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HOUSE COMMITTEE ON FINANCE

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 418 RELATING TO THE GENERAL EXCISE TAX LAW

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF
TAXATION (OR DESIGNEE)
COMMITTEE: FIN
DATE: FEBRUARY 15, 2011
TIME: 3:30PM

POSITION: COMMENTS

This measure allows a taxpayer to make remittances of the general excise tax at financial institutions, requires financial institutions to pay general excise tax remittances to the state treasury, and to report such payments to the Department of Taxation (Department). It also directs the department of commerce and consumer affairs (DCCA) to adopt rules to effectuate this measure.

The Department offers comments this measure.

RULES SHOULD PROBABLY BE PROMULGATED BY BUDGET AND FINANCE—This measure requires the department of commerce and consumer affairs to promulgate rules to effectuate this act. However, this measure appears to be more properly administered by the department of budget & finance (B&F). In particular, it appears that B&F will be required to set up accounts at various financial institutions so that tax revenues may be deposited into such accounts. B&F will also need to assess the financial health of the various institutions to determine whether funds should be held at a particular institution. The Department defers to DCCA and to B&F on this matter, however.

DEPARTMENT REQUIRES THE ACTUAL RETURNS FOR PROPER TAXPAYER CREDIT AND REVENUE ACCOUNTING PURPOSES—This measure requires only that a financial institution receiving tax payments pay the monies so received to the State and to provide an annual record of the tax payments to the Department. In order to insure that taxpayers are timely credited with all payments and to track the sources of tax revenue (ie-retailing, commissions, etc.), the Department will need the actual returns of the taxpayers. In addition, the transmission of such documents and records of payments needs to be on a contemporaneous basis, so that the Department's compliance efforts are not hampered.

DOUBTFUL THAT ANY MEANINGFUL BENEFIT WILL ACCRUE—While it appears that this measure is intended to make tax payments available to the State more quickly, it is doubtful that any substantial benefit will accrue. In particular, the Department will still need to process the tax returns and match payments to the proper taxpayer. Due to the additional parties involved, a greater burden will be placed on the Department, as it will need to coordinate with various financial institutions on reconciling payments received and returns filed. The Department suggests that a better method of increasing efficiency is to require a greater electronic payments for more taxpayers and/or authorizing the Department to fill currently vacant positions.

DEPARTMENT PREFERS TO CONSIDER THIS MATTER AS PART OF ITS OVERALL MODERNIZATION PLAN - Currently, the Department is evaluating modernization opportunities to make administration of Hawaii taxes more efficient, and would prefer to consider measures such as the one contemplated in this bill as part of that plan rather than have it mandated in law at this time.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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SUBJECT: GENERAL EXCISE, Pay taxes due at financial institutions

BILL NUMBER: HB 418

INTRODUCED BY: Say

BRIEF SUMMARY: Amends HRS section 237-31 to allow payment of general excise taxes at financial institutions. Requires the financial institution to issue receipts to the taxpayer and pay the moneys into the state treasury as a state realization provided that the financial institution shall transmit an annual record of general excise tax remittances received to the department of taxation.

The department of commerce and consumer affairs, with the assistance of the department of taxation and the department of budget and finance, shall adopt rules under HRS chapter 91 to permit the payment of general excise taxes at financial institutions.

EFFECTIVE DATE: July 1, 2011

STAFF COMMENTS: The adoption of this measure to allow taxpayers to pay their general excise taxes at any financial institution in the state which would make it convenient for taxpayers. Otherwise known as a lock box system, it would be bank employees who would be receiving the payments. All the bank employees would do is to verify that the amount of the check or debit is the same number as reported on the return to be paid. Because the bank employees would not be checking the accuracy of the return, there would be very little handling of the return beyond verifying the payment check and filing the return in a box or file. And because a bank's operation is not limited by civil service rules and regulations or collective bargaining, this work could be done 24 hours a day. The money would also be credited to the state's account instantaneously something that is unheard of today when a tax payment takes up to six weeks to be submitted for payment.

While this measure allows payment at any financial institution, such a contract could be put out for bid where it costs the state little or nothing for this service as the financial institution would benefit from the large sums of cash that could earn interest for the financial institution. While this idea has been floated a number of times in the past, it is time that the state get on board with other public jurisdictions to maximize the use of the funds owed the state.

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Presentation to the House Committee on Finance

Tuesday, February 15, 2011 at 3:30 p.m.

Testimony on House Bill 418 Relating to Finance

TO: The Honorable Marcus Oshiro, Chair
The Honorable Marilyn B. Lee, Vice Chair
Members of the House Committee on Finance

My name is Neal Okabayashi and I testify for the Hawaii Bankers Association in opposition to HB 418. HB 418 proposes to require state chartered banks (First Hawaiian, Bank of Hawaii, Central Pacific, Finance Factors, Pacific Rim Bank and Ohana Pacific Bank) to perform certain uncompensated services for the State government as it relates to general excise tax collection.

We oppose this bill because it imposes an undue burden on certain banks with no compensation. A state chartered bank would have to set up a collection process in all branches, establish an operating center to receive checks, properly account for them so the payment will be credited to the proper person, receive the GET report and transmit both the report and applicable funds to the state. In essence we are being asked to serve as the state government's lockbox with no compensation.

To: Representative Marcus Oshiro
Chair, House Committee on Finance
Fax: 586-6001

From: Julie Percell
Small business sole proprietor
1704-A Maoi Pl
Honolulu, Hi. 96816
Phone 739-1222 or cell phone 349-6693

Testimony related to HB 418 Relating to General Excise Tax Law

Submitted by fax February 15, 2010

For the Hearing scheduled for Tuesday, February 15, 2011 at 3:30 p.m.

My name is Julie Percell. I represent only myself as a small business owner in Hawaii for more than 30 years. As I write this testimony, my check for \$220 paid to the state for my December 2010 General Excise Tax in December, has still not cleared the bank. Small potatoes, you might be thinking. So we lost .16 cents in interest we could have made this year on Julie's payment.

But what about the payments made by Hawaiian Air and Walmart? They are sitting in the same department, uncashed, not earning interest either. A multi-million dollar check that sits loses thousands of dollars in interest.

No, the answer is not crack the whip at the tax department. There is a simple solution that many small businesses have used for many years to save time and money: Have the payments sent directly to a lockbox at a designated financial institution.

The deposits are credited the morning they are opened, the checks are scanned and the information is sent to the tax department immediately. Every bank has a slightly different rate of interest, but let's assume you have a rate of .0175%. Let's say the revenue for January G.E.T. was \$40,000,000. That's \$70,000 a year in simple interest.

At a time we are looking for more money, this would appear to be a simple way to create it. Please consider using this and freeing up a few more hands at the tax department to go after the scofflaws.

Thank you for your consideration.