

DEPARTMENT OF TAXATION
ANNUAL REPORT AS REQUIRED BY ACT 213, SLH 2007, SECTION 119
For the Period July 1, 2007 Through November 30, 2008

November 30, 2008

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.

Audit

Compliance initiated 64 audits relating to Acts 221 and 215 High technology business investment tax credits and Tax credit for research activities. We have closed 45 cases in which \$26.3 million in credits were denied. Subject Matter Experts (SME) assisted in 38 of the cases; of these cases we used an in-house computer technology SME to close 15 of the cases.

The Department currently has 1 case pending before the Taxation Board of Appeal and 2 cases pending before the State Tax Appeal Court all, of which will require the assistance of a SME.

Appropriation

The Department intends to expend the amounts appropriated for fiscal years 2008 and 2009 in its efforts to close audit cases relating to Acts 221 and 215 credits. Currently we have encumbered \$87,000 to three Subject Matter Experts and the Department has expended \$40,734 for work completed on this project. Of the 19 cases pending, there are 14 cases that will need assistance from a SME, 5 of these cases involve software development and the remaining range from agriculture to various physical sciences.

Summary

Through the resources provided by the Subject Matter Experts, the Department was able to reduce \$26.3 million of the claims of the companies claiming high technology credits where the claims were overstated and timely close the cases as well as insure the fair application of law as it relates to Acts 221 and 215.