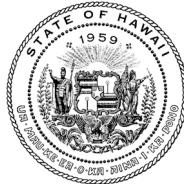


JOSH GREEN M.D.  
GOVERNOR

SYLVIA LUKE  
LT. GOVERNOR



GARY S. SUGANUMA  
DIRECTOR

KRISTEN M.R. SAKAMOTO  
DEPUTY DIRECTOR

STATE OF HAWAI'I  
**DEPARTMENT OF TAXATION**

Ka 'Oihana 'Auhau  
P.O. BOX 259  
HONOLULU, HAWAI'I 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

H.B. No. 2578, Relating to Due Process for Establishing Personal Liability for Tax

**BEFORE THE:**

House Committee on Judiciary & Hawaiian Affairs

**DATE:** Thursday, February 5, 2026

**TIME:** 2:00 p.m.

**LOCATION:** State Capitol, Room 325

Chair Tarnas, Vice-Chair Poepoe, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 2578 for your consideration.

H.B. 2578 amends section 237-41.5, Hawaii Revised Statutes (HRS), which imposes personal liability for the general excise tax (GET) on any officer, member, manager, or other responsible person who has control or supervision over amounts collected to pay the GET, or who is charged with responsibility for the filing of returns or the payment of GET. Personal liability will apply if the officer, member, manager, or responsible person willfully fails to pay or causes to be paid the GET owed by the business.

Under current law, after GET liability is assessed against a business, and appeals have been exhausted or the time to appeal has expired, and the tax remains unpaid, personal liability may be imposed on the officer, member, manager, or other responsible person who willfully failed to pay the GET upon DOTAX's issuance of a written notice to the officer, member, manager, or responsible person.

This bill will require DOTAX to issue the officer, member, manager, or

responsible person an assessment, subject to the procedures for assessment and appeal set forth in sections 237-36 and 237-42, HRS.

This bill is effective upon approval.

DOTAX requests that the bill be amended to clarify that an appeal of an assessment pursuant to section 237-41.5 shall be limited to: (1) whether the person is an officer, member, manager, or responsible person; and (2) whether the person willfully failed to pay or caused to be paid any taxes due from the taxpayer. Stated differently, an officer, member, or responsible person should not be able to reopen any determination that the taxpayer (whom was previously assessed and whom had appealed or had the opportunity to appeal) is liable for GET.

Allowing an officer, member, manager, or responsible person to challenge the merits of the underlying assessment will allow taxpayers to ignore assessments and statutory deadlines for appeal, knowing that they may have another opportunity to dispute the tax at a later time by appealing a personal liability assessment.

To make this clarification, DOTAX recommends amending subsection (f) to read:

(f) A determination that a person is liable for the unpaid taxes of another under this section shall be an assessment to which section 237-36 shall apply and from which a person aggrieved may appeal under section 237-42; provided that any appeal of an assessment made pursuant to this section shall be limited to a determination that the person is an officer, member, manager, or other person described in subsection (b), and that the person wilfully failed to pay or caused to be paid any taxes due from the taxpayer pursuant to this chapter.

Additionally, DOTAX requests that the effective date of the bill be amended to January 1, 2027 to give DOTAX sufficient time to change its processes, procedures, and assessments.

Thank you for the opportunity to provide comments on this measure.

# TAX FOUNDATION OF HAWAII

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735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

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SUBJECT: GENERAL EXCISE, TRANSIENT ACCOMMODATIONS, Due Process to Determine Personal Liability

BILL NUMBER: HB 2578, SB 3277

INTRODUCED BY: HB by TAKENOUCHI; SB by KOUCHI by request

EXECUTIVE SUMMARY: Provides that a determination of personal liability for another person's unpaid taxes is an assessment subject to the due process procedures and appeals available for other assessments..

SYNOPSIS: Amends section 237-41.5, HRS, in the General Excise Tax Law, to provide that a determination that a person is liable for the unpaid taxes of another under this section shall be an assessment to which section 237-36 shall apply and from which a person aggrieved may appeal under section 237-42.

This procedure is also expected to apply to the Transient Accommodations Tax, which incorporates this section by reference. Section 237D-16(a)(3), HRS.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: Section 237-41.5, part of the General Excise Tax Protection Act of 2010 (Act 155, SLH 2010), provides that if the taxpayer is an entity, and it has unpaid taxes, then the Department can go after the personal assets of any responsible person within the entity, as long as that person "willfully fails to pay or cause to be paid" the tax. That would include any decision to pay any creditor of the company before the tax liability.

As applied, however, the Department typically looks for significant people within the entity – officers, shareholders, check signers – and goes after all of them. An accounts payable clerk, for example, could be sent a million-dollar tax bill for signing checks that she was told to sign while she had no knowledge that her employer actually owed a million dollars in back GET taxes. The question is whether, and how, the clerk can contest the bill and prove that she wasn't in fact a responsible person.

Under current law, the Department will receive and review a Form D-30, Personal Assessment/Liability Questionnaire, and sometimes will let an individual off the hook. But it has taken the position that if it doesn't and the individual wants independent judicial review of the Department's determination, then the individual must pay the disputed tax under protest and file suit for a refund. Which means that our clerk must pony up the \$1 million before the courts can hear her case. In the great majority of cases, such a person will be unable to do this. So our clerk

may have her life ruined by Department liens, levies, and other collection action when the only thing she may have done wrong is follow her employer's orders.

The bill provides that if the Department determines that a person is personally liable for the tax of another, then that determination may be appealed to the Tax Appeal Court or Board of Review like any other assessment of taxes made against any other taxpayer.

Digested: 2/3/2026