

DEPARTMENT OF TAXATION
Annual Report REQUIRED BY ACT 100, SESSION LAWS OF HAWAII 1999
For the period of January 1, 2018 through December 31, 2018

The following is a list of the Department of Taxation's goals and objectives for the coming year as required by Act 100, Session Laws of Hawaii, 1999:

GOAL 1: Increase voluntary compliance

Objective 1: Increase oversight utilizing various branches/areas of our Compliance Division

Action Plan 1:

Increased collaboration and information sharing among our Criminal Enforcement Section (CI), Special Enforcement Section (SES), and ad hoc fraud and discovery teams to identify taxpayer issues and potential non-compliance areas and business sectors utilizing Tax System Modernization (TSM) analytics wherever possible.

Action Plan 2:

We will actively engage in community outreach programs including public service announcements. We will help taxpayers understand and meet their Hawaii tax obligations by providing timely and relevant information, and keeping them apprised of new developments. We will provide public outreach through workshops, seminars, enhanced website features, and on-site assistance to both taxpayers and tax preparers.

Action Plan 3:

We will utilize in-house tools (including Tax System Modernization software analytics) as well as IRS-provided data to identify non-filers and returns identified through filters and manual review with questionable and/or inconsistent filing information. We will develop cases for enforcement and prosecution for those who have not filed or who have filed fraudulently.

Action Plan 4:

Actively engage Office Audit and Field Audit staff to work with Rules Office where needed to ensure they are working and closing audits that are consistent with the Administrative Rules of the Department of Taxation.

Objective 2: Develop procedures to ensure a more efficient and timely audit process

Action Plan 1:

We will develop procedures to identify returns to be earmarked for audit, determine scope and reasonable and prudent timeframes for completion.

Action Plan 2:

Develop metrics relating to audit response time, number of cases handled, tax collectability and finalizing an audit where practicable to ensure fairness and consistency.

GOAL 2: Reduce tax fraud

Objective 1: Identify and prevent payment of fraudulent refunds

Action Plan 1:

Utilizing filters, internal tools (including Tax System Modernization analytics) and IRS-provided data as well as manual review, we will identify fraudulent tax refund returns and non-filers, enforce and prosecute.

Action Plan 2:

Utilizing filters, internal tools (including Tax System Modernization analytics) and IRS-provided data as well as manual review, we will identify potentially fraudulent tax returns. Request additional information to substantiate deduction claims and other questionable data. Enforce and prosecute where applicable.

GOAL 3: Improve customer service to all stakeholders

Objective 1: Provide service to taxpayers whose issues/concerns cannot be resolved through normal channels

Action Plan 1:

The Office of the Taxpayer Advocate, initiated in late 2015, continues to expand its work with the public to assist them with issues or questions they have been unable to get resolved. In addition to sending out communication to the public regarding these services and having a dedicated webpage, the Taxpayer Advocate will continue to outreach to local tax groups and taxpayer organizations. Given the strong demand in this area, this program is being recommended for expansion of an additional position to better serve its taxpayers. The Taxpayer Advocate has also served, and will continue to serve, a critical role in assisting taxpayers who are unable to resolve a question or issue relating to Hawaii Tax Online (HTO) of the Tax System Modernization.

Objective 2: Provide specialized service to the tax practitioner community

Action Plan 1:

The Tax Practitioner Priority Specialist position, which was filled in early 2016, will continue to work closely with the tax practitioner community. This position, which serves in a capacity similar to the IRS counterpart, is currently handling approximately 1,000 calls monthly and has been highly regarded by the tax practitioner community.

Action Plan 2:

Increase dialogue and meeting with the tax practitioner community as well as professional organizations to better understand their needs and concerns. The Tax Practitioner Priority Specialist, who will continue to outreach to local tax groups and tax practitioner groups, has already been asked to speak and meet with many community groups. This position will also continue to be instrumental in assisting tax practitioners with registration and utilization of Hawaii Tax Online (HTO) as part of the Tax Modernization System.

Action Plan 3:

The Administrative Appeals Office, initiated in 2016, will continue to work with taxpayers and tax return preparers to have a quicker way to resolve tax disputes involving audit assessments. Serving as a separate and independent body within the Department of Taxation, it is responsible for administering the Administrative Appeals and Dispute Resolution (AADR) program which offers a way to settle audit disputes without litigation. Thus far the program has been well received as an alternate means of settling audit disputes. We will continue to review the success and volume of AADR cases over the next year.

GOAL 4: Improve technology and efficiencies through the successful implementation of the Tax System Modernization (TSM) project

Objective 1: We will complete Rollout 4 of the Tax System Modernization (TSM) project during this period

Action Plan 1:

With the successful implementation of Rollout 1 of TSM on December 28, 2015, Rollout 2 on August 15, 2016, and Rollout 3 on August 14, 2017, we will complete Rollout 4 in November 2018. Rollout 4 will include individual income taxes, fiduciary, partnership, estate and transfer taxes and cashiering.

Action Plan 2:

During 2018 we will continue to refine and reconfigure (as needed) Rollouts 2 and 3 tax types. Through weekly TSM status and stakeholder meetings, Compliance user meetings, Taxpayer Services user meetings, and input from the Taxpayer Advocate and Tax Practitioner Specialist, we will further perfect the Rollouts 2 and 3 tax type features and processes.

Action Plan 3:

Post August 2017, we have initiated Rollout 4 implementation which includes individual income tax, fiduciary, partnership, estate and transfer and the cashiering function. Rollout 4 is scheduled to be completed in November 2018.

Objective 2: We will re-engineer business processes

Action Plan 1:

As we work through each of the TSM rollouts, we will reduce manual business processes and reduce the use of paper thereby improving efficiency and productivity.

Action Plan 2:

We have created five Business Process Reengineering (BPR) Work Groups consisting of approximately ten employees for each Work Group. The Work Groups will address (1) Outside Communications, (2) Intranet, (3) E-filing, (4) Fun (i.e., morale building), and (5) Policies and Procedures. Each of the five Work Groups will be presenting their recommendations/issues to the five Work Groups and senior management. We will then be proceeding with execution of agreed-upon recommendations by priority in 2018.

Action Plan 3:

Through the implementation of Rollouts 1, 2 and 3 of TSM, we have provided for electronic registration, filing, and tax payments for these taxes. We will continue to implement these initiatives for Rollout 4 tax types.

Action Plan 4:

Through enhanced functionality of TSM, we will be able to capture more data for revenue impact determination relative to tax credits and exemptions, demographics and other useful research and planning purposes as Rollouts are completed and once sufficiently relevant data is available.

GOAL 5: Actively address tax receivable balances

Objective 1: Collaborate with Attorney General's office to improve collections

Action Plan 1:

We will continue to utilize the Attorney General's (AG's) office in accordance with the MOA between the AG and the Department of Taxation to increase collections.

Objective 2: Utilize third party to improve collections

Action Plan 1:

We will continue to utilize an outside collection agency which was selected in 2016 to focus on larger taxpayer accounts primarily on the mainland. Based upon their success rate we will explore the feasibility of expanding the number of accounts referred to them relating to mainland taxpayers that we have found difficult to locate.

GOAL 6: Foster and empower staff

Objective 1: We will develop each employee to his/her full potential.

Action Plan 1:

Department employees are our greatest assets. We will strive to develop each employee to his/her full potential. Employees will be encouraged to develop individual development plans to meet the responsibilities of their current position and to help them identify areas of growth that will help them qualify for target positions.

Action Plan 2:

We will reinforce the Department's values of respect, teamwork, communication, cooperation, trust, support, integrity, honesty, fairness, and responsibility. We will promote a culture and environment where our workforce continuously seeks to improve and realize their potential.

Action Plan 3:

We will provide training opportunities for our employees to enhance and expand their skills. We will design basic training and annual training for all specialty positions.

Action Plan 4:

We will improve communication with our employees through greater collaboration in meetings and strategic planning sessions.

Action Plan 5:

Rewrite position descriptions for positions already impacted by TSM resulting in greater complexity and increased technical requirements. This will improve retention of staff that we are currently at risk of losing to the higher paid private sector.