Computer System Implementation a Success!

Our Integrated Tax Information Management System (ITIMS) is now a reality! Many of the key ITIMS functions have been tested and cleared, and Department employees have adjusted quickly to the new system and processes. The backlog of documents to be processed into ITIMS is slowly being reduced, although the Department will continue to check all new data being uploaded to ensure that ITIMS is working as anticipated.

In short, the success of ITIMS means that we will be able to provide better service to the business community.

All of your income tax and business tax information is now in one integrated computer system that can be easily accessed using your social security number or, if a corporation or other non-individual taxpayer, federal employer identification number.

Questions about your tax accounts can be more easily addressed, and any adjustments made online and in real time in many cases.

Hawaii’s taxpayers have been very understanding and patient throughout this process, and everyone at the Department is greatly appreciative. Be assured that the successful conclusion of this five-year project does not mean that the Department will rest on its laurels for the next few years. We are keeping the momentum going, and plans are already in the works for further improvements and changes that will make Hawaii a better place to do business.

New E-Services for Hawaii Businesses

The Internet is making it easier than ever to do business in Hawaii, and a huge step in the right direction was taken in October when Governor Lingle unveiled Hawaii Business Express, a joint project of the State Departments of Commerce and Consumer Affairs (DCCA), Labor and Industrial Relations (DLIR), Business, Economic Development and Tourism (DBEDT), and Taxation, the Internal Revenue Service (IRS), and the Hawaii Information Consortium.

Hawaii Business Express is a one-stop, online, business registration service that allows new businesses to register with the State agencies in one easy process.

Simply go to the Hawaii Business Express website at www.ehawaii.gov/bizex, set up a free account by providing some basic information, and then answer a series of questions and pay the fee(s) online. Applicable forms for all of the State agencies are automatically completed based on the answers provided.

Our Form BB-1, which is used to register for general excise and other business taxes, is transmitted to us AFTER the business name, if any, is approved by DCCA, and a Hawaii Tax Identification Number is e-mailed to the applicant within a few business days.

The benefits are clear when you compare the convenience and quick turn-around of Hawaii Business Express to the inconvenience of applying in-person or the four-week period it usually takes for mailed-in applications.

As an added benefit, there also is a link to the IRS website for obtaining a federal employer identification number online, and if you need help, you can “chat” online with staff at DBEDT’s Business Action Center from 8:00 a.m. to 4:00 p.m. HST.

As good as Hawaii Business Express currently is,
The Direct Line 📝

By Director Kurt Kawafuchi

Another year has come and gone much too quickly. The 2005 filing season will be here before we know it. The following are some changes to look for in 2005:

- If you withhold more than $40,000 per year in Hawaii income taxes from your employees’ wages, you will need to pay those amounts semiweekly beginning in 2005. The semiweekly payments must generally be made by electronic funds transfer (EFT). More information on the withholding can be found on page 3.
- Two phased-in tax rate reductions will once again change on January 1, 2005 and are discussed on page 3.
- Most tax returns, payments, and other documents are now sent directly to Oahu. Neighbor island taxpayers should check the mailing addresses on their new forms and instructions. Mailing addresses are also listed on page 5.
- Last of all, may you have a safe and joyful holiday season, and a prosperous New Year!

New E-Services

(From Page 1)

more is on the way with an expansion in the number of tax transactions available through Hawaii Business Express in the works.

Until then, you can still file a number of tax forms and pay taxes online through our e-filing site on the State Internet Portal at www.ehawaii.gov/efile. If you have any questions about e-filing, call our eFile Unit at 808-587-1740, or e-mail them at Tax.Efile@hawaii.gov.

Conformity to Federal Tax Changes

Federal tax legislation passed in 2004 could potentially affect 2004 Hawaii income tax returns. While some provisions, such as the uniform definition of “qualifying child” in the Working Families Tax Relief Act of 2004, will not affect 2004 income tax returns, other provisions, such as the income averaging for fishermen and the itemized deduction for sales taxes in the American Jobs Creation Act of 2004, are applicable to the 2004 tax year.

When preparing 2004 Hawaii income tax returns, however, it is important to remember that federal tax provisions enacted in 2004 are NOT currently applicable to Hawaii returns.

The Department is currently reviewing the federal legislation, but we will not know what is or is not operable for Hawaii income tax purposes until the annual conformity measure submitted to the Legislature is enacted. In the meantime, Hawaii returns cannot be prepared and filed based on someone’s best guess as to what may or may not eventually be conformed to.

If you use tax preparation software, be sure to familiarize yourself with the idiosyncrasies of that software. Check a sampling of returns to ensure that the software is preparing Hawaii tax returns correctly, notify the software vendor of any errors, and visit the vendor’s website periodically for any updates and fixes.

New Hawaii Tax ID Numbers

New business tax applicants have started being assigned general excise and other business tax license numbers sporting the new format - the letter “W” followed by eight randomly assigned numbers plus a two-digit sequence number. Current licensees should have received a letter in early December regarding the change to their numbers.

References to the new Hawaii Tax Identification Numbers will be showing up in various places on income tax forms for the coming filing season.

See Tax ID Numbers, Page 3
Tax ID Numbers

(From Page 2)

You will see it referenced at the end of the Form N-11 if the taxpayer files federal Schedules C, E, and/or F, and you will also see it referenced on the Schedule X where it asks for the landlord’s license number. However, because both income tax and business tax accounts can be accessed by the taxpayer’s social security number/federal employer identification number, neither the new Hawaii Tax Identification Number nor the old general excise tax license number will be on net income tax returns filed for non individual taxpayers such as partnerships and corporations.

For more information regarding the new license numbers, see Department of Taxation Announcement No. 2004-16, which was issued on October 10, 2004. This announcement is available on the Department’s website at www.state.hi.us/tax, by calling the Department’s 24 hour request line at 587-7572 (toll-free at 1-800-222-7572), and at any district tax office.

Tax Department E-Mail Addresses

If you are having trouble e-mailing us, you may have an old address. Our e-mail addresses changed when we switched to a Lotus Notes e-mail system late last year, although the old system was temporarily maintained to ease the transition. The old system was disabled in September, however, and you must now use the new e-mail addresses.

Current e-mail addresses are printed in our most recent “Hawaii Tax Information at a Glance” brochure 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.

Semiweekly Payments Beginning in 2005

With 2005 just around the corner, we would like to remind all employers who annually withhold more than $40,000 in Hawaii income tax from their employees' wages to make sure that they will be ready to make their payments semiweekly instead of with their periodic withholding tax returns.

Most employers affected by this change will be required to pay the tax withheld by electronic funds transfer (EFT). Employers who are not already registered to make their payments by EFT should complete Form EFT-1, Authorization Agreement for Electronic Funds Transfer, and submit it to our EFT Unit.

Additional information will be included in either a new supplement or a completely revised "Booklet A, Employer's Tax Guide," which will be mailed to all Hawaii employers.

Lower Tax Rates Effective January 1, 2005

The following phased-in tax rate reductions will once again change on January 1, 2005.

- The phased-in general excise tax deduction factor for business-to-business transactions that qualify for pyramiding relief under Act 71, SLH 1999, and Act 198, SLH 2000, will increase from 0.625 to 0.75, for an effective rate of 1%.
- The public service company tax rate on sales of telecommunications services by a public utility to an interstate telecommunications provider for resale is reduced from 3.5% to 3% for calendar year 2005.

Changes to 2004 Tax Forms

Hawaii tax forms have been revised for 2004 to reflect recent tax law changes, and to accommodate our new computer system. The following list summarizes some of the changes to the tax forms and new forms for 2004.

Individual Income Tax Returns

- Form N-11, Individual Income Tax Return (Resident Filing Federal Return) - A line was added for the above the line deduction for expenditures to maintain an exceptional tree.
- Form N-12, Individual Income Tax Return (Resident Not Filing Federal Return) - (1) A line was added for the above the line deduction for expenditures to maintain an exceptional tree. (2) A line was added for the above the line deduction for clean-fuel vehicles. This deduction was previously

See Tax Form Changes, Page 4
Tax Form Changes

(From Page 3)

claimed on the Total Adjustments line. (3) A line was added for the above the line deduction for certain expenses of reservists, performing artists, and fee-basis government officials. The deduction for performing artists and fee-basis government officials were previously claimed on the Total Adjustments line. (4) A line was added for the above the line deduction for health savings accounts. (5) The line to report the deduction for educator expenses was deleted. The federal provision which extends the deduction for educator expenses has not been adopted for Hawaii income tax purposes at the present time.

• Form N-15, Nonresident and Part-Year Resident Tax Return - Same changes as Form N-12.

• All Individual Income Tax Returns - (1) The taxpayer’s social security number must be written in the space provided on the tax return since the social security number is no longer printed on the taxpayer’s mailing label. (2) Combined “Your occupation” and “Spouse’s occupation” into one block. (3) A line and check box was added for the contribution to the Hawaii Public Libraries Special Fund. Individual taxpayers will be able to designate $2 of their refund ($4 if married filing a joint return) to go to this fund. Designating an amount for the Hawaii Public Libraries Special Fund will reduce the taxpayer’s refund. Once made, the designation cannot be revoked.

Business Income Tax Returns

• Form N-20, Schedule K-1, Partner’s Share of Income, Credits, Deductions, etc. - (1) A line was added for unrecaptured section 1250 gain to conform to the federal Schedule K-1, but the line on the Hawaii Schedule K-1 should not have been added, so the line should be disregarded. (2) The lines for the following expired tax credits were deleted: energy conservation tax credit, hotel construction and remodeling tax credit (nonrefundable credit), and residential construction and remodeling tax credit.

• Form N-35, Schedule K-1, Shareholder’s Share of Income, Credits, Deductions, etc. - Same changes as Form N-20, Schedule K-1.

Tax Credit Forms

• Form N-157, Energy Conservation Tax Credit - Since the energy conservation tax credit expired on June 30, 2003, the form was revised so that a taxpayer may claim the tax credit only if the taxpayer (1) received a distributive share of the tax credit from a partnership, trust, estate, or S corporation, or (2) has a carryover of the tax credit from a prior year.

• Form N-314, Hotel Construction and Remodeling Tax Credit - Since the 10% nonrefundable hotel construction and remodeling tax credit may not be claimed for qualified construction or renovation costs incurred after June 30, 2003, Part I of the form was revised so that a taxpayer may claim the 10% nonrefundable tax credit only if the taxpayer (1) received a distributive share of the tax credit from a partnership, trust, estate, or S corporation, or (2) has a carryover of the tax credit from a prior year.

• Form N-332, Residential Construction and Remodeling Tax Credit - Since the residential construction and remodeling tax credit may not be claimed for construction or renovation costs incurred after June 30, 2003, the form was revised so that a taxpayer may claim the tax credit only if the taxpayer (1) received a distributive share of the tax credit from a partnership, trust, estate, or S corporation, or (2) has a carryover of the tax credit from a prior year.

General Excise Tax, Transient Accommodations Tax, Withholding, and Rental Motor Vehicle and Tour Vehicle Surcharge Tax Booklets

• The booklets were redesigned to letter size. The tax return is smaller since the voucher is still attached. When a payment is being made with the tax return, the voucher and check must be attached to the tax return. If the voucher and check are not attached, the processing of the payment may be delayed.

New Forms

• Form VP-2, Miscellaneous Fee Payment Voucher - Used to send payment to the Department of Taxation for the fees to register for the Cigarette/Tobacco, Liquor, or Fuel Taxes on Forms BB-1 or BB-1X.

• Form 587, Low-Income Housing Credit Disposition Bond - Used to post a bond under Internal Revenue Code section 42(j)(6), adopted by Hawaii, to avoid recapture of the low-income housing credit.

Manoa Valley Flooding

The Tax Department was happy to join other state, county and private agencies at the Disaster Assistance and Relief Center at Manoa Valley District Park to assist residents and businesses affected by the floods on October 30 to October 31. Although most affected taxpayers lived in Manoa Valley, people from other areas of Oahu also came to find out about the kinds of assistance that could be offered to them.

If you or someone you know was affected by the flooding, see Announcement No. 2004-17, Relief for See Flood Relief, Page 5
Flood Relief

(From Page 4)

Taxpayers Affected by Heavy Rains and Flooding on October 30 and 31, 2004, in the Manoa Valley Area in the City and County of Honolulu, which summarizes the various tax provisions that may apply to you. This announcement is available on the Department’s website at www.state.hi.us/tax, by calling the Department’s 24 hour request line at 587-7572 (toll-free at 1-800-222-7572), and at any district tax office.

Order the 2004 Tax Information CD

The 2004 Tax Information CD will be available for a nominal price of $10.00. The 2004 CD will include Tax Information Releases, Announcements, Tax Facts, brochures, 2004 tax forms, business registration forms, and employer’s reporting forms. All forms will have writable fields.

Order forms are 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 from any district tax office. Persons who attended our year-end workshop may purchase the 2004 CD at a discounted price of $5.00.

New Mailing Addresses

We are transitioning to a centralized mailing process in which most tax documents, including those from the neighbor islands, would be filed centrally on Oahu. The following are the new centralized mailing addresses:

- Income Tax Returns: Hawaii Department of Taxation; P. O. Box 3559; Honolulu, HI 96811-3559
- Extensions and Payment Vouchers: Hawaii Department of Taxation; P. O. Box 1530; Honolulu, HI 96806-1530
- General Excise/Use Tax Returns: Hawaii Department of Taxation; P. O. Box 1425; Honolulu, HI 96806-1425
- Withholding Tax Returns: Hawaii Department of Taxation; P. O. Box 3827; Honolulu, HI 96812-3827
- Transient Accommodations Tax Returns and Rental Motor Vehicle and Tour Vehicle Surcharge Tax Returns: Hawaii Department of Taxation; P. O. Box 2430; Honolulu, HI 96804-2430
- Recently Issued Tax Publications

The following is a list of the publications issued by the Department of Taxation from January 2004 through December 2004. Copies of these publications may be obtained from our website at www.state.hi.us/tax, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), and from any district tax office.

- Announcement No. 2004-01 - Provides information on the increase in the cigarette tax to 7 cents per cigarette for sales, use, or possession of cigarettes after June 30, 2004.
- Announcement No. 2004-02 - Provides information on Act 89, SLH 2004, 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, 2003.
- Announcement No. 2004-03 - Provides information on Act 96, SLH 2004, which lowers the tax rate on alternative fuel sold for use in operating an internal combustion engine from 1 cent to .25 cents per gallon; and lowers the percentages that are applied to the rate for diesel oil in determining the rates on alternative fuel sold for use in operating a motor vehicle on public highways as follows: ethanol (from .29 to .145); methanol (from .22 to .11); biodiesel (from .5 to .25); and other alternative fuels, other than liquefied petroleum gas (from .5 to .25).
- Announcement No. 2004-04 - Provides information on Act 97, SLH 2004, which provides clarifications to the renewable energy technologies income tax credit.
- Announcement No. 2004-05 - Provides information on Act 98, SLH 2004, which encourages the construction of operational, large-capacity ethanol production facilities by changing the ethanol investment tax credit to a facility tax credit.
- Announcement No. 2004-06 - Announces the decrease in the Kauai County biodiesel fuel tax rate from 6.5 cents to zero cents per gallon, effective July 1, 2004.
- Announcement No. 2004-07 - Provides information on Act 197, SLH 2004, which increases the allowable exclusion from Hawaii net income tax for members of the Hawaii National Guard and reserve components of the Army, Air Force, Marine Corps, and Coast Guard over five years starting January 1, 2005.

See Recent Publications, Page 6
Recent Publications

(From Page 5)

Announcement No. 2004-08 - Provides information on Act 157, SLH 2004, which prohibits the distribution of untaxed cigarettes via the telephone, mail order, the Internet, and other on-line sources.

Announcement No. 2004-09 - Provides information on Act 159, SLH 2004, which requires wireless providers to charge customers a 66-cent monthly surcharge to be deposited into a special fund that will be dedicated to upgrading wireless carrier locations and 911 call centers to allow public safety agencies to better locate wireless callers.

Announcement No. 2004-10 - Provides information on Act 214, SLH 2004, which provides a fraternal benefit, religious, charitable, scientific, educational, or other nonprofit organization under section 501(c) of the Internal Revenue Code, a general excise tax exemption for gross income derived from fees for convention, conference, or trade show exhibit or display spaces.

Announcement No. 2004-11 - Provides information on Act 228, SLH 2004, which establishes a net income tax check-off to allow taxpayers to voluntarily contribute $5 on their state income tax returns to be allocated as follows: (1) One-third to the Hawaii Children’s Trust Fund, and (2) Two-thirds to be divided equally among the Domestic Violence Prevention Special Fund of the Department of Health and the Spouse and Child Abuse Special Accounts under the Department of Human Services and the Judiciary.

Announcement No. 2004-12 - Provides information on Act 115, SLH 2004, which extends the “sunset date” of the Integrated Tax Information Management Systems (ITIMS) Special Fund from July 1, 2004 to July 1, 2005.

Announcement No. 2004-13 - Provides information on Act 195, SLH 2004, which permits a tax deduction of up to $3,000 for one tax year out of every three consecutive tax years for an individual taxpayer’s qualified expenditures to maintain an exceptional tree that is on the taxpayer’s private land and is designated as an exceptional tree by the local county arborist committee under chapter 58, Hawaii Revised Statutes.

Announcement No. 2004-14 - Provides information on Act 123, SLH 2004, which provides for the first tax appeal to either the district board of review or the tax appeal court to be made without payment of the assessed tax.


Announcement No. 2004-16 - Provides information regarding the new Hawaii Tax Identification Numbers that will be issued to replace the eight-digit general excise license numbers.

Announcement No. 2004-17 - Provides information regarding relief for taxpayers affected by the heavy rains and flooding on October 30 and 31, 2004 in the Manoa Valley area in the City and County of Honolulu.


The following Reports are available on our website at www.state.hi.us/tax. A limited number of the Reports also 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.

- 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.
First Quarter State Tax Collections

July 2004 - September 2004
(In Millions of Dollars)

<table>
<thead>
<tr>
<th></th>
<th>FY 2005</th>
<th>FY 2004</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>$ 325.9</td>
<td>$ 274.4</td>
<td>$ 51.5</td>
<td>18.8%</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
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<td>8.2</td>
<td>7.0</td>
<td>85.9%</td>
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<tr>
<td>General Excise Tax</td>
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<td>473.3</td>
<td>45.9</td>
<td>9.7%</td>
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<tr>
<td>Transient Accommodations Tax</td>
<td>53.3</td>
<td>46.8</td>
<td>6.5</td>
<td>14.0%</td>
</tr>
<tr>
<td>All Others</td>
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<td>178.8</td>
<td>14.5</td>
<td>8.1%</td>
</tr>
<tr>
<td>Total Tax Collections</td>
<td>$ 1,106.9</td>
<td>$ 981.4</td>
<td>$ 125.4</td>
<td>12.8%</td>
</tr>
</tbody>
</table>

| General Fund Revenues     | $ 946.2 | $ 819.2 | $ 127.0 | 15.5%   |

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

Total tax collections for the first quarter of fiscal year 2005 were $1,106.9 million, or $125.4 million more than for the corresponding period last year. A robust economy helped grow general excise tax receipts by $45.9 million, or 9.7%, to $519.1 million for the first quarter. Net corporate and individual income taxes also showed sizable increases of $7 million and $51.5 million, respectively, as the strong job market gave no hint of faltering. Transient accommodations taxes advanced $6.5 million to $53.3 million, providing continuing evidence of a recovering tourist trade.

From total collections, first quarter deposits into the state general fund rose 15.5% to $946.2 million, or $127 million more than for the first quarter of last fiscal year.