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SENATE COMMITTEE ON WAYS & MEANS

TESTIMONY REGARDING SB 3115 SD 1 RELATING TO ELECTRONIC TAX ADMINISTRATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 25, 2008

TIME: 10:30AM

ROOM: 211

As amended, this bill also provides for the framework for the Department to enter into benefits-funded contracts for purposes of improving tax administration.

The Department of Taxation (Department) provides comments on this measure.

ELECTRONIC FILING & ELECTRONIC PAYMENT

The Department strongly supports authority to allow the Department to require e-filing and e-payment of taxes. The Department respectfully requests that the original electronic tax authorities provided in this bill be reinserted. The Department believes that the additional e-pay authority will greatly assist tax administration. The Department has the following comments on this bill's prior contents—

Increasing computer use among taxpayers – Computer use among the general public for conducting personal and business transactions has increased substantially since enactment of the original § 231-8.5 e-filing provision in 1997. Today, many taxpayers possess a level of sophistication regarding computer use such that they could easily and smoothly transition into e-filing of tax returns.

Mandatory e-filing improves the Department's ability to capture data – Increased breadth and scope of data that can be collected via e-filing, is another advantage. The Department will experience enhanced capability of acquiring more specific data on Hawaii taxes that in turn, will better enable the State to modify and improve tax laws.

E-Pay would also benefit the State—one of the intended benefits of requiring electronic payments would also be to provide the general fund with faster processing of money, which economically infuses the general fund by providing direct access to funds.

The Department is currently authorized to require e-pay, but the limits are high—The Department points out that it already has the authority to require electronic payment of taxes in excess of \$100,000 and \$40,000 for withholding taxes. The Department is interested in exploring lower caps for certain types of taxes or taxpayers.

Taxpayers will be granted ample opportunity to comment on the Department's use of these authorities – As the e-filing and e-pay rules prescribed by the Department must be adopted in accordance with the procedure established by Chapter 91, HRS, the public will be provided sufficient notice and opportunity to provide input regarding the rules.

REVENUE ESTIMATE

Due to the complexity of this bill's current amendments relating to the Department's authority to enter into benefits-funded contracts for improved tax administration, this bill's revenue estimate will follow under separate cover.