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**HOUSE COMMITTEE ON FINANCE  
TESTIMONY REGARDING HB 1985  
RELATING TO TAXATION**

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

**DATE: FEBRUARY 10, 2010**

**TIME: 2PM**

**ROOM: 308**

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This measure modifies the timing of tax credit and other reports issued by the Department of Taxation.

The Department has **no comments** on this legislation at this time.

# TAXBILLSERVICE

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**SUBJECT:** ADMINISTRATION, Publication of reports

**BILL NUMBER:** HB 1985

**INTRODUCED BY:** M. Oshiro

**BRIEF SUMMARY:** Amends HRS section 231-3.4 to require the department of taxation to publish the following reports: (1) Hawaii Income Patterns - Individuals, annually; (2) Hawaii Income Patterns - Corporations, Proprietorships, and Partnerships, biennially; and (3) Tax Credits, annually.

Directs the department to submit the reports prior to the convening of each legislative session.

**EFFECTIVE DATE:** Upon approval

**STAFF COMMENTS:** This measure would specifically delineate how often the department of taxation shall publish reports with respect to income patterns of individuals and corporations as well as of tax credits claimed by Hawaii taxpayers. It amends a portion of the law adopted by the 1996 legislature in reaction to the department's announcement that it was suspending the publication of these reports as part of a cost-cutting measure. These studies had been published by the department since before statehood. They contain invaluable information about what types of income taxpayers receive, the deductions taken, the amount of liability and effective tax rates by brackets of income. This information has been critical in evaluating where the tax expenditures of the state have taken place and is helpful in determining what changes to tax laws may be necessary.

Thus, the legislature wrote into law that these reports be produced and published. Apparently, the current proposal may be a reaction to the fact that these reports are published on a lag basis with the most recent reports published are for the tax year 2002 insofar as income patterns of corporations and for the tax year 2005 for income patterns of individuals and with respect to tax credits claimed. While such a delay in pre-technology days might have been acceptable, such is not the case as more and more of the department's operations have been incorporated into information technology systems.

The timeliness of this information was one of the major frustrations to the consultants of the recent Tax Review Commission. Without timely data, the consultants could not analyze the effect of the high technology credits nor, for that matter, identify key outcomes promised by advocates of the tax credit. Thus, it is not a matter of the subject reports being undertaken so much as that they are done on a more timely basis. With the amount already invested in the computer capabilities of the department's integrated income tax information system, one would think that these reports would be done on a better schedule. While amending the law, as this measure proposes, won't insure timeliness, perhaps what the issue deserves is a resolution.

Without this information, even the department of taxation would be hard-pressed to analyze the effect of changes to the law. Lawmakers should be concerned that information that could be helpful to them

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would be so dated that decisions could not be taken on a timely basis. Finally, lawmakers should be concerned that very little has been done in recent years to train departmental staff about the tax law. The result is that rulings have tended to be inconsistent and contrary to case law established by numerous judicial decisions. The turnover in the department has resulted in the loss on institutional memory and history especially in the area of Hawaii's unique general excise tax. As a result, those in the division that traditionally produced these reports do not comprehend the importance of this data and the usefulness in making operational and policy decisions. Without this information, it is much akin to working in the dark.

Digested 2/9/10