

DEPARTMENT OF TAXATION
ANNUAL REPORT AS REQUIRED BY ACT 180, SLH 2010
For the Period July 1, 2009 through June 30, 2010

January 24, 2011

Section 56.1 of Act 180, Session Laws of Hawaii (SLH) 2010, appropriated \$357,240 or so much thereof as may be necessary for fiscal year 2010-2011 to be expended on revenue-generating positions provided that the department prepare a report indicating the amount of revenue generated during the prior fiscal year and the estimated amount to be generated for the current fiscal year for each revenue-generating position in the department.

Each and every position in the department makes substantial contributions to revenue generation and collection. Important functions that are critical to revenue generation and collection include tax form design, procurement, testing, and acceptance; information technology planning, development, and maintenance; printing, posting, and mailing tax bills; addressing taxpayer inquiries so that taxpayers understand their tax obligations; tax return and remittance processing; and compliance enforcement.

While revenue generation and collection could not occur without all of the above-mentioned functions, direct revenue measurements are made only for compliance enforcement (compliance). Compliance consists of three primary functions – field audit, office audit and collections.

Field audit conducts field examinations of various types of tax returns and books and records for compliance with Hawaii tax laws. Field audit routinely engages in issues involving interstate and foreign commerce; participates in developing guidelines and interpretations of tax laws; and communicates and deals with officers of the world's largest corporations with Hawaii presence and complex organizational structures, their tax attorneys and certified public accountants.

For the fiscal year ending June 30, 2010, field audit generated \$118,766,000 in assessments or returns secured, which equated to approximately \$3,299,000 per field auditor and collected \$46,090,000 or approximately \$1,280,000 per field auditor either up front at time of assessment, upon settlement of a case, or upon the decision of the Board of Review or Tax Appeal Court. For the fiscal year ending June 30, 2011, the department projects field audit assessments of \$132,947,000 or \$3,693,000 per field auditor and collections of \$22,263,000 or \$618,000 per field auditor up front at time of assessment. The fiscal year ending June 30, 2010 collections were higher than usual due to the settlement of a couple of large cases. Our estimate per auditor for fiscal year ending June 30, 2011 is slightly higher than the previous year due to a couple of large assessments issued to date.

Office audit conducts office examinations of general excise, income, inheritance, estate, fuel, liquor, tobacco, withholding, use, transient accommodations, rental motor

vehicle, and tour vehicle surcharge tax returns; conducts interviews; reviews accounting records, explains to taxpayers the basis for any adjustments, secures their agreement or advises taxpayers of appeal rights in the event the taxpayers do not agree with the adjustments proposed.

For the fiscal year ending June 30, 2010, office audit generated \$41,883,000 in assessments, which equated to approximately \$1,551,000 per office examiner and collected \$4,946,000 or approximately \$183,000 per office examiner either up front at time of assessment or upon settlement of the case. For the fiscal year ending June 30, 2011, the department projects office audit assessments of \$37,866,000 or \$1,402,000 per office examiner and collections of \$3,867,000 or \$143,000 per office examiner up front at time of assessment. The anticipated decrease is due a decrease in staff due to retirements and special assignments.

Collections conducts/enforces collection of delinquent taxes through field contacts, correspondence, telephone, and personal contacts in the office; conducts investigation and examination of taxpayers' records and financial capabilities and recommends payment agreements or appropriate legal actions to liquidate delinquent tax liabilities; and recommends, and implements upon approval, appropriate legal actions such as filing liens, judgments, seizures, etc. when the taxpayer fails to comply with an agreement to liquidate tax liability.

For the fiscal year ending June 30, 2010, \$218,600,000 in delinquent taxes was collected. The collectors generated \$130,092,000 in collections, which equated to approximately \$3,252,000 per collector. The remainder was collected by the tax clerks, supervisors and through the automated billing process. For the fiscal year ending June 30, 2011, the department projects the collectors to generate collections of \$123,817,000 or \$3,175,000 per collector. The anticipated decrease is due to anticipated retirements and delay in hire and training of new collectors.

In total, for the fiscal year ending June 30, 2010, compliance generated \$160,649,000 in assessments and/or returns secured of which \$51,036,000 was collected either up front at the time of assessment or upon settlement. The collections staff collected an additional \$130,092,000 in delinquent tax collections. In total, for the fiscal year ending June 30, 2011, compliance projects \$170,813,000 in assessments of which \$26,130,000 is projected to be collected up front at the time of assessment and an additional \$123,817,000 in delinquent taxes is expected to be collected by the collectors.