



## **Act 94 Reporting Status Update**

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# Background

## Act 94

Introduced as Senate Bill 92, Session Laws of Hawaii 2015, and signed into law on June 5, 2015, Act 94 extended existing Department of Taxation (DoTAX) reporting requirements. Prior to the enactment of Act 94, the DoTAX was required to publish reports on Hawaii income patterns for individuals, Hawaii income patterns for businesses, and tax credits. Act 94 added a requirement that the DoTAX publish reports on general excise (GE) exemptions that are tax expenditures at the wholesale rate, are tax expenditures at the retail rate, and may be foregone opportunities to export taxes.

Recognizing that the DoTAX was in the midst of implementing the Tax System Modernization (TSM) Program, the Legislature included a provision requiring the DoTAX submit an interim report on the status of upgrading its forms and reporting capabilities on or before December 31, 2015. This report fulfills the status report submission requirement.

## Tax System Modernization Program

The TSM Program is a major modernization initiative that seeks to improve DoTAX process efficiency, compliance enforcement, customer service, reporting, data exchange capabilities, operational flexibility, information technology (IT) infrastructure, and security. In April 2014, the State Procurement Office and the DoTAX released a request for proposals (RFP), covering products and services to implement major facets of the TSM Program. The RFP included requests for a commercial off-the-shelf integrated tax system, a data warehouse with data analytics capabilities, customer support infrastructure including support for self-service/e-filing, business process reengineering services, and organizational change management services.

In July 2015, the DoTAX signed a contract for the implementation GenTax, a proven integrated tax solution that had successfully addressed the needs of over 20 states. Under the TSM Program, the implementation of GenTax is supported by a number of interrelated projects that run in parallel based on business needs, funding availability, and resource accessibility. These efforts include the implementation of complementary technologies, updates to enterprise architecture, and measures to produce rapid improvements to operational performance. The completion of the GenTax implementation and other aspects of the TSM Program is expected in 2019.

## Enhancing Reporting

### Prerequisites and Challenges

In order to satisfy the expanding reporting requirements mandated by Act 94, the DoTAX needs to enhance its capabilities in three major areas: data capture, data storage, and data reporting. Unfortunately, the current tax system used by DoTAX cannot be reliably modified. Any manual effort to compile and calculate the new information required by Act 94 would be impractical because it would likely require manual processing of over two million forms. The TSM Program's successful implementation of a new integrated tax system will facilitate compliance with Act 94.

Despite its name, DoTAX's existing Integrated Tax Information Management System (ITIMS) is made up of disparate software packages that were not designed for state tax administration. These component pieces were bridged together to address Hawaii's tax administration needs using complex coding customization. Any change to ITIMS requires code modifications that could potentially result in data corruption or system instability. This task is complicated further by the fact that the coding language required has fallen out of common use.

However, ITIMS does not prevent the modification of forms to capture data necessary to produce detailed reports about GE tax exemptions. Much of this information is already requested on the existing schedule GE form that taxpayers are required to attach to their GE and Use tax returns. Unfortunately, schedule GE form is not currently digitized using ITIMS. The scanning system for ITIMS does not have strong text recognition capabilities, so capturing and entering schedule GE data would greatly increase the DoTAX's manual data entry burden.

Even if all necessary information were captured and digitized, ITIMS would not know how to interpret and store the new data. There is simply no designated place to store GE exemption data in the data storage structure used by ITIMS. Changing this would require modifying many major system components including databases, data entry screens, various information screens, and reports. Once stored, DoTAX programmers could probably pull enough data together to create a report, but getting to that point would not be a trivial task.

## Solutions

After the implementation of the TSM Program, addressing Act 94 requirements will be much easier. New scanners and improved text recognition software will allow the DoTAX to capture more information about GE tax exemptions while mitigating the need for a substantial increase in data entry tasks. Form redesign will still be necessary to facilitate data capture.

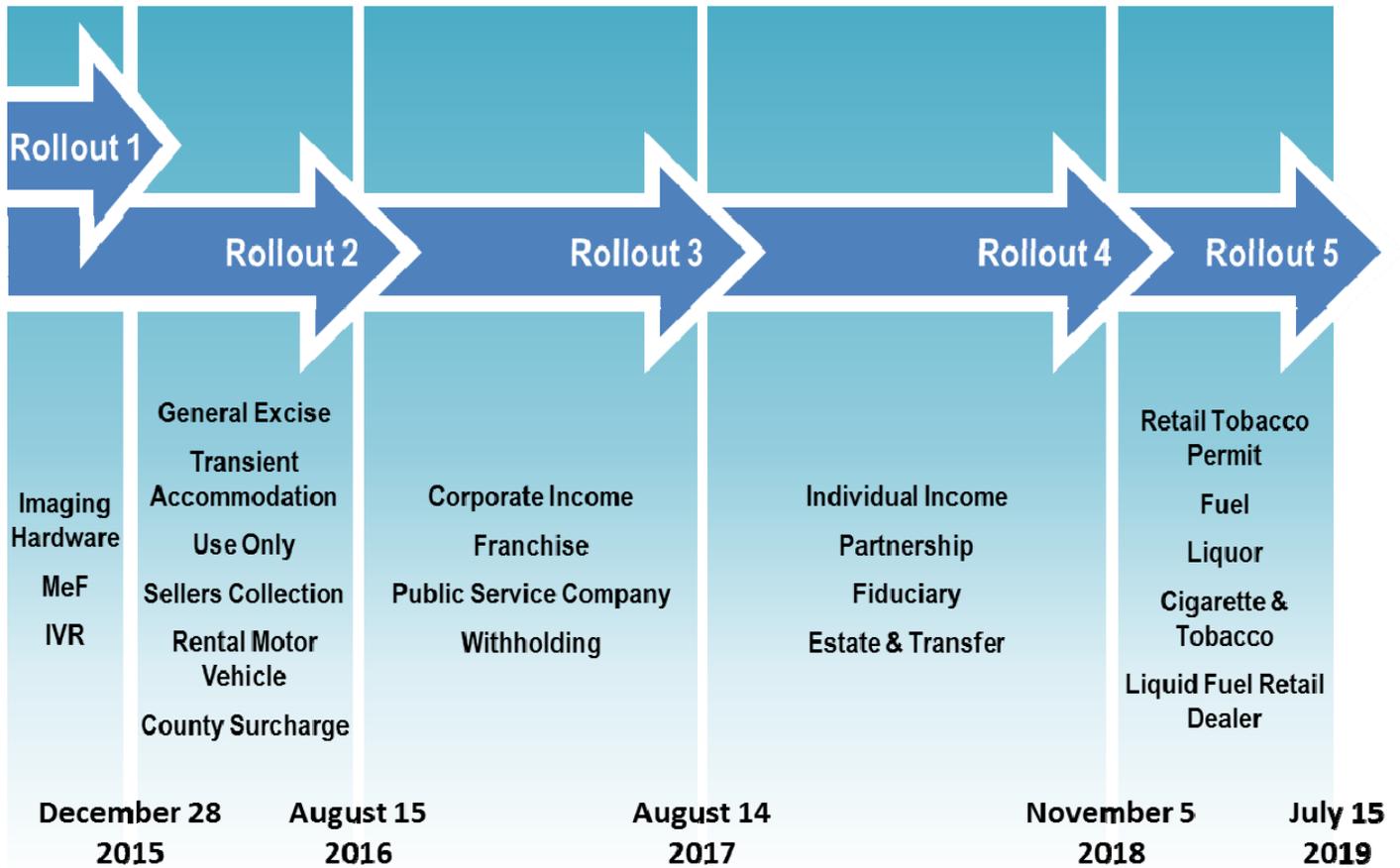
GenTax was designed for tax administration. As such, it will easily allow DoTAX to modify database storage and program fields for capture. In most cases, changes of this nature will require no risky coding customizations. Even if a new reporting requirement were introduced that necessitated custom programming, the GenTax architecture silos custom code to prevent unintended impacts on overall system stability and functionality.

GenTax also comes with advanced reporting tools that allow the design and production of new reports without coding. Besides making report generation easier, these tools also allow unprecedented automation, formatting flexibility, and data visualization. Most necessary reports can be generated without necessitating the use of third-party tools and heavy manual intervention. This should increase the availability of all types of reports, not just those related to Act 94. Assuming that prerequisite data is captured and stored, this will enable DoTAX to respond to any future report requests much more quickly than it could using ITIMS.

# Modernization Progress

## Planned Implementation Rollouts

The TSM Program is being implemented in five phases or rollouts. The first rollout largely targeted systems that needed immediate replacement to prevent the disruption of DoTAX’s existing capabilities. The next four rollouts involve the implementation of a series of related tax types within the new integrated GenTax system. As the rollouts are completed, DoTAX employees will be able to use the new integrated tax system for those tax types. While this creates some additional work for DoTAX employees that have to learn and use multiple systems throughout the duration of the TSM Program, the State of Hawaii will reap some of the benefits of the new GenTax-based system.



The first implementation of tax types in DoTAX’s new system will occur with Rollout 2. The DoTAX strategically included tax types that would be impacted by tax law changes scheduled to go into effect over the next couple of years. Targeting these tax types would allow the DoTAX to leverage the features of GenTax and other new systems to facilitate changes to reporting requirements and other aspects of tax administration.

GE taxes are scheduled to go live in the new system by August 15, 2016. At that point, the DoTAX will begin transitioning to new forms that capture the data necessary to report the additional information required by Act 94. Since the implementation of Rollout 2 will not occur until mid-year, only a limited amount of new data will be available by the year end. During the 2017 tax season and beyond, the

DoTAX will be capturing and storing enough information to produce more meaningful reports addressing GE tax exemptions.

### Completed Tasks

While the DoTAX will not be able to produce all the reports required by Act 94 until after Rollout 2, some of the projects completed in Rollout 1 lay the groundwork for its success. Most significantly, the implementation of new imaging hardware will allow the DoTAX to efficiently scan and process incoming forms. The imaging aspect of Rollout 1 was scheduled to complete by December 28, 2015 and finished successfully well ahead of schedule. Real tax forms were scanned by the new imaging hardware as early as December 4, 2015. The Tax Law Changes group within the DoTAX has also tested forms for the new 2016 tax year on the new machines.

Rollout 2 has been running in parallel with Rollout 1 for months. Teams of DoTAX subject matter experts have met with GenTax developers on a daily basis to design and configure GenTax for the tax types covered in Rollout 2. The DoTAX is on track to be almost 40% complete with Rollout 2 by the end of 2015.

While the bulk of Rollout 2 activities completed up to this point do not directly deal with reporting, preliminary planning for reporting is well underway. Many required reports and reporting requirements have already been identified and documented. Tax Research and Planning staff have been consulted to ascertain what new data elements need to be captured for the DoTAX to comply with Act 94's new reporting requirements. DoTAX staff responsible for form design have already attended training to learn how to optimize forms to allow for accurate optical character recognition (OCR). They have all been made aware of Act 94's requirements and have made plans to redesign forms as necessary to meet those requirements.

## Appendix A: TSM Rollout 2 Forms

The following table presents a summary of the forms analysis in progress for Rollout 2. The DoTAX is undertaking this effort to ensure that necessary information is captured and stored, while significantly reducing the amount of manual key entry required. The last three columns of in the table below indicate:

- which forms require redesign to allow for OCR readability and data capture;
- which forms will be scanned into the GenTax solution; and
- which forms we plan to use OCR technology to capture data from.

<b>General Excise Return (Sellers Collection and County Surcharge is on same form)</b>				
<b>Form Number</b>	<b>Form Name</b>	<b>Redesign</b>	<b>Scan</b>	<b>Capture</b>
G-45	General Excise/ Use Tax Return Periodic		x	x
G-49	General Excise/ Use Tax Return Annual & Reconciliation		x	x
G-75	Assignment of General Excise/ Use Tax by Districts	x	x	x
Schedule GE	General Excise/ Use Tax Return Schedule of Exemptions & Deductions	x	x	x
<b>Use Only</b>				
<b>Form Number</b>	<b>Form Name</b>	<b>Redesign</b>	<b>Scan</b>	<b>Capture</b>
G-26	Use Tax Return	x	x	x
<b>Vouchers</b>				
<b>Form Number</b>	<b>Form Name</b>	<b>Redesign</b>	<b>Scan</b>	<b>Capture</b>
VP-1	Payment Voucher		x	x
<b>Transient</b>				
<b>Form Number</b>	<b>Form Name</b>	<b>Redesign</b>	<b>Scan</b>	<b>Capture</b>
TA-1	Periodic Transient Accommodations Return	x	x	x
TA-2	Transient Accommodations Tax Annual & Reconciliation Return	x	x	x
TA-42	Transient Accommodations Tax – Time Share Occupancy Worksheet – Calculation of Total Fair Market Rental Value (Rev. 2013)	x	x	
<b>Rental Motor Vehicle</b>				
<b>Form Number</b>	<b>Form Name</b>	<b>Redesign</b>	<b>Scan</b>	<b>Capture</b>
RV-2	Periodic Rental Motor Vehicle and Tour Vehicle Surcharge Tax	x	x	x
RV-3	Rental Motor Vehicle, Tour Vehicle, and Car Vehicle Surcharge Tax Annual Return & Reconciliation	x	x	x
Dual Rate RV-3	Rental Motor Vehicle and Tour Vehicle Surcharge Tax Annual Return & Reconciliation		x	
<b>Miscellaneous</b>				
<b>Form Number</b>	<b>Form Name</b>	<b>Redesign</b>	<b>Scan</b>	<b>Capture</b>
GEW-TA-RV-6	Application for Extension of Time to File the GE/Use Tax Annual Return & Reconciliation (Form G-49), the TA Tax Annual Return & Reconciliation (Form TA-2) or the RVST Annual Return & Reconciliation (Form RV-3)	x	x	x
BB-1	State of Hawaii Basic Business Application	x	x	
BB-1X	Amended Basic Business Application	x	x	
GEW-TA-RV-1	Notification of Cancellation of Tax Licenses and Tax Permits	x	x	
GEW-TA-RV-5	General Excise / Use, Employer's Withholding, Transient Accommodations, Rental Motor Vehicle and Tour Vehicle Surcharge Application Changes	x	x	
TA-40	Transient Accommodations Tax – Time Share Occupancy Registration Form	x	x	