

DEPARTMENT OF TAXATION STATE OF HAWAII



ANNUAL REPORT 2014–2015

DEPARTMENT OF TAXATION

VISION

"The Department of Taxation will efficiently and effectively collect the revenue for funding programs and services for the people of Hawaii."

MISSION

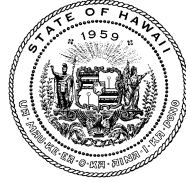
"Our mission is to administer the tax laws for the State of Hawaii in a consistent, fair and uniform manner."

GOALS

1. To *"Increase Voluntary Compliance"* by
 - a. Increasing oversight utilizing various branches/areas of our Compliance Division including the development of an Investigation Branch
 - b. Developing procedures and metrics to ensure a more efficient and timely audit process
 - c. Actively engage in community outreach programs to educate public in meeting tax obligations
2. To *"Reduce Tax Fraud"* through
 - a. Utilization of screening filters and review criteria
 - b. Comprehensive review of questionable refund requests
3. To *"Improve customer service to all stakeholders"* by
 - a. Providing services to taxpayers whose issues/concerns cannot be resolved through normal channels
 - b. Providing specialized service to the tax practitioner community
4. To *"Improve technology and efficiencies through the successful implementation of the Tax System Modernization (TSM) project during this period"*
5. *"Actively address tax receivable balances"* by
 - a. Collaboration with the Attorney General's office
 - b. Utilization of an outside collection agency
6. To *"Foster and empower staff"* by
 - a. Developing each employee to his/her full potential
 - b. Reinforcing the Department's values of respect, teamwork, communication and trust
 - c. Providing training opportunities to enhance and expand their skills

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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DIRECTOR OF TAXATION

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December 30, 2015

The Honorable David Y. Ige
Governor, State of Hawaii
Executive Chambers, State Capitol

Dear Governor Ige:

Thank you for the opportunity to present you with the attached Annual Report summarizing the operations of the Department of Taxation (DoTAX) for the fiscal year (FY) ending June 30, 2015. The Department collected \$6.54 billion in taxes in FY 2015, or 95% of the \$6.90 billion that was collected from all taxes administered by the State. The General Excise Tax (GET) is Hawaii's largest source of revenue and accounted for 44% of the State's total tax collections in FY 2015. Revenue from the GET rose to \$3.05 billion in FY 2015 from \$2.88 billion in FY 2014, an increase of 5.8%. Revenue from Hawaii's Individual Income Tax (IIT), Hawaii's second largest tax, was \$1.99 billion in FY 2015, up by 13.9% from \$1.75 billion in FY 2014. The IIT accounted for 28.8% of the State's total tax collections in FY 2015.

During FY 2015, the Department continued its efforts to improve its manual processes, complete the procurement for the Tax System Modernization (TSM) project and initiate TSM with the selected vendor on site as of July 15, 2015. The TSM is a multi-year project with five rollout phases that will help taxpayers comply with tax laws by expanding electronic services, allowing them to file all tax returns, to make all payments electronically and to access their account(s) online. The project will also automate the licensing, tax clearance and compliance processes. TSM will also provide the State with critical metrics and cross-check controls that are not available in the existing legacy system. We are currently on track with the completion of Rollout 1 which is scheduled to go live on December 28, 2015. Likewise, we are currently on track with Rollout 2 which is scheduled to be completed in August 2016.

During this past year we have acknowledged the need to improve service to our taxpayers and tax practitioners recognizing that taxpayers may fall out of compliance if they are not promptly served when they have questions about filing or paying their taxes. Historically, our call answer rate has fallen from 80% in FY2009 to approximately 43% in FY2015. We are addressing this by aggressively filling positions in all areas of DoTAX with added emphasis on the Customer Inquiry Section. As a result of these efforts our vacancy rate has fallen from 26.8% as of December 2014 to 16.2% as of December 2015. Likewise, we have hired a Taxpayer Advocate and are in the process of filling a Tax Practitioner Priority Specialist and Tax Appeals Officer position by early 2016.

We continue to work to encourage the public to change from mailing paper tax returns and checks to electronically filing returns and making electronic fund transfers. Electronic filing began with 140 thousand electronically filed documents in FY 2004 and increased to 1,831 thousand in FY 2015. As a percentage of all documents filed, e-filing has increased from 34% in FY 2012 to 47% in FY 2015. The amount of e-payments has continued to increase, rising from \$4.8 billion in FY 2014 to over \$5.0 billion in FY 2015. Our goal is to expand electronic filing to all revenue sources and types of tax returns as part of our TSM project.

The Department faced challenges in processing individual income tax returns in FY 2015, due to a substantial increase in fraudulent refund claims. The increased fraudulent activity forced the Department to undertake more rigorous efforts to screen refund claims, which delayed refund processing. However, the Department was successful in its efforts to clear the backlog by the end of the fiscal year. The Department also identified and stopped the payment of \$21.5 million in fraudulently filed tax refunds.

Our Compliance Division has increased both the number of cases audited and the amount of assessments in FY 2015. The total number of completed audit cases grew from 9,202 cases in FY 2014 to 17,536 cases in FY 2015 while the amounts assessed grew from \$99.0 million to \$118.9 million. The amount collected from assessments increased from \$15.9 million in FY 2014 to \$39.3 million in FY 2015. The significant increase in the number of completed audits was largely due to procedural changes made in our Office Audit branch.

We continue to strive towards achieving our strategic goals of increased voluntary compliance, improved processing and enhanced productivity. I am proud to report that the Department's employees have continued to become more efficient and more effective in collecting the revenue that our State government needs to provide the services and programs that are essential for maintaining the quality of life in Hawaii.

Sincerely,

/s/

MARIA E. ZIELINSKI
Director of Taxation

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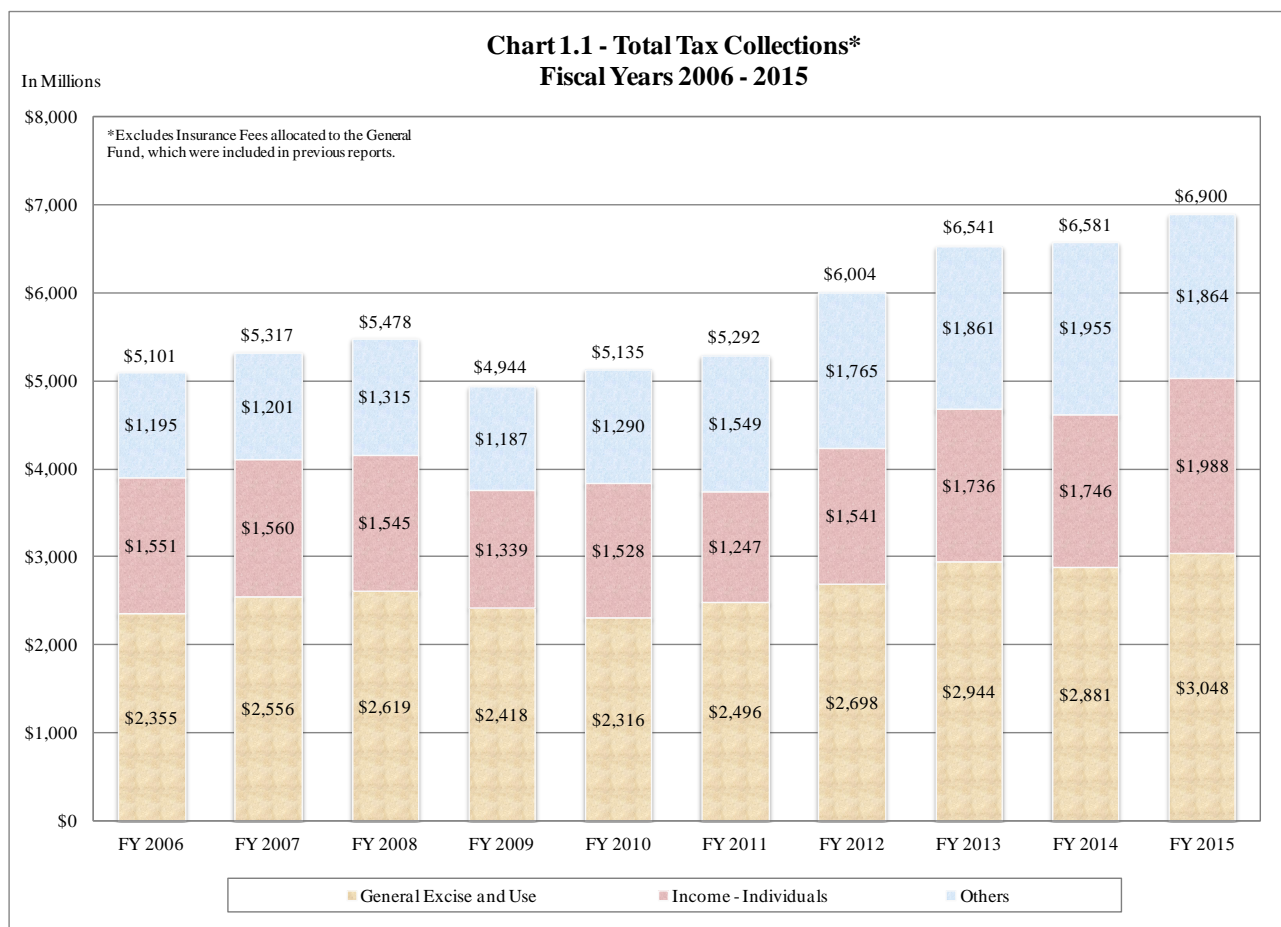
1.0 COLLECTION AND DISTRIBUTION OF TAXES

1.1 OVERVIEW

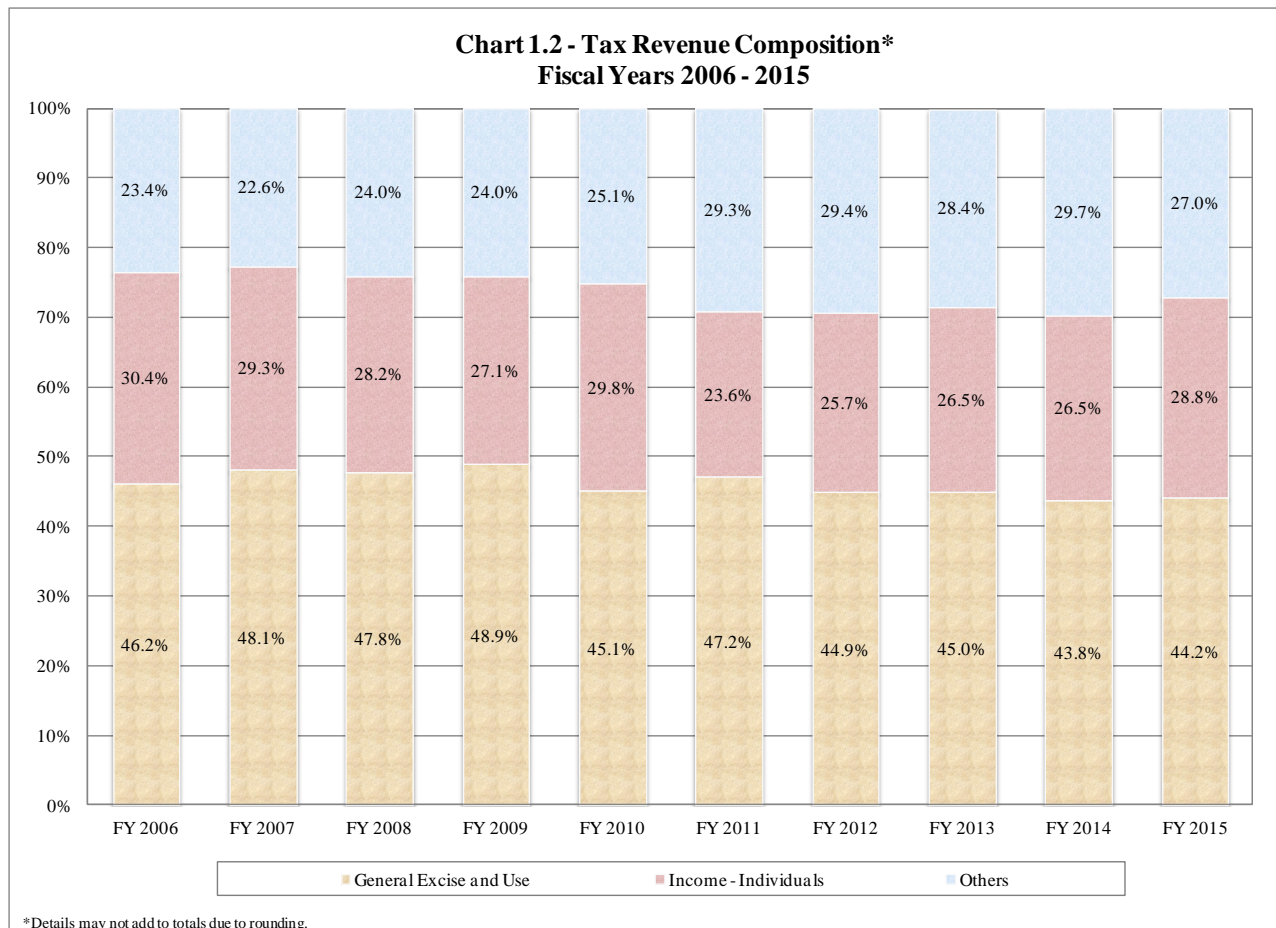
The Department of Taxation collects the revenues from most of the various taxes imposed by the State. In addition, the Department collects the county surcharge imposed by the City and County of Honolulu and fuel taxes imposed by the counties. In fiscal year (FY) 2015, the Department collected a total of \$6.54 billion in net tax revenues, up from \$6.24 billion collected in FY 2014.

The Department's Office of Tax Research and Planning (TRP) tracks revenues from taxes collected by the Department, and also from taxes that are administered and collected by other State agencies or by the counties. Henceforth, revenues from the taxes tracked by TRP will be referred to as "total tax collections."

Total tax collections were \$6.90 billion in FY 2015, up from \$6.58 billion in FY 2014. In FY 2009, Hawaii experienced a decline in total tax collections as the Great Recession reduced incomes and spending of consumers and businesses. Since then, total tax collections have risen steadily due to temporary tax measures, an improving economy, and better tax administration. Chart 1.1 shows the main components of the total tax collections for FY 2006 through FY 2015.



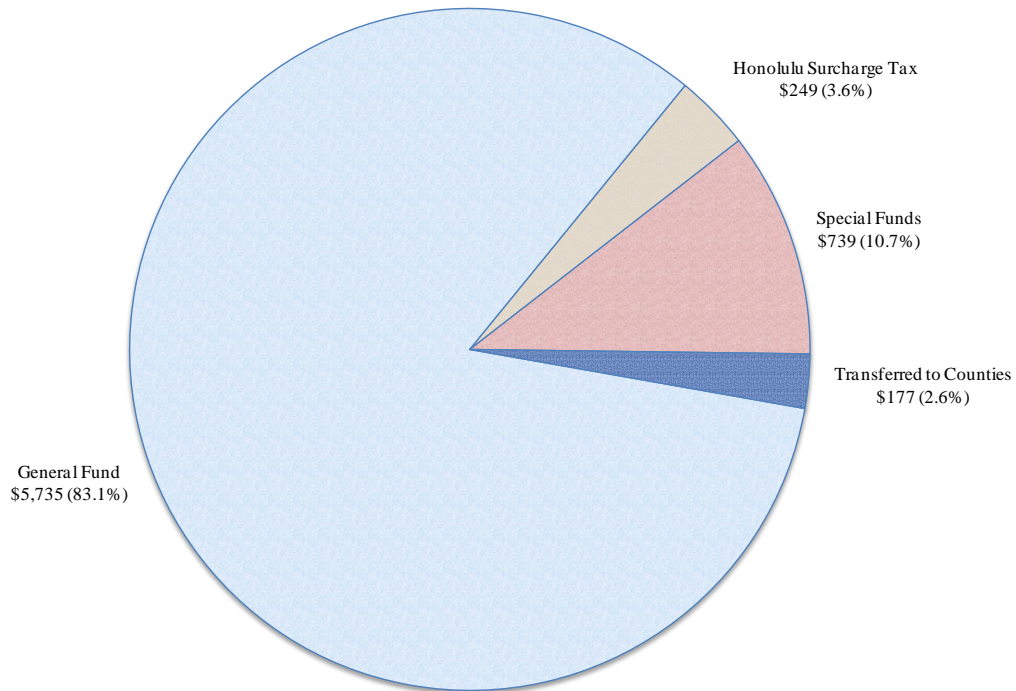
The State's biggest sources of tax revenue are the general excise tax (GET)¹ and the individual income tax (IIT). In FY 2015, net GET collections amounted to \$3.05 billion and accounted for 44.2% of total tax collections, and net collections of the IIT amounted to \$1.99 billion and accounted for 28.8% of total tax collections. Chart 1.2 shows the shares of total tax collections accounted for by the GET and the IIT for FY 2006 through FY 2015.



Of the total tax collections in FY 2015, \$5.74 billion, or 83.1% was deposited into the State's General Fund. The tax revenues deposited into the General Fund are used to pay most of the State's operating expenses. An additional \$425.7 million (6.2%) of the total tax collections was transferred to the counties, including transfers of the county surcharge imposed by the City and County of Honolulu, fuel taxes imposed by the counties, and revenues from the transient accommodations tax that were allocated to the counties. The remainder (\$739.2 million or 10.7%) was transferred to various other State special funds. Chart 1.3 shows how the total tax collections were distributed in FY 2015.

¹ Throughout this report, the term "GET" will be used to include both the general excise tax and the use tax. The use tax complements the general excise tax and is levied on imports into the State from an unlicensed seller.

Chart 1.3 - Fiscal Year 2015 Distribution of Tax Revenues*
(In millions of dollars)



*Details may not add to totals due to rounding

1.2 GENERAL EXCISE AND USE TAXES

1.2.1 Overview

Unlike the sales taxes imposed by many States and localities, Hawaii's general excise and use taxes (GET) are imposed on the business rather than on the customer. The GET covers virtually all forms of business activity, including services. Despite the relatively low tax rates, the GET generates substantial revenue, because the tax base is very broad.

The GET is imposed at the rate of 0.5% on wholesaling, wholesale services, producing, sugar processing and pineapple canning; at the rate of 0.15% on insurance commissions received by general agents, subagents and solicitors; and at the rate of 4.0% on most other activities, including retailing, business and professional services, contracting, theatre, amusement, radio, interest, commissions, and rentals. The fee for a GET license is a one-time charge of \$20.

1.2.2 Revenue

Revenue from the GET rose from \$2.88 billion in FY 2014 to \$3.05 billion in FY 2015, a rise of 5.8%. Chart 1.4 shows the total revenues from the GET and from the tax levied on the various categories of income for FY 2006 through FY 2015. Table 1.1 shows collection of the GET in greater detail for FY 2014 and FY 2015.

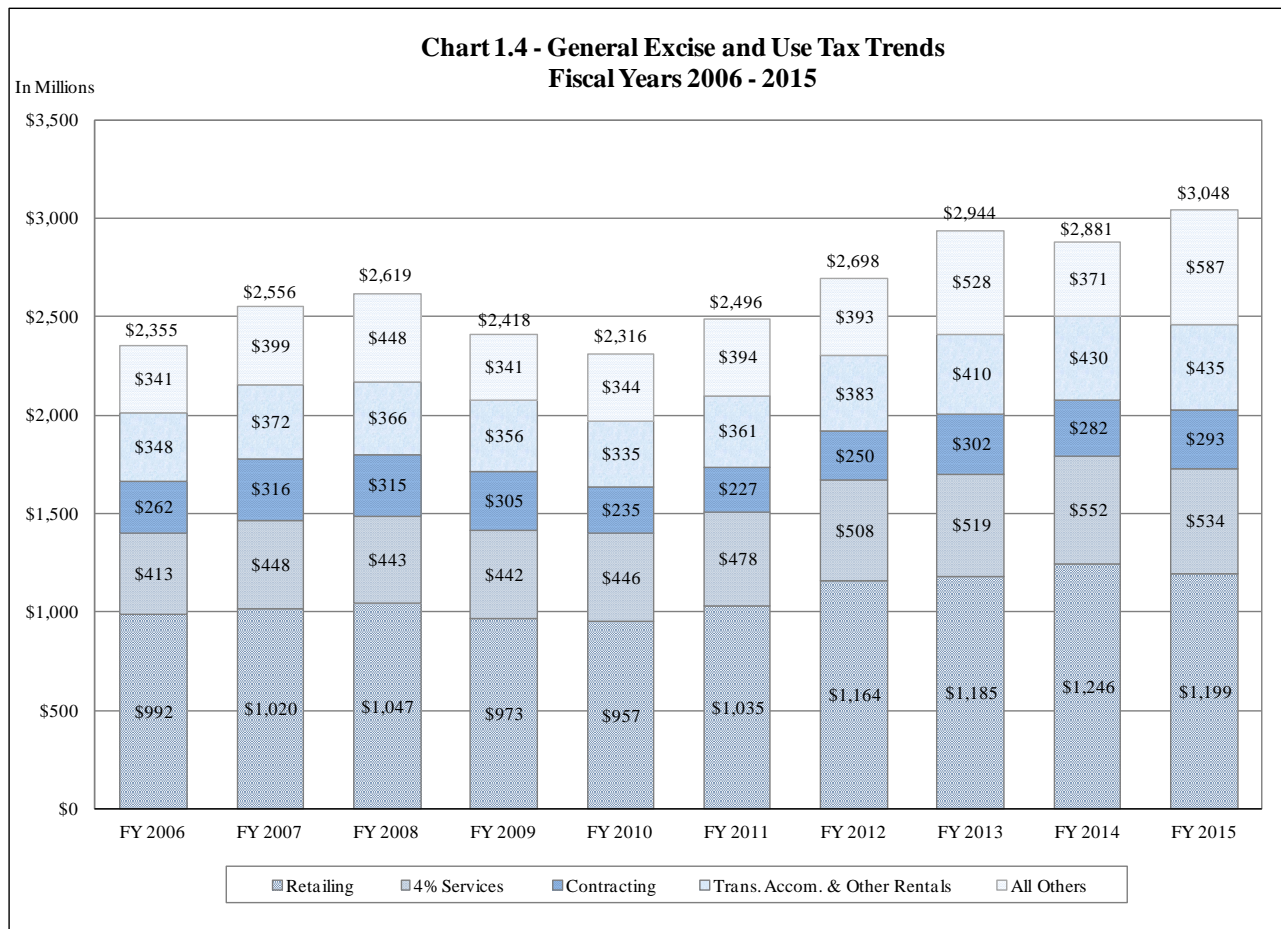


TABLE 1.1 - GENERAL EXCISE AND USE TAX BASE AND TAXES
FOR FISCAL YEARS ENDING JUNE 30, 2015 AND 2014
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	FY 2015	FY 2014	Difference	
				Amount	% Change
<u>TAX BASE</u>					
Retailing		\$ 29,987,212	\$ 31,151,514	\$ (1,164,302)	(3.7)
Services		13,361,061	13,794,599	(433,538)	(3.1)
Contracting		7,321,841	7,045,964	275,877	3.9
Trans. Accom. Rentals		4,327,505	4,279,059	48,447	1.1
All Other Rentals		6,543,583	6,472,143	71,439	1.1
All Others (4%)		5,486,818	5,683,228	(196,410)	(3.5)
Subtotal		\$ 67,028,020	\$ 68,426,508	\$ (1,398,488)	(2.0)
Producing		\$ 320,986	\$ 378,256	\$ (57,270)	(15.1)
Manufacturing		716,115	690,393	25,723	3.7
Wholesaling		14,294,275	15,867,119	(1,572,845)	(9.9)
Use (1/2%)		7,126,839	6,989,486	137,353	2.0
Wholesale Services		715,538	646,670	68,868	10.6
Insurance Commissions		488,848	485,438	3,410	0.7
Subtotal		\$ 23,662,601	\$ 25,057,362	\$ (1,394,761)	(5.6)
TOTAL - ALL ACTIVITIES		<u>\$ 90,690,621</u>	<u>\$ 93,483,869</u>	<u>\$ (2,793,248)</u>	<u>(3.0)</u>
<u>TAX</u>					
Retailing	4.00%	\$ 1,199,488	\$ 1,246,061	\$ (46,572)	(3.7)
Services	4.00%	534,442	551,784	(17,342)	(3.1)
Contracting	4.00%	292,874	281,839	11,035	3.9
Trans. Accom. Rentals	4.00%	173,100	171,162	1,938	1.1
All Other Rentals	4.00%	261,743	258,886	2,858	1.1
All Others (4%)	4.00%	219,473	227,329	(7,856)	(3.5)
Subtotal		\$ 2,681,121	\$ 2,737,060	\$ (55,940)	(2.0)
Producing	0.50%	\$ 1,605	\$ 1,891	\$ (286)	(15.1)
Manufacturing	0.50%	3,581	3,452	129	3.7
Wholesaling	0.50%	71,471	79,336	(7,864)	(9.9)
Use (1/2%)	0.50%	35,634	34,947	687	2.0
Wholesale Services	0.50%	3,578	3,233	344	10.6
Insurance Commissions	0.15%	733	728	5	0.7
Subtotal		\$ 116,602	\$ 123,588	\$ (6,986)	(5.7)
Unallocated*		<u>\$ 250,484</u>	<u>\$ 19,893</u>	<u>\$ 230,591</u>	<u>1,159.2</u>
TOTAL - ALL ACTIVITIES		<u>\$ 3,048,207</u>	<u>\$ 2,880,541</u>	<u>\$ 167,666</u>	<u>5.8</u>

*Includes collections from penalty and interest, assessments and corrections, delinquent collections, refunds, protested payments, settlements and business activities of disabled persons.

NOTE: Details may not add to totals due to rounding.

1.2.3 Recent Legislation

Act 160, Session Laws of Hawaii (SLH) 2013, eliminated the GET exemption for liquor, tobacco and food sold to common carriers for taxable years beginning after December 31, 2013.

Act 163, SLH 2013, made permanent the GET exemptions for common expenses paid by managers, sub-managers, and sub-operators and for hotel employee expenses paid by hotel operators and timeshare projects. The Act also eliminated the aggregate cap on the exempt amounts for taxable years beginning after December 31, 2012.

1.3 INDIVIDUAL INCOME TAX

1.3.1 Overview

Hawaii's individual income tax (IIT) generally follows the federal definitions for determining net taxable income, but has its own exemptions, tax credits and tax rates. The IIT has twelve brackets, with tax rates ranging from 1.4% to 11.0%.

1.3.2 Revenue

The IIT is the State's second biggest source of tax revenue. The biggest part of IIT collections is taxes withheld on employee wages. In FY 2015, withholding tax collections were \$1.73 billion, an increase of 6.4% over the \$1.62 billion withheld in FY 2014. Total IIT refunds in FY 2015 were \$419.9 million, down from \$478.3 million FY 2014. Net IIT collections in FY 2015 were \$1.99 billion, up by 13.9% over the \$1.75 billion collected in FY 2014. Chart 1.5 shows total collections of the IIT, along with wage withholding, payments with returns, estimated taxes, and refunds, for FY 2006 through FY 2015. Table 1.2 shows the figures for total collections of the IIT, broken down by its components, in FY 2014 and FY 2015.

1.3.3 Recent Legislation

Act 60, SLH 2009 (Act 60), raised the tax rates for single individuals with taxable incomes over \$150,000 and for married couples filing jointly with income over \$300,000, by adding new high-end tax brackets with marginal tax rates that range from 9% to 11%. Before Act 60, the highest income tax rate was 8.25%. The tax rate increases imposed by Act 60 are effective for taxable years beginning after December 31, 2008 and ending before January 1, 2016.

Act 97, SLH 2011 (Act 97), eliminated the deduction for state income taxes paid for individuals with federal adjusted gross income above specified thresholds, and temporarily limited claims for itemized tax deductions. The Act is effective for taxable years beginning after December 31, 2010, but the limits imposed on itemized deductions expire December 31, 2015. The Act 97 also delayed the increases in the standard deduction and personal exemption that were approved under Act 60 until taxable years beginning after December 31, 2012, and made the increases permanent.

Act 256, SLH 2013 (Act 256), removed charitable deductions from the limits on itemized deductions that were imposed by Act 97. Act 256 is effective for taxable years beginning after December 31, 2012.

Act 120, SLH 2015, provided a tax credit for converting cesspools to a septic system, or for connecting to a wastewater system, from July 1, 2015 to December 31, 2020.

Act 223, SLH 2015, increased the food/excise tax credit, but eliminated the tax credit for single taxpayers with federal adjusted gross income (AGI) of \$30,000 or more, or other taxpayers with federal AGI of \$50,000 or more.

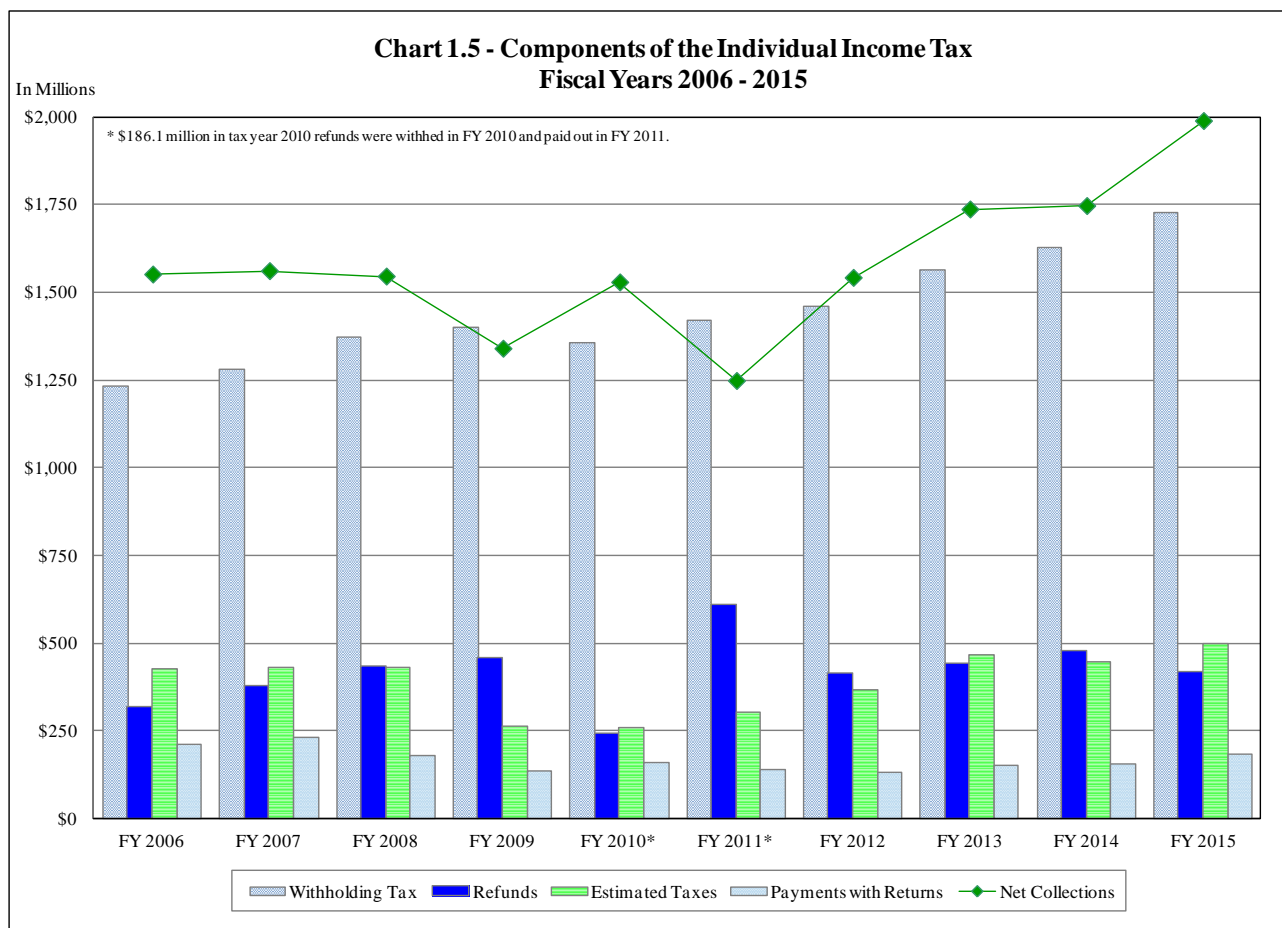


TABLE 1.2 - TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

	FY 2015	FY 2014	Difference	
			Amount	% Change
Declaration of Estimated Taxes	\$ 498,418	\$ 445,432	\$ 52,986	11.9
Payment with Return	181,142	153,649	27,493	17.9
Withholding Tax on Wages	1,728,510	1,624,994	103,516	6.4
Subtotal	\$ 2,408,071	\$ 2,224,075	\$ 183,995	8.3
Refunds	419,876	478,265	(58,389)	(12.2)
NET	\$ 1,988,194	\$ 1,745,810	\$ 242,384	13.9

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

1.4 CORPORATE INCOME TAX

1.4.1 Overview

Hawaii's corporate income tax (CIT) has three tax brackets. The brackets and the corresponding tax rates are as follows: 4.4% on taxable income up to \$25,000; 5.4% on taxable income over \$25,000 but not over \$100,000; and 6.4% on taxable income over \$100,000. The tax rate for corporate capital gains is 4.0%.

1.4.2 Revenue

Net CIT collections totaled \$52.3 million in FY 2015, a decline of 39.9% from the previous year's total of \$87.0 million. CIT collections are highly cyclical, but they are a relatively small part of Hawaii's total tax collections. In FY 2015, the CIT accounted for just 0.8% of total tax collections. Chart 1.6 shows total collections of the CIT, broken down by its components, for FY 2006 through FY 2015. Table 1.3 shows data on collections of the CIT for FY 2014 and FY 2015.

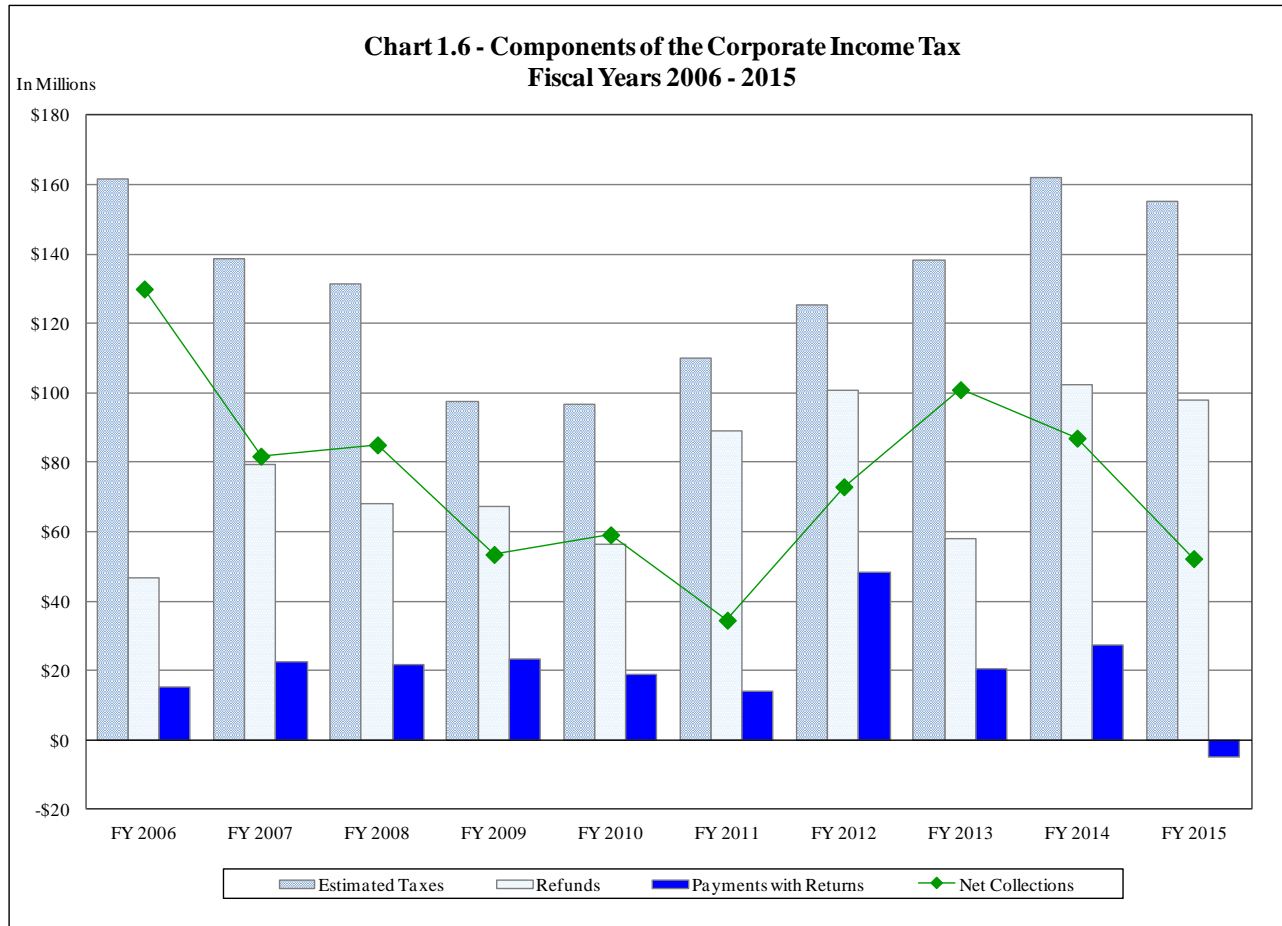


TABLE 1.3 - TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

	FY 2015	FY 2014	Difference	
			Amount	% Change
Declaration of Estimated Taxes	\$ 155,279	\$ 162,041	\$ (6,763)	(4.2)
Payment with Return*	<u>(5,016)</u>	<u>27,480</u>	<u>(32,496)</u>	<u>n/m</u>
Subtotal	\$ 150,263	\$ 189,521	\$ (39,258)	(20.7)
Refunds	<u>97,944</u>	<u>102,500</u>	<u>(4,556)</u>	<u>(4.4)</u>
NET	\$ 52,319	\$ 87,021	\$ (34,702)	(39.9)

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

*The negative amount is due to tax refunds, which exceeds tax collections.

n/m = not meaningful.

1.5 TRANSIENT ACCOMMODATIONS TAX

1.5.1 Overview

The transient accommodations tax (TAT) is 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. The rate for the TAT has been 9.25% since July 1, 2010. 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 each registration of 6 or more units. In FY 2015, plan managers of time share units paid TAT at the rate of 7.25% on the fair market rental value of the units.

1.5.2 Revenue

TAT collections totaled \$421.0 million for FY 2015, an increase of 6.5 % from the \$395.2 million collected in FY 2014. In FY 2015, collections from the TAT were distributed as follows: \$103.0 million went to the counties; \$33.0 million went to the Convention Center Enterprise Special Fund; \$82.0 million went to the Tourism Special Fund; and the remainder (\$203.0 million) went to the General Fund. Chart 1.7 shows collections of the TAT for FY 2006 through FY 2015. Chart 1.8 shows the allocations of the tax among the various funds. Table 1.4 shows TAT collections and allocations in FY 2014 and FY 2015.

1.5.3 Recent Legislation

Act 161, SLH 2013, made permanent the TAT rate of 9.25% and made permanent the caps on allocations of the TAT for each fiscal year as follows: \$82.0 million to the Tourism Special Fund, \$93.0 million to the counties, and \$33.0 million to the Convention Center Enterprise Fund. The Act also eliminated the \$10 daily TAT on each transient accommodation furnished on a complimentary basis that was imposed by Act 103, SLH 2011. Act 161 took effect July 1, 2013.

Act 81, SLH 2014, reduced allocations of the TAT to the Convention Center Special Fund from \$33.0 million to \$26.5 million annually and allocated \$3.0 million to the Turtle Bay Easement Special Fund. However, the new allocations mandated by the Act were not made in FY 2015, owing to the pending status of the Turtle Bay purchase.

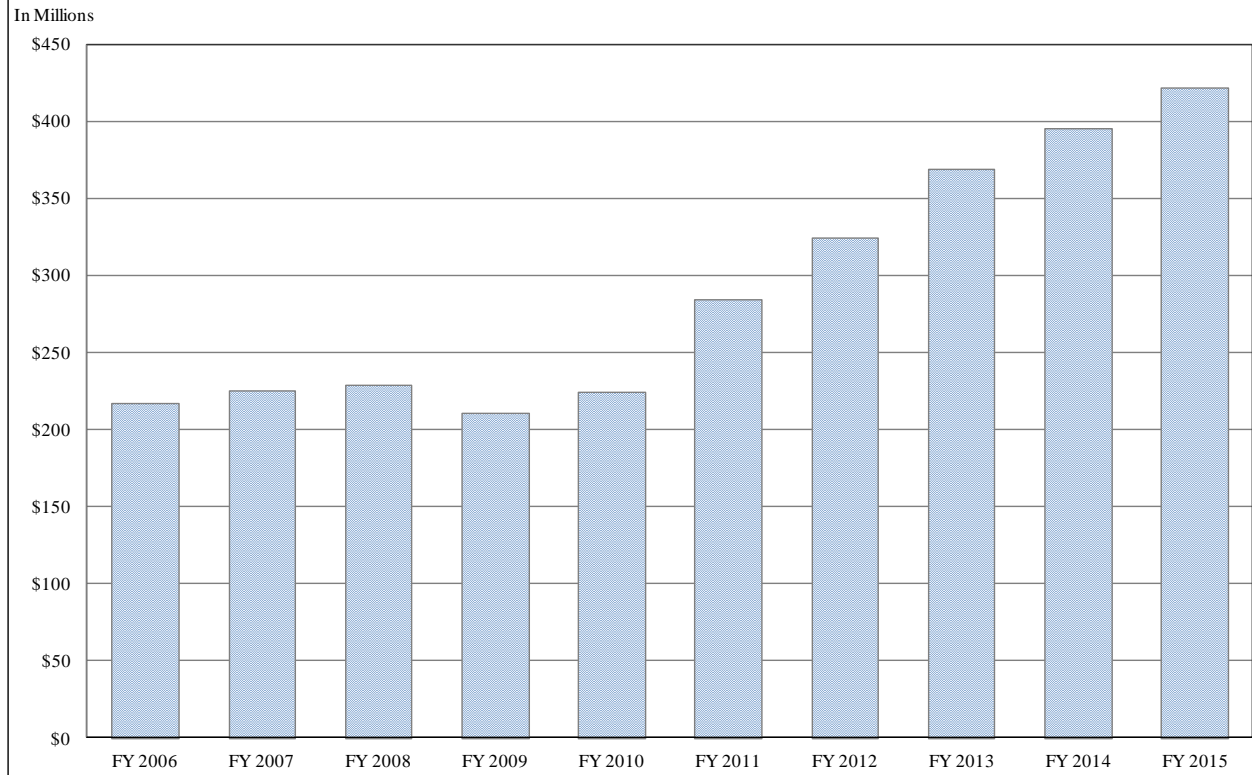
Act 174, SLH 2014, increased allocations of the TAT to the counties from \$93.0 million to \$103.0 million per year for fiscal years 2015 and 2016.

Act 93, SLH 2015, raised the tax on resort time share vacation units from 7.25% to 8.25% in calendar year (CY) 2016, and to 9.25% in CY 2017 and thereafter.

Act 117, SLH 2015, allocates \$3.0 million of the TAT annually to the Special Land Development Fund, starting in FY 2017.

Act 121, SLH 2015, allocates \$1.5 million of the TAT to the Turtle Bay Easement Special Fund, replacing the \$3.0 million annual allocation made by Act 81, SLH 2014.

**Chart 1.7 - Transient Accommodations Tax
Fiscal Years 2006 - 2015**



**Chart 1.8 - Transient Accommodations Tax Distributions
Fiscal Years 2006 - 2015**

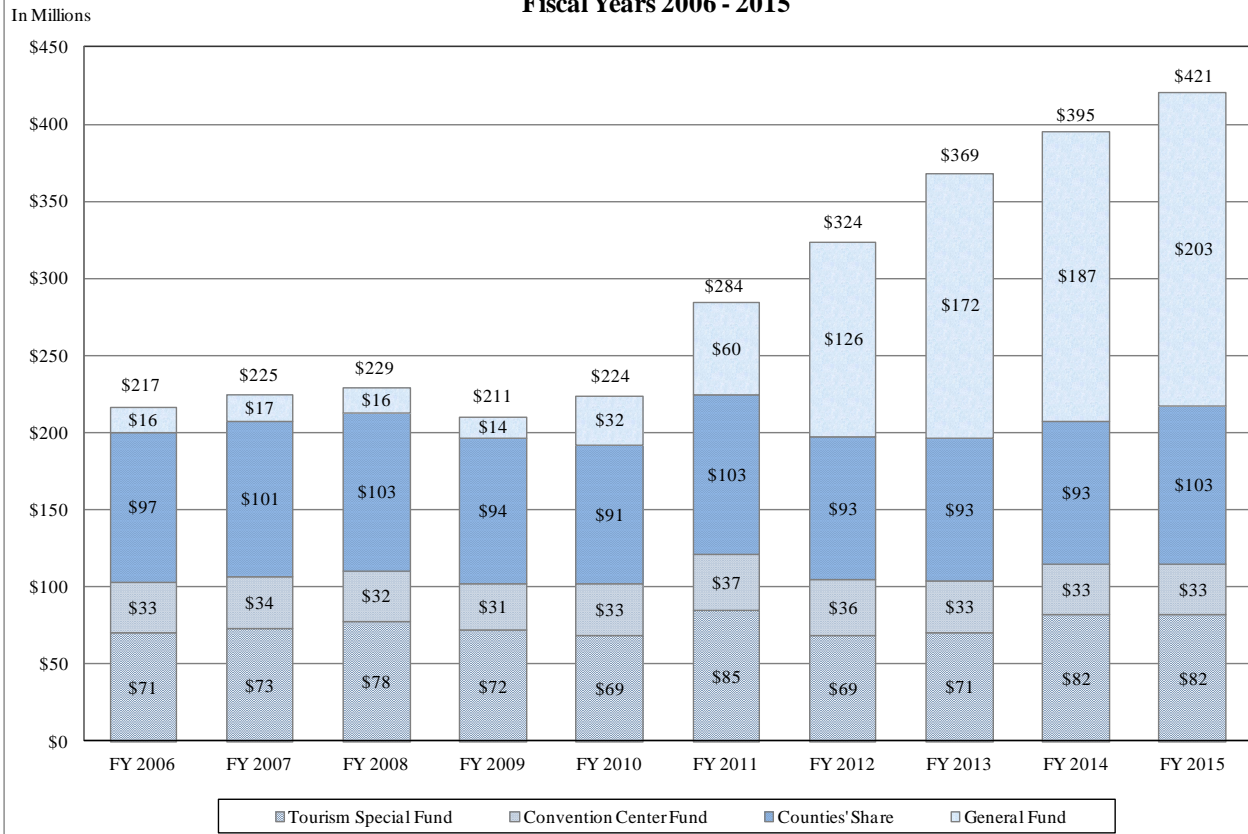


TABLE 1.4 - TRANSIENT ACCOMMODATIONS TAX
(In Thousands of Dollars)

	FY 2015	FY 2014	Difference	
			Amount	% Change
Collection				
Trans. Accom./Time Share Occ. Tax	\$ 420,970	\$ 395,229	\$ 25,741	6.5
Trans. Accom./Time Share Occ. Fees	12	13	(1)	(8.0)
Total	\$ 420,981	\$ 395,242	\$ 25,740	6.5
Distribution*				
Counties Share	\$ 103,000	\$ 93,000	\$ 10,000	10.8
Convention Center Fund	33,000	33,000	-	0.0
Tourism Special Fund	82,000	82,000	-	0.0
General Fund	202,981	187,242	15,740	8.4
Total	\$ 420,981	\$ 395,242	\$ 25,740	6.5

*For details on distribution see section 237D-6.5, HRS.

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

1.6 FUEL TAXES

1.6.1 Overview

The State and county fuel taxes are imposed on the distributors. The State Legislature sets the State fuel tax rates, whereas county councils set the county rates. There is also an environmental response tax (officially renamed as the "environmental response, energy and food security tax" by Act 73, SLH 2010) that is levied on each barrel of petroleum products. The effective rates for the fuel taxes and for the environmental response tax are shown on the following page.

1.6.2 Revenue

Fuel tax collections (including the environmental response tax) amounted to \$193.1 million in FY 2015, a slight decrease from the \$193.5 million collected in FY 2014. Total taxable fuel consumption declined from 910.7 million gallons in FY 2014 to 887.1 million gallons in FY 2015. The biggest consumption of taxable fuel was gasoline (448.1 million gallons) and the second biggest consumption was aviation fuel (222.7 million gallons). Together, gasoline and aviation fuel accounted for 75.6% of the total consumption of taxable fuel in FY 2015.

Collections of the environmental response tax amounted to \$26.0 million in FY 2015, about the same as FY 2014. The Environmental Response Tax was imposed at the rate of \$1.05 on each barrel of petroleum product sold by a distributor to any retail dealer or end user. The tax was levied on 24.7 million barrels of petroleum in FY 2015, down slightly from 24.8 million barrels in FY 2014. Chart 1.9 shows collections of the fuel taxes and the gallons consumed of the various fuel types, for FY 2006 through FY 2015. Data for taxable gallons consumed for FY 2014 and FY 2015 are given in Table 1.5.

The revenues from fuel taxes are distributed to several special funds. One percent of the fuel taxes paid on liquid fuel, not including aviation fuel, are deposited into the Boating Special Fund. Fuel taxes paid on sales of aviation fuel are deposited into the Airport Revenue Fund. Remaining revenues from the State fuel taxes are deposited into the State Highway Fund, whereas remaining revenues from county fuel taxes are deposited into the counties' highway funds.

Revenues from the environmental response tax were distributed as follows in FY 2015: For each barrel taxed at \$1.05, five cents went to the Environmental Response Revolving Fund administered by the Department of Health for oil spill prevention and remediation programs; fifteen cents went to the Energy Security Special Fund administered by the Department of Business, Economic Development, and Tourism to support the Hawaii clean energy initiative program; fifteen cents went into the Food Security Special Fund administered by the Department of Agriculture to fund activities intended to increase agricultural production or processing that may lead to reduced importation of food, fodder, or feed from outside the state; ten cents went to Energy Systems Development Special Fund, and the remainder (60 cents per barrel) went to the General Fund.

FUEL TAX RATES PER GALLON ¹

	State	County	Total
GASOLINE AND DIESEL OIL (HWY. USE) ²			
City & County of Honolulu	17.0 ¢	16.5 ¢	33.5 ¢
County of Maui	17.0	16.0	33.0
County of Hawaii	17.0	8.8	25.8
County of Kauai	17.0	13.0	30.0
LIQUID PETROLEUM GAS (HWY. USE)			
City & County of Honolulu	5.2 ¢	5.4 ¢	10.6 ¢
County of Maui	5.2	4.3	9.5
County of Hawaii	5.2	2.9	8.1
County of Kauai	5.2	4.3	9.5
ETHANOL			
City & County of Honolulu	2.4 ¢	2.4 ¢	4.8 ¢
County of Maui	2.4	3.8	6.2
County of Hawaii	2.4	1.3	3.7
County of Kauai	2.4	1.9	4.3
METHANOL			
City & County of Honolulu	1.9 ¢	1.8 ¢	3.7 ¢
County of Maui	1.9	2.9	4.8
County of Hawaii	1.9	1.0	2.9
County of Kauai	1.9	1.4	3.3
BIODIESEL			
City & County of Honolulu	4.0 ¢	8.3 ¢	12.3 ¢
County of Maui	4.0	0.0	4.0
County of Hawaii	4.0	2.2	6.2
County of Kauai	4.0	0.0	4.0
ENVIRONMENTAL RESPONSE TAX (per barrel)			
All Counties	5.0 ¢	0.0 ¢	5.0 ¢

¹ Gasoline used for agricultural equipment off highways, aviation fuel, and diesel oil used off highways are taxed by the State at 1 cent per gallon.

² Includes 1 cent State license tax on diesel oil.

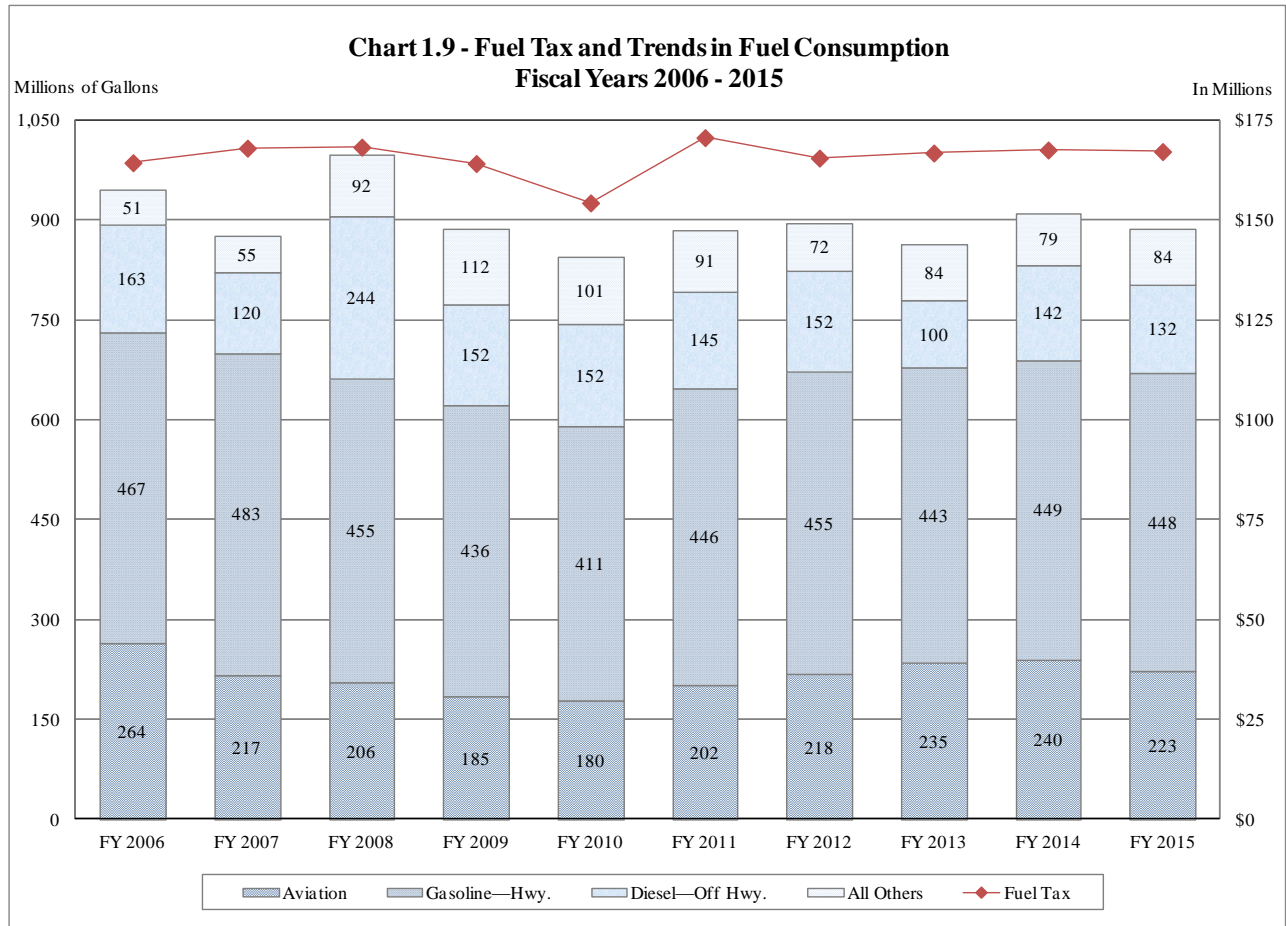


TABLE 1.5 - TAXABLE GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

	FY 2015	FY 2014	Difference	
			Amount	% Change
Gasoline	448,148	449,028	(881)	(0.2)
Diesel Oil - Off Highway	132,142	142,132	(9,990)	(7.0)
Diesel Oil - Highway	46,601	46,542	59	0.1
Liq. Pet. Gas - Highway	17	24	(8)	(31.0)
Small Boats - Gasoline	1,541	1,560	(19)	(1.2)
Small Boats - Diesel Oil	3,005	2,170	835	38.5
Aviation Fuel	222,666	240,461	(17,795)	(7.4)
Other Fuel *	32,977	28,781	4,196	14.6
Total Gallons	887,097	910,700	(23,603)	(2.6)
Environmental Tax (Barrel)	24,721	24,795	(73)	(0.3)

* Other fuel includes ethanol, methanol, biodiesel, naphtha, compressed natural gas, and liquefied natural gas.

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

Table 1.6 shows how the fuel taxes and the environmental response tax were allocated in FY 2014 and FY 2015. The table also shows allocations of the motor vehicle taxes and fees to the State Highway Fund.

TABLE 1.6 - ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 2015	FY 2014	Difference	
			Amount	%
STATE HIGHWAY FUND				
Gasoline	\$ 75,584	\$ 75,761	\$ (177)	(0.2)
Diesel Oil - Off Highway	2,676	2,857	(181)	(6.3)
Diesel Oil - Highway	7,843	7,833	10	0.1
Liq. Pet. Gas - Highway	1	1	(0)	(31.0)
Other Fuel	718	627	91	14.5
Subtotal	\$ 86,822	\$ 87,080	\$ (258)	(0.3)
Motor Vehicle	128,815	125,873	2,943	2.3
Rental Vehicle	51,940	42,852	9,088	21.2
TOTAL	\$ 267,577	\$ 255,805	\$ 11,773	4.6
COUNTY HIGHWAY FUNDS				
City & County of Honolulu	\$ 50,503	\$ 51,424	\$ (921)	(1.8)
County of Maui	10,900	10,676	224	2.1
County of Hawaii	7,650	7,380	270	3.7
County of Kauai	5,169	4,519	650	14.4
TOTAL	\$ 74,223	\$ 73,999	\$ 224	0.3
BOATING SPECIAL FUND	\$ 1,627	\$ 1,627	\$ (0)	(0.0)
STATE AIRPORT FUND				
Aviation Fuel	\$ 4,453	\$ 4,809	\$ (356)	(7.4)
ENVIRONMENTAL RESPONSE REVOLVING FUND	\$ 1,236	\$ 1,240	\$ (4)	(0.3)
ENERGY SECURITY FUND	\$ 3,708	\$ 3,719	\$ (11)	(0.3)
ENERGY SYSTEMS DEVELOPMENT FUND	\$ 2,472	\$ -	\$ 2,472	100.0
AGRICULTURAL DEVELOPMENT & FOOD SECURITY FUND	\$ 3,708	\$ 3,719	\$ (11)	(0.3)
GENERAL FUND	\$ 14,833	\$ 17,356	\$ (2,524)	(14.5)

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

1.6.3 Recent Legislation

Act 107, SLH 2014, reestablished the Energy Systems Development Special Fund and extended the \$1.05 per barrel rate for the environmental response tax through fiscal year 2030. (The tax rate was scheduled to go back to \$0.05 per barrel at the end of fiscal year 2015.)

Act 185, SLH 2015, applies the environmental response tax to non-petroleum fossil fuels at nineteen cents per million British thermal units effective July 1, 2015, and removes the sunsets to various funds related to the tax.

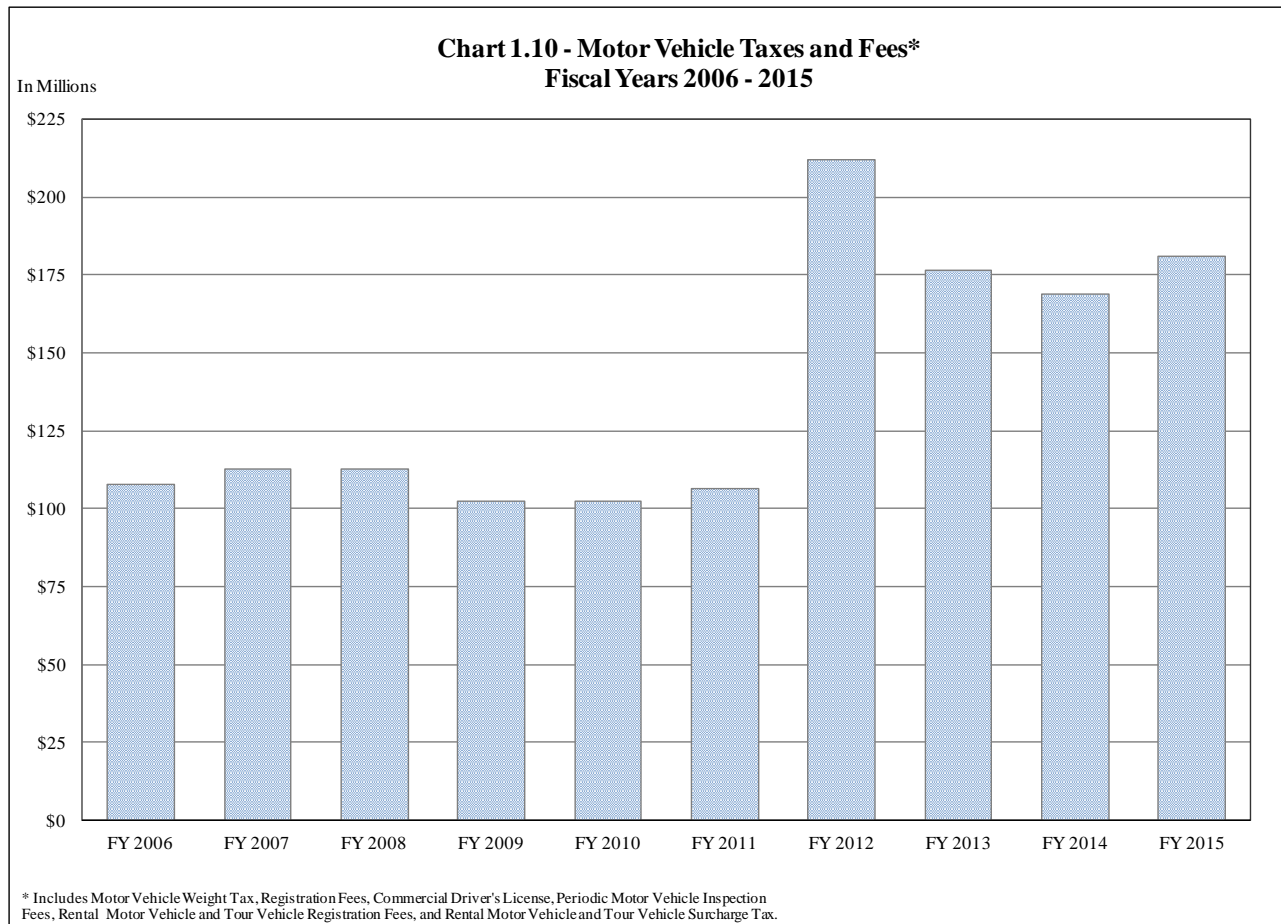
1.7 MOTOR VEHICLE TAXES AND FEES

1.7.1 Overview

The State levies an annual registration fee per vehicle and a tax based on vehicle weight. The State also levies the rental motor vehicle surcharge (RMVS) tax for motor vehicles that are rented or leased. The tax is imposed on the lessor. Effective July 1, 2012, the rate of the RMVS tax is \$3.00 per day. 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 for those subject to the taxes on rental or tour vehicles.

1.7.2 Revenue

For FY 2015, the State's motor vehicle taxes and fees (including the RMVS) totaled \$180.8 million, compared to \$168.7 million in FY 2014, an increase of 7.1%. Chart 1.10 shows the total motor vehicle taxes and fees for FY 2006 through FY 2015. The large increase in FY 2012 was caused by a temporary increase in the rate of the RMVS to \$7.50 per day, which was in place for the period from July 1, 2011 to June 30, 2012. The collections for FY 2013 also reflect one month of collections at the higher tax rate, since the collections lag the liabilities incurred by one month.



1.7.3 Recent Legislation

Act 101, SLH 2014, levied a new car-sharing vehicle surcharge tax of 25 cents per half hour, beginning January 1, 2015.

1.8 CIGARETTE AND TOBACCO TAX

1.8.1 Overview

Wholesalers and dealers, as those terms are defined in section 245-1, Hawaii Revised Statutes (HRS), must pay an excise tax on the sale or use of tobacco products and on each cigarette or little cigar sold, used, or possessed. The tax per cigarette or little cigar was increased to 16 cents for sales on and after July 1, 2011. The excise tax on large cigars is 50% of the wholesale price and the excise tax on all other tobacco products (tobacco in any form except cigarettes, little cigars or large cigars) is 70% of the wholesale price. A \$2.50 tobacco tax license is required and must be renewed before July 1 each year. Cigarette wholesalers and dealers are required to affix a stamp to each individual cigarette package as proof that the tax has been paid. Every retailer engaged in the retail sale of cigarettes and other tobacco products is required to obtain a \$20 retail tobacco permit that must be renewed before December 1 each year.

1.8.2 Revenue

During FY 2015, collections of the cigarette and tobacco tax (including tobacco licenses) totaled \$129.9 million, compared to \$121.7 million in FY 2014, or an increase of 6.7%. Chart 1.11 shows the total collections of the tax for FY 2006 through FY 2015. The 16 cent tax per cigarette was distributed as follows in FY 2015: 2.0 cents went to the Hawaii Cancer Research Special Fund, 1.5 cents went to the Trauma System Special Fund, 1.25 cents went to the Community Health Centers Special Fund, and 1.25 cents went to the Emergency Medical Services Special Fund. Additionally, a total of \$2.0 million went to the Cigarette Stamp Administrative Fund and the Cigarette and Stamp Enforcement Fund. The remainder of the cigarette and tobacco tax went to the General Fund. Table 1.7 shows collections of the tobacco taxes and how the revenues were allocated in FY 2014 and FY 2015.

1.8.3 Recent Legislation

Act 238, SLH 2015, reduces the allocation of the tax on cigarettes to the Trauma Special Fund from 1.25 cents per cigarette to 1.125 cents per cigarette, and caps the allocations to the Emergency Medical Services Special Fund and the Community Health Center Special Fund, effective July 1, 2015.

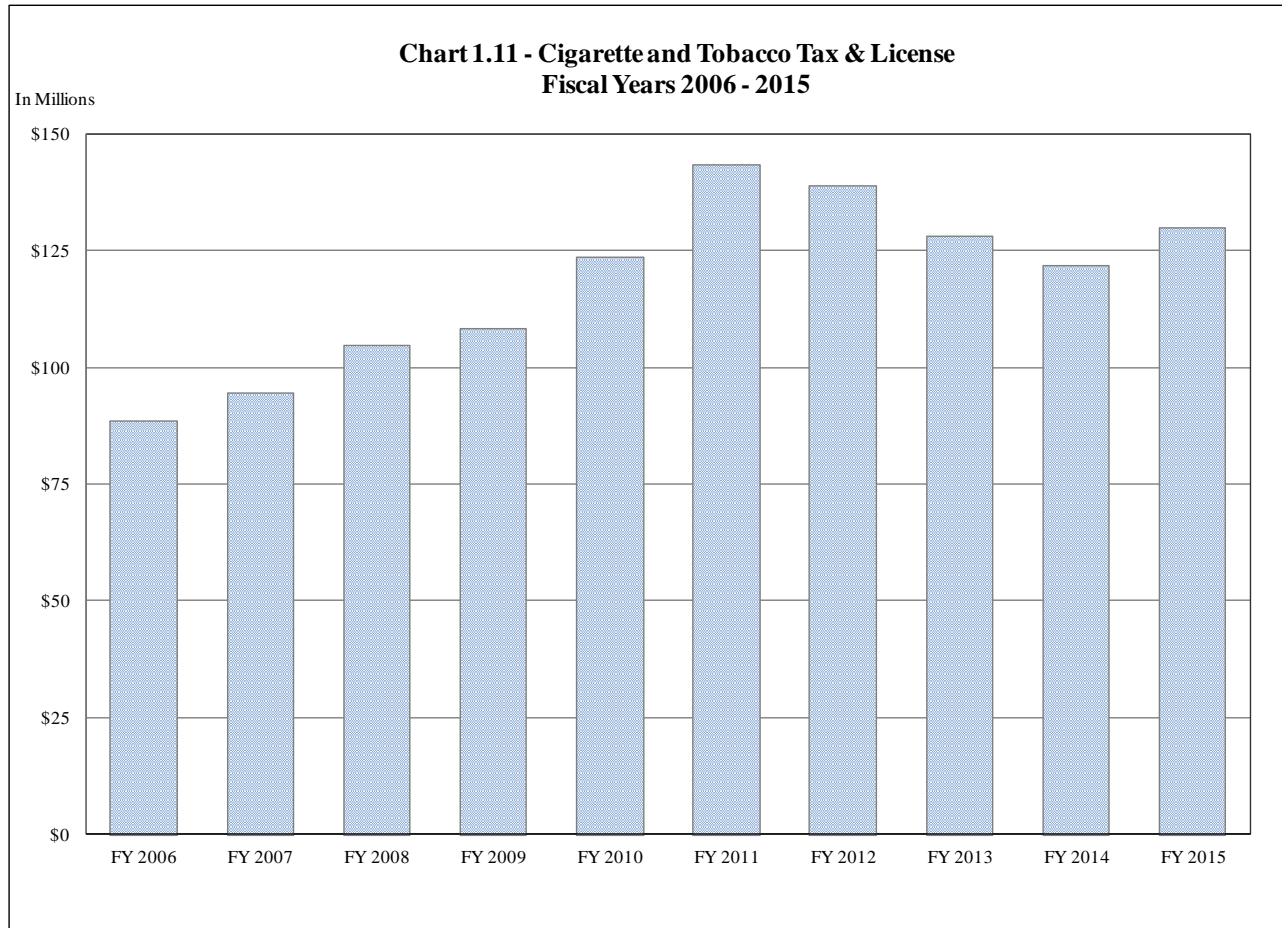


TABLE 1.7 - CIGARETTE & TOBACCO TAX
(In Thousands of Dollars)

	FY 2015	FY 2014	Difference	
			Amount	% Change
Collection				
Tobacco & Licenses	\$ 129,851	\$ 121,742	\$ 8,108	6.7
Distribution*				
Hawaii Cancer Research Fund	\$ 14,995	\$ 14,058	\$ 937	6.7
Trauma System Fund	11,243	10,540	703	6.7
Emergency Medical Services Fund	9,373	8,787	586	6.7
Community Health Centers Fund	9,373	8,787	586	6.7
Cigarette Stamp Administrative & Enforcement Funds	2,038	1,911	127	6.7
General Fund	82,829	77,659	5,170	6.7
Total	<u>\$ 129,851</u>	<u>\$ 121,742</u>	<u>\$ 8,108</u>	<u>6.7</u>

*Details on distributions of the revenues are given in section 245-15, HRS.

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

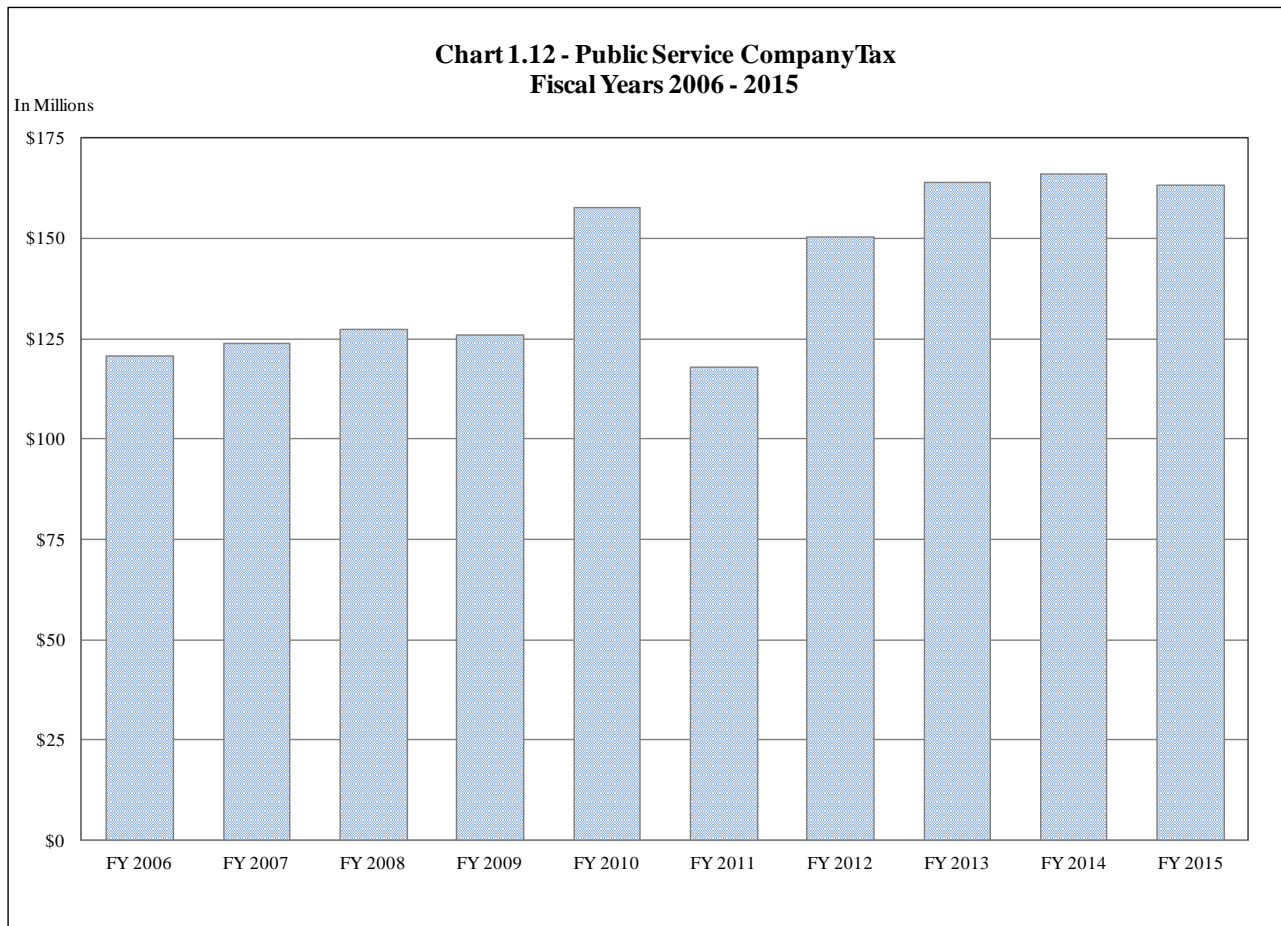
1.9 PUBLIC SERVICE COMPANY TAX

1.9.1 Overview

The public service company (PSC) tax is levied on public utility businesses in lieu of all taxes except income taxes, vehicular taxes imposed under chapter 249, HRS, the franchise tax on public utilities imposed under chapter 240, HRS, and the use tax imposed under chapter 238, HRS. Generally, the tax is applied to gross income from the business of public utilities for the preceding calendar year. The tax rates on the PSC's range from 0.5% (levied on sales for resale) to 8.2%. For a public utility, only the first 4% is realized by the State; any excess over 4% is distributed to counties that provide a real property tax exemption for property used by the public utility in its business. For a carrier of passengers by land between points on a scheduled route, the gross income from passenger fares is taxed at 5.35%, all of which is realized by the State.

1.9.2 Revenue

The PSC tax yielded \$163.5 million in tax, penalty, and interest in FY 2015, a decrease of 1.6% from the \$166.2 million collected in FY 2014. All of the revenues from the PSC tax are allocated to the General Fund. Chart 1.12 shows the total collections of the tax for FY 2006 through FY 2015.



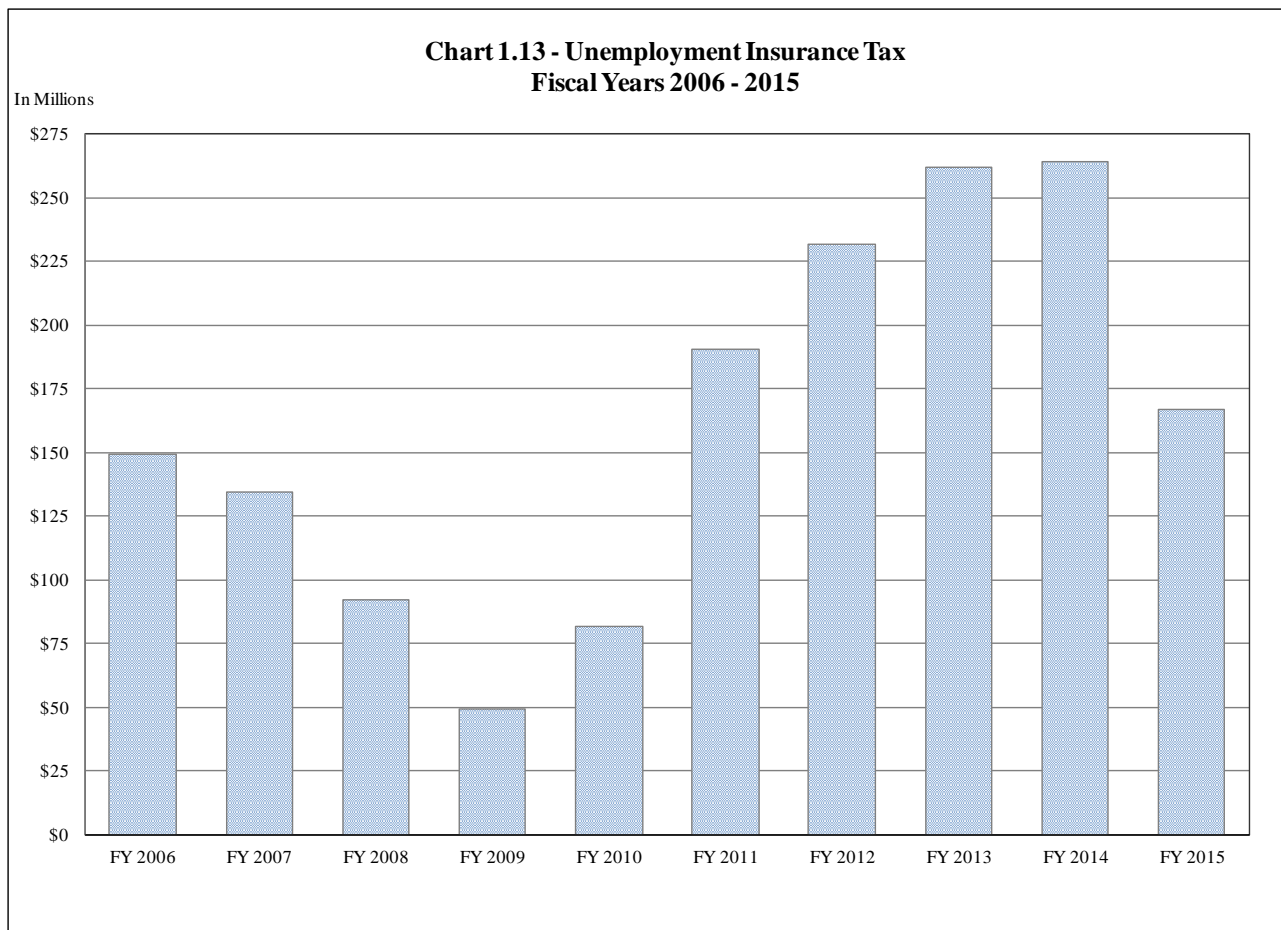
1.10 UNEMPLOYMENT INSURANCE TAX

1.10.1 Overview

The unemployment insurance (UI) tax (officially "employment security contributions") is imposed on wages paid by employers with one or more employees, with certain exemptions. The tax is experience rated. The UI tax rate for each year depends on the condition of the UI Trust Fund. The tax base represents the state's average annual wages reported by employers contributing to the unemployment trust fund. For FY 2015, the tax base ranged from \$40,400 in CY 2014 to \$40,900 in CY 2015 and the contribution rate for new employers ranged from 3.4% in CY 2014 to 3.0% in CY 2015. Revenues from the tax go to the Unemployment Security Fund. The Department of Labor and Industrial Relations administers the UI tax and the Department of Taxation collects the tax.

1.10.2 Revenue

For FY 2015, revenue from the UI tax totaled \$167.2 million, down by 36.7% from \$264.2 million collected in FY 2014. Chart 1.13 shows collections of the UI tax for FY 2006 through FY 2015.



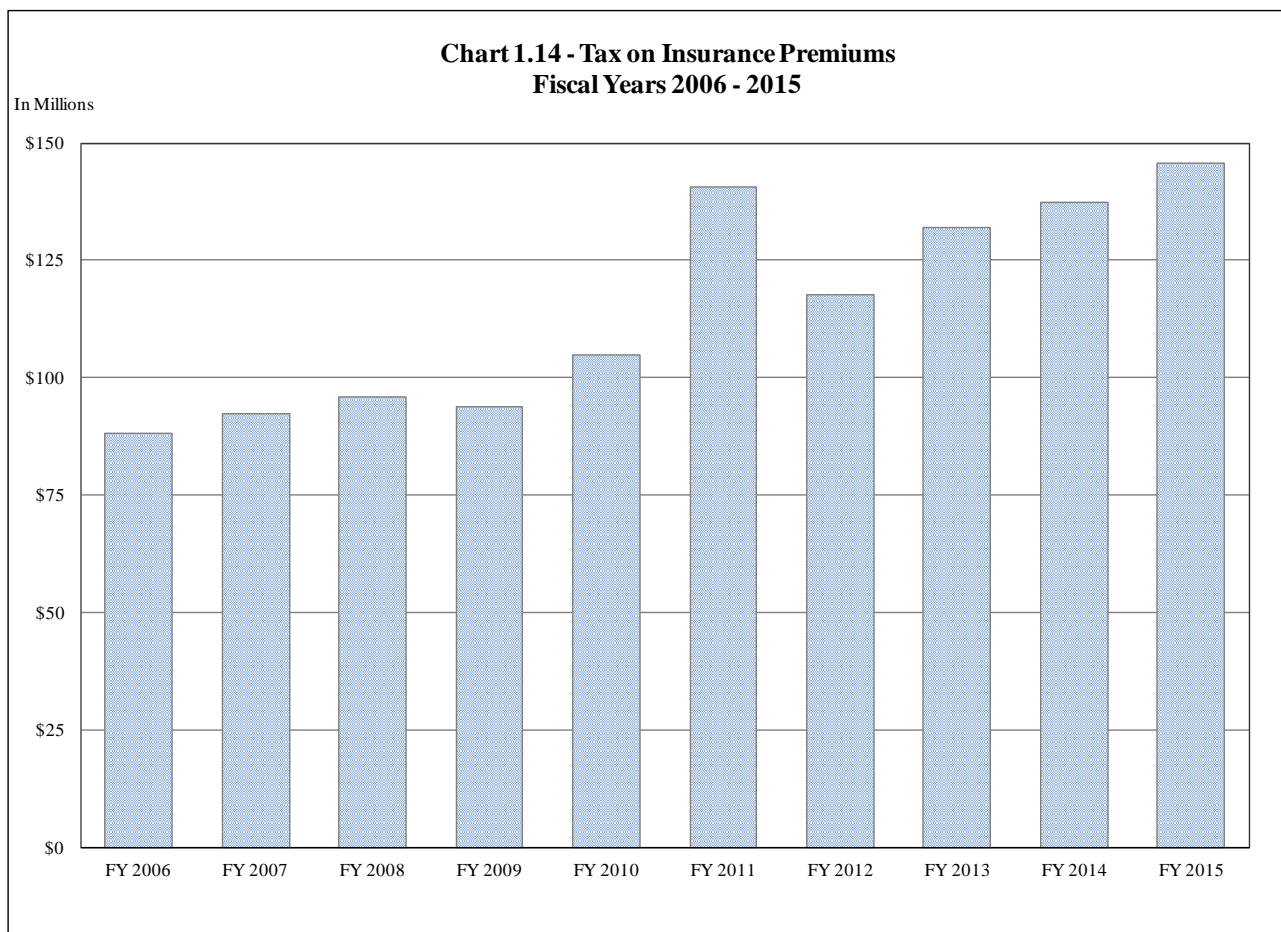
1.11 INSURANCE PREMIUM TAX

1.11.1 Overview

The tax on insurance premiums applies to insurance companies (underwriters) based on premiums written in Hawaii. The insurance premium tax is in lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. The tax rates are as follows: (1) Life Insurance, 2.75%; (2) Surplus Lines, 4.68%; (3) Ocean Marine, 0.8775% on gross underwriting profit; and (4) Other Insurance, 4.265%. To insurers who qualify, there is a 1% tax credit to facilitate regulatory oversight. The tax is administered and collected by the Insurance Commissioner, who is required to report to the Director of Taxation the amounts of all taxes collected under chapter 431, HRS.

1.11.2 Revenue

For FY 2015, the tax on insurance premiums totaled \$145.7 million, compared to \$137.2 million in FY 2014, an increase of 6.2%. Chart 1.14 shows collections of the tax for FY 2006 through FY 2015.



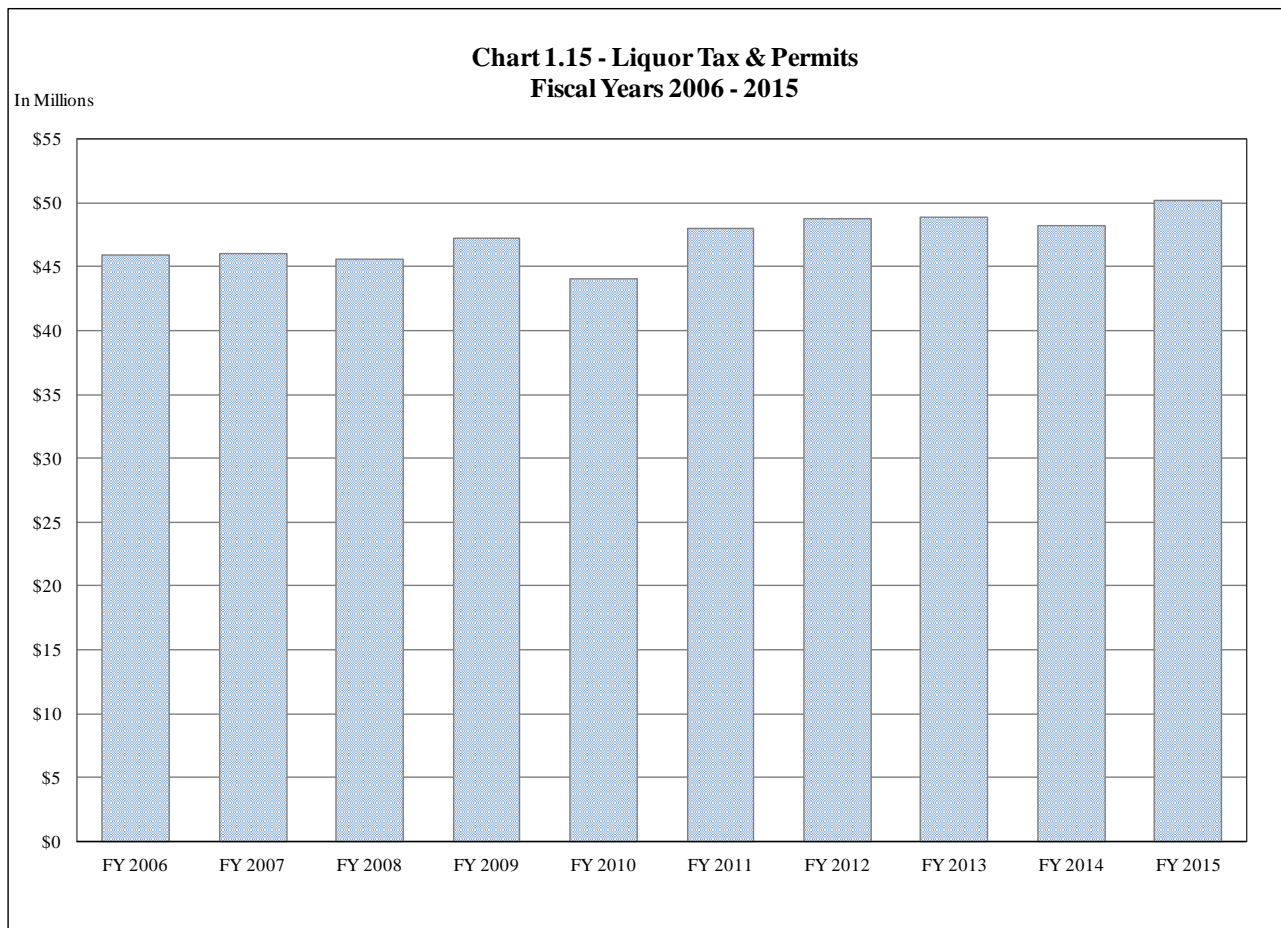
1.12 LIQUOR TAX

1.12.1 Overview

The tax on liquor is a gallonage tax imposed on dealers as defined in section 244D-1, HRS, and upon certain others who sell or use liquor. A \$2.50 liquor tax permit is required and must be renewed before July 1 each year. See section 244D-4, HRS, for exemptions from the tax. The tax rates per wine gallon are \$5.98 on distilled spirits, \$2.12 on sparkling wine, \$1.38 on still wine, \$0.85 on cooler beverages, \$0.93 on beer other than draft beer, and \$0.54 on draft beer.

1.12.2 Revenue

For FY 2015, the liquor tax and permit fees totaled \$50.3 million, an increase of 4.1% from the \$48.3 million collected in FY 2014. Chart 1.15 shows collections of the liquor tax and permit fees for FY 2006 through FY 2015.



1.13 CONVEYANCE TAX

1.13.1 Overview

The conveyance tax is imposed on all documents transferring ownership or interest in real property and is based on the actual and full consideration paid or to be paid. For a sale of a condominium or single family residence, the rate of the conveyance tax depends on whether the purchaser is eligible for a county homeowners' exemption from the real property tax. If the purchaser is eligible for the exemption, or if the sale is of real property other than a condominium or single family residence, then the tax rate ranges from 10 cents per \$100 for properties with a value of less than \$600,000 to \$1 per \$100 for properties with a value of \$10 million or more. If the purchaser is ineligible for the exemption, the tax rate for a sale of a condominium or single family residence ranges from 15 cents per \$100 for properties with a value of less than \$600,000 to \$1.25 per \$100 for properties with a value of \$10,000,000 or more. The conveyance tax is administered by the Department of Taxation, but it is collected by the Bureau of Conveyances in the Department of Land and Natural Resources.

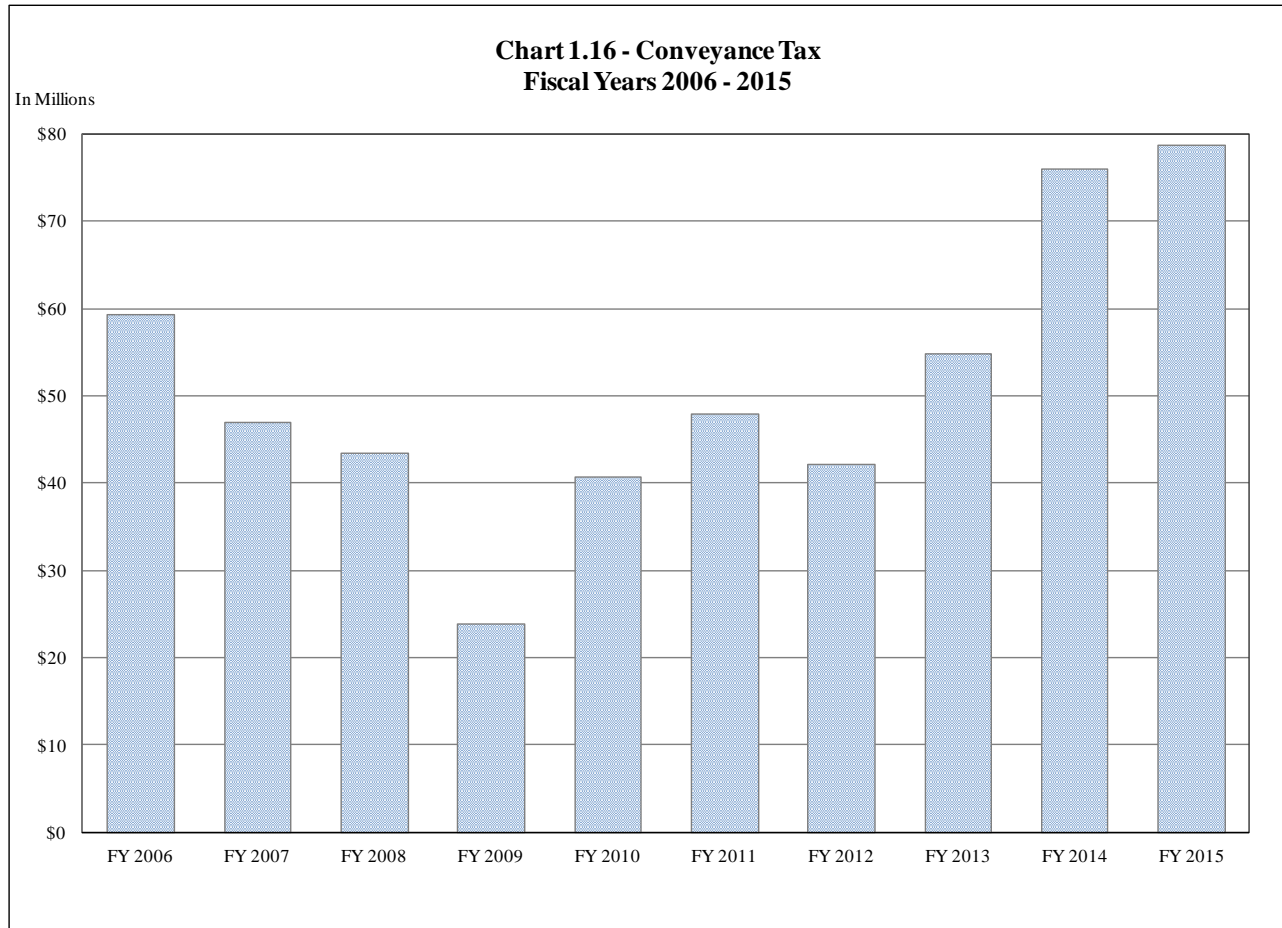
1.13.2 Revenue

For FY 2015, revenue from the conveyance tax totaled \$78.7 million, compared to \$75.8 million in FY 2014, an increase of 3.8%. The revenues for FY 2015 were distributed as follows: 10% went to the Land Conservation Fund, 50% went to the Rental Housing Trust Fund, 25% went to the Natural Area Reserve Fund and the remaining 15% went to the General Fund. Chart 1.16 shows collections of the conveyance tax for FY 2006 through FY 2015.

1.13.3 Recent Legislation

Act 163, SLH 2014, increases allocations of the conveyance tax to the Rental Housing Trust Fund from 30% to 50% beginning July 1, 2014.

Act 84, SLH 2015, eliminates the contributions of the conveyance tax to the Natural Area Reserve Fund, effective July 1, 2015, and caps the allocations to the other special funds.



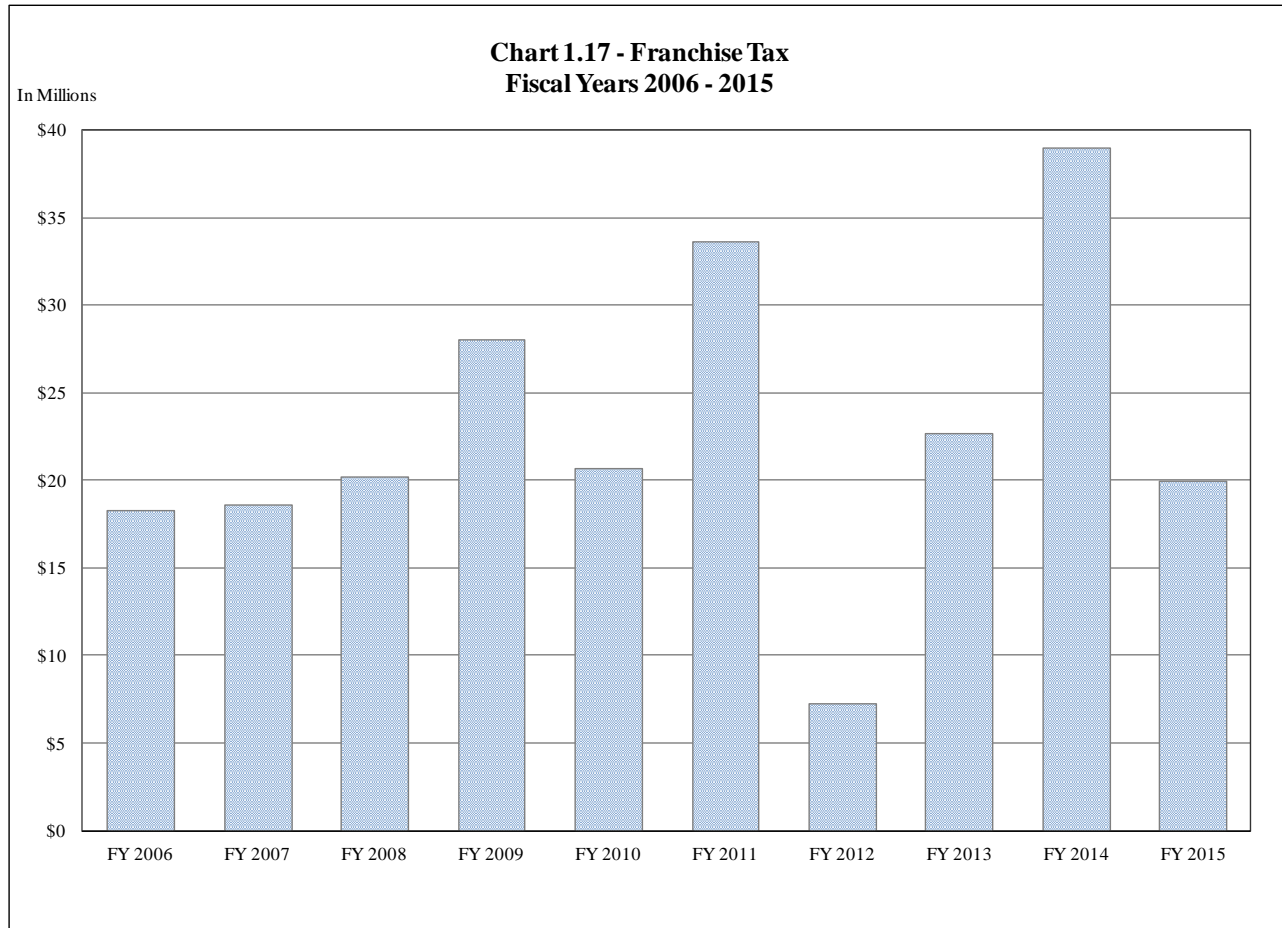
1.14 TAX ON BANKS AND OTHER FINANCIAL CORPORATIONS

1.14.1 Overview

The tax on banks and other financial corporations (the franchise tax) is levied on net income of 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, and subsidiaries not subject to the tax imposed by chapter 235, HRS. The tax is in lieu of the net income tax imposed under chapter 235, HRS, and of the GET, but it uses the definition of net income from chapter 235, with modifications. The tax is levied on net income at the rate of 7.92%. The assessment date is January 1 of each year.

1.14.2 Revenue

For FY 2015, franchise tax collections totaled \$19.9 million, compared to \$39.0 million in FY 2014, a decrease of 48.9%. Chart 1.17 shows collections of the Franchise Tax for FY 2006 through FY 2015. Collections of the tax were low in FY 2012, due partly to a one-time transfer of \$16.5 million to the Litigated Claims Fund.



1.15 ESTATE AND TRANSFER TAX

1.15.1 Overview

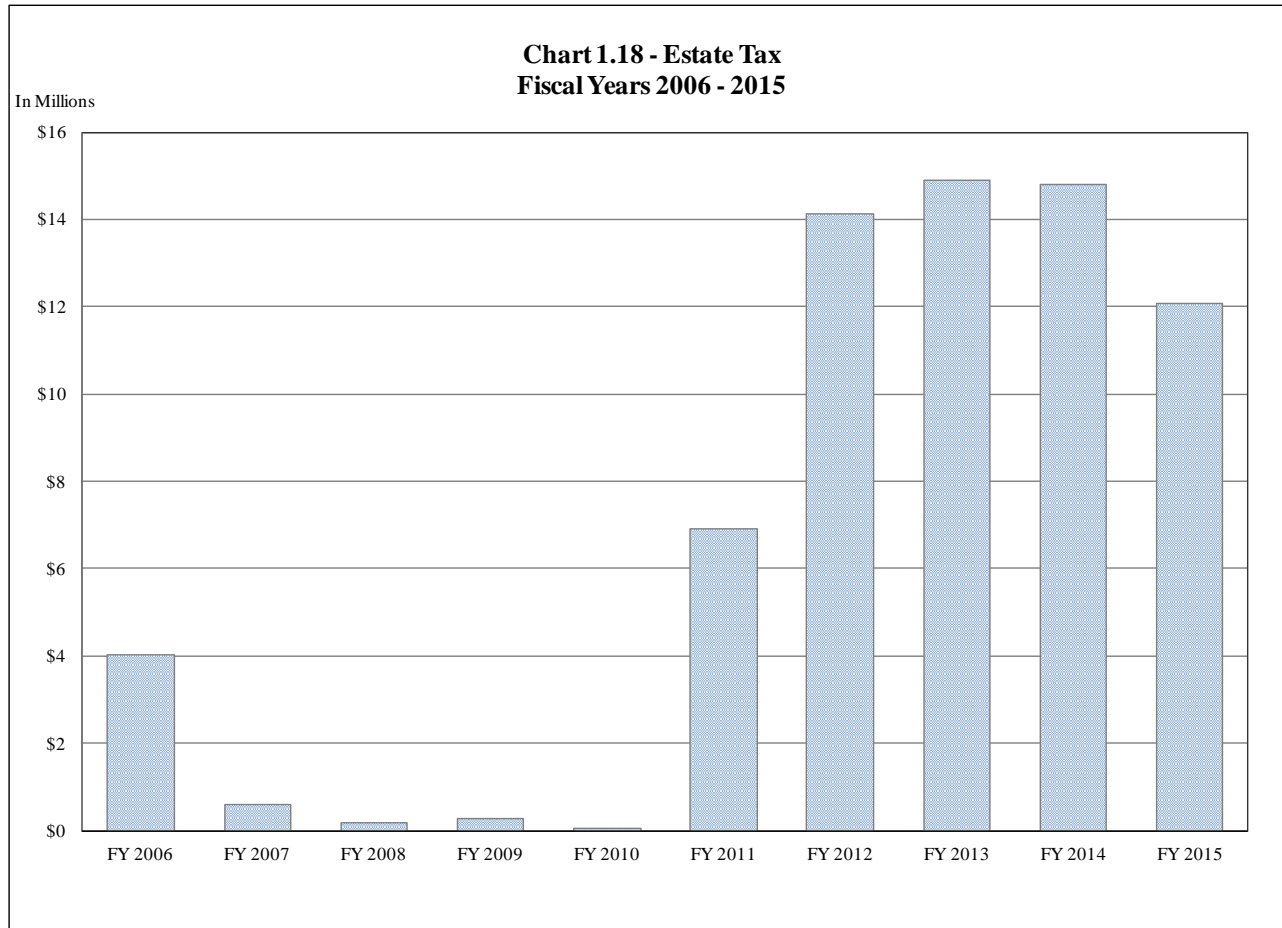
Hawaii's estate and transfer tax is levied on the transfer of a taxable estate. The taxable estate is based on the federal definition (with adjustments for nonresidents), but the State has its own tax rate schedule, with tax rates varying from 10.0% to 15.7%. The generation skipping tax is also based on the federal taxable transfer, but has its own tax rate (currently 2.25%).

1.15.2 Revenue

For FY 2015, estate tax collections totaled \$12.1 million, down from \$14.8 million collected in FY 2014. Chart 1.18 shows collections of the Estate and Transfer Tax for FY 2006 through FY 2015.

1.15.3 Recent Legislation

Act 44, SLH 2014, conformed Hawaii's estate tax to the Internal Revenue Code and closed a loophole in the tax for decedents dying after December 31, 2013.



1.16 CITY AND COUNTY OF HONOLULU SURCHARGE TAX

1.16.1 Overview

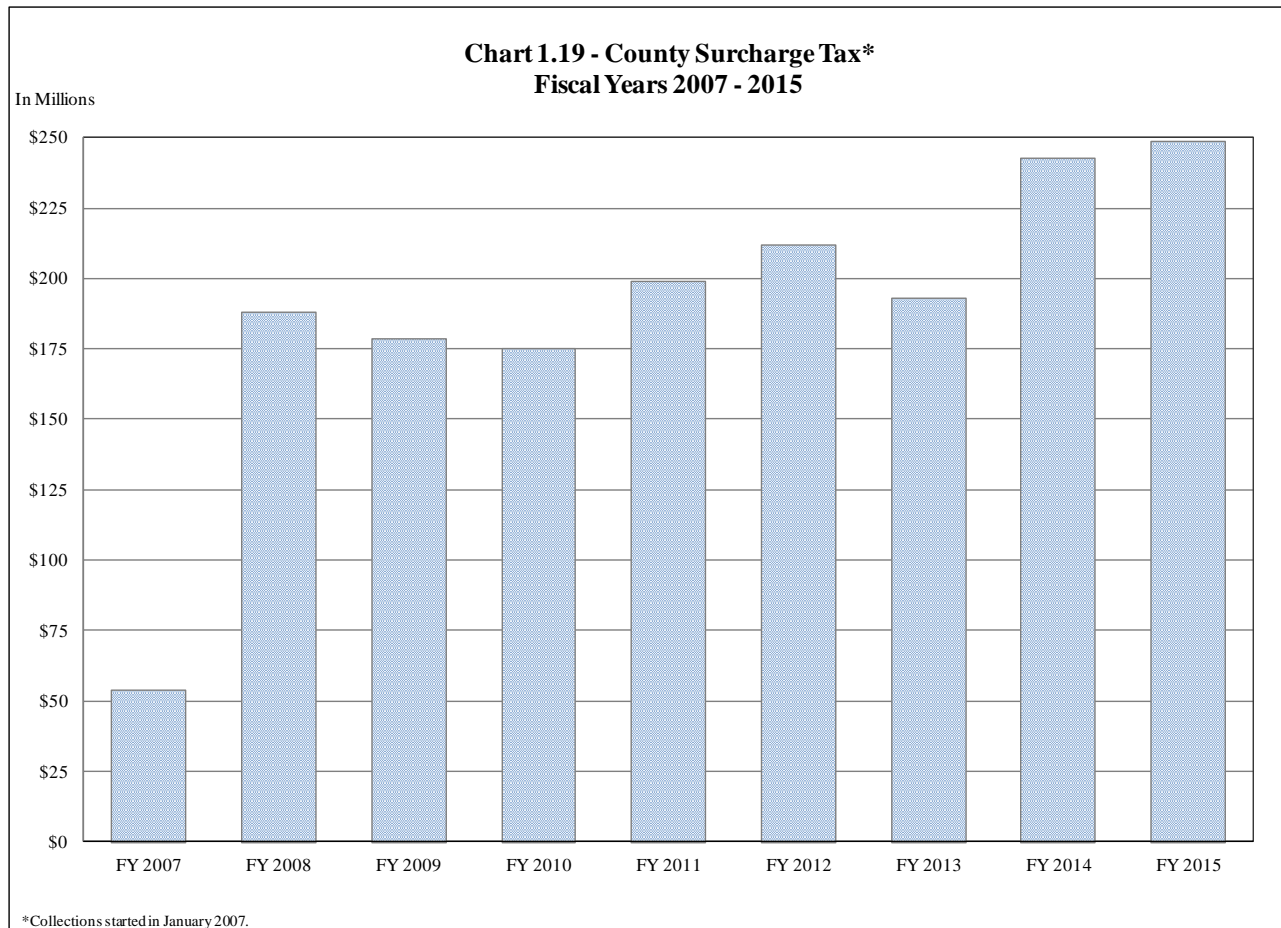
Act 247, SLH 2005, granted counties the authority to impose a county surcharge of no more than 0.5% on gross income that is subject to the State's GET at the rate of 4% to fund county public transportation systems. The Act specified that the surcharge be levied no earlier than January 1, 2007 and that it be automatically repealed on December 31, 2022. The Department of Taxation is required to administer and collect the surcharge for the counties. The City and County of Honolulu was the only county to adopt the surcharge, which took effect on January 1, 2007. The State keeps 10% of the collections from the county surcharge as administrative costs, and Honolulu County receives the remaining 90% of the collections.

1.16.2 Revenue

For FY 2015, collections of Honolulu's county surcharge totaled \$248.5 million, an increase of 2.4% from the \$242.7 million collected in FY 2014. Chart 1.19 shows collections of the county surcharge for FY 2007 through FY 2015.

1.16.3 New Legislation

Act 240, SLH 2015, allows the counties to establish new county surcharges or to extend an existing surcharge through December 31, 2027, as long as the action is taken by July 1, 2016. Any new county surcharge would take effect January 1, 2018.



1.17 TOTAL TAX COLLECTIONS

Total tax collections in FY 2015 amounted to \$6.90 billion, up by 4.8% from the \$6.58 billion collected in FY 2014. The Department collected the great majority of the total taxes (\$6.54 billion), but the counties collected \$128.8 million in State motor vehicle weight taxes and registration fees, the Insurance Commissioner (in the Department of Commerce and Consumer Affairs) collected \$145.7 million in insurance premium taxes, and the Bureau of Conveyances (in the Department of Land and Natural Resources) collected \$78.7 million in conveyance taxes. The total collections are shown in Table 1.8.

TABLE 1.8 - TAX COLLECTIONS
(In Thousands of Dollars)

SOURCE OF REVENUE	FY 2015		FY 2014	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corps.	\$ 19,930	0.29	\$ 38,983	0.59
Conveyance	78,702	1.14	75,831	1.15
Employment Security Contributions	167,248	2.42	264,178	4.01
Fuel	193,082	2.80	193,550	2.94
General Excise & Use	3,048,207	44.18	2,880,541	43.77
Honolulu County Surcharge	248,518	3.60	242,657	3.69
Income - Corporations	52,319	0.76	87,021	1.32
Income - Individuals	1,988,194	28.81	1,745,810	26.53
Inheritance and Estate	12,071	0.17	14,789	0.22
Insurance Premiums	145,679	2.11	137,179	2.08
Liquor & Permits	50,281	0.73	48,305	0.73
Motor Vehicle Tax *	180,755	2.62	168,726	2.56
Public Service Companies	163,481	2.37	166,179	2.52
Tobacco & Licenses	129,851	1.88	121,742	1.85
Trans. Accom. Fees	12	0.00	13	0.00
Trans. Accom. Tax	420,970	6.10	395,229	6.01
All Others **	742	0.01	692	0.01
TOTAL	\$ 6,900,042	100.00	\$ 6,581,424	100.00

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

** Includes fuel retail dealer permits, fuel penalty and interest, permitted transfers tax, and general excise fees.

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

1.18 DISTRIBUTION OF TAXES

Of the \$6.90 billion in total tax collections in FY 2015, \$5.74 billion or 83.1% was deposited into the State's General Fund. The four counties received \$177.2 million from county fuel taxes and the TAT. In addition, \$248.5 million of County Surcharge was collected for the City and County of Honolulu (before deducting the 10% administrative fee imposed by the State). The remaining tax revenues not deposited into the General Fund or transferred to the counties were distributed among various State special funds. The State Highway Fund received the largest portion, \$267.6 million. All of the unemployment insurance tax (the employment security contributions) went into the Unemployment Trust Fund for unemployment benefits. Table 1.9 shows allocations of taxes to the State's General Fund in FY 2014 and FY 2015. The distributions of the total tax collections among all funds in FY 2014 and FY 2015 are shown in Table 1.10.

TABLE 1.9 - STATE GENERAL FUND
(In Thousands of Dollars)

SOURCE OF REVENUE	FY 2015		FY 2014	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corps.	\$ 17,930	0.31	\$ 36,983	0.69
Conveyance	11,534	0.20	26,508	0.49
General Excise & Use	2,992,707	52.18	2,825,041	52.61
Income - Corporations	52,319	0.91	87,021	1.62
Income - Individuals	1,987,752	34.66	1,745,312	32.50
Inheritance and Estate	12,071	0.21	14,789	0.28
Insurance Premiums	145,679	2.54	137,179	2.55
Liquor & Permits	50,281	0.88	48,305	0.90
Public Service Companies	163,481	2.85	166,179	3.09
Tobacco & Licenses	82,829	1.44	77,659	1.45
Trans. Accom. Tax	202,970	3.54	187,229	3.49
Environmental Tax	14,833	0.26	17,356	0.32
All Others *	755	0.01	707	0.01
TOTAL	\$ 5,735,141	100.00	\$ 5,370,268	100.00

* Includes fuel retail dealer permits, fuel penalty and interest, permitted transfers tax, general excise fees, trans accom fees and rental vehicle fees.

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

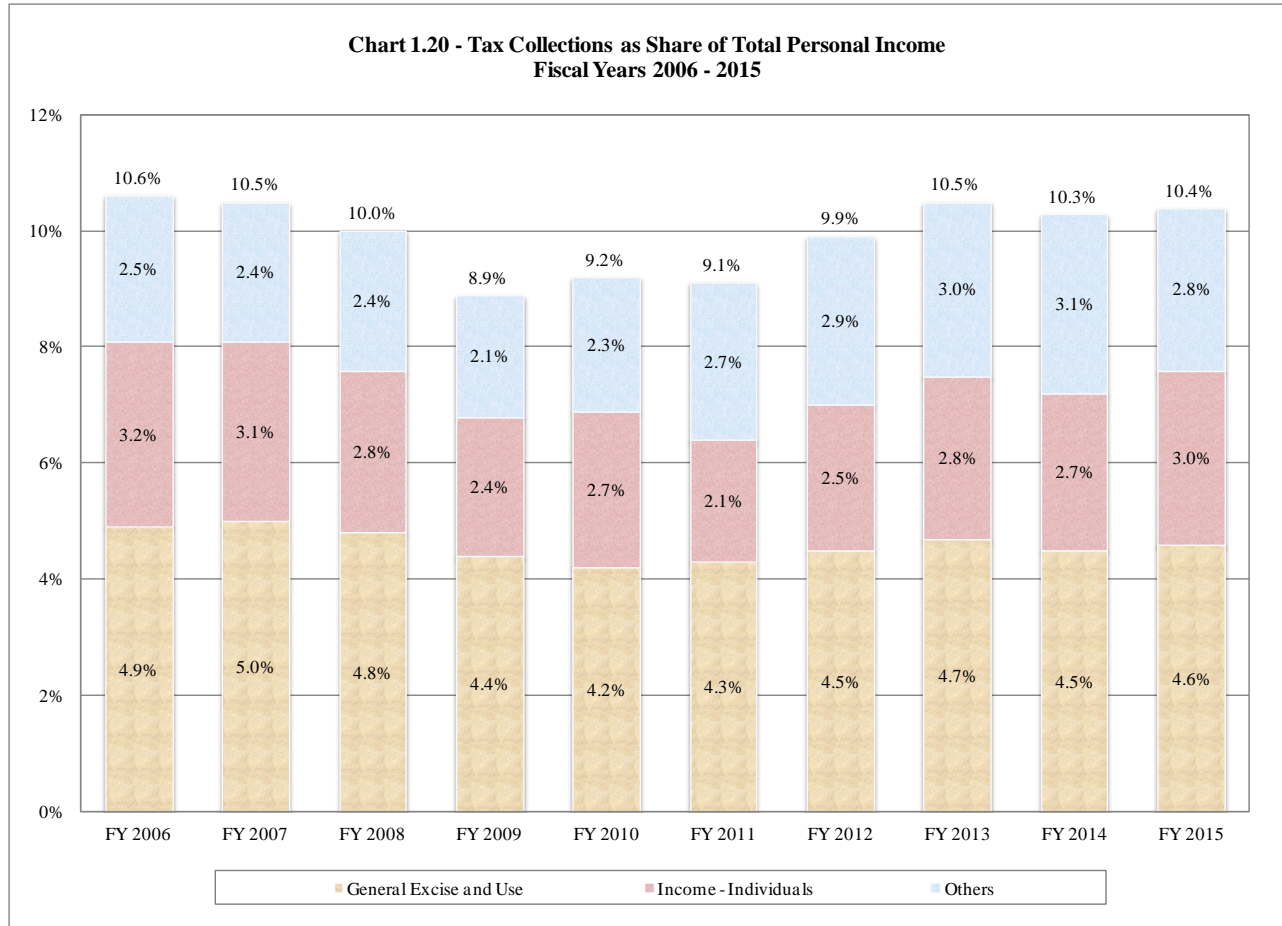
TABLE 1.10 - DISTRIBUTION OF COLLECTIONS
(In Thousands of Dollars)

	FY 2015		FY 2014	
	Amount Distributed	% of Total	Amount Distributed	% of Total
<u>STATE FUND</u>				
State General	\$ 5,735,141	83.12	\$ 5,370,268	81.60
State Highway	267,576	3.88	255,805	3.89
State Airport	4,453	0.06	4,809	0.07
Boating Special Fund	1,627	0.02	1,627	0.02
Environmental Fund	1,236	0.02	1,240	0.02
Cigarette Stamp Admin/Enf. Fund	2,038	0.03	1,911	0.03
Compliance Resolution Fund	2,000	0.03	2,000	0.03
Unemployment Trust Fund	167,248	2.42	264,178	4.01
Election Campaign Fund	162.14	0.00	190.19	0.00
Tourism Special Fund	82,000	1.19	82,000	1.25
Rental Housing Fund	39,511	0.57	22,765	0.35
Natural Area Reserve Fund	19,755	0.29	18,970	0.29
Convention Center Fund	33,000	0.48	33,000	0.50
Public Libraries Fund	66	0.00	72	0.00
School Repairs & Maintenance Fund	69	0.00	77	0.00
Land Conservation Fund	7,902	0.11	7,588	0.12
Domestic Violence\Child Abuse Neglect Fund	145	0.00	158	0.00
Cancer Research Fund	14,995	0.22	14,058	0.21
Trauma System Fund	11,243	0.16	10,540	0.16
Emergency Medical Service Fund	9,373	0.14	8,787	0.13
Community Health Centers Fund	9,373	0.14	8,787	0.13
Energy Security Fund	3,708	0.05	3,719	0.06
Energy Systems Development Fund	2,472	0.04	-	-
Agricultural Development & Food Security Fund	3,708	0.05	3,719	0.06
Hurricane Relief Fund	55,500	0.80	55,500	0.84
Subtotal - State	\$ 6,474,302	93.83	\$ 6,171,769	93.78
<u>HONOLULU COUNTY SURCHARGE</u>	\$ 248,518	3.60	\$ 242,657	3.69
<u>REVENUES TRANSFERRED TO COUNTIES</u>				
Other County Revenues				
Fuel Tax	\$ 74,223	1.08	\$ 73,999	1.12
Trans. Accom. Tax	103,000	1.49	93,000	1.41
Subtotal - Counties	\$ 177,223	2.57	\$ 166,999	2.54
TOTAL	\$ 6,900,042	100.00	\$ 6,581,424	100.00

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

1.19 TRENDS IN TAX COLLECTIONS

Table 1.11 provides data on total tax collections for FY 2006 through FY 2015. Chart 1.20 shows total tax collections relative to total personal income (TPI) in the State for FY 2006 through FY 2015.² From FY 2006 to FY 2009, the ratio declined, with big declines in collections of both the GET and the IIT relative to TPI. The ratio grew from FY 2009 to FY 2013, but fell from FY 2013 to FY 2014. The ratio stayed virtually the same from FY 2014 to FY 2015.



² The chart uses the most recent figures from the Bureau of Economic Analysis (BEA) for TPI. The Bureau periodically updates TPI figures and the updates often extend back for a number of years.

TABLE 1.11 - HISTORICAL COLLECTIONS FOR SELECTED TAXES
(In Thousands of Dollars)

SOURCE OF REVENUE	Fiscal Year				
	2006	2007	2008	2009	2010
General Excise and Use	\$2,355,316	\$2,555,762	\$2,618,787	\$2,417,580	\$2,316,434
Income - Individuals	1,550,596	1,560,286	1,544,835	1,339,056	1,528,110
Transient Accom. Tax & Fees	217,008	224,942	229,388	210,622	224,252
Unemployment Insurance	149,388	134,612	92,279	49,071	82,017
Motor Vehicle Tax 1/	107,527	112,412	112,448	101,991	102,319
Fuel	166,138	169,712	169,927	165,717	155,703
Public Service Companies	120,679	124,017	127,481	126,069	157,661
Tobacco and Licenses	88,261	94,387	104,624	108,164	123,489
Insurance Premiums 2/	88,068	92,196	95,742	93,720	104,721
Income - Corporations	130,010	81,834	85,081	53,522	59,186
Liquor and Permits	45,955	46,034	45,620	47,242	44,074
Conveyance	59,201	46,887	43,421	23,772	40,634
Banks-Financial Corporations	18,324	18,599	20,212	28,075	20,666
Total Collections 3/	\$5,101,011	\$5,316,593	\$5,478,491	\$4,944,133	\$5,134,807

SOURCE OF REVENUE	Fiscal Year				
	2011	2012	2013	2014	2015
General Excise and Use	\$2,495,807	\$2,697,951	\$2,944,487	\$2,880,541	\$3,048,207
Income - Individuals	1,247,153	1,541,051	1,736,007	1,745,810	1,988,194
Transient Accom. Tax & Fees	284,472	323,951	368,576	395,242	420,981
Unemployment Insurance	190,511	231,669	262,290	264,178	167,248
Motor Vehicle Tax 1/	106,166	211,742	176,295	168,726	180,755
Fuel	195,336	193,101	193,949	193,550	193,082
Public Service Companies	117,940	150,528	163,930	166,179	163,481
Tobacco and Licenses	143,293	138,798	127,881	121,742	129,851
Insurance Premiums 2/	140,456	117,617	131,906	137,179	145,679
Income - Corporations	34,573	73,026	100,988	87,021	52,319
Liquor and Permits	48,054	48,854	48,962	48,305	50,281
Conveyance	47,906	42,106	54,686	75,831	78,702
Banks-Financial Corporations	33,677	7,229	22,673	38,983	19,930
Total Collections 3/	\$5,292,193	\$6,004,268	\$6,541,300	\$6,581,424	\$6,900,042

1/ Includes State Motor Vehicle Weight Tax, Registration Fees, Commercial Driver's License, Periodic Motor Vehicle Inspection Fees, Rental Vehicle Registration Fees and Rental Vehicle Surcharge Tax.

2/ Excludes Insurance Fees allocated to the General Fund, which were included in previous reports.

3/ Includes the Inheritance and Estate Tax, the Honolulu County Surcharge, fuel permits, interest and penalties on fuel taxes, general excise fees, and permitted transfers tax.

2.0 TAX ADMINISTRATION

2.1 OVERALL PERFORMANCE

The Department of Taxation consists of two divisions, four staff offices, a public information officer, and a taxpayer advocate. The two divisions are the Tax Services and Processing Division and Compliance Division. The four staff offices are the Administrative Services Office, the Rules Office, the Tax Research and Planning Office, and the Information Technology Services Office. In addition, there is a System Administration section.

The total number of authorized permanent positions in the Department increased from 382 positions in FY 2014 to 384 positions in FY 2015. The Department's operating budget is a small fraction of total tax revenue. In FY 2015, the Department's operating expenses were \$20.7 million, down from \$25.5 million in FY 2009. The Department collected \$6.54 billion in taxes in FY 2015, so the cost of collecting \$100 in taxes was about 32 cents.

The Department has continued to encourage taxpayers to use electronic transmissions rather than filing paper returns. Although there has been a significant increase in electronic filing of tax returns and payments, over 1 million paper checks and over 2 million paper tax returns and other documents were manually processed by the Department in FY 2015.

The total number of audit cases completed by the Compliance Division (the Office Audit Branch and Field Audit Branch combined) rose from 9,202 cases in FY 2014 to 17,536 cases in FY 2015, an increase of 90.6%. Total assessments increased by 20.1%, from \$99.0 million in FY 2014 to \$118.9 million in FY 2015. The Criminal Investigation section collected a total of \$2.0 million in unpaid taxes, interest and penalties in FY 2015, up from the \$1.3 million collected in FY 2014.

2.2 TAX SERVICES AND PROCESSING DIVISION

2.2.1 Overview

The Tax Services and Processing Division (TSP) is comprised of three branches: Taxpayer Services, Document Processing and Revenue Accounting. Aside from providing various services to both individual and business taxpayers, the Taxpayer Services Branch (TPS) performs functions relating to licensing and taxpayer account management. The Document Processing Branch (DP) receives, edits, and processes tax information and payments from both paper and electronic filings. The Branch is also responsible for securing and depositing tax payments. The Revenue Accounting Branch (RA) maintains revenue control and reconciliation functions for all State tax revenues. RA is also responsible for preparing various revenue related reports, such as the monthly Preliminary Report (on revenues collected) and the Statement of Tax Operations (STO).

Based on DOTAX's Strategic Plan, the TSP Division has continued to support initiatives to improve efficiency, effectiveness, and accountability. One example is the Tax System Modernization Project (TSM). Key individuals from TSP participated in the procurement process, beginning with developing the statement of work and continuing through to the vendor selection. Testing and implementation is scheduled to begin in September 2015 and is expected to continue through the end of FY 2019.

The Division's strategic plan for upcoming years includes the ongoing promotion of electronic filing and electronic payment transactions. These options make processing more efficient while minimizing reliance on staffing resources, particularly during peak filing periods. Electronic data further ensures accuracy and allows flexibility in reporting. With TSM quickly approaching, the Division looks forward to using the new technology and transforming business processes in order to provide better customer service to the taxpayer and more precise reporting. This will help in meeting the goals of increased voluntary compliance and modernized processing.

2.2.2 Taxpayer Services Branch

The Taxpayer Services (TPS) Branch is made up of three main sections:

- (1) Customer Inquiry, which provides information and taxpayer assistance pertaining to all taxes administered by the Department;
- (2) Account Management, which performs computer-based error correction activities to allow expedient processing, posting/updating of tax returns, payments and other documents;
- (3) Licensing, which processes, issues and updates all licenses and permits issued by the Department.

Customer Inquiry

Staffing shortages and vacancies continued to plague Taxpayer Services. An aged phone system and related infrastructure limitations contributed to a low call pickup rate for FY 2015. Yearly call statistics are reported below:

<u>FY</u>	<u>Total Incoming Calls</u>	<u>Total Calls Answered</u>	<u>Answer Rate</u>
2015	417,659	180,452	43%
2014	369,010	153,286	42%
2013	326,501	193,988	59%
2012	312,441	173,948	56%
2011	513,503	205,383	40%
2010	380,142	232,471	61%
2009	364,804	291,228	80%
2008	284,217	228,875	81%
2007	181,663	162,576	89%
2006	299,582	148,981	50%
2005	346,972	111,846	32%
2004	147,514	106,146	72%
2003	332,399	76,392	23%

With greater emphasis placed on electronic filing, the number of walk-in taxpayers serviced on Oahu has been declining since FY 2011. The average number of taxpayers served each month, by fiscal year, is as follows:

<u>FY</u>	<u>Average Number of Taxpayers per Month</u>
2015	3,558
2014	4,290
2013	4,451
2012	5,416
2011	6,131

Account Management

The primary function of Account Management is to review, analyze and correct errors or other inconsistencies on returns and other documents that were identified by our computer system during processing and placed on a work list for manual review. In FY 2015, 197,208 returns, payments, and other documents were manually reviewed and posted to the computer system by our Account Management team.

The chart below reflects the average monthly postings of documents worklisted since FY 2011:

<u>FY</u>	<u>Average Number of Postings per Month</u>
2015	16,434
2014	18,222
2013	14,849
2012	14,908
2011	16,758

During the 2015 net income tax filing season, the Department experienced a substantial increase in fraudulent individual income returns filed for tax year 2014. The Department established an ad hoc “fraud team” to address this increase in volume. Account Management was instrumental in examining potentially fraudulent filings, particularly those which contained certain defined inconsistencies requiring manual review. The 2015 statistic above includes those filings reviewed after being flagged as potentially fraudulent.

Licensing

The Licensing Section processed 32,853 business license applications in FY 2015, compared to 32,473 applications the previous fiscal year. However, nearly half of these were filed online (15,734) versus only 42% in fiscal year 2014. This increase comes as a result of a concentrated effort by the Division to encourage taxpayers to utilize the Department’s online business license application option, Hawaii Business Express. The Section also processed 8,804 cancellations, a 3% increase from FY 2014.

2.2.3 Document Processing Branch

The main functions of the Document Processing Branch (DP) are to quickly and efficiently process all tax returns and documents; to receive, secure, deposit, and account for tax payments; to ensure proper storage and retrieval of documents; and to perform various functions relating to electronic

filing. DP is comprised of six sections: Receiving and Sorting, Data Preparation, Imaging and Data Entry, Monetary Control, File Maintenance, and Electronic Processing.

Although there has been an increase in electronic filing of tax returns and payments, over 1 million paper checks and over 2 million paper tax returns and other documents were manually processed by the DP. For FY 2015, there were 2,037,377 (53%) paper tax returns, and 1,831,308 (47%) electronic tax returns processed. Over \$6.84 billion in tax payments were received, an increase of nearly \$294 million compared to FY 2014. This fiscal year, over \$5.0 billion was received by electronic means, compared to \$4.8 billion the previous year.

The following data provides comparative statistical data for FY 2011 to FY 2015:

FY: Average Monthly Percentage Cashiered within 3 days

2015 – 31.6%
2014 – 24.8%
2013 – 35.7%
2012 – 27.5%
2011 – 14.4%

FY: Average Monthly Filings Uploaded by SLD (statute of limitations date) within 6 days

2015 – 78.3%
2014 – 77.0%
2013 – 78.9%
2012 – 71.5%
2011 – 42.4%

2.2.4 Revenue Accounting Branch

The main functions of the Revenue Accounting Branch (RA) are to maintain accounting records for all tax revenues, refunds and adjustments, district transfers and closing adjustments, and to prepare all Journal Vouchers and Summary Warrant Vouchers. RA is also responsible for error resolution, reconciliation, and reporting functions for all State tax revenues. Specific tasks include the preparation of the Daily Cash Collection Report (Oahu District), monthly Preliminary Report, and monthly Statement of Tax Operations (STO).

The monthly Preliminary Report, which is prepared by the fifth working day of each month, is a summary of all revenues received by the Department, less the amount of tax refunds paid. The STO is a formal, detailed report of State revenues that is based on the Preliminary Report and is prepared by the tenth working day of each month. The RA Branch has consistently and diligently met the critical deadlines for these reports throughout this fiscal year, as well as in past years.

The RA Branch also performs manual accounting activities for all miscellaneous tax collections (with the exception of the estate and transfer tax), prepares journal entries associated with the various administratively-established trust accounts and for other legislatively mandated purposes, maintains the manual accounting system for all protested payments and tax appeals, provides allocation reports to the Department of Accounting & General Services (DAGS) and the Department of Budget & Finance (B&F), accounts for all tax refunds, and handles all refund exception activities, such as returned checks, tracers, or forgeries.

2.3 COMPLIANCE DIVISION

2.3.1 Overview

The objective of the Compliance Division is to maximize taxpayer compliance with Hawaii's tax laws in a consistent, uniform, and fair manner. The Compliance Division is composed of the Oahu Office Audit Branch, the Oahu Field Audit Branch, the Oahu Collections Branch, and the Maui, Hawaii, and Kauai District Tax Offices. In addition to these branches, there are also the Special Enforcement Section (SES) and Criminal Investigation Section (CIS). The Division has the following three programs to meet the objectives of the voluntary compliance, self-assessment tax system: (1) auditing/examination, (2) collection, and (3) taxpayer services (information dissemination).

2.3.2 Office Audit Branch

The Office Audit Branch performed examinations and audits to enhance voluntary compliance. In FY 2015, the number of audits completed by the Office Audit Branch was 17,362 cases, an increase of 92.5% (8,343 cases) compared to FY 2014, and the total dollars assessed was \$50.2 million, an increase of 41.3% (\$14.7 million) compared to FY 2014. The majority of the audits were performed by Oahu Office Audit Branch, followed by the Hawaii District Office. In FY 2015, the Office Audit section handled the processing of the Estate and Transfer Tax returns and collected \$4.5 million for estate tax returns. Charts 2.7 and 2.8 (on the following page) show the number of audits completed and the dollars assessed by Office Audit for FY 2006 through FY 2015.

2.3.3 Field Audit Branch

Similar to the Office Audit Branch, the Field Audit Branch performed examinations and audits to enhance voluntary compliance. The Field Audit Branch handled audits involving intricate auditing procedures. In FY 2015, the number of audits completed by the Field Audit Branch was 174 cases, a decrease of 4.9% (9 cases) compared to FY 2014, and the total dollars assessed was \$68.7 million. Charts 2.9 and 2.10 show the number of audits completed and the dollars assessed by Field Audit for FY 2006 through FY 2015.

Chart 2.7 - Office Audit: Number of Completed Audits

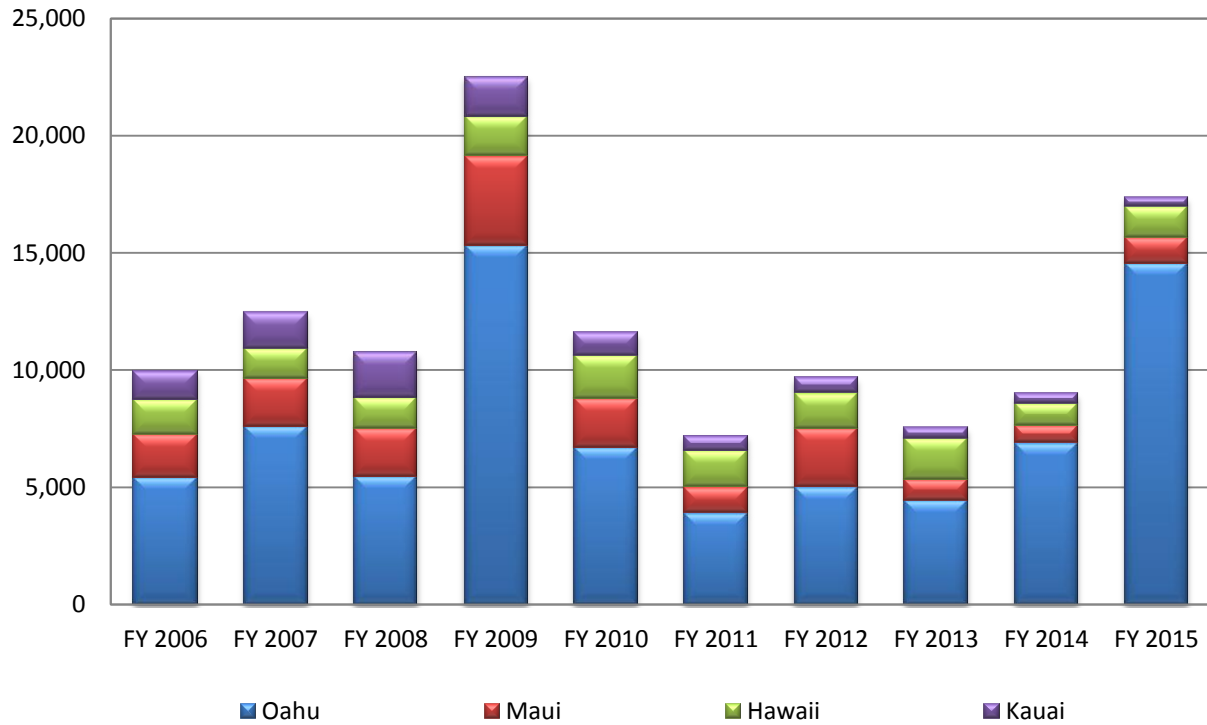


Chart 2.8 - Office Audit: Dollars Assessed

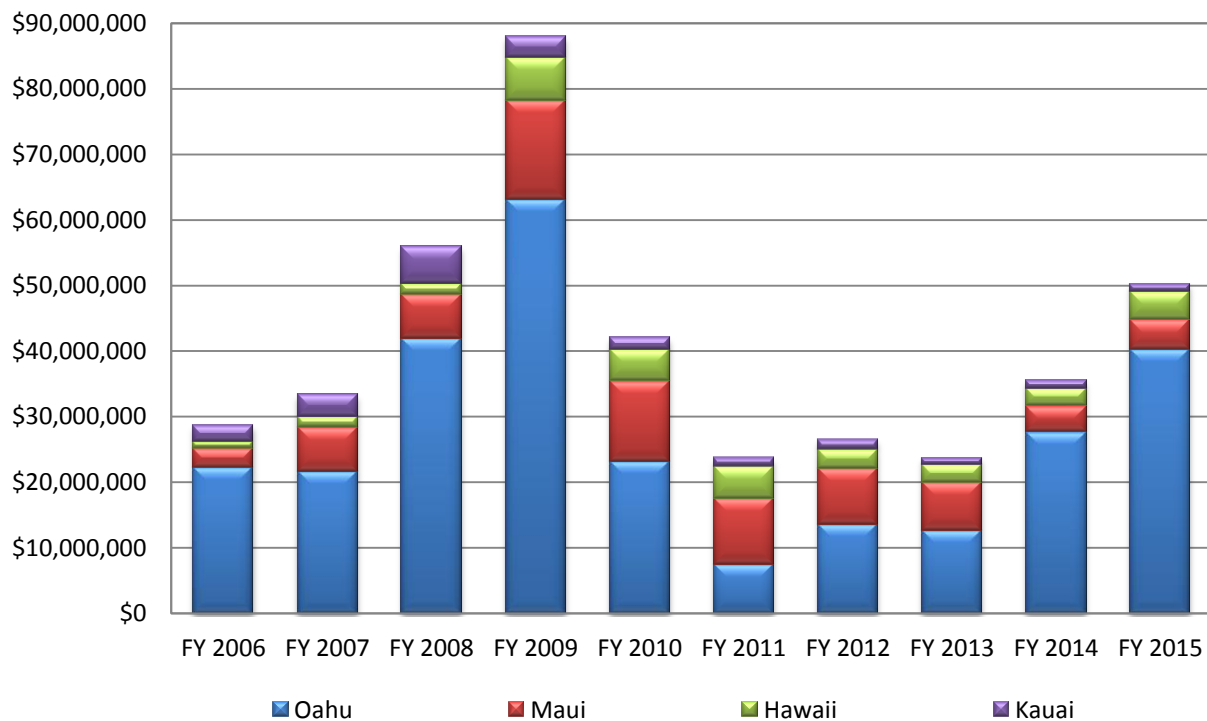


Chart 2.9 - Field Audit: Number of Completed Audits

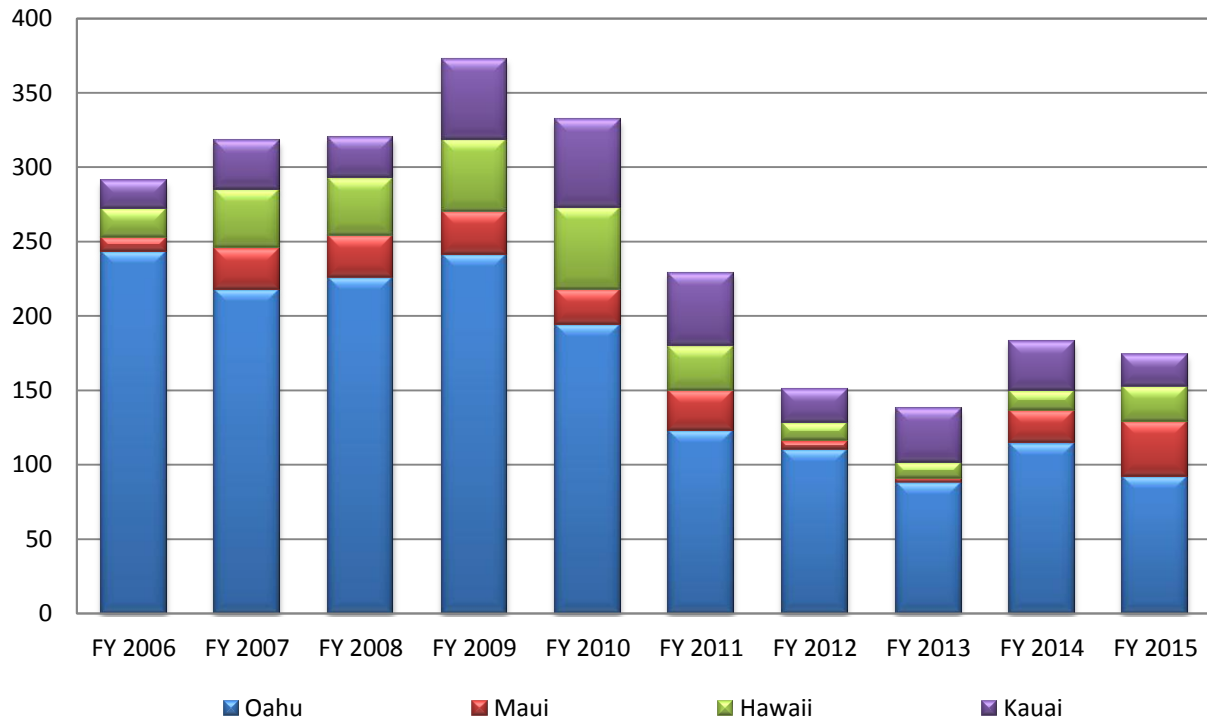
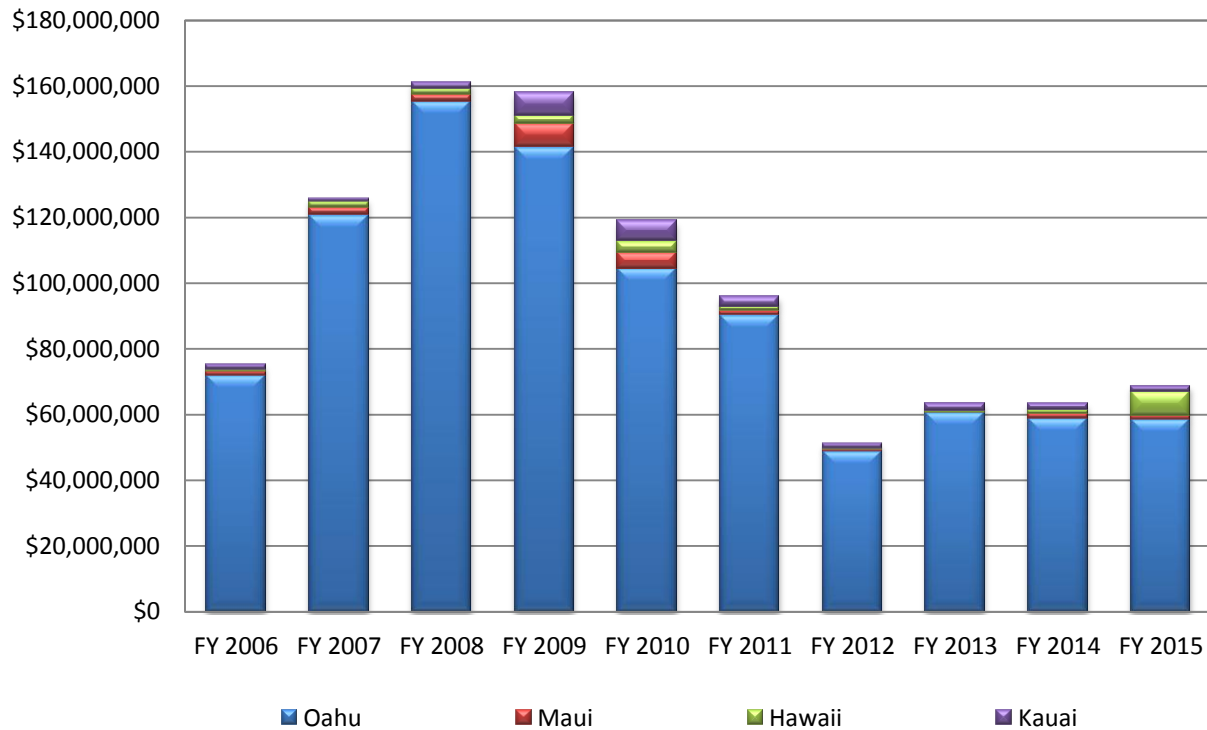
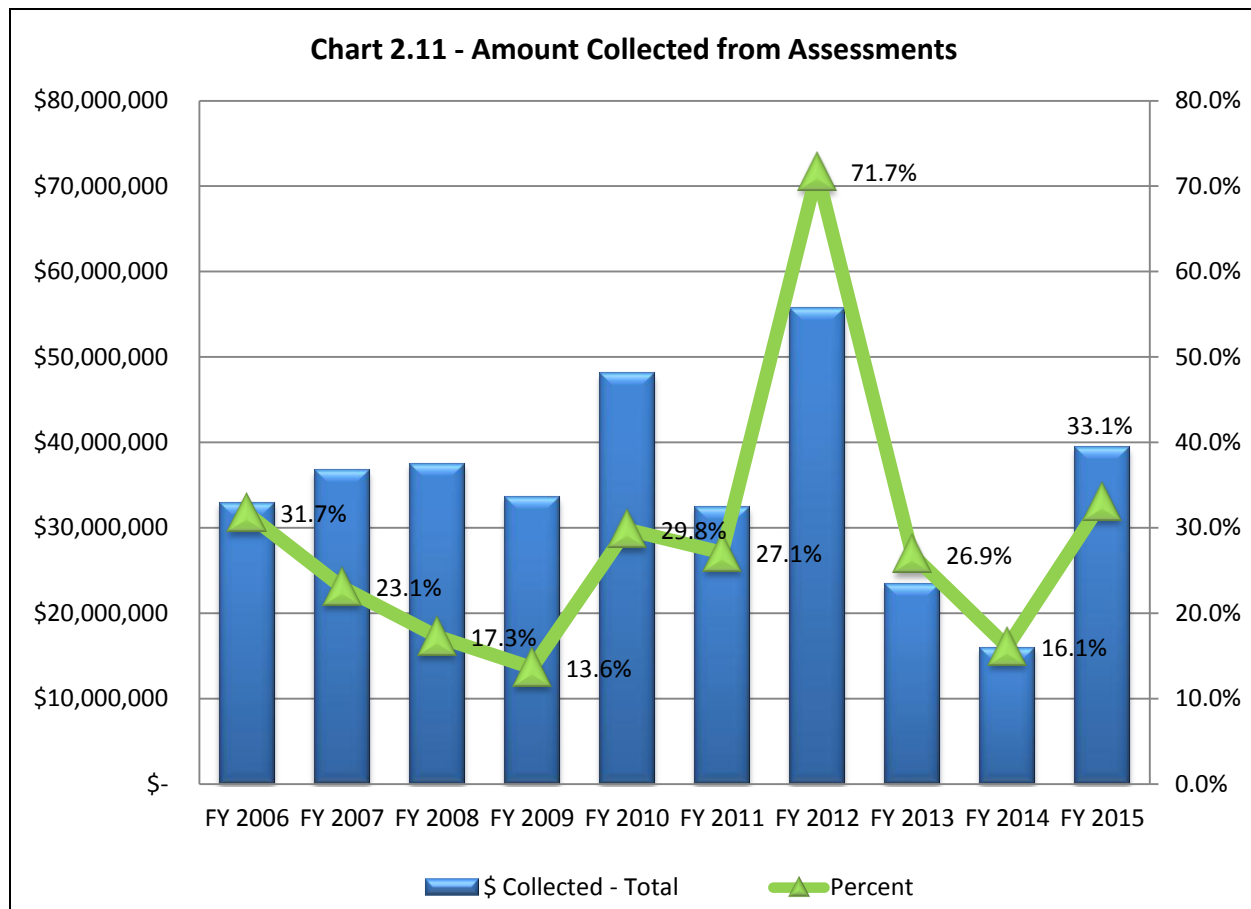


Chart 2.10 - Field Audit: Dollars Assessed



2.3.4 Revenue – Office and Field Audit Assessments

The amount collected at the time the audits were closed and prior to the mailing of any billing notices increased from \$15.9 million in FY 2014 to \$39.3 million in FY 2015.³ The figure for FY 2015 represents a collection rate of 33.1%. Chart 2.11 summarizes the amounts collected from assessments made by the Office and Field Audit Branches for FY 2006 through FY 2015. Table 2.1 shows the amounts assessed for FY 2015.



³ Dollars assessed are assessments generated during the 2015 fiscal year. The dollar amount collected is for collections during the 2015 fiscal year and may include assessments and settlements from prior fiscal years.

TABLE 2.1 – AMOUNTS ASSESSED FOR FY 2015

	<u>Office Audit</u>		<u>Field Audit</u>	
	Number of Audits	Dollars Assessed	Number of Audits	Dollars Assessed
Oahu	14,557	\$ 40,333,297	92	\$ 58,499,551
Maui	1,124	\$ 4,434,915	37	\$ 1,210,916
Hawaii	1,291	\$ 4,271,214	24	\$ 7,187,104
Kauai	390	\$ 1,179,864	21	\$ 1,845,445
Total FY 2015	17,362	\$ 50,219,290	174	\$ 68,743,016
Total FY 2014	9,019	\$ 35,538,046	183	\$ 63,487,469
Difference	8,343	\$ 14,681,244	(9)	\$ 5,255,547

2.3.5 Special Projects

Oahu Office Audit Branch conducted the following special projects during the fiscal year:

- Renewable Energy Tax Credit: The review of the tax credits claimed resulted in \$613,321 in assessments and adjustments.
- 1099-MISC: The examination of tax returns resulted in \$6.1 million in assessments and adjustments.
- Non-Filers: The examination of tax returns resulted in \$7.3 million in assessments and adjustments.
- Itemized Deductions: The examination of tax returns resulted in \$4.2 million in assessments and adjustments.

Oahu Field Audit Branch conducted the following special projects during the fiscal year:

- Federal Contractors Project: This project, which targets unlicensed contractors working on federal installations, was started in 1983 and is an ongoing activity. Three audits were completed and resulted in \$411,146 in assessments.
- Referral Cases from Criminal Investigation Unit: Four cases that were either originally considered for possible criminal prosecution or that arose pursuant to a criminal investigation were completed, resulting in \$563,321 in assessments.
- Renewable Energy Tax Credit: The review of the credits claimed resulted in \$60,454 from 15 audits.
- Multistate Tax Commission: During this fiscal year, two audit cases were completed that resulted in \$344,222 in assessments.

The Maui Office Audit participated in the miscellaneous deductions project. During fiscal year ended June 30, 2015, Maui Office Audit assessed 151 taxpayers a total of \$503,816 in tax, \$4,751 in late filing penalties, \$56,634 in negligence penalties, \$38,338 in understatement of tax or overstatement of refund penalties and \$43,451 in interest.

The Office Audit section of the Hawaii District Office conducted the following special projects during the fiscal year:

Renewable Energy Tax Credits: The review of renewable energy tax credits claimed resulted in \$74,532 in assessments and adjustments.

Itemized Deductions: The examination of tax returns resulted in \$458,602 in assessments and adjustments.

The Field Audit section of the Hawaii District Office conducted the following special projects during the fiscal year:

Referral Cases from Criminal Investigation Unit: Four cases that were either originally considered for possible criminal prosecution or arose pursuant to a criminal investigation were completed, resulting in over \$4.0 million in assessments.

Tax Credits (Capital Goods Excise and Renewable Energy): The review of the credits claimed resulted in \$650,040 in assessments and adjustments.

2.3.6 Taxpayer Assistance Provided

During FY 2015, the personnel in neighbor island district tax offices helped taxpayers properly file numerous tax returns and other documents over the telephone, at the service counter, and via correspondence. The Oahu Office Audit, Field Audit, and Collection units also provided support services to the neighbor island district tax offices and to the Oahu Taxpayer Services Branch when requested. Table 2.2 summarizes the number of times that taxpayer assistance was provided by the Maui, Hawaii, and Kauai District Tax Offices:

TABLE 2.2 – TAXPAYER ASSISTANCE PROVIDED BY MAUI, HAWAII AND KAUAI DISTRICT OFFICES

				Difference	
	FY 2015		FY 2014	Number	Percentage
Counter	72,998		74,607	-1,609	-2.2
Phone Services	56,213		53,298	2,915	5.5
Tax Clearances	7,462		5,486	1,976	36.0
Correspondence	18,856		21,395	-2,539	-11.9

The taxpayer services sections provide accessible telephone and counter services despite the centralization of customer services within the Oahu TSP Division. The districts continue to receive a steady flow of telephone inquiries, and can assist with any tax inquiry with the use of the statewide tax data system.

The assistance provided to taxpayers is part of the Compliance Division's continuing emphasis on taxpayer education and problem resolution in its contacts with taxpayers. The Compliance

Division continues to believe in the importance of maintaining taxpayers' willingness to accurately and voluntarily comply with the State's tax laws. This "taxpayer enabling and empowering activity" will continue to be emphasized.

2.3.7 Collection Branch

The Compliance Division's Tax Collections program consists of the Oahu Collection Branch and the Collections Sections in the Maui, Hawaii, and Kauai District Tax Offices. Collections of delinquent taxes totaled \$235.9 million for FY 2015, compared to the \$225.5 million in delinquent tax collections in FY 2014, an increase of \$10.4 million. Chart 2.11 shows delinquent collections for FY 2006 through FY 2015. Table 2.3 shows major performance measures for FY 2015 and FY 2014.

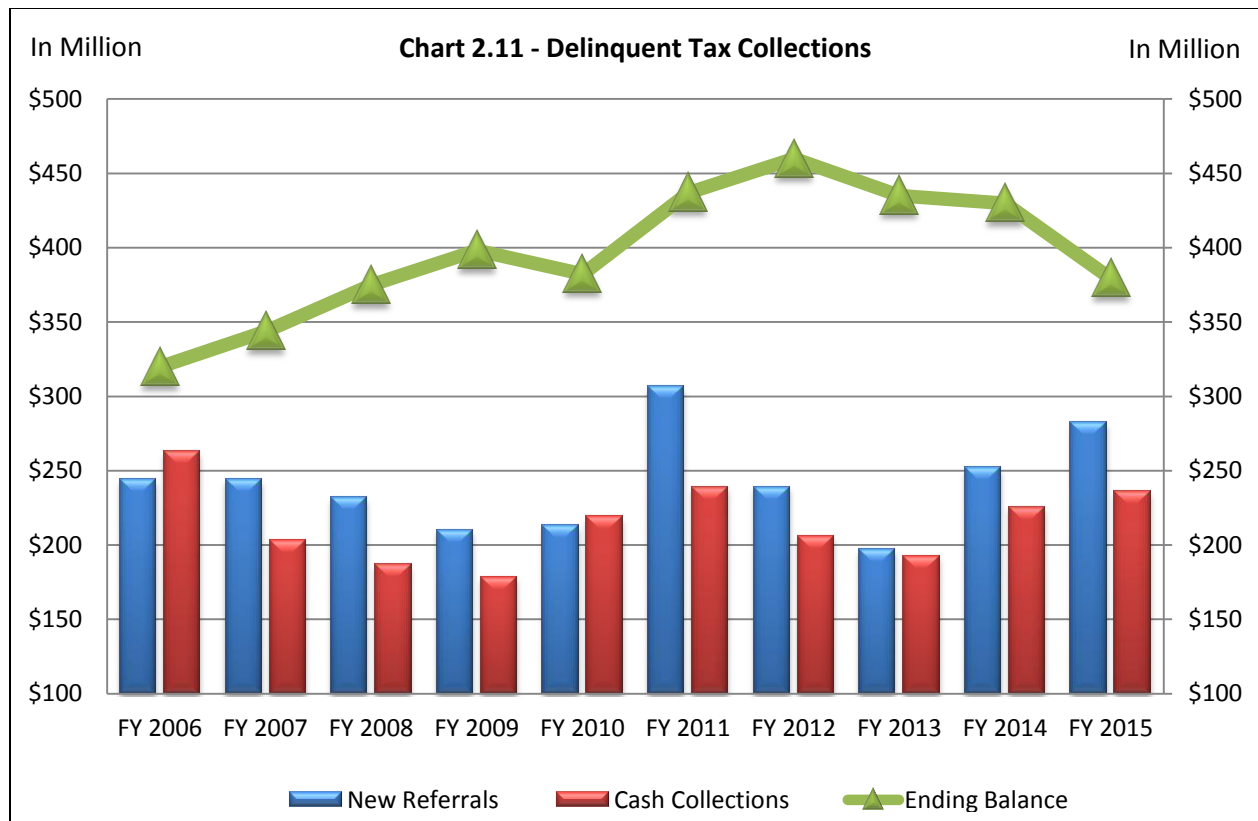


TABLE 2.3 – MAJOR PERFORMANCE MEASURES FOR FY 2015 AND FY 2014

Measure	FY 2015	FY 2014	Difference	
			Amount	Percentage
Total Delinquent Tax Balance (\$ Millions)	\$ 384.2	\$ 429.9	\$ (45.7)	(11.8)
Total New Delinquent Referrals (\$ Millions)	\$ 282.3	\$ 251.7	\$ 30.6	12.2
Total Cash Collected (\$ Millions)	\$ 235.9	\$ 225.5	\$ 10.4	5.0
Uncollectible Tax Write-Offs (\$ Millions)	\$ 92.1	\$ 31.3	\$ 60.8	194.4
Payment Plans Initiated	33,055	33,025	30	.09
Tax Liens Filed	3,130	3,553	(423)	
Levies Served	21,599	20,081	1518	7.55

2.3.8 Criminal Investigation Section

During Fiscal Year (FY) 2015, the Criminal Justice Division of the Department of the Attorney General filed criminal complaints against four taxpayers for violating Hawaii State tax laws as described in Hawaii Revised Statutes §231-34, 231-35 and 231-36. The Office of the Prosecuting Attorney for Honolulu also filed a criminal complaint and obtained a grand jury indictment against two taxpayers for tax related charges. A total of six criminal complaints and /or indictments were filed this fiscal year as a result of investigations conducted by the Criminal Investigation Section. The six complaints/indictments filed against these taxpayers accounted for over \$83,602 in unpaid taxes (excluding civil assessments, penalties and interest). Pleas of no contest or guilty was entered in one case and the five other remaining cases are pending further judicial action.

Including the cases referenced above, five previously charged cases were adjudicated in FY 2015. These cases accounted for over \$151,236 in restitution. The courts imposed criminal fines of \$8,800 and 600 hours of community service in these cases.

A total of \$1,950,775 in unpaid taxes, penalties and interest was collected by the Criminal Investigations Section for the fiscal year ending June 30, 2015.

Cases worthy of note

(These cases are described in section 3.2.4.)

2.3.9 Special Enforcement Section

Act 134, SLH 2009, provided resources for the creation of the Special Enforcement Section (SES), which is a unique initiative to increase compliance by businesses conducting a significant number of difficult-to-trace cash transactions in what has been called the "cash economy." SES began conducting investigations in Fiscal Year (FY) 2010.

In FY 2015 there were only three investigators, of the five investigator positions filled, for a majority of the fiscal year. During this time there was an increase in vendor education visits, investigations completed, and returns secured. The revenue collected doubled from FY2014 to FY2015.

The unit has been able to produce effectively and efficiently by beginning to work with other sections within the department to streamline the Compliance process for the Taxpayers, from filing to payment. This has lead to an increase in the number of cases being worked and taxpayers being contacted. Despite staffing shortages and changes in the fiscal year the unit produced the following results in Fiscal Years 2013 to 2015. The unit reports the following statistics:

	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>
Complaints filed by anonymous persons	136	195	391
Vendors educated on complying with tax laws	885	1,005	1,554
Site visitations throughout the State of Hawaii	54	18	60
Number of Investigations completed	10	31	34
Number of Referrals sent for Assessment	10	22	7
Total Liability on Secured Returns	\$1,496,206	\$996,211	\$2,332,782
Revenue Collected	\$679,570	\$805,776	\$1,619,235

2.4 STAFF OFFICES

2.4.1 Administrative Services Office

2.4.1.1 Fiscal Office

The Administrative Services Office submitted the biennium budget for FY 2016 and FY 2017 to the 2015 Legislature. The Legislature appropriated \$29.7 million for FY 2016 and \$29.9 million for FY 2017 for operating expenses, and \$472,000 for a Capital Improvement Project in FY 2016 to renovate office space at the Keelikolani Building. The Department did not request any new positions, because it already has a high vacancy rate.

For fiscal year 2015, \$27.9 million was appropriated for the Department, but in discharging its duties and responsibilities, the Department incurred operating expenses of only \$20.7 million for the year. The Department collected \$6.54 billion in net tax revenues in fiscal year 2015, so the cost to collect \$100.00 of taxes was about \$0.32.

2.4.1.2 Personnel Management

In FY 2015 the Personnel Office emphasized the enforcement of personnel regulations to ensure fair and equitable treatment of employees. However, the continued high vacancy rate hampered the Department from fully achieving its program objectives.

During that fiscal year, the Department's total vacancy rate for permanent positions declined from 18% to 16%. Although vacancies in the Compliance Division fell by 43%, those in Tax Services & Processing increased by 47% and those in Staff Offices increased by 12%.

The emphasis in FY2016 will be given to filling the Department's vacancies as quickly and efficiently as possible. Personnel will also concentrate on helping the Department achieve its objectives by efficiently organizing, placing, and retaining its employees.

To provide sufficient and quality staff in the Department's major program areas, Personnel aims to significantly reduce the Department's vacancies in the new fiscal year. Adjustments to the recruitment process have been made that will expedite recruitment and help select the best qualified candidates available.

The Department had 384 authorized permanent positions for FY 2015, which was an increase of 2 positions from FY 2014. Employees were geographically distributed as follows: Oahu, 315; Hawaii, 28; Maui/Molokai, 24; and Kauai, 17. For FY 2016, there are no changes in the number of authorized permanent positions and the geographic distribution of employees. The following is the Department's staffing pattern.

STAFFING PATTERN
(Number of Authorized Permanent Positions)

<u>By Organization/Operating Program</u>	<u>Fiscal Year</u>				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Headquarters Administration	75	75	75	72	71
Tax Services and Processing Division	118	118	118	122	123
Compliance Division	<u>191</u>	<u>191</u>	<u>189</u>	<u>189</u>	<u>179</u>
TOTAL	384	384	382	383	373

2.4.2 Rules Office

The Rules Office is comprised of the Rules staff and the Technical Section. The function of the Rules Office is to serve as a resource for complex policy recommendations and complex internal support. The Rules Office also assists in the Department's implementation of new legislation and in creating and maintaining the Department's tax forms, form instructions, and publications.

2.4.2.1 Rules Staff

The Rules staff serves as the Department's internal advisory arm to the Director of Taxation on tax policy and advises the Director's Office and the Department on legislative and tax policy issues. Litigation and other external legal matters are handled exclusively by the Tax Division of the Department of the Attorney General.

In addition, the Rules staff assists, counsels, and represents the Department's compliance personnel with tax disputes and other administrative tax controversies. For example, the Rules staff provided assistance to the Department's compliance function in interpreting issues under audit, settlement negotiations and closings, and appeared on behalf of the Department before the Boards of Review. The Rules staff also assisted the Tax Division of the Department of the Attorney General with the tax appeals that are being litigated.

The Rules staff also testified at legislative hearings on behalf of the Director, provided training for Department personnel, and spoke at several workshops for tax practitioners. For the 2015 legislative session, the Rules staff drafted and submitted six bills sponsored by the administration, which were submitted to both the House of Representatives and the Senate. 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 the bills introduced to the 2015 Legislature, the Director's Office and the Rules staff determined there were approximately 250 measures proposing tax law changes and analyzed them in depth. The measures were tracked throughout the legislative session and written testimonies were prepared each time a tax measure was heard by the Legislature. In addition, the Rules staff drafted letters to legislative committee chairs to respond to specific questions raised during hearings or to address specific concerns of committee members.

During the fiscal year, the Rules staff prepared Tax Announcements, Tax Information Releases, letter rulings, Administrative Directives, and other publications. During FY 2015, four Tax Announcements were issued. Since 2009, when it became the Department's policy to publicly

release taxpayer letter rulings in redacted form, 60 redacted letter rulings have been released.

In FY 2015, the Department promulgated administrative rules relating to the Cash Economy Enforcement administered by the Special Enforcement Section under Hawaii Revised Statutes (HRS) § 231-91. The rules went into effect on November 30, 2014. These Rules provide specific guidelines relating to cash economy enforcement, with particular regard to the issuance of cease and desist citations, how fines will be issued, and procedures to contest the citations.

The Rules staff also reviewed and certified 165 requests for the high technology business investment tax credit and the credit for research activities pursuant to HRS § 235-110.9 and HRS § 235-110.91, collectively.

2.4.2.2 Technical Section

The Technical Section is tasked with varying responsibilities to carry out the Department's projects, goals and initiatives, and to support the Department's operational needs. Specifically, the Technical Section assists and advises all divisions within the Department, as well as outside parties such as individual and corporate taxpayers and tax professionals, on complex areas of state tax. For FY 2015, the Technical Section responded to 1,106 email inquiries and 4,882 telephone inquiries. It also responded to 72 formal requests, including requests for letter rulings or information letters, determinations of tax status (such as for eligibility for the general excise tax exemptions for air-pollution control facilities), multi-level marketing agreements, and tax surveys and questionnaires from other government agencies, educational institutions, and major tax service product providers.

The Technical Section also reviews, researches, analyzes, and provides comments and recommendations on the technical and procedural aspects of legislative bills, administrative rules, and tax information releases. The staff is responsible for revising or creating the State's tax forms and instructions, incorporating all applicable federal and state tax law changes. For FY 2015, the Technical Section reviewed 316 tax forms and 55 tax form instructions. They also developed one new tax form and two new tax form instructions, and terminated three tax forms that were determined to be obsolete.

Other duties of the Technical Section include analyzing and reviewing certain applications for tax exemptions. In FY 2015, 191 applications for an exemption from the general excise tax were received, 307 applications were reviewed and processed, and 76 applications are pending further action. In addition, 2,938 applications for conveyance tax exemptions were reviewed and processed.

2.4.3 Tax Research and Planning Office

The following are the main functions of the Tax Research and Planning (TRP) Office: (1) prepare reports on data collected by the Department, including reports on collections of the State's various taxes, on the income patterns of individual and business taxpayers, and on tax credits claimed by taxpayers; (2) provide administrative and technical support to help the Council on Revenues to prepare its forecasts of General Fund tax revenues and of total personal income; (3) provide economic and statistical analyses to help the Department execute its policies and programs; (4) prepare reports on the revenue consequences of proposed tax legislation for the Legislature, for the Governor and for other agencies in the Administration; and (5) provide administrative and technical support for the Tax Review Commission when it is in session.

The TRP Office prepares the following reports on a monthly, fiscal year, and calendar year basis:

(1) State Tax Collections and Distributions; (2) General Excise and Use Tax Collections; (3) Liquid Fuel Tax Base and Collections; (4) Liquid Fuel Tax Allocations by Fund; (5) Liquor Tax Collections and Permits; (6) Tobacco Tax Collections and Licenses, and (7) Preliminary Comparative Statement of General Fund Tax Revenues.

In fiscal year 2015, the TRP Office worked on the Department of Taxation's *Annual Report: 2013–2014*, which was completed and submitted in November of 2014. The Office also published the reports *Hawaii Individual Income Tax Statistics: Tax Year 2012* and *Tax Credits Claimed by Hawaii Taxpayers: Tax Year 2012*. Owing to staff shortages, the reports on tax credits and on the individual income taxes had been discontinued since 2007, when the reports for tax year 2005 were issued. Statistics from the reports are used to estimate the revenue consequences of legislative proposals and to inform policy officials about the revenue costs of the tax credits.

For the 2015 Legislative session, TRP staff reviewed and tracked tax-related legislative bills and resolutions, and prepared more than 350 revenue estimates for various drafts of the bills. Revenue estimates were also prepared for various proposals in response to requests from the Administration, from legislators and from others.

An important function of the TRP Office is to provide administrative and technical support to help the Council on Revenues produce its forecasts of tax revenues. The seven members of the Council are responsible for forecasting State General Fund revenues and the State's total personal income. The Council provides forecasts of State revenue for the current and six subsequent fiscal years. The forecasts are due on September 10, January 10, March 15, and June 1 of each year. The forecasts are used by the Governor and by the Legislature to develop and administer the State's budget. The Council also forecasts total personal income (TPI) for the current and immediately following calendar years. The TPI forecasts are due on August 5 and November 5 of each year. The growth in Hawaii total personal income is used to set the ceiling for expenditures from the State's General Fund, as required by the State's Constitution.

TRP staff applied advanced econometric modeling techniques to data on State tax collections and to data on other economic variables to help the Council produce its forecasts. The Council's last General Fund forecast for fiscal year 2015 was produced on May 21, 2015. The forecast called for tax collections dedicated to the Fund to grow by 7.5% compared with fiscal year 2014. Tax collections actually grew by 6.8%, as General Fund collections grew from \$5.37 billion in fiscal year 2014 to \$5.74 billion in fiscal year 2015. The Council's last forecast for total personal income for calendar year 2014 was produced on November 3, 2014 and called for growth of 3.5% over calendar year 2013. The actual growth was 3.8%, from \$63.5 billion in 2013 to \$65.9 billion in 2014.

The TRP Office updated the econometric model that was developed under a contract with UCLA Anderson Forecast to predict General Fund tax collections based on the Council's forecasts for economic variables. The Office also continued to provide results based on its own model. At the request of the Council on Revenues, the TRP Office also provides the results of a single-equation regression to predict General Fund tax revenues.

2.4.4 Information Technology Services Office

The Information Technology Services (ITS) Office is responsible for providing technical support for the Department's computerized tax systems and applications, local area network, and network-related components and infrastructures.

During FY 2015, the ITS Office continued to focus on managing, administering, and maintaining the Integrated Tax Information Management System (ITIMS) and supporting network-related components and infrastructures. In addition, the ITS Office began preparing for the multi-year Tax System Modernization (TSM) Program that will eventually replace all of the Department's current information technology systems and applications.

As defined by its charter, the TSM Program is overseen by an executive steering committee consisting of senior Department officials, including the Director of Taxation, who acts as the program executive sponsor. The TSM Program Manager directs the TSM Program Management Office (PMO) and reports to the TSM Executive Steering Committee. The TSM PMO is tasked with providing program/project management and information technology expertise to facilitate the implementation of new technology and business process improvements.

The management of the TSM Program complies with recommendations made by the State Auditor in 2010 and represents an unprecedented effort to leverage experienced professionals and best practice methodologies to ensure the success of the Department's tax modernization program. Managing information technology projects under a program structure allows for coordination to obtain benefits and control that could not be attained from managing projects individually.

Key information technology initiatives continued or accomplished during FY 2015 include the following:

- In accordance with Act 110, Session Laws of Hawaii 2014, system modifications were made to add another tax rate to the Rental Motor Vehicle and Tour Vehicle Surcharge Tax forms for a 'new' tax rate called the 'Car-sharing vehicle surcharge tax'. Car-sharing companies are subject to tax at \$0.25 per 1/2 hour, up to a maximum of 6 hours. (For rentals of 6 hours or more, the rental motor vehicle tax of \$3 per day applies.) System modifications were implemented by February 2015.
- In accordance with House Bill 1702, Session Laws of Hawaii 2014, system modifications were made to include a Capital Infrastructure Tax Credit for 2014 Individual Income Tax forms. System modifications were implemented by June 2015.
- Various system processes and system modifications were implemented to assist in fraud validation of refunds claimed for Individual Taxes.
- In accordance with the revisions to the State's banking contract, system modifications were made to switch the transmission of ACH files for direct deposit refunds from First Hawaiian Bank to Wells Fargo Bank. System modifications were implemented in June 2015.

- An e-mail subscription service was added to the DoTAX website at <http://tax.hawaii.gov> to notify taxpayers of important tax announcements, workshops and meetings, and to provide other useful information.
- Tax collection information was provided to the "transparency in government" website at <http://transparency.hawaii.gov> in support of the State's openness in government measures.
- A vendor was selected for a major TSM Program procurement through a rigorous proposal review process. Contract negotiations for what is expected to be a \$60 million partnership over the next decade were completed by June 2015.

Items that will likely continue into the next reporting period include the following: 1) TSM Program rollouts; 2) annual tax law changes; 3) further strengthening of measures to detect and stop fraudulent refunds.

Although the complete replacement of existing legacy systems under the TSM Program is scheduled to take four years, the strategic prioritization of systems impairing the Department's performance will allow the State to realize benefits as early as the next tax season. As hardware, software, and associated business process improvements related to this contract are implemented, the Department will be able to speed processing of returns and refunds, identify and stop tax cheaters, tighten security, increase revenues without increasing taxes, and improve the quality of service that taxpayers receive. Every state that has partnered with the vendor selected by the TSM Program has been able to complete implementation of the proposed solution on time and on budget. The solution itself has been proven in more than 20 states to recoup implementation costs and provide lasting revenue increases.

2.4.5 System Administration Office

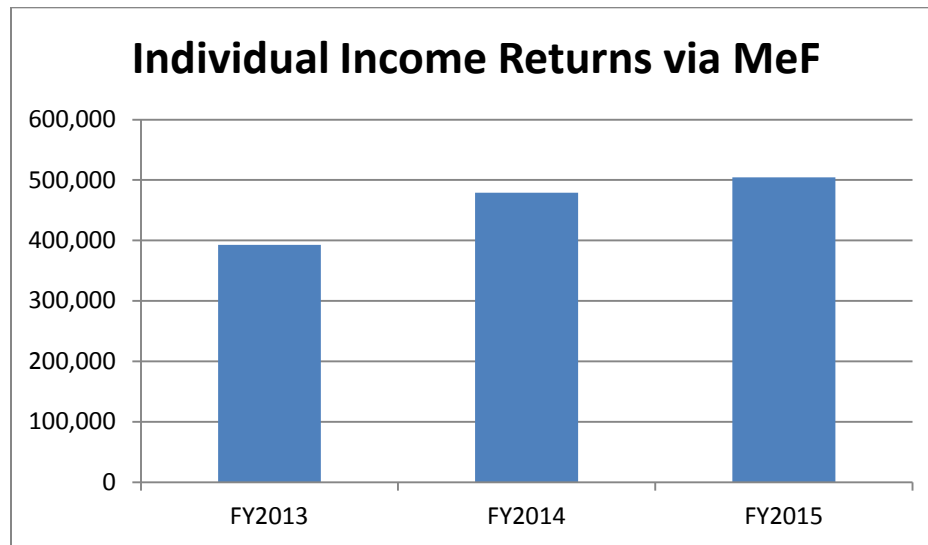
The System Administration Office provides business and technical support to operational areas to address system related issues. The Office also provides statistical data and facilitates discussion of process improvement. During fiscal year 2015, the Office performed the following tasks:

Modernized Electronic Filing (MeF)

Modernized Electronic Filing (MeF) is a program that allows electronic filing of federal and state returns through the Internal Revenue Service (IRS). The Office is responsible for updating and publishing return edits and rules, as well as testing and approving software products.

Due to limited staffing, we requested help from two additional staff (borrowed from the Taxpayer Services & Processing Division) to help test the 2014 tax year updates. With the additional help, the Office was able to test and approve 44 software products and to implement the MeF program successfully and in a timely manner in January 2015.

There were 504,571 individual income returns accepted via MeF in fiscal year 2015, an increase of 5.3% from fiscal year 2014.



Quality assurance

The Office works closely with the Compliance division and the Taxpayer Services & Processing division in an ongoing effort to improve return validation and to facilitate the refund review process. The Office also oversees the generation of system notices and provides other refund-related quality assurances.

System modifications and testing

Modification was made to the direct deposit refunding process to support a change in the bank used by the State. The bank change was effective July 1, 2015. The Office worked with ITSO, the Department of Budget and Finance, and the new bank to implement the change. Due to limited staffing, we requested help from a member of the Office staff who is detailed to the TSM program. The change to the new bank and testing of the operations went fairly smoothly and all issues were resolved by the new bank within the first month.

Besides working on the bank change, the Office was also responsible for testing system modifications to correct defects or to make other required updates. In fiscal year 2015, the Office completed testing fifteen (15) incident or enhancement modifications.

Other production support

In fiscal year 2015, the Office addressed 1,071 help tickets with requests for user security, for statistical data, for answers to general system or tax law questions, or for quality assurance updates.

2.5 MANAGEMENT PERSONNEL

As of June 30, 2015

OFFICE OF THE DIRECTOR

Director of Taxation Maria E. Zielinski
Deputy Director of Taxation Joseph K. Kim

STAFF OFFICES

Public Information Officer Mallory Fujitani
Rules Officer Ted Shiraishi
 Technical Section Supervisor Denise Inouye
Tax Research & Planning Officer Donald Rousslang
 Senior Economist Yvonne Chow
Information Technology Services Officer Robert Su
Acting Administrative Services Officer Keung Li
 Personnel Officer Sharene Moriwaki
Taxpayer Advocate Vacant

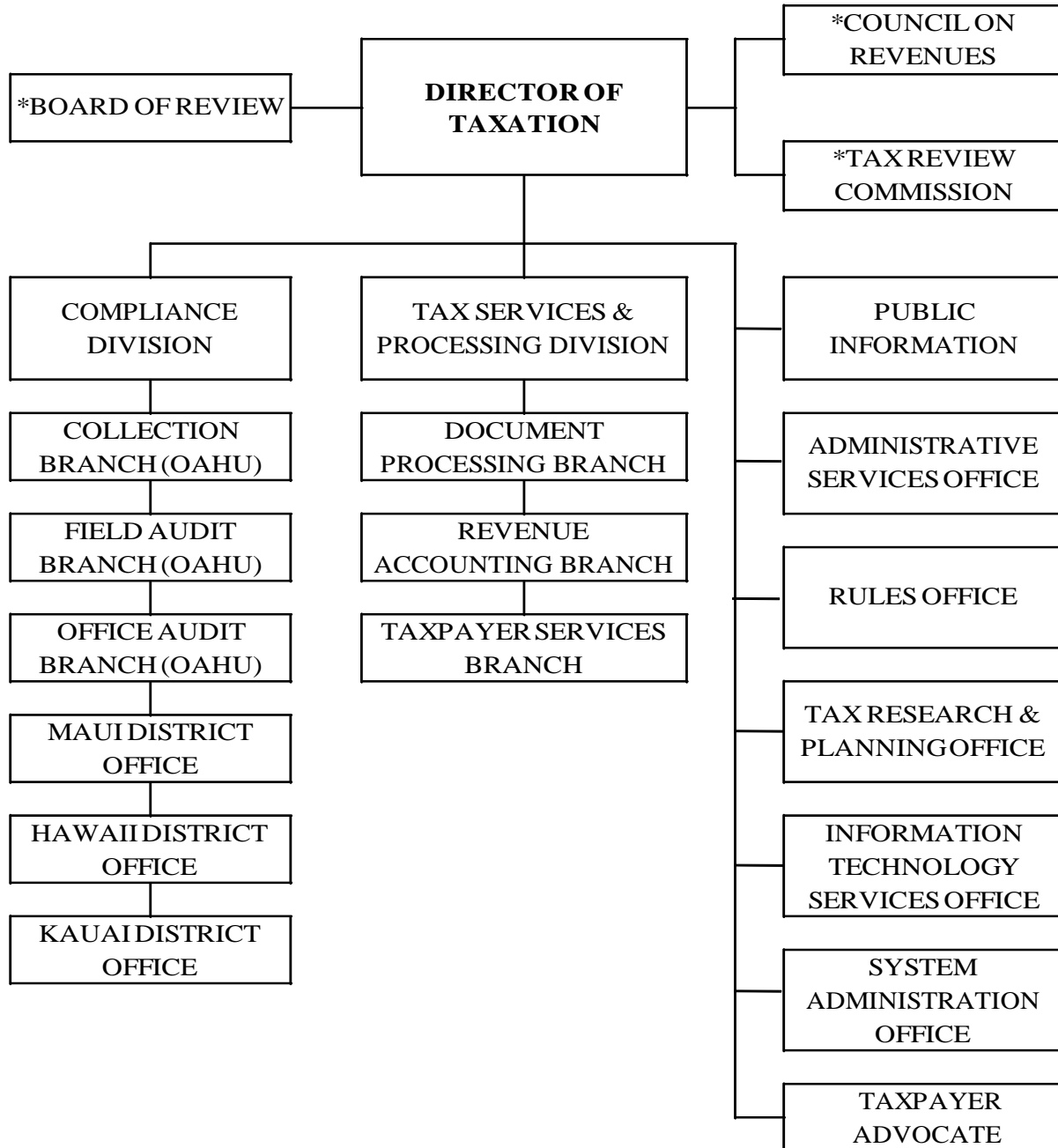
OPERATIONS STAFF

Taxation Compliance Administrator Kevin Wakayama
 Tax Compliance Coordinator Vacant
 Oahu Field Audit Branch Chief Madelaina Lai
 Oahu Office Audit Branch Chief Donald Kuriki
 Oahu Collection Branch Chief William Deeley
 Maui District Tax Manager Kathleen Uehara
 Hawaii District Tax Manager Duquesne Hulihee
 Kauai District Tax Manager Dulcie Yano

Acting Taxation Services Administrator Janyne Kaai
 Acting Document Processing Operations Manager Rosila Salvacion
 Revenue Accounting Branch Chief Jennifer Oshiro
 Taxpayer Services Branch Chief John Pacheco

2.6 ORGANIZATION CHART

Department of Taxation
State of Hawaii



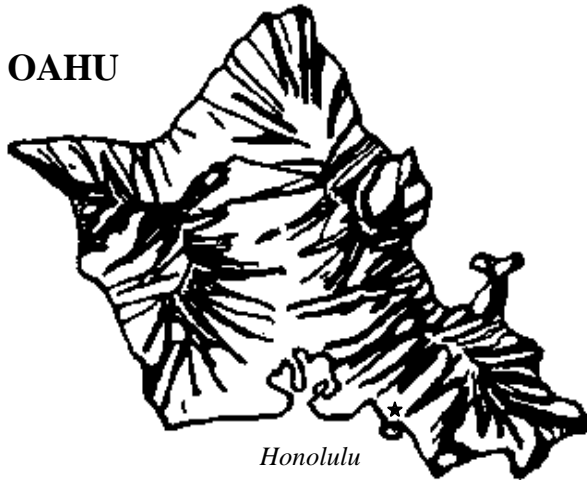
*For Administrative Purposes

2.7 DISTRICT OFFICES

FIRST TAXATION DISTRICT

City & County of Honolulu

OAHU



Honolulu

Oahu Office
830 Punchbowl Street
Honolulu, Hawaii 96813

SECOND TAXATION DISTRICT

Counties of Maui and Kalawao



Kaunakakai

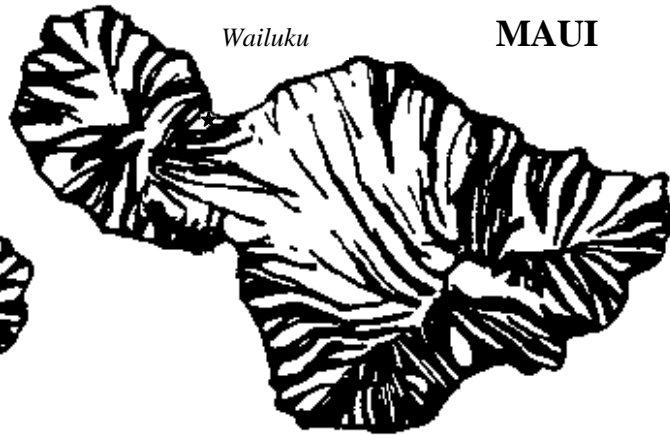
MOLOKAI

LANAI



Wailuku

MAUI



Maui Office
54 South High Street
Wailuku, Hawaii 96793

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

KAHOOLAWE

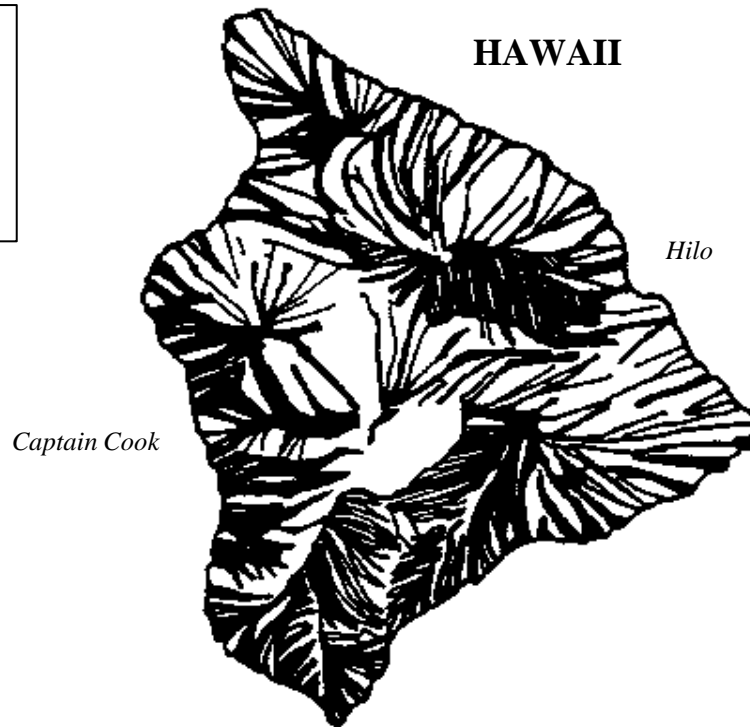


THIRD TAXATION DISTRICT

County of Hawaii

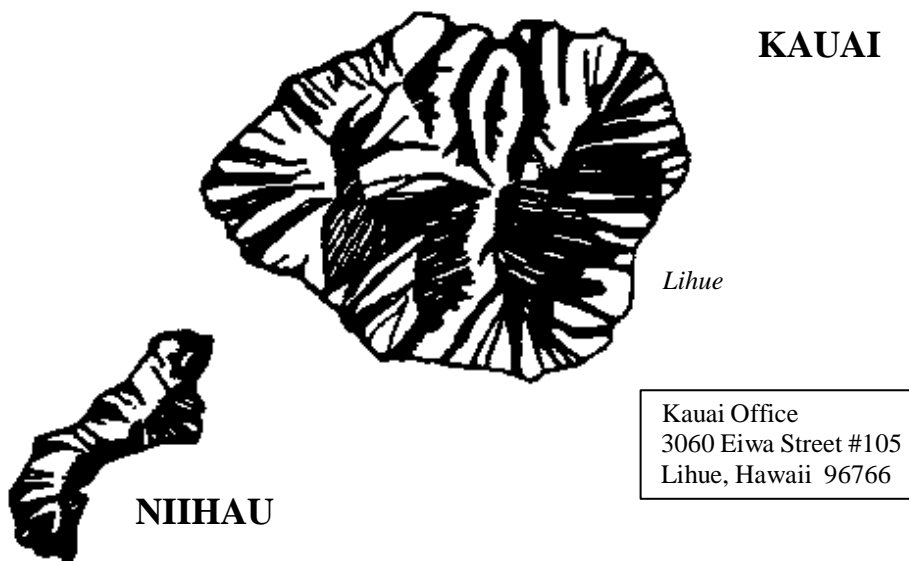
Hilo Office
75 Aupuni Street
Hilo, Hawaii 96720

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



FOURTH TAXATION DISTRICT

County of Kauai



Kauai Office
3060 Eiwa Street #105
Lihue, Hawaii 96766

3.0 TAX APPEALS AND LITIGATION

3.1 BOARDS OF TAXATION REVIEW

Each taxation district has an administrative (i.e., non-judicial) Board of Taxation Review consisting of five members. Tax disputes that are not resolved at the district tax office level may be appealed to a Board of Taxation Review unless the dispute involves the Constitution or laws of the United States. Statewide, the boards began the fiscal year with 167 pending tax appeals. During FY 2015, 60 new appeals were filed, 20 appeals withdrawn, and 33 appeals settled; a total of 174 appeals to the Boards of Taxation Review were pending at the end of the fiscal year.

The following table details appeals to the Boards of Taxation Review by taxation district:

Taxation District	First		Second	Third	Fourth	Totals
	Field	Office				
Appeals Pending (Beginning)	94	33	17	20	3	167
New Appeals	8	8	29	7	8	60
Appeals Withdrawn	12	6	1	0	1	20
Appeals Settled	14	16	0	1	2	33
Appeals Pending (Ending)	76	19	45	26	8	174

3.2 CIVIL DECISIONS, SETTLEMENTS AND OTHER LEGAL MATTERS

Matters Closed

During the last fiscal year, the Tax & Charities Division (“Division”) closed 688 Tax Department-related legal matters, not including legislative matters which have not yet been closed, in our case management system by the Department’s Legislative Division. This report also does not include the myriad of charitable oversight, charity registration and charitable solicitation or charitable trust related matters the Division routinely handles.

Appeals	-	6
Bankruptcies	-	501
Contracts	-	4
Foreclosures	-	264
Legislation (None closed yet)		
Miscellaneous	-	12
Opinions	-	4
Quiet Title	-	2
Subpoenas	-	9

Amounts Collected

Last fiscal year, the Division collected the following amounts⁴:

Tax Appeals	\$ 27,489,741.38
Foreclosures	\$ 212,832.28
Bankruptcies	\$ 1,638,004.58
Trusts	\$ 0.00
Miscellaneous	\$ 0.00
TOTAL:	<u>\$ 29,340,578.24</u>

3.2.1 Settled Cases

Tax Appeal Court

In re Tax Appeal of CCHH Maui LLC, Case No. 09-0084 and In re Tax Appeal of CCFH Maui LLC, Case No. 09-0090, Tax Appeal Court, State of Hawaii.

Taxpayers appealed general excise tax assessments that disallowed the sublease deduction pursuant to § 237-16.5, HRS and the imposition and adjustment of use and general excise taxes. The Tax Appeal Court determined that hotel guests were not leasing real property and that Taxpayers could not claim the sublease deduction on amounts related to hotel guest stays. The remaining legal issues in the tax appeal concerned the dollar amount related to hotel guest stays, use tax, and transient accommodation taxes. The cases were settled and dismissed from the Tax Appeal Court.

In the Matter of the Tax Appeal of Helicopter Consultants of Maui, LLC, Case No. 11-1-0018; Tax Appeal Court, State of Hawaii.

Taxpayer filed an amended general excise/use tax return for taxable year 2006 claiming a refund for use taxes paid for the importation and use of materials, parts, or tools imported for aircraft service and maintenance. The Director denied the claim for refund because Taxpayer is subject to the use tax on its imported goods and does not qualify for any of the applicable exemptions, including the exemption provided in § 238-1, HRS for “the use of materials, parts, or tools imported or purchased by a person licensed under chapter 237 which are used for aircraft service and maintenance, or the construction of an aircraft service and maintenance facility as those terms are defined in section 237-24.9.” The Director prevailed on a partial motion for summary judgment and the parties will stipulate to dismiss the remaining issues.

In the Matter of the Tax Appeal of Jesse Spencer and Joyce Spencer, 1 T.X. Case No. 11-1-0098, Tax Appeal Court, State of Hawaii.

Taxpayers appealed income tax assessments for tax years 2005, 2006, and 2007. Taxpayers claimed that the assessments improperly denied their carryover residential construction and remodeling tax credit under § 235-110.45, HRS, and their pass-through capital goods excise tax credit. Taxpayers also claimed that they were not required under § 235-110.45, HRS, to attach Form N-332 to their 2005 and 2006 Form N-11s to claim properly and timely the tax

⁴ The Division also secured the dismissal of several tax appeals that would have potentially resulted in refunds to taxpayers from the General Fund and won cases on appeal that will have fiscal impact on similarly situated taxpayers and result in future tax collections that are impossible to forecast.

credit for those years. They further claimed that the assessments and the decision of the board of review violated Hawaii law, due process, the commerce and/or equal protection clauses of the United States Constitution and the Constitutions of the State of Hawaii and the State of Hawaii and the Department of Taxation Taxpayer's Bill of Rights. This case was settled.

In the Matter of the Tax Appeal of Peter Whiting, Case Nos. 1TX 1-13-0232, 1TX 1-13-0233, 1TX 1-13-0234, 1TX 1-13-0235, 1TX 1-13-0236, 1TX 1-13-0237, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the Department's general excise tax assessments on unreported income received from his personal business for tax years 2004, 2005, 2006, 2008, 2009, 2010, and 2011. Taxpayer did not file any general excise tax returns for these years. The cases were settled and dismissed from the Tax Appeal Court.

In the Matter of the Tax Appeal of Peter Whiting and Shanna Whiting, Case Nos. 1TX 1-13-0238, 1TX 1-13-0239, 1TX 1-13-0240, 1TX 1-13-0241, 1TX 1-13-0242, 1TX 1-13-0243, 1TX 1-13-0244, 1TX 1-13-0245, 1TX 1-13-0246, 1TX 1-13-0247, 1TX 1-13-0248, 1TX 1-13-0249, 1TX 1-13-0250, 1TX 1-13-0251, 1TX 1-13-0252, 1TX 1-13-0253, Tax Appeal Court, State of Hawaii.

Taxpayers appealed the Department's general excise and transient accommodations tax assessments on unreported rental income received for tax years 2004, 2005, 2006, 2008, 2009, 2010, and 2011. The cases were settled and dismissed from the Tax Appeal Court.

In the Matter of the Tax Appeal of Kauai Development LLC, Case No. 13-1-0255, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise on imputed interest. Taxpayer argued that the statute of limitations had run and that general excise taxes were not applicable to imputed interest. This case was settled.

In the Matter of the Tax Appeal of H. Graham Wood and Charlene L. Asato, Case No. 1-T.X.-13-1-0304, Tax Appeal Court, State of Hawaii.

Taxpayers appealed from the assessment of net income taxes on pension income from 2009. The Department assessed Taxpayers for unsubstantiated sources of pension income. The case was settled and a stipulation for dismissal filed.

In the Matter of the Tax Appeal of BAE Systems Technical Services, Inc., Case No. 1 T.X. 14-1-0224, Tax Appeal Court, State of Hawaii.

Taxpayer was denied a general excise tax exemption for amounts received for scientific work performed under contract with the United States. Taxpayer was relying on statements made by the auditor that it qualified for the exemption. This case was settled.

3.2.2 Closed Cases

Tax Appeal Court

In the Matter of the Tax Appeal of Ronnie D. Diaz and Imelda B. Diaz, Case No. 1 TX 14-1-0220, Tax Appeal Court, State of Hawaii.

Taxpayers appealed tax assessments of the county surcharge on their janitorial services. Director prevailed on a Motion to Dismiss because the appeal was untimely and Taxpayers failed to serve the Director.

In the Matter of the Tax Appeal of Donald James Karleen, Case No. 1 T.X. 14-1-0271, Tax Appeal Court, State of Hawaii.

Taxpayer appealed general excise tax assessment to the Board of Review claiming that the income assessed was stolen. The Board of Review instructed Taxpayer to provide certain information to the Department of Taxation. Taxpayer having failed to comply with its instructions, the Board of Review found in favor of the Director. The Director moved to dismiss the case for lack of subject matter jurisdiction, which the Court granted. The order granting the motion to dismiss was entered and the time to appeal the order has lapsed.

In the Matter of the Tax Appeal of Robert A. Odermatt, Case No. 1 T.X. 15-1-0236, Tax Appeal Court, State of Hawaii.

Taxpayer appealed general excise tax assessments claiming that the gross receipts assessed is not subject to general excise tax or county surcharge or are “not subject to the taxing authority of the State of Hawaii, or are subject to apportionment under the Constitutional, federal, or State law.” Taxpayer further claimed that even if Taxpayer was subject to the general excise tax or county surcharge, the imposition of the penalties and interest was erroneous. A Notice of Dismissal was filed.

3.2.3 Pending Appeals

Hawaii Supreme Court

In the Matter of the Travelocity.Com, LLC, Case No. 11-1-0020, Tax Appeal Court, State of Hawaii (Consolidated Cases).

Travelocity.com LP, Site 59.com LLC, Expedia, Inc., Hotwire, Inc., Hotels.com, L.P., Orbitz, LLC, Internetnetwork Publishing Corp. (d/b/a Lodging.com), Trip Network, Inc. (d/b/a CheapTickets.com), priceline.com Inc., and Travelweb LLC filed separate Notices of Appeal to the Tax Appeal Court of the State of Hawaii, timely appealing final notices of assessments of general excise tax and transient accommodations tax for the period 1999 through 2011, inclusive. By orders filed on February 8, 2012 the Tax Appeal Court granted the Department’s motions for summary judgment on the general excise tax assessments and denied the Department’s assessments of transient accommodations taxes. On August 15, 2013, the Tax Appeal Court entered a final judgment in favor of the State on the general excise tax assessments and against the State on the transient accommodations tax assessments. The amount of general excise tax, penalties and interest owed as of the date of the final judgment was \$246.8 million. The Hawaii Supreme Court granted the parties petition to transfer the appeal directly to the Hawaii Supreme Court. In an opinion issued

on March 17, 2015, the Hawaii Supreme Court ruled that the online travel companies are “travel agents” and therefore entitled to the benefit of the income splitting provision of § 237-18(g), HRS, such that Taxpayers are subject to general excise taxes on the amounts that they retain after remitting payments to hotel operators for the hotel rooms they sell online. The Hawaii Supreme Court upheld the imposition of penalties and interest on Taxpayers and upheld the Tax Appeal Court’s ruling that Taxpayers are not subject to transient accommodations taxes because they are travel agents. The Hawaii Supreme Court remanded the case to the Tax Appeal Court to recalculate the amounts Taxpayers owe to the State.

Tax Appeal Court

In the Matter of the Tax Appeal of One Napili Way Interval Owners Association, Case No. 09-0069, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes for amounts it received for condominium maintenance fees that it collected on behalf of its members and paid to the One Napili Way AOA. Taxpayer asserted the fees it collected were not income for purposes of chapter 237, HRS, and, alternatively, that the amounts were exempt reimbursements under § 237-20, HRS. Trial is set for October 19, 2015.

In the Matter of the Tax Appeals of TMI Management, Inc., Case Nos. 09-0071 and 09-0072, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes on amounts received for performing work for the federal government. Taxpayer argued, among other things, that the disputed income was exempt because Taxpayer was an employee leasing company and the disputed income was for salaries and expenses of leased employees. This case has been taken off the calendar to give the parties time to work on settlement.

In the Matter of the Tax Appeals of Bernard & Ellen Fuller and South Pacific Builders, Ltd., Case Nos. 09-0087, 09-0088 and 09-0089, Tax Appeal Court, State of Hawaii.

Taxpayers were assessed additional general excise and net income taxes on amounts received for performing work within the state. Taxpayers argued, among other things, that the disputed income was exempt because Taxpayers paid certain amounts to other contractors. Trial is set for July 11, 2016.

In the Matter of the Tax Appeal of CBIP, Inc., Case No. 09-0203, Tax Appeal Court, State of Hawaii.

Taxpayer appealed general excise tax assessments. The parties filed a stipulation for partial dismissal of the case. In the appeal that remains, Taxpayer argues that: (1) the assessment erroneously included general excise tax on amounts that were not gross income but, rather, were rebates of expenses; and (2) penalties were erroneous because non-filing and/or underpayment was not due to negligence or intentional disregard of rules. Trial is set for January 25, 2016.

In the Matter of Tax Appeal of James J. Richard & Rachael D. Richard, Case No. 1 TX 10-1-1805, Tax Appeal Court, State of Hawaii.

Taxpayers were assessed additional income and general excise taxes. Taxpayers challenged the Department's reclassification and recalculation of its liability that was based on Taxpayers' IRC § 338(g) election on a sale of a business. The basis of Taxpayers' claim was that they made an election error on the Form 8023 and the parties to the sale intended a § 338(h)(10) election instead of the § 338(g) election. Taxpayers also challenged the Department's reclassification of income that changed the amount received as personal loans and/or advances from their business to wages.

In the Matter of Tax Appeal of James & Associates CPAS, Inc., Case No. 1 TX 10-1-001806, Tax Appeal Court, State of Hawaii.

Taxpayer challenged the Department's reclassification and recalculation of its tax liability that was based on Taxpayer's IRC § 338(g) election of a sale of a business. The basis of Taxpayer's claim was that it made an election error on the Form 8023 and the parties to the sale intended a § 338(h)(10) election instead of the § 338(g) election.

In the Matter of Tax Appeal of James Professional Services, Inc., Case No. 1 TX 10-1-001807, Tax Appeal Court, State of Hawaii.

Taxpayer challenged the Department's reclassification and recalculation of its liability that was based on Taxpayer's IRC § 338(g) election on a sale of a business. The basis of Taxpayer's claim was that it made an election error on the Form 8023 and the parties to the sale intended a § 338(h)(10) election instead of the § 338(g) election. Taxpayer also challenged the use tax assessments on property it purchased.

In the Matter of the Tax Appeal of JN Group, Inc., Case No. 10-1808, Tax Appeal Court, State of Hawaii.

Taxpayer appealed general excise assessments for tax years ending March 31, 1998 through March 31, 2006, inclusive. Taxpayer claimed that the amounts assessed constituted reimbursements that were exempt under § 237-20, HRS; the assessments of penalties were erroneous because any non-filing or underpayment was not due to negligence or intentional disregard of rules; the assessments violated the due process, commerce, and/or equal protection clauses of the United States Constitution and the Constitution of the State of Hawaii. Trial is set September 12, 2016.

In the Matter of the Tax Appeal of Patrick O'Brien, Case No. 11-1-0013, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional income taxes for unreported schedule C income from a single member LLC owned by Taxpayer. Taxpayer denied the income is taxable to him. Taxpayer's counsel has withdrawn from this case and Taxpayer is seeking new counsel. Trial is set for July 4, 2016.

In the Matter of the Tax Appeal of Security Resources, LLC, Case No. 11-1-0014; Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes for underreporting the amount of gross receipts it received. Taxpayer claims the assessments are overstated and that it is entitled to be taxed at the wholesale rate of .5 percent. Taxpayer also claims some of its sales are exempt because they were sales of tangible personal property to the federal government. Taxpayer's counsel has withdrawn from this case and Taxpayer is seeking new counsel. Trial is set for July 4, 2016.

In the Matter of Taxpayer Appeal of Stephen A. Cipres, Case Nos. 11-1-0084, 12-1-0436, 12-1-0437, Tax Appeal Court, State of Hawaii.

Taxpayer challenged the Department's general excise tax assessments on the basis that the Department incorrectly increased his commissions for certain years and misinterpreted and misapplied the penalty provisions in the HRS. Trial is set for February 22, 2016.

In the Matter of the Tax Appeal of Ronald Au, Case No. 11-1-0144, Tax Appeal Court, State of Hawaii.

Taxpayer filed a petition to compel the Board of Review to prepare findings of fact and conclusions of law. The court denied the petition but granted leave to the taxpayer to file a notice of appeal from general excise tax assessments for the period 2002 through 2005, inclusive, totaling \$175,000.00. The Tax Appeal Court granted the Department of Taxation's motion to dismiss the appeal for lack of subject matter jurisdiction by order filed February 29, 2012; however, the Court granted Taxpayer's motion for reconsideration of the dismissal. The Court took a motion for summary judgment under advisement.

In the Matter of the Tax Appeal of Kamaaina's Food Service, Inc., Case Nos. 12-1-0237 and 12-1-0244, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed for general excise tax and county surcharge when applicable, for unreported services income for tax years 1987 through 1992, 1994, 1995, 1997, 1998, and 2000 through 2009 and/or imposed a 25 percent penalty for failure to file and a 25 percent penalty due to negligence or intentional disregard of rules. Taxpayer was assessed for general excise tax for unreported services income for tax years 1993, 1996, and 1999; the Department imposed a 25 percent penalty for failure to file and a 25 percent penalty due to negligence or intentional disregard of rules. Taxpayer disputed the assessments, arguing that the imposition of both penalties is not authorized by statute. Trial is set for June 27, 2016.

In the Matter of the Tax Appeal of CompUSA Inc., Case Nos. 12-1-0264, 12-1-0265, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from the disallowance of a use tax refund request for use taxes paid for 2006, 2007, and 2008. Taxpayer argued that under the commerce and equal protection clauses of the United States Constitution the imposition of Hawaii's use tax is unconstitutional. The Tax Appeal Court determined that the use tax is constitutional under the commerce and equal protection clauses of the United States Constitution.

In the Matter of the Tax Appeal of JTSI, Inc., Case No. 1TX-12-1-0276, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise and county surcharge taxes on sales of services to government instrumentalities. Taxpayer argues that it primarily sold tangible personal property to the federal government that is exempt from general excise taxes. Trial is set for September 28, 2015.

In the Matter of the Tax Appeal of Barbara Gilliss, Case No. 12-1-0303, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise and county surcharge taxes, when applicable, for rental income in tax years 2002 through 2011, inclusive. Taxpayer argued that the penalties and interest should be waived. Trial is set for May 9, 2016.

In the Matter of the Tax Appeal of Safeway Inc., Case No. 12-1-0385, Tax Appeal Court, State of Hawaii.

Taxpayer's claim for refund of use taxes was denied. Taxpayer argued that it should not have paid use taxes on amounts paid to a licensed shipper. The Department asserts use tax is calculated on the landed value of the imported items, including shipping. This case was taken off the trial ready schedule pending dismissal.

In the Matter of the Tax Appeal of Julie A. Dunham, Case No. 12-1-0390, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise and income taxes on non-filed returns for 1999 through 2010, inclusive. Taxpayer argued that the Department's income figures are incorrect. Trial is set for September 19, 2016.

In the Matter of the Tax Appeal of Ronald Au, Case No. 1TX 12-1-0393, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing the Department's income tax assessments on unreported income received for tax years 2008 and 2009. Trial is set for February 29, 2016.

In the Matter of the Tax Appeal of Zephyr Insurance Company, Inc., Case Nos. 1TX 13-1-0223, 1TX 13-1-0227, 1TX 13-0229, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing the Insurance Commissioner's tax assessment that disallowed its claim to the Qualified High Technology Business ("QHTB") tax credit pursuant to § 235-110.9, HRS. The disallowance was based on the Department determination letter to the Insurance Commissioner that ruled that Taxpayer was not entitled to claim the QHTB. Trial is set for October 26, 2015.

In the Matter of the Tax Appeal of William A. Bartenstein, Case No. 13-1-0228, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise and/or use taxes, penalties and interest on goods imported for resale. Taxpayer argued that the Department's income figures are incorrect and the stacking of the negligence and underpayment penalties is erroneous. Trial is set for March 14, 2016.

Trip Network, Inc. v. State of Hawaii, Case No. 13-1-0261, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing from the assessment of general excise and transient accommodations taxes for tax year 2012 resulting from the online sale of hotel rooms via Taxpayer's Internet site. Trial is not set.

Orbitz, LLC v. State of Hawaii, Case No. 13-1-000262, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing from the assessment of general excise and transient accommodations taxes for tax year 2012 resulting from the online sale of hotel rooms via Taxpayer's Internet site. Trial is not set.

Internetnetwork Publishing Co. v. State of Hawaii, Case No. 13-1-000263, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing from the assessment of general excise and transient accommodations taxes for tax year 2012 resulting from the online sale of hotel rooms via Taxpayer's Internet site. Trial is not set.

Travelweb, LLC v. State of Hawaii, Case No. 13-1-000264, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing from the assessment of general excise and transient accommodations taxes for tax year 2012 resulting from the online sale of hotel rooms via Taxpayer's Internet site. Trial is not set.

Expedia, Inc. v. State of Hawaii, Case No. 13-1-000265, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing from the assessment of general excise and transient accommodations taxes for tax year 2012 resulting from the online sale of hotel rooms via Taxpayer's Internet site. Trial is not set.

Hotwire, Inc. v. State of Hawaii, Case No. 13-1-000266, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing from the assessment of general excise and transient accommodations taxes for tax year 2012 resulting from the online sale of hotel rooms via Taxpayer's Internet site. Trial is not set.

Hotels.com LLP v. State of Hawaii, Case No. 13-1-000267, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing from the assessment of general excise and transient accommodations taxes for tax year 2012 resulting from the online sale of hotel rooms via Taxpayer's Internet site. Trial is not set.

Site59.com v. State of Hawaii, Case No. 13-1-000268, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing from the assessment of general excise and transient accommodations taxes for tax year 2012 resulting from the online sale of hotel rooms via Taxpayer's Internet site. Trial is not set.

Priceline.com, Incorporated v. State of Hawaii, Case No. 13-1-000269, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing from the assessment of general excise and transient accommodations taxes for tax year 2012 resulting from the online sale of hotel rooms via Taxpayer's Internet site. Trial is not set.

Travelocity.com LLP v. State of Hawaii, Case No. 13-1-000270, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing from the assessment of general excise and transient accommodations taxes for tax year 2012 resulting from the online sale of hotel rooms via Taxpayer's Internet site. Trial is not set.

In the Matter of Charles A. Shipman, Jr., Case No. 1TX 13-1-000301, Tax Appeal Court, State of Hawaii.

Taxpayer appealed his tax assessment for general excise and transient accommodation taxes stating the assessed amounts were speculative/inflated and included improper stacking of failure to file penalties with negligence penalties. The parties have agreed to dismiss this case.

In the Matter of the Tax Appeal of Ronald Au, T.A. No. 14-1-0216, Tax Appeal Court, State of Hawaii.

Taxpayer appealed to the Tax Appeal Court, State of Hawaii from assessments of general excise taxes for 2009 and 2010 in the amount of \$13,114.62. The Department of Taxation moved to dismiss the tax appeal because it was not timely filed and because Taxpayer failed to pay the assessment in his appeal from the Board of Review. The motion was heard on March 17, 2014 and taken under advisement.

In the Matter of the Tax Appeal of Skydiving School, Inc., Case No. 1 TX 14-1-0217 and 1TX 14-1-0218, Tax Appeal Court, State of Hawaii.

Taxpayers appealed from the denial of a refund claim and assessments of general excise taxes related to its skydiving business. Taxpayer's major issue is that its gross receipts from skydiving activities is not subject to the general excise tax because of preemption by the Anti-Head Tax Act, P.L. 103-272, 108 Stat. 1111, as amended, and as codified in 49 U.S.C. § 40116. Trial is not set.

In the Matter of the Tax Appeal of Edward A. Alquero, M.D., Inc., Case No. 1 T.X. 14-1-0219, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional income and general excise taxes, penalties, and interest for underreported income related to his medical practice. Taxpayer is claiming he is entitled to deductions for certain expenses that were disallowed by the Department. Trial has been set for January 18, 2016.

In the Matter of the Tax Appeal of Avery B. Chumbley, Case No. 1 T.X. 14-1-0226, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise taxes and interest for underreported gross receipts of a non-profit organization's fund raising activities. Taxpayer was assessed personally as the president of the organization at the time. Taxpayer claimed he was entitled to deductions for certain expenses that were disallowed by the Department. Trial has been set for October 5, 2015.

In the Matter of the Tax Appeal of Darren Truitt, Case No. 1 T.X. 14-1-0228, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional income taxes, penalties, and interest for income attributed to his wholly owned LLC. Trial has been set for July 18, 2016.

In the Matter of the Tax Appeal of Construction Services & Management LLC, Case No. 1 T.X. 14-1-0229, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise taxes, penalties, and interest for underreported gross receipts. Trial has been set for July 18, 2016.

In the Matter of the Tax Appeal of Hawaiian Telcom Services Company, Inc., Case No. 1 TX 14-1-0231, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the Commerce Clause and the Equal Protection Clause of the United States Constitution; the statutes discriminate against interstate commerce and are not fairly apportioned; and that Taxpayer erroneously paid use taxes with respect to services and/or contracting performed within the State by a licensed seller. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Telcom, Inc., Case No. 1 TX 14-1-0232, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claims that sections 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the Commerce Clause and the Equal Protection Clause of the United States Constitution; the statutes discriminate against interstate commerce and are not fairly apportioned; and that Taxpayer erroneously paid use taxes with respect to services and/or contracting performed within the State by a licensed seller. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Electric Company, Inc., Case No. 1 TX 14-1-0233, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the Commerce Clause and the Equal Protection Clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of BAE Systems Holdings, Inc. & Subs, Case No. 1 T.X. 14-1-0234, Tax Appeal Court, State of Hawaii.

Taxpayer's claims for the High Tech Credit provided under § 235-110, HRS, were denied because Taxpayer did not make an investment as defined by statute. Taxpayer prevailed at the Board of Review and the Department filed this appeal. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Airlines, Inc., Case No. 1 TX 14-1-0258, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the Commerce Clause and the Equal Protection Clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of Hawaii Electric Light Company, Inc., Case No. 1 TX 14-1-0259, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the Commerce Clause and the

Equal Protection Clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of Maui Electric Company, Inc., Case No. 1 TX 14-1-260, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the Commerce Clause and the Equal Protection Clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of Cubic Applications, Inc., Case No. 1 TX 14-1-0268, Tax Appeal Court, State of Hawaii.

Taxpayer claimed refunds by amending its general excise tax returns claiming the exported services exemption under § 237-29.53, HRS. The Department of Taxation denied the refund claims. Taxpayer appealed the denial of the refund claims for lack of sufficient substantiation. Trial is not set.

Maria E. Zielinski v. Fred M. & Shirfeir S. Sunada; Case No. 1 T.X. 15-1-0226

Maria E. Zielinski v. Chester M. & Prudence S. Kanehira; Case No. 1 T.X. 15-1-0227

Maria E. Zielinski v. Wayne K. and Sheri L. Wills, 1 TX 15-1-0228

Maria E. Zielinski v. Timothy M. and Iwalani O. Dayton, 1 TX 15-1-0229

Maria E. Zielinski v. Paul R. and Claudia S. Johnstone, 1 TX 15-1-0230

Maria E. Zielinski v. Dale & Alison Ohama, Case No. 1 TX 15-1-0231

Maria E. Zielinski v. Morris S. and Jeanne A. Creel, Case No. 1 TX 15-1-0232

Maria E. Zielinski v. Patrick and Grace Duarte, Case No. 1 TX-15-1-0233

Maria E. Zielinski v. Predrag & Doris Miocinovic, Case No. 1 TX 15-1-0234

Maria E. Zielinski v. Neal S. and Linda Takase, Case No. 1 TX 15-1-0235

In these cases, the Director of Taxation appealed decisions of the Board of Review. The Department denied Taxpayers fully refundable Renewable Energy Technologies tax credits under section 235-12.5, HRS because Taxpayers' adjusted gross incomes exceeded the statutory threshold entitling them to a fully refundable credit. The Board of Review ruled that Taxpayers could revoke their elections to receive refundable tax credits. On June 22, 2015, the Tax Appeal Court granted the Director's motion for summary judgment in one of the appeals, concluding that Taxpayers could not revoke their election to receive a refundable tax credit and upheld the Department's adjustment of Taxpayers' returns.

In the Matter of the Tax Appeal of New Cingular Wireless, Case No. 1 T.X. 15-1-0241, Tax Appeal Court, State of Hawaii.

Taxpayer filed refund claims for the PSC tax it paid to the State. Taxpayer claimed it paid the tax on amounts not subject to the PSC. The Director denied the refund claims as they were barred by the statute of limitations. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Telcom, Inc., Case No. 1 TX 15-1-0244, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the Commerce Clause and the Equal Protection Clause of the United States Constitution; the statutes discriminate against interstate commerce and are not fairly apportioned; and that Taxpayer erroneously paid use

taxes with respect to services and/or contracting performed within the State by a licensed seller. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Telcom Services Company, Inc., Case No. 1 TX 15-1-0245, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claims that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the Commerce Clause and the Equal Protection Clause of the United States Constitution; the statutes discriminate against interstate commerce and are not fairly apportioned; and that Taxpayer erroneously paid use taxes with respect to services and/or contracting performed within the State by a licensed seller. Trial is not set.

Fredrick D. Pablo, Director of Taxation, State of Hawaii vs. BGCH Solar Fund, LLC., Case No. 1 TX 14-1-0253, Tax Appeal Court, State of Hawaii.

Director appealed Board of Review's decision allowing developer's fee, developer's reimbursement, and bank loan fees as a creditable cost under § 235-12.5, HRS. Trial is not set.

Fredrick D. Pablo, Director of Taxation, State of Hawaii vs. First Risk Mgmt., Inc., Case No. 1 TX 14-1-0254, Tax Appeal Court, State of Hawaii.

Director appealed the Board of Review's decision allowing developer's fee, developer's reimbursement, and bank loan fees as a creditable cost under § 235-12.5, HRS. Trial is not set.

Fredrick D. Pablo, Director of Taxation, State of Hawaii vs. KEC Solar Fund, LLC., Case No. 1 TX 14-1-0255, Tax Appeal Court, State of Hawaii.

Director appealed the Board of Review's decision allowing developer's fee, developer's reimbursement, and bank loan fees as a creditable cost under § 235-12.5, HRS. Trial is not set.

In the Matter of the Tax Appeal of KEC HM Maui Solar Fund LLC, Case No. 1 TX 15-1-0248, Tax Appeal Court, State of Hawaii.

Taxpayer appealed an income tax assessment reducing the total renewable energies technologies income tax credit under § 235-12.5, HRS. Taxpayer claimed that all of the costs claimed by Taxpayer qualified for the tax credit and that the reduction of the credit is erroneous. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Electric Company, Inc., Case No. 1 TX 15-1-0296 Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the Commerce Clause and the Equal Protection Clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of Hawaii Electric Light Company, Inc., Case No. 1 TX 15-1-0297, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the Commerce Clause and the

Equal Protection Clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of Maui Electric Company, Inc., Case No. 1 TX 15-1-0298, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the Commerce Clause and the Equal Protection Clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of Dan S. Tetsutani, Case No. 1 TX 15-1-0219, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from a final assessment of additional general excise tax and/or use tax stating the assessments were improper or in the alternative that Taxpayer should pay the wholesale rate of .5 percent. Trial is not set.

In the Matter of the Tax Appeal of Andrew Bernstein and Jacqueline S. Showback, Case No. 1 TX 15-1-0249, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from a final assessment reducing renewable energy tax credit under § 235-12.5, HRS per audit of KEC HM Maui Solar Fund, LLC. Trial is not set.

In the Matter of Red Time Realty, LLC, Case No. 1 TX 15-1-0261, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from a final assessment of general excise tax on gross income under §§ 237-38 and 237-39, HRS. Trial is not set.

In the Matter of Charles Mixon, Case No. 1 TX 15-1-0281, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from a final assessment of general excise tax for underreported income under § 237-13(6)(A), HRS. Trial is not set.

3.2.4 Criminal Investigations/Enforcement Actions

During FYE 2015, the Criminal Justice Division of the Department of the Attorney General filed criminal complaints against four taxpayers for violating §§ 231-34, 231-35, and 231-36, HRS. The Office of the Prosecuting Attorney for Honolulu also filed a criminal complaint and obtained a grand jury indictment against two taxpayers for tax related charges. A total of six criminal complaints and/or indictments were filed this fiscal year as a result of investigations conducted by the Criminal Investigation Section. The six complaints/indictments filed against these taxpayers accounted for over \$83,602 in unpaid taxes (excluding civil assessments, penalties, and interest). Pleas of no contest or guilty was entered in one case and the five other remaining cases are pending further judicial action.

Including the cases referenced above, five previously charged cases were adjudicated in FYE 2015. These cases accounted for over \$151,236 in restitution. The courts imposed criminal fines of \$8,800 and 600 hours of community service in these cases.

The Criminal Investigations Section collected a total of \$1,950,775 in unpaid taxes, penalties, and

interest for FYE 2015.

Cases worthy of note

A contractor who allegedly defrauded three local businesses of hundreds of thousands of dollars was charged with two counts of failing to file his general excise tax returns, as required. Both the individual and his/her company have pled not guilty and are pending trial. This case was referred to the Criminal Investigation Section by the Regulated Industries Complaints Office, Department of Commerce and Consumer Affairs.

A Maui resident was charged and arrested for filing multiple false tax returns to obtain fraudulent refunds from the State of Hawaii.

An Oahu resident, previously involved in a separate "puppy mill" investigation was charged with evading his/her taxes relating to unreported rental income.

A former Maui resident was arrested in early May 2015 by the Las Vegas Police Department pursuant to an outstanding felony warrant for his/her alleged filing of a false State of Hawaii tax return. The individual was extradited back to Hawaii from Las Vegas, Nevada in June 2015.

FYE 2015 was a transitional year for the Criminal Investigation Section. Investigators will continue to pursue aggressively those individuals and businesses that violate Hawaii's tax laws and regulations. Investigative priorities have been expanded to include those entities with legitimate sources of income, including those individuals and criminal groups involved in illegal activities, such as narcotics trafficking, gambling, prostitution, and other financial fraud. Investigators will "follow the money" of the illegal sources of income, ensuring the integrity of a fair tax system where everyone pays their share. The section is a critical part of the Tax Department and will continue with its efforts of deterrence through the successful prosecution of tax offenders.

ADMINISTRATIVELY ATTACHED ENTITIES

As of June 30, 2015

COUNCIL ON REVENUES

Kurt Kawafuchi, Chair
Marilyn M. Niwao, Vice-Chair
Carl S. Bonham
Christopher Grandy
Elizabeth P. Cambra
Jack P. Suyderhoud
Kristi L. Maynard

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Vacant
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