

1 electronically, with an astounding ninety-six per cent requiring
2 manual processing of paper forms and payments. Business returns
3 may also require further monthly income tax withholding and
4 general excise and transient accommodations tax payments,
5 resulting in over 1,500,000 filings by businesses in Hawaii,
6 again ninety-six per cent being processed manually.

7 Overall, only fifteen per cent of Hawaii tax returns are
8 filed electronically, and the \$2.50 convenience fee imposed by
9 the eHawaii.gov portal is perceived as a barrier for many people
10 who might consider filing electronically.

11 The legislature finds that in other states, electronic
12 filing grew by roughly twenty-five to thirty per cent from
13 2000-2004, and those states with electronic filing mandates have
14 experienced higher growth rates than those without mandates. As
15 a result, many states have used electronic filing applications
16 as an opportunity to improve taxpayer services and reduce their
17 operating costs (e.g., electronic payments, online account
18 access, electronic forms and instructions), as well as
19 increasing their collections without undue burdens to taxpayers.

20 **PART II**

21 The purpose of this part is to provide revenue generating
22 initiatives that will be benefits-funded, meaning the vendor



1 will be paid when measurable increases in revenues resulting
2 from the initiatives are collected by the State. The revenues
3 will be used by the department of taxation to enhance its
4 computer system, called the integrated tax services and
5 management system, and to streamline related operational
6 procedures.

7 SECTION 2. Chapter 231, Hawaii Revised Statutes, is
8 amended by adding a new section to be appropriately designated
9 and to read as follows:

10 "§231- Integrated tax services and management special
11 fund. (a) There is established in the state treasury the
12 integrated tax services and management special fund to improve
13 customer services, improve taxpayer fairness, and increase cost
14 savings, with an emphasis on electronic filings.

15 (b) Notwithstanding any other law to the contrary, the
16 source of funding of any appropriations to the integrated tax
17 services and management special fund for the purposes of funding
18 initiatives under subsection (c) shall come from the tax
19 revenues collected pursuant to chapters 235, 237, and 238.

20 (c) Moneys in the special fund may be expended upon
21 legislative appropriation by the department to pay for the
22 integrated tax services and management systems performance-based



1 contracts and administrative and operating expenses related to
2 the integrated tax services and management systems post-
3 implementation revenue-generating initiatives."

4 SECTION 3. Section 36-27, Hawaii Revised Statutes, is
5 amended to read as follows:

6 "§36-27 Transfers from special funds for central service
7 expenses. Except as provided in this section, and
8 notwithstanding any other law to the contrary, from time to
9 time, the director of finance, for the purpose of defraying the
10 prorated estimate of central service expenses of government in
11 relation to all special funds, except the:

- 12 (1) Special out-of-school time instructional program fund
13 under section 302A-1310;
- 14 (2) School cafeteria special funds of the department of
15 education;
- 16 (3) Special funds of the University of Hawaii;
- 17 (4) State educational facilities improvement special fund;
- 18 (5) Convention center enterprise special fund under
19 section 201B-8;
- 20 (6) Special funds established by section 206E-6;
- 21 (7) Housing loan program revenue bond special fund;
- 22 (8) Housing project bond special fund;



- 1 (9) Aloha Tower fund created by section 206J-17;
- 2 (10) Funds of the employees' retirement system created by
3 section 88-109;
- 4 (11) Unemployment compensation fund established under
5 section 383-121;
- 6 (12) Hawaii hurricane relief fund established under chapter
7 431P;
- 8 (13) Hawaii health systems corporation special funds;
- 9 (14) Tourism special fund established under section
10 201B-11;
- 11 (15) Universal service fund established under chapter 269;
- 12 (16) Emergency and budget reserve fund under section
13 328L-3;
- 14 (17) Public schools special fees and charges fund under
15 section 302A-1130(f);
- 16 (18) Sport fish special fund under section 187A-9.5;
- 17 (19) Neurotrauma special fund under section 321H-4;
- 18 (20) Deposit beverage container deposit special fund under
19 section 342G-104;
- 20 (21) Glass advance disposal fee special fund established by
21 section 342G-82;



- 1 (22) Center for nursing special fund under section
2 304A-2163;
- 3 (23) Passenger facility charge special fund established by
4 section 261-5.5;
- 5 (24) Solicitation of funds for charitable purposes special
6 fund established by section 467B-15;
- 7 (25) Land conservation fund established by section 173A-5;
- 8 (26) Court interpreting services revolving fund under
9 section 607-1.5;
- 10 (27) Trauma system special fund under section 321-22.5;
- 11 (28) Hawaii cancer research special fund;
- 12 (29) Community health centers special fund; ~~and~~
- 13 (30) Emergency medical services special fund; and
- 14 (31) Integrated tax services and management special fund
15 under section 231- ;
- 16 shall deduct five per cent of all receipts of all other special
17 funds, which deduction shall be transferred to the general fund
18 of the State and become general realizations of the State. All
19 officers of the State and other persons having power to allocate
20 or disburse any special funds shall cooperate with the director
21 in effecting these transfers. To determine the proper revenue
22 base upon which the central service assessment is to be



1 calculated, the director shall adopt rules pursuant to chapter
2 91 for the purpose of suspending or limiting the application of
3 the central service assessment of any fund. No later than
4 twenty days prior to the convening of each regular session of
5 the legislature, the director shall report all central service
6 assessments made during the preceding fiscal year."

7 SECTION 4. Section 36-30, Hawaii Revised Statutes, is
8 amended by amending subsection (a) to read as follows:

9 "(a) Each special fund, except the:

- 10 (1) Transportation use special fund established by section
11 261D-1;
- 12 (2) Special out-of-school time instructional program fund
13 under section 302A-1310;
- 14 (3) School cafeteria special funds of the department of
15 education;
- 16 (4) Special funds of the University of Hawaii;
- 17 (5) State educational facilities improvement special fund;
- 18 (6) Special funds established by section 206E-6;
- 19 (7) Aloha Tower fund created by section 206J-17;
- 20 (8) Funds of the employees' retirement system created by
21 section 88-109;



- 1 (9) Unemployment compensation fund established under
2 section 383-121;
- 3 (10) Hawaii hurricane relief fund established under chapter
4 431P;
- 5 (11) Convention center enterprise special fund established
6 under section 201B-8;
- 7 (12) Hawaii health systems corporation special funds;
- 8 (13) Tourism special fund established under section
9 201B-11;
- 10 (14) Universal service fund established under chapter 269;
- 11 (15) Emergency and budget reserve fund under section
12 328L-3;
- 13 (16) Public schools special fees and charges fund under
14 section 302A-1130(f);
- 15 (17) Sport fish special fund under section 187A-9.5;
- 16 (18) Neurotrauma special fund under section 321H-4;
- 17 (19) Center for nursing special fund under section
18 304A-2163;
- 19 (20) Passenger facility charge special fund established by
20 section 261-5.5;
- 21 (21) Court interpreting services revolving fund under
22 section 607-1.5;



- 1 (22) Trauma system special fund under section 321-22.5;
- 2 (23) Hawaii cancer research special fund;
- 3 (24) Community health centers special fund; [and]
- 4 (25) Emergency medical services special fund; and
- 5 (26) Integrated tax services and management special fund
- 6 under section 231- ;

7 shall be responsible for its pro rata share of the
 8 administrative expenses incurred by the department responsible
 9 for the operations supported by the special fund concerned."

10 SECTION 5. Section 235-119, Hawaii Revised Statutes, is
 11 amended to read as follows:

12 "**§235-119 Taxes, state realizations.** [~~All~~] (a) Except as
 13 provided in subsection (b), all income taxes shall be for the
 14 use of the State and shall be paid into the state treasury at
 15 such times as the director of finance shall direct.

16 (b) The director of taxation shall pay the income taxes
 17 into the state treasury as a state realization; provided that a
 18 sum, not to exceed the amount necessary to meet the obligations
 19 of integrated tax services and management systems
 20 performance-based contracts, may be retained and deposited into
 21 the state treasury to the credit of the integrated tax services
 22 and management special fund. The sum retained by the director



1 of taxation for deposit into the integrated tax services and
2 management special fund shall be limited to amounts appropriated
3 by the legislature."

4 SECTION 6. Section 237-31, Hawaii Revised Statutes, is
5 amended to read as follows:

6 "§237-31 Remittances. All remittances of taxes imposed by
7 this chapter shall be made by money, bank draft, check,
8 cashier's check, money order, or certificate of deposit to the
9 office of the department of taxation to which the return was
10 transmitted. The department shall issue its receipts therefor
11 to the taxpayer and shall pay the moneys into the state treasury
12 as a state realization, to be kept and accounted for as provided
13 by law; provided that:

14 (1) The sum from all general excise tax revenues realized
15 by the State that represents the difference between
16 \$90,000,000 and the proceeds from the sale of any
17 general obligation bonds authorized for that fiscal
18 year for the purposes of the state educational
19 facilities improvement special fund shall be deposited
20 in the state treasury in each fiscal year to the
21 credit of the state educational facilities improvement



1 special fund for public school capital improvement
2 program needs; ~~and~~

3 (2) A sum, not to exceed \$5,000,000, from all general
4 excise tax revenues realized by the State shall be
5 deposited in the state treasury in each fiscal year to
6 the credit of the compound interest bond reserve
7 fund~~[-]~~; and

8 (3) A sum, not to exceed the amount necessary to meet the
9 obligations of integrated tax services and management
10 systems performance-based contracts, may be retained
11 and deposited into the state treasury to the credit of
12 the integrated tax services and management special
13 fund. The sum retained by the director of taxation
14 for deposit into the integrated tax services and
15 management special fund shall be limited to amounts
16 appropriated by the legislature."

17 SECTION 7. Section 238-14, Hawaii Revised Statutes, is
18 amended to read as follows:

19 "§238-14 Taxes state realizations. ~~[All]~~ (a) Except as
20 provided in subsection (b), all taxes collected under this
21 chapter shall be state realizations.



1 (b) The director of taxation shall pay the use taxes into
2 the state treasury as a state realization; provided that a sum,
3 not to exceed the amount necessary to meet the obligations of
4 integrated tax services and management systems performance-based
5 contracts, may be retained and deposited into the state treasury
6 to the credit of the integrated tax services and management
7 special fund. The sum retained by the director of taxation for
8 deposit into the integrated tax services and management special
9 fund shall be limited to amounts appropriated by the
10 legislature."

11 SECTION 8. Section 231-3.2, Hawaii Revised Statutes, is
12 repealed.

13 ~~["§231-3.2 Integrated tax information management systems~~
14 ~~special fund. (a) There is established in the state treasury~~
15 ~~the integrated tax information management systems special fund~~
16 ~~into which shall be deposited general excise tax revenues as~~
17 ~~provided by section 237-31. The director of taxation may retain~~
18 ~~and deposit the amounts necessary to meet the obligations of the~~
19 ~~integrated tax information management systems performance-based~~
20 ~~contract. The amounts transferred by the director of taxation~~
21 ~~to the integrated tax information management systems special~~



1 ~~fund for a fiscal year shall be limited to the amounts~~
2 ~~appropriated by the legislature.~~

3 ~~(b) Moneys in the fund shall be expended by the department~~
4 ~~to pay for the integrated tax information management systems~~
5 ~~performance based contracts authorized by Act 273, Session Laws~~
6 ~~of Hawaii 1996.~~

7 ~~(c) The department shall submit an annual report to the~~
8 ~~legislature no later than twenty days prior to the convening of~~
9 ~~each regular session, providing an accounting of the receipts~~
10 ~~of, and expenditures from, the fund.~~

11 ~~(d) This section shall be repealed on July 1, 2005."]~~

12 SECTION 9. The department of taxation shall execute the
13 performance-based contracts and work assignments authorized
14 under this part in a timely manner; provided that the integrated
15 tax services and management systems enhancements and related
16 services shall be executed no later than September 1, 2007.

17 PART III

18 SECTION 10. (a) Notwithstanding any other law to the
19 contrary, including any law requiring oversight of an executive
20 department's decisions relating to on-line portals or
21 Internet-based access, the department of taxation shall enter
22 into performance-based contracts to enhance or acquire automated



1 tax systems, or both, including computer hardware and software,
2 for the implementation and administration of the taxes under
3 title 14, Hawaii Revised Statutes, including the city and county
4 of Honolulu surcharge authorized under section 46-16.8, Hawaii
5 Revised Statutes, and adopted by ordinance.

6 (b) For the purposes of this Act:

7 "Performance-based contract" means a contract under which
8 compensation to the vendor shall be computed according to
9 performance standards established by the department of taxation.
10 Any performance-based contract entered into by the department of
11 taxation for the purposes established under subsection (a) shall
12 provide for the payment of fees:

13 (1) Based on a contractually specified amount of the
14 increase in the amount of taxes, interest, and
15 penalties collected and attributable to the
16 implementation of the integrated tax services and
17 management system post-implementation revenue-
18 generating initiatives; or

19 (2) On a fixed-fee contract basis to be paid from the
20 increase in the amount of taxes, interest, and
21 penalties collected and attributable to the
22 implementation of integrated tax services and



1 management system post-implementation revenue-
2 generating initiatives.

3 (c) The State shall receive a permanent license to use the
4 enhanced or automated tax systems upon full payment to the
5 vendor.

6 (d) Notwithstanding any other law to the contrary, the
7 department of taxation shall award the performance-based
8 contract pursuant to the requirements of chapter 103D, Hawaii
9 Revised Statutes.

10 SECTION 11. The director of taxation shall report to the
11 legislature, no later than twenty days prior to the convening of
12 every regular session, beginning with the 2008 regular session,
13 with respect to the status of the performance-based contract and
14 shall provide an accounting of all moneys appropriated. The
15 report shall include:

16 (1) Detailed information on the costs, benefits, and
17 features of implementing the integrated tax services
18 and management system post-implementation
19 revenue-generating initiatives;

20 (2) The amount of increased tax, interest, and penalties
21 collected that is attributable to the integrated tax



1 services and management system post-implementation
2 revenue-generating initiatives; and

3 (3) The amount paid to the vendor or vendors contracted
4 under section 9 of this Act.

5 The report shall also include any other information from
6 the preceding fiscal year that may assist the legislature in
7 determining the efficacy of a contract executed under this Act,
8 beginning with the fiscal year immediately preceding the fiscal
9 year commencing on the effective date of this Act and continuing
10 until two complete fiscal years have elapsed following the full
11 implementation of the integrated tax services and management
12 system post-implementation revenue-generating initiatives.

13 SECTION 12. There is appropriated out of the general
14 revenues of the State of Hawaii the sum of \$ or so
15 much thereof as may be necessary for fiscal year 2007-2008 to be
16 deposited into the integrated tax services and management
17 special fund.

18 SECTION 13. There is appropriated out of the integrated
19 tax services and management special fund the sum of \$
20 or so much thereof as may be necessary for fiscal year 2007-2008
21 for the purposes of the integrated tax services and management



1 special fund established pursuant to section 231- , Hawaii
2 Revised Statutes.

3 The sum appropriated shall be expended by the department of
4 taxation; provided that the department of taxation shall repay
5 the general fund for the general fund appropriation for fiscal
6 year 2007-2008 to section 231- , Hawaii Revised Statutes, no
7 later than June 30, 2008.

8 **PART IV**

9 SECTION 14. The increased use of computers for personal
10 purposes and in daily business operations has led to an increase
11 in electronic and computer-based interactions with government.
12 The department of taxation interacts with nearly every person in
13 Hawaii on a regular basis. The department of taxation also
14 regularly interacts with nonresident taxpayers and mainland-
15 based businesses that routinely file tax information.

16 In response to the increase in interactions with
17 out-of-state taxpayers and the increase in electronic tax
18 filings, the legislature, in 1997, made electronic filing an
19 acceptable means of carrying out a taxpayer's obligations under
20 the law. Since this law was enacted, the ability to interact
21 electronically has grown considerably, especially for



1 businesses, nearly all of which have a computer and access to
2 the Internet.

3 Within the next decade, a majority, if not all, of tax
4 filings are predicted to be filed electronically. This will
5 result in greater efficiencies for both the taxpayer and the
6 State. In addition, the legislature, which is charged with the
7 responsibility of overseeing the effectiveness of tax incentives
8 and the efficacy of the tax system as a whole, will have access
9 to more specific data on Hawaii taxes if the tax data is
10 captured electronically.

11 The proposed amendments in this part will also ensure that
12 taxpayers will be provided with sufficient notice and an
13 opportunity to comment by requiring compliance with chapter 91,
14 Hawaii Revised Statutes.

15 The purpose of this part is to increase electronic filing
16 by requiring that the department of taxation, by rule, require
17 electronic filing. It is the intent of the legislature, that
18 within this broader mandate, the department of taxation shall:

19 (1) Focus its initial rulemaking on those taxes paid by
20 businesses that the Internal Revenue Service requires
21 to be filed electronically; and



1 (2) Address increased voluntary electronic filing through
2 the integrated tax services and management software
3 upgrades.

4 SECTION 15. Section 231-8.5, Hawaii Revised Statutes, is
5 amended to read as follows:

6 "[~~+~~]~~§231-8.5~~[~~+~~] Electronic filing of tax returns. (a)

7 The department [~~may allow filing~~], by rule, adopted pursuant to
8 chapter 91, shall require taxpayers who must file their taxes
9 electronically with the Internal Revenue Service to file by
10 electronic, telephonic, or optical means [~~of~~] any tax return,
11 application, report, or other document required under [~~the~~
12 ~~provisions of~~] title 14 administered by the department [~~-~~];
13 provided that a service fee shall not be required. The date of
14 filing shall be the date the tax return, application, report, or
15 other document is transmitted to the department in a form and
16 manner prescribed by departmental rules adopted pursuant to
17 chapter 91.

18 (b) The department [~~may~~] shall determine alternative
19 methods for the signing, subscribing, or verifying [~~of~~] a tax
20 return, application, report, or other document that shall have
21 the same validity and consequences as the actual signing by the
22 taxpayer. The department shall increase voluntary electronic



1 filing through integrated tax services and management, free
2 software, and software upgrades; provided that a service fee
3 shall not be required; provided further that the emphasis of
4 voluntary electronic filing shall be on withholding taxes,
5 general excise taxes, and transient accommodations taxes.

6 (c) A filing under this section shall be treated in the
7 same manner as a filing subject to the penalties under section
8 231-39."

9 SECTION 16. There is appropriated out of the integrated
10 tax services and management special fund the sum of \$
11 or so much thereof as may be necessary for fiscal year 2007-2008
12 to pay the eHawaii.gov vendor for the costs of electronic filing
13 that were previously paid by the taxpayer pursuant to section
14 231-8.5, Hawaii Revised Statutes.

15 The sum appropriated shall be expended by the department of
16 taxation for the purposes of this Act.

17 PART V

18 SECTION 17. Statutory material to be repealed is bracketed
19 and stricken. New statutory material is underscored.

20 SECTION 18. This Act shall take effect on July 1, 2007;
21 provided that the amendments to section 237-31, Hawaii Revised
22 Statutes, made in section 6 of this Act, shall not be repealed



1 upon the repeal of section 2, Act 304, Session Laws of Hawaii
2 2006.



Report Title:

Department of Taxation; Special Fund; Electronic Filing

Description:

Establishes integrated tax services and management special fund to receive revenues from the integrated tax services and management systems post-implementation revenue-generating initiatives; provides that moneys in the fund will be used to pay for the integrated tax services and management systems; requires that the department of taxation, by rule adopted pursuant to chapter 91, Hawaii Revised Statutes, shall require the electronic, telephonic, or optical filing of tax returns under certain conditions; provides that a service fee shall not be required. (SD1)

