



Hawaii Tax News

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

Volume 9, Number 1

State of Hawaii • Department of Taxation

SPRING 2005

New Imaging System

Building on the successful implementation of business tax processing to our new Integrated Tax Information Management System (ITIMS), the Department has commenced development of an imaging system add-on. The imaging system will scan incoming paper returns into digital images, enabling Department staff to retrieve taxpayer returns directly from their desktop computers.

Some of the benefits of the new imaging system include:

- More efficient and effective processing,
- Quicker responses to taxpayer's inquiries on their tax returns due to faster image retrieval of online images,
- Reduced physical space for storage since paper returns will be stored electronically, and
- Advanced recognition technology.

The first forms to be redesigned for the new imaging system include Form G-45, General Excise/Use Tax Periodic Return, and Form G-49, Annual Return and Reconciliation General Excise/Use Tax. The redesigned Forms G-45 and G-49 will be available for filing the 2006 returns.

More information on our new imaging system will be provided in future issues of the Hawaii Tax News.

Use the Payment Vouchers!

Daily, hundreds of tax payments come into the Department of Taxation without a payment voucher. This creates problems – for the Department and for you. Very early in the processing cycle for returns, the returns are separated from the accompanying checks and payment vouchers. The payment and voucher are sent through a separate process from the returns and are scanned by our automated remittance processing system. The payment voucher identifies the taxpayer, the tax type, the tax period, and the amount of tax being paid. Without an accompanying payment voucher, the time frame for processing a payment is significantly prolonged. The

Department must research and attempt to identify which taxpayer, tax account and period the payment is to be applied to. Then a voucher is manually created so that the payment can be processed and posted, hopefully, to the correct taxpayer, tax type and account. If a return and payment come in without a payment voucher, it is very likely that the return will post to your account creating a tax due amount before your payment can be credited against that liability. You will then receive a bill for the tax due, even if you sent in a check (but not a payment voucher!) with the return. The Department receives many telephone calls from very unhappy taxpayers who receive a tax bill because they did not include the appropriate payment voucher with their tax payment.

We ask for your help by including the appropriate payment vouchers for your returns with payments. Also, please use your new Hawaii Tax I.D. number. Doing these things will help the returns and payments process smoothly through our system, ensure the payment is applied to the proper account, eliminate the necessity of sending you a bill for taxes due, and reduce the cost of government. If you don't know your new Hawaii Tax I.D. number, you may find it using our Internet Tax License Search program by going to our home page at www.state.hi.us/tax and choosing "Search the Tax Licenses" on the right side of the screen under the heading "On-line Services". Please note that all Hawaii Tax I.D. numbers begin with "W" followed by an 8-digit randomly assigned number.

IN THIS ISSUE

New Imaging System	1
Use the Payment Vouchers!	1
The Direct Line	2
Conformity to Federal Tax Changes	2
Reporting Semiweekly Withholding Payments	2
Revamped Website	3
Certification for High Technology Tax Credits	3
April 20 Deadline	3
Standard Mileage Rates for 2005	4
Corrections to 2004 Tax Forms	4
Recently Issued Tax Publications	5
Pending Tax Publications	6
Second Quarter State Tax Collections	7

The Direct Line

By Director Kurt Kawafuchi

It's a new year and a new beginning. In line with our goal to become more transparent, I have submitted the following Department Goals and Objectives to the legislature:

- *Goal 1: To promote and achieve a high level of voluntary compliance, i.e., where taxpayers are voluntarily paying the proper taxes on a timely basis.*
 - *Objective 1: Increase the collection of delinquent taxes by an additional \$35 million over the next three fiscal years. We are seeking additional resources to achieve this goal.*
 - *Objective 2: To promote increased awareness of the Hawaii tax system and help taxpayers meet their tax obligations to the State of Hawaii.*
- *Goal 2: Being more business and customer friendly.*
 - *Objective 1: Improve the quality and timeliness of services provided to taxpayers and taxpayers' representatives.*
 - *Objective 2: Be more accessible, flexible, transparent, and solution-oriented.*
 - *Objective 3: Improve morale and upgrading the skill level of our staff.*
 - *Objective 4: Provide a better working environment for the staff.*
- *Goal 3: Promote a tax system that assures the public that the tax laws are administered and enforced fairly, efficiently, and with integrity for all taxpayers.*
 - *Objective 1: Diligently pursue taxpayers who fail to pay their fair share of taxes with appropriate consideration for the issue, amount and circumstances.*
 - *Objective 2: Work closely with the Department of the Attorney General, Tax Division, to protect the government's tax claims in the U.S. Bankruptcy Court, foreclosure suits, probate courts, and interpleaders.*
 - *Objective 3: Coordinate and work closely with the Internal Revenue Service to jointly achieve as high a level of voluntary compliance as possible. Also seek to share resources and experiences to improve Hawaii's tax system.*
- *Goal 4: Integrate and maximize the benefits of new technology.*
 - *Objective 1: Maximize the new technology in the Department of Taxation.*

Conformity to Federal Tax Changes

Of interest to you right now are the annual conformity measures in Senate Bill No. 834, especially with respect to federal provisions that impact returns currently being filed for the 2004 tax year. At the present time, Hawaii has not adopted any changes to federal tax law enacted by Congress in 2004 or 2005, including the charitable deduction on a taxpayer's 2004 return for contributions made in January 2005 for tsunami relief, the optional itemized deduction for state sales taxes instead of state income taxes, and the extension of the above-the-line deduction for certain educator expenses. As you know, taxpayers can't file Hawaii returns based on federal law that has not yet been adopted by Hawaii. Returns filed now must be prepared based on current law and amended later if an applicable federal provision is later adopted. An alternative is to delay filing until the conformity measure becomes law. In this case, taxpayers may obtain an automatic 4-month extension of time to file the return.

Reporting Semiweekly Withholding Payments

Employers who are required to make semiweekly withholding payments must also complete Schedule B of federal Form 941 with their Hawaii tax information. Federal Schedule B (Form 941)

See Withholding Payments, Page 3



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Withholding Payments

(From Page 2)

accompanies the Form HW-14, Withholding Tax Return, that is submitted for the last month of a calendar quarter. On federal Schedule B (Form 941), list your **tax liability** (i.e., the Hawaii income tax you withheld from your employees' paychecks) for each payday during the calendar quarter.

Do not show your Hawaii withholding tax remittances on the federal Schedule B (Form 941). Remittance information is taken from your submitted electronic funds transfer (EFT) or from the Form VP-1W, Tax Payment Voucher - Withholding. The Department of Taxation uses federal Schedule B (Form 941) to determine if you have timely remitted your Hawaii withholding tax liability.

Department of Taxation Announcement 2005-1 provides general instructions and examples which may assist your completion of this form and is available on our website at www.state.hi.us/tax, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), and from any district tax office.

Revamped Website

We recently implemented our new revamped website. The new website design goal is to provide a more user-friendly experience to our visitors with a fresh look, quicker navigation, and better-organized content. Visit us soon!

Certification for High Technology Tax Credits

If you are planning to claim the (1) Tax Credit for Research Activities for research expenses incurred on or after July 1, 2004, or (2) High Technology Business Investment Tax Credit for investments made on or after July 1, 2004, you must have the research expenses and the new investments certified before the high technology tax credits may be claimed. Certification Forms N-318A and N-319A need to be submitted before March 31, 2005 (for tax returns filed on a calendar year basis), for research expenses incurred or investments made on or after July 1, 2004.

We encourage you to submit your forms for

certification early. Once administrative rules imposing certification fees are adopted, you will have to pay a fee in order to get your certificate. If you submit your certification requests before the rules are adopted, certification is free!

A draft Department of Taxation Announcement regarding the new certification forms is available on our website at www.state.hi.us/tax. Forms N-318A and N-319A are available on our website, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), and at any district tax office.

April 20 Deadline

The Hawaii income tax filing deadline is just a few weeks away. The Department provides the following services to taxpayers needing tax forms, information, and assistance:

- www.state.hi.us/tax – The Department's recently updated website is a convenient way for taxpayers to obtain Hawaii tax forms and other information. Forms for the 2004 tax year have writable fields that allow users to type in their entries before printing, and a search feature helps taxpayers find specific information.
- 2004 Hawaii Tax Information CD – Available at a cost of \$10, this CD contains the 2004 tax forms with writable fields, Tax Information Releases, Announcements, Tax Facts, brochures, and more.
- Forms by Fax/Mail Service – Taxpayers may request State tax forms and publications 24 hours a day, 7 days a week. All forms and publications can be mailed to the requestors; selected forms can be faxed. Callers must provide the specific form number in order to be assisted since this service is not staffed with Department of Taxation employees. On Oahu, call 587-7572. From the neighbor islands, continental U.S., and Canada, call toll-free at 1-800-222-7572.
- One-Stop Taxpayer Services – For State tax information and individual assistance on accounts Mondays through Fridays (except State holidays) from 7:45 A.M. to 4:30 P.M., taxpayers statewide should call the Tax Information Line at 587-4242, or toll-free at 1-800-222-3229. Taxpayers who are hearing impaired should call 587-1418, or toll-free at 1-800-887-8974, for assistance. Requests for general information and assistance (not confidential tax return or account information) may also be e-mailed to Taxpayer.Services@hawaii.gov.
- District Tax Offices – Hawaii tax forms,

See Tax Deadline, Page 4

Tax Deadline

(From Page 3)

publications, and individual assistance are available during business hours at all four district tax offices which are located on Oahu, Hawaii, Maui, and Kauai. On Oahu, the most commonly requested form and instruction packages are available after hours on shelves located outside the Punchbowl Street entrance to the Princess Ruth Keelikolani Building.

Just a reminder that e-filing your Form N-11 through the joint federal-state e-filing program often results in fewer errors and faster processing. Refunds are extra fast if you both e-file and choose to direct deposit your refund.

For those of you filing a paper return, the Department will offer curbside service on Oahu for last minute filers on Wednesday, April 20, 2005, from 5:00 P.M. to midnight. You may drive up to either the Punchbowl Street or Halekauwila Street sides of the Princess Ruth Keelikolani Building where volunteer Department employees will be stationed to accept tax returns, extension requests, and other documents.

If you cannot complete your State tax return on time, you may generally obtain an automatic 4-month extension of time to file your Hawaii individual income tax return without filing Form N-101A. Use Form N-101A only if you need to make a payment. A payment should be made if additional taxes are due because the extension of time to file an income tax return is not an extension of time to pay the tax owed. Form N-101B is still required to obtain an additional 2-month extension beyond the 4 months.

The most convenient way to file an extension is by using our E-Filing via the Internet site on the State's Internet portal at www.ehawaii.gov.org/efile. Just register online and e-file your extension.

There is a nominal \$2.50 transaction fee that goes to the vendor operating the website, but only if a payment is made. Pay with an electronic check or credit card, but be aware that credit card companies charge an additional fee if you use your credit card. Check your total charges before confirming your payment.

Standard Mileage Rates for 2005

If you use your car for business purposes, you may be able to deduct certain car expenses. In general, you may use either the standard mileage rate or the actual expenses method to compute your deduction. The

standard mileage rate for business use of a car has increased from 37.5 cents per mile in 2004 to 40.5 cents per mile in 2005.

Car expense deductions are also allowed for certain non-business uses. If you itemize your deductions (instead of claiming the standard deduction), you may be able to claim a deduction for using your car for medical reasons or while giving services to a charitable organization. If you move to a new home because you're changing job locations or starting a new job, you may be able to claim a moving expense deduction for use of your car in a qualifying move on Form N-139.

The standard mileage rates for using your car for medical reasons or in a qualifying move have both been increased from 14 cents per mile in 2004 to 15 cents per mile in 2005. The standard mileage rate for using your car while giving services to a charitable organization is unchanged at 14 cents per mile.

For more information, see Department of Taxation Announcement No. 2004-18, which is available on our website at www.state.hi.us/tax, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), and at any district tax office.

Corrections to 2004 Tax Forms

The following is a listing of errors found on the 2004 Hawaii tax forms:

Form N-20

- Lines 6 and 14, which read, "... from federal Form 4797, Part II, line 18", should read "... from federal Form 4797, Part II, line 17"
- Schedule K, line 4f, which reads, "Unrecaptured section 1250 gain ..." should be deleted.
- Schedule K, line 28b(1) which reads, "Investment income included on lines 4a, 4b, 4c, and 4f, Schedule K", should read "Investment income included on lines 4a, 4b, and 4c, Schedule K"

Schedule K-1 (Form N-20)

- Line 4f, which reads, "Unrecaptured section 1250 gain ..." should be deleted.
- Line 28b(1), which reads, "Investment income included on Schedule K-1, lines 4a, 4b, 4c, and 4f", should read "Investment income included on Schedule K-1, lines 4a, 4b, and 4c"

N-20 Instructions and Instructions for Schedule K-1 (Form N-20)

- Line 4f instructions regarding unrecaptured section
- See Tax Form Corrections, Page 5**

Tax Form Corrections

(From Page 4)

1250 gain should be deleted.

Form N-35

- Schedule K, line 11b(1) which reads, "Investment income included on lines 4a, 4b, 4c, and 4f, above", should read "Investment income included on lines 4a, 4b, and 4c, above"

Schedule K-1 (Form N-35)

- Line 4f which reads, "Unrecaptured section 1250 gain . . ." should be deleted.
- Line 11b(1) which reads, "Investment income included on lines 4a, 4b, 4c, and 4f, above", should read "Investment income included on lines 4a, 4b, and 4c, above"

Form N-40

- Schedule E, Line 11 which reads, "Residential Construction and Remodeling Tax Credit carryover (Attach Form N-334)", should read "Residential Construction and Remodeling Tax Credit carryover (Attach Form N-332)"

Schedule K-1 (Form N-40)

- Line 3c, which reads, "Unrecaptured section 1250 gain" should be deleted.

Form N-100

- Page 2, the revision year should be 2004 instead of 2003.

Form N-318

- 2nd Note under Part II which reads, "If you are only reporting your share of the credit that is shown on Schedule K-1, skip lines through 6 . . ." should read "If you are only reporting your share of the credit that is shown on Schedule K-1, skip lines 1 through 6 . . ."
- Line 14, which reads, "Carryover of unused credit (line 9 minus line 13). Enter the difference here (but not than zero) . . ." should read "Carryover of unused credit (line 9 minus line 13). Enter the difference here (but not less than zero) . . ."

Recently Issued Tax Publications

The following is a list of the publications issued by the Department of Taxation from April 2004 through March 2005. Copies of these publications may

be obtained from our website at www.state.hi.us/tax, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), and from any district tax office.

Tax Information Release No. 2004-01 - Provides information on Act 113, SLH 2004, which conforms the state withholding tax remittance due date for employers with an annual state withholding tax liability that exceeds \$40,000 to the semi-weekly remittance due date required under federal employment tax provisions.

Announcement No. 2004-01 - Provides information on the increase in the cigarette tax to 7 cents per cigarette for sales, use, or possession of cigarettes after June 30, 2004.

Announcement No. 2004-02 - Provides information on Act 89, SLH 2004, which brings Hawaii Income Tax Law into conformity with many but not all of the changes made to the Internal Revenue Code as of December 31, 2003.

Announcement No. 2004-03 - Provides information on Act 96, SLH 2004, which lowers the tax rate on alternative fuel sold for use in operating an internal combustion engine from 1 cent to .25 cents per gallon; and lowers the percentages that are applied to the rate for diesel oil in determining the rates on alternative fuel sold for use in operating a motor vehicle on public highways as follows: ethanol (from .29 to .145); methanol (from .22 to .11); biodiesel (from .5 to .25); and other alternative fuels, other than liquefied petroleum gas (from .5 to .25).

Announcement No. 2004-04 - Provides information on Act 97, SLH 2004, which provides clarifications to the renewable energy technologies income tax credit.

Announcement No. 2004-05 - Provides information on Act 140, SLH 2004, which encourages the construction of operational, large-capacity ethanol production facilities by changing the ethanol investment tax credit to a facility tax credit.

Announcement No. 2004-06 - Announces the decrease in the Kauai County biodiesel fuel tax rate from 6.5 cents to zero cents per gallon, effective July 1, 2004.

Announcement No. 2004-07 - Provides information on Act 197, SLH 2004, which increases the allowable exclusion from Hawaii net income tax for members of the Hawaii National Guard and reserve components of the Army, Air Force, Marine Corps, and Coast Guard over five years starting January 1, 2005.

Announcement No. 2004-08 - Provides information on Act 157, SLH 2004, which prohibits the distribution of untaxed cigarettes via the telephone, mail order, the Internet, and other on-line sources.

Announcement No. 2004-09 - Provides information on Act 159, SLH 2004, which requires wireless providers to charge customers a 66-cent monthly surcharge to be deposited into a special fund that will be dedicated to upgrading wireless carrier locations and

See Recent Publications, Page 6

Recent Publications

(From Page 5)

911 call centers to allow public safety agencies to better locate wireless callers.

Announcement No. 2004-10 - Provides information on Act 214, SLH 2004, which provides a fraternal benefit, religious, charitable, scientific, educational, or other nonprofit organization under section 501(c) of the Internal Revenue Code, a general excise tax exemption for gross income derived from fees for convention, conference, or trade show exhibit or display spaces.

Announcement No. 2004-11 - Provides information on Act 228, SLH 2004, which establishes a net income tax check-off to allow taxpayers to voluntarily contribute \$5 on their state income tax returns to be allocated as follows: (1) One-third to the Hawaii Children's Trust Fund, and (2) Two-thirds to be divided equally among the Domestic Violence Prevention Special Fund of the Department of Health and the Spouse and Child Abuse Special Accounts under the Department of Human Services and the Judiciary.

Announcement No. 2004-12 - Provides information on Act 115, SLH 2004, which extends the "sunset date" of the Integrated Tax Information Management Systems (ITIMS) Special Fund from July 1, 2004 to July 1, 2005.

Announcement No. 2004-13 - Provides information on Act 195, SLH 2004, which permits a tax deduction of up to \$3,000 for one tax year out of every three consecutive tax years for an individual taxpayer's qualified expenditures to maintain an exceptional tree that is on the taxpayer's private land and is designated as an exceptional tree by the local county arborist committee under chapter 58, Hawaii Revised Statutes.

Announcement No. 2004-14 - Provides information on Act 123, SLH 2004, which provides for the first tax appeal to either the district board of review or the tax appeal court to be made without payment of the assessed tax.

Announcement No. 2004-15 - Provides information on Act 215, SLH 2004, which amends various provisions of Act 221, SLH 2001, relating to high technology investment tax credits, extends the sunset date for certain tax incentives to December 31, 2010, and establishes a State Private Investment Fund.

Announcement No. 2004-16 - Provides information regarding the new Hawaii Tax Identification Numbers that will be issued to replace the eight-digit general excise license numbers.

Announcement No. 2004-17 - Provides information regarding relief for taxpayers affected by the heavy rains and flooding on October 30 and 31, 2004 in the Manoa Valley area in the City and County of Honolulu.

Announcement No. 2004-18 - Announces the adoption of the IRS optional standard mileage rates for

2005.

Announcement No. 2005-01 - Provides instructions on filing federal Schedule B (Form 941), Report of Tax Liability for Semiweekly Schedule Depositors, for Hawaii withholding tax purposes.

Hawaii Tax Information at a Glance Brochure - Revised April 2004.

Digest of Tax Measures - Enacted by the State of Hawaii, Twenty-Second Legislature, Regular Session of 2004.

The following Reports are available on our website at www.state.hi.us/tax. A limited number of the Reports also are available for a nominal fee from our Tax Research and Planning Office. Contact them by phone at 808-587-1440 or by e-mail at Tax.Research@hawaii.gov to request an order form.

- Annual Report 2002-2003
- Tax Credits Claimed by Hawaii Taxpayers - 2001
- Hawaii Income Patterns - Individuals - 2001

Pending Tax Publications

The following is a list of some of the Department's pending tax publications.

Administration of Taxes

- Application of penalties and interest and the waiver of penalties and interest - sections 231-3 and 231-39, HRS.
- Clarification of the offers in compromise process.

Income Tax Law

- Clarification of the application of the Hawaii tax credit for increasing research activities.

General Excise Tax Law

- Clarification of the general excise tax rules, including the application of the general excise tax for reimbursements - section 237-20, HRS.

Transient Accommodations Tax

- Clarification of the application of the transient accommodations tax.

Conveyance Tax Law

- Clarification of the application of the conveyance tax.
-

Second Quarter State Tax Collections

October 2004 - December 2004

(In Millions of Dollars)

	<u>FY 2005</u>	<u>FY 2004</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
Individual Income Tax	\$ 312.3	\$ 297.1	\$ 15.2	5.1%
Corporate Income Tax	11.3	-0.3	11.5	nm*
General Excise Tax	483.4	438.1	45.3	10.3%
Transient Accommodations Tax	39.5	38.0	1.5	4.0%
All Others	172.7	171.0	1.8	1.0%
Total Tax Collections	\$ 1,019.3	\$ 943.9	\$ 75.3	8.0%
General Fund Revenues	\$ 885.4	\$ 806.5	\$ 78.9	9.8%

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

nm* = not meaningful

Total tax collections for the second quarter of fiscal year 2005 amounted to \$1,019.3 million, or \$75.3 million more than the same period of last fiscal year. General fund revenues of \$885.4 million for the second quarter also advanced \$78.9 million from last year's total of \$806.5 million. As the economy continues to show strong growth, general excise, individual income, and transient accommodation tax collections showed fairly large increases from the previous year figures, as shown in the table. For the first half of fiscal year 2005, total state tax collections are \$200.8 million, or 10.4%, over the first half of last fiscal year.

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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)