

DAVID Y. IGE  
GOVERNOR

JOSH GREEN M.D.  
LT. GOVERNOR



ISAAC W. CHOY  
DIRECTOR OF TAXATION

STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
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To: The Honorable Donovan M. Dela Cruz, Chair;  
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;  
and Members of the Senate Committee on Ways and Means

From: Isaac W. Choy, Director  
Department of Taxation

Date: Tuesday, April 5, 2022  
Time: 10:15 A.M.  
Place: Via Video Conference, State Capitol

**Re: H.B. 1828, H.D. 3, S.D. 1, Relating to the Taxation Board of Review**

The Department of Taxation (Department) strongly supports H.B. 1828, H.D. 3, S.D. 1, and offers the following comments for the committee's consideration.

H.B. 1828, H.D. 3, S.D. 1, amends chapter 232, Hawaii Revised Statutes (HRS), to make several important changes to the State Taxation Board of Review (Board). It changes the Board's composition from ten volunteer members to three compensated members with two required for quorum, streamlines administrative procedures for validating board actions, and clarifies the legal, procedural, and evidentiary frameworks that the Board must use in providing notice, adjudicating contested case hearings, and reaching its decisions. It also makes appropriations for Board member salaries and administrative support and legal staff. The measure is effective upon approval, with appropriations effective July 1, 2022, and the switch to a three-member paid board taking effect on January 1, 2023.

The Department notes that the Senate Committee on Judiciary amended the previous version of this measure to reinstate three new full-time equivalent board member positions and two new full-time equivalent staff positions in Section 6, as well as the appropriation in Section 7 of \$518,452, per the Department's request. The Committee also inserted functional and appropriate effective dates as requested. The Department greatly appreciates these changes and requests that they remain intact.

Establishing a paid professional Board with robust institutional support would greatly help the Department work through its significant backlog of appeals and ensure that Hawaii's taxpayers have their tax appeal issues resolved fairly and expeditiously. The Department is able to administer the measure as written. Thank you for the opportunity to testify in support of this measure.

DAVID Y. IGE  
GOVERNOR



**LATE**

CRAIG K. HIRAI  
DIRECTOR

GLORIA CHANG  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
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ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN ONLY**  
TESTIMONY BY CRAIG K. HIRAI  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE SENATE COMMITTEE ON JUDICIARY  
ON  
HOUSE BILL NO. 1828, H.D. 3

**March 17, 2022**  
**9:35 a.m.**  
**Room 016 and Videoconference**

RELATING TO THE TAXATION BOARD OF REVIEW

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill No. 1828, H.D. 3, amends Sections 232-6 and 232-7, HRS, to change the composition of the Taxation Board of Review (Board) from ten volunteer members to three full-time members; establish that the Chairperson of the Board shall be paid 85% of the salary of the Director of Taxation and the other Board members shall be paid 90% of the Chairperson's salary; decrease the quorum requirement from three members to two; and clarify the legal, procedural, and evidentiary framework that the Board must use in providing notice, adjudicating a contested case hearing, and reaching its decision. This bill also appropriates an unspecified amount of general funds in FY 23 for an unspecified number of Board members, an unspecified number of administrative staff members, and other related administrative expenses.

B&F notes that, with respect to the general fund appropriation in this bill, the federal Coronavirus Response and Relief Supplemental Appropriations Act requires that states receiving Elementary and Secondary School Emergency Relief (ESSER) II funds and Governor's Emergency Education Relief II funds must maintain state support for:

- Elementary and secondary education in FY 22 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

Further, the federal American Rescue Plan (ARP) Act requires that states receiving ARP ESSER funds must maintain state support for:

- Elementary and secondary education in FY 22 and FY 23 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 and FY 23 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

The U.S. Department of Education has issued rules governing how these maintenance of effort (MOE) requirements are to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with these ESSER MOE requirements.

Thank you for your consideration of our comments.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

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**SUBJECT:** APPEALS, Change Taxation Board of Review to Three Paid Members

**BILL NUMBER:** HB 1828 SD 1

**INTRODUCED BY:** Senate Committee on Judiciary

**EXECUTIVE SUMMARY:** Beginning 1/1/2023, amends the membership, composition, compensation, and duties of the taxation board of review. Amends quorum requirements. Authorizes members of the taxation board of review to validate the board's actions with a concurrence of the majority of members who heard the appeal. Specifies that board meetings are contested case hearings with certain notice requirements. Clarifies the legal and evidentiary framework for the board to use when making decisions. Appropriates funds to the department of taxation to establish staff positions. It seems a bit early to be changing the system yet again, after a bill to consolidate the district boards of review into a statewide one was enacted only last year.

**SYNOPSIS:** Amends section 232-6, HRS, to change the Taxation Board of Review from ten volunteer members, three of which would constitute a quorum, to three full-time employees, whose salaries would be pegged to the salary of the Director of Taxation. Members already on the Board would stay on until their appointed terms expire.

The Governor is to appoint all members of the board and to designate one as Chair. The chair is to be paid 85% of the Director of Taxation's salary, and the other two members are paid 90% of the Chair's salary. No member, during the member's term, shall hold any other public office or be in the employment of the State or a county, or any department or agency thereof, or any employee organization.

Clarifies that board meetings are contested case hearings as defined in section 91-9, HRS.

**EFFECTIVE DATE:** July 1, 2050; provided that Section 7 shall take effect on July 1, 2022 and Section 1 shall take effect on January 1, 2023.

**STAFF COMMENTS:** None of us relish a tax audit, knowing that the person across the table from you represents a government agency that has the power to garnish your wages, seize your bank accounts, force the sale of your home, shut down your business, and file criminal charges. And yet, because the person in that position is a person and not some divine being, mistakes can and will happen. That's why our laws provide for review of tax assessments.

There are now two principal ways state tax assessments can be reviewed by people who aren't employees of the Department of Taxation. One way is through the court system. The other way is through a citizen panel known as a Taxation Board of Review. The Boards were established in 1932, three years before the Territory of Hawaii adopted the General Excise Tax. Boards are in each of the principal counties and have the power to hear and determine tax disputes arising in their county.

Each Board is supposed to have five members appointed by the Governor and confirmed by the Senate. The Board can't make a decision unless there is a "quorum" of three members that hears a particular case. A 2013 law allowed up to three panels of five in each county, and a quorum can be gathered from any members available, so in each county there is a potential pool of fifteen members, three of which are needed to hear any particular case. Under Act 118, SLH 2021, this was all replaced with a statewide panel of ten members, all volunteers as in previous years.

The current bill proposes to replace the volunteer board with a paid board of three people, appointed by the governor for six-year terms.

One of the problems with volunteer boards was that it was difficult to staff. Due to state ethics rules, board members, for their terms and for one year afterward, cannot practice before the Department of Taxation; however, most of the folks who are qualified to sit on the board of review are tax practitioners and rely on their practice to feed their families.

It seems a bit early to be changing the system yet again, after a bill to consolidate the district boards of review into a statewide one was enacted only last year; if the Department is convinced that the volunteer system isn't going to work, however, perhaps it is time to try the system prescribed by this bill.

Digested: 4/3/2022

**HB-1828-SD-1**

Submitted on: 4/3/2022 9:01:27 PM

Testimony for WAM on 4/5/2022 10:15:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Gerard Silva	Individual	Oppose	Written Testimony Only

Comments:

This needs to End Now!!