



Hawaii Tax News

Administering the tax laws for the State of Hawaii in a consistent, uniform, and fair manner

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State of Hawaii • Department of Taxation

WINTER 2000

New Deputy Director



We are pleased to announce that Governor Benjamin J. Cayetano has appointed Mr. Dean Seki as our new Deputy Director of Taxation. Originally from Wailuku, Maui, Deputy Director Seki is a graduate of Baldwin High and the University of Hawaii at Manoa. He most recently spent 3 years as a member

of the Governor's research staff, but he also has 10 years of legislative staff experience; 9 years with the House Committee on Finance and 1 year with the Senate Committee on Ways and Means. This experience is invaluable since one of his first duties is to coordinate our efforts during the upcoming legislative session.

Deputy Director Seki also is focusing his attention on the Department's needs as our computer system replacement project advances. He recognizes that our employees must be well equipped, trained, and supported as we transition from the old to the new, and that their well-being is important to providing excellent customer service.

Although Deputy Director Seki just joined us on November 16, he has already met with most of the staff and has rapidly gotten up to speed. We are certain that you will join us in welcoming Mr. Dean Seki as our new Deputy Director!

Internet Initiatives

We are taking another step forward in our on-going tax system replacement project by offering electronic filing for tax returns and other forms via the Internet! The following may be filed electronically through the State's Internet Portal at eHawaii.gov beginning in late January, 2001:

- **Tax returns** (Form HW-14, Withholding Tax Periodic Return)

- **Estimated tax forms** (Forms N-1, N-3, and N-5)
- **Extension forms** (Forms N-100, N-101A, N-301, G-39, HW-26, RV-7, and TA-8)
- **Applications** (Form A-6, Tax Clearance Application; and Form G-5, Application For General Excise/Use One-time Event Identification Number)

A transaction fee will be charged to the submitter for most returns and forms. The transaction fee and any payment may be paid through electronic funds transfer (direct withdrawal from a checking or savings account).

In order to file through the Internet, you must have a PC with Internet connection and a PC browser that supports 128-bit encryption.

For more information, contact our eFile Coordinator, Susan Adaniya, at 808-587-1692 or via e-mail at efile@tax.state.hi.us.

Nonprofit Filing Requirements

Over the last few years, we have made an effort to reach out to nonprofit organizations, especially nonprofit parent-teacher organizations, and

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The Direct Line

By Director Marie Y. Okamura



There have been big changes at our Department this year: Changes in our administration, changes in our workforce, changes in tax laws, changes in making information and services more accessible through the Internet, and more. Expect even more change in 2001 with options for filing tax returns and other documents electronically and more efficient ways of doing things as additional phases of our computer systems modernization project are implemented.

You are an important partner in making meaningful changes happen. As the old year comes to an end and the new year begins, we extend to you an open invitation to let us know what we're doing right and your recommendations for improvement. If you don't understand our policies and procedures, ask us. We will answer questions of general interest in future issues.

From all of us at the Department of Taxation, HAPPY HOLIDAYS!

Nonprofits

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inform them about the State tax requirements they need to be aware of particularly with respect to our general excise tax.

Nonprofit organizations sometimes erroneously believe that they are automatically exempt from all Hawaii taxes. Actually, organizations are automatically exempt from Hawaii income tax IF they are recognized by the Internal Revenue Service (IRS) as tax-exempt AND are a type of organization that Hawaii income tax law also allows an exemption to. We do not have our own income tax exemption application process. For information on obtaining federal tax-exempt status, call the IRS toll-free at 1-877-829-5500.

Nonprofit organizations that are exempt from the Hawaii income tax are not automatically exempt from the general excise tax. Organizations must complete Form G-6, Application for Exemption from General Excise Taxes, and submit the form along with various required documents to the Technical Section of our Taxpayer Services Branch. A one-time \$20 application fee also is required, but the fee is waived if the organization has already obtained a general excise tax

license and paid the \$20 registration fee with its license application. Upon approval, a letter and certificate will be sent to the organization for their records.

Tax-exempt organizations may not be able to exempt all of their income. Detailed information is available in two Tax Facts publications, Tax Facts No. 98-3, Tax Issues for Hawaii Nonprofit Organizations, and Tax Facts No. 99-4, Parent-Teacher Organizations and Other School-Related Organizations. Although Tax Facts No. 99-4 is specifically intended for school-related organizations, the information also is generally applicable to other organizations.

The Tax Facts publications and the Form G-6 mentioned above may be obtained from any district tax office, by calling our request line at 587-7572 (or toll-free at 1-800-222-7572), or at our website at www.state.hi.us/tax. Should you have any questions regarding tax-exemption for Hawaii purposes, contact the Technical Section at 808-587-1577, or via e-mail at Technical_Section@tax.state.hi.us.

Lower Tax Rates For 2001

Beginning January 1, 2001, the following tax rates go into effect:

- Income tax rates for individuals are reduced across the board, with the top rate dropping from 8.75% to 8.5%.
- The phased-in general excise tax deduction factor for qualifying sublease transactions is increasing from

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2001 Tax Rates

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0.375 to 0.5.

- The phased-in general excise tax deduction factor for business-to-business transactions eligible for pyramiding relief under Act 71, Session Laws of Hawaii 1999, and Act 198, Session Laws of Hawaii 2000, is increasing from 0.125 to 0.250 for an effective rate of 3.0%.
- The phased-in public service company tax deduction factor for transportation services provided to construction contractors is increasing from 0.125 to 0.250 for an effective rate of 3.0%.
- The public service company tax rate on sales of telecommunications services by a public utility to an interstate telecommunications provider for resale is dropping from 5.5% to 5.0%

Order the 2000 Tax Information CD

Orders for the 2000 Tax Information CD are now available! This CD is a must-have as it consolidates a variety of reference and informational resources in a convenient, searchable, format.

New for this year is a compilation of selected, unpublished Tax Court cases that you may find useful. As usual, the CD also will contain Tax Information Releases, Announcements, Tax Facts, brochures, and other publications, formal tax opinions by the Office of the Attorney General, tax statutes and administrative rules, and tax forms for 1995-2000. All 1999 and 2000 Hawaii tax forms will have writable fields as will those Department of Labor and Industrial Relations, Department of Commerce and Consumer Affairs, and Department of Budget and Finance unclaimed property forms included on the CD.

Order forms may be obtained at any district tax office, downloaded from our website at www.state.hi.us/tax, or requested by calling our request line at 587-7572 (toll-free at 1-800-222-7572) or e-mailing us at Taxpayer_Services@tax.state.hi.us. The 2000 CD costs \$15 and will be mailed to you when it becomes available in February.

Licensee Information Available on the Web

Have you ever needed to know if someone had or didn't have a general excise tax license? Have you called us for this information or actually come to our office to look at the licensing information available on our microfiche? If it was inconvenient for you, we know that you'll be glad to learn that certain licensing and registration information is now available at the State's Internet Portal, eHawaiiGov.

Selected publicly available information regarding general excise, use, withholding, transient accommodations, and rental motor vehicle and tour vehicle surcharge tax registrations is accessible at your convenience and at no charge. The information is updated monthly and includes the taxpayer's name, business/trade name (DBA), business address, and license number (i.e., State tax identification number), the date the business began, and whether the registration is active or cancelled.

To access the search screen, go to www.ehawaii.gov.org and click on "Tax Licenses" (or go to our home page at www.state.hi.us/tax and click on "SEARCH the Tax Licenses"). You can conduct a search by taxpayer identification number, if known, or by the taxpayer's name or DBA. If entering the full name of an individual, enter the last name followed by the first name. Click on "Search the Databases," and a list of matching entries will come up. For further details, click on the taxpayer's identification number.

Although you can still call us for this information or come down to our office to view our microfiche during business hours, we're sure that you will find this a real convenience! Our sincere thanks go to the Hawaii Information Consortium for helping to develop this free service.

Simplified Business Application

We are pleased to inform you of the revised State of Hawaii Basic Business Application (Form BB-1, Revised 2000). Through collaborated efforts between the Lt. Governor's SWAT project, Department of Taxation, and Department of Labor and Industrial Relations, Form BB-1 (Revised 2000) has been simplified to allow registration for various State taxes, employer licenses, and permits on a 4 page (previously 7 pages) form.

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Simplified Application

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We highly encourage you to use Form BB-1 (Revised 2000). Not only will you save time in completing the form, you will also assist us in expediting our form processing.

Form BB-1 (Revised 2000) may be obtained at any district tax office, or via the Department's website at www.state.hi.us/tax. On Oahu, the form may be ordered by calling the Department's Forms Request Line at 587-7572. Persons not calling from Oahu may call 1-800-222-7572 (toll-free) to receive the form by mail or 808-678-0522 from a fax machine to receive the form by fax.

2001 Hawaii Small Business Fair

On Saturday, February 10, 2001, the 2001 Hawaii Small Business Fair will be held at Leeward Community College from 9:00 A.M. to 4:00 P.M. This FREE fair is being organized by a unique coalition of federal and state government agencies as well as various private, not-for-profit organizations.

Attendees will be able to speak to representatives of more than 30 federal and State government agencies, local chambers of commerce, and nonprofit organizations that provide free and low-cost assistance, training, and financing to small businesses. Free seminars also will be offered throughout the day on a range of topics such as starting a business in Hawaii, developing a business plan, choosing an entity type, obtaining financing, recordkeeping, employees vs. independent contractors, using the Internet, taxes, and much more.

Tell your clients, friends, family, or anyone else who may be interested. This free event is a great opportunity for existing and potential small business people to learn about being a business and to find resources for training, financing, and other assistance that can help them succeed. For more information, visit our website at www.state.hi.us/tax, or call us at 808-587-1577.

New Cigarette Tax Stamps Requirements

Act 249, Session Laws of Hawaii 2000, requires licensed cigarette and tobacco wholesalers and dealers (but not retailers who acquire their cigarettes only from locally licensed cigarette and tobacco wholesalers and dealers) to affix tax stamps to individual packs of cigarettes prior to distribution. The new requirement is effective January 1, 2001, and applies to all cigarette packs (including those in vending machines) distributed after that date. Cigarette retailers, however, may continue to sell unstamped cigarettes already in stock through March 31, 2001.

Affected cigarette and tobacco wholesalers and dealers may submit their applications for authorization to purchase tax stamps on Form M-100A, Application to Purchase Cigarette Tax Stamps.

For more information on the cigarette tax stamps, visit our website at www.state.hi.us/tax, call us at 587-4242 (toll-free at 1-800-222-3229), or e-mail us at Taxpayer_Services@tax.state.hi.us.

Changes to 2000 Tax Forms

Hawaii tax forms have been revised for 2000 to reflect recent tax law changes and to simplify the processing of certain tax forms. The following is a summary of the new forms for 2000, some of the changes to the individual income tax forms, and forms which are now obsolete.

New Forms

- **Schedule CR, Schedule of Tax Credits** - Created for use with Forms N-12, N-15, N-30 and N-70NP. All nonrefundable tax credits and all business refundable tax credits were moved off the tax return forms and placed on Schedule CR since there was not enough space to accommodate three new tax credit lines directly on the tax return forms. Please note that Schedule CR is just a summary schedule. Computations of specific tax credits are not done on Schedule CR - the tax credits are still computed on their respective tax credit forms.
- **Form N-200V, Individual Income Tax Payment Voucher** - Created a payment voucher to be used to transmit payments that are due on all individual income tax returns.

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Form Revisions

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- **Form N-314, Hotel Construction and Remodeling Tax Credit** - Used to claim the new refundable 4% income tax credit for qualified hotel construction and remodeling costs.
- **Form N-320, Individual Development Account Contribution Tax Credit** - Used to claim a new nonrefundable individual development account contribution tax credit equal to 50% of the amount of matching funds contributed by a taxpayer to a fiduciary organization.

Form Modifications

Form N-11, Individual Income Tax Return (Resident Filing Federal Return)

- Lines were added for the following new tax credits:
 - Individual Development Account Contribution Tax Credit,
 - Hotel Construction and Remodeling Tax Credit, and
 - Tax Credit for Increasing Research Activities.

Form N-12, Individual Income Tax Return (Resident Not Filing Federal Return)

- Lines for all nonrefundable tax credits were deleted and replaced with a single line for the total nonrefundable tax credits amount. The tax credits which were deleted will be summarized on new Schedule CR, Schedule of Tax Credits.
- Lines for all refundable tax credits (except for tax credits claimed on Schedule X and the credit for child passenger restraint system(s)) were deleted and replaced with a single line for the total refundable tax credits amount. The tax credits which were deleted will be summarized on new Schedule CR, Schedule of Tax Credits.

Form N-11/N-12 Instructions

- On the Form N-11 Hawaii Subtractions Worksheet, a line was added to subtract all income received from stock options from a qualified high technology business, including income earned and proceeds derived from the sale of stock received through the exercise of the stock options.
- On the Form N-12 Capital Gain/Loss Worksheet, two lines were added to deduct short-term and long-term capital gains from the sale of stock received through the exercise of stock options from a qualified high technology business.

Form N-15, Nonresident and Part-Year Resident Tax Return

- Same changes as for Form N-12.

Form N-15 Instructions

- Same change as for the Form N-12 Capital Gain/Loss Worksheet.
- Two separate itemized deduction worksheets are provided; one for nonresident taxpayers, and one for part-year resident taxpayers.

All individual income tax returns

- A check box to indicate a new or changed address was added above the name and address area.
- A check box to allow a limited power of attorney to the paid preparer of the return was added in the signature area. The limited power of attorney applies to questions that may arise during the processing of the tax return.

Form N-318, Tax Credits for High Technology

- Part II was added to claim the refundable 20% income tax credit for increasing research activities.

Obsolete Forms

- Form M-13, Quarterly Statement and Tax Return of Diesel Oil Initially Purchased for Use Off the Public Highways but Subsequently Used on the Public Highways

Year-End Workshops Held

As part of our ongoing effort to provide educational opportunities, we held a year-end workshop on Oahu on December 7 at the Hawaii Convention Center. About 300 people attended the full-day workshop which included morning presentations on the new and revised tax forms for the upcoming filing season, our proposed legislation for the 2001 session, electronic filing, reimbursements, and other current happenings. Internal Revenue Service (IRS) representatives spoke on the IRS' planned reorganization. The afternoon featured breakout sessions hosted by representatives from the State Department of Taxation and IRS on estate and gift taxes, CD-ROM and website updates, licensing and tax clearances, joint electronic filing and electronic federal tax payment system/electronic funds transfer, compliance topics, and nonprofit organizations. The \$45 registration fee included the workshop materials, continental breakfast, and refreshments. Year-end workshops were also held throughout December on Maui, Hawaii, and Kauai.

Recently Issued Tax Publications

The following is a list of the publications issued by the Department of Taxation from June 2000 through December 2000. Copies of these publications may be downloaded from the Department's website. With the exception of the Hawaii Administrative Rules, copies of these publications also may be obtained from any district tax office or by mail through the Department's Forms Request Line. Addresses and telephone numbers are provided on the last page of this newsletter.

Copies of Administrative Rules are available for a fee (10¢ per copied page plus postage). To request a copy, mail your request to the Department of Taxation, Attention: Rules Office, P. O. Box 259, Honolulu, Hawaii, 96809-0259. Include your name, address, and telephone number; identify the rule (e.g., "cigarette tax stamping"); and provide a check payable to the "Director of Finance" in the amount specified below. The rule listed below also is available at the Department's website.

Chapter 18-245, HAR - Relating to the cigarette tax stamping. (\$1.45)

TIR No. 2000-1 - Discusses the imposition of the general excise tax on retailing activities under sections 237-16 and 237-13, HRS.

Announcement No. 2000-12 - Provides information on Act 148, SLH 2000, which allows a partnership the flexibility of allocating the State low-income housing tax credit among partners without regard to their proportionate interests in their partnership.

Announcement No. 2000-13 - Provides information on Act 160, SLH 2000, which expands the definition of "qualified business" under the enterprise zone law to allow a wind farm producing electric power from wind energy for sale to a public utility company that resells the electric power to the public to qualify for some of the enterprise zone tax incentives.

Announcement No. 2000-14 - Provides information on Act 271, SLH 2000, which applies the 0.5 percent general excise tax rate to the sale by a printer to a publisher of magazines or similar printed materials that are distributed to the public or defined segment of the public without charge under a contract with advertisers. The 0.5 percent use tax rate also is applicable to a publisher importing magazines or printed materials for distribution in like manner.

Announcement No. 2000-15 - Provides information on Act 198, SLH 2000, which (1) makes technical amendments to Act 70 and 71, SLH 1999; (2) extends general excise tax pyramiding relief to the sale of amusements; (3) imposes the use tax on imported contracting; (4) authorizes the director of taxation to

exempt, exclude, or apportion the use tax; and (5) provides public service company tax relief for the sale of telecommunications services and transportation services.

Announcement No. 2000-16 - Provides information on Act 262, SLH 2000, which allows contractors to report the general excise tax on a cash basis provided the contractors notify the Department of Taxation.

Announcement No. 2000-17 - Provides information on Act 199, SLH 2000, which eliminates the requirement to pay the tax (including penalties and interest) assessed as a condition to appealing the assessed tax to one of the four independent Boards of Review.

Announcement No. 2000-18 - Provides information on Act 174, SLH 2000, which conforms the Hawaii income tax law with the amendments to the operative sections of the Internal Revenue Code.

Announcement No. 2000-19 - Provides information on Act 249, SLH 2000, which requires cigarette and tobacco wholesalers and dealers (licensees) to affix stamps to individual cigarette packages as proof of payment of cigarette taxes.

Announcement No. 2000-20 - Provides information on Act 195, SLH 2000, which provides tax incentives for the construction and renovation of hotel facilities, including hotel condominiums and time share plans; and the call center industry.

Announcement No. 2000-21 - Provides information on Act 297, SLH 2000, which expands several tax incentives that were enacted in Act 178, SLH 1999, and adding other tax incentives such as the sale of unused net operating loss carryovers.

Announcement No. 2000-22 - Provides information on Act 289, SLH 2000, which provides a refundable income tax credit for investment in a qualifying ethanol production facility and applies to taxable years beginning after December 31, 2001.

Announcement No. 2000-23 - Provides information on the Department's tax relief for taxpayers affected by rains and flooding on Maui and Hawaii on November 1 and 2, 2000.

Announcement No. 2000-24 - Announces that the Department has revised Form G-37, General Excise Tax Exemption for Certified or Approved Housing Projects, to reflect changes to certain statutory references and the agencies that certify the form.

Announcement No. 2000-25 - Announces the adoption of the IRS optional standard mileage rates for 2001.

Tax Facts No. 2000-1 - Provides information regarding tax clearance requirements and other related tax information for state and county contracts.



Pending Tax Publications

The following is a list of the Department's tax projects in progress, and the name and telephone number of the staff member assigned to the project.

Administration of Taxes

- Application of penalties and interest and the waiver of penalties and interest - sections 231-3 and 231-39, HRS.

Income Tax Law

- Application of the income tax to amounts from a pension plan that are "rolled over" into an Individual Retirement Account - section 235-7, HRS. (Grant Tanimoto, 587-1569)
- Application of the business entity classification rules under the check the box regulations to the Hawaii income tax. (Johnson Lau, 587-1562)

General Excise Tax Law

- Use of resale certificates - section 237-13, HRS.
- Application of the general excise tax to the sale of gift certificates - section 237-13, HRS. (Grant Tanimoto, 587-1569)
- Application of the general excise tax to employee leasing companies - section 237-13, HRS. (Johnson Lau, 587-1562)
- Application of the general excise tax to reimbursements - section 237-20, HRS. (Grant

Tanimoto, 587-1569)

- Application of the general excise tax to scientific contracts - section 237-26, HRS. (Johnson Lau, 587-1562)
- Application of the business entity classification rules under the check the box regulations to the Hawaii general excise tax. (Johnson Lau, 587-1562)
- Application of the general excise tax to sales of computer software, internet service providers, and online service providers. (Marshall Dimond, 587-1533)
- General excise tax licensing and tax clearance requirements of S corporations. (Johnson Lau, 587-1562)
- Application of the general excise tax to property and services paid with the federal government smart pay credit card. (Johnson Lau, 587-1562)

Use Tax Law

- Temporary use exemption for property - section 238-1, HRS. (Marshall Dimond, 587-1533)
- Application of the use tax to sales to the federal government. (Marshall Dimond, 587-1533)

Conveyance Tax Law

- Application of the conveyance tax. (Marshall Dimond, 587-1533)

Miscellaneous

- State business tax credits and general excise exemption for business located in enterprise zones - chapter 209E, HRS.

First Quarter State Tax Collections

(In Millions of Dollars)

	FY 2001	FY 2000	Difference	
			Amount	Percent
Individual Income Tax	\$ 286.0	\$ 278.0	\$ 8.0	2.9%
Corporate Income Tax	10.0	14.1	-4.1	-29.1%
General Excise Tax	400.7	372.4	28.3	7.6%
Transient Accommodations Tax	41.9	40.8	1.1	2.7%
All Others	170.2	164.9	5.3	3.2%
Total Tax Collections	\$ 908.8	\$ 870.2	\$ 38.6	4.4%
General Fund Revenues	\$ 774.3	\$ 736.0	\$ 38.3	5.2%

For the first quarter of fiscal year 2001, total tax collections have increased \$38.6 million or 4.4% over the first quarter of the previous fiscal year. The largest revenue gain was a \$28.3 million increase in general excise taxes, representing an increase of 7.6% over the same period of last fiscal year. The first quarter collections from individual income and transient accommodation taxes amounted to \$286.0 million and \$41.9 million respectively. Tax collections deposited into the state general fund for the first quarter of fiscal year 2001 was \$38.3 million or 5.2% more than the amount deposited the previous fiscal year.

DISTRICT TAX OFFICES

Forms and Information may be obtained from any district tax office, Mondays through Fridays, except State holidays, from 7:45 A.M. to 4:30 P.M.

WEB INFORMATION AND FORMS

www.state.hi.us/tax

OAHU DISTRICT OFFICE

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Honolulu, HI 96813-5094

E-mail: Taxpayer_Services@tax.state.hi.us

Fax: 808-587-1488

Telephone:

For Tax Information:

808-587-6515 (January - April 20)

808-587-4242

1-800-222-3229 (Toll-Free)

808-587-1418 (TDD - For the hearing impaired)

1-800-887-8974 (TDD Toll-Free - For the hearing impaired)

Tax Forms and CD-ROM (Nominal Cost) by Mail:

808-587-7572

1-800-222-7572 (Toll-Free)

Tax Forms by Fax:

On Oahu: 587-7572

All Others: 808-678-0522 from your fax machine

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