



Hawaii Tax News

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

Volume 8, Number 1

State of Hawaii • Department of Taxation

SPRING 2004

Automated Tax Refund Information

Taxpayers calling our Taxpayer Services Branch from a touchtone phone can now obtain automated information about their individual income tax refunds 24 hours a day, 7 days a week!

From a touchtone phone, call our Taxpayer Services Branch at 587-4242 on Oahu, or toll-free from the neighbor islands, Continental U.S., or Canada at 1-800-222-3229. Press 1 to hear a menu of options, and then press 3 to select the refund information option.

Taxpayers will first be prompted to enter their social security number. If the social security number matches an account on the refund information file, they will then be prompted to enter the amount of their refund followed by the pound sign. Because all amounts entered on an individual income tax return must be rounded to the nearest whole dollar, there should be no cents.

If the refund amount entered matches the refund information file, refund status information will be provided. If not, taxpayers may choose to enter a different social security number, return to the main menu, or if during business hours, speak with a customer service representative.

Automated refund information should be available 4 to 6 weeks after a return is filed with the Department and is updated daily.

In addition to refund information, other automated information selections available on the main menu are 1) street, mailing, and website addresses, and 2) information on obtaining forms by fax or mail. Callers who wish to speak to a customer service representative during business hours may press zero at any time.

Conformity to 2003 Federal Tax Changes

Questions have been raised regarding Senate Bill No. 2983. This is the annual conformity bill to update Hawaii's income tax law to conform with the changes made to the Internal Revenue Code by the Jobs and Growth Tax Relief Reconciliation Act of 2003, and the Military Family Tax Relief Act of 2003.

Conformity is proposed with respect to the above-the-line deduction for overnight travel expenses of National Guard and Reserve members, the election to suspend the five-year test period for ownership and use during certain absences for members of uniformed services or the Foreign Service in determining the exclusion of gain from the sale of a principal residence, and the exclusion for amounts received under the Department of Defense Homeowners Assistance Program.

Conformity is NOT proposed with respect to the increase of the maximum IRC section 179 deduction to \$100,000, and the 50% bonus depreciation.

The effective dates will generally be the same as the federal effective dates unless otherwise provided. However, none of these provisions will actually be part of Hawaii law until the conformity bill is actually enacted.

Income Tax Deadline

The April 20th Hawaii income tax filing deadline is quickly approaching. If you need tax forms, information, or assistance, we can help! The following is some of the resources we provide throughout the year:

- www.state.hi.us/tax – State tax forms, publications, and much more are posted on the Department's website. Forms for 2003 have writable fields that allow you to type in your entries before printing.

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The Direct Line

By Director Kurt Kawafuchi

There's only a couple of weeks left until the State's April 20th income tax filing deadline. If you're getting a refund this year, you can now check on the status of your refund 24 hours a day, 7 days a week! Automated individual income tax refund information is one of the new features of the interactive voice response telephone system recently installed in our Oahu Taxpayer Services Branch. Instead of calling only during business hours for a customer service representative, you can get refund information anytime at your convenience.

With the implementation of our One-Stop Taxpayer Services, our goal was to have an answer rate of 80% of all incoming telephone calls. As of March 27, 2004, the year-to-date call answer rate was 81%, compared to 31.4% during the same period last year. Automated answer rate accounts for 22.6%, and the rest of the calls (58.4%) were answered by live persons.

A number of tax bills have been introduced at the Legislature. Our staff is working hard to track all of them and we will issue formal announcements about the tax measures that are enacted. This legislative session, we are focusing on increasing the standard deduction, capital formation, and tightening Act 221. To follow the progress of any bill, go to the Hawaii State Legislature website at www.capitol.hawaii.gov.

Federal Conformity

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- Forms by Fax/Mail Service – Call 24-hours a day, 7-days a week, to have tax forms and publications mailed to you. Selected forms are available by fax. Call 587-7572 from Oahu; toll-free from the neighbor islands, continental U.S., and Canada at 1-800-222-7572.
- District Tax Offices – Tax forms, information, and assistance are available during business hours at the Oahu, Maui, Hawaii (Hilo), and Kauai district tax offices.
- One-Stop Taxpayer Services – The department's reorganized and expanded Taxpayer Services Branch provides one-stop service to Hawaii taxpayers statewide. Call 587-4242 from Oahu (toll-free at 1-800-222-3229), or e-mail them at Taxpayer.Services@hawaii.gov. To assist you in meeting the filing deadline, our telephone lines will be open on the April 9th Good Friday holiday even

though the building will be closed and walk-in service unavailable.

Just a reminder that e-filing your Form N-11 through the joint federal-state e-filing program often results in fewer errors and faster processing. Refunds are extra fast if you both e-file and choose to direct deposit your refund.

For those of you filing a paper return, the Department will offer curbside service on Oahu for last minute filers on Tuesday, April 20, 2004, from 5:00 P.M. to midnight. You may drive up to either the Punchbowl Street or Halekauwila Street sides of the Princess Ruth Keelikolani Building where volunteer Department employees will be stationed to accept tax returns, extension requests, and other documents.

If you cannot complete your State tax return on time, you may generally obtain an automatic 4-month extension of time to file your Hawaii individual income tax return without filing Form N-101A. Use Form N-101A only if you need to make a payment. A payment should be made if additional taxes are due because the extension of time to file an income tax return is not an extension of time to pay the tax owed. Form N-101B is still required to obtain the additional 2-month extension.

The most convenient way to file an extension is by using our E-Filing via the Internet site on the State's Internet portal at www.ehawaii.gov/efile. Just register online and e-file your extension.

There is a nominal \$2.50 transaction fee that goes to the vendor operating the website, but only if a payment is made. Pay with an electronic check or credit card, but be aware that credit card companies charge an additional fee if you use your credit card. Check your total charges before confirming your payment.



The Hawaii Tax News is a publication of the State of Hawaii, Department of Taxation.

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2004 Hawaii Small Business Fair

The 2004 Hawaii Small Business Fair is coming soon to Kapiolani Community College (KCC)! This FREE event will be held on Saturday, May 22, 2004, from 8:30 A.M. to 2:30 P.M. in the KCC Cafeteria on the upper level of the Ohia Building. Any interested person can attend, and there is no registration.

Hawaii's economy depends on small business, and this fair is an important source of information on the many free and low-cost support services available to small businesses.

Many government and nonprofit organizations provide counseling, mentoring, training, and other services to small businesses, and resources such as computer access, libraries, loans, and more! Representatives of a number of agencies will be available that day for people to speak with one-to-one.

In addition, seminars and panel discussions on a wide range of topics will be held in nearby classrooms. Of course taxes will be covered, but also how to start a small business, choosing the right form of business, writing a business plan, recordkeeping, marketing, financing options, importing and exporting, doing business with the government, and more!

Interested? Visit the Hawaii Small Business Fair's website at <http://smallbusinessfair.state.hi.us> for directions to KCC, a map of the campus, and all the latest information.

Still have questions? Contact our External Training & Outreach staff by phone at 587-1786, or by e-mail at Tax.Training.Outreach@hawaii.gov.

See you there!

Standard Mileage Rates for 2004

You may be able to deduct certain car expenses if you use your car for business purposes. In general, you may use either the standard mileage rate or the actual expenses method to compute your deduction. The standard mileage rate is easier for most people, but until this year, the actual expenses method was required if you used more than one vehicle at a time.

Starting in 2004, you can use the standard mileage rate as long as you use no more than four vehicles at the same time for business purposes. Better still, the standard mileage rate for business use of a car has increased from 36 cents per mile in 2003 to 37.5 cents per mile in 2004.

Car expense deductions are also allowed for certain non-business uses. If you itemize your deductions (instead of claiming the standard deduction), you may be able to claim a deduction for using your car for medical reasons or while giving services to a charitable organization. If you move to a new home because you're changing job locations or starting a new job, you may be able to claim a moving expense deduction for use of your car in a qualifying move on Form N-139.

The standard mileage rates for using your car for medical reasons or in a qualifying move have both been increased from 12 cents per mile in 2003 to 14 cents per mile in 2004. The standard mileage rate for using your car while giving services to a charitable organization is unchanged at 14 cents per mile.

For more information, see Department of Taxation Announcement No. 2003-12, which is available on our website at www.state.hi.us/tax, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), and at any district tax office.

Corrections to 2003 Tax Forms

The following is a listing of errors found on the 2003 Hawaii tax forms:

Form F-1 Instructions

- On page 3, Instruction XIV. Payment of Tax., last paragraph which starts, "Line 72. . . ." should read "Line 73. . . ."

Form N-11/N-12 Instructions

- On page 28, "Tax on Capital Gains Worksheet", line 5, which reads ". . . (Form 1040, Schedule D, line 17)" should read ". . . (Form 1040, Schedule D, line 17a)"

Form N-15 Instructions

- On page 39, "Tax on Capital Gains Worksheet", line 5, which reads ". . . (Form 1040, Schedule D, line 17)" should read ". . . (Form 1040, Schedule D, line 17a)"

Form N-318

- On page 1, Part II, in the "Note" that says ". . . skip Lines through 6 and include on Line 7 . . ." should read ". . . skip Lines 1 through 6 and include on Line 7 . . ."
- On page 1, Line 10, "through" is misspelled (trthough).

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Tax Forms Corrections

(From Page 3)

Form N-334

- On page 1, line 22, which reads, "... (Subtract line 21 from line 22 and enter result)" should read "... (Subtract line 21 from line 20 and enter result)"

Form N-334A

- On page 1, line 22, which reads, "... (Subtract line 21 from line 22 and enter result)" should read "... (Subtract line 21 from line 20 and enter result)"

Audits of Mainland Companies

Recently, Small Business Hawaii Vice President, Jack Schneider, had an article posted on the Internet. In it, he wrote that the Tax Department is not pursuing mainland companies that are doing business in Hawaii and not paying Hawaii taxes, and that he wants the Tax Department to "go get 'em."

Local businesses should rest assured that we have been pursuing mainland companies for a long time.

All of our senior field auditors have mainland companies in their audit inventories. In fact, we audit both mainland and local companies to ensure that everyone pays their fair share, because any company that should be paying Hawaii taxes and isn't places their law-abiding competitors at a disadvantage.

If you suspect a company of not paying Hawaii taxes, let us know. Call our Taxpayer Services Branch (anonymously if you wish) or e-mail them at Taxpayer.Services@hawaii.gov with any evidence. If you prefer, e-mail our Director's office at Tax.Directors.Office@hawaii.gov.

Abusive Tax Avoidance Transactions

Hawaii joined tax agencies in 33 other states and New York City in signing a joint Federation of Tax Administrators (FTA) memorandum of agreement to share information on abusive tax shelters and illegal transactions, a move intended to strengthen the fight

against this complex problem.

The FTA agreement complements an agreement signed last September between the Internal Revenue Service (IRS) and 45 states including Hawaii, the District of Columbia, and New York City. While the IRS agreement covers the sharing of abusive tax avoidance transaction (ATAT) information between the IRS and individual states, the FTA agreement focuses on ATAT information to be shared amongst and between the states and cooperative audit and enforcement actions.

Abusive Tax Schemes

The Internal Revenue Service and the State Department of Taxation advise taxpayers not to fall victim to one of the tax scams that surface each year during the filing season. Victims of these abusive schemes often pay promoters or unscrupulous tax preparers large fees, then end up facing a staggering amount of back taxes, interest and penalties.

"At the IRS, we're augmenting our enforcement resources to attack schemes and scams. While we're actively targeting promoters, taxpayers themselves should be wary of anyone who promises to eliminate their taxes", said IRS Commissioner Mark W. Everson. "Don't be fooled by these outrageous claims. There is no secret way to escape paying taxes."

"It's not just the wealthy who are targeted," said State Tax Director, Kurt Kawafuchi. "In Hawaii, some of our most vulnerable taxpayers have fallen victim, and we have proposed legislation to prevent this from continuing."

House Bill 2514 and Senate Bill 2989 are currently before the State Legislature. If passed, they would allow the State Department of Taxation to impose civil penalties and injunctions on individuals who promote abusive tax shelters and on tax preparers who support unrealistic positions on their clients' tax returns.

The IRS and State Department of Taxation urge people to avoid these common schemes:

- **Return Preparer Fraud.** Most tax return preparers are honest, but taxpayers should choose a tax preparer carefully. Unscrupulous tax preparers cause problems for those who use their services while enriching themselves. Here are some tips:
 - (1) Avoid tax preparers who guarantee large refunds before seeing your tax records or who want a portion of your refund as payment.
 - (2) If your refund is considerably higher this year than last year and your situation hasn't changed very much, you may want to get a second opinion. It could be because your current tax preparer claimed false deductions.

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Tax Schemes

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- (3) Make sure your tax preparer goes over your tax return with you line-by-line, and explains everything thoroughly. Even if you don't know much about completing your tax return, you will know what your wages were, how much you donated to charitable organizations, and other basic information reported on your tax return.
 - (4) Do not sign a tax return before you review it and are sure that the information is correct. No matter who prepares the return, the taxpayer is ultimately responsible for all of the information on that return and for the payment of any tax, penalty, and interest charges that may be assessed.
 - (5) Do not accept a return if the preparer does not sign it. If the tax preparer doesn't want to take responsibility for the information on your return, neither do you.
- **Employment Tax Evasion.** The IRS and the State Department of Taxation have seen a number of illegal schemes in which promoters tell employees to claim to be exempt from the withholding of taxes from their wages when they are not exempt, or to claim incorrectly an excessive number of withholding exemptions so that no taxes are withheld. If you did not pay enough tax, either through withholding or by making estimated tax payments, you may have to pay penalties.
 - **Improper Home-Based Business.** This scheme purports to offer tax "relief" but is an illegal tax avoidance scheme in reality. Its promoters claim that individual taxpayers can deduct most, or all, of their personal expenses as business expenses by setting up a bogus home-based business. The tax code firmly establishes that a clear business purpose and profit motive must exist before a taxpayer can deduct anything as a business expense. This scam has been around for years, but the IRS and State Department of Taxation continue to see activity in this area.
 - **Misuse of Trusts.** Promoters of abusive tax avoidance transactions are increasingly urging taxpayers to transfer assets into trusts. The promoters promise a variety of benefits, such as the reduction of income subject to tax, deductions for personal expenses paid by the trust, and reduction of gift or estate taxes. Taxpayers should be aware that abusive trust arrangements will not produce the tax benefits advertised by their promoters, and that the IRS and the State Department of Taxation are actively examining these types of trust arrangements. More than a dozen injunctions have been obtained by the

IRS against promoters, and numerous promoters and their clients have been criminally prosecuted. Before entering any trust arrangements, taxpayers should seek the advice of a trusted tax professional.

- **Share/Borrow EITC Dependents.** Unscrupulous tax preparers "share" one client's qualifying children with another client in order to allow both clients to claim the federal Earned Income Tax Credit. For example, one client may have four children, but only needs to list two to get the maximum EITC. The preparer will list two children on the first client's tax return and the other two on another client's return. The preparer and the client "selling" the dependents split a fee. The IRS prosecutes the preparers of such fraudulent claims, and participating taxpayers could be subject to civil penalties.

If you suspect tax fraud, you can report it to us by calling our Taxpayer Services Branch at 587-4242 (toll-free at 1-800-222-3229) or by e-mailing them at Taxpayer.Services@hawaii.gov. Tax fraud also can be reported to the IRS at 1-800-829-0433. More information on tax scams and schemes is available by visiting "The Newsroom" section of the IRS website at www.irs.gov.

Recently Issued Tax Publications

The following is a list of the publications issued by the Department of Taxation from April 2003 through March 2004. Copies of these publications may be obtained from our website at www.state.hi.us/tax. With the exception of the Reports, copies of these publications also may be obtained by calling our request line at 587-7572 (toll-free at 1-800-222-7572), or from any district tax office.

A limited number of the Reports are available for a nominal fee from our Tax Research and Planning Office. Contact them by phone at 808-587-1440 or by e-mail at Tax.Research@hawaii.gov to request an order form.

TIR No. 2003-2 - Provides information on the extension of deadlines and other tax relief for members of the armed forces, reserves, and Hawaii National Guard.

Announcement No. 2003-1 - Provides information on the new and revised high technology business investment tax credit forms.

Announcement No. 2003-2 - A listing of new and obsolete tax forms, instructions, and schedules; errors found on Hawaii tax forms.

Announcement No. 2003-3 - Provides a list of candidates for political office who voluntarily filed

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Recent Publications

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affidavit forms with the campaign spending commission.

Announcement No. 2003-4 - Provides information on Act 14, SLH 2003, which provides corrective legislation to Hawaii's estimated tax underpayment penalty and clarifies the law regarding extensions to file tax returns.

Announcement No. 2003-5 - Provides information on Act 100, SLH 2003, which provides a nonrefundable attractions and educational facilities tax credit equal to 100% of certain costs incurred after May 31, 2003, and before June 1, 2009, for the development of such facilities at Ko Olina Resort and Marina and the Makaha Resort.

Announcement No. 2003-6 - Provides information on Act 136, SLH 2003, which changes tax administration by (1) authorizing the Department of Taxation to waive penalties and interest on tax liabilities that have been delinquent for more than 90 days, (2) streamlining the offers in compromise process by authorizing the tax director, instead of the Governor, to accept offers in compromise for tax liabilities that are \$50,000 or less (exclusive of penalties and interest), and (3) allowing the tax director to hire tax criminal investigators.

Announcement No. 2003-7 - Provides information on the increase in the cigarette tax to 6.5 cents per cigarette for sales, use, or possession of cigarettes after June 30, 2003.

Announcement No. 2003-8 - Announces the increase in the Maui County gasoline and diesel fuel tax rate from 13 cents to 18 cents per gallon, effective July 1, 2003.

Announcement No. 2003-9 - Provides information on Act 135, SLH 2003, which amends or repeals obsolete tax laws.

Announcement No. 2003-10 - Provides information on Act 172, SLH 2003, which brings Hawaii Income Tax Law into conformity with many but not all of the changes made to the Internal Revenue Code as of December 31, 2002.

Announcement No. 2003-11 - Provides information on Act 173, SLH 2003, which authorizes Hawaii's participation in multistate discussions relating to the Streamlined Sales Tax Project which is a nationwide effort being undertaken among the various states.

Announcement No. 2003-12 - Announces the adoption of the IRS optional standard mileage rates for 2004.

Digest of Tax Measures - Enacted by the State of Hawaii, Twenty-Second Legislature, Regular Session of 2003.

Reports:

- Annual Report 2002-2003
- Tax Credits Claimed by Hawaii Taxpayers - 2001
- Hawaii Income Patterns - Individuals - 2001

Pending Tax Publications

The following is a list of some of the Department's pending tax publications.

Administration of Taxes

- Application of penalties and interest and the waiver of penalties and interest - sections 231-3 and 231-39, HRS.
- Clarification of the offers in compromise process.

Income Tax Law

- Clarification of the application of the Hawaii tax credit for increasing research activities.

General Excise Tax Law

- Clarification of the general excise tax rules, including the application of the general excise tax for reimbursements - section 237-20, HRS.

Transient Accommodations Tax

- Clarification of the application of the transient accommodations tax.

Conveyance Tax Law

- Clarification of the application of the conveyance tax.
-

Second Quarter State Tax Collections

October 2003 - December 2003

(In Millions of Dollars)

	<u>FY 2004</u>	<u>FY 2003</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
Individual Income Tax	\$ 297.1	\$ 271.9	\$ 25.2	9.3%
Corporate Income Tax	-0.3	6.7	-7.0	nm*
General Excise Tax	438.1	410.3	27.8	6.8%
Transient Accommodations Tax	38.0	36.7	1.2	3.3%
All Others	166.9	170.8	-3.9	-2.3%
Total Tax Collections	\$ 939.9	\$ 896.5	\$ 43.4	4.8%
General Fund Revenues	\$ 806.6	\$ 776.0	\$ 30.6	3.9%

(Note: Totals may not add up due to rounding.)

nm* = not meaningful

Total tax collections for the second quarter of fiscal year 2004 amounted to \$939.9 million, or \$43.4 million more than the same period of last fiscal year. General fund revenues of \$806.6 million for the second quarter also advanced \$30.6 million from last year's total of \$776.0 million. As the economy continues to show growth, general excise, individual income, and transient accommodations tax collections showed fairly large increases from the previous year. Corporate income tax collections dropped slightly due to an increase in the number of income tax refunds processed. For the first half of fiscal year 2004, total state tax collections are \$58.6 million, or 3.1% over the first half of last fiscal year.

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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)

Forms By Fax/Mail:

808-587-7572

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