

**DEPARTMENT OF TAXATION
ANNUAL REPORT AS REQUIRED BY ACT 213, SLH 2007, SECTION 121
For the Period July 1, 2007 Through June 30, 2008**

Act 213, SLH 2007, Section 121, required the Department of Taxation ("Department") to prepare a report detailing the level of staffing and funding necessary to administer county surcharge collections. The report shall describe:

- I. The total workload related to collections of the county surcharge.
- II. Provide a listing of staff that support the collections of the county surcharge.
- III. The budgeted annual salary for each position.
- IV. The approximate percentage of time each position spends on the task.

The report shall be submitted to the legislature no later than 20 days prior to the convening of the 2008 and 2009 regular sessions.

I. Total Workload Related to Collections of the County Surcharge

Act 247, SLH 2005, created the authority for County Surcharge tax. The Director of Taxation was charged with levying, assessing, and collecting the County Surcharge tax. The Act required the Director of Taxation to remit the revenues from the County Surcharge tax to the State Treasury quarterly within ten working days after collection. The Act authorized the Director of Finance to deduct ten percent (10%) of the gross proceeds of the County Surcharge tax to reimburse the State for the cost of assessment, collection, and disposition of the tax incurred by the State. The effective date of this new tax was January 1, 2007.

The planning and implementation the County Surcharge tax required time and resources of the entire Department, from the customer service agent level all the way to the Director's level. Due to the complexity of the tax that only applies to one county (City & County of Honolulu), the Department undertook extra steps in modifying the General Excise tax forms, its computer system, its return processing procedures, and the reporting of tax collections. In addition, the Department took a proactive approach to do extensive outreach activities to obtain inputs and to educate the public about the new law.

For the period January 1, 2007 through June 30, 2008 the State has collected a cumulative gross amount of \$241,708,816 million in County Surcharge tax (before deducting the 10% administrative costs). For the period January 1, 2008 to June 30, 2008 the State has collected a cumulative total of \$93,194,761 million in County Surcharge tax.

II. Listing of Staff that Support the Collections of the County Surcharge Tax

Act 213, SLH 2007, granted the Department of Taxation nineteen (19) permanent positions and four (4) temporary positions for FY 2008, and nineteen (19) permanent positions and one (1) temporary position for FY 2009. Table 1 below lists the positions granted by Act 213, SLH 2007, and the amount budgeted for each position.

Table 1. Act 213, SLH 2007, Staff that Support the Collections of the County Surcharge Tax							
Position Title, SR	MOF	FY 08			FY 09		
		FTE (P)	FTE (T)	(\$)	FTE (P)	FTE (T)	(\$)
<u>TAX SERVICE & PROCESSING DIVISION</u>							
Taxpayer Services (TPS) Branch							
<i>Customer Inquiry (telephone)</i>							
Tax Information Technician III, SR17A	A	1.00		33,756	1.00		33,756
Tax Information Technician II, SR15A	A	10.00		324,240	10.00		324,240
<i>Customer Inquiry (counter)</i>							
Tax Information Technician II, SR15A	A	1.00		32,424	1.00		32,424
Tax Information Technician II, SR15A	A		1.00	32,424		0.00	-
<i>Customer Inquiry (correspondence)</i>							
Tax Information Technician II, SR15A	A	1.00		32,424	1.00		32,424
Tax Information Technician II, SR15A	A		1.00	32,424		0.00	-
<i>Account Management</i>							
Tax Information Technician II, SR15A	A	1.00		32,424	1.00		32,424
Revenue Accounting Branch							
Account Clerk III, SR11A	A	1.00		26,664	1.00		26,664
Account Clerk III, SR11A	A		1.00	26,664		0.00	-
<u>SUPPORTING SVCS REV COLLECTION</u>							
Systems Administration							
Management Analyst IV, SR 22	A	2.00		63,216	2.00		84,288
Rules Office							
Rules Specialist, Exempt	A		1.00	50,000		1.00	50,000
Tax Specialist, SR-22	A	1.00		31,608	1.00		42,144
ITSO							
ITS-IV, SR-22	A	1.00		31,608	1.00		42,144
Total Personal Service Costs		19.00	4.00	749,876	19.00	1.00	700,508

In budget hearings before the Twenty Forth Legislature, 2007, the Department testified that the current appropriation does not include positions for the Department's Compliance Division (Collection Branch, Office Audit Branch, and Field Audit Branch). The estimated pro rata share of these staff cost is \$439,166.

III. The Budgeted Salary for Each Position

Table 1 above provides the budgeted salary for each position (FY 2008 and FY 2009) that supports the collection of the County Surcharge tax. Total amount budgeted was \$749,876 for FY 2008 and \$700,508 for FY 2009. There was a three-month budgetary restriction (three-month hiring delay) for the Supporting Services Revenue Collection positions.

IV. The Approximate Percentage of Time Each Position Spends on the Task

The Department's management and overall staff promulgated rules, answered inquiries, performed outreach, and did the recruitment and hiring of staff related to the County Surcharge tax. The additional positions granted by Act 213, SLH 2007, are to support the collection of County Surcharge tax and to help alleviate the additional workload caused by the County Surcharge tax to the rest of the Department.

Due to the nature of the County Surcharge tax (a surcharge on the State's General Excise tax) a decision was made at the beginning to require all Department staff, include those positions not funded via the County Surcharge tax, to work on County Surcharge matters as necessary. The Department believes that this approach provides a better efficiency and a more effective use of its limited resources.

V. Summary

The administration of the County Surcharge tax has been relatively smooth to the Department's knowledge.

It should also be noted that the Department's request to the 2008 Legislature for an additional \$233,000 for computer support needed to administer the County Surcharge tax was denied.