



Hawaii Tax News

Administering the tax laws for the State of Hawaii in a consistent, uniform, and fair manner

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State of Hawaii • Department of Taxation

FALL 2001

More E-filing Options Available!

Beginning in late October, you will be able to enjoy the ease and convenience of e-filing your general excise tax and transient accommodations tax periodic returns (Forms G-45 and TA-1) 24 hours a day, 7 days a week! Delinquent bill payments for general



excise tax, use tax, withholding tax, transient accommodations tax, rental motor vehicle and tour vehicle surcharge tax, and net income tax also can be made online. You also will have the option of making payments by

credit card!

Currently, payments are made through an electronic check process called "VirtualPay." A nominal fee of \$2.50 is charged for each transaction involving a payment. No fee is charged if a payment is not made. This may change, however, when payment by credit card becomes available in October.

Benefits of e-filing include confirmation that your return and payment were received, quicker return processing, and easy access to your e-filing records.

To register to e-file, go to the State's Internet portal at www.eHawaiiGov.org and select "File Your Taxes Online with E-Filing." Please note that once you register, you simply sign in with your user ID (your social security number or federal employer's identification number) and password on subsequent visits.

The following forms are currently available for e-filing:

- Form A-6, Tax Clearance
- Form G-5, GE Application for a One-Time Event
- Form G-39, GE Extension
- Form HW-26, WH Extension *
- Form TA-8, TA Extension
- Form RV-7, RV Extension
- Form HW-14, WH Period Return
- Form N-1, Estimated Income Tax (Individual)
- Form N-3, Estimated Income Tax (Corporation)
- Form N-5, Estimated Income Tax (Estates/Trusts)
- Form N-100, Automatic Extension (Partnership)

- Form N-101A, Automatic Extension (Individual) *
 - Form N-301, Automatic Extension (Corporation)
- (* Please note that Forms HW-26 and N-101A have been disabled since their due date has passed.)

We are working to add even more forms: Form N-13, Individual Income Tax Return (Resident Short Form) and Form N-15, Individual Income Tax Return (Nonresident and Part-Year Resident) should be available for e-filing in January 2002.

For more information, contact our Electronic Filing Coordinator, Susan Adaniya, at 808-587-1692, or via e-mail at efile@tax.state.hi.us.

Definition of "Real Property" for HARPTA

We have received a number of Forms N-288B, Application for Withholding Certificate for Dispositions by Nonresident Persons of Hawaii Real Property Interest, that have been rejected in part because the basis of the real property sold included furniture.

The issue arises because, for FIRPTA purposes, the definition of "U.S. real property" in section 1445, Internal Revenue Code (IRC), refers to the definition in section 897(c), IRC, which states that "(t)he term 'real property' includes movable walls, furnishings, and other personal property associated with the use of the real property."

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The Direct Line ☎

By Director Marie Y. Okamura



In this issue, we are excited to bring you the latest initiative to make filing returns and making payments more convenient: expanded e-filing opportunities through the State's Internet portal! Our front page article provides details on Hawaii's e-file program.

The August 2001 issue of Government Technology ranks Hawaii as 23rd in its Taxation and Revenue category. This reflected a 168% point improvement as we were in 47th place last year. Our continuing efforts will result in an even more marked improvement next year.

E-mail access to the department was featured in our Fall 2000 issue. As a reminder, a detailed listing is provided in our Hawaii Tax Information at a Glance brochure, available on our website at www.state.hi.us/tax.

Real Property

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However, for HARPTA purposes, section 235-68, Hawaii Revised Statutes (HRS), does not refer to the definition in section 897(c), IRC, but instead refers to the definition in section 231-1, HRS. That definition does include certain machinery and other items that might be considered personal property in its definition of real property, but only when their removal "cannot be accomplished without substantial damage to the land, buildings, structures, fences, and improvements, excluding, however, any growing crops."

If the sales price includes an amount for furniture or other personal property that is not included in Hawaii's definition of real property, sellers must allocate a part of the sales price to the furniture or other personal property and use the balance to determine whether there is a loss on the sale of the real property. If you are preparing a Form N-288B for a sale involving personal property whose basis must be excluded, you also must attach an explanation of the method used to allocate the sales price between the real property and the furniture or other personal property.

Disability Exemption Forms

The certification and notification forms for Hawaii's income tax and general excise tax disability benefits have been combined into a single form.

Previously, an individual's disability was certified on Form N-857 (Physician's or Optometrist's Certified Report on Eye or Hearing Examination or Disability for Tax Exemption Purposes), and the individual notified the Department using Form N-172 (Claim for Exemption by Person with Impaired Sight or Hearing or by Totally Disabled Person).

Now, both the certification and notification are done on the Form N-172 (Rev. 2001), Claim for Tax Exemption by Person with Impaired Sight or Hearing or by Totally Disabled Person and Physician's Certification. Part I is completed by the taxpayer to provide information needed to claim the disability benefits allowed under Hawaii's income tax and general excise tax laws. Part II is completed by the appropriate medical practitioner to certify the taxpayer's disability. The original and one copy of the completed Form N-172 (Revised 2001) are then sent to the Department of Taxation. Form N-857 is now obsolete. Persons who previously filed Forms N-172 and N-857 with the Department do NOT need to be re-certified using the new form.

For more information on the disability benefits for qualifying taxpayers, see the instructions for Form N-172 (Rev. 2001) and Tax Information Releases No. 89-3 and No. 94-2.

A new Form G-65, Disability Deduction Worksheet,

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Disability Forms

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uses a deduction method for qualified taxpayers with impaired sight, impaired hearing, or other disability, to claim certain allowable tax benefits on their general excise tax returns.

Qualifying taxpayers may exclude up to \$2,000 of gross income per year from the general excise tax, and have any remaining amount taxed at a rate of 0.5%. Previously, qualifying taxpayers would compute the general excise tax liability by multiplying the taxable income by 0.5% instead of the 4% rate printed on the tax return. This reporting method caused processing delays.

To reduce errors and ensure the timely processing of returns, Form G-65 uses a deduction method to effect the 0.5% general excise tax rate. Form G-65 does NOT need to be attached to the tax returns, but it does need to be kept in the taxpayer's records.

General Excise Application for a One-Time Event

Form G-5, Application for General Excise/Use One-Time Event Identification Number, is one of the forms taxpayers may file electronically through the eHawaiiGov State portal. Some taxpayers e-file it mistaking it for Form BB-1, State of Hawaii Basic Business Application that licenses regular, on-going businesses in Hawaii.

Form G-5 was created to help out-of-state taxpayers doing business in Hawaii on a one-time basis such as a convention or trade show. It was first developed as a pilot form to assist an out-of-state nonprofit organization and its exhibitors obtain general excise tax licenses and simplify the reporting of the income from their in-Hawaii sales transacted during their Hawaii convention.

Out-of-state vendors who had no knowledge about Hawaii's licensing requirements needed a simple-to-understand form and instructions about filing to encourage them to comply with Hawaii's tax laws and thus, Form G-5 and instructions were developed.

Form G-5 should not be used for rentals or any other type of on-going business activities. Taxpayers receiving income from those types of activities must file Form BB-1, State of Hawaii Basic Business Application.

Recently Issued Tax Publications

The following is a list of the publications issued by the Department of Taxation from January 2001 through September 2001. Copies of these publications may be obtained from our website at www.state.hi.us/tax, from any district tax office, or by mail through our request line at 587-7572 (toll-free at 1-800-222-7572).

TIR No. 2001-1 - Discusses the application of certain Hawaii taxes to qualified subchapter S subsidiary corporations, qualified subchapter S trusts, and electing small business trusts.

TIR No. 2001-2 - Discusses the Director of Taxation's authority to exempt, exclude, or apportion the value of imported property, services, or contracting for use tax purposes; use tax exemptions for imported services and contracting; and the use tax credit for taxes paid to another state.

Announcement No. 2001-1 - Provides a list of candidates for political office who have registered with the campaign spending commission.

Announcement No. 2001-2 - A listing of the Tax Information Releases in effect and obsolete as of January 5, 2001, and a listing of Hawaii Administrative Rules related to taxation.

Announcement No. 2001-3 - A listing of New Tax Forms, Instructions, and Schedules; Errors Found on Hawaii Tax Forms As of March 1, 2001.

Announcement No. 2001-4 - Provides information on Act 36, SLH 2001, which allows licensed audiologists to certify for tax purposes that a person is deaf.

Announcement No. 2001-5 - Provides information on Act 44, SLH 2001, which repeals the 2 percent penalty provision for taxpayers who elect to participate in the EFT program.

Announcement No. 2001-6 - Provides information on Act 45, SLH 2001, which extends the confidentiality privileges for certain taxpayer communications to all taxes administered under title 14, HRS.

Announcement No. 2001-7 - Provides information on Act 64, SLH 2001, which provides for a sharing of the public service company tax revenues with those counties that establish by ordinance an exemption from real property tax for public service companies.

Announcement No. 2001-8 - Provides information on Act 119, SLH 2001, which provides a refundable income tax credit of \$1 multiplied by the number of qualified exemptions the taxpayer is entitled to claim.

Announcement No. 2001-9 - Provides information on Act 125, SLH 2001, which simplifies the application

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**Criminal Section -- Concluded Investigations Resulting
in Prosecution/Convictions
Fiscal Years 1999, 2000, and 2001**

VIOLATIONS				
Name	Business Activity	Violation	Result	Conviction Date
Albert Honda	Physician	Evasion GE	Pled Guilty	09/20/99
David Pocock	Contractor	Failure to File GE	Pled Guilty	08/09/99
Multimedia Pacific, Inc.	Media	Failure to File GE	Pled Guilty	12/21/98
Christopher Waidzunus	Media	Failure to File GE	Pled Nolo	02/10/00
Nettie Kaahaina	Contractor	Theft, Failure to File GE/WH	Pled Guilty	04/19/99
William Campbell	Hauling Co.	Failure to File PSC	Pled Nolo	04/27/99
A-1 Hawaii Trucking	Hauling Co.	Failure to File PSC	Pled Guilty	03/19/99
Shirley Hall	Hauling Co.	Failure to File PSC	Pled Guilty	03/19/99
Dart Systems of Hi	Entertainment	Failure to File GE	Pled Guilty	05/07/99
Stephen Yamada	Attorney	Failure to Pay	Pled Guilty	09/21/99
Jerry C. Alivado	Gov't. Employee	Neglect of Duty	Pled Nolo	11/26/99
Sandra Mensza	Welfare	Failure to File GE	Pled Guilty	02/24/00
Richard Basuel	Return Preparer	Failure to File GE	Pled Nolo	02/03/00
Richard Basuel II	Return Preparer	Failure to File GE	Pled Nolo	02/03/00
Richard Basuel	Return Preparer	False Returns	Pled Nolo	04/18/01
Stephen Goldsmith	Attorney	Failure to File GE	Pled Nolo	06/30/00
Noreen Takara	Fantastic Sams	Failure to File GE/WH	Pled Nolo	10/27/99
Evonnelle L. Hurley	Unemployed	Theft-False Returns	Pled Guilty	07/18/00
Dennis Nishimura	Attorney	Failure to File GE	Pled Nolo	04/20/00
Harrison P. Chung	Attorney	Failure to File GE	Pled Nolo	02/29/00
Glenn Kobayashi	Attorney	Failure to File GE	Pled Nolo	02/29/00
Joana H. Magno, M.D.	Cardiologist	Failure to File GE	Pled Nolo	09/26/00
Gateway Mgt. Corp.	Tourism	Failure to File GE	Dismissed	N/A

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Criminal Section

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VIOLATIONS				
Name	Business Activity	Violation	Result	Conviction Date
Conklin Nakamura	Tourism	Failure to File GE	Pled Nolo	05/19/00
Bruce Barber	Controller	Failure to File Cigarette Tax	Pending	
Severino Galacgac	Mtg. Solicitor/Realtor	Failure to File GE	Pled Nolo	06/26/00
William Hill	Computer Sales	Failure to File GE	Pled Guilty	11/14/00
Dina Caleda	Return Preparer	Failure to File GE, False Returns	Pled Guilty	08/10/01
Rosalinda DeGuzman	Return Preparer	Prep. False Returns	Pending	
Richard Basuel II	Return Preparer	Prep. False Returns	Pled Guilty	08/23/01
Kam's Express, Inc.	Hauling Co.	Failure to File PSC/WH	Pled Nolo	02/14/01
Thomas Kam	Hauling Co.	Theft - Withholding	Pled Nolo	02/14/01
Herbert Kam	Hauling Co.	Theft - Withholding	Pled Nolo	02/14/01
Romeo Pineda M.D., Inc.	Radiology	Failure to File GE/WH	Pled Nolo	10/18/00
Rosabella Pineda	Radiology	Failure to File GE/WH	Pled Nolo	10/18/00
Caesar Buted	Realtor	Failure to File GE	Pled Nolo	05/18/01
Marshall Ige	Former Senator	Evasion of Tax	Pending	
Anita Gabriel	Nurse	Failure to File GE	Pled Nolo	02/02/01
Harry Ikeda	Barber	Failure to File GE/Lic.	Pending	
Radio Hawaii, Inc.	Media	Failure to File GE	Pled Guilty	05/15/01
Samuel Wagenvoord	Media	Failure to File GE	Pled Guilty	05/15/01
Franklin Kometani	Dentist	Failure to File GE, Theft	Pled Nolo	03/15/01
Kometani & Associates	Dental Co.	Failure to File GE, Theft	Pled Nolo	03/15/01

Recent Publications

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process for certain nonprofit organizations seeking exemption from the payment of general excise tax and reduces the filing burden for these organizations.

Announcement No. 2001-10 - Provides information on Act 143, SLH 2001, which encourages the use of alternative fuels by reducing the fuel tax to reflect the energy content of alternative fuels.

Announcement No. 2001-11 - Provides information on Act 164, SLH 2001, which clarifies that the general excise tax wholesale rate of ½ percent applies comparably to sales made to aquacultural and agricultural producers and cooperatives.

Announcement No. 2001-12 - Provides information on Act 210, SLH 2001, which excludes from the general excise tax amounts received as rent for the rental or leasing of aircraft or aircraft engines used by the renter or lessee for interstate air transportation and exempts from the use tax, the importation and use of aircraft or aircraft engines by a renter or lessee for interstate air transportation.

Announcement No. 2001-13 - Provides information on Act 199, SLH 2001, which conforms the Hawaii income tax law with the amendments to the operative sections of the Internal Revenue Code.

Announcement No. 2001-14 - Provides information on Act 221, SLH 2001, which expands and clarifies prior tax incentives for technical businesses and provides additional tax incentives for technical and non-technical businesses.

Announcement No. 2001-14 (Revised) - Corrects a typographical error in the discussion regarding the high technology business investment tax credit in Announcement No. 2001-14.

Announcement No. 2001-15 - Provides information on Act 270, SLH 2001, which clarifies the cigarette tax stamping law.

Announcement No. 2001-16 - Provides information on Act 272, SLH 2001, which requires each electric utility company that sells electricity for consumption in the State to establish renewable energy portfolio standard goals and provides net energy metering for electric utility customers operating an "eligible customer-generator" with a capacity of not more than 10 kilowatts.

Announcement No. 2001-17 - Provides information on Act 293, SLH 2001, which provides a 4% refundable income tax credit for the construction of new drought mitigation water storage facilities, or the repair or reconstruction of existing water storage facilities.

Announcement No. 2001-18 - Provides information on Act 309, SLH 2001, which provides a nonrefundable

income tax credit for contributions of in-kind services for the repair and maintenance of Hawaii's public schools.

Tax Facts No. 2001-1 - Provides a general overview of the appeal process available to taxpayers who do not agree with the assessment of State taxes by the Department of Taxation.

Tax Facts No. 2001-2 - Provides general information about the application of the general excise, use, fuel, and net income taxes to agricultural and aquacultural producers in Hawaii.

Digest of Tax Measures - Enacted by the State of Hawaii, Twenty-first Legislature, Regular Session of 2001.

Pending Tax Publications

The following is a list of the Department's tax projects in progress, and the name and telephone number of the staff member assigned to the project.

Administration of Taxes

- Application of penalties and interest and the waiver of penalties and interest - sections 231-3 and 231-39, HRS.
- Clarify the application of the penalty for failure to pay tax after timely filing a return (section 231-39(b)(3), HRS) where a corporation files an extension for a return and remits taxes with the return.

Income Tax Law

- Clarify the application of the income tax to pension amounts rolled over to an Individual Retirement Account - section 235-7, HRS. (Peter Fritz, 587-1533)
- Clarify the application of the capital goods excise tax credit by focusing on the requirement that the tax must be paid before the credit may be claimed.
- Clarify whether a taxpayer who files an extension may amend a return during the extension period to change filing status from married filing joint to married filing separate.

General Excise Tax Law

- Clarify the application of the general excise tax for reimbursements - section 237-20, HRS. (Grant Tanimoto, 587-1569)
- Clarify the application of the general excise tax

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Pending Publications

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exemption for scientific contracts - section 237-26, HRS. (Johnson Lau, 587-1562)

- Clarify the application of the general excise tax to sales of property (e.g., goodwill, covenants not to compete, etc.) upon the termination of a business.
- Clarify when the Department may disclose tax return information to persons contractually obligated to pay general excise and use taxes assessed against another under section 237-34(b), HRS.
- Application of the general excise, use, and income taxes on agricultural cooperatives organized under chapter 421, HRS, and farmer's cooperatives meeting the requirements of section 521, IRC.
- Pyramiding relief for Hawaii businesses under Act 71, SLH 1999, and Act 198, SLH 2000.
- General excise tax exemption for exported services and contracting and the use taxation of imported services under Act 70, SLH 1999, and Act 198, SLH 2000.

Conveyance Tax Law

- Clarify the application of the conveyance tax, including transactions involving Fannie Mae. (Grant Tanimoto, 587-1569)

Miscellaneous

- Clarify the application of certain Hawaii taxes to the income received from property or services purchased with a General Services Administration Smart Pay credit card. (Johnson Lau, 587-1562)
- Clarify the use of bonds by cigarette stamping licensees.

Fiscal Year Ended 2001 State Tax Collections

(In Millions of Dollars)

	FY 2001	FY 2000	Difference	
			Amount	Percent
Individual Income Tax	\$ 1,104.8	\$ 1,064.6	\$ 40.3	3.8%
Corporate Income Tax	60.8	68.2	-7.4	-10.9%
General Excise Tax	1,640.0	1,536.3	103.8	6.8%
Transient Accommodations Tax	177.2	168.6	8.6	5.1%
All Others	695.6	674.0	21.6	3.2%
Total Tax Collections	\$ 3,678.4	\$ 3,511.6	\$ 166.8	4.7%
General Fund Revenues	\$ 3,157.7	\$ 2,972.3	\$ 185.3	6.2%

(Note: Totals may not add up due to rounding.)

Total tax collections for fiscal year 2001 amounted to \$3,678.4 million, increasing 4.7% over last fiscal year's total of \$3,511.6 million. Fiscal year 2001 general excise tax collections grew by \$103.8 million, followed by individual income tax with \$40.3 million, and transient accommodations tax (TAT) by \$8.6 million. Although visitor arrivals increased a mere 0.1%, fiscal year 2001 TAT collections grew 5.1%, mainly due to an increase in average daily room rates. Fiscal year 2001 corporate income tax collections dropped \$7.4 million over the previous fiscal year.

Of the \$3,678.4 million in taxes collected for fiscal year 2001, \$3,157.7 million was allocated to the state general fund, an increase of \$185.3 million from the previous fiscal year. While total tax collections increased by 4.7%, general fund revenues increased by 6.2%, partly because transfers to the special convention center fund ceased effective July 2000.

DISTRICT TAX OFFICES

Forms and Information may be obtained from any district tax office,
Mondays through Fridays, except State holidays, from 7:45 A.M. to
4:30 P.M.

WEB INFORMATION AND FORMS

www.state.hi.us/tax

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808-587-4242
1-800-222-3229 (Toll-Free)
808-587-1418 (TDD - For the hearing impaired)
1-800-887-8974 (TDD Toll-Free - For the hearing impaired)
Forms By Fax/Mail:
808-587-7572
1-800-222-7572 (Toll-Free)

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