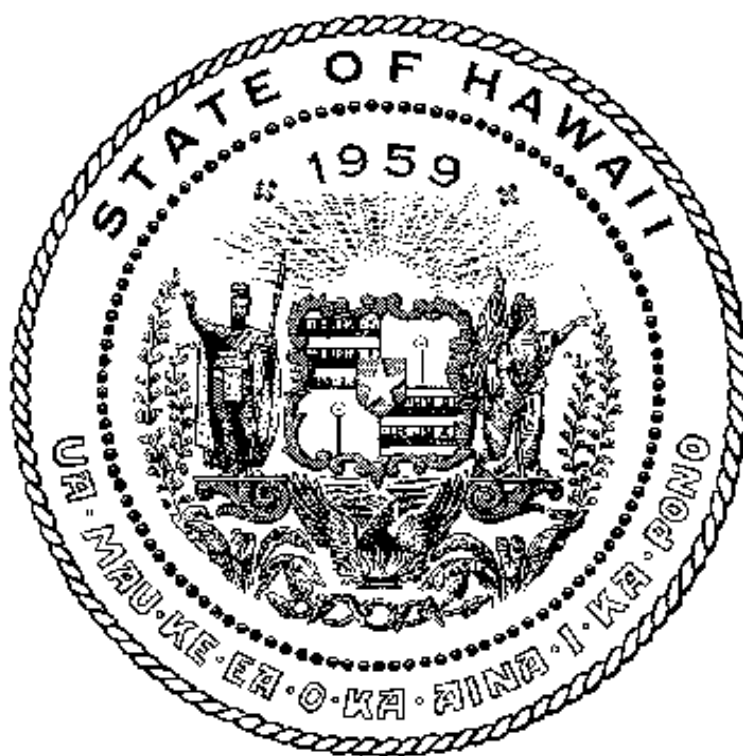


# DEPARTMENT OF TAXATION STATE OF HAWAII



## ANNUAL REPORT 2003-2004

December 13, 2004

The Honorable Linda Lingle  
Governor  
State of Hawaii

Dear Governor Lingle:

I am pleased to present to you this summary of the major accomplishments of the Department of Taxation for the fiscal year ending June 30, 2004.

At the outset, I wish to highlight the success of the tax compliance program that collected \$156.4 million in delinquent taxes this year, surpassing its \$150 million goal. Over the last two fiscal years, the Department has collected a combined \$75 million more than the highest ever collected. A total \$145 million of delinquent taxes were collected for fiscal year ending June 30, 2003, which exceeded the previous year's record \$113 million in delinquent taxes. These collections show that the department is recovering an increasing amount of non-remitted taxes properly owed to the State. We look forward to our Compliance Division (audit, collections and criminal) achieving the ambitious targets planned for the years ahead.

During the fiscal year, the department worked hard and diligently to ensure that the final "business build" component of the business taxes module could be integrated into the new information management system as seamlessly as possible in October 2004. The upgraded network will generate new customer identification numbers that will facilitate better and more efficient administration of taxpayer accounts. The "business build" capstone will complete the department's five-year plan for information management and functional reorganization.

Because of improved technology and efficiencies, the cost to collect \$100.00 of tax decreased by 8.7% from \$0.46 to \$0.42.

I am particularly happy to note that the "one-stop customer service" introduction in October 2003 has been a great success. The challenges of successfully implementing the "one-stop customer service" involved recruiting and training staff, while continuing to provide, and always striving to improve, the highest quality service to our customers—the public and all taxpayers. The results of a customer satisfaction survey undertaken in February 2004 have been very complimentary and supportive.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kurt Kawafuchi". The signature is fluid and cursive, with a prominent initial "K" and a long, sweeping tail.

KURT KAWAFUCHI  
Director of Taxation

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## **THE YEAR IN REVIEW**

### **TAX SERVICES AND PROCESSING DIVISION**

The overall objective of the Tax Services and Processing Division (TSP) is to perform all functions related to centralized processing, edits, and management of tax information through paper documents or electronic data; receive, secure, deposit, account for tax payments, process refunds, and provide superior customer service to the public. TSP consists of three branches: Document Processing, Taxpayer Services, and Revenue Accounting.

#### Document Processing Branch

The major goal of the Document Processing Branch (DPB) is to timely and orderly process and control all tax returns and documents; receive, secure, deposit and account for tax payments, and store, file, and retrieve such documents.

The DPB processed approximately 1.3 million payments during the year. Over \$2.1 billion was collected through the electronic funds transfer (EFT) program.

The Joint Electronic Filing Program (JELF) with the Internal Revenue Service is in its third year. The program allows certain taxpayers to file their Hawaii Form N-11 state returns electronically. Participation in this electronic program increased by 19.8%, from 113,559 to 135,922 returns this year.

Taxpayers may also file their returns through the department's website. This year taxpayers filed over 22,000 returns online, beyond the JELF program described above. An average of 150 new taxpayers registered to use our website each month. Electronic returns facilitate the data flow into internal systems with minimal human labor and enhance the Tax Department's efficiency.

#### Taxpayer Services Branch

The primary mission of the Taxpayer Services Branch (TPS) is to provide top-notch customer assistance and information on all taxes administered by the department. Taxpayers may access service directly over the counter, through telephone inquiries, and via written correspondence, including fax and e-mail.

In October 2003, the TPS Branch, in cooperation with the rest of the Department, launched the new "One-Stop Service" concept, designed to enable taxpayers to conduct all or most of their tax-related business at one window. Preparation for this "One-Stop Service" required a major reorganization. With a positive attitude and a customer/business friendly approach, the TPS branch was able to successfully and efficiently manage the challenging agenda, within strict time constraints.

Providing excellent customer service has always been the driving force in the Department's innovative "One-Stop Service" center. In February 2004, TPS solicited ideas and feedback from

their customers via customer satisfaction surveys, and the results were very positive. The bright green customer survey cards were distributed to approximately 1,000 walk-in customers after being serviced, and their overall comments were most supportive and very complimentary. The TPS staff takes pride in providing top-notch customer service and will strive to maintain the highest level of customer satisfaction, while constantly seeking better ways to serve their customers—all taxpayers and the public.

To handle the increase in the volume of telephone calls with the "One-Stop Service" implementation, a new Interactive Voice Response (IVR) system was successfully implemented in late January 2004. One of the key features of the IVR is that the callers are now able to access their tax refund information "24-7" via touch-tone telephones, without having to speak to a live person. Additionally, answers to the most common questions are available via the touch-tone feature. During the peak tax season, these automated responses comprised approximately 25% of total calls received.

During the January to June 2004 income tax filing season, the total number of calls received was 147,514, of which 29,072 inquiries, or 20%, were answered by the IVR's automated responses, and 77,400 calls, or 52%, were handled by tax representatives. As a result, the call answer rate for the 2004 peak season improved three-fold to 72%, as compared to 23% for the same period in 2003. Calls received during the fiscal year totaled 251,546, of which 145,363 were answered via the IVR or tax representatives.

During the January to April filing season, 41,290 customers were serviced at the TPS counters. These included all walk-in customers seeking tax forms, assistance with tax returns preparation, tax clearances, tax questions, and account information.

During the year TPS responded to 8,841 letters and faxes, 1,879 e-mails via the internet, and 28,991 licensing updates.

### Revenue Accounting Branch

The major objective of the Revenue Accounting (RA) Branch is to maintain the revenue control and subsidiary ledgers. This requires control and responsibility for all adjustments, error resolutions, bookkeeping and balancing functions of all tax revenues. Secondary objectives include the control and accounting for all refunds, regardless of tax type, which are created by either overpayment or adjustment; responsibility for maintenance of the accounting system for protested payments and tax appeals; preparation of the statement of tax operations and related reports; and processing and accounting activities statewide of all miscellaneous taxes (except estate & transfer tax). RA prepares the Statement of Operations (STO) report, which summarizes the amounts of different taxes collected for the month.

## **COMPLIANCE DIVISION**

The primary responsibility of the Compliance Division is to maximize taxpayer compliance with Hawaii tax laws, ensuring the timely and accurate payment of all taxes due. The Compliance

Division is comprised of the Office Audit, Field Audit (including the criminal investigation section), and Collections Branches on Oahu, and the District Offices of Maui, Hawaii and Kauai. The Division has four programs to meet the objectives of our voluntary compliance, self-assessment system: returns processing and exception handling, auditing/examination, taxpayer services and information dissemination, and collections.

Returns Processing and Exception Handling/Error Correction

The Office Audit Branch of Oahu and all neighbor island district offices performed exception handling and error correction for income tax returns and other documents processed by the department. During the fiscal year, over 180,000 income tax-related documents were processed through the error correction process, within the established time frames.

These units also performed the exception handling process for general excise, use, transient accommodations and other miscellaneous tax returns. These types of returns represent the largest volume of returns processed and include both periodic (monthly, quarterly and semi-annual) and annual tax returns.

In addition, all districts are working on the Integrated Tax Information Management System (ITIMS) project, which involves changes in processes, realignment of work functions and the implementation of the ITIMS as it pertains to Office Examination.

Auditing/Examination

To support the self-assessment, voluntary compliance system of taxation, both the Office Audit and the Field Audit units performed the following audits during the fiscal year.

	<u>Office Audit</u>		<u>Field Audit</u>	
	Number		Number	
	Audits	Dollars	Audits	Dollars
	<u>Completed</u>	<u>Assessed</u>	<u>Completed</u>	<u>Assessed</u>
Oahu	1,160	\$2,335,879	178	\$ 65,960,315
Maui	513	1,127,222	14	704,982
Hawaii	361	306,008	22	159,464
Kauai	561	2,432,550	28	2,949,052
Total FY 2004	2,595	6,201,659	242	69,773,813
Total FY 2003	1,922	6,076,673	254	65,703,740
Difference	673	\$ 124,986	(12)	\$ 4,070,073

The Office Audit unit reflected an increase of 673 audit cases closed over the previous year, with a \$124,986 increase in dollars assessed. While the Field Audit unit had 12 less audit cases closed, Field Audit increased the dollars assessed by \$4.1 million from \$65.7 million to \$69.8 million. The loss of staff to promotions, retirement, vacant positions, assignments of personnel to the ITIMS project, and the complexity of cases being assigned account for part of the 6% decrease in the number of cases closed for the Field Audit branches.

Of the total 2,595 Office Audit cases completed, 1,808 were Revenue Audit Reports (RAR's) and CP-2000 cases with assessments of \$4,259,698. This compares to 1,068 RAR/CP-2000 cases with \$3,147,578 in fiscal year 2003. Office Audit increased the dollars assessed by 35%. This was accomplished through the reallocation of resources and adjustment of priorities.

The criminal tax unit increased its activities during the fiscal year and obtained 45 indictments and complaints against 38 individuals and 7 corporations. These activities resulted in \$152,000 in judicial fines and tax assessments of \$1.9 million.

### Taxpayer Assistance Provided

During the fiscal year, the neighbor island district office personnel assisted taxpayers in the proper filing of numerous tax returns and other documents via telephone and over-the-counter service (which included tax return preparation and correspondence). Oahu's Office and Field Audit Branches responded to inquiries made (Taxpayer Services handles all tax clearances and the majority of correspondence and other services). The following summarizes these activities:

	<u>Telephone or Counter</u>	<u>Correspondence</u>	<u>Tax Clearance</u>
Oahu-Office Audit	26,156	15,645	
Maui	36,921	19,936	2,080
Hawaii	46,942	565	1,663
Kauai	<u>26,532</u>	<u>4,766</u>	<u>851</u>
TOTAL	136,551	40,912	4,594

The assistance provided is part of a continuing emphasis on enabling and empowering taxpayers through education and problem solving in all of the department's contacts with the public. The division strongly believes that it is important to maintain taxpayer willingness to accurately and voluntarily comply with State tax laws, which can be more readily achieved with these kinds of programs.

### Delinquent Tax Collections

The operations of the Compliance Division's Tax Compliance Program, which consists of the Oahu Collections Branch and the Collections Sections in each of the district offices, resulted in several positive increases in key performance measurements. The most notable difference was in the amount of cash collected for delinquent taxes, which rose \$11 million from \$145.4 million<sup>1</sup> in FY 2003 to \$156.4 million in FY 2004. While this represents a 7.6% increase in cash collections of delinquent taxes over the prior fiscal year, the Department has collected \$75 million (\$145 million in fiscal year June 30, 2003, and \$156 million in fiscal year June 30, 2004) during the last two fiscal years beyond the highest ever collected previously (\$113 million in fiscal year June 30, 2002). New delinquent referrals of \$176.1 million in FY 2004, less total

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<sup>1</sup> The prior year's report included an additional \$16.5 million that was subsequently transferred to the litigated claims fund. The department prevailed in Tax Appeal Court. The taxpayer subsequently appealed to the Hawaii Supreme Court.

collected and uncollectible write-offs resulted in a balance of \$340.8 million delinquent taxes, an increase of \$11.3 million over FY 2003.

Major performance measurements are presented below.

<u>Measurement</u>	<u>FY 2004</u>	<u>FY 2003</u>	<u>Change</u>	
			<u>Amount</u>	<u>%</u>
Total delinquent tax balance (\$millions)	\$340.8	\$329.5	\$ 11.3	3.4
Total new delinquent referrals (\$millions)	176.1	189.9	(13.8)	(7.3)
Total cash collected (\$millions)	156.4	145.4 <sup>1</sup>	11.0	7.6
Uncollectible tax write-offs (\$millions)	8.4	1.3	7.1	546.2
Payment plans initiated	12,437	9,282	3,155	34.0
Tax liens filed	4,537	2,455	2,082	84.8
Levies served	3,244	1,795	1,449	80.7

### Special Projects

The Oahu Field Audit branch continued the following ongoing special projects:

- Federal Contractors Project - 30 audits were completed and resulted in \$3.5 million
- Mainland Audit Project –18 cases were completed and resulted in \$6 million in assessments of which \$3.7 million was collected by the close of fiscal 2004.
- Referral Cases from Criminal Investigation Unit – 10 cases were completed and resulted in \$1.3 million in assessments.

## **STAFF OFFICES**

### Administrative Services Office

#### Fiscal Office

The Administrative Services Office submitted the supplemental budget for fiscal year 2005 to the 2004 legislature. For fiscal year 2005, the Department was appropriated \$18.3 million.

In discharging its duties and responsibilities, the Department of Taxation incurred operating expenses of \$18.3 million for fiscal year 2004. Total taxes collected and administered by the Department rose by \$320 million from fiscal year 2003 to fiscal year 2004. As a result, the cost to collect \$100.00 of taxes declined 8.7% from \$0.46 in fiscal year 2003 to \$0.42 in fiscal year 2004.

#### Personnel Management

For fiscal year 2004, the Department was authorized 332 positions, up from 330 the previous year. Employees were geographically distributed as follows: Oahu, 270; Hawaii, 26; Maui/Molokai 22; and Kauai, 14.



Personnel actions included 29 new civil service hires, 9 retirements, 110 temporary hires, 17 promotions, 4 transfers, and 8 resignations. Other personnel actions included temporary assignments of employees to higher levels to substitute for employees temporarily assigned to the ITIMS project. The department's reorganization was the main reason for the increase in the Headquarters/Administration number of positions; 19 positions were shifted from the Taxpayer Services Division and the Compliance Division, to be directly under the Director's Office. The position shifts included the establishment of Taxpayer Advocate, Systems Administration Office, and Technical section in the Rules Office.

**STAFFING PATTERN**  
(Number of Authorized Permanent Positions)

<u>By Organization/Operating Program</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Headquarters Administration	57.0	36.0	40.0
Tax Services and Processing Division	88.5	97.5	99.0
Compliance Division	<u>186.5</u>	<u>196.5</u>	<u>204.0</u>
TOTAL	332.0	330.0	343.0

**Rules Office**

The Rules Office consists of the Rules staff, External Training & Outreach, and the Technical Section.

**Rules Staff**

The Rules staff advises the Director of Taxation, and the Compliance and Tax Services and Processing Divisions, on tax policy and tax law. In addition to drafting, analyzing, and researching Hawaii tax proposals, the Rules staff interprets Hawaii tax law through drafting administrative rules and issuing administrative guidance and rulings.

During the 2004 legislative session, the Rules staff drafted and submitted 19 administration-sponsored bills. Prior to the start of the legislative session, the Rules staff also reviewed and commented on proposed tax legislation submitted by other executive departments.

After reviewing 2,536 bills introduced in the House (1,296 House Bills) and Senate (1,240 Senate bills), the Rules staff determined that approximately 260 measures proposed tax law changes, and carefully analyzed and tracked such measures throughout the legislative session. The Rules staff prepared 279 written testimonies for measures scheduled for public hearings by legislative committees, 147 for the House and 132 for the Senate. The Rules staff prepared letters to legislative committee chairs after the public hearings to respond to specific questions or to address certain concerns of committee members. In addition, the Rules staff was asked to submit comments and recommendations to the Governor on 26 bills passed by the Legislature with possible impact on the Department.

Also, during the fiscal year, the Rules staff composed letters for the Governor and the Director regarding announcements, tax information releases, directives, and other publications.

The Rules staff testified as needed at legislative committee hearings on behalf of the Director, reviewed rules of other agencies, and provided training for department employees and spoke at several workshops for practitioners.

### External Training & Outreach

External Training and Outreach (ETO) continued to expand its activities during the year. Small business education and support is a major focus of this office. The number of monthly classes taught through various programs increased from two to four. ETO participated on the Hawaii Small Business Fair organizing committee for a fourth consecutive year. This free event features seminars on various topics, and all exhibitors are either government or nonprofit organizations that provide free or low-cost services to small businesses. Approximately 500 participants attended the 2004 Hawaii Small Business Fair.

Assisting Hawaii's elderly, disadvantaged, and low-income taxpayers is another important concern. ETO provided educational materials on the preparation of basic Hawaii resident and nonresident income tax returns, and trained community volunteers and members of the military, who then offered free tax preparation services under the Internal Revenue Service's Tax Aide and Volunteer Income Tax Assistance (VITA) programs. In addition, special handouts were developed and guidance given to international students and international faculty and staff at the University of Hawaii. Other presentations were made to residents in a drug treatment program, to disabled veterans, and to several nonprofit organizations.

The neighbor islands are served both by ETO and through the Team T.E.A.C.H. (Taxpayer Education and Awareness for Compliance in Hawaii) program. Coordinated and supported by ETO, Team T.E.A.C.H. members in each of the neighbor island district tax offices give presentations by request, and as their regular duties permit.

ETO also coordinated the Department's semiannual workshops on Oahu, Maui, Hawaii (both in Hilo and in West Hawaii), and Kauai. Total paid attendance rose to 436 for the Summer Workshop 2003, and to 401 for the Year-End Workshop 2003. ETO served as a liaison with the practitioner community, and assumed increased responsibility for public information duties encompassing both media relations and the writing of articles for various publications.

### Technical Section

In addition to answering questions raised in telephone calls, e-mails, and letters, the Technical Section develops and revises tax forms and instructions to incorporate annual changes in the Hawaii and Federal tax laws. During the past year the Technical Section reviewed 223 tax forms and 43 instructions, developed 2 new tax forms and 1 new set of instructions, and classified as obsolete 7 tax forms.

The Technical Section is also responsible for reviewing applications for certain tax exemptions. Staff members approved 157 applications for general excise tax exemption by nonprofit organizations and 3,642 applications for conveyance tax exemptions.

### **Information Technology Services Office**

The Information Technology Services Office (ITSO) is responsible for the development, modification, and maintenance of the Department's computerized tax systems and components. This fiscal year ITSO completed several projects, with most effort and resources focused on the \$53 million Integrated Tax Information Management System (ITIMS) project.

The ITIMS project continued into year five of the five-year project for the development and implementation of an integrated client/server system to replace the existing Comprehensive Net Income Tax (CNIT) and General Excise, Withholding, Transient Accommodations, and Rental Vehicle/Tour Vehicle Surcharge Tax (GEW/TAT) mainframe computer systems. The CNIT portion of the ITIMS Tax Processing System (ITPS) was implemented in November 2002. Modifications, enhancements, and other maintenance activities were performed on the production ITPS application. ITSO completed software program changes to the Blackbox Data Interface System (data validation process), all e-file data interface systems, ITIMS Collection System (ICS), and ITPS applications for the inclusion of GEW/TAT business taxes. Business taxes will be processed in the same ITPS as income taxes, with installation scheduled for October 2004.

The ITPS development involved several other interrelated systems and projects. Direct deposit refunding via ITPS was activated in January 2004, reducing manual handling and the paper cost associated with mailing out refund checks to taxpayers. This new direct deposit program speeds up the refund process by depositing the taxpayers' refunds directly to their designated bank account.

An Interactive Voice Response (IVR) system was introduced in January 2004. A major function of the IVR is to reduce tax staff workload by providing automated responses to routine taxpayer phone calls, simultaneously improving customer service. Key features of the IVR include touch tone retrieval of refund status, and the capacity to record messages that can be turned on and off as needed, depending upon call load.

A new Judiciary extract program was developed to process selection of potential jurors. Tax law changes for 2003-2004 implemented in January 2004, included revisions for forms N-11, 12, 13, 15, 35, 40, 70, and 188X and an additional enhancement to include Head of Household and spouse control names.

The Department's electronic filing programs continue to expand. Direct deposit was added to the Federal/State Joint Electronic Filing (JELF) program. JELF again had more software developers certified for participation. The JELF program also showed an increase in electronically filed N-11 returns (from 112,029 to 133,911). The Internet Electronic Filing (ELF) program also grew. In comparison with the previous fiscal year, both the number of

taxpayers registered with the E-Filing website (14,504 to 25,752) and the number of tax filings (17,167 to 47,972) increased.

As part of a joint project with the Department of Commerce and Consumer Affairs, the Department of Labor and Industrial Relation, the Internal Revenue Service (IRS), and the Hawaii Information Consortium, a foundation was created to develop a new online resource for use by businesses: Hawaii Business Express. Once completed, the website will be a “one-stop shop” that will enable taxpayers to register and manage their businesses online.

Additional public content added to the Department's website included a list of authorized tobacco licensees in the State of Hawaii, and Offers in Compromises that are scheduled to be accepted by the Department.

The technical infrastructure and network resources continue to improve to support departmental users in all district offices. Network capacity was upgraded to increase performance of the current ITIMS applications and to accommodate the addition of the business taxes into ITPS. New enterprise database servers, file servers, application servers, client PCs, and laptops were procured to replace their aging counterparts, along with corresponding version upgrades to Operating Systems and software. Other upgrades included: departmental cutover to the Statewide E-mail system, implementing regression test server to support application development testing, migration from Windows NT Operating Systems to Windows 2000, enabling of Internet Protocol (IP) printing, adding a remote access server for developers to monitor batch jobs on application servers, and utilizing software on application and file servers to monitor performance and problems.

Other initiatives underway are the development of the IRS FEDSTAR project, strategic planning of the GEW/TAT ITPS system replacement, conversion of printing to ICSD, and training for ITSO staff. Planning for the Ko Olina tax credit and other information technology initiatives are also ongoing.

### **Tax Research and Planning Office**

The Tax Research & Planning Office (TR&P) reviews and analyzes the tax revenue impact of legislative tax proposals, publishes statistics on income tax and tax credits, compiles the Department's annual report and provides administrative and technical support to the Council on Revenues. During the 2004 legislative session, TR&P reviewed over 375 tax-related proposals for impact on tax revenue analyses.

The Council on Revenues, to which TR&P offers technical and administrative support, consists of seven community members who provide the State with projections of State general fund tax revenues and State total personal income. This information is used to determine general fund expenditure limits. The Council estimated a 5.2% growth in general fund tax revenues for fiscal 2004 and a 5.4% growth for total personal income in calendar 2003. Actual general fund tax revenues of \$3,446.4 million for fiscal 2004 represented an 8.3% growth over fiscal 2003. Reasons for the higher revenue growth include strong consumer and visitor spending, lower than expected income tax refunds as well as higher payment with returns for tax year 2003 (filed in

2004), and enhanced collection of delinquent taxes. Preliminary data released by the U. S. Bureau of Economic Analysis in June 2004 indicate that total personal income for calendar 2003 amounted to nearly \$38.9 billion, representing a 5.0% growth from the previous calendar year.

TR&P worked on three publications for the 2002 tax year: "Tax Credits Claimed by Hawaii Taxpayers", "Hawaii Income Patterns – Individuals" and "Hawaii Income Patterns - Corporation, Proprietorship, Partnership". These publications will be released in the second half of CY 2004. Total tax credits claimed for tax year 2002 amounted to \$125.9 million--\$75 million claimed by individuals and \$51 million by corporations, financial institutions, insurance underwriters and fiduciaries. Returns filed by individuals numbered 523,103, reporting total Hawaii adjusted gross income of \$19.0 billion, of which \$14.3 billion was taxable.

### **Taxpayer Advocacy Program**

The department's Taxpayer Advocate Program provides one-on-one service for taxpayer concerns that cannot be resolved through normal channels. The Taxpayer Advocate position was officially established in April 2004 and reports directly to the Director of Taxation.

For fiscal year ending 2004, the advocacy program assisted 225 taxpayers with the resolution of their tax matters. Problems consisted of erroneous billings, non-receipt of refunds, waiver requests for penalty and interest, verifications of tax liabilities, explanations of letters and assessments, non-filed returns, collection issues, and delay in responses to inquiries, appeal and general tax information. Additional cases did not require intervention from the advocate, but consisted mainly in guiding the taxpayer to the appropriate management personnel.

During the tax season, DOTAX and the Internal Revenue Service's Wage and Investment Division-Field Assistance-Area 6, Territory 1, Group 174 personnel held joint outreach services in Kaunakakai on the island of Molokai and in Waianae on the island of Oahu, accommodating approximately 200 taxpayers. The Hawaii State Public Library in Waianae provided the use of their facilities for a joint venture on Oahu.

The Taxpayer Advocate coordinated this joint outreach venture, providing various tax services to communities that do not normally have ready access to these resources, such as acceptance of the general excise tax license applications, explaining assessment notices, arrangement of payment plans, requests for waiver of penalties and interest amounts, preparation of individual income tax and general excise tax returns, and answering tax questions.

## MANAGEMENT PERSONNEL

### OFFICE OF THE DIRECTOR

Director of Taxation.....Kurt Kawafuchi  
Deputy Director of Taxation.....Marie Laderta

### STAFF OFFICES

Rules Officer..... Jayna Uyehara (acting)  
Tax Research & Planning Officer..... Francis Okano  
Information Technology Services Officer.....Clay Sato  
Administrative Services Officer..... Warren Higashi  
Personnel Officer..... Sandra Yahiro

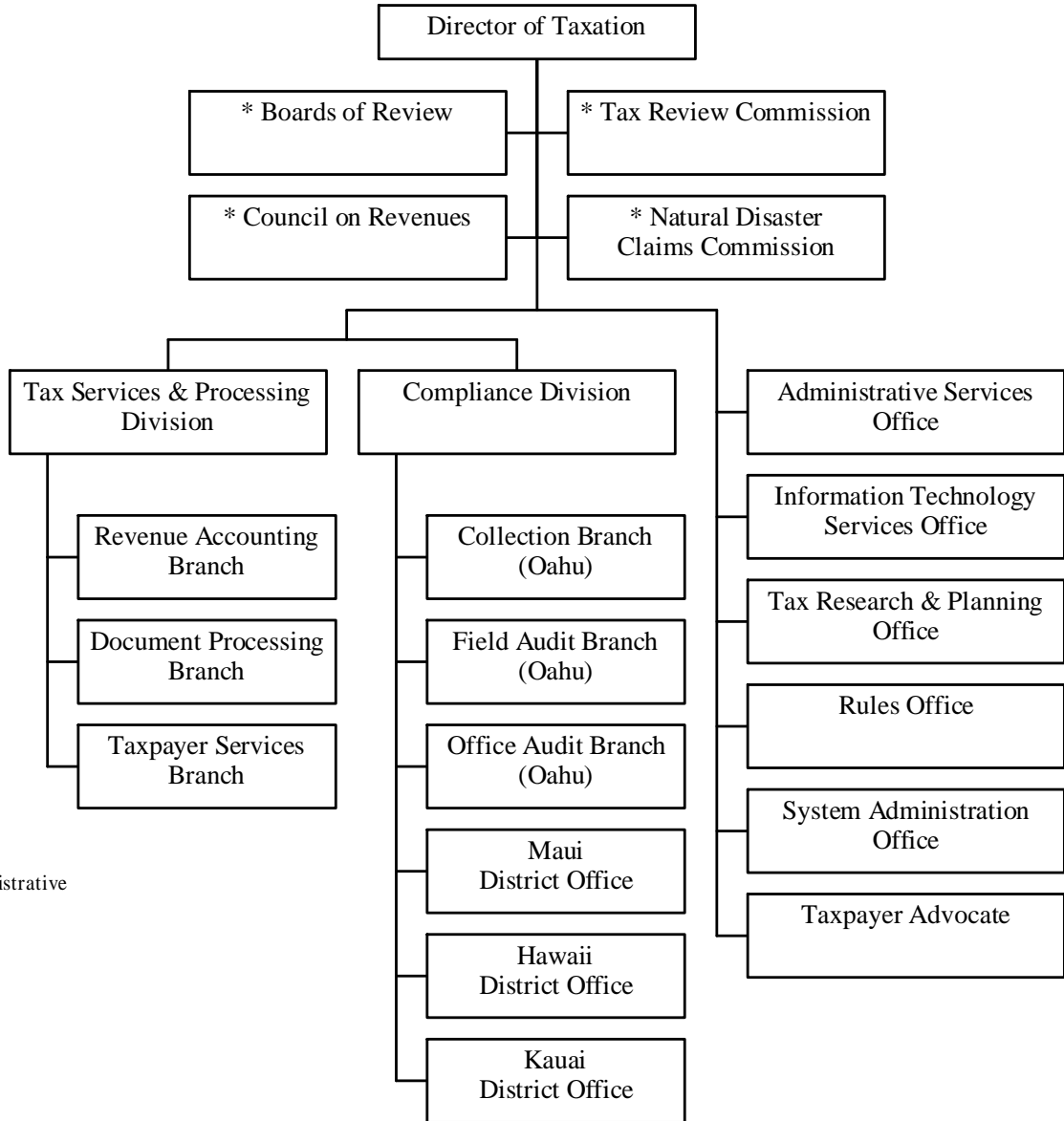
### OPERATIONS STAFF

Compliance Division Chief..... Ronald Randall  
Tax Audit Technical Coordinator.....Richard Chiogioji  
Tax Collection Technical Coordinator.....Wayne Kinoshita  
Oahu Field Audit Branch Chief.....Judy Chan  
Oahu Office Audit Branch Chief.....Jill Yamasaki  
Oahu Collection Branch Chief..... Lynne Kaneta  
Maui District Tax Manager.....Frederick Pablo (acting)  
Hawaii District Tax Manager..... Lincoln Fujimori  
Kauai District Tax Manager..... Ernest Balderas

Tax Services and Processing Division Chief..... Joan Bolte  
Taxpayer Services Branch Chief.....Annette Yamanuha  
Document Processing Branch Chief.....Jerry Ebesu  
Revenue Accounting Branch Chief..... Deanne Obatake

# ORGANIZATION CHART

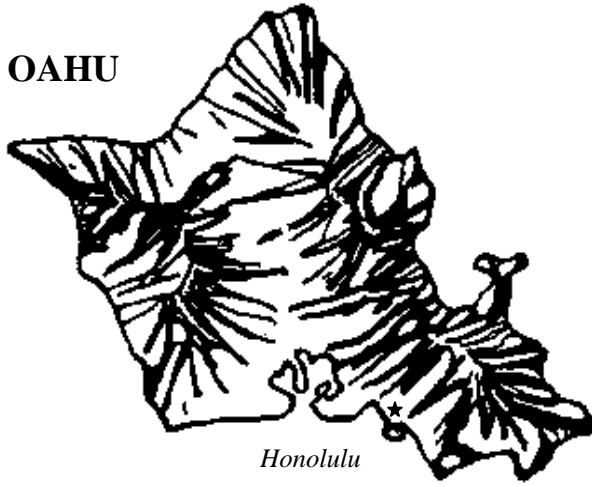
Department of Taxation  
State of Hawaii



\* For Administrative Purposes

# FIRST TAXATION DISTRICT

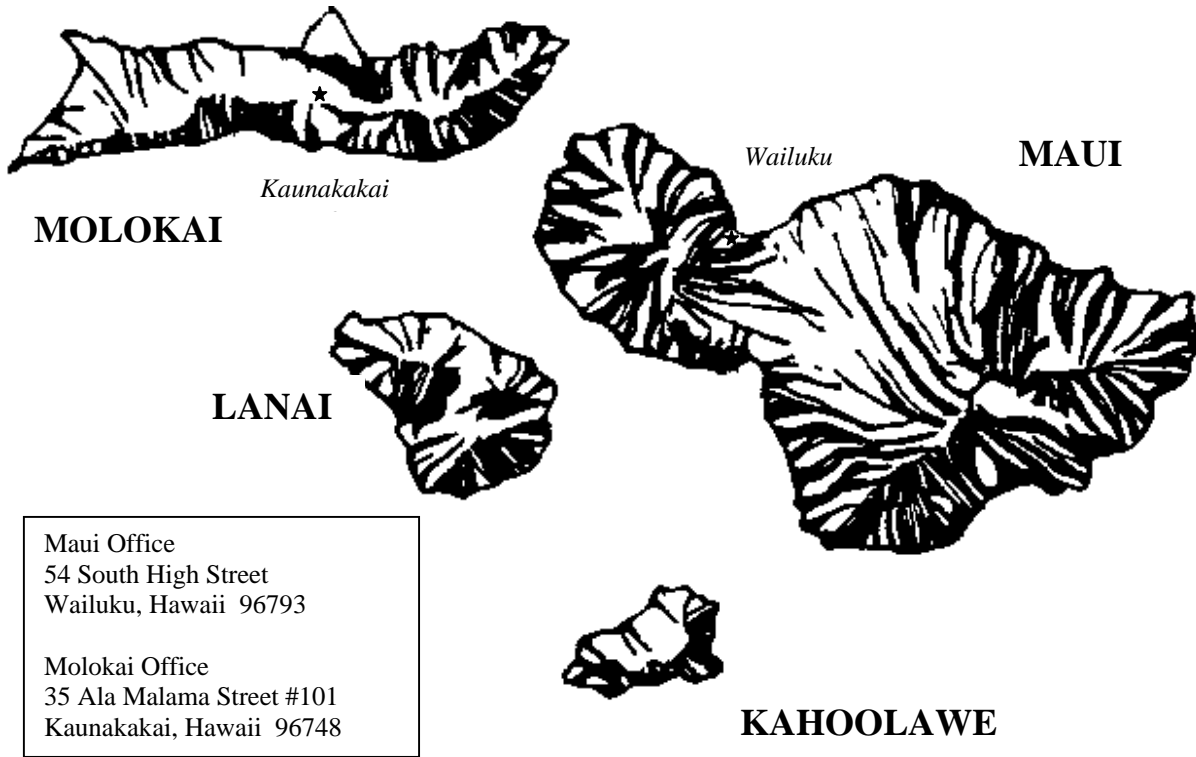
Island of Oahu



Oahu Office  
830 Punchbowl Street  
Honolulu, Hawaii 96813

# SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai



Maui Office  
54 South High Street  
Wailuku, Hawaii 96793

Molokai Office  
35 Ala Malama Street #101  
Kaunakakai, Hawaii 96748

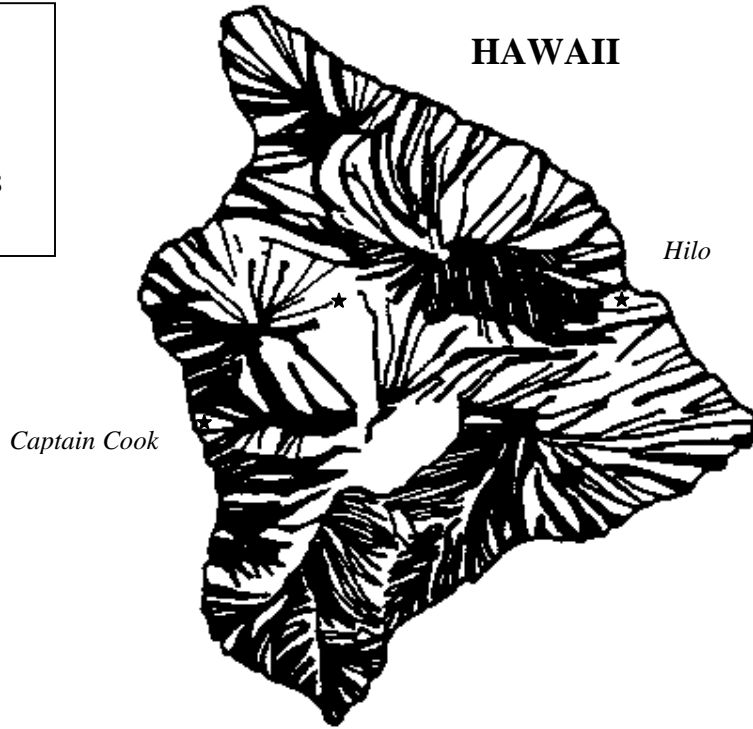


### THIRD TAXATION DISTRICT

Island of Hawaii

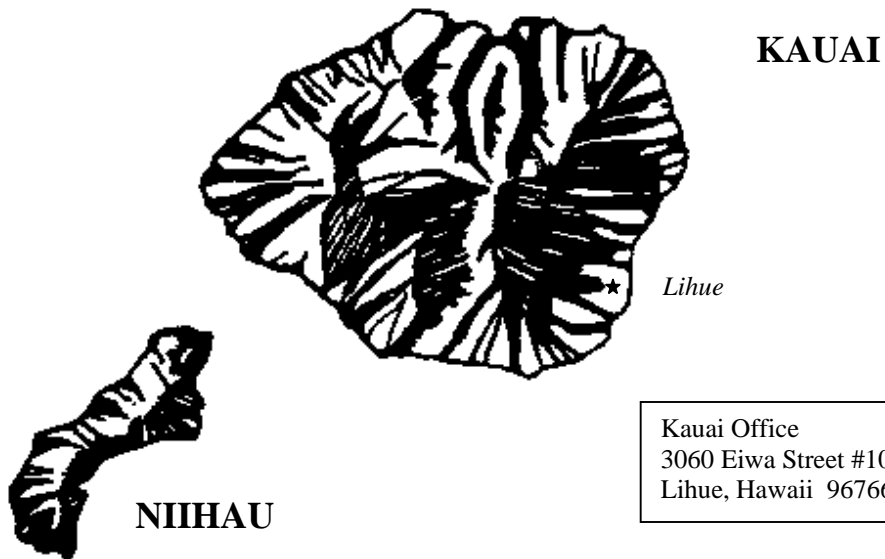
Hilo Office  
75 Aupuni Street  
Hilo, Hawaii 96720

Kona Office  
82-6130 Mamalahoa Highway #8  
Captain Cook, Hawaii 96704



### FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau



Kauai Office  
3060 Eiwa Street #105  
Lihue, Hawaii 96766

## TAX APPEALS AND LITIGATION

### BOARDS OF REVIEW

Each taxation district has a Board of Review consisting of five members. Tax disputes that are not resolved at the district tax office level are presented to the Board of Review. Statewide, the boards began the fiscal year with 94 pending tax appeals. A total of 54 appeals were settled, while 45 new appeals were filed, resulting in a total of 85 appeals pending at the end of the year. The following table summarizes the number of appeals before the boards by tax district:

	<u>Oahu</u>	<u>Maui</u>	<u>Hawaii</u>	<u>Kauai</u>	<u>Total</u>
Appeals pending (beginning)	76	14	4	0	94
New appeals	41	0	2	2	45
Appeals settled	<u>39</u>	<u>8</u>	<u>6</u>	<u>1</u>	<u>54</u>
Appeals pending (ending)	78	6	0	1	85

### COURT DECISION

#### DECIDED CASES

In the Matter of the Tax Appeal of Baker & Taylor, S. Ct. No. 23376, Supreme Court, State of Hawaii

The supreme court upheld the judgment of the tax appeal court against the Taxpayer, Baker & Taylor, finding that Baker & Taylor was subject to Hawaii's general excise tax on books shipped to Hawaii despite the fact that title to the books passed to the State on the mainland. The supreme court found that Baker & Taylor had substantial nexus to Hawaii in that it sent representatives to Hawaii on numerous occasions. The court also found that subjecting Baker & Taylor to general excise taxes did not offend the Commerce Clause. The court, however, reversed the tax court's judgment in part, finding that Baker & Taylor was not subject to use tax because it did not import or purchase the books from an unlicensed seller.

In the Matter of the Tax Appeal of Infiniti Motors, Inc., T.A. No. 01-0169, Tax Appeal Court, State of Hawaii

Taxpayer appealed an assessment of general excise taxes on "dealer cash" it received from automobile manufacturers, which is a portion of the manufacturer's sales price. Upon motion of the Director, the case was dismissed and judgment entered in favor of the Director. The tax appeal court found that the appeal was not timely commenced in that the notice of appeal was filed beyond the thirty-day statutory deadline.

In re Bobby R. Narmore, T.A. Nos. 02-0065 and 02-0066, Tax Appeal Court, State of Hawaii

Taxpayer filed two tax appeals arguing that the Department could not collect the taxes owed for the years in question because the statute of limitations for the Department to assess had expired. In the process of filing the two tax appeals, Taxpayer neglected to serve or file the Notices of Tax Appeal with the Department. The Department filed a Motion to Dismiss in both cases, arguing that Taxpayer's appeals should be dismissed because the Tax Court lacked jurisdiction to hear and review the cases and the Notices of Appeal failed to state a claim upon which relief can be granted. The tax appeal court agreed and granted the Department's motions.

Hawaii National Bank v. Hawaii Gold Cacao Tree, Inc., et al., Civ. No. 03-1-2131-10, Circuit Court of the First Circuit

Plaintiff attempted to garnish the Department for tax refunds due to Hawaii Gold Cacao Tree, Inc. and its principals. The Department filed a motion to quash the garnishee summons, asserting, among other things, sovereign immunity and confidentiality of tax return information. The circuit court agreed with the Department and quashed the summons.

## SETTLED CASES

### In re Cimm's Incorporated, et al., Bk. No. LA01-32272 United States Bankruptcy Court for the Central District of California

The Department held priority claims against the Debtors for general excise, net income, and withholding taxes. Some of the claims were due to assessments because the Debtor provided insufficient information; some of the assessments were the result of non-filed tax returns. The Department was able to work with the Debtors' outside accountants to resolve all claims and was paid on its amended priority claims.

### In re CompuServe Inc., T.A. No. 03-0196, Tax Appeal Court, State of Hawaii

Taxpayer appealed to the tax appeal court from a general excise tax assessment for 1989 through fiscal year ending January 31, 1998 for underreported retail sales and unreported other income. Taxpayer challenged the Department's assessments as being incorrect because: (1) its gross income was derived from the performance of services which should be apportioned pursuant to Hawaii Revised Statutes § 237-21 (1993); and (2) the assessments violated the United States Constitution by applying the tax to the entire gross income. Through negotiations, a fair and equitable amount for settlement was agreed upon. A stipulation for dismissal was filed on October 23, 2003.

### In re On Command Video Corp., T.A. No. 02-0035, Tax Appeal Court, State of Hawaii

Taxpayer was assessed general excise and use taxes for tax years 1992 through 1998 on its business of providing access to cable and video entertainment to hotels. Through settlement negotiations, the use tax assessment was readjusted and the general excise tax assessment was compromised. A stipulation for dismissal was filed on March 29, 2004.

### Director of Taxation, State of Hawaii v. Priority One Courier Inc., T.A. No. 02-0056, Tax Appeal Court, State of Hawaii

Taxpayer was assessed public service company taxes for 1998 through 2000 because it provided door-to-door transportation of property in Hawaii for a freight forwarder.

Taxpayer appealed the assessment to the Board of Taxation Review arguing equity and detrimental reliance and won. The Department appealed to the tax appeal court. Because Taxpayer could not retain an attorney, given the relatively small size of the company, the tax appeal court facilitated a settlement. Through negotiations, a fair and equitable amount for settlement was agreed upon.

### The Estate of Charles Robert Tasker, Deceased, P. No. 01-1-0070, Circuit Court of the First Circuit

The Department held liens against the Deceased's estate and his companies. Upon the probate sale of the Deceased's companies, the Department was able to collect the amount of its corporate taxes. However, it appears that the claims against the estate will not be resolved, because the personal representative moved out-of-state and is without counsel.

### Department of Taxation, State of Hawaii v. Monica Y. Kim, Civil No. 02-1-1754-07, Circuit Court of the First Circuit

The Department initiated this action in circuit court to collect estate taxes on the estate of Num Soo Young Jambor from Monica Y. Kim, one of the beneficiaries, to the extent she benefited from the estate. The Department asserted four causes of action: (1) statutory lien; (2) breach of contract (third-party beneficiary); (3) personal liability as "personal representative"; and (4) transferee liability in equity. Through negotiations and participation in a settlement conference, the parties were able to enter into a fair and equitable settlement agreement. Pursuant to the agreement, Taxpayer paid \$60,000.00 to the Department and the parties filed the stipulation to dismiss the action with prejudice on March 31, 2004.

## PENDING APPEALS

### In the Matter of the Tax Appeal of Donald Lewis, S. Ct. No. 26431, Supreme Court, State of Hawaii

Appellant is a tax protestor appealing from an assessment of net income taxes. Appellant's sole contention is that (1) Oahu is not part of the State of Hawaii; and (2) his income was earned on Oahu so therefore he is not within the taxing jurisdiction of the State. In the answering brief, the Department is asking the court to award the State fees and costs due to the frivolous nature of the appeal.

In re Subway Real Estate Corp., S. Ct. No. 26488, Supreme Court of the State of Hawaii

Subway Real Estate Corp ("Subway") was assessed for subleasing income for 1992. Subway appealed the assessment to the tax appeal court. The tax appeal court determined that the Department could assess the general excise tax on the value of services Subway provided pursuant to In re C. Brewer & Co., Ltd., 65 Hawaii 240 (1982) but not on the subleasing income. The Department appealed to the Hawaii Supreme Court.

In the Matter of the Tax Appeal of HEI Diversified and Subsidiaries, T.A. No. 03-0196, Tax Appeal Court, State of Hawaii

Taxpayer appealed from an assessment of franchise taxes resulting from the disallowance of a deduction for dividends it received from a wholly owned real estate investment trust (REIT). Taxpayer claimed that because IRC § 857(c) (which is operative in Hawaii and denies the deduction for dividends paid by a REIT) refers to IRC § 243 (which is inoperative) that it was entitled to take a deduction for \$225 million in dividends it received from a REIT (the REIT had already deducted the same dividends paid to the taxpayer). The tax appeal court upheld the assessment, finding that the legislature intended to give REITS the same tax treatment that they receive under federal law.

In re Medical Underwriters, T.A. 00-0061, Tax Appeal Court, State of Hawaii

Taxpayer manages and provides management services as an attorney-in-fact and managing agent of certain insurance companies. Taxpayer was assessed general excise taxes for 1992 through 1999 for the services it provides to the insurance companies. After the filing of various motions for summary judgment, the tax appeal court held that the Taxpayer is not exempt from the general excise tax. Even though taxpayer is unlicensed as an insurance broker, agent or salesperson, the monies/payments it receives as commissions or as compensation for services rendered as an attorney-in-fact for its insurance companies is subject to the 0.15 percent general excise tax rate rather than the normal 4.0% general excise tax rate. Left unresolved is what constitutes the monies/payments received as commissions or compensation for its attorney-in-fact services.

## **CRIMINAL CASES**

During fiscal year 2004, the Criminal Justice Section of the Department of the Attorney General filed 51 complaints/indictments on taxpayers who had violated Hawaii's tax law including those specified in Hawaii Revised Statutes § 231-34, § 231-35 and § 231-36(a).

Of the 45 judicial actions, there were 16 complaints against 6 corporations and 10 individuals, and 29 indictments against 2 corporations and 27 individuals. The taxes, penalties and interest for these actions totaled \$1.9 million.

In this fiscal year, a jury conviction was obtained on a tax return preparer that was convicted on twenty-one felony counts involving the preparation of false income tax returns and evasion of tax. Due to a federal indictment on similar charges, sentencing has been scheduled for fiscal year 2005.

A conviction was also obtained on the state's first electronic filing case where the taxpayer pled guilty to theft and filing a false return. In this fiscal year, the criminal cases focused on significant areas of non-compliance the Department uncovered, which included persons who claimed to be sovereign and filed false income tax returns, persons who submitted alleged fictitious negotiable checks for the payment of their taxes, persons who had filed 99 exemptions with their employer to not have any state taxes withheld from their payroll, persons who claimed their wages were not taxable and other cases involving individuals and businesses who had failed to file their annual general excise tax returns.

While the collection of taxes and assessment of criminal fines are not primary functions of the criminal section, judicial fines in excess of \$150,000 were assessed.

The criminal statistics noted above do not represent the true measure of the criminal section of the Department. The principal function of the criminal enforcement of the tax laws is to create deterrence. The measurement of deterrence has always been an elusive task; however, the Department has accepted numerous cases where taxpayers are filing delinquent tax returns to preclude criminal prosecution.

<u>OTHER MATTERS CLOSED</u>		<u>AMOUNTS COLLECTED</u>	
Appeals	- 8	Tax Appeals	\$1,260,310
Bankruptcies	- 343	Foreclosures	34,475
Foreclosures	- 235	Bankruptcies	1,080,639
Subpoenas	- 25	Trusts	557,744
Opinions	- 12	Miscellaneous	<u>273,075</u>
Contracts	- 4	TOTAL	\$3,206,243
Legislation	- 247		
Miscellaneous	- 48		

## LEGISLATION

The following tax-related measures were enacted by the 2004 legislature:

<u>Act</u>	<u>Brief Description</u>
89	<b>IRS Conformity.</b> Amends Hawaii's Income Tax Law to conform with the changes to the Internal Revenue Code with exceptions. Conformed to all of the tax provisions of the Military Family Tax Relief Act of 2003 and to provisions affecting health savings accounts to the extent applicable to Hawaii. <i>Effective upon approval; applies to taxable years beginning after December 31, 2003, except as otherwise provided</i>
96	<b>Fuel Tax Reduction for Alternative Fuels.</b> Reduces fuel taxes for ethanol, methanol, biodiesel, and other alternative fuels excluding liquefied petroleum gas. <i>Effective on July 1, 2004; applies to taxable years beginning after December 31, 2003.</i>
97	<b>Renewable Energy Technologies Tax Credit.</b> Clarifies that the credit is nonrefundable and any excess may be carried forward, and financial institutions may also claim the credit under Chapter 241, Hawaii Revised Statutes. <i>Effective upon approval; applies to taxable years beginning after December 31, 2002.</i>
113	<b>Withholding Tax.</b> Closely conforms Hawaii's income tax withholding remittance date to the federal semi-weekly remittance date for mid-sized businesses. <i>Effective upon approval; applies to withholding requirements for payroll periods beginning on or after December 31, 2004.</i>
114	<b>Use Tax.</b> Clarifies the imposition of the use tax on sellers who import tangible personal property into the State for sale. <i>Effective upon approval; applies retroactively to taxable years beginning after December 31, 1998.</i>
115	<b>Integrated Tax Information Management Systems (ITIMS) Special Fund.</b> Extends the "sunset date" of the ITIMS special fund to July 1, 2005, to provide additional time to complete the remaining

work on the Department of Taxation's (DOTAX) \$53 million computer project. *Effective on June 30, 2004.*

123 **Taxation Appeals.** Allows a taxpayer's first appeal to either the Board of Review or the Tax Appeal Court to be made without the payment of the tax. *Effective on July 1, 2004; applies to tax appeals filed on or after July 1, 2004.*

140 **Ethanol Tax Credit.** Encourages the construction and operation of large-capacity ethanol production facilities. This measure:

- Provides that the annual dollar amount of the ethanol facility tax credit is equal to 30 percent of the facility's nameplate capacity if the nameplate capacity is greater than 500,000 but less than 15 million gallons;
- Clarifies that the tax credit is limited to 100 percent of the total of all investments made by the taxpayer in the qualifying ethanol production facility during the eight-year tax credit period;
- Requires that the facility be operating at a level of production of at least 75 percent of its nameplate capacity on an annualized basis and that the facility is in production on or before January 1, 2012;
- Prohibits a taxpayer from claiming or receiving any other tax credit for the same taxable year; and
- Clarifies the definition of "investment".

Effective July 1, 2004; applies to taxable years beginning after December 31, 2003.

157 **Tobacco Products.** Prohibits the distribution of untaxed cigarettes via the telephone, mail order, the Internet, and other on-line sources. Makes it illegal for a person or an entity engaged in the business of selling cigarettes to ship or cause to be shipped any cigarettes to a person or entity in the State that is not:

- A licensee under Chapter 245, Hawaii Revised Statutes;
- An export warehouse proprietor pursuant to chapter 52 of the Internal Revenue Code; or
- An operator of a customs bonded warehouse pursuant to section 1311 or 1555 of title 19 of the United States Code.

Also makes it illegal to ship or cause to be shipped any cigarettes into this State in any container or wrapping, other than the cigarette manufacturer's original container or wrapping. Requires DOTAX to post the names of authorized licensees on its website. Revises provisions relating to the Attorney General's seizure and confiscation authority. *Effective on July 1, 2004; applies to all cases pending or filed on or after the effective date.*

159 **Wireless Enhanced 911 Service.** Requires wireless providers to charge customers a 66-cent monthly surcharge to be deposited into a special fund. Moneys in the special fund will be dedicated to upgrading wireless carrier locations and 911 call centers so public safety agencies can better locate wireless callers. Wireless providers may retain 2 percent of the amount of the surcharges collected to offset administrative expenses associated with billing and collecting the surcharge. The surcharges collected (including the 2 percent retained for administrative fees) are not subject to any tax, fee or assessment, nor are they considered revenue of the provider or reseller. *Effective on July 1, 2004.*

195 **Exceptional Trees.** Allows a taxpayer to claim an income tax deduction of up to \$3,000 per exceptional tree for qualified expenditures made during the taxable years to maintain the tree on the taxpayer's property. The local county arborist committee under Chapter 58, Hawaii Revised Statutes, must designate the tree as an exceptional tree. *Effective upon approval; applies to amounts paid in taxable years beginning after December 31, 2003.*

197 **National Guard/Reservist Income Tax Exclusion.** Increases the allowable exclusion from net Hawaii income tax for National Guard members and reservists from the first \$1,750 of pay to the income received for 48 drills (12 weekends) and 15 days of annual duty at different, specified pay grades over a five-year period beginning in 2005. *Effective on January 1, 2005.*

- 214 **Convention, Conference, and Trade Show Fees.** Exempts certain charitable groups from the general excise tax (GET) for fees derived from convention, conference, and trade show exhibit or display spaces; provided that the gross proceeds of sales by vendors through the use of the exhibit or display space shall be subject to the GET. *Effective on July 1, 2004.*
- 215 **Capital Investments.** Improves the high technology tax incentives to give DOTAX better tools to ensure compliance with the tax laws. This measure:
- Extends the technology infrastructure renovation tax credit, the high technology business investment tax credit, and the tax credit for research activities for five years until 2010;
  - Removes language that high technology incentives be "liberally" construed by tax officials;
  - Establishes the State Private Investment Fund within the Hawaii Strategic Development Corporation to provide additional financing tools to meet the growing needs of the high technology industry;
  - Establishes a new Tax Administration Special Fund and authorizes DOTAX to charge fees for certifying the high technology business investment tax credits and the tax credits for research activities and providing comfort letters to businesses to be deposited into this Special Fund;
  - Amends the definition of computer software; and
  - Limits the use of research activities tax credit to qualified high technology businesses as defined in section 235-110.9, Hawaii Revised Statutes.
- Effective on July 1, 2004; except as otherwise provided.*
- 228 **Child Abuse Check-Off.** Authorizes an income tax check-off of \$5 (\$10 for joint filers) to be allocated to the Hawaii Children's Trust Fund, Domestic Violence Prevention Special Fund, and spouse and child abuse special accounts under the Department of Human Services and the Judiciary. *Effective upon approval; applies to taxable years beginning after December 31, 2004.*
- 241 **Deposit Beverage Container Program.** Clarifies and establishes procedures for the deposit beverage container program. Exempts amounts received and collected as a "deposit beverage container deposit" from income tax. *Effective upon approval.*

## INCOME ASSESSMENT AND AUDIT

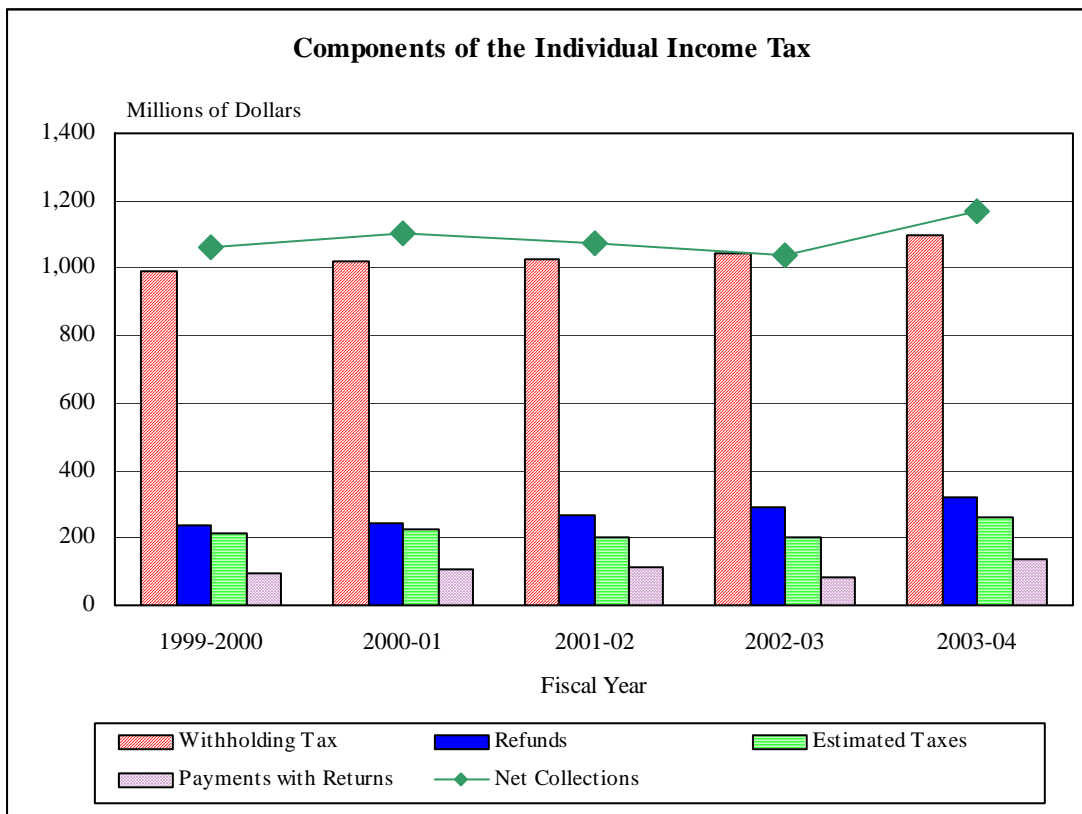
### INDIVIDUAL INCOME TAX

Increased amounts of estimated taxes, payments with returns and withheld taxes over last year contributed to a \$162.1 million growth in individual income taxes; however, increased refunds reduced this sum by \$31.3 million. Overall, net individual income tax increased by 12.6% from \$1.0 billion in fiscal 2003, to \$1.2 billion in fiscal 2004. As shown in the following chart, this was the highest net in the past five fiscal years.

#### TAXES PAID BY INDIVIDUALS (In Thousands of Dollars)

	FY 2004	FY 2003	Difference	
			Amount	%
Declaration of Estimated Taxes	\$ 258,143	\$ 202,296	\$ 55,847	27.6
Payment with Return	136,553	81,490	55,063	67.6
Withholding Tax on Wages	<u>1,101,043</u>	<u>1,046,183</u>	<u>51,187</u>	<u>4.9</u>
Subtotal	\$1,495,739	\$1,329,969	\$ 162,097	12.2
Refunds	<u>326,786</u>	<u>291,861</u>	<u>31,251</u>	<u>10.7</u>
<b>NET</b>	<b>\$1,168,953</b>	<b>\$1,038,107</b>	<b>\$ 130,846</b>	<b>12.6</b>

NOTE: Due to rounding, details may not add to totals.





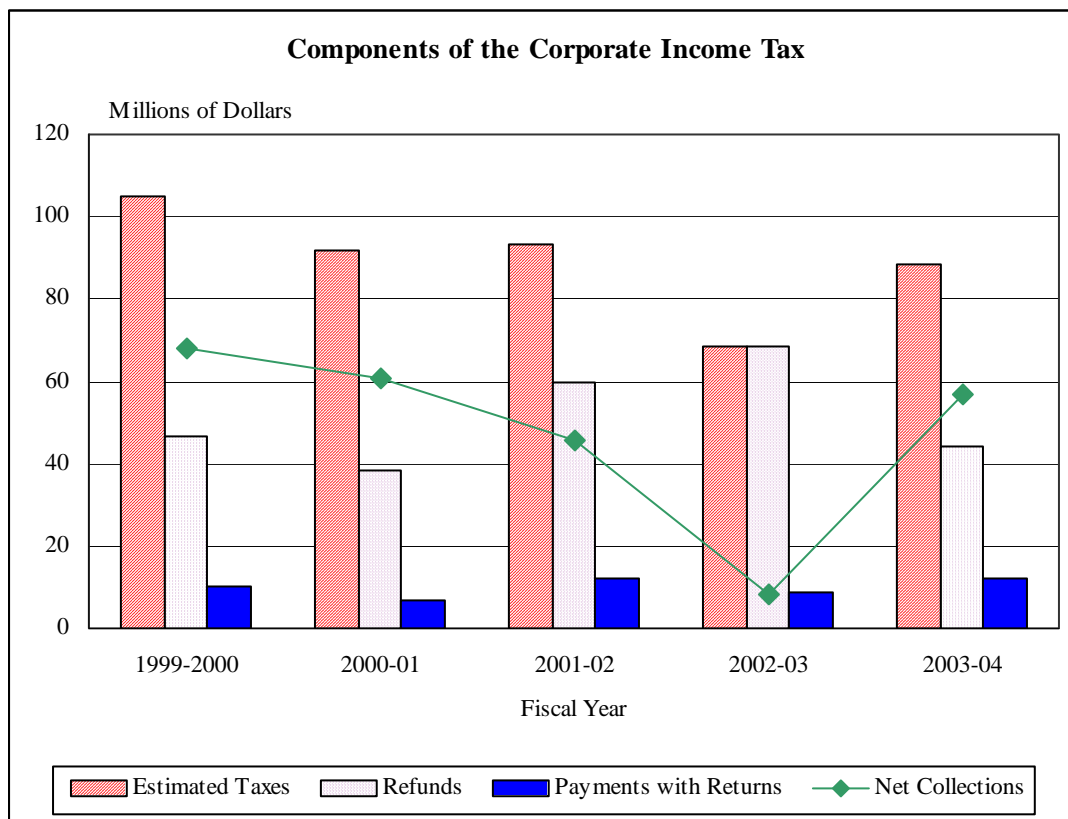
## CORPORATE INCOME TAX

Net corporate tax collections totaled \$56.7 million for fiscal year 2004, increasing a sizable \$48.4 million over the previous year's total of \$8.3 million. This was the first increase since the record high of \$68.2 million in fiscal 2000, as shown in the following chart.

### TAXES PAID BY CORPORATIONS (In Thousands of Dollars)

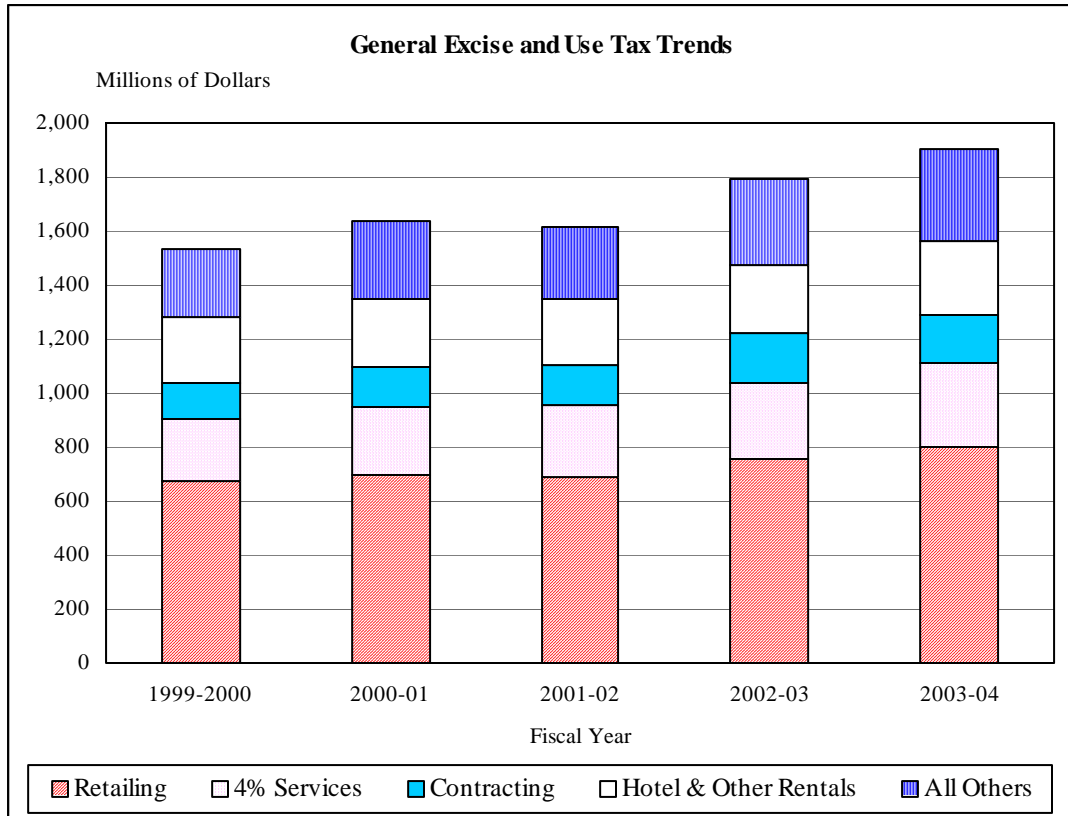
	FY 2004	FY 2003	Difference	
			Amount	%
Declaration of Estimated Taxes	\$ 88,554	\$ 68,312	\$ 20,242	29.6
Payment with Return	<u>12,100</u>	<u>8,623</u>	<u>3,478</u>	<u>40.3</u>
Subtotal	\$ 100,654	\$ 76,935	\$ 23,719	30.8
Refunds	<u>44,001</u>	<u>68,672</u>	( 24,671)	( 35.9)
NET	\$ 56,653	\$ 8,262	\$ 48,391	585.7

NOTE: Due to rounding, details may not add to totals.



## GENERAL EXCISE AND USE TAXES

General excise and use taxes made up 47% of total tax collections. The total \$1.9 billion collected represents a 6.0% growth over the prior fiscal year. Major components of the general excise taxes showed increases over the last fiscal year--retailing rose 6.4%, services 8.7%, hotel rentals 3.9% and all other rentals 5.5%. Contracting activities fell 1.2%, after an especially strong 18.9% increase for contracting activities in fiscal 2003. Compared to fiscal 2002, contracting increased 17.5% from \$3.9 million to \$4.5 million.



GENERAL EXCISE AND USE TAX BASE AND TAXES  
FOR FISCAL YEARS ENDING JUNE 30, 2004 AND 2003  
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	FY 2004	FY 2003	Difference	
				Amount	% Change
<b>TAX BASE</b>					
Retailing		\$ 20,007,185	\$ 18,806,693	\$ 1,200,492	6.4
Services		7,729,157	7,113,153	616,004	8.7
Contracting		4,544,061	4,597,832	( 53,770)	(1.2)
Hotel Rentals		2,444,112	2,352,116	91,995	3.9
All Other Rentals		4,284,372	4,062,313	222,059	5.5
All Others (4%)		<u>3,763,951</u>	<u>3,451,686</u>	<u>312,265</u>	<u>9.0</u>
Subtotal		\$ 42,772,838	\$ 40,383,794	\$ 2,389,044	5.9
Sugar Processing		\$ 1,701	\$ 2,792	(\$ 1,091)	(39.1)
Pineapple Canning		5,047	3,553	1,494	42.1
Producing		532,799	529,316	3,483	0.7
Manufacturing		651,433	626,546	24,887	4.0
Wholesaling		10,426,011	9,616,601	809,410	8.4
Use (1/2%)		6,020,471	5,648,475	371,996	6.6
Intermediary Services		326,612	337,797	( 11,185)	(3.3)
Insurance Commissions		<u>900,836</u>	<u>797,181</u>	<u>103,655</u>	<u>13.0</u>
Subtotal		\$ 18,864,911	\$ 17,562,260	\$ 1,302,651	7.4
<b>TOTAL – ALL ACTIVITIES</b>		<u>\$ 61,637,749</u>	<u>\$ 57,946,054</u>	<u>\$ 3,691,695</u>	<u>6.4</u>
<b>TAX</b>					
Retailing	4%	\$ 800,287	\$ 752,268	\$ 48,020	6.4
Services	4%	309,166	284,526	24,640	8.7
Contracting	4%	181,762	183,913	( 2,151)	(1.2)
Hotel Rentals	4%	97,764	94,085	3,680	3.9
All Other Rentals	4%	171,375	162,493	8,882	5.5
All Others (4%)	4%	<u>150,558</u>	<u>138,067</u>	<u>12,491</u>	<u>9.0</u>
Subtotal		\$ 1,710,914	\$ 1,615,352	\$ 95,562	5.9
Sugar Processing	.50%	\$ 9	\$ 14	(\$ 5)	(39.1)
Pineapple Canning	.50%	25	18	7	42.1
Producing	.50%	2,664	2,647	17	0.7
Manufacturing	.50%	3,257	3,133	124	4.0
Wholesaling	.50%	52,130	48,083	4,047	8.4
Use (1/2%)	.50%	30,102	28,242	1,860	6.6
Intermediary Services	.50%	1,633	1,689	( 56)	(3.3)
Insurance Commissions	.15%	<u>1,351</u>	<u>1,196</u>	<u>155</u>	<u>13.0</u>
Subtotal		\$ 91,172	\$ 85,021	\$ 6,150	7.2
Unallocated*		98,292	92,326	5,966	6.5
<b>TOTAL – ALL ACTIVITIES</b>		<u>\$ 1,900,377</u>	<u>\$ 1,792,699</u>	<u>\$ 107,679</u>	<u>6.0</u>

\*Included are collections from penalty and interest, assessments and corrections, delinquent collections, refunds, protested payments, settlements, etc.

NOTE: Due to rounding, details may not add to totals.

## TRANSIENT ACCOMMODATIONS TAX

Increases in average hotel room rate and visitor arrivals contributed to the 6.4% jump in transient accommodations tax (TAT). All TAT funds are distributed as follows: approximately 44.8% to the counties, 17.3% to the Convention Center Fund, 32.6% to the Tourism Special Fund, and 5.3% to the TAT Trust Fund. After these allocations, \$5.6 million remained in the general fund for fiscal 2004.

### TRANSIENT ACCOMMODATIONS TAX (In Thousands of Dollars)

	FY 2004	FY 2003	Difference	
			Amount	%
Trans. Accom./Time Share Occ. Tax	\$ 181,848	\$ 170,865	\$ 10,983	6.4
Trans. Accom./Time Share Occ. Fees	<u>12</u>	<u>9</u>	<u>3</u>	<u>34.1</u>
Total TAT	\$ 181,860	\$ 170,874	\$ 10,986	6.4
Counties Share	\$ 81,468	\$ 76,547	\$ 4,920	6.4
Convention Center Fund	31,460	29,560	1,900	6.4
Tourism Special Fund	63,292	63,292	0	0.0
General Fund	<u>5,641</u>	<u>1,75</u>	<u>4,166</u>	<u>282.4</u>
Total Allocations	\$ 181,860	\$ 170,874	\$ 10,986	6.4

NOTE: Due to rounding, details may not add to totals.

## FUEL AND MOTOR VEHICLE TAXES

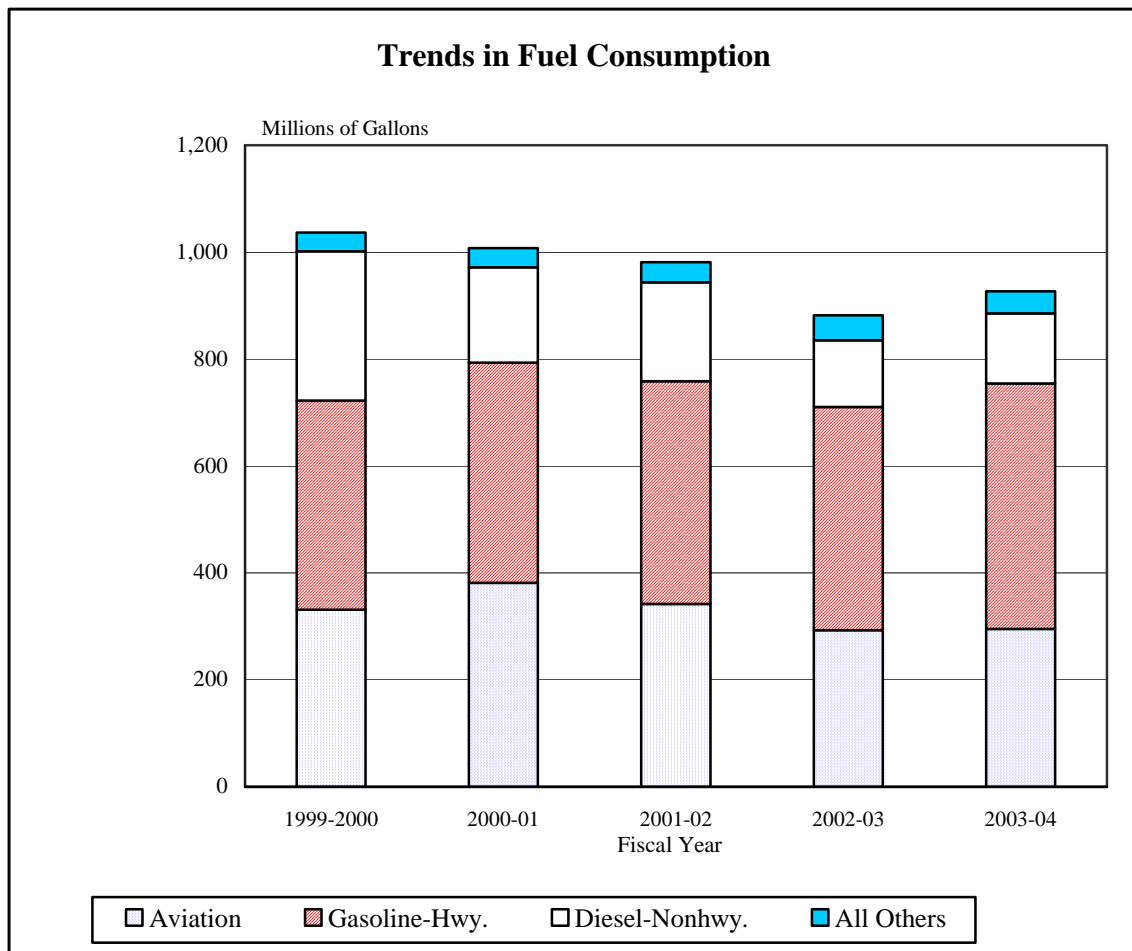
Fuel consumption increased 2.6% to 926.7 million gallons in fiscal 2004. As seen in the table below, gasoline consumption increased by 24.5 million gallons. Diesel oil (on and off highway) increased by 9.2 million while aviation fuel dropped 2.1 million gallons. The largest drop was seen in liquid petroleum gas used off highway by 8.8 million gallons. With the rising concern for the environment, other fuels (ethanol, methanol and biodiesel) increased about ten times from 64,000 to 657,000 gallons. Petroleum sales rose 4.2% to 32.6 million gallons. An environmental response tax of five cents is imposed on each barrel of petroleum sold by a distributor to any retail dealer or end user other than a refiner of petroleum products.

**GALLONS OF FUEL CONSUMED**  
(In Thousands of Gallons)

	FY 2004	FY 2003	Difference	
			Amount	%
Gasoline	459,130	434,590	24,540	5.6
Diesel Oil – Nonhighway	131,178	124,886	6,292	5.0
Diesel Oil – Highway	39,126	36,216	2,910	8.0
Liq. Pet. Gas - Off Highway	1,015	9,777	( 8,761)	( 89.6)
Liq. Pet. Gas - Highway	347	319	28	8.7
Small Boats - Gasoline	2	5	( 3)	( 59.3)
Small Boats - Diesel Oil	14	31	( 17)	( 54.2)
Aviation Fuel	295,198	297,265	( 2,066)	( 0.7)
Other Fuel*	<u>657</u>	<u>64</u>	<u>593</u>	<u>924.6</u>
<b>Total Gallons</b>	<b>926,668</b>	<b>903,152</b>	<b>23,515</b>	<b>2.6</b>
<b>Environmental Tax (Barrel)</b>	<b>32,553</b>	<b>31,242</b>	<b>1,311</b>	<b>4.2</b>

\*Includes ethanol, methanol, biodiesel.

NOTE: Due to rounding, details may not add to totals.



Revenues from fuel taxes are distributed to both the State and counties, and other special funds. Aviation fuel taxes collected are deposited into the airport fund, while all other State fuel tax collections are deposited into the State highway fund, except for 1% of State and county fuel taxes which is deposited into the State boating fund. Revenues from the motor vehicle weight taxes and fees, which are administered and collected by the counties, and rental motor vehicle and tour vehicle surcharge taxes are also added to the State highway fund. Monies from the environmental response tax is deposited into the environmental response revolving fund, which is administered by the Department of Health for oil spill prevention and remediation programs.

**ALLOCATION OF FUEL TAXES**  
(In Thousands of Dollars)

	FY 2004	FY 2003	Difference	
			Amount	%
<b>STATE HIGHWAY FUND:</b>				
Gasoline	\$ 72,608	\$ 68,641	\$ 3,967	5.8
Diesel Oil – Non-highway	1,299	1,237	62	5.0
Diesel Oil - Highway	6,198	5,737	461	8.0
Liq. Pet. Gas – Off highway	10	97	( 86)	( 89.6)
Liq. Pet. Gas – Highway	18	17	1	8.7
Other Fuel	52	5	47	924.6
Subtotal	\$ 80,185	\$ 75,733	\$ 4,452	5.9
Motor Vehicle	50,543	48,957	1,586	3.2
Rental Vehicle	41,414	39,472	1,942	4.9
Total	\$172,142	\$164,163	\$ 7,979	4.9
<b>COUNTY HIGHWAY FUNDS:</b>				
City & County of Honolulu	\$ 49,271	\$ 47,156	\$ 2,115	4.5
County of Maui	12,602	8,720	3,881	44.5
County of Hawaii	7,755	7,269	486	6.7
County of Kauai	4,179	3,824	354	9.3
Total	\$ 73,807	\$ 66,970	\$ 6,837	10.2
<b>BOATING SPECIAL FUND:</b>	\$ 1,555	\$ 1,441	\$ 114	7.9
<b>STATE AIRPORT FUND:</b>				
Aviation Fuel	\$ 2,952	\$ 2,973	(\$ 20)	( 0.7)
<b>ENVIRONMENTAL TAX FUND:</b>	\$ 1,628	\$ 1,562	\$ 66	4.2

NOTE: Due to rounding, details may not add to totals.

The State legislature sets the State fuel tax rates while the county councils set the county rates. The effective rates for fiscal 2004 are shown below:

FUEL TAX RATES PER GALLON<sup>1</sup>

GASOLINE AND DIESEL OIL (HWY USE): <sup>2</sup>	<u>State</u>	<u>County</u>	<u>Total</u>
City & County of Honolulu	16.0¢	16.5¢	32.5¢
County of Maui	16.0¢	13.0¢	29.0¢
County of Hawaii	16.0¢	8.8¢	24.8¢
County of Kauai	16.0¢	13.0¢	29.0¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	5.3¢	5.4¢	10.7¢
County of Maui	5.3¢	4.3¢	9.6¢
County of Hawaii	5.3¢	2.9¢	8.2¢
County of Kauai	5.3¢	4.3¢	9.6¢
ETHANOL:			
City & County of Honolulu	4.6¢	4.8¢	9.4¢
County of Maui	4.6¢	3.8¢	8.4¢
County of Hawaii	4.6¢	2.6¢	7.2¢
County of Kauai	4.6¢	3.8¢	8.4¢
METHANOL:			
City & County of Honolulu	3.5¢	3.7¢	7.2¢
County of Maui	3.5¢	2.9¢	6.4¢
County of Hawaii	3.5¢	2.0¢	5.5¢
County of Kauai	3.5¢	2.9¢	6.4¢
BIODIESEL:			
City & County of Honolulu	8.0¢	8.3¢	16.3¢
County of Maui	8.0¢	0.0¢	8.0¢
County of Hawaii	8.0¢	4.4¢	12.4¢
County of Kauai	8.0¢	6.5¢	14.5¢
ENVIRONMENTAL RESPONSE TAX (PER BARREL)			
<u>All Counties</u>	<u>5.0¢</u>	<u>0.0¢</u>	<u>5.0¢</u>

<sup>1</sup>Gasoline used for agricultural equipment off highways, aviation fuel, and all other fuels used off highways are taxed by the State at 1¢ per gallon.

<sup>2</sup>Includes 1¢ State license tax on diesel oil.

**PUBLIC SERVICE COMPANY TAXES**

Public utilities paid public service company taxes totaling \$99.5 million, including penalty and interest. Act 9, Third Special Session, SLH 2001, allowed motor carrier-contract carriers to pay the 4% general excise tax instead of the public service company tax, effective October 1, 2001, thus, transferring certain revenue from public service company taxes to general excise tax revenue.

**PUBLIC SERVICE COMPANY TAXES**  
(In Thousands of Dollars)

	FY 2004	FY 2003	Difference	
			Amount	%
Public Service Company Taxes	\$ 98,340	\$113,611	(\$ 15,271)	( 13.4)
Penalty & Interest	<u>1,165</u>	<u>504</u>	<u>660</u>	<u>131.0</u>
<b>TOTAL</b>	<b>\$ 99,505</b>	<b>\$114,115</b>	<b>(\$ 14,611)</b>	<b>( 12.8)</b>

NOTE: Due to rounding, details may not add to totals.

**ESTATE AND TRANSFER TAXES**

During fiscal year 2004, a total of 1,308 estates were settled, of which 211 were taxable. Estate tax collections totaled \$9.8 million, compared to \$15.5 million the year before.

Hawaii's estate and transfer tax revenue has drastically decreased for two reasons. First the federal unified tax credit equivalent amount increased from \$675,000 in 2001 to \$1,000,000 in 2002 and 2003. The federal estate tax and generation-skipping tax exemption amount further rose to \$1,500,000 for decedents in 2004. Second, Hawaii's estate and transfer tax rate, i.e., Hawaii's pick-up or soak-up tax was reduced from 100% in 2001 to 75% in 2002, 50% in 2003, 25% in 2004, and 0% in 2005.

**ESTATE AND TRANSFER TAXES**  
(In Thousands of Dollars)

	FY 2004	FY 2003	Difference	
			Amount	%
Estate Tax	\$ 9,726	\$ 15,482	(\$5,756)	( 37.2)
Penalty & Interest	<u>104</u>	<u>42</u>	<u>62</u>	<u>145.6</u>
<b>TOTAL</b>	<b>\$ 9,830</b>	<b>\$ 15,524</b>	<b>(\$5,694)</b>	<b>( 36.7)</b>

NOTE: Due to rounding, details may not add to totals.

**OTHER TAXES**

Total revenues from other miscellaneous taxes amounted to \$374.9 million, \$18.1 million higher than for the previous year. Employment security contributions increased by \$22.3 million as a result of increases in taxable wages and the average annual tax rate. Tobacco tax collections exceeded last year's total by \$7.1 million, while insurance tax premiums increased by \$4.9 million, and conveyance taxes rose \$4.6 million. The conveyance tax is imposed at the rate of \$.10 per \$100 of the actual consideration paid for the transfer of ownership or interest in real property and is collected by the Bureau of Conveyances under the Department of Land and Natural Resources. One-half of revenues from the conveyance tax are deposited into State general fund, while the natural area reserve fund and the rental housing funds each receive 25%. Liquor tax collections rose a minimal 0.2%, or \$65,000. The large decrease in revenues from banks and other financial corporations was the result of \$16.5 million in protested payments



transferred into the litigated claims fund in July 2003 (FY 2004) after initially being deposited into the general fund in June 2003 (FY 2003).

**MISCELLANEOUS TAXES\***  
(In Thousands of Dollars)

	FY 2004	FY 2003	Difference	
			Amount	%
Banks & Other Financial Corp.	\$ 1,466	\$ 22,341	(\$ 20,875)	( 93.4)
Conveyance	15,767	11,130	4,638	41.7
Empl. Security Contributions	158,281	135,991	22,291	16.4
Insurance Premiums	78,142	73,240	4,902	6.7
Liquor & Permits	41,250	41,186	65	0.2
Tobacco & Licenses	79,387	72,297	7,090	9.8
General Excise Licenses & Fees	641	607	33	5.5
<b>TOTAL</b>	<b>\$374,936</b>	<b>\$356,793</b>	<b>\$ 18,143</b>	<b>5.1</b>

\*Includes allocation to special funds.

NOTE: Due to rounding, details may not add to totals.

## COLLECTION AND ACCOUNTING OF TAXES

### TAX COLLECTIONS

Total tax collections amounted to \$4.0 billion, 8.3% more than the \$3.7 billion collected in the previous year. While the Department of Taxation collected the majority of taxes, the counties collected \$92.0 million in State motor vehicle weight taxes and registration fees, Department of Commerce and Consumer Affairs collected \$78.1 million in insurance premium taxes, and the Department of Land and Natural Resources collected \$15.8 million in conveyance taxes.

**TAX COLLECTIONS**  
(In Thousands of Dollars)

SOURCE OF REVENUE	FY 2004		FY 2003	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks – Financial Corps.	\$ 1,466	0.0	\$ 22,341	0.6
Conveyance	15,767	0.4	11,130	0.3
Employment Security Contrib.	158,281	3.9	135,991	3.6
Fuel	160,127	4.0	148,680	4.0
General Excise & Use	1,900,377	47.0	1,792,699	48.0
Income – Corporations	56,653	1.4	8,262	0.2
Income – Individuals	1,168,953	28.9	1,038,107	27.8
Inheritance and Estate	9,830	0.2	15,524	0.4
Insurance Premiums	78,142	1.9	73,240	2.0
Liquor & Permits	41,250	1.0	41,186	1.1
Motor Vehicle Tax*	91,957	2.3	88,429	2.4
Public Service Companies	99,505	2.5	114,115	3.1
Tobacco & Licenses	79,387	2.0	72,297	1.9
Trans. Accom. Tax	181,848	4.5	170,865	4.6
All Others**	679	0.0	665	0.0
<b>TOTAL</b>	<b>\$ 4,044,223</b>	<b>100.0</b>	<b>\$ 3,733,531</b>	<b>100.0</b>

\*Includes motor vehicle weight tax, registration fees, commercial driver's license, periodic motor vehicle inspection, rental vehicle registration fees, and rental vehicle surcharge tax.

\*\* Includes fuel retail dealer permits, fuel penalty and interest, general excise fees and trans. accom. fees.

NOTE: Due to rounding, details may not add to totals.

**DISTRIBUTION OF TAXES**

Of the total \$4.0 billion in tax revenues collected, \$3.4 billion, or 85.2% was deposited into the State general fund. The counties received 3.8%, or \$155.6 million, which came from county fuel taxes and a portion of the transient accommodations tax. The remaining \$442.2 million was distributed among several State special funds. The State highway fund received the largest portion, or \$171.8 million. All of the employment security contributions, or \$158.3 million, went into the unemployment trust fund for unemployment benefits. Portions of TAT went to the next two largest special funds: \$63.3 million to the tourism special fund and \$31.5 million to the convention center fund. Distribution of collections is shown in the following table.

**DISTRIBUTION OF COLLECTIONS**  
(In Thousands of Dollars)

	FY 2004		FY 2003	
	Amount Collected	% of Total	Amount Collected	% of Total
<b>STATE FUNDS</b>				
State General	\$ 3,446,385	85.2	\$ 3,182,043	85.2
State Highway	171,803	4.2	164,163	4.4
State Airport	2,952	0.1	2,973	0.1
Boating Special Fund	1,555	0.0	1,441	0.0
Environmental Fund	1,628	0.0	1,562	0.0
Cigarette Stamp Admin/Enf. Fund	987	0.0	1,024	0.0
Compliance Resolution Fund	2,000	0.0	2,000	0.1
Unemployment Trust	158,281	3.9	135,991	3.6
Election Campaign Fund	265	0.0	282	0.0
Tourism Special Fund	63,292	1.6	63,292	1.7
Rental Housing Fund	3,942	0.1	2,782	0.1
Natural Area Reserve Fund	3,942	0.1	2,782	0.1
Convention Center Fund	31,460	0.8	29,560	0.8
School Repair & Maint. Fund	118	0.0	119	0.0
Subtotal - State	\$ 3,888,610	96.2	\$ 3,590,014	96.2
 <b>REVENUES TRANSFERRED TO COUNTIES</b>				
Fuel	\$ 74,145	1.8	\$ 66,970	1.8
Trans. Accom. Tax	81,468	2.0	76,547	2.1
Subtotal – Counties	\$ 155,613	3.8	\$ 143,517	3.8
 <b>TOTAL</b>	\$ 4,044,223	100.0	\$ 3,733,532	100.0

NOTE: Due to rounding, details may not add to totals.

## **BRIEF SUMMARY OF HAWAII'S TAX SYSTEM**

Two notable characteristics of Hawaii's tax structure are the high degree of centralization at the State level and the broad-based nature of its primary revenue source, the general excise tax. Hawaii's general excise tax is imposed on most sales of goods and services. Some transactions are exempted because they are subject to other taxes or because the legislature wished to encourage certain economic activities.

Qualified residents may claim several different tax credits. Among the most common credits claimed by Hawaii residents are the low-income credit, the renter's credit, the dependent care credit, the energy device credit, and the child passenger restraint credit. Available to individuals with adjusted gross income (AGI) of \$20,000 or less, the low-income credit is a credit that is inversely related to a taxpayer's AGI. The renter's credit is a flat \$50 credit per exemption, including age exemptions, which is available to qualified resident renters with AGI under \$30,000. Like its federal counterpart, Hawaii's dependent care credit reimburses a portion of expenses paid for the care of qualified dependents in order to allow the taxpayer to hold gainful

employment. The energy device credit is available to taxpayers who purchase qualified alternate energy devices. A flat \$25 credit per return is allowed to individuals who purchase qualifying child passenger restraint systems. Among businesses, the most commonly claimed tax credit is the capital goods excise tax credit.

Hawaii has 17 separate tax laws, of which 14 are administered by the State. The remaining 3 – real property tax, motor vehicle weight tax, and public utility franchise tax – are administered by the counties. The revenue from county motor vehicle weight taxes is vested in the counties with the revenue accruing to the State and county highway funds.

Revenues from 11 of the State-administered taxes go into the State’s general fund and are used to provide government services. Although the fuel tax is administered by the State, it is a source of revenue for both the State and county highway funds. The employment security tax is a dedicated tax used exclusively to provide benefits to cover unemployed workers. Rental motor vehicle and tour vehicle surcharge taxes are deposited into the State highway fund.

STATE GENERAL FUND\*  
(In Thousands of Dollars)

SOURCE OF REVENUE	FY 2004		FY 2003	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks – Financial Corps.	(\$ 534)	( 0.0)	\$ 20,341	0.6
Conveyance	7,884	0.2	5,565	0.2
General Excise & Use	1,900,377	55.1	1,792,699	56.3
Income – Corporations	56,653	1.6	8,262	0.3
Income – Individuals	1,168,570	33.9	1,037,706	32.6
Inheritance and Estate	9,830	0.3	15,524	0.5
Insurance Premiums	78,142	2.3	73,240	2.3
Liquor & Permits	41,250	1.2	41,186	1.3
Public Service Companies	99,505	2.9	114,115	3.6
Tobacco & Licenses	78,400	2.3	71,273	2.2
Trans. Accom. Tax	5,628	0.2	1,466	0.0
All Others	679	0.0	665	0.0
<b>TOTAL</b>	<b>\$ 3,446,385</b>	<b>100.0</b>	<b>\$ 3,182,043</b>	<b>100.0</b>

\* Net of transfers to special funds.

NOTE: Due to rounding, details may not add to totals.

# OUTLINE OF THE HAWAII TAX SYSTEM AS OF JULY 1, 2004

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
<p>(1) Net income</p> <p>Chapter 235 — Section 235-1 to 235-130</p>	<p>For taxable years beginning after December 31, 2001, the tax rates for individuals as well as estates and trusts range from 1.4% to 8.25% of taxable income. The allowable standard deduction amounts vary by filing status. The standard deduction amount for married filing joint return or surviving spouse with dependent child is \$1,900; single is \$1,500; head of household is \$1,650; and married filing separately is \$950. Tax rates for corporations are 4.4% up to \$25,000, 5.4% over \$25,000 but not over \$100,000, and 6.4% over \$100,000 of taxable income.</p>	<p>Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly on or before the 15th day of the following calendar month. When the total tax liability is less than \$5,000 for the calendar year, returns may be filed quarterly on or before the 15th day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld, Form HW-3, must be filed together with a duplicate copy of each employee's tax statement, Form HW-2, on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding, estates, trusts, and corporations, April 20th.</p>	<p>In general, at time of filing returns. Estimates of individuals, estates, trusts, and corporations, one-quarter, April 20th; June 20th; September 20th; and January 20th. For payroll periods beginning on or after December 31, 2004, Act 113, Session Laws of Hawaii 2004, amends the withholding requirements for employers who are required to pay the taxes withheld by electronic funds transfer (EFT). For more information, see Booklet A, Employer's Tax Guide.</p>
<p>(2) Estate and Transfer (for decedents dying after 6/30/83)</p> <p>Chapter 236D — Section 236D-1 to 236D-18</p>	<p>Every resident decedent is taxed on transfer of taxable estate equal to federal credit for estate death taxes allowed by IRC section 2011. Credit is allowed for death tax imposed by another state not qualified by reciprocal provision. For nonresident decedent, tax is based on transfer of taxable estate located in Hawaii by use of ratio. Exemption afforded resident estate equally applicable to nonresident, with certain exceptions.</p> <p>For generation-skipping transfers after June 30, 1994, a tax in an amount equal to the federal credit is imposed on every generation-skipping transfer of (1) property located in Hawaii and (2) property from a resident trust.</p>	<p>Report (Form M-6) must be filed by person responsible for filing Federal Estate Tax Return (federal Form 706). No report required and no tax due when federal Form 706 not required. To obtain release of property, file Request for Release (Form M-6A).</p>	<p>On or before the due date for filing federal Form 706, including extensions of time; provided extension is submitted to Hawaii within 30 days of issuance.</p>
<p>(3) General Excise (Gross Income)</p> <p>Chapter 237 — Section 237-1 to 237-49</p>	<p>This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is 1% on wholesaling and intermediary services, producing, sugar processing and pineapple canning; all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, subagents and solicitors who are taxed at .15%. Beginning January 1, 2000, the wholesale tax treatment is expanded to more goods and services transactions. Qualifying transactions will be taxed at 3.5% in calendar year 2000, and will be reduced by 0.5% each January 1st until a 0.5% rate is fully phased-in on January 1, 2006. The licensing fee for general excise tax licensees and nonprofit organizations is a one-time fee of \$20.</p>	<p>Report (Form M-6GS) must be filed by person responsible for filing Generation-Skipping Transfer Tax Return for Distributions (federal Form 706GS(D)) or Generation-Skipping Transfer Tax Return for Terminations (federal Form 706GS(T)).</p>	<p>On or before the due date for filing federal Form 706GS(D) or 706GS(T), including extensions of time; provided extension is submitted to Hawaii within 30 days of issuance.</p> <p>At time of filing returns.</p>

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
<p>(4) Transient Accommodations Tax Chapter 237D — Section 237D-1 to 237D-16</p>	<p>This is a tax levied on the furnishing of a room, apartment, suite, or the like which is customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house, or other place in which lodgings are regularly furnished to transients for consideration. The tax is imposed at the rate of 7.25%. The registration fee for transient accommodations operators is a one-time fee of \$5 for each registration consisting of 1 to 5 units and \$15 for 6 or more units. Effective January 1, 1999, plan managers are liable for and pay to the State the transient accommodations tax of 7.25% that is imposed on the fair market rental value of time share vacation units.</p>	<p>Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed \$4,000 for the calendar or fiscal year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed \$2,000 for the calendar or fiscal year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the 4th month following the close of the taxable year.</p>	<p>At time of filing returns.</p>
<p>(5) Use Chapter 238 — Section 238-1 to 238-16</p>	<p>This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: ½ of 1%, if for resale at retail; 4%, if for use or consumption. For exceptions, see sections 238-3 and 238-4. The use tax is imposed on the value of services or contracting that are performed by an unlicensed seller at a point outside the State and imported or purchased for use in the State, effective for use taxes accruing after December 31, 1999.</p>	<p>Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed \$4,000 for the calendar or fiscal year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed \$2,000 for the calendar or fiscal year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the 4th month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.</p>	<p>At time of filing returns.</p>
<p>(6) Public Service Company Chapter 239 — Section 239-1 to 239-25</p>	<p>Nature of Tax—Public utility business in lieu of general excise tax. (a) Measurement of assessment—general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see section 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, ½ of 1%. (iii) All other revenues: 4% of gross income. Beginning with January 1, 2001 filings, the sale of telecommunications services by a public utility to an interstate or foreign telecommunications services provider that is subject to the general excise tax and that resells the services to retail customers, is subject to a 5.5% PSC tax rate, reduced by 0.5% each January 1st until a 0.5% rate is fully phased-in on January 1, 2007. The general excise tax, rather than the public service company tax, is imposed on transportation service providers for gross income received on or after October 1, 2001.</p>	<p>Returns filed on or before the 20th day of the 4th month following the close of the taxable year, based upon operations of the preceding taxable year.</p>	<p>First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th, and 8th month thereafter. If the total tax liability for the taxable year exceeds \$100,000, 1st installment on or before the 10th day of the 1st month. Remaining installments due on or before the 10th day of each calendar month thereafter.</p>
<p>(7) Banks, Building and Loan, Financial Services Loan Companies and Certain Other Financial Corporations Chapter 241 — Section 241-1 to 241-7</p>	<p>(1) (a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax (in lieu of net income and general excise taxes) on banks, building and loan associations, development companies, financial corporations, financial services loan companies, trust companies, mortgage loan companies, financial holding companies, small business investment companies, or subsidiaries not subject to the tax imposed by chapter 235. (2) Measure of Assessment: Net income for the preceding year from all sources as defined by chapter 235 (Income Tax Law) with modifications. (3) Rate: 7.92% of taxable income.</p>	<p>Returns filed on or before the 20th day of the 4th month following the close of the taxable year, based upon operations of the preceding taxable year.</p>	<p>First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter. If the total tax liability for the taxable year exceeds \$100,000, 1st installment on or before the 10th day of the 1st month. Remaining installments due on or before the 10th day of each calendar month thereafter.</p>



KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(8) Fuel Chapter 243 — Section 243-1 to 243-16	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel, an initial 1¢ per gallon on diesel oil, .25¢ per gallon on alternative fuels for operation of an internal combustion engine (Act 96, Session Laws of Hawaii 2004) and at the rates specified below per gallon on alternative fuels, and from 24.8¢ to 34¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes from 23.8¢ to 33¢ per gallon on diesel oil used to operate motor vehicles upon the public highways, however, they are not required to pay the additional tax on diesel oil and the tax on alternative fuels if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways, diesel oil used for motor vehicles not operated upon the public highways, and alternative fuels used for motor vehicles and internal combustion engines not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked. An Environmental Response Tax of 5¢ per barrel or a fractional part of a barrel of petroleum product sold by a distributor to a retail dealer or end user is also imposed. Effective July 1, 2004, Act 96, Session Laws of Hawaii 2004, provides that the fuel tax is adjusted to reflect the energy content of alternative fuels as follows: ethanol- 0.145 times the rate for diesel; methanol- 0.11 times the rate for diesel; biodiesel- 0.25 times the rate for diesel; liquefied petroleum gas- 0.33 times the rate for diesel; and for other alternative fuels, the rate is based on the energy content of the fuels as compared to diesel fuel, using a lower heating value of 130,000 BTUs per gallon as a standard for diesel, so that the tax rate, on an energy content basis, is equal to one-quarter the rate for diesel fuel.	Returns are due monthly on or before the last day of the following month.	At time of filing returns.
(9) Liquor Chapter 244D — Section 244D-1 to 244D-17	This is a gallonage tax imposed upon "dealers" as defined in the law and certain others who sell or use liquor. A \$2.50 liquor tax permit is required and must be renewed before July 1st of each year. See section 244D-4 for exemption from tax. The tax rates per wine gallon are \$5.98 on distilled spirits, \$2.12 on sparkling wine, \$1.98 on still wine, \$.85 on cooler beverages, \$.93 on beer other than draft beer, and \$.54 on draft beer.	Returns are due monthly on or before the last day of the following month.	At time of filing returns.
(10) Cigarette and Tobacco Chapter 245 — Section 245-1 to 245-63	"Wholesalers" and "dealers" as defined in the law must pay an excise tax on sale or use of tobacco products equal to 40% of the wholesale price and a fixed tax rate of 7¢ on each cigarette sold, used, or possessed after June 30, 2004. A \$2.50 tobacco tax license is required and must be renewed before July 1st of each year. Effective January 1, 2001, cigarette and tobacco wholesalers and dealers are required to affix stamps to individual cigarette packages as proof of payment of cigarette taxes.	Returns are due monthly on or before the last day of the following month.	At time of filing returns. Cigarette tax paid through the purchase of cigarette tax stamps by licensees.
(11) Conveyance Chapter 247 — Section 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 10¢ per \$100 of the actual and full consideration paid or to be paid. Minimum \$1 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyances within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(12) Rental Motor Vehicle and Tour Vehicle Surcharge Tax  Chapter 251 — Section 251-1 to 251-15	There is a rental motor vehicle surcharge tax of \$3 a day or any portion of a day that a rental motor vehicle is rented or leased. The tax is levied on the lessor. There is also a tour vehicle surcharge tax of \$65 per month for each tour vehicle in the 25 passenger seat and over category and \$15 per month for each tour vehicle in the 8 to 25 passenger seat category. The tax is levied on the tour vehicle operator. There is a one-time \$20 registration fee.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed \$4,000 for the calendar or fiscal year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed \$2,000 for the calendar or fiscal year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the 4th month following the close of the taxable year.	At time of filing returns.
(13) Unemployment Insurance  Chapter 383 — Section 383-1 to 383-176	This is a tax on wages paid by employing units with 1 or more employees with certain exemptions. The unemployment tax rate is determined according to a multi-contribution schedule system. Each year, 1 of 8 contribution schedules is applicable depending on the condition of the UI Trust Fund. An employer's contribution rate is not less than 0.00% or greater than 5.4%.  There is also an additional employment and training (E & T) fund assessment on taxable wages paid to an employee. The percentage rate for this additional tax is .01%. The E & T assessment is applicable to all employing units with unemployment insurance contribution rates greater than 0.00% and less than 5.4%.  There is a limitation of the tax on wages paid to an employee called the "tax base". The tax base represents 100% of the state's average annual wages reported by employers contributing to the unemployment trust fund.	On a quarterly basis, employers submit Form UC-B6, "Quarterly Wage, Contribution and Employment and Training Assessment Report." The report must be filed on or before the last day of the month following the report quarter.	At time of filing returns.
(14) Insurance Premiums  Chapter 431 — Section 431:7-201 to 431:7-209	Tax on insurance companies (Underwriters) based on premiums received in Hawaii. In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance, 2.75%; Surplus Lines, 4.68%; Ocean Marine, .8775% on gross underwriting profit; and Other Insurance, 4.265%. To insurers who qualify, there is a 1% tax credit to facilitate regulatory oversight. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of taxes collected under this chapter.	Quarterly tax statements are due on or before the last day of the calendar month following the quarter in which the tax accrued. Annual Tax Statement is due on or before March 1 with the Insurance Commissioner.	At time of filing statements.



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