SB 76

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

SENATE COMMITTEE ON WAYS & MEANS
TESTIMONY REGARDING SB 76
RELATING TO TAXATION

*****UPDATED***[1]**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 5, 2009
TIME: 9:30AM
ROOM: 211

This measure amends the current law that distributes payments amongst principal tax, penalties and interest to be payable in equal parts.

The Department of Taxation (Department) **opposes** this bill because **it is contrary to the State's fiscal interests** and would require a substantial financial investment in the Department's computer to accomplish on a global scale.

AMENDMENT IS CONTRARY TO THE STATE'S FISCAL INTEREST—Currently, state law dictates that tax payments are to be paid first to interest, then penalties, and finally the principal of taxes owed. The current regime is in the State's best interests because it ensures payments of interest (reflecting time value of money) as the priority, followed by penalties, and then principal. By paying principal last, the State is ensured the optimal time value of money when the principal is paid last and payments are spread over time.

COMPUTER SYSTEM MODIFICATIONS REQUIRED—Changes to the Department's computer system will need to be made to implement this legislation. The current computer system is established to reflect current law and does not allow for equal distribution of tax payments. Making automation changes to the Department's computer system may have an unknown revenue impact on the Department's budget, which has not been considered in this year's budget. In short, the Department's budget will not allow it to make the changes contemplated by this act without additional resources.

---

1 Updated revenue impact.

EFFECTIVE DATE—The Department suggests a delayed effective date be inserted because of the length of time it will take to reprogram the computer. Six months time would be best.

REVENUE LOSS—This legislation would result in a sizeable revenue loss. This measure is expected to result in a revenue loss of $1 million in the first year; $2 million in the second year; and $3 million in the third, after implementation.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: ADMINISTRATION, Partial payment of taxes

BILL NUMBER: SB 76

INTRODUCED BY: Hanabusa by request

BRIEF SUMMARY: Amends HRS section 231-27 to provide that a partial payment of an assessment of taxes shall be credited to interest, penalties, and principal in equal amounts, by the department of taxation.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: Currently, when the department of taxation receives a partial payment for an assessment of taxes due, the payment is applied to interest, penalties, then principal. The proposed measure would allow payments to be applied to interest, penalties, and principal in equal amounts, similar to a repayment schedule.

On the federal level, the IRS implemented an additional payment option on January 17, 2005, known as the Partial Payment Installment Agreement (PPIA) for taxpayers who have outstanding federal tax liabilities. This new payment option became possible with the passage of the American Jobs Creation Act of 2004 and allows the IRS to enter into installment agreements that result in full or partial payment of the tax liability.

Taxpayers who are being considered for a PPIA must provide complete and accurate financial information that will be reviewed and verified. Taxpayers will also be required to address equity in assets that can be utilized to reduce or fully pay the amount of the outstanding liability.

In addition, taxpayers granted PPIAs will be subject to a subsequent financial review every two years. As a result of this review, the amount of the installment payments could increase or the agreement could be terminated if the taxpayer's financial condition improves.

Taxpayers may utilize the installment method for a fee (currently $52 for direct debit agreements and $105 for non-direct debit agreements).

Digested 2/4/09