



TAX FACTS 31-2

Tax Clearances for State & County Contracts

This Tax Facts provides basic information about the tax clearance requirements for businesses and nonprofit organizations that plan on selling goods, services, or contracting to the State of Hawaii or its counties under a state or county contract.

When Do I Need a Tax Clearance?

1 Do I need a tax clearance to do business with the state or its counties?

If you are a local business, an out-of-state business, or a nonprofit organization that plans on selling goods, services, or contracting to the state or any of its counties through a state or county contract, then you must get a tax clearance from the Hawaii Department of Taxation (DOTAX) and the Internal Revenue Service (IRS) before entering into the contract, and before final payment on the contract is made. This tax clearance requirement generally applies to all state and county contracts, including contracts awarded under the “small purchases” provisions that are \$2,500 or more. Emergency procurements are exempt from this requirement.

The tax clearance certificate you provide must be current within six months of the date issued for entering into the contract, and current within two months of the date issued for final payment.

(Section 103-53, Hawaii Revised Statutes (HRS), Section 3-122-112, Hawaii Administrative Rules.)

2 What is a tax clearance?

A tax clearance is a certificate that confirms you filed your tax returns and paid your taxes (including penalties and interest) as of the date the certificate is issued.

3 Do I need other clearances?

Yes, in addition to the tax clearances from DOTAX and the IRS, you will also need:

- A Certificate of Good Standing from the Hawaii Department of Commerce and Consumer Affairs (DCCA), and
- A Certificate of Compliance from the Hawaii Department of Labor and Industrial Relations (DLIR).

4 What if I do not submit a tax clearance certificate when it's required?

If you do not submit a tax clearance certificate when it is required, you cannot enter into or bid on state or county

contracts. If you don't submit a tax clearance certificate to the contracting agency within six months after completing a state or county contract, your final payment can be used to pay your state and federal taxes and the contracting agency will keep any remaining balance. (Section 103-53(c), HRS.)

Tips for Getting a Tax Clearance

- ✓ File your tax returns on time.
- ✓ Pay your taxes on time.
- ✓ Register online at hitax.hawaii.gov or with Hawaii Compliance Express.
- ✓ If you file a paper application, use the current version of Form A-6 and remember to sign it.

How Do I Apply For a Tax Clearance?

5 Can I apply for a tax clearance online?

Yes. Register online at hitax.hawaii.gov or with Hawaii Compliance Express (HCE) at vendors.ehawaii.gov to get an electronic Certificate of Vendor Compliance. This certificate satisfies the clearance requirements for DOTAX, IRS, DCCA, and DLIR.

6 How long does it take?

If you register with HCE and meet all DOTAX, IRS, DCCA, and DLIR clearance requirements, your electronic Certificate of Vendor Compliance will be available on the HCE website within 10 business days. After that, you can print your certificate at any time. HCE will email you if your compliance status changes.

If you file Form A-6 with DOTAX, and you filed all your tax returns and paid all your taxes, DOTAX will usually issue a tax clearance certificate within 10 to 15 business days. If you file online at hitax.hawaii.gov, in most cases the application will be processed within one day.

Tax Facts is a publication that provides general information on tax subjects of current interest to taxpayers and is not a substitute for legal or other professional advice. The information provided in this publication does not cover every situation and is not intended to replace the law or change its meaning. Furthermore, the information in this publication is subject to change without notice due to changes in the law or rules, judicial decisions, or changes in official Department positions.

For more information, visit the Department of Taxation's website at tax.hawaii.gov

7 Do I need to submit separate applications to get clearances from DOTAX, IRS, DCCA, and DLIR?

If you register with HCE, then you do not need to submit any applications.

If you don't register online with HCE, then you may apply by filing Form A-6, Tax Clearance Application, online at hitax.hawaii.gov, by mail, fax, or in-person at any DOTAX office in Hawaii. You should submit a separate Form A-6 to DOTAX and the IRS. You must also submit separate applications to get clearances from DCCA and DLIR.

8 If I bid on 15 contracts, do I have to file 15 tax clearance applications?

No. If you register with HCE, state and county procurement personnel will verify your compliance status via HCE. If you file online at hitax.hawaii.gov you may download and print as many copies as you need. Also, in most cases the application will be processed within one day. If you would like the Department to provide you with multiple physical copies of the tax clearance, you must visit any district office to submit a Form A-6.

Will My Payment Plan and Delinquent Taxes Affect My Contract?

9 I have a payment plan with DOTAX and the IRS. Can I do business with the state or its counties?

Yes. If you have an approved payment plan, pay on time, and file all required tax returns, you may be able to get a Certificate of Vendor Compliance (if you registered with HCE) or conditional letters from DOTAX and the IRS (if you filed Form A-6). The conditional letters can be substituted to meet the tax clearance requirements for state and county contracts. (Section 103-53(f), HRS.)

10 What happens if I don't pay my taxes or default on my payment plan during the term of the contract?

DOTAX and the IRS will periodically check your records and contact you if you don't pay your taxes. If your delinquency is not resolved, your progress payments can be used to pay your state and federal taxes including penalties and interest. Your progress payments will not be used to pay your taxes as long as you file your tax returns, pay your taxes, and pay your installment payments on time. (Section 103-53(b), HRS.)

For more information, see the brochure, “An Introduction to the Tax Clearance Procedure”

Where to Get Forms and Information

Website: tax.hawaii.gov

Telephone: 808-587-4242

Toll-Free: 1-800-222-3229

Telephone for the hearing impaired: 808-587-1418

Toll-Free for the hearing impaired: 1-800-887-8974

Tax Facts is a publication that provides general information on tax subjects of current interest to taxpayers and is not a substitute for legal or other professional advice. The information provided in this publication does not cover every situation and is not intended to replace the law or change its meaning. Furthermore, the information in this publication is subject to change without notice due to changes in the law or rules, judicial decisions, or changes in official Department positions.

For more information, visit the Department of Taxation's website at tax.hawaii.gov