

STAND. COM. REP. NO.

413

Honolulu, Hawaii

FEB 20 2009

RE: S.B. No. 972
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fifth State Legislature
Regular Session of 2009
State of Hawaii

Madam:

Your Committee on Economic Development and Technology, to which was referred S.B. No. 972 entitled:

"A BILL FOR AN ACT RELATING TO TAX ADMINISTRATION,"

begs leave to report as follows:

The purpose of this measure is to ensure that cash-based businesses operating in Hawaii are paying their proper share of taxes by providing the Department of Taxation with resources to seek enforcement against non-compliant businesses.

Testimony in support of this measure was submitted by the Department of Taxation, Subcontractors Association of Hawaii and the Hawaii Government Employee Association. Testimony in opposition to this measure was submitted by Peter Fritz and Ray Kamikawa. Copies of written testimony may be reviewed on the Legislature's website.

Your Committee finds that cash-based businesses account for a substantial sum of money in the marketplace and capturing a small fraction of these amounts would help to off-set the sharp downturn in state tax revenues during 2009.

Your Committee received a fiscal impact statement from the Department of Taxation that this measure, as introduced, would result in a revenue gains to the State of \$11,900,000 in fiscal year 2010, \$35,600,000 in fiscal year 2011, and \$47,400,000 in fiscal year 2012, and every year thereafter. Their methodology is as follows:

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- (1) Applying the Hawaii's 0.5% to the IRS's estimate of the "tax gap" of \$345 billion in 2001;
- (2) Assume 50% of the "tax gap" is due to the "cash economy;"
- (3) Assume that the Department is able to collect 0.5% in direct revenue (direct cases being worked on) and 5% in indirect revenue (deterrence effect) from the "cash economy;"
- (4) Assume ability to collect 25% in year 1, 75% year 2, and 100% year 3;
- (5) $0.5\% \times \$345 \text{ billion} \times 50\% \times 5.5\% = \$47,400,000$;
- (6) \$0.5 million goes to tax administration special fund; the remainder goes to general fund.

While your Committee is skeptical that the level of revenue gains projected by Department of Taxation is as high as the Department has estimated, it is unquestioned that this State's dire economic conditions require urgent steps to collect taxes that are due and are presently being avoided.

Your Committee questioned Department of Taxation representatives closely to determine whether less intrusive methods of collecting taxes could be utilized to achieve a fair amount of the outstanding taxes due that have been provided in the department's estimates. Upon further review, your Committee believes that the four immediate actions proposed in this measure will build upon other agencies' existing regulatory framework to help Department of Taxation obtain a much higher level of collections, at lower cost and manpower, than is possible through its overly-zealous approach against small businesses.

Your Committee believes that many of the recommendations offered by testifiers, and developed further with Department of Taxation staff and other interested stakeholders, will yield the desired compliance level of tax collections that the Department seeks.

Your Committee has amended this measure by:



- (1) Coordinating the Department of Commerce and Consumer Affairs on requiring tax clearances for regulated industries;
- (2) Coordinating with federal procurement officers to require tax clearances on federal construction jobs;
- (3) Coordinating with federal immigration and unions on leads to work site compliance with income tax withholding requirements; and
- (4) Making technical, nonsubstantive amendments for the purpose of clarity.

As affirmed by the record of votes of the members of your Committee on Economic Development and Technology that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 972, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 972, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Technology,


CAROL FUKUNAGA, Chair



The Senate
Twenty-Fifth Legislature
State of Hawaii

Record of Votes
Committee on Economic Development and Technology
EDT

Bill / Resolution No.:* <div style="font-size: 1.2em; font-weight: bold;">SB972</div>	Committee Referral: <div style="font-size: 1.2em; font-weight: bold;">EDT, WAM</div>	Date: <div style="font-size: 1.2em; font-weight: bold;">2-18-09</div>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input type="checkbox"/> Pass, unamended 2312 </div> <div style="text-align: center;"> <input checked="" type="checkbox"/> Pass, with amendments 2311 </div> <div style="text-align: center;"> <input type="checkbox"/> Hold 2310 </div> <div style="text-align: center;"> <input type="checkbox"/> Recommit 2313 </div> </div>				
Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
BAKER, Rosalyn H. (VC)	✓			
HEE, Clayton				✓
IGE, David Y.	✓			
SLOM, Sam	✓			
TOTAL	4	-	-	1
Recommendation: <div style="display: flex; justify-content: space-around; margin-top: 5px;"> <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted </div>				
Chair's or Designee's Signature: <div style="font-family: cursive; font-size: 1.2em; margin-top: 10px;">Rosalyn H. Baker</div>				
<div style="display: flex; justify-content: space-between; font-size: 0.8em;"> <div>Distribution:</div> <div>Original</div> <div>Yellow</div> <div>Pink</div> <div>Goldenrod</div> </div> <div style="display: flex; justify-content: space-between; font-size: 0.8em; margin-top: 5px;"> <div>File with Committee Report</div> <div>Clerk's Office</div> <div>Drafting Agency</div> <div>Committee File Copy</div> </div>				

*Only one measure per Record of Votes