special fund. The sum retained by the director of taxation for  
 8 deposit into the integrated tax services and management special  
 9 fund shall be limited to amounts appropriated by the  
 10 legislature."

11        SECTION 8. Section 231-3.2, Hawaii Revised Statutes, is  
 12 repealed.

13        [~~§231-3.2 Integrated tax information management systems~~  
 14 ~~special fund. (a) There is established in the state treasury~~  
 15 ~~the integrated tax information management systems special fund~~  
 16 ~~into which shall be deposited general excise tax revenues as~~  
 17 ~~provided by section 237-31. The director of taxation may retain~~  
 18 ~~and deposit the amounts necessary to meet the obligations of the~~  
 19 ~~integrated tax information management systems performance based~~  
 20 ~~contract. The amounts transferred by the director of taxation~~  
 21 ~~to the integrated tax information management systems special~~



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1 ~~fund for a fiscal year shall be limited to the amounts~~  
2 ~~appropriated by the legislature.~~

3 ~~(b) Moneys in the fund shall be expended by the department~~  
4 ~~to pay for the integrated tax information management systems~~  
5 ~~performance based contracts authorized by Act 273, Session Laws~~  
6 ~~of Hawaii 1996.~~

7 ~~(c) The department shall submit an annual report to the~~  
8 ~~legislature no later than twenty days prior to the convening of~~  
9 ~~each regular session, providing an accounting of the receipts~~  
10 ~~of, and expenditures from, the fund.~~

11 ~~(d) This section shall be repealed on July 1, 2005."]~~

12 SECTION 9. The department of taxation shall execute the  
13 performance-based contracts and work assignments authorized  
14 under this part in a timely manner; provided that the integrated  
15 tax services and management systems enhancements and related  
16 services shall be executed no later than September 1, 2007.

17 **PART II**

18 SECTION 10. (a) Notwithstanding any other law to the  
19 contrary, including any law requiring oversight of an executive  
20 department's decisions relating to on-line portals or  
21 Internet-based access, the department of taxation shall enter  
22 into performance-based contracts to enhance or acquire automated



1 tax systems, or both, including computer hardware and software,  
2 for the implementation and administration of the taxes under  
3 title 14, Hawaii Revised Statutes, including the city and county  
4 of Honolulu surcharge authorized under section 46-16.8, Hawaii  
5 Revised Statutes, and adopted by ordinance.

6 (b) For the purposes of this Act:

7 "Performance-based contract" means a contract under which  
8 compensation to the vendor shall be computed according to  
9 performance standards established by the department of taxation.  
10 Any performance-based contract entered into by the department of  
11 taxation for the purposes established under subsection (a) shall  
12 provide for the payment of fees:

13 (1) Based on a contractually specified amount of the  
14 increase in the amount of taxes, interest, and  
15 penalties collected and attributable to the  
16 implementation of the integrated tax services and  
17 management system post-implementation revenue-  
18 generating initiatives; or

19 (2) On a fixed-fee contract basis to be paid from the  
20 increase in the amount of taxes, interest, and  
21 penalties collected and attributable to the  
22 implementation of integrated tax services and



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1 management system post-implementation revenue-  
2 generating initiatives.

3 (c) The State shall receive a permanent license to use the  
4 enhanced or automated tax systems upon full payment to the  
5 vendor.

6 (d) Notwithstanding any other law to the contrary, the  
7 department of taxation shall award the performance-based  
8 contract pursuant to the requirements of chapter 103D, Hawaii  
9 Revised Statutes.

10 SECTION 11. The director of taxation shall report to the  
11 legislature, no later than twenty days prior to the convening of  
12 every regular session, beginning with the 2008 regular session,  
13 with respect to the status of the performance-based contract and  
14 shall provide an accounting of all moneys appropriated. The  
15 report shall include:

16 (1) Detailed information on the costs and benefits of  
17 implementing the integrated tax services and  
18 management system post-implementation revenue-  
19 generating initiatives;

20 (2) The amount of increased tax, interest, and penalties  
21 collected that is attributable to the integrated tax



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1 services and management system post-implementation  
2 revenue-generating initiatives; and

3 (3) The amount paid to the vendor or vendors contracted  
4 under section 9 of this Act.

5 The report shall also include any other information from  
6 the preceding fiscal year that may assist the legislature in  
7 determining the efficacy of a contract executed under this Act,  
8 beginning with the fiscal year immediately preceding the fiscal  
9 year commencing on the effective date of this Act and continuing  
10 until two complete fiscal years have elapsed following the full  
11 implementation of the integrated tax services and management  
12 system post-implementation revenue-generating initiatives.

13 SECTION 12. There is appropriated out of the general  
14 revenues of the State of Hawaii the sum of \$5,000,000 or so much  
15 thereof as may be necessary for fiscal year 2007-2008 to be  
16 deposited into the integrated tax information management systems  
17 special fund.

18 SECTION 13. There is appropriated out of the integrated  
19 tax information management systems special fund the sum of  
20 \$5,000,000 or so much thereof as may be necessary for fiscal  
21 year 2007-2008 for the purposes of the integrated tax



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1 information management systems special fund established pursuant  
2 to section 231- , Hawaii Revised Statutes.

3 The sum appropriated shall be expended by the department of  
4 taxation for the purposes of section 231- , Hawaii Revised  
5 Statutes.

6 **PART III**

7 SECTION 14. The increased use of computers for personal  
8 purposes and in daily business operations has led to an increase  
9 in electronic and computer-based interactions with government.  
10 The department of taxation interacts with nearly every person in  
11 Hawaii on a regular basis. The department of taxation also  
12 regularly interacts with nonresident taxpayers and mainland-  
13 based businesses that routinely file tax information.

14 In response to the increase in interactions with  
15 out-of-state taxpayers and the increase in electronic tax  
16 filings, the legislature, in 1997, made electronic filing an  
17 acceptable means of carrying out a taxpayer's obligations under  
18 the law. Since this law was enacted, the ability to interact  
19 electronically has grown considerably, especially for  
20 businesses, nearly all of which have a computer and access to  
21 the Internet.



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1           The purpose of this part is to require that the department  
2 of taxation, by rule, require electronic filing of certain tax  
3 returns. This Act is a natural progression of how a majority,  
4 if not all, tax filings are predicted to be made in the next  
5 decade and beyond. This Act ensures that taxpayers will be  
6 provided with sufficient notice and an opportunity to comment by  
7 requiring compliance with chapter 91, Hawaii Revised Statutes.

8           The legislature, which is charged with the responsibility  
9 of overseeing the effectiveness of tax incentives and the  
10 efficacy of the tax system as a whole, finds that it can be  
11 provided with more specific data on Hawaii taxes if the tax data  
12 is captured electronically.

13           Finally, the legislature finds that there are certain tax  
14 returns, such as fuel tax returns, tobacco tax returns, and  
15 other specific tax credits, that impact a very small number of  
16 taxpayers, all of whom likely have computer access. Allowing  
17 the department of taxation to require this small population of  
18 specific taxpayers to file tax returns electronically will not  
19 adversely impact those taxpayers. As a result, taxpayers will  
20 experience a considerable decrease in the time it takes to  
21 process a tax return, and in turn the processing of a tax  
22 refund.



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1 SECTION 15. Section 231-8.5, Hawaii Revised Statutes, is  
2 amended to read as follows:

3 "[~~§~~231-8.5~~]~~ Electronic filing of tax returns. The  
4 department [~~may allow~~], by rule, adopted pursuant to chapter 91,  
5 shall require filing by electronic, telephonic, or optical means  
6 of any tax return, application, report, or other document  
7 required under [~~the provisions of~~] title 14 administered by the  
8 department~~[-]~~; provided that a service fee shall not be  
9 required. The date of filing shall be the date the tax return,  
10 application, report, or other document is transmitted to the  
11 department in a form and manner prescribed by departmental rules  
12 adopted pursuant to chapter 91. The department [~~may~~] shall  
13 determine alternative methods for the signing, subscribing, or  
14 verifying of a tax return, application, report, or other  
15 document that shall have the same validity and consequences as  
16 the actual signing by the taxpayer. A filing under this section  
17 shall be treated in the same manner as a filing subject to the  
18 penalties under section 231-39."

19 PART IV

20 SECTION 16. Statutory material to be repealed is bracketed  
21 and stricken. New statutory material is underscored.



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1           SECTION 17. This Act shall take effect on July 1, 2007;  
2 provided that the amendments to section 237-31, Hawaii Revised  
3 Statutes, made in section 6 of this Act, shall not be repealed  
4 upon the repeal of section 2, Act 304, Session Laws of Hawaii  
5 2006.



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**Report Title:**

Department of Taxation; Special Fund; Electronic Filing

**Description:**

Establishes integrated tax services and management special fund to receive revenues from the integrated tax services and management systems post-implementation revenue-generating initiatives; provides that moneys in the fund will be used to pay for the integrated tax information management systems; requires that the department of taxation, by rule adopted pursuant to chapter 91, Hawaii Revised Statutes, shall require the electronic, telephonic, or optical filing of tax returns under certain conditions; provides that a service fee shall not be required. (SD1)

