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DIRECTOR OF TAXATION

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**DEPT. COMM. NO. 131**

STATE OF HAWAII  
**DEPARTMENT OF TAXATION**

Ka 'Ohana 'Auhau

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December 18, 2025

The Honorable Ronald D. Kouchi  
President and Members of the Senate  
Thirty-Third State Legislature  
State Capitol, Room 409  
Honolulu, HI 96813

The Honorable Nadine K. Nakamura  
Speaker and Members of the  
House of Representatives  
Thirty-Third State Legislature  
State Capitol, Room 431  
Honolulu, HI 96813

Dear President Kouchi, Speaker Nakamura, and Members of the Legislature:

For your information and consideration, the Department of Taxation (Department) hereby transmits a copy of the Report on the Department's Special Enforcement Section for Fiscal Year 2025, as required by Section 231-81(c), Hawai'i Revised Statutes (HRS).

In accordance with section 93-16, HRS, the Department also informs you that the report may be viewed electronically at: [https://tax.hawaii.gov/stats/a5\\_1annual/a5\\_8cash\\_econ/](https://tax.hawaii.gov/stats/a5_1annual/a5_8cash_econ/).

If you have any questions or concerns, please feel free to contact me at  
(808) 587-1540.

Sincerely,

A blue ink signature of Gary S. Saganuma.

Gary S. Saganuma  
Director of Taxation

Enclosure

**DEPARTMENT OF TAXATION**  
**ANNUAL REPORT REQUIRED BY ACT 134, SLH 2009, SECTION 9**  
**For the period from July 1, 2024, through June 30, 2025**

Act 134, Session Laws of Hawaii 2009, also known as the "Cash Economy Enforcement Act" (hereinafter sometimes referred to as the "Act"), requires at section 9 of the Act, that the Department of Taxation ("Department") report the following information to the Legislature:

- I) The state resources committed to implementing the Cash Economy Enforcement Act; and
- II) The additional tax revenues raised as a result of the Act.

The Special Enforcement Section (SES) was established to enforce the Act. Its goal is to ensure that all sectors of Hawaii's economy, especially those that conduct a significant portion of business transactions in cash ("cash economy"), pay their fair share of taxes. In fiscal year (FY) 2016, SES was given additional responsibilities for ensuring that short-term vacation rental operators comply with the state's transient accommodations tax (TAT) laws and in FY 2022 the authority of SES to examine any sector of Hawaii's economy for non-compliance was clarified and codified.

**BACKGROUND**

The Cash Economy Enforcement Act provided the Department with unique resources to increase taxpayer compliance in the "cash economy" sector by educating taxpayers about their tax obligations and conducting civil tax investigations. The Act executes its mandate through SES, a specialized unit within the Department's Compliance Division, primarily comprised of civil investigators and assistant investigators.

The Department was authorized in section 2 of the Act, codified as section 231-83(b), Hawaii Revised Statutes (HRS), to utilize new hires, as well as existing labor resources to staff SES operations. Furthermore, it also authorized the Department to identify the proceeds of SES operations to substantially fund the unit. The SES is allowed to identify taxes collected from any taxpayer, assessment, investigation, or collection as a SES matter, which may be deposited into the Tax Administration Special Fund, codified as section 231-85, HRS. Within the Tax Administration Special Fund's expenditure authority, the Department was initially allowed to retain the first \$500,000 to fund SES operations, with the remaining fiscal year collections being deposited into the General Fund.

Section 8 of the Act authorized the establishment of six new full-time equivalent (FTE) positions for additional investigators, investigator assistants, licensed attorneys, or other support staff. In subsequent years, the legislature incrementally authorized the Department to retain additional funds and establish additional positions, currently up to \$2,000,000 and 13 FTE positions, to support SES's operations and help with enforcement of TAT laws, codified as section 235-20.5, HRS.

## **ACTIVITIES AND ACCOMPLISHMENTS**

Highlights of SES's FY 2025 activities and accomplishments include:

- Reviewed complaints and referrals provided by the public and other departments and conducted investigative analyses to identify businesses potentially non-compliant with general excise tax (GET) and/or TAT laws, for investigation.
- Conducted tax investigations of varying complexities to identify income sources and determine the amount of income that was subject to taxation.
- Requested and obtained voluntarily filed GET and/or TAT returns and tax payments. When taxpayers would not voluntarily submit requested returns, the matter and evidence of income that was subject to tax was referred to the Office Audit Section for assessment.
- Advanced existing initiatives on vacation rental/transient accommodation businesses by using publicly available information and confidential sources to develop leads on taxpayers potentially non-compliant with GET and/or TAT laws. These initiatives include those where information was obtained from surveys of vacation rental platforms for Act 204 violations, as well as resources made available by the Tax System Modernization Program.
- Installed and implemented a database and procedures designed to systematize the process for issuing Act 204 citations and responding to appeals.
- Continued and expanded investigations of online retail and service companies to ensure they pay their fair share of taxes.
- Increased cooperation with other government agencies to develop leads and enforce Hawaii's tax laws.
- Explored use of artificial intelligence platforms to aid in investigations and the development of leads.

### **I. STATE RESOURCES COMMITTED TO IMPLEMENTING THE CASH ECONOMY ENFORCEMENT ACT AND OTHER ACTIVITIES**

In FY 2024, SES incurred the following expenditures to support its compliance activities:

<b><u>Category</u></b>	<b><u>FY 2024</u></b>
Personnel Costs	<b><u>\$1,451,773</u></b>
Other Expenses	<b><u>237,197</u></b>
Total Expenditures	<b><u>\$1,688,970</u></b>

## **II. ADDITIONAL REVENUES RAISED BY THE CASH ECONOMY ENFORCEMENT ACT**

FY25 saw SES Total Revenue Collections decrease 33.3%, from \$54.4 million to \$36.3 million. Tax liability booked was also down 39.8%, from \$112.5 million to \$67.7 million.

SES undertook 34 team visits in FY2025 during which the number of taxpayers/vendors educated rose from 1,610 in the previous FY to 1,948. Of the team visits conducted, approximately 39% were events primarily involving cash economy vendors, such as farmers markets, arts and crafts fairs, and food vendor events. In addition, SES issued 34 citations for violations arising from the failure to display a tax registration number in advertisements for transient accommodations.

SES measures its FY accomplishments by determining the actual tax collections that were remitted by taxpayers (T/P) on delinquent returns secured by SES. In addition, SES is credited with the tax collections that were remitted by taxpayers for a post compliance period of 18 months after they were brought into tax compliance. This is because, had SES not brought the taxpayer into tax compliance, there is a strong likelihood that their non-compliance would have continued indefinitely. Delinquent period tax collections and post compliance period collections aggregate to Impact Revenue.

Details of SES's performance compared with the previous fiscal year are as follows:

	<u>FY 2025</u>	<u>FY 2024</u>
Number of Events Visited Throughout the State	34	40
Businesses Educated on Compliance of Tax Laws	1948	1610
Complaints Received and Reviewed	130	37
Number of Investigations Completed	121	183
GET Impact Revenue Collected	\$31,268,161	\$36,813,210
No. of Taxpayers Remitting GET Payments	706	636
Average GET Impact Revenue Collected per T/P	\$44,289	\$57,882
TAT Impact Revenue Collected	\$5,019,861	\$17,604,866
No. of Taxpayers Remitting TAT Payments	138	192
Average TAT Impact Revenue Collected per T/P	\$36,376	\$91,692
Total Impact Revenue Collected from Taxpayers	\$36,288,022	\$54,418,076