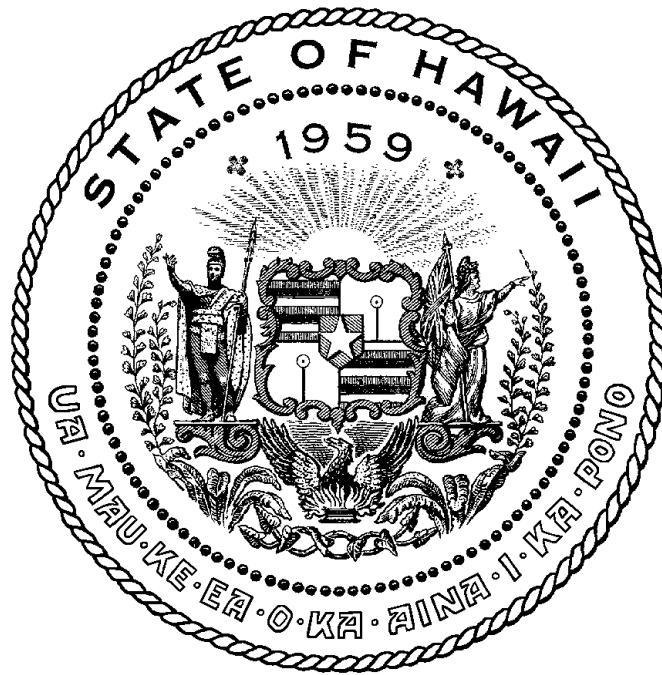


DEPARTMENT OF TAXATION STATE OF HAWAII



ANNUAL REPORT 1999-2000

October 12, 2000

The Honorable Benjamin J. Cayetano
Governor
State of Hawaii

Dear Governor Cayetano:

I am pleased to present to you this annual report summarizing the activities of the Department of Taxation for the fiscal year ending June 30, 2000. I am also honored to continue the legacy of Director Ray K. Kamikawa, whose resignation on August 31, 2000 has left me a considerable vacuum to fill.

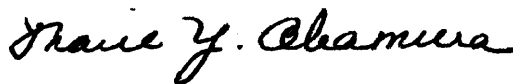
Midnight December 31, 1999 marked the end of the 1900's not only for mankind but also for computers that process tax information. Nervous anticipation notwithstanding, the department's computers performed flawlessly through the many system checks conducted in the early hours of January 1, 2000. We were reassured that all potential Y2K glitches were identified and resolved through hard work in the preceding months.

Computer technology increasingly dominates departmental operations. Nothing focuses attention on this fact more than progress on the Integrated Tax Information Management System (ITIMS) development. In partnership with American Management Systems (AMS), the department last fall launched a five-year project to modernize its technology infrastructure toward the goal of improved service to its customers. ITIMS, the State's first performance-based technology project, is funded through increased revenues attributable to ITIMS. The first realization of benefits totaled more than \$7 million in the last four months of fiscal year 2000. Teams of personnel from AMS and the department have been cooperating diligently on the many phases of this ambitious technological overhaul throughout the year.

"Income tax season" spotlights the department in the public eye. Perhaps less obvious is that department auditors, examiners, and collectors work year-round to resolve tax compliance issues and ensure the fair administration of state tax laws. Department personnel staff the counters, answer phone inquiries, address taxpayer problems, issue tax forms, and perform myriad duties to ensure smooth functioning of the state government's revenue-generating function. Stepped-up efforts toward increased outreach, practitioner workshops, and general information dissemination, as well as exceptional enforcement, have heightened public awareness and compliance with tax laws. Director Kamikawa's initiatives extended to reassessing the department's management leadership and refocusing the department's mission, vision, and performance measurement.

The department again seized the opportunity provided by the 2000 legislative session to advance the Administration's tax policies toward fair tax administration and economic prosperity. Successful steps were taken to further reduce the tax burden on business, provide increased incentives for high technology industry development, and promote the state's tourism industry, among others. Evidence of Hawaii's economic upturn appeared in the State's healthy tax receipts for the fiscal year ended June 30 -- general fund revenues more than \$118 million in excess of last year's total.

Respectfully submitted,



MARIE Y. OKAMURA
Director of Taxation

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Our mission *is to administer the tax laws for the State of Hawaii in a consistent, uniform, and fair manner.*

Our vision *is the commitment to:*

- satisfying our customers proactively*
- investing in our employees' future*
- using technology to empower all.*

THE YEAR IN REVIEW

TAX SERVICES AND PROCESSING DIVISION

The Tax Services and Processing Division achieves its objectives through the activities of its three branches: Document Processing, Revenue Accounting, and Taxpayer Services.

Efficient processing of all tax returns and documents is the major objective of the Document Processing Branch. It processed more than 97,000 pounds or 2.6 million pieces of incoming mail, including 1.4 million payment transactions. Collections through the electronic funds transfer (EFT) program exceeded \$1.6 billion.

The Revenue Accounting Branch maintains accurate accounting records and prepares timely accounting reports. This was achieved through controlling and accounting for all tax collections, adjustments, and refunds.

Serving as the department's first line of contact with the public, the Taxpayer Services Branch handles customer inquiries in person, over the phone, through written correspondence, and also through electronic response via e-mail. The branch assists customers by preparing returns, processing business license applications, resolving customer account problems, updating license information, and processing tax clearances.

An important objective of the Taxpayer Services Branch involves education, outreach, and the providing of written determinations on the applicability of the tax laws in specific situations. Among the continuing initiatives of this branch is the publication of a quarterly newsletter, Hawaii Tax News, and a Tax Facts series which provide relevant information on tax topics of general interest. Other initiatives include providing informational workshops, organizing tax practitioner forums, and disseminating public service announcements through the print and electronic media.

Ongoing public education is provided through the maintenance of a department website, a 24-hour Forms By Fax/Mail service, and an annually updated CD-ROM. The current version of the CD-ROM allows taxpayers to input data onto the commonly used forms and then print the completed forms from their printers. Basic and commonly used forms from the Department of Commerce and Consumer Affairs and the Department of Labor and Industrial Relations are also included. Tax clearance processing was made simpler by allowing taxpayers to fill in the application on the CD-ROM or at our website, from which the completed form could be downloaded and then faxed or mailed in.

To make access to government easier for Hawaii's citizens, the Taxpayer Services Branch also partners with other agencies. In cooperation with the Internal Revenue Service, the branch now issues temporary Federal Employer Identification Numbers (FEIN) to new businesses registering at the Oahu District Office. Another cooperative effort of the branch and the Internal Revenue Service is the Mobile Tax Assistance Program. An example of active community outreach, this program provided assistance with tax return preparation and tax questions at sites around the state. It especially helped citizens in such outlying areas as Molokai, Lanai, and Waianae, where access to governmental offices in the county seats is difficult. The Department of Business and Economic Development and Tourism's Business Action Center works with the branch to process business license applications off-site as a convenience for taxpayers. Information and forms for the Department of Commerce and Consumer Affairs to businesses applying for business licenses in person are also provided at all district tax offices.

The Taxpayer Services Branch also coordinated Team T.E.A.C.H, which involves team members from each taxation district who give presentations on relevant tax topics to community and business groups.

COMPLIANCE DIVISION

Maximizing taxpayer compliance with Hawaii tax laws continues to be the primary objective of the Compliance Division, which is comprised of audit and collection branches. In an environment of voluntary compliance and self-assessment, the division meets its objective through (1) returns processing and exception handling; (2) auditing; (3) collection and; (4) taxpayer services and information dissemination.

Exception Handling/Error Correction

The Audit Branches perform exception handling of returns and other tax documents processed by the Department of Taxation. During the fiscal year, 952,660 net income tax related documents were processed. Errors were identified on 12.7% of these documents. The Audit Branches were able to timely process or correct the errors on-line and within established time periods.

Exception handling was also performed on general excise, use, transient accommodations and other taxes. These types of returns represent the largest volume of returns processed by the department and include periodic (monthly, quarterly, and semiannual) and annual tax returns.

Auditing

To support self-assessment and voluntary compliance, the Audit Branches performed the following audits during fiscal year 2000.

	Office Audits		Field Audits	
	Cases	Assessments	Cases	Assessments
Oahu.....	3,056	\$ 6,312,285	310	\$ 82,684,480
Maui.....	747	891,775	39	1,394,022
Hawaii.....	1,109	1,273,341	45	1,493,010
Kauai.....	153	962,195	21	3,514,477
Total FY 2000.....	5,065	\$ 9,439,596	415	\$ 89,085,989
Total FY 1999.....	6,097	10,422,218	489	59,685,188
Difference.....	(1,032)	\$ (982,622)	(74)	\$ 29,400,801

Criminal Tax Unit

During the fiscal year, the criminal tax unit returned indictments against ten individuals and one corporation. Highlights of these actions appear in the "Criminal Cases" section on page 17.

Taxpayer Assistance

Taxpayer assistance functions provided by the Taxpayers Services Branch on Oahu are handled on the neighbor islands by Compliance Division staff. During the fiscal year, they provided over 190,000 instances of taxpayer assistance over the telephone, by correspondence, and in person over the counter. Each neighbor island district office also provided a Compliance Division employee to be a team member on Team T.E.A.C.H., which made presentations to community and business groups on a variety of tax topics.

Special Projects

Each audit section was assigned special projects to advise taxpayers of their responsibility to comply with Hawaii's tax laws. Listed below are the special projects assigned by the different offices.

Oahu District Office - Office Audit Branch

- Schedule C matching of taxpayers who file a federal Schedule C against Hawaii income and general excise filings to determine non-filing or underreporting of income.
- Examination of large charitable contribution deductions claimed by taxpayers.
- Review of returns of taxpayers identified as current or former clients of RB Tax Service.

Oahu District Office - Field Audit Branch

- Federal contractors project
- Business Development Corporations (BDCs) project to determine whether taxpayers qualified for the exempt status provided to BDCs in respect to tax on gross receipts.
- Public Service Company (PSC) project
- Self-assessment project - PSC tax with personal assistance to taxpayers by explaining the law and the preparation of returns.
- Compliance with the tobacco tax law.
- Air cargo and package express service companies - freight forwarders compliance with general excise and public service company tax laws.
- Intermediary services project

Maui District Office

- Rental project
- Boat import project

Hawaii District Office

- Schedule C project involving possible noncompliance in reporting general excise tax by individuals on their 1994 Schedule C income.
- Real estate licensee compliance project conducted jointly with the Internal Revenue Service.
- Public service company compliance project
- Air cargo & freight forwarders--compliance with Supreme Court decision regarding this industry.
- Examination of independent taxi drivers for general excise law compliance.
- Intermediary services compliance project

Kauai District Office

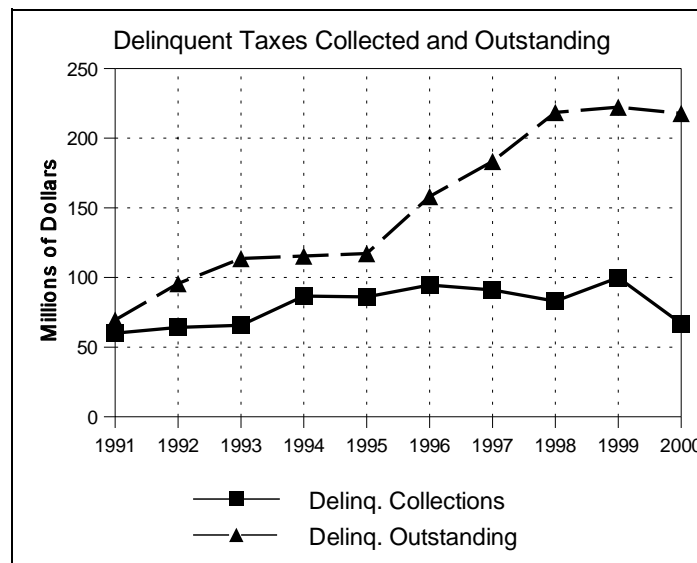
- Schedule C Project matching net income and general excise returns.
- Pursuit of real estate licensees who failed to file net income and/or general excise tax returns.
- Imported aircraft project identifying nonfilers of use tax.
- Public service company project
- Unlicensed construction contractors project:
- ROTC instructors project
- Intermediary services project
- Outside Public Contact (OPC) project examing tax compliance of persons in the business of soliciting interested buyers to attend time share sales seminars, for which they receive a commission.
- Federal AGI Project
- Itemized Deductions Project

Delinquent Tax Collections

The division's collection program experienced a mixed year. The statewide total for all outstanding delinquent taxes decreased from \$222.3 million to \$217.8 million, or by \$4.5 million. Cash collected decreased from \$99.8 million to \$66.9 million. Other key indicators also showed decreases. An emphasis on uncollectible write-offs resulted in \$30.4 million in accounts written off. This effort seeks to move toward an outstanding delinquent account balance that can more realistically be collected. A table of the major measurements is presented below.

<u>Measurement</u>	<u>FY 2000</u>	<u>FY 1999</u>	<u>Change</u>	<u>% Change</u>
Total Delinquent Balance (\$millions).....	\$217.8	\$222.3	(\$4.5)	-2%
Cash Collected (\$millions).....	\$66.9	\$99.8	(\$32.9)	-33%
Number of Payment Plans.....	1,934	2,053	(119.0)	-6%
Number of Liens Filed.....	2,950	3,023	(73.0)	-2%
Number of Levies Served.....	2,878	6,254	(3,376.0)	-54%
Uncollectible Amounts Written Off (\$millions)..	\$30.4	\$8.3	\$22.1	266%

Collection Program - Special Projects



- **Schedule C Project:** This project started in fiscal 1996 and involved the Audit and Collection Branches. Collectively, the branches prepared approximately \$9.5 million in assessments and collected more than \$4 million as of June 30, 2000.
- **Federal Contractors Project:** This project started in 1989 and involved the Audit and Collection Branches. Collectively, the branches prepared approximately \$17.6 million in assessments and collected more than \$6.0 million as of June 30, 2000.

- **Real Estate Licensees:** This project was a joint effort on the part of the Department of Commerce and Consumer Affairs and the Department of Taxation. The objective of this project was to bring noncompliant real estate brokers and salespersons into compliance with their taxes. As of June 30, 2000, the Oahu Collection Branch collected \$4.9 million of the \$8.1 million in assessments made.
- **One-stop Tax Clearance:** This project began in 1996 and involved Taxpayer Services and Oahu Collection Branches. This one-stop service was to provide tax clearance assistance beginning in May and ending on June 30, 2000. This service was to accommodate the “rush” from liquor licensees who needed to have a tax clearance to renew their liquor license.
- **Private Collection Agency:** Since November 1995, the Oahu Collection Branch has referred a little more than eight thousand cases to three local collection agencies, the Attorney General's Office and one mainland collection agency. Total payments collected as of June 30, 2000 amounted to more than \$1.3 million. The mainland collection agency's contract came to an end at the end of November 1999 and collected approximately \$326 thousand.
- **Uncollectible Write-off:** This special project began in May 2000 to prepare for the upcoming implementation of the ITIMS Collection System (ICS) by having collectors identify delinquent accounts for which all appropriate collection efforts had been exhausted and for which possibilities for future collections are very unlikely. As of June 30, 2000, the Oahu Collection Branch wrote off \$17.8 million in delinquent taxes involving approximately 1,700 accounts.
- **Cost Recovery Fees:** As of March 2, 1998, the Oahu Collection Branch began to collect recovery fees for collection actions taken to enforce the collection of outstanding taxes. These fees covered such actions as processing of a delinquent account, garnishee/seizure, filing of liens and levies, subpoena, foreclosure, and referral to a collection agency. As of June 30, 2000, the Oahu Collection Branch had collected approximately \$101 thousand in such fees.

STAFF OFFICES

Administrative Services Office

Fiscal Office

The Administrative Services Office submitted the supplemental budget request for fiscal year 2001 to the 2000 Legislature, which appropriated \$17.1 million to the Department of Taxation for fiscal year 2001. In carrying out its duties, the department incurred operating expenditures of \$16.4 million for fiscal year 2000, as compared to \$16.2 million for fiscal year 1999. Since taxes collected and administered by the department increased by \$160 million, the cost to collect \$100 of taxes decreased from 46 cents in fiscal year 1999 to 44 cents in fiscal year 2000.

Personnel Management

The Department of Taxation was authorized 343 positions for the fiscal year. Employees were geographically distributed as follows: Oahu, 275; Hawaii, 29; Maui/Molokai, 25; and Kauai, 14.

Personnel actions within the department included 13 new civil service hires, nine retirements, 108 temporary hires, 16 promotions, four transfers, and 11 resignations. Other personnel actions included the resignation or termination of 102 temporary employees hired for the tax season.

STAFFING PATTERN
(Number of Authorized Permanent Positions)

<u>By Organization/Operating Program</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Headquarters Administration.....	40	40	40	49
Tax Services and Processing Division.....	99	99	99	90
Compliance Division, Audit.....	111	111	111	112
Compliance Division, Collection.....	<u>93</u>	<u>93</u>	<u>93</u>	<u>93</u>
TOTAL.....	343	343	343	344

Employees participated in various training programs to expand their professional skills, thus increasing their efficiency and effectiveness in performing their duties. Computer software use and leadership training were among the programs attended by department employees.

Rules Office

The Administrative Rules Office is the department’s advisory arm to the director on tax policy. In addition to drafting and commenting on tax proposals, the Rules Office develops tax policy through rules, tax information releases, announcements, directives, and other publications.

For the 2000 legislative session, the Rules Office drafted 15 administration-sponsored bills, including three for the Department of Business, Economic Development, and Tourism and one for the Department of Budget and Finance. The Rules Office prepared testimony on 258 bills and three resolutions. It submitted comments to Governor Cayetano on 27 acts passed by the legislature (three of the acts were vetoed by the governor). Members of the Rules Office testified at legislative committee hearings on behalf of the Director of Taxation. The Rules Office also prepared 17 governor’s letters, 55 items of correspondence for the director, 26 announcements, and three tax information releases. It adopted a rule that excludes nonresident employees of construction industry contractors from qualifying for an income tax withholding exemption. Office staff also reviewed legislative proposals and rules of other agencies, provided training for department employees and speakers at several tax forums for practitioners.

As part of the department’s continuing effort to provide timely guidance on state tax laws, the Rules Office prepared detailed outlines on certain key legislation. These outlines were used for department-sponsored workshops and were posted on the department’s internet website. Outlines were prepared for: Act 70, SLH 1999, which exempted exported contracting or services from the general excise tax and imposed the use tax on imported services; Act 71, SLH 1999, which reduced the “pyramiding” effect of the general excise tax on intermediary service transactions; and Act 178, SLH 1999, which enacted, among other items, certain high technology tax incentives.

Information Technology Services Office

The Information Technology Services Office (ITSO) is responsible for the development, modification, and maintenance of the Department’s computerized tax systems and components.

In the first half of the fiscal year, ITSO focused much of its efforts and resources to ensure that all department computer systems and resources were Year 2000 (Y2K) compliant. All hardware and software components which did not meet Y2K standards were either remediated or replaced. A Y2K contingency plan was developed

in the event that the department experienced any Y2K problems. The Y2K rollover from December 31, 1999 to January 1, 2000 went smoothly. Y2K remediation, testing, and conversion efforts for both the General Excise, Withholding, Transient Accommodations, and Rental Vehicle/Tour Vehicle Surcharge Tax (GEW/TAT) system and the Comprehensive Net Income Tax (CNIT) system were completed successfully. ITSO also successfully completed Y2K testing and remediation for all hardware and software utilized on the Department's local area network (LAN) and wide area network (WAN).

During the second half of the fiscal year, ITSO focused its efforts and resources on the Integrated Tax Information Management System (ITIMS) project, which will replace the existing GEW/TAT and CNIT systems. The first initiative, an automated billing process, was implemented during the first quarter of 2000. This improvement automates the manual processes of producing billing statements and selectively adjusting accounts. The time saved results in higher collection activity and productivity.

The Systems Networking staff continues to support departmental users with training and the maintenance of a help desk for troubleshooting problems. In support of the ITIMS project as well as departmental users, the Systems Networking staff is implementing new technologies. Some of these efforts have involved the installation of the Windows NT (Next Technology) operating system, UNIX servers, and the replacement/upgrade of all of the department's personal computers and workstations. To increase the performance and reliability of the department's electronic mail (E-mail) system, the E-mail application was migrating onto a separate, dedicated mail server. In order to facilitate the transfer of information between the department, the public, and other government agencies, a high-speed connection to the internet was installed along with hardware and software components necessary to support a secure connection. With a secure, high-speed internet connection, the E-mail system can now be used to communicate externally outside the department.

The Systems Development staff continues to enhance the GEW/TAT system. An enhancement was implemented to monitor the effects on GE revenue of the depyramiding of the general excise (GE) tax and the exempting of exported services. In an ongoing effort to be more responsive to taxpayers, correspondence letters generated by the GEW/TAT system have been reworded to be more friendly, informative and understandable. Additionally, fax numbers have been added to facilitate correspondence with the department. In an effort to reduce costs and inefficiencies, GEW/TAT booklets were suppressed for taxpayers who did not file for five consecutive years.

ITSO continued performing liaison tasks for the CNIT system. Enhancements implemented for the 1999 tax law changes include: the new tax computation method for the N-15 to prorate the standard deduction and personal exemption; new tax rates for individuals and estates; removal of the food and hotel renovation tax credit; and the addition of the low income refundable credit and the high technology tax credit. Other tasks completed include: creation of a new CP2000 job to obtain record counts at different income levels; inactivation of 1998 tax year records; and revision of city names and addresses to meet postal regulations.

Tax Research and Planning Office

The Tax Research and Planning Office (TR&P) reviews and analyzes the effect of legislative tax proposals, publishes statistics on income tax and tax credits, compiles the department's annual report, and provides administrative and technical support to the Council on Revenues.

The Council on Revenues consists of seven community members who provide the state with projections of state general fund tax revenues and state total personal income. This information is used to determine the state's general fund expenditure limits. The Council estimated a 3.0% growth in general fund tax revenues for FY 2000 and a 3.0% growth for total personal income in CY 1999. Actual general fund tax revenues of \$2,972.3 million for FY 2000 represent a 4.1% growth over FY 1999. Total personal income for CY 1999 amounted to nearly \$33.0 billion, representing a 3.5% growth from the previous calendar year.

Besides compiling the department's annual report, TR&P completed four publications during the fiscal year. It published the 1997 edition of "Tax Credits Claimed by Hawaii Residents" in July, 1999 and the 1998 edition in April, 2000. Greater efficiency in data collection and processing allowed the publication of two editions of this report within the same fiscal year. These editions were also the first to include information on tax credits claimed by corporations and information on credits that are not normally claimed by the general public such as the enterprise zone credit and the tax credit for vocational rehabilitation referrals.

Improved data collection and processing methodology also enabled TR&P to publish two editions of its "Hawaii Income Patterns--Individuals" during fiscal 2000. The tax year 1997 edition was published in July 1999 and the tax year 1998 edition was published in June 2000. For tax year 1997, the major development was that the tax liability of nonresidents more than doubled because of a new way of computing liability. Beginning that year, nonresidents could only use that portion of their exemptions and standard deductions that corresponded to the ratio of their Hawaii income to their worldwide income. For tax year 1998, major developments included a sharp increase in capital gain income and taxable individual retirement account (IRA) distributions and a sharp decrease in tax-deductible IRA contributions. Tax year 1998 witnessed the introduction of the Roth IRA, which induced many taxpayers to make nondeductible Roth IRA contributions rather than deductible traditional IRA contributions. Other taxpayers converted traditional IRAs into Roth IRAs, which triggered taxable distributions.

TAXPAYER ADVOCACY PROGRAM

Currently, the Taxpayer Advocacy Program is a one-person operation that provides one-stop service for taxpayer concerns that cannot be resolved through normal channels. During fiscal 2000, the Taxpayer Advocate assisted 110 taxpayers on a case-by-case basis. Issues included erroneous billings, non-receipt of refunds, waivers of penalty and interest, assistance with offers-in-compromise, verifications of tax liabilities, explanations of letters and assessments, nonfiled returns and general tax information. Additional cases did not require intervention from the advocate, but mainly guiding the taxpayer to the appropriate management personnel.

The Taxpayer Advocate coordinated the Department of Taxation's "Joint Problem Solving Days" with the Internal Revenue Service in Kahului and Lahaina on the island of Maui and in Hilo on the island of Hawaii. Taxpayers were assisted with problems such as nonfiling of tax returns, amended tax returns, corrections to tax liabilities, requests for penalty and interest waivers, payment plan arrangements, offers-in-compromise, and tax information.

Another joint venture of the Internal Revenue Service and the Department of Taxation is the Mobile Tax Assistance Program, which provides tax services to communities that do not normally have access to these services. During the tax filing season, the Taxpayer Advocate accompanied the coordinator to various sites on Oahu, Molokai, and Hawaii. Services provided included acceptance of general excise tax license applications, explanation of assessment notices, arrangement of payment plans, handling of requests for waiver of penalties and interest, preparation of individual income tax and general excise tax returns, and answering of tax questions.

Most of the taxpayers assisted by the Taxpayer Advocate were satisfied with the service that they received, regardless of whether a decision was made in their favor. The Taxpayer Advocacy Program has focused on taxpayers' needs while maintaining taxpayer confidence that the department will administer Hawaii's tax laws in a consistent, uniform, and fair manner.

MANAGEMENT PERSONNEL

OFFICE OF THE DIRECTOR

Director of Taxation Ray K. Kamikawa
Deputy Director of Taxation Marie Y. Okamura

STAFF OFFICES

Rules Officer Grant Tanimoto
Tax Research & Planning Officer Francis Okano
Information Technology Services Officer Clay Sato
Administrative Services Officer Warren Higashi
Personnel Officer Stanley Onaga

OPERATIONS STAFF

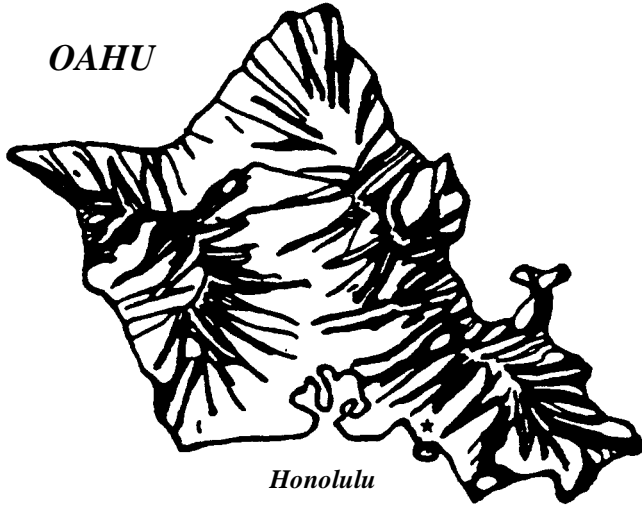
Compliance Division Chief Ronald Randall
Tax Audit Technical Coordinator Richard Chiogioji
Tax Collection Technical Coordinator Wayne Kinoshita
Oahu Field Audit Branch Wayne Griffin
Oahu Office Audit Branch Jill Yamasaki
Oahu Collection Branch Lynne Kaneta
Maui District Tax Manager Vacant
Hawaii District Tax Manager Ronald Yabe
Kauai District Tax Manager Ernest Balderas

Tax Services and Processing Division Chief Kerry Yoneshige
Taxpayer Services Branch June Yamamoto
Document Processing Branch Jerry Ebesu
Revenue Accounting Branch Deanne Obatake

FIRST TAXATION DISTRICT

Island of Oahu

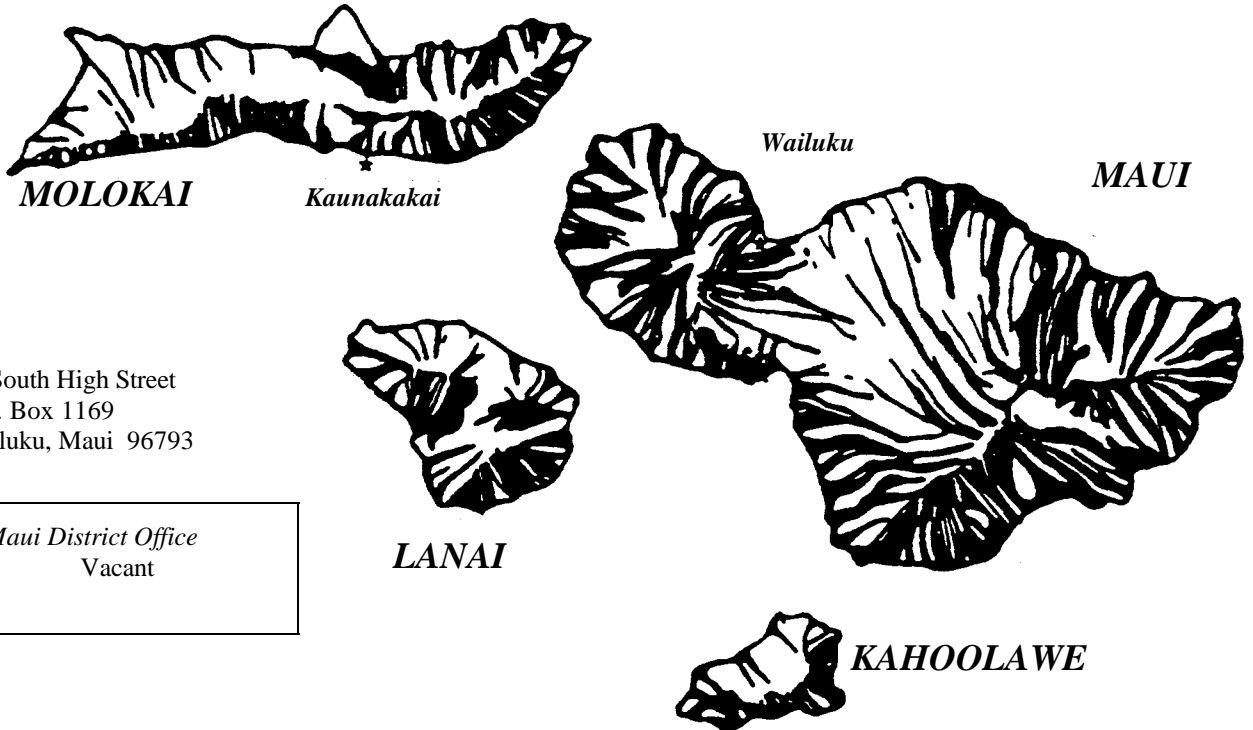
Office: 830 Punchbowl Street
P.O. Box 259
Honolulu, Hawaii 96809



Compliance Division Chief
Ronald Randall
Oahu Office Audit Branch
Jill Yamasaki
Oahu Field Audit Branch
Wayne Griffin
Oahu Collection Branch
Lynne Kaneta
Tax Services & Processing Division Chief
Kerry Yoneshige
Taxpayer Services Branch
June Yamamoto
Document Processing Branch
Jerry Ebesu
Revenue Accounting Branch
Deanne Obatake

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai



Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

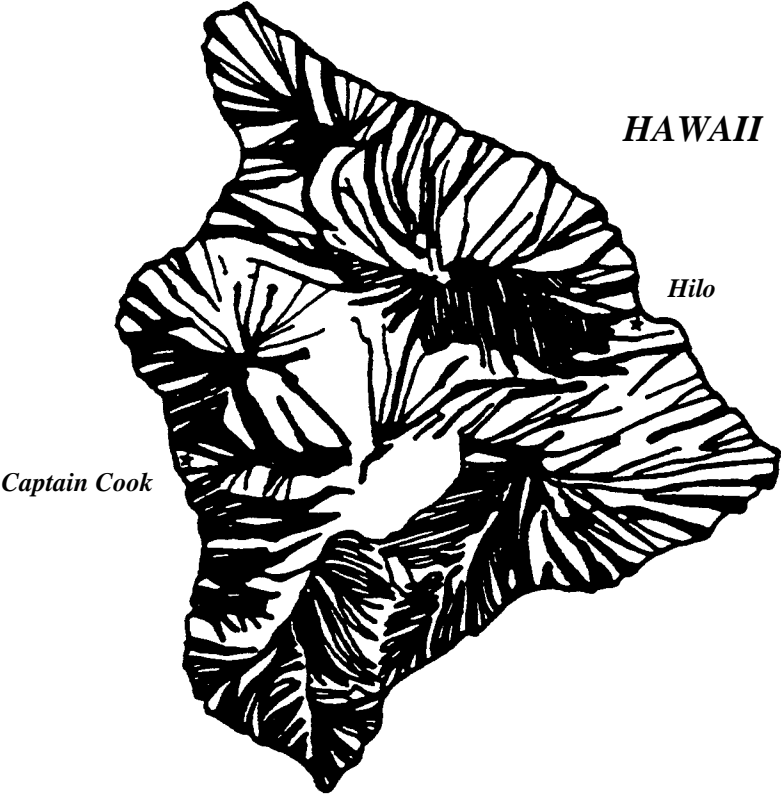
Maui District Office
Vacant

THIRD TAXATION DISTRICT

Island of Hawaii

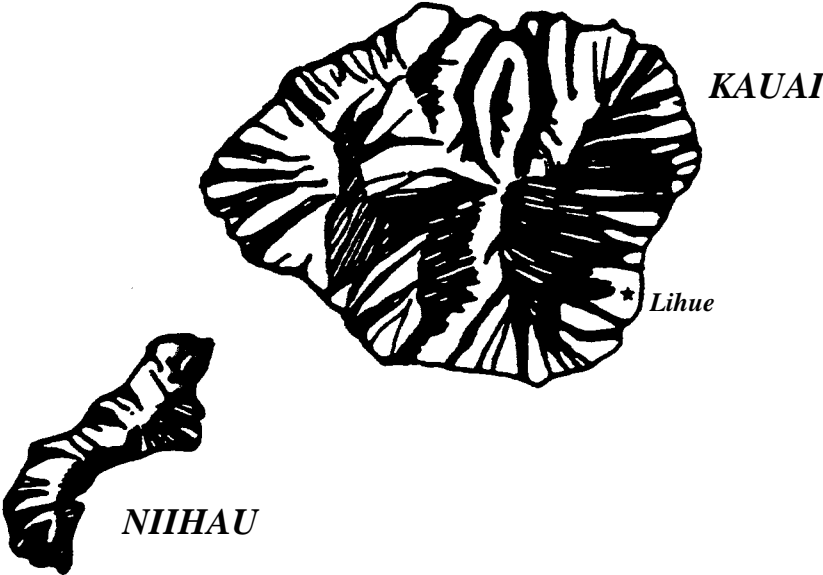
Office: 75 Aupuni Street
P.O. Box 833
Hilo, Hawaii 96721

Hawaii District Office
Ronald Yabe



FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau

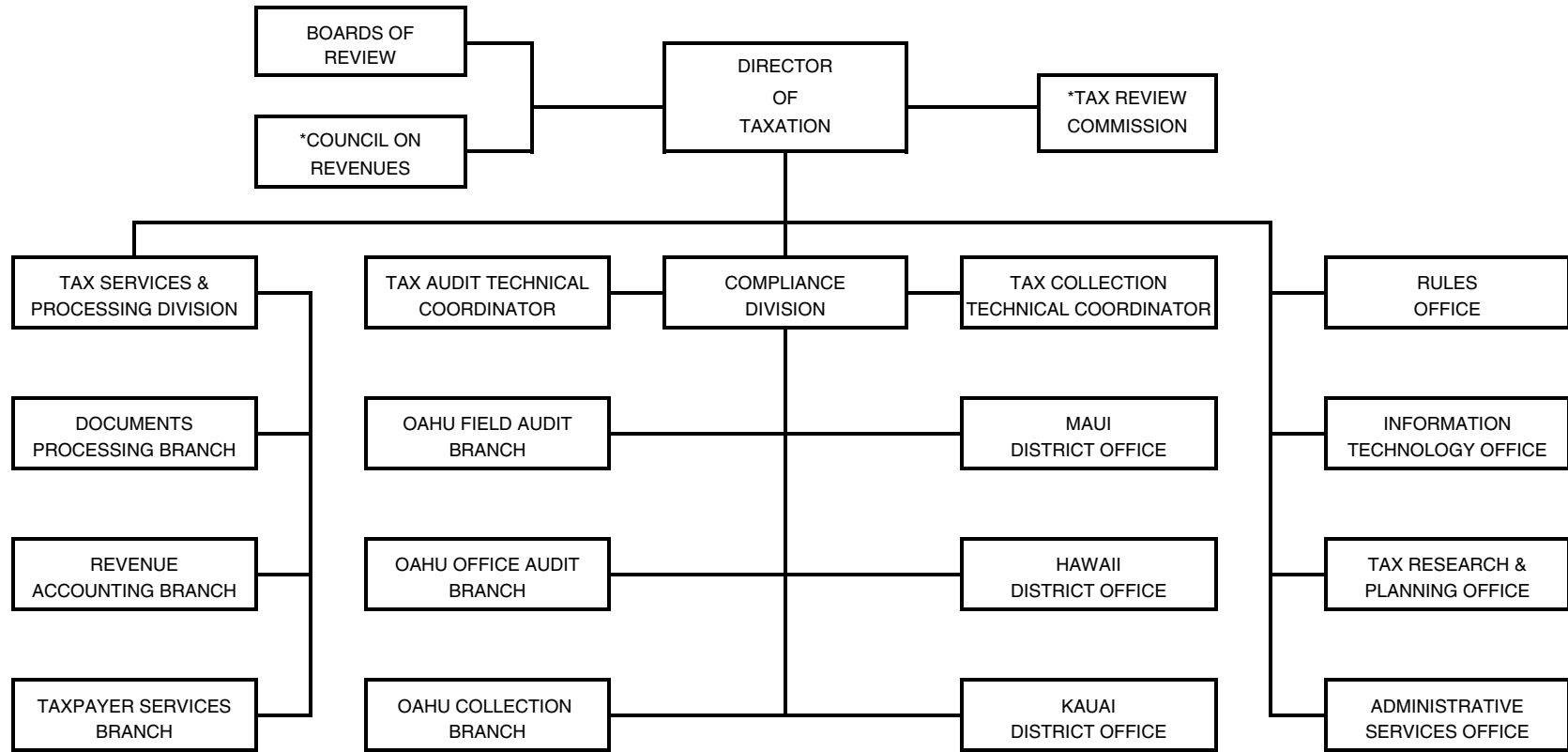


Office: 3060 Eiwa Street #105
Lihue, Kauai 96766

Kauai District Office
Ernest Balderas

ORGANIZATION CHART

Department of Taxation
State of Hawaii



* For administrative purposes.

TAX APPEALS AND LITIGATION

BOARDS OF REVIEW

Each taxation district has a Board of Review consisting of five members. Tax disputes that are not resolved at the district tax office level are presented to the Board of Review. Statewide, the boards began the fiscal year with 81 pending tax appeals. Although 16 appeals were settled, 18 new appeals were filed, resulting in a total of 83 appeals pending at the year end. A summary of the number of appeals before the boards by tax district follows:

	<u>Oahu</u>	<u>Maui</u>	<u>Hawaii</u>	<u>Kauai</u>	<u>Total</u>
Appeals Pending - Beginning.....	69	8	4	0	81
New Appeals Filed.....	14	2	2	0	18
Appeals Settled.....	14	2	0	0	16
Appeals Pending - Ending.....	69	8	6	0	83

COURT DECISIONS

In re Tax Appeal of Grace Business Development Corporation, Sup. Ct. No. 22028, Supreme Court of the State of Hawaii

The taxpayer filed an appeal in the Tax Appeal Court for a tax refund of payments made under protest and a declaratory judgment that it is a business development corporation without the Director first having assessed taxes or denied the taxpayer's refund claim. The Tax Appeal Court held that it lacked jurisdiction because taxes had not yet been assessed and declaratory judgments in tax controversies are prohibited. The Intermediate Court of Appeals issued an opinion affirming the Tax Appeal Court's ruling that declaratory relief is prohibited in tax controversies, but reversed the Tax Appeal Court's decision that it lacked jurisdiction to hear the other claims. The Hawaii Supreme Court reversed, in part, the Intermediate Court of Appeals' decision, concluding that a court has no power to hear a case where a taxpayer makes a payment under protest prior to a formal administrative decision by the Director, that is, an assessment of tax or denial of a refund claim.

In re Tax Appeal of Wasson-Bendon, No. 22403, Intermediate Court of Appeals of the State of Hawaii

The Taxpayer appealed the Tax Appeal Court's findings of fact, conclusions of law, order and judgment in favor of the Department. The issue on appeal is whether a partner's activity of furnishing the use of medical equipment to the partnership in exchange for monthly payments constitutes business between the partner and the partnership subject to the general excise tax. The Intermediate Court of Appeals held that such activity was taxable business between a partner and a partnership, despite the Taxpayer's attempt to disguise the activity as a return on its investment in the partnership. The Taxpayer filed an application for certiorari to the Hawaii Supreme Court, which was denied.

Tax Appeal of Baker & Taylor, Inc., T.A. No. 98-0096, Tax Appeal Court of the State of Hawaii

The Taxpayer is an out-of-state seller of books and attends a trade show in Hawaii once per year. The Taxpayer's employees (between one and six) came to Hawaii on numerous occasions (at least eleven separate occasions for one particular contract) to secure, maintain and perform several large contracts. The Department assessed Taxpayer general excise tax, the measure of which was the gross proceeds of sales to Hawaii customers where actual delivery, that is inspection and acceptance, occurred in Hawaii. The issue is whether the Commerce Clause is violated by the imposition of the general excise tax on an out-of-state seller as mea-

sured by the gross receipts of sales of property to Hawaii customers where actual delivery occurs in Hawaii despite contract terms that provide for delivery and transfer of title to occur outside of the state. Court entered judgment in favor of the Department. The Taxpayer has appealed the decision to the Hawaii Supreme Court.

In re Tax Appeal of Cosmo World of Hawaii, Inc., No. 99-0137, Tax Appeal Court of the State of Hawaii

The Taxpayer filed an appeal from the Director's denial of a refund claim. The issue on appeal was whether Taxpayer's claim for the capital goods excise tax credit was timely filed. The Tax Appeal Court ruled that Taxpayer's filing of the claim for credit did not comply with HRS § 235-110.7's twelve-month deadline. The Taxpayer filed a motion for reconsideration, which was denied. The Taxpayer has appealed to the Hawaii Supreme Court.

Huang v. United States, et al., Civ. No. 99-00247SPK, United States District Court for the District of Hawaii

The plaintiff sued the Department of Taxation and numerous officers and employees of the Department alleging mail fraud, claiming that certain documents mailed to him by the Department used words that lack a definition in the English language. The district court dismissed the case for failure to state a cause of action.

In re Tax Appeal of Baldwin, No. 99-0183, Tax Appeal Court of the State of Hawaii

The Taxpayer filed a notice of appeal with the Tax Appeal Court eighty-eight days after the Department mailed the final notice of assessment. The Taxpayer disputed the Department's assessment, arguing that it provided intermediary services and was only required to pay general excise tax at the 1/2% rate on its gross proceeds. The Tax Appeal Court dismissed the action holding that it lacked subject matter jurisdiction because the notice of appeal was not filed within thirty days, as required by statute.

In re Tax Appeal of Champlin Constr. Co., No. 99-0168, Tax Appeal Court of the State of Hawaii

The Taxpayer appealed the Department's denial of its claim for the subcontractor deduction for years 1993-1995, where neither the Taxpayer, a contractor, nor the subcontractor paid the general excise tax for which the deduction was claimed. The Tax Appeal Court concluded that the general excise tax must have been paid in order for the Taxpayer to qualify for the subcontractor deduction. NOTE: The 1998 amendments to HRS § 237-13(3)(B) eliminated the general excise tax payment requirement that was the subject of this appeal.

In re Tax Appeal of Darrick, No. 99-0066, Tax Appeal Court of the State of Hawaii

Taxpayers filed a notice of appeal to the Tax Appeal Court without paying the assessed taxes. The Tax Appeal Court dismissed the appeal holding that it lacked jurisdiction over the matter because the assessed taxes had not been paid prior to the filing of the appeal, and that the prepayment requirement satisfies due process and does not deny Taxpayers reasonable access to the courts.

In re Tax Appeal of Ishii, No. 99-0169, Tax Appeal Court of the State of Hawaii

The Director filed an appeal from the board of review's decision in favor of Taxpayer. The issue was whether the statute of limitations barred Taxpayer's refund claim where no tax had been paid within the three years preceding the filing of the refund claim. The Tax Appeal Court entered a Default Judgment against Taxpayer for failure to plead or otherwise defend.

Pinho v. Fukumura, Sp. No. 99-0143, Circuit Court of the First Circuit of the State of Hawaii

The plaintiff filed a motion to dismiss state tax liens alleging that the State had no jurisdiction over him because he was a citizen of the Kingdom of Hawaii. The circuit court dismissed the action for lack of subject matter and personal jurisdiction.

Travis v. Department of Commerce and Consumer Affairs, et. al., CV. No. 99-00499 DAE, United States District Court for the District of Hawaii

The plaintiff filed a complaint in the district court seeking a declaratory judgment that Hawaii's net income and general excise taxes violated his constitutional rights. The district court dismissed the complaint concluding that Plaintiff's claims are barred by the Tax Injunction Act, 28 U.S.C. § 1341. The plaintiff has appealed the decision to the United States Court of Appeals for the Ninth Circuit.

Johnson v. Department of Taxation, Civ. 99-230, Circuit Court of the Third Circuit of the State of Hawaii

The plaintiff sued the State of Hawaii for allegedly failing to timely respond to his request for personal records. The Court dismissed this action for lack of subject matter jurisdiction because the State was not the proper party.

County of Hawaii v. Kamikawa, Civ. 99-194, Circuit Court of the Third Circuit of the State of Hawaii

The County of Hawaii sued the State of Hawaii, by and through the Director of Taxation seeking payment of all public service company taxes collected by the State since July 1, 1981 that are attributable to the County of Hawaii, and a declaratory judgment that the Public Service Company Tax ("PSC Tax"), Hawaii Revised Statutes ("HRS") chapter 239, is void and unconstitutional, because it contravenes the Hawaii Constitution's assignment of all real property taxation functions to the counties. The Department collects roughly \$120 million in PSC taxes annually, and \$30 million represents the portion of the PSC tax in excess of 4% pursuant to HRS § 239-5. The Court dismissed the action concluding that there was no case or controversy properly before the Court.

CASES SETTLED

In re Tax Appeal of D.L.L.T.&V. Associates, TA No. 99-0178, Tax Appeal Court of the State of Hawaii

D.L.L.T. & V. was a partnership engaged in the business of renting a time share unit, which it owned, on the Big Island. In 1997, it was assessed additional general excise and transient accommodations taxes, penalties and interest in the amount of \$4,299.99 when a deduction for common area expenses was disallowed for years 1990, 1992, 1993, 1994 and 1995. In a settlement agreement, the parties agreed that Taxpayer would pay \$3,000.00, which was more than 99% of the assessed tax.

CRIMINAL CASES

During fiscal year 2000 which ended June 30, 2000, indictments were returned against 10 individuals (Basuel(1), Basuel(2), Basuel II, Hurley, Chung, Kobayashi, Magno, Nakamura, Galacgac and Hill) and one corporation (Gateway Management Corp). Complaints were also filed against four individuals (Goldsmith, Takara, Nishimura and Barber). The indictments and complaints returned in fiscal year 2000 resulted in tax assessments of \$2,809,599, criminal fines of \$113,100, and community service hour sentences of 550 hours.

During this fiscal period, four attorneys pled "no contest" to failing to file their own annual general excise tax returns. The attorneys resided on Oahu, Maui and Hawaii. The attorneys were sentenced to fines and in one case, the attorney only received 50 hours of community service. While judicial sentences cannot be "appealed", the Department voiced its concerns to the media by stating, in summary, that the sentence merely

amounted to a “slap on the wrist” and that without meaningful punishment, the deterrence effect of the criminal tax program is subverted.

State v. Basuel, Crim. Nos. 99-2463 & 99-2464, Circuit Court of the First Circuit of the State of Hawaii

On or about December 1999, indictments were returned against a father and son who operated the second largest return preparation firm in Hawaii. Mr. Basuel and his son pled “no contest” to failing to file their annual general excise tax returns for the years 1995, 1996 and 1997. The defendants did not cooperate in the investigation and inquiries were made with more than 2,000 clients to document their income which totaled more than \$334,000 for Richard Basuel Sr., and more than \$557,000 for Richard Basuel II. After much delay, sentencing was rescheduled to August 9, 2000.

State v. Basuel, Crim. No. 00-1-1079, Circuit Court of the First Circuit of the State of Hawaii

In early 2000, amended returns were filed claiming an exemption for Foreign Income. Further review of the amended returns showed the tax return preparers were Richard Basuel Sr., Richard Basuel II and other preparers at RB Tax Service. On or about April 11, 2000, Richard Basuel Sr., was indicted on multiple felony counts for his preparation of false tax returns for his clients as well as evasion of his own 1996 taxes. Trial has been scheduled for August 7, 2000.

State v. Bruce Barber, Hawaiian Grocery Stores & Kauai Tobacco, District Court of the State of Hawaii

On or about May 12, 2000, a complaint was filed charging the former controller of Hawaiian Grocery Stores with his failure to file monthly cigarette tax returns for the period October 1997 through May 1999. The unpaid tax on the cigarettes totaled in excess of \$2,245,000. The company, Hawaiian Grocery Stores filed for bankruptcy and the controller has left the State of Hawaii. The complaint will remain for a period of six months and possibly be dismissed if the controller does not return to the State of Hawaii.

OTHER MATTERS CLOSED

Tax Appeals.....	22
Bankruptcies.....	527
Foreclosures.....	326
Subpoenas.....	26
Opinions.....	91
Contracts / Bids.....	32
Legislation.....	79
Miscellaneous.....	62
Criminal.....	15

AMOUNTS COLLECTED

The amount for tax appeals in the following table does not include the approximately \$30 million per year at issue in the County of Hawaii suit against the Department mentioned earlier, which the Department successfully defended; the \$870,996.76 of fiscal year 2000 judgments in favor of the Department that are currently being appealed; and the damages sought in the Huang suit, which the Department successfully defended.

Tax Appeals.....	\$	227,488.81
Foreclosures.....		56,903.43
Bankruptcies.....		1,059,728.60
Criminal.....		263,205.00
TOTAL.....	\$	<u>1,607,325.84</u>

LEGISLATION

After passage by the 2000 legislature during its regular session, the following major tax measures became law upon the governor's approval.

Act Brief Description

- 027 Clarifies that the general excise tax is imposed on the sale of all prepaid phone calling services at the point of sale. *Effective August 31, 2000.*
- 033 Changes reporting dates for the general fund expenditure ceiling and total state personal income. *Effective April 20, 2000.*
- 034 Allows disclosure of general excise and use tax return information to persons contractually obligated to pay these taxes assessed against another. *Effective April 20, 2000.*
- 038 Exempts from general excise and transient accommodations taxes amounts received from foreign diplomats and consular officials and exempt from the use tax property, services, or contracting imported by these individuals. *Effective July 1, 2000.*
- 085 Repeals requirement for reporting fuel tax by taxation district. *Effective April 27, 2000.*
- 090 Clarifies the implementation of the Hawaii College Savings Program. *Effective May 2, 2000.*
- 118 Extends enterprise zone benefits to certain high-tech businesses and call centers. *Effective May 22, 2000.*
- 148 Allows partnership investors to claim the state low-income housing tax credit without regard to the federal rules under section 704(b) requiring allocation of credit items per interest in the partnership. *Effective for taxable years beginning after December 31, 1999.*
- 160 Authorizes the sale of wind farm generated electricity sold to a public utility to qualify for state enterprise zone benefits. *Effective June 5, 2000.*
- 174 Conforms Hawaii income tax law to federal provisions. *Effective for taxable years beginning after December 31, 1999.*
- 184 Establishes a nonrefundable individual development account (IDA) contribution tax credit equal to 50% of the contribution. *Effective for taxable years beginning after December 31, 1999 and before January 1, 2005; section 3 retroactive to June 28, 1999.*
- 195 Provides a refundable 4% income tax credit for hotel construction and remodeling. Exempts from the general excise tax (GET) and the public service company (PSC) tax amounts received by a telecommunications common carrier from a call center. *Tax credit effective for taxable years beginning after December 31, 1998 and before January 1, 2003. GET exemption effective for gross income received beginning July 1, 2000 and before July 1, 2010. PSC tax exemption applies to fiscal year taxpayers on gross income received in fiscal years ending June 30, 2001 through fiscal years ending June 30, 2010 and to calendar year taxpayers on gross income received from calendar years 2001 through 2010.*

- 198 Extends pyramiding relief to public service company taxes paid by motor carriers and public utilities providing telecommunications services. Imposes use tax on imported contracting. *Effective for general excise and use proceeds received beginning January 1, 2000; effective for public service company filing beginning January 1, 2001.*
- 199 Eliminates requirement to pay assessed tax prior to appealing to the District Boards of Review. *Effective for appeals filed on or after June 8, 2000.*
- 249 Establishes a mandatory cigarette stamping tax system. *Effective June 19, 2000 with sunset on June 30, 2006.*
- 262 Allows contractors to report the general excise tax on a cash basis provided they notify the Department of Taxation. *Effective on income arising after January 1, 2001.*
- 271 Provides a general excise and use tax rate of 0.5% on sales by a printer to a publisher or on imports by a publisher of printed materials containing advertisements for distribution without charge. *Effective after June 30, 2000.*
- 289 Provides a refundable income tax credit for investment in a qualifying ethanol production facility. *Effective for taxable years beginning after December 31, 2001.*
- 297 Omnibus high technology bill. Includes a provision to conform the tax credit for increasing research activities to the federal credit. Includes a provision allowing a qualified high technology business to sell unused net operating loss carryover. *Effective for taxable years beginning after December 31, 1999.*

INCOME ASSESSMENT AND AUDIT

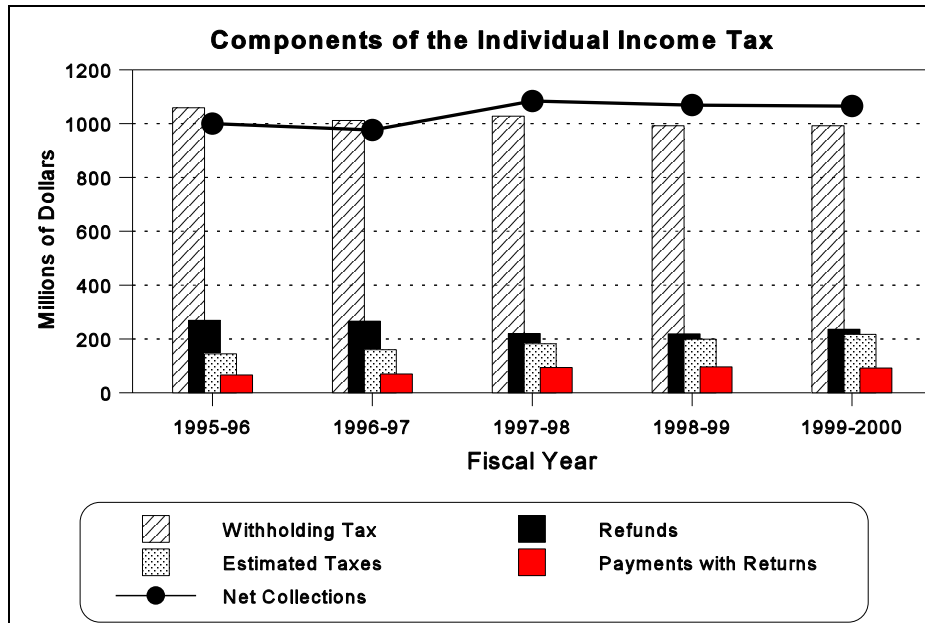
INDIVIDUAL INCOME TAX

Beginning January 1999, employers began withholding taxes at the new lower rates of the first stage of the three-stage income tax reduction adopted in Act 157 of the 1998 legislature. Thus, the lower rates were in effect for half of fiscal 1999 and all of fiscal 2000. However, withholding taxes dipped by only 0.1% and net individual income taxes by only 0.4%. The strength of withholding taxes in nearly overcoming the reduced rates reflected increased wages and an improvement in Hawaii's economy in fiscal 2000.

TAXES PAID BY INDIVIDUALS (In Thousands of Dollars)

	FY 2000	FY 1999	Difference	
			Amount	%
Declaration of Estimated Taxes.....	\$ 216,509	\$ 199,116	\$ 17,393	8.7
Payment with Return.....	92,069	95,918	-3,850	-4.0
Withholding Tax on Wages.....	<u>991,570</u>	<u>992,345</u>	<u>-775</u>	<u>-0.1</u>
Subtotal.....	\$ 1,300,148	\$ 1,287,379	\$ 12,768	1.0
Refunds.....	<u>235,591</u>	<u>218,669</u>	<u>16,923</u>	<u>7.7</u>
NET.....	<u>\$ 1,064,556</u>	<u>\$ 1,068,711</u>	<u>\$ -4,155</u>	<u>-0.4</u>

Note: Totals and percent differences computed on unrounded amounts.



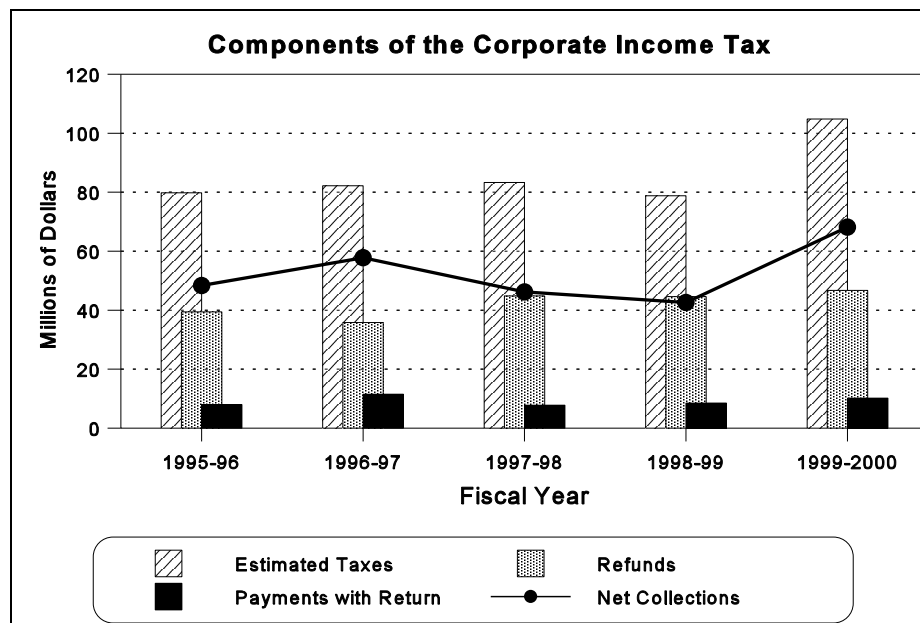
CORPORATE INCOME TAX

Fiscal 1999-2000 saw a \$25.6 million spurt in corporate income tax collections, which represented a 60% increase over the previous fiscal year. As the accompanying chart shows, this spurt was primarily due to a \$26 million jump in estimated tax payments. Corporations likely increased their estimated taxes as a result of increased business output.

TAXES PAID BY CORPORATIONS (In Thousands of Dollars)

	FY 2000	FY 1999	Difference	
			Amount	%
Declaration of Estimated Taxes.....	\$ 104,755	\$ 78,785	\$ 25,971	33.0
Payment with Return.....	10,160	8,469	1,691	20.0
Subtotal.....	\$ 114,916	\$ 87,254	\$ 27,661	31.7
Refunds.....	46,701	44,611	2,090	4.7
NET.....	\$ 68,215	\$ 42,643	\$ 25,572	60.0

Note: Totals and percent differences computed on unrounded amounts.



GENERAL EXCISE AND USE TAX BASE AND TAXES
FOR FISCAL YEARS ENDING JUNE 30, 2000 & 1999
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	2000	1999	Difference	
<u>TAX BASE</u>				<u>Amount</u>	<u>%</u>
Retailing.....		\$ 16,862,769	\$ 15,852,717	\$ 1,010,052	6.4
Services.....		5,821,855	5,634,374	187,481	3.3
Contracting.....		3,268,891	3,021,658	247,233	8.2
Hotel Rentals.....		2,316,788	2,112,518	204,270	9.7
All Other Rentals.....		3,791,081	3,720,009	71,073	1.9
All Others (4%).....		<u>3,133,481</u>	<u>2,824,466</u>	<u>309,015</u>	<u>10.9</u>
Subtotal.....		\$ 35,194,866	\$ 33,165,741	\$ 2,029,124	6.1
Sugar Processing.....		25,906	1,697	24,209	1427
Pineapple Canning.....		3,935	6,035	-2,100	-34.8
Producing.....		487,762	486,122	1,640	0.3
Manufacturing.....		583,392	557,243	26,149	4.7
Wholesaling.....		8,506,878	7,871,248	635,630	8.1
Use (½%).....		4,773,575	4,111,962	661,614	16.1
Intermediary Services.....		296,234	334,303	-38,070	-11.4
Insurance Commissions.....		<u>974,289</u>	<u>632,174</u>	<u>342,115</u>	<u>54.1</u>
Subtotal.....		\$ 15,651,972	\$ 14,000,784	\$ 1,651,187	11.8
TOTAL-ALL ACTIVITIES.....		\$ <u>50,846,837</u>	\$ <u>47,166,525</u>	\$ <u>3,680,312</u>	<u>7.8</u>
<u>TAX</u>					
Retailing.....	4%	\$ 674,511	\$ 634,109	\$ 40,402	6.4
Services.....	4%	232,874	225,375	7,499	3.3
Contracting.....	4%	130,756	120,866	9,889	8.2
Hotel Rentals.....	4%	92,672	84,501	8,171	9.7
All Other Rentals.....	4%	151,643	148,800	2,843	1.9
All Others.....	4%	<u>125,339</u>	<u>112,979</u>	<u>12,361</u>	<u>10.9</u>
Subtotal.....		\$ 1,407,795	\$ 1,326,630	\$ 81,165	6.1
Sugar Processing.....	.50%	\$ 130	\$ 8	\$ 121	1427
Pineapple Canning.....	.50%	20	30	-10	-34.8
Producing.....	.50%	2,439	2,431	8	0.3
Manufacturing.....	.50%	2,917	2,786	131	4.7
Wholesaling.....	.50%	42,534	39,356	3,178	8.1
Use (½%).....	.50%	23,868	20,560	3,308	16.1
Intermediary Services.....	.50%	1,481	1,672	-190	-11.4
Insurance Commissions.....	.15%	<u>1,461</u>	<u>948</u>	<u>513</u>	<u>54.1</u>
Subtotal.....		\$ 74,850	\$ 67,791	\$ 7,059	10.4
Unallocated*.....		<u>53,632</u>	<u>52,857</u>	<u>774</u>	<u>1.5</u>
TOTAL-ALL ACTIVITIES.....		\$ <u>1,536,276</u>	\$ <u>1,447,278</u>	\$ <u>88,998</u>	<u>6.1</u>

NOTE: Due to rounding detail may not add to totals.

*Included are collections from penalty and interest, assessments and corrections, delinquent collections, refunds, protested payments, settlements, etc.

GENERAL EXCISE AND USE TAXES

General excise and use taxes are the state's largest revenue source and provide an important measure of the health of Hawaii's economy. Total collections from this source increased by \$89 million or 6.1%. Three categories that represent important sectors of the economy increased during fiscal 2000 when compared with fiscal 1999. Retailing rose 6.4%, contracting was up 8.2%, and hotel rentals advanced 9.7%.

TRANSIENT ACCOMMODATIONS TAX

Transient accommodations tax collections rose 23.5% between fiscal 1998-99 and fiscal 1999-2000. Part of this increase could be attributed to an increase in room rental receipts. The rest of the increase was due to the fact that the tax rate was boosted from 6% to 7.25%, effective January 1, 1999. As a result, the higher rate was in effect for only a portion of fiscal 1998-99 but for all of fiscal 1999-2000.

TRANSIENT ACCOMMODATIONS TAX (In Thousands of Dollars)

	FY 2000	FY 1999	Difference	
			Amount	%
Transient Accommodations Tax.....	\$ 168,568	\$ 136,533	\$ 32,034	23.5
Transient Accommodations Fees.....	<u>10</u>	<u>8</u>	<u>2</u>	<u>23.3</u>
SUB-TOTAL.....	\$ 168,577	\$ 136,541	\$ 32,036	23.5
Counties Share.....	75,518	81,748	-6,230	-7.6
Convention Center Fund.....	29,162	23,241	5,921	25.5
Tourism Special Fund.....	<u>63,887</u>	<u>29,049</u>	<u>34,838</u>	<u>119.9</u>
Net Addition to General Fund.....	\$ <u>10</u>	\$ <u>2,503</u>	\$ <u>-2,493</u>	<u>-99.6</u>

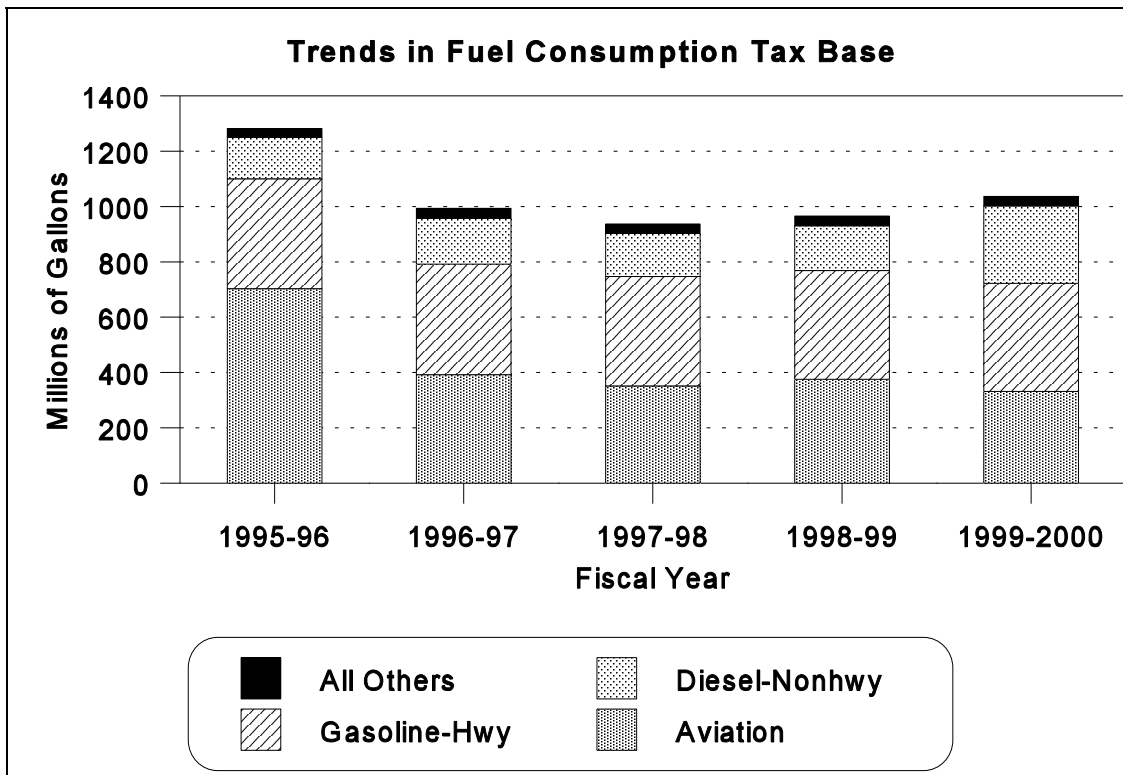
Note: Totals and percent differences computed on unrounded amounts.

FUEL AND MOTOR VEHICLE TAXES

Fuel consumption increased by 71.4 million gallons in fiscal 2000. The entire increase was the result of a spurt in diesel oil consumed for off-highway use. All other fuel categories saw decreases in consumption. An environmental tax of five cents is imposed on each barrel of petroleum sold by a distributor to any retail dealer or end user other than a refiner of petroleum taxes. This tax was imposed on 34.3 million barrels for fiscal 2000, down from 35.3 million barrels the previous fiscal year.

GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

	<u>FY 2000</u>	<u>FY 1999</u>	<u>Difference</u>	
			<u>Amount</u>	<u>%</u>
Gasoline.....	391,111	392,811	-1,701	-0.4
Diesel Oil - Nonhighway.....	279,161	161,639	117,521	72.7
Diesel Oil - Highway.....	31,044	31,333	-288	-0.9
Liquid Petroleum Gas - Off Highway.....	3,236	3,282	-45	-1.4
Liquid Petroleum Gas - Highway.....	347	361	-14	-3.9
Small Boats - Gasoline.....	3	7	-4	-54.8
Small Boats - Diesel Oil.....	94	123	-29	-23.7
Aviation Fuel.....	<u>331,525</u>	<u>375,577</u>	<u>-44,053</u>	<u>-11.7</u>
TOTAL-GALLONS.....	<u>1,036,520</u>	<u>965,133</u>	<u>71,387</u>	<u>7.4</u>
Environmental Tax (Barrels).....	34,287	35,302	-1,015	-2.9



NOTE: Total may not equal detail due to rounding. Percent difference computed on unrounded amounts.

Revenues generated by state fuel taxes and allocated to the state highway fund rose \$0.9 million to \$69.6 million. The state highway fund also received \$43.5 million from state motor vehicle weight taxes and registration fees and another \$34.6 million from the rental vehicle surcharge tax. Collections from the rental vehicle surcharge tax jumped \$11.0 million as a result of an increase in the surcharge from \$2 to \$3 per rental day that took effect on September 1, 1999. This increase helped push up total revenue for the state highway fund by \$13.6 million to \$147.7 million.

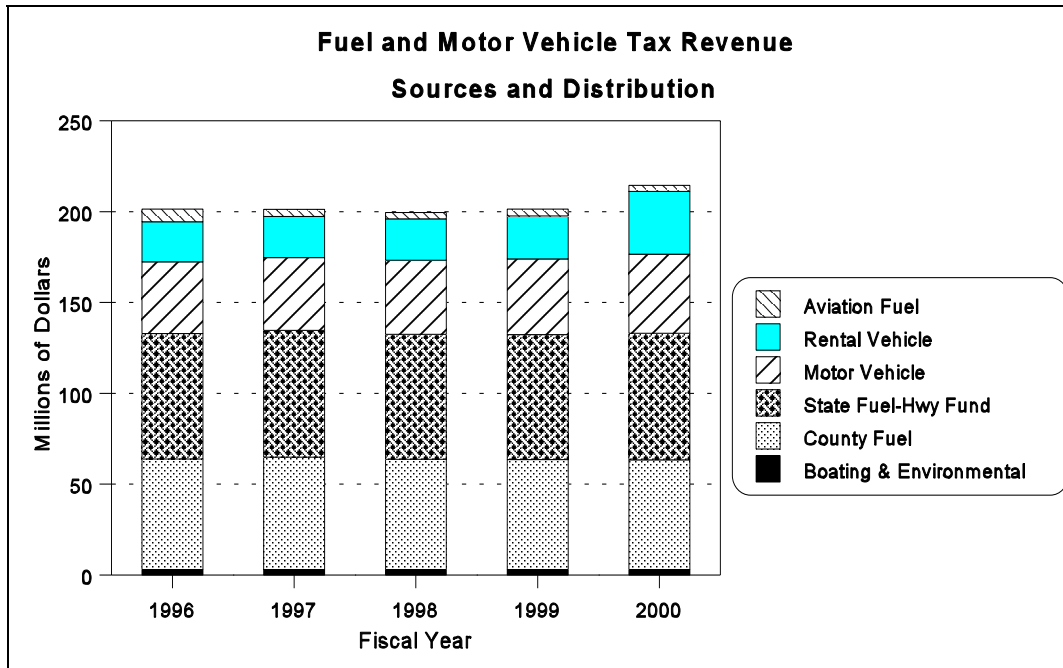
Revenue from the tax on aviation fuel is deposited into the state airport fund. For fiscal 2000, this amount was \$3.3 million, down from \$3.8 million a year earlier. Excluding the aviation fuel tax, 1% of all state and county fuel taxes collected are deposited into the boating special fund. For fiscal 2000, the boating special fund received \$1.3 million, an amount nearly unchanged from the previous year.

The department collects fuel taxes for both the state and the counties. County fuel taxes amounted to \$60.4 million, nearly identical to the amount from the previous year.

ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 2000	FY 1999	Difference	
			Amount	%
STATE HIGHWAY FUND:				
Gasoline.....	\$ 61,894	\$ 62,144	\$ -249	-0.4%
Diesel Oil - Nonhighway.....	2,765	1,601	1,163	72.6%
Diesel Oil - Highway.....	4,917	4,963	-46	-0.9%
Liquid Petroleum Gas - Off Highway.....	32	32	0	-1.4%
Liquid Petroleum Gas - Highway.....	38	39	-2	-3.9%
Subtotal.....	\$ 69,646	\$ 68,780	\$ 866	1.3%
Motor Vehicle Weight Tax/Reg. Fees.....	43,469	41,763	1,706	4.1%
Rental Vehicle Surcharge Tax/Fees.....	34,587	23,592	10,995	46.6%
TOTAL.....	\$ <u>147,701</u>	\$ <u>134,134</u>	\$ <u>13,567</u>	<u>10.1%</u>
COUNTY HIGHWAY FUNDS:				
City & County of Honolulu.....	\$ 42,901	\$ 44,518	\$ -1,618	-3.6%
County of Maui.....	7,860	7,442	419	5.6%
County of Hawaii.....	6,202	5,918	283	4.8%
County of Kauai.....	3,418	2,532	886	35.0%
TOTAL.....	\$ <u>60,380</u>	\$ <u>60,410</u>	\$ <u>-30</u>	<u>0.0%</u>
BOATING SPECIAL FUND.....	\$ <u>1,313</u>	\$ <u>1,305</u>	\$ <u>8</u>	<u>0.6%</u>
STATE AIRPORT FUND:				
Aviation Fuel.....	\$ <u>3,315</u>	\$ <u>3,756</u>	\$ <u>-441</u>	<u>-11.7%</u>
ENVIRONMENTAL TAX FUND.....	\$ <u>1,714</u>	\$ <u>1,765</u>	\$ <u>-51</u>	<u>-2.9%</u>

NOTE: Totals and percent differences computed on unrounded amounts.



FUEL TAX RATES PER GALLON¹

	<u>State</u>	<u>County</u>	<u>Total</u>
GASOLINE AND DIESEL OIL (HWY. USE):²			
City & County of Honolulu	16.0¢	16.5¢	32.5¢
County of Maui	16.0¢	13.0¢	29.0¢
County of Hawaii	16.0¢	8.8¢	24.8¢
County of Kauai ³	16.0¢	13.0¢	29.0¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	11.0¢	11.0¢	22.0¢
County of Maui	11.0¢	9.0¢	20.0¢
County of Hawaii	11.0¢	6.0¢	17.0¢
County of Kauai ³	11.0¢	9.0¢	20.0¢
ENVIRONMENTAL RESPONSE TAX (per barrel)			
All Counties	5.0¢	-	5.0¢

¹Gasoline used for agricultural equipment off highways, aviation fuel, and all other fuels used off highways are taxed by the state at 1 cent per gallon.

²Includes 1 cent state license tax on diesel oil.

³ Kauai County rates effective July 1, 1999.

PUBLIC SERVICE COMPANY TAXES

Public service company taxes, including amounts for penalty and interest, totaled \$119.5 million for fiscal 2000, down 1.4% from \$121.1 million the previous fiscal year. Collections from public utilities amounted to \$98.7 million, while payments by motor carriers-contract carriers amounted to \$20.4 million.

PUBLIC SERVICE COMPANY TAXES (In Thousands of Dollars)

	FY 2000	FY 1999	Difference	
			Amount	%
Public Service Company Taxes.....	\$ 119,115	\$ 120,800	-1,685	-1.4
Penalty & Interest.....	390	343	47	13.6
TOTAL.....	<u>\$ 119,505</u>	<u>\$ 121,143</u>	<u>-1,638</u>	<u>-1.4</u>

NOTE: Totals and percent differences computed on unrounded amounts.

ESTATE AND TRANSFER TAXES

Fiscal 2000 witnessed the settlement of 538 estates, of which 461 were taxable. For persons passing away after June 30, 1983, an estate is subject to Hawaii's estate tax only if it is subject to the federal estate tax. While the number of taxable estates increased from 442 the previous fiscal year, the amount of tax declined from \$28.7 million to \$22.8 million.

ESTATE AND TRANSFER TAXES (In Thousands of Dollars)

	FY 2000	FY 1999	Difference	
			Amount	%
Estate Tax.....	\$ 22,357	\$ 28,194	\$ -5,837	-20.7
Penalty & Interest.....	427	544	-117	-21.5
TOTAL	<u>\$ 22,784</u>	<u>\$ 28,738</u>	<u>\$ -5,954</u>	<u>-20.7</u>

NOTE: Due to rounding detail may not add to totals.

OTHER TAXES

Total revenue from the miscellaneous taxes in the accompanying table rose by \$16.9 million or 5.6%. Insurance premium taxes experienced the greatest growth, spurring \$16.2 million. Some of this change was artificial because the change from monthly to quarterly filing for this tax that began in January 1999 caused some revenue that would have been reported in fiscal 1999 to fall into fiscal 2000.

Conveyance taxes grew by nearly 24%, reflecting an acceleration in real estate transactions. This tax is imposed at a rate of 10 cents per \$100 of the actual consideration paid for the transfer of ownership or interest in real property and is collected by the Bureau of Conveyances, which is part of the Department of Land and Natural Resources. The normal allocation of conveyance tax revenue is one-half to the general fund, one-fourth to the state natural area reserve fund, and one-fourth to the state rental housing fund. Pursuant to Act

133, SLH 1999, the allocation to the state rental housing fund was reduced to 12.5% for fiscal 2000 and will be again for fiscal 2001.

MISCELLANEOUS TAXES
(In Thousands of Dollars)

	<u>FY 2000</u>	<u>FY 1999</u>	<u>Difference</u>	
			<u>Amount</u>	<u>%</u>
Banks & Other Financial Corporations.....	\$ 7,057	\$ 9,772	\$ -2,715	-27.8
Conveyance*	9,529	7,693	1,836	23.9
Employment Security Contributions.....	149,951	148,951	1,000	0.7
Insurance Premiums.....	68,659	52,493	16,166	30.8
Liquor & Permits.....	39,000	38,508	492	1.3
Tobacco & Licenses.....	42,341	42,281	59	0.1
General Excise Licenses & Fees.....	562	542	20	3.6
TOTAL.....	<u>\$ 317,098</u>	<u>\$ 300,240</u>	<u>\$ 16,858</u>	<u>5.6</u>

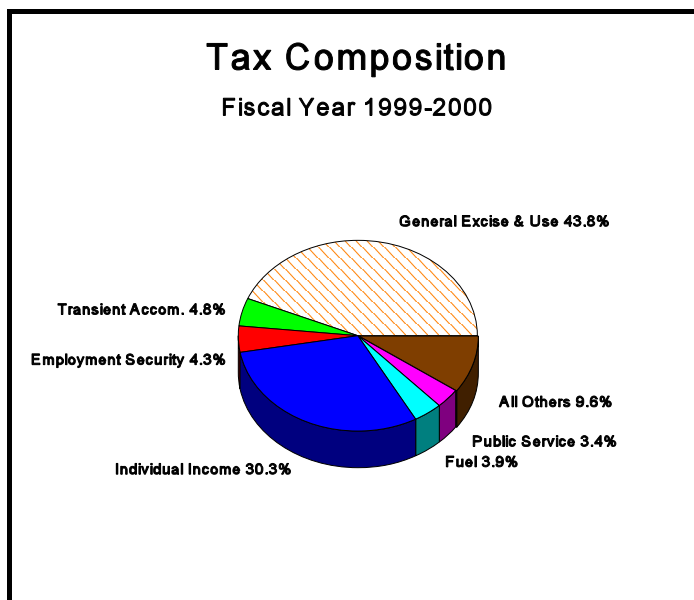
*Includes allocation to "Rental Housing Fund" and "Natural Area Reserve Fund".

NOTE: Due to rounding detail may not add to totals.

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

Net taxes collected by the Department of Taxation amounted to \$3.39 billion. In addition to this amount, the Department of Commerce and Consumer Affairs collected \$68.7 million in insurance premium taxes, the Department of Land and Natural Resources collected \$9.5 million in conveyance taxes, and the counties collected \$43.5 million in state motor vehicle weight taxes and registration fees. Including these additional state taxes collected by other agencies, total taxes collected by and for the state amounted to \$3.51 billion, an increase of 4.9% over the previous fiscal year. The largest revenue sources were the general excise and use tax, which contributed roughly 44% of total collections, and the individual income tax, which represented 30% of total collections.



TAX COLLECTIONS

SOURCE OF REVENUE	FY 2000		FY 1999	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corporations.....	\$ 7,056,749	0.20%	\$ 9,771,609	0.29%
Conveyance.....	9,528,829	0.27%	7,692,700	0.23%
Employment Security Contributions.....	149,951,297	4.27%	148,951,137	4.45%
Fuel.....	136,368,763	3.88%	136,015,935	4.06%
General Excise & Use.....	1,536,276,173	43.75%	1,447,278,287	43.25%
Income - Corporations.....	68,214,632	1.94%	42,642,848	1.27%
Income - Individuals.....	1,064,556,365	30.32%	1,068,710,952	31.93%
Inheritance and Estate.....	22,784,481	0.65%	28,738,494	0.86%
Insurance Premiums.....	68,658,671	1.96%	52,493,166	1.57%
Liquor & Permits.....	39,000,210	1.11%	38,507,858	1.15%
Motor Vehicle Tax*	78,055,861	2.22%	65,354,478	1.95%
Public Service Companies.....	119,504,765	3.40%	121,142,774	3.62%
Tobacco & Licenses.....	42,340,593	1.21%	42,281,435	1.26%
Transient Accommodations Fees.....	9,513	0.00%	7,715	0.00%
Transient Accommodations Tax.....	168,567,596	4.80%	136,533,275	4.08%
All Others.....	745,204	0.02%	568,608	0.02%
TOTAL	\$ 3,511,619,701	100.00%	\$ 3,346,691,270	100.00%

*Includes Motor Vehicle Weight Tax, Registration Fees, Commercial Driver's License, Periodic Motor Vehicle Inspection, Rental Vehicle Registration Fees, and Rental Vehicle Surcharge Tax.

DISTRIBUTION OF TAXES

Of the \$3.51 billion in tax revenue collected by and for the state, approximately 85%, or \$2.97 billion, was deposited into the state general fund. The counties received 3.9%, or \$135.9 million, from county fuel taxes collected by the state and from transient accommodations taxes designated to the counties by statute. The remaining \$403.4 million was distributed to state special funds. The largest portion, \$150.0 million, went to the Unemployment Trust Fund, which received all of the dedicated employment security tax paid by employers to fund unemployment benefits. Next in size was the \$147.7 million distribution to the State Highway Fund. Third in size was the \$63.9 million distribution to the Tourism Special Fund. By statute, this fund receives 37.9% of transient accommodations tax (TAT) collections. Hawaii's statutes also directed that the Convention Center Fund receive 17.3% of TAT revenue, which amounted to \$29.2 million for fiscal 2000, the final year in which it would receive distributions. A new Compliance Resolution Fund received \$2.5 million from the franchise tax on financial institutions. The new fund will be used by the Department of Commerce and Consumer Affairs to enforce state business practice laws. Voluntary checkoffs on individual income tax returns provided \$0.3 million to the Election Campaign Fund. Discretionary transfer of \$5 million into the Bond Reserve Fund did not occur this year.

DISTRIBUTION OF COLLECTIONS

	FY 2000		FY 1999	
	Amount Collected	% of Total	Amount Collected	% of Total
STATE FUNDS:				
State General.....	\$2,972,349,815	84.64%	\$2,854,164,988	85.28%
State Highway.....	147,701,449	4.21%	134,134,384	4.01%
State Airport.....	3,315,247	0.09%	3,755,773	0.11%
Boating Special Fund.....	1,313,392	0.04%	1,304,951	0.04%
Environmental Fund.....	1,714,351	0.05%	1,765,102	0.05%
Bond Reserve Fund.....	0	0.00%	5,000,000	0.15%
Compliance Resolution Fund.....	2,500,000	0.07%	0	0.00%
Unemployment Trust.....	149,951,297	4.27%	148,951,137	4.45%
Election Campaign Fund.....	253,058	0.01%	260,596	0.01%
Tourism Special Fund.....	63,887,119	1.82%	29,049,237	0.87%
Rental Housing Fund.....	1,191,104	0.03%	982,945	0.03%
Natural Area Reserve Fund.....	2,382,207	0.07%	1,923,175	0.06%
Convention Center Fund.....	29,162,194	0.83%	23,240,977	0.69%
Subtotal - State.....	\$3,375,721,233	96.13%	\$3,204,533,264	95.75%
REVENUES TRANSFERRED TO COUNTIES:				
Fuel.....	60,380,185	1.72%	60,410,204	1.81%
Transient Accommodations Tax	75,518,283	2.15%	81,747,802	2.44%
Subtotal - Counties.....	\$135,898,468	3.87%	\$142,158,006	4.25%
TOTAL.....	\$3,511,619,701	100.00%	\$3,346,691,270	100.00%

NOTE: Due to rounding detail may not add to totals.

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

Two notable characteristics of Hawaii's tax structure are the high degree of centralization at the state level and the broad-based nature of its primary revenue source, the general excise tax. Hawaii's general excise is imposed on most sales of goods and services. Some transactions are exempted because they are subject to other taxes or because the legislature wished to encourage certain economic activities. The state of Hawaii has a fiscal need for a broad-based and centralized tax structure because it operates the public schools, a major function normally performed by counties in other states.

Hawaii offers a variety of income tax credits for qualified individuals and businesses. Tax credits most commonly claimed by individuals include the low-income credit, the renter's credit, the dependent care credit, the energy device credit, and the child passenger restraint credit. Available to individuals with adjusted gross income under \$20,000, the low-income credit is a credit that is inversely graduated to AGI. The renter's credit is a flat \$50 credit per exemption, including age exemptions, that is available to qualified resident renters with adjusted gross income under \$30,000. Like its federal counterpart, Hawaii's dependent care credit reimburses a portion of expenses paid to care for qualified dependents in order to allow the taxpayer to hold gainful em-

ployment. The energy device credit is available to taxpayers who purchase qualified alternate energy devices. A flat \$25 credit per return is allowed to individuals who purchase qualifying child passenger restraint systems. Among businesses, the most commonly-claimed tax credit is the capital goods excise tax credit.

Hawaii has seventeen separate tax laws, of which fourteen are administered by the state. The remaining three -- real property tax, motor vehicle weight tax, and public utility franchise tax -- are administered by the counties. Until July 1, 1981, the real property tax law was administered by the state, with revenue from this source accruing to the counties. At present, the counties administer all of the real property functions. Administration of the state and county motor vehicle weight taxes is vested in the counties with the revenue accruing to the state and county highway funds.

Revenues from eleven of the state-administered taxes go into the state's general fund and are used to provide government services. Although the fuel tax is administered by the state, it is a source of revenue for both the state and county highway funds. The employment security tax is a dedicated tax used exclusively to provide benefits to cover unemployed workers. Rental motor vehicle and tour vehicle surcharge taxes are deposited into the state highway fund.

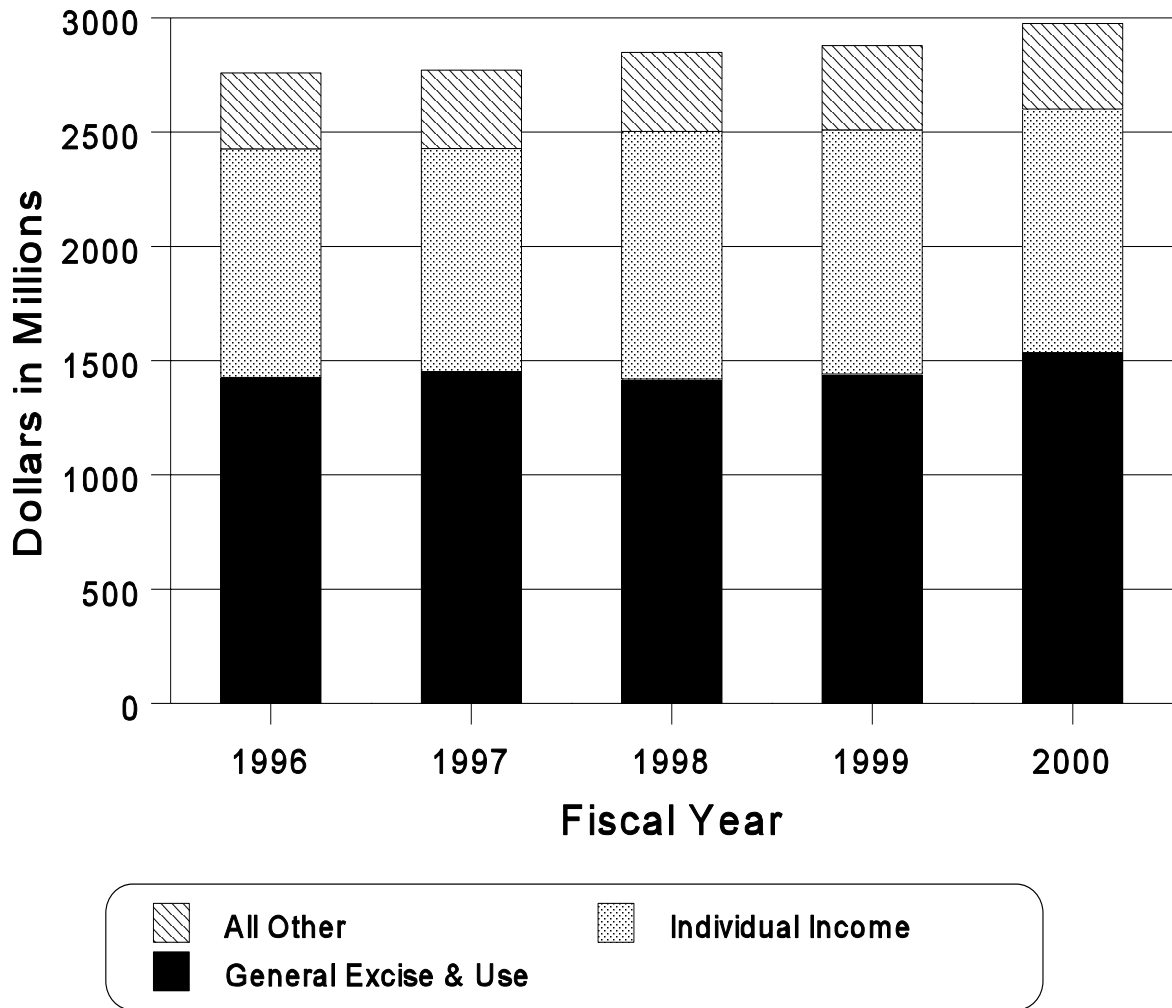
STATE GENERAL FUND

SOURCE OF REVENUE	FY 2000		FY 1999	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corporations.....	\$ 4,556,749	0.15%	\$ 9,771,609	0.34%
Conveyance.....	5,955,518	0.20%	4,786,580	0.17%
General Excise & Use.....	1,536,276,173	51.69%	1,442,278,287	50.53%
Income - Corporations.....	68,214,632	2.30%	42,642,848	1.49%
Income - Individuals.....	1,064,303,307	35.81%	1,068,450,356	37.43%
Inheritance & Estate.....	22,784,481	0.77%	28,738,494	1.01%
Insurance Premiums.....	68,658,671	2.31%	52,493,166	1.84%
Liquor & Licenses.....	39,000,210	1.31%	38,507,858	1.35%
Public Service Companies.....	119,504,765	4.02%	121,142,774	4.24%
Tobacco & Licenses.....	42,340,593	1.42%	42,281,435	1.48%
Transient Accommodations Tax.....	0	0.00%	2,495,259	0.09%
All Others*.....	<u>754,717</u>	<u>0.03%</u>	<u>576,323</u>	<u>0.02%</u>
TOTAL.....	<u>\$ 2,972,349,815</u>	<u>100.00%</u>	<u>\$ 2,854,164,988</u>	<u>100.00%</u>

* Includes transient accommodations, rental vehicle, general excise, and use tax fees.

NOTE: Due to rounding detail may not add to totals.

Trends in General Fund Tax Revenue



OUTLINE OF THE HAWAII TAX SYSTEM AS OF JULY 1, 2000

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
<p>(1) Net Income</p> <p>Chapter 235 — Section 235-1 to 235-130</p>	<p>Act 157, SLH 1998, reduces the income tax rates and phases them in over a 4-year period. For taxable years beginning after December 31, 1998 (and before January 1, 2001), the tax rates for individuals as well as estates and trusts range from 1.6% to 8.75% of taxable income. For taxable years beginning after December 31, 2000 (and before January 1, 2002), the tax rates for individuals as well as estates and trusts range from 1.5% to 8.5% of taxable income. The allowable standard deduction amounts vary by filing status. The standard deduction amount for married filing joint return or surviving spouse with dependent child is \$1,900; single is \$1,500; head of household is \$1,650; and married filing separately is \$950. Tax rates for corporations are 4.4% up to \$25,000, 5.4% over \$25,000 but not over \$100,000, and 6.4% over \$100,000.</p>	<p>Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly on or before the 15th day of the following calendar month. When the total tax liability is less than \$1,000 for the calendar year, returns may be filed quarterly on or before the 15th day of the month after the close of each quarter. For employers whose liability for taxes withheld exceeds \$100,000 a year, withholding returns due monthly on or before the 10th day of the following calendar month. An annual employer's return and reconciliation of Hawaii income tax withheld, Form HW-3, must be filed together with a duplicate copy of each employee's tax statement, Form HW-2, on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding, estates, trusts, and corporations, April 20th.</p>	<p>In general, at time of filing returns. Estimates of individuals, estates, trusts, and corporations, one-quarter, April 20th; June 20th; September 20th; and January 20th.</p>
<p>(2) Estate and Transfer (for decedents dying after 6/30/83)</p> <p>Chapter 236D — Section 236D-1 to 236D-18</p>	<p>Every resident decedent is taxed on transfer of taxable estate equal to federal credit for estate death taxes allowed by IRC section 2011. Credit is allowed for death tax imposed by another state not qualified by reciprocal provision. For nonresident decedent, tax is based on transfer of taxable estate located in Hawaii by use of ratio. Exemption afforded resident estate equally applicable to nonresident, with certain exceptions.</p> <p>For generation-skipping transfers after June 30, 1994, a tax in an amount equal to the federal credit is imposed on every generation-skipping transfer of (1) property located in Hawaii and (2) property from a resident trust.</p>	<p>Report (Form M-6) must be filed by person responsible for filing federal Estate Tax Return (federal Form 706). No report required and no tax due when federal Form 706 not required. To obtain release of property, file Request for Release (Form M-6A).</p> <p>Report (Form M-6GS) must be filed by person responsible for filing Generation-Skipping Transfer Tax Return for Distributions (federal Form 706GS(D)) or Generation-Skipping Transfer Tax Return for Terminations (federal Form 706GS(T)).</p>	<p>On or before the due date for filing federal Form 706, including extensions of time; provided extension is submitted to Hawaii within 30 days of issuance.</p> <p>On or before the due date for filing federal Form 706GS(D) or 706GS(T), including extensions of time; provided extension is submitted to Hawaii within 30 days of issuance.</p>
<p>(3) General Excise (Gross Income)</p> <p>Chapter 237 — Section 237-1 to 237-49</p>	<p>This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is ½ of 1% on wholesaling and intermediary services, producing, manufacturing, sugar processing and pineapple canning; all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, subagents and solicitors who are taxed at .15%. Beginning January 1, 2000, Act 71, SLH 1999, and Act 198, SLH 2000, expands the wholesale tax treatment to more goods and services transactions. Qualifying transactions will be taxed at 3.5% in calendar year 2000, and will be reduced by 0.5% each January 1st until a 0.5% rate is fully phased-in on January 1, 2006. The licensing fee for general excise tax licensees and nonprofit organizations is a one-time fee of \$20.</p>	<p>Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed \$2,000 for the calendar or fiscal year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed \$1,000 for the calendar or fiscal year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the 4th month following the close of the taxable year.</p>	<p>At time of filing returns.</p>

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(4) Transient Accommodations Tax Chapter 237D — Section 237D-1 to 237D-16	This is a tax levied on the furnishing of a room, apartment, suite, or the like which is customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house, or other place in which lodgings are regularly furnished to transients for consideration. The tax is imposed at the rate of 7.25%. The registration fee for transient accommodations operators is a one-time fee of \$5 for each registration consisting of 1 to 5 units and \$15 for 6 or more units. Effective January 1, 1999, the transient accommodations tax of 7.25% is imposed on the fair market rental value of time share vacation units.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed \$2,000 for the calendar or fiscal year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed \$1,000 for the calendar or fiscal year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the 4th month following the close of the taxable year.	At time of filing returns.
(5) Use Chapter 238 — Section 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: ½ of 1%, if for resale at retail; 4%, if for use or consumption. For exceptions, see sections 238-3 and 238-4. The use tax is imposed on the value of services or contracting that are performed by an unlicensed seller at a point outside the State and imported or purchased for use in the State, effective for use taxes accruing after December 31, 1999.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed \$2,000 for the calendar or fiscal year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed \$1,000 for the calendar or fiscal year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the 4th month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(6) Public Service Company Chapter 239 — Section 239-1 to 239-11	Nature of Tax—(1) Public utility business in lieu of general excise and real property taxes. (a) Measurement of assessment—general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see section 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, ½ of 1%. (iii) All other revenues: If ratio of net to gross income is 15% or less, 5.885%; for each 1% increase in ratio of net to gross, rate increase .2675%. (2) Motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measurement of assessment—general rule: Gross income from motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see sections 239-9 and 239-11. (b) Rate: 4% of gross income. Beginning with January 1, 2001 filings, Act 198, SLH 2000, provides that: (1) the sale of telecommunications services by a public utility to an interstate or foreign telecommunications services provider that is subject to the general excise tax and that resells the services to retail customers, is subject to a 5.5% PSC tax rate, reduced by 0.5% each January 1st until a 0.5% rate is fully phased-in on January 1, 2007; and (2) the gross income received by a motor carrier for transportation services provided to a construction industry contractor qualifies for a reduced PSC tax rate of 3.5%, reduced by 0.5% each January 1st until a 0.5% rate is fully phased-in on January 1, 2006.	Returns filed on or before the 20th day of the 4th month following the close of the taxable year, based upon operations of the preceding taxable year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th, and 8th month thereafter. If the total tax liability for the taxable year exceeds \$100,000, 1st installment on or before the 10th day of the 1st month. Remaining installments due on or before the 10th day of each calendar month thereafter.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(7) Banks, Building and Loan, Financial Services Loan Companies and Certain Other Financial Corporations Chapter 241 — Section 241-1 to 241-7	(1)(a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax (in lieu of net income and general excise taxes) on banks, building and loan associations, development companies, financial corporations, financial services loan companies, trust companies, mortgage loan companies, financial holding companies, small business investment companies, or subsidiaries not subject to the tax imposed by chapter 235. (2) Measure of Assessment: Net income for the preceding year from all sources as defined by chapter 235 (Income Tax Law) with modifications. (3) Rate: 7.92% of taxable income.	Returns filed on or before the 20th day of the 4th month following the close of the taxable year, based upon operations of the preceding taxable year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter. If the total tax liability for the taxable year exceeds \$100,000, 1st installment on or before the 10th day of the 1st month. Remaining installments due on or before the 10th day of each calendar month thereafter.
(8) Fuel Chapter 243 — Section 243-1 to 243-16	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel; an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 24.8¢ to 32.5¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes from 24.8¢ to 32.5¢ per gallon on diesel oil and from 17¢ to 22¢ per gallon on liquefied petroleum gas used to operate motor vehicles upon the public highways, however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked. An Environmental Response Tax of 5¢ per barrel or a fractional part of a barrel of petroleum product sold by a distributor to a retail dealer or end user is also imposed.	Returns are due monthly on or before the last day of the following month.	At time of filing returns.
(9) Liquor Chapter 244D — Section 244D-1 to 244D-17	This is a gallonage tax imposed upon “dealers” as defined in the law and certain others who sell or use liquor. A \$2.50 liquor tax permit is required and must be renewed before July 1st of each year. See section 244D-4 for exemption from tax. For the period beginning July 1, 1998, and thereafter, the tax rates per wine gallon are \$5.98 on distilled spirits, \$2.12 on sparkling wine, \$1.38 on still wine, \$.85 on cooler beverages, \$.93 on beer other than draft beer, and \$.54 on draft beer.	Returns are due monthly on or before the last day of the following month.	At time of filing returns.
(10) Cigarette and Tobacco Chapter 245 — Section 245-1 to 245-15	“Wholesalers” and “dealers” as defined in the law must pay an excise tax on sale or use of tobacco products equal to 40% of the wholesale price and a fixed tax rate of 5¢ on each cigarette sold, used, or possessed. A \$2.50 tobacco tax license is required and must be renewed before July 1st of each year. Effective January 1, 2001, Act 249, SLH 2000, requires cigarette and tobacco wholesalers and dealers to affix stamps to individual cigarette packages as proof of payment of cigarette taxes.	Returns are due monthly on or before the last day of the following month.	At time of filing returns.
(11) Conveyance Chapter 247 — Section 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 10¢ per \$100 of the actual and full consideration paid or to be paid. Minimum \$1 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyances within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
<p>(12) Rental Motor Vehicle and Tour Vehicle Surcharge Tax</p> <p>Chapter 251 — Section 251-1 to 251-15</p>	<p>There is a rental motor vehicle surcharge tax of \$3 a day or any portion of a day that a rental motor vehicle is rented or leased. The tax is levied on the lessor. There is also a tour vehicle surcharge tax of \$65 per month for each tour vehicle in the 25 passenger seat and over category and \$15 per month for each tour vehicle in the 8 to 25 passenger seat category. The tax is levied on the tour vehicle operator. There is a one-time \$20 registration fee.</p>	<p>Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed \$2,000 for the calendar or fiscal year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed \$1,000 for the calendar or fiscal year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the 4th month following the close of the taxable year.</p>	<p>At time of filing returns.</p>
<p>(13) Unemployment Insurance</p> <p>Chapter 383 — Section 383-1 to 383-176</p>	<p>This is a tax on wages paid by employing units with 1 or more employees with certain exemptions. The unemployment tax rate is determined according to a multi-contribution schedule system. Each year, 1 of 8 contribution schedules is applicable depending on the condition of the UI Trust Fund. An employer's contribution rate is not less than 0.00% or greater than 5.40%.</p> <p>From January 1, 1999, through December 31, 2002, there is an additional employment and training (E & T) fund assessment on taxable wages paid to an employee. The percentage rate for this additional tax is .05% for 2000, .03% for 2001, and .01% for 2002. The E & T assessment is applicable to all employing units with unemployment insurance contribution rates greater than 0.00% and less than 5.4%.</p> <p>There is a limitation of the tax on wages paid to an employee called the "tax base". The tax base is equal to the State's average annual wages of employers contributing to the UI trust fund and is computed at the beginning of each calendar year.</p>	<p>On a quarterly basis, employers submit Form UC-B6, "Quarterly Wage, Contribution and Employment and Training Assessment Report." The report must be filed on or before the last day of the month following the report quarter.</p>	<p>At time of filing returns.</p>
<p>(14) Insurance Premiums</p> <p>Chapter 431 — Section 431:7-201 to 431:7-207</p>	<p>Tax on insurance companies (Underwriters) based on premiums received in Hawaii. In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance, 2.75%; Surplus Lines, 4.68%; Ocean Marine, .8775% on gross underwriting profit; and Other Insurance, 4.265%. To insurers who qualify, there is a 1% tax credit to facilitate regulatory oversight. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of taxes collected under this chapter.</p>	<p>Quarterly tax statement is due on or before the last day of the calendar month following the quarter in which the tax accrued. Annual Tax Statement is due on or before March 1 with the Insurance Commissioner.</p>	<p>At time of filing statements.</p>

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