

DEPARTMENT OF TAXATION
ANNUAL REPORT AS REQUIRED BY ACT 213, SLH 2007, SECTION 119
For the Period July 1, 2007 Though November 30, 2007

November 30, 2007

Act 213, Session Laws of Hawaii (SLH) 2007, Section 119, appropriated to the Department of Taxation ("Department") \$300,000 or so much thereof as may be necessary for fiscal year 2007-2008 and the same sum or so much thereof as may be necessary for fiscal year 2008-2009 to be used for contracting with specialized experts to support income, general excise, and other tax audits. This Section further provides that the Department of Taxation shall submit a report on those efforts to the Legislature no later than December 1, 2007, and again on December 1, 2008.

Audit

Compliance initiated 50 audits relating to Acts 221 and 215 High technology business investment tax credit and Tax credit for research activities. We have closed 27 cases in which \$20.4 million in credits were denied. Subject Matter Experts (SME) assisted in 22 of the cases; of these cases we used an in-house computer technology SME to close 15 of the cases.

The Department currently has 7 cases pending before the Taxation Board of Appeal and 5 cases pending before the State Tax Appeal Court all of which will required the assistance of a SME.

Appropriation

The Department expects to expend the amounts appropriated for fiscal years 2008 and 2009 in a prudent, efficient, and timely manner to close audit cases relating to Acts 221 and 215 credits. Currently we have encumbered \$51,500 to three (3) Subject Matter Experts and the Department has expended \$9,000 for work completed on this project. Of the 23 cases pending there are 18 cases that will need assistance from a SME, 8 of these cases involve software development and the remaining range from agriculture to various physical sciences. We expect that the retention of SMEs for those 18 cases will utilize the balance of the \$300,000 appropriation.

Summary

Department constantly strives to promote and maintain a tax system based on self-assessment and voluntary compliance by taxpayers through the consistent and fair application of all State tax laws administered by the Department. The Department is very appreciative of the support from the Lingle-Aiona Administration and the Legislature to support the Department in this initiative.