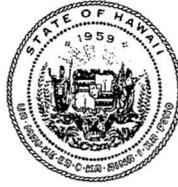


LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



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**HOUSE COMMITTEE ON FINANCE
TESTIMONY REGARDING HB 1735
RELATING TO GENERAL EXCISE TAX**

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

DATE: FEBRUARY 18, 2009

TIME: 2PM

ROOM: 308

This measure amends the due date for general excise tax returns filed on a monthly basis from the last day of the month to the 20th day of the month. The intent of this measure is to generate a one-time revenue windfall.

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

SUPPORT FOR ONE-TIME WINDFALL—The Department supports the intent of this measure, which is to leverage financial accounting principles to generate a one-time infusion of revenue. In light of the current budget issues and the need to balance the budget by session's end, the Department supports that the Legislature is considering tax policy measures such as this.

MODIFY THE GET LAW TO REQUIREMENT PAYMENTS PERIODICALLY AND ONLY ONE ANNUAL RETURN—The Department suggests that, in furtherance of this measure, that the Committee consider modifying the current payment and filing structure of the general excise tax by eliminating the period return filings and implementing periodic payments through voucher, coupled with a single annual return. Currently, there are periodic returns that must be filed, in addition to an annual reconciliation return. However, the Department understands that these periodic returns were simply a means of advancing payment. Given the intent of this measure, it would be simpler for tax administration and easier on taxpayers if the law were amended to require periodic estimated payments by voucher with one annual reconciliation return at the close of the tax year. This will also solve the statute of limitations problems raised by certain practitioners in other legislation this session.

CONSIDER REQUIRING ELECTRONIC FILING—The Department also suggest considering mandating electronic filing of the general excise tax returns. The law could be amended to require electronic filing of general excise tax returns only. Or, the law could be

amended across the board to require electronic filing and payment in conformance with federal law.

LIKELY NEED TO AMEND OTHER PROVISIONS; USE TAX; TAT—The Department points out that other provisions within HRS § 237-30 provide for the filing deadlines for taxpayers filing on periodic bases other than monthly. For example, certain taxpayers are authorized to file by the end of the month following the close of a quarter or semiannual period. In the interest of conformity, the Department suggests amending these provisions in the same section to reflect that the 20th is the due date for these returns. Also, the Department suggests amending the due date for the use tax as well. In the overall excise tax regime, there is a complimentary use tax on the importation or use in the state of untaxed goods and services. The Department suggests amending the due dates in the use tax to mirror the dates in this measure. (There may be a title problem as this measure relates to the "general excise tax" only.) The same amendments for the transient accommodations tax could also be added.

POTENTIAL COMPUTER ISSUES—According to the Department's computer management personnel, amending the due date itself is relatively straightforward. However, the ancillary issues incumbent with a due date change could have a potentially large impact on the Department's administration of the general excise tax enforcement and collection efforts. For example, the calculation of interest will need to be changed. Penalty and interest modifications to the Department's computer are extremely complex due to the algorithmic and testing scenarios that must accompany such changes. Also, billing notice modifications could be affected.

COMPUTER ISSUES ARE TIME CONSUMING AND COSTLY—As with all computer issues, the changes contemplated by this measure are not only potentially time consuming, but costly. The Department would be placed in a difficult position if this bill were passed without additional resources because its effective date is relatively soon after the bill consideration deadline. The Department would need additional resources and some sort of penalty and interest waiver authority in the measure with the Legislature's approval until the computer can be fully modified and functioning, which would give the Department the opportunity to amend the due date, but delay assessment of penalties and interest until the changes can be instituted.

PUBLIC OUTREACH—A major impact of this legislation would also be on the public. The public has filed at the end of the month for decades. The changes proposed in this measure would open taxpayers up to additional liability if they filed late with such short notice. The Department would need additional resources to initiate a public outreach campaign to ensure taxpayers comply with the new deadline.

REVENUE IMPACT—This measure is anticipated to result in a revenue gain projected at \$40 million in FY12 but a revenue loss of \$40 million in FY14. There is no impact for FY10, FY11, FY13 or FY15.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Amend filing date

BILL NUMBER: HB 1735

INTRODUCED BY: Say

BRIEF SUMMARY: Amends HRS section 237-30 (a) to provide that taxpayers who are required to file their general excise taxes on a monthly basis (those with annual tax liability of greater than \$4,000) who are currently required to file those taxes on the last day of the month following the month in which the general excise tax liability accrues, shall file on the 20th day of the month following.

EFFECTIVE DATE: June 1, 2009; applicable to taxes due on June 20, 2009

STAFF COMMENTS: Taxpayers that file monthly general excise tax returns must file their returns on or before the last day of the month following the month in which they accrue. The proposed measure would require the filing of any general excise tax return for the month of May 2009, to be filed by June 20, 2009 instead of June 30, 2009 and on the 20th of each month thereafter.

While the proposed measure states that the proposed change in the filing date will result in an estimated savings of \$75 to \$100 million, one of the phenomena this measure will address is the “weekend” effect where the last day of the month following falls on a weekend, pushing collections of the tax into the next month as the mail is opened on the following Monday which might be the first day of the next month.

Digested 2/17/09

Natalie J. Iwasa, CPA, Inc.
1331 Lunalilo Home Road
Honolulu, HI 96825
808-395-3233

DATE: February 16, 2009

TO: Rep. Marcus Oshiro, Chair
Rep. Marilyn Lee, Vice Chair
House Committee on Finance

HEARING DATE: Wednesday, February 18, 2009, 2:30 p.m.

SUBJECT: Opposition to HB 1735 - Relating to General Excise Tax

Aloha Chair Oshiro and Members of the Committee,

I have been working in public accounting for over 15 years. My practice is made up mainly of small businesses and nonprofit organizations. This bill would require monthly general excise and use tax filers to file and pay their taxes on the 20th of each month instead of the current end of the month due date. I oppose this bill because moving up the due date will increase the likelihood of inaccurate and/or late returns being filed.

In order to file accurate returns, businesses and nonprofit organizations must first make sure their revenue is properly booked for the month. For entities reporting on the cash basis, that means making sure their bank accounts have been reconciled. For entities reporting on the accrual basis, it means making sure all customers have been properly invoiced and reviews have taken place for the end of the month. These procedures take time to complete. Given recent layoffs at many businesses, accounting departments are putting more responsibilities on fewer people. The result is that for many entities it is already challenging to meet the end-of-the-month deadline.

I respectfully ask that you vote in opposition to this bill.

Sincerely,



Natalie Iwasa, CPA