

TAX REVIEW COMMISSION

MINUTES FOR THE FIFTH MEETING OF THE
TAX REVIEW COMMISSION
HELD AT 830 PUNCHBOWL STREET
DEPARTMENT OF LABOR & INDUSTRIAL RELATIONS ROOM 310-313
IN THE CITY AND COUNTY OF HONOLULU
STATE OF HAWAII, ON MONDAY, NOVEMBER 14, 2016 AT 1:00 PM

The Commissioners of the Tax Review Commission (TRC) met at the Department of Labor & Industrial Relations Conference Rooms in the City and County of Honolulu, State of Hawaii, on Monday, November 14, 2016.

Members Present: Colleen Takamura, Chair
Vaughn Cook, Vice-Chair
John Knox
William Pieper II
Nalani Kaina

Member Absent: Dawn Lippert and Raymond Blouin

Staff: Ted Shiraishi, Jonathan White, Titin Sakata and Noe Kaawa

Others: Randall Nishiyama, Department of the Attorney General
Jonathan White, DoTAX
Ben Park, Senate WAM
Tom Yamachika, Tax Foundation of Hawaii
Kimberly Miyoshi, KPMG
Peter Fritz
Jana Moore, CAN
Sam Lee, CAN

CALL TO ORDER:

Chair Takamura called the meeting to order at 1:00 pm.

APPROVAL OF MINUTES FROM PREVIOUS MEETING:

Chair Takamura said the first order of business was the approval of the minutes from the September 19, 2016 meeting and asked if there was any motion to amend or approve the minutes. Commissioner Kaina moved the motion to approve the minutes with edits of September 19, 2016, and Commissioner Pieper seconded the motion. The motion carried unanimously.

Chair Takamura said next order of business was the approval of the executive minutes from the September 19, 2016 meeting and asked if there was any motion to amend or approve the minutes. Commissioner Cook moved the motion to approve the executive session minutes with edits of the September 19, 2016, and Commissioner Knox seconded the motion. The motion carried unanimously.

COMMUNICATION AND PUBLIC COMMENTS TO THE COMMISSION:

Chair Takamura asked if there were any communications or public comments to the TRC.

Mr. Fritz said he appreciated the apology from Chair Takamura. However, had an issue for not receiving the TRC agenda by mail per his request communicated to the Director of DoTAX. He must insist that government act openly and with transparency. He requested that all notices be sent to him by certified mail. For the record, he was going to waive any rights he had regarding improper notification under the requirements. He wished Chair Takamura success in her new role and said he was not out to create problems, but felt it was necessary to go on record with the issue of notices.

Chair Takamura asked DoTAX staff to mail all notices to Mr. Fritz.

Commissioner Kaina asked Mr. Nishiyama if sending notices by certified mail as requested was required by law.

Mr. Nishiyama said no, it was not required by law.

EXECUTIVE SESSION:

Chair Takamura adjourned to go into Executive Session at 1:09 PM.

CALL TO ORDER-Reconvene:

Chair Takamura called the meeting to order at 2:15 PM

REPORT OF THE INVESTIGATIVE COMMITTEE ON THE SOLICITATION FOR QUALIFIED PROFESSIONALS WHO HAVE A WORKING KNOWLEDGE OF HAWAII'S TAX STRUCTURE AND OF HAWAII'S ECONOMY TO PREPARE STUDIES OF HAWAII'S TAX SYSTEM:

Chair Takamura said that the investigative committee regarding the solicitation for qualified professionals who have working knowledge of Hawaii's Tax Structure and of Hawaii's economy to prepare studies of Hawaii's Tax System at this time had nothing to report and needs further clarifications. The TRC will discuss this matter at a later date.

DISCUSSION AND ACTION ON POTENTIAL ADDITIONAL STUDIES BY THE COMMISSION AND ACTION ON INTERIM REPORT TO THE 2017 LEGISLATURE:

Chair Takamura said that morning, she and Commissioner Cook met with Senator Tokuda and Representative Luke. They discussed a few areas they wanted to know about, but Senator Tokuda talked about the GET and mentioned wanting to know about how the DoTAX rollouts were coming along.

Mr. Shiraishi said there was no GET statistical information available in relation with Rollout 2. In general terms, Rollout 2 has been completed and DoTAX is currently in preparation for Rollout 3.

He said Rollout 2 included computerized system changes and/or upgrades, and included business taxes like GET, TAT, RVST, Motor Vehicle tax, use tax and County Surcharge. Also involved towards the end year would be implementation of tax law changes and form changes, and forms redesign. Rollout 3 would involve withholding taxes, business income taxes like corporation tax, partnership tax, S-Corporation tax and non-profits. Meetings between DoTAX and the vendor was ongoing to work out the definitions process and requirements needed for the computer system.

Chair Takamura said with regards to GET, was there statistical information on income earned, exemptions and deductions taken?

Mr. Shiraishi said currently, the only statistical information DoTAX has was from electronic filings. He had gotten no clear answer on paper filings related to GET. DoTAX was having issues trying to get that data. He pointed out that with paper filings, there was greater potential for human error and difficult to pick up the data that would be accurate. It had been worked out to get those GE returns scanned into the system but was unsure of the accuracy of the data.

Chair Takamura said was there a timeframe of knowing if the electronic and paper filings regarding GET were in the system.

Mr. Shiraishi said what was being done for the upcoming year regarding GET was the modification of Schedule GE where the exemptions were reported so the data could easily be picked up by the scanners. That form will be available January 1, 2017. So the first period that taxpayers would file using the new form would be those filing for the last period of 2016 tax year, and after that would be the periodic filings going into 2017 and the G-49 Annual Reconciliation for the 2016 tax year.

Chair Takamura asked when filing GET returns starting January 2017, would everyone be required to filing those returns online electronically?

Mr. Shiraishi said no, there was no requirement to file online within the law at this time.

Chair Takamura asked how long would it take from the time a form was scanned to the time it should be in the DoTAX computer system.

Mr. Shiraishi mentioned that was a processing function and estimated it could possibly take a month or less depending on the volume and timing of submissions. For instance, January 2017 would be the start of the income tax season and it's usually not that busy since most taxpayers file income tax returns closer to April. For taxes like GET and other tax types, would affect the volume of returns the processing area receives. October would also be another time of the year where the volume of monthly and quarterly filings was high, and in December, it's even bigger than that, and same with January.

The potential that a full set of data could be available would be April 2017 based on the G-49 Annual Reconciliation Return for 2016 tax year, and hopefully it paints an accurate picture of GET.

Chair Takamura said by May or June 2017, DoTAX should have some idea of what the GET income and exemptions were for the 2016 tax year.\

Mr. Shiraishi said DoTAX would only have data from the reconciliation form from those taxpayers required to file the G-49 form. He was unsure about the totals from the periodic without the G-49. Only the G-49 could close the statute of limitations on assessment. Technically, the monies were due with periodic filings with the G-49 due the following year. Therefore, if everyone was hypothetically compliant, the data captured would be fairly accurate. However, monies due aren't always paid and penalties imposed are based on what's due.

DoTAX could provide the TRC with the aggregate amounts from the G-49s up to a certain point. There would be no way to say with accuracy that the data includes all the GE taxpayers. We could only provide data based on the actual number of G-49s filed.

Chair Takamura said she was only asking because it was a request from Senator Tokuda whom wanted a report on GET and the DoTAX Rollouts.

Mr. Shiraishi said the DoTAX Director and TSM staff had been communicating with both chairs. He was not sure exactly what has been discussed since he had not attended those meetings. He believes what he has mentioned to the TRC today was being relayed to the chairs as well.

Commissioner Knox asked if the chairs wanted the TRC to report on the DoTAX Rollouts or get that report from DoTAX.

Chair Takamura said they actually wanted information for GET.

Mr. Shiraishi was that there was a law in place that requires DoTAX to submit a report twenty days before the upcoming legislative session. They are aware that DoTAX would not be able to meet that requirement related to GET.

Commissioner Cook asked for the rollout that happened in August, 2016 when filers could file electronically.

Mr. Shiraishi said August 2016 was the first time filers were able to file electronically using the new system.

Commissioner Cook said he knows it was not complete since not all taxpayers were monthly filers, but was data being collected and could there be some data available from DoTAX now to the TRC.

Mr. Shiraishi said he had never asked for that information. He felt reluctant to provide that information publically since it could be misleading since the data may reflect only certain filers and only the ones that file electronically. DoTAX would rather provide data for a set period. For example, if DoTAX was certain all monthly filers for December 2016, online or paper were in the system, then this would be the data. That would be the preferred method to provide the TRC with GET data.

Chair Takamura said Senator Tokuda wanted an idea of what kind of numbers we were looking at and was sure she would get a report from DoTAX. She felt Senator Tokuda wanted some kind of report from the TRC on what the data means, like how much revenue was generated and exemptions taken.

Mr. Shiraishi said he thinks it's much deeper than that and goes back to what Dr. Rousslang previously mentioned about figuring out which ones were exemptions and deductions or pyramiding relief, and that would be a project in itself. So it's not just providing data.

Commissioner Kaina said the TRC still has an interim report due twenty days before the legislative session which should be only a status on the TRC.

Mr. Shiraishi said the GET study the TRC is talking about would require a consultant. However, that would be outside the scope of the current solicitation. This would be a new report.

Chair Takamura said the TRC would need to formulate a proposal for a GET study.

Mr. Shiraishi said Dr. Rousslang has done a similar study in the past. He suggested that the TRC ask Senator Tokuda for further clarification since a study exists and data was not available.

Chair Takamura said timing of a report was also discussed with both Senator Tokuda and Representative Luke and both said if the TRC needed more time, they would rather give the TRC more time than have us rush a report that they would not use. She said that was just another option for the TRC if needed.

Commissioner Kaina said some of the discussion regarding the additional study should be done after the TRC concludes the issues around the current RFP. The TRC could resume discussions of additional and if there needs to be other requests to be made. She made a request to the TRC to put mentioned items on hold.

Chair Takamura said there was another report that the TRC needs to do which would be the interim report due January 2017.

Mrs. Sakata said it was the TRCs prerogative to keep the legislature informed of their actions and what's going on, and to get feedback from them. The only requirement of the TRC would be to submit a report to the legislature prior to the 2018 legislative session. Due to your late commission, an extension was given to submit the TRC report due in 2017 to 2018.

Commissioner Cook said he thought the talk about when the TRC would like to submit or approve to submit an interim report felt the TRC should submit that earlier in case the TRC was going to ask for additional resources.

Chair Takamura said maybe by the next meeting, the TRC should determine what additional resources might be needed and timeframe. With regards to the solicitation and when our questions were answered, the TRC could determine what to do next.

Mr. Shiraishi said an additional resource was not something DoTAX staff discussed with the Governor. He felt that may not be possible at this point within the Governor's legislative package. However, if discussions about this matter between the TRC and respective chairs have taken place, it would likely have to go out that way.

Commissioner Kaina said that could be submitted in the interim report informing the legislature of where the TRC was at in terms of our work and whatever else the TRC may need to be done in order to meet their expectations.

NEXT MEETING:

The next meeting is scheduled for Monday, December 5, 2016 at 1:00 PM.

ADJOURNMENT:

The meeting was adjourned at 2:47 PM.