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**HOUSE COMMITTEE ON FINANCE  
TESTIMONY REGARDING HB 1242 HD 1  
RELATING TO TAXATION**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: FEBRUARY 26, 2009**

**TIME: 10AM**

**ROOM: 308**

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This measure, as amended, requires the Department of Taxation to enter into a contract in order to pursue a taxpayer non-compliance identification program.

The Department of Taxation (Department) **supports** this measure and offers comments.

**SUPPORT FOR COMPLIANCE EFFORTS GENERALLY**—As a general matter, the Department supports all efforts the Legislature deems relevant for discussion to increase the Department's ability to identify and enforce taxpayer noncompliance. As has been proven in other jurisdictions and in Hawaii, the use of computer technology to identify soft spots in taxpayer compliance in furtherance of increasing compliance and revenue collection has proven beneficial to the State and general fund.

**THIS MEASURE WOULD COMPLIMENT EXISTING EFFORTS**—The Department points out that it is currently under contract seeking out, identifying, and collecting revenues owed the State by delinquent taxpayers. This delinquent tax project is well underway. From the Department's perspective, this measure is seen as complimentary and supplemental to the existing revenue generating initiatives, but should not duplicate or supplant the current contract initiatives. Lastly, the addition of another computer-based tax compliance project would substantially increase the abilities for the State to collect unfiled and unpaid taxes from multiple sources.

**THE CONTRACT SHOULD GO THROUGH PROCUREMENT**—The Department points out that this measure exempts the contract from the Procurement Code. The Department recommends amending the measure to require the procurement process in order to ensure that the State is able to secure the best deal possible.

**REVENUE GAIN**—The revenue gain from this measure could be potentially large.

# TAXBILLSERVICE

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SUBJECT: ADMINISTRATION, Taxpayer noncompliance identification program,

BILL NUMBER: HB 1242, HD-1

INTRODUCED BY: House Committee on Economic Revitalization, Business & Military Affairs

BRIEF SUMMARY: Adds a new section to HRS chapter 231 to allow the department of taxation (DOT) to contract with a private person for the establishment and operation of a taxpayer noncompliance identification program between October 1, 2009 to June 30, 2011.

The taxpayer noncompliance identification program shall: (1) identify potentially under reporting taxpayers through high-speed information processing; and (2) notify the DOT of all potentially under reporting taxpayers who have been identified. The DOT shall: (1) be responsible for auditing the identified taxpayers' returns and collecting taxes discovered to be due and owing to the state; (2) pay the contractor a mutually agreed upon percentage of the taxes discovered by the contractor; and (3) not pay any other compensation to the contractor but may provide to the contractor an advance amount mutually agreed upon by the department and the contractor for start-up expenses provided that the entire advance shall be repaid to the department by the contractor within the term of the contract.

Stipulates that HRS chapter 103D shall not apply to the contract required by this section and provides that the DOT award the contract in accordance with this section and terms and conditions deemed necessary by the department. The DOT shall provide a preference to an offeror who has access to the high-performance computing center at the Maui high technology park

Requires the DOT to provide to the contractor all taxpayer income and general excise and use tax returns and the contractor shall keep confidential all returns and information on the returns unless the department authorizes disclosure.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: The proposed measure would allow the department of taxation to contract with a person to establish and operate a program to identify and locate taxpayers who are under reporting their income, general excise or use tax liability. While all services purchased by the state are subject to the state's procurement code, it is curious why the letting of this contract is exempt from those requirements. Further, the measure does not contain any details about the contract between the contractor and the DOT and leaves the letting of the contract, including the percentage paid to the contractor, solely to the DOT.

In the last few years, while the department of taxation has been increasing its capability with updated computers and software, it is questionable whether the proposed program is necessary. Lawmakers should inquire about the progress of this computerization initiative as it would be far more cost efficient.

Digested 2/24/09