BENJAMIN J. CAYETANO
GOVERNOR

MAZIE HIRONO
LT. GOVERNOR

RAY K. KAMIKAWA
DIRECTOR OF TAXATION

SUSAN K. INOUYE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

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RE: Change in Accounting Period From Calendar Year to Fiscal Year For Public Service Companies

This Tax Information Release (TIR) provides guidance to a public service company (PSC) subject to the tax under chapter 239, Hawaii Revised Statutes (HRS), which changes its accounting period from a calendar year to a fiscal year. The amount of the tax which is assessed for the calendar year and the PSC's payment schedule for the tax that is established at the beginning of the calendar year are not affected or canceled when the PSC changes its accounting period to a fiscal year.

A PSC's tax liability for the current taxable year is due on the first day of the taxable year. The PSC tax is a means of taxing the real and personal property owned by a PSC, tangible and intangible, including going concern value. HRS §§ 239-5 and 239-6 (1993). The tax is based upon the PSC's taxable gross income for the preceding taxable year and is reported and paid on a public service company tax return (Form U-6). HRS § 239-4, (1993). The PSC however, may elect to pay the tax in quarterly installments unless the total tax liability exceeds $100,000, in which case the tax must instead be paid in equal monthly installments.

The amount of the tax which is assessed, the return due date, and the payment schedule, therefore, are not affected or canceled when a PSC changes its accounting period from a calendar year to a fiscal year. Thus, a PSC which changes its accounting period from a calendar to a fiscal year is subject to the following requirements:

(1) Submit a written request for a change in the accounting period which is approved by the Department.

(2) File Form U-6 for the new accounting period. The original Form U-6 reporting taxable gross income for the calendar year and a second Form U-6 reporting taxable gross income for the fiscal year must be filed.

(3) Offset the taxable gross income for the duplicated months. To avoid being taxed twice for the duplicated months, an offset for the taxable gross income for the duplicated months will be allowed on the second Form U-6.

(4) No carryover of excess amounts. If the taxable gross income for the duplicated months on the original Form U-6 exceeds the monthly taxable gross income on

the second Form U-6, the excess amounts shall not be carried over and offset against the income for the unduplicated months on the second Form U-6.

Example: Taxpayer (TP), files Form U-6 and pays PSC taxes on a calendar year basis. For tax year 1998, the tax is due on January 1, 1998, as measured by TP's gross income of $1.2 million for the previous taxable year (i.e., January 1, through December 31, 1997). The tax liability is $48,000 ($1.2 million x 4% PSC tax rate) and TP elects to make quarterly installment payments of $12,000, which are due on April 20, June 20, September 20, and December 20, 1998. See HRS §239-7(b) (1993).

In May 1998, TP submits a written request to change its accounting period to a fiscal year ending June 30, effective for the fiscal period beginning July 1, 1998. For the fiscal year preceding July 1, 1998 (i.e., July 1, 1997 to June 30, 1998), TP has taxable gross income of $2.4 million. The tax liability is $72,000 ($1.8 million x 4%, which is calculated by subtracting $600,000 (an offset for TP's gross income previously reported in the TP's calendar year) from $2.4 million). TP may elect to make quarterly installment payments of $18,000 on October 20, 1998, December 20, 1998, March 20, 1999, and June 20, 1999. See HRS § 239-7(b) (1993). TP must make payments for both its calendar year beginning January 1, 1998, and its fiscal year beginning July 1, 1998.

Ray K. Kamikawa
RAY K. KAMIKAWA
Director of Taxation

HRS Sections Explained: HRS Sections 239-4, 239-5, 239-6, and 239-7.