

SCR 112 / SR 63

REQUESTING THE AUDITOR TO CONDUCT A FINANCIAL AUDIT OF
THE DEPARTMENT OF TAXATION TO ADDRESS ISSUES
ASSOCIATED WITH THE COLLECTION AND PAYMENT OF THE
COUNTY SURCHARGE ON STATE TAX TO THE CITY AND COUNTY
OF HONOLULU.

PSM, WAM

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Will Espero, Chair
and Members of the Senate Committee on Public Safety,
Intergovernmental and Military Affairs

Date: Tuesday, March 31, 2015
Time: 1:15 p.m.
Place: Conference Room 229, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.C.R. 112 Requesting the Auditor to Conduct a Financial Audit of the Department of
Taxation to Address Issues Associated with the Collection and Payment of the County
Surcharge on State Tax to the City and County of Honolulu

The Department of Taxation (Department) opposes S.C.R. 112, and offers the following information and comments for the Committee's consideration.

S.C.R. 112 requests that the State Auditor conduct a financial audit of the Department to address concerns regarding the collection of the county surcharge on state tax assessed, collected, and transferred to Honolulu Area Rapid Transit (HART). Specifically, the Resolution raises concerns about the Department's timely collection and processing of the county surcharge, thereby affecting HART's ability to accurately estimate future revenue and manage its financial plan.

The Department understands the Legislature's concerns regarding the financial stability of the Honolulu rail project. However, the confidentiality provisions of Title 14 of the Hawaii Revised Statutes (Title 14) prevent the Department from providing the State Auditor with access to taxpayer information without the taxpayer approval.

State taxes are administered largely through voluntary compliance on the part of taxpayers. The Department cannot support any erosion of the promise of confidentiality which may have negative consequences for continued voluntary compliance by taxpayers.

While the Department is unable to provide access to taxpayer records as would be required under this Resolution, the Department recognizes the desire of the Legislature and HART to better understand the Department's collection and processing of the county surcharge. As there is no factual evidence that the collections reported and transferred to HART have been erroneous, the

Department construes the incorrect assumptions about the surcharge collection to a misunderstanding about the tax collection process.

In general, the Department reports collections on a cash basis, while tax returns report taxpayer liability on an deferred basis. The different reporting basis results in "timing differences". For example, when monthly General Excise Tax taxpayers fill out a tax return for the month of January, they are reporting the gross revenue they received for the month of January. However, since monthly GET taxpayers are not required to file their January GET return until February 20, the payment is not reported as a collection until the month in which the payment is deposited by the Department.

Since most GET returns are filed in paper form that requires extra processing time, it is likely that the tax payment corresponding to the January GET return may not be cashed and reported in February, but rather in March. For that reason, trying to compare month-over-month economic activity versus monthly cash collections will present skewed results. Instead, comparisons should be done by reviewing surcharge collection and tax liability data over longer periods, such as on an annual basis.

The Resolution noted that in the first two quarters of FY2013, the actual cash collection to HART was lower than expected. As noted above, the bulk of the GET returns are processed in paper form, which means that the processing is highly dependent on manual processes including our staffing levels. During the first two quarters of FY2013, the Department was significantly impacted by the loss of temporary tax season help, as well as the promotion of some of our most experienced processing staff to other offices within the Department; all of this directly impacted the number of GET returns that were processed. By the end of FY2013, the total surcharge collection amount (\$203,036,116) was slightly higher than FY2012 (\$201,949,993).

Perhaps even more compelling is Attachment 1 which reflects the county surcharge collection and liabilities since its inception in January 2007. Over that eight-year period, of the over \$1.56 billion in reported surcharge collection, the reported surcharge liability is \$1.54 billion, with the collection exceeding the reported surcharge liability by approximately \$17 million as of December 31, 2014, contrary to the assumption that HART has not received all of the surcharge amounts owed.

Finally, the Department would like to provide some clarification regarding the process by which the county surcharge is transferred to HART. Each month, the Department deposits payments received by GET taxpayers into the general fund. Thereafter, as GET returns with surcharge liability are scanned into the Department's computer system, the gross surcharge liability amount is reported to the Department of Budget and Finance (B&F) on a monthly basis. B&F then reduces the surcharge liability collection amount by the 10% administrative fee and allocates the net amount to the county's surcharge account. Subsequently, after the close of each quarter, the Department of Accounting and General Services transfers the funds in the county surcharge account to HART.

Thank you for the opportunity to provide comments.

Table 1. County Surcharge Tax Collection and Tax Liability Data (In Millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012*	FY 2013*	FY 2014	FY 2015**	Cumulative Total
0.5% County Surcharge Collections	\$53.8	\$187.9	\$178.7	\$175.1	\$199.0	\$201.9	\$203.0	\$242.7	\$118.1	\$1,560.3
0.5% County Surcharge Liabilities	\$84.4	\$182.9	\$176.7	\$178.5	\$188.9	\$207.4	\$219.7	\$222.6	\$81.4	\$1,542.4
Difference	-\$30.6	\$5.0	\$2.1	-\$3.4	\$10.1	-\$5.4	-\$16.6	\$20.0	\$36.8	\$17.8

Data: As of December 31, 2014

Notes:

*An adjustment of \$9.9 million for County Surcharge was made in July 2012 (FY 2013) due to coding error in December 2011 (FY 2012). For statistical purposes, these figures reflected as if the \$9.9 million was recorded properly in December 2011.

*FY 2015 data are incomplete (Data for GET returns processed as of 12/31/14)



HONOLULU AUTHORITY for RAPID TRANSPORTATION

IN REPLY REFER TO:
CMS-AP00-01180

Daniel A. Grabauskas
EXECUTIVE DIRECTOR AND CEO

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Statement of
DANIEL A. GRABAUSKAS
Executive Director and CEO, Honolulu Authority for Rapid Transportation
before the

**SENATE COMMITTEE ON PUBLIC SAFETY,
INTERGOVERNMENTAL AND MILITARY AFFAIRS**

Tuesday, March 31, 2015
1:15 p.m.
State Capitol, Conference Room 229

In consideration of
SCR112
**REQUESTING THE AUDITOR TO CONDUCT A FINANCIAL AUDIT OF THE DEPARTMENT OF
TAXATION TO ADDRESS ISSUES ASSOCIATED WITH THE COLLECTION AND PAYMENT OF THE
COUNTY SURCHARGE ON STATE TAX TO THE CITY AND COUNTY OF HONOLULU**
and
SR63
**REQUESTING THE AUDITOR TO CONDUCT A FINANCIAL AUDIT OF THE DEPARTMENT OF
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COUNTY SURCHARGE ON STATE TAX TO THE CITY AND COUNTY OF HONOLULU**

Chair Espero, Vice Chair Baker, and Members of the Senate Committee on Public Safety,
Intergovernmental and Military Affairs,

The Honolulu Authority for Rapid Transportation (HART) supports the intent of SCR112 and SR63,
requesting the State Auditor to conduct a financial audit of the State Department of Taxation (DoTax)
to address issues associated with the collection and payment of the county surcharge and provides
the following comments.

It would be helpful and informative for HART to receive a reconciliation of the general excise tax
(GET) surcharge from January 1, 2007, to present in order to validate whether correct amounts of
the GET surcharge have been remitted to the City and County of Honolulu.

Thank you for this opportunity to provide written testimony.

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 25, 2015 12:23 PM
To: PSMTestimony
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for SCR112 on Mar 31, 2015 13:15PM*

SCR112

Submitted on: 3/25/2015

Testimony for PSM on Mar 31, 2015 13:15PM in Conference Room 229

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 25, 2015 12:24 PM
To: PSMTestimony
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for SR63 on Mar 31, 2015 13:15PM*

SR63

Submitted on: 3/25/2015

Testimony for PSM on Mar 31, 2015 13:15PM in Conference Room 229

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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