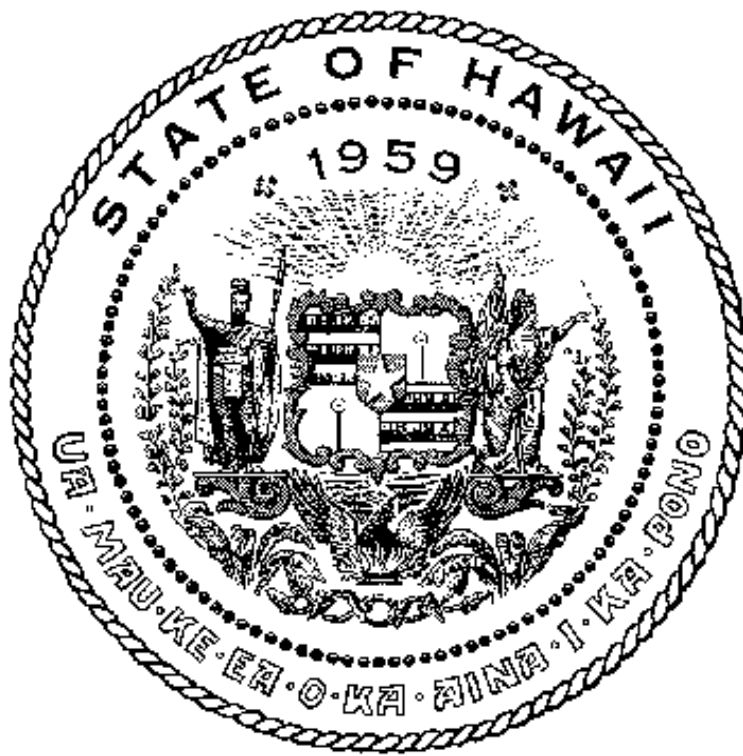


DEPARTMENT OF TAXATION STATE OF HAWAII



ANNUAL REPORT 2000-2001

November 5, 2001

Dear Governor Cayetano:

It gives me pleasure to present to you this report summarizing the activities of the Department of Taxation for the fiscal year ending June 30, 2001.

In its second year of development, ITIMS (Integrated Tax Information Management System), the five-year project to modernize Department computer systems, accelerated into tangible definition. Through active partnership between the Department and AMS (American Management Systems), the project implemented audit modeling and early collection components and progressively designed the replacement of the current computerized net income tax system (CNIT), while stepping up initiatives in organizational design, change management, knowledge transfer, and general long-term planning. The project assumed increasing flesh and blood proportions as some 40 AMS staff rapidly filled available office space for on-site development work in interactive consultation with Department staff. One indicator of project success can be gleaned from the \$34.7 million in benefits produced during the fiscal year.

The Department advanced further into automation by introducing two electronic filing initiatives. JELF (Federal-State Joint Electronic Filing) allows taxpayers to electronically file federal and State income tax returns at the same time. ELF (Electronic Filing) allows taxpayers to file State personal and business tax returns through the Internet portal, eHawaiiGov. We expect that taxpayers will reap gains in convenience from these technological advances while the Department realizes attendant cost savings.

I am thankful for the hard work of all Department employees that ensures the smooth functioning of the State's revenue agency at "tax season" and throughout the year. Through rounds of tax filings, examinations, audits, cash management, public education, investigations, enforcement, data analysis, legislative oversight, and myriad duties, the staff upholds the public trust. Punctuated by a bounce from cigarette stamping revenues, tax collections accruing to the general fund reflected a second year of economic recovery by posting a \$185 million increase, one of the strongest gains in recent years.

Respectfully submitted,



MARIE Y. OKAMURA
Director of Taxation

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THE YEAR IN REVIEW

TAX SERVICES AND PROCESSING DIVISION

The objectives of the Tax Services and Processing Division are achieved through the activities of the three branches that comprise the Division. These are the Documents Processing, Revenue Accounting, and Taxpayer Services branches.

The major objective of the Documents Processing Branch is to efficiently process all tax returns and documents. This Branch processed approximately 99,000 pounds of incoming mail including 1.5 million payment transactions. Collections through the electronic funds transfer (EFT) program exceeded \$1.8 billion. During the fiscal year this Branch began accepting electronically filed individual income tax returns for the 2000 tax year through a joint electronic filing program with the IRS. Twenty-three thousand income tax returns were filed electronically through this program. Additionally, in April 2001, this Branch began processing select tax forms and payments electronically through the State Internet portal and had approximately 1,500 registered users in only three months of operation. Development of both electronic filing programs continued through the end of fiscal 2001 and into fiscal 2002 with the objective of offering more filing choices to the public. With these enhanced programs, the Department anticipates receiving a significant portion of returns and payments electronically in the near future.

The objectives of the Revenue Accounting Branch are to maintain accurate records and to provide accounting reports on a timely basis. Reporting deadlines were met through timely controlling and accounting for all tax collections, adjustments, and refunds.

The primary objectives of the Taxpayer Services Branch are to provide service and to disseminate information and forms to taxpayers. The Branch achieves this through traditional channels such as the issuance of Tax Facts, which provides relevant information on tax topics of general interest, quarterly newsletters, semi-annual informational workshops for tax practitioners, an annual practitioners' forum, public service announcements, and press releases. Other forms of communication with taxpayers include answering questions through voice and letter correspondence. During the fiscal year, forms availability was greatly increased with the cooperation of the Hawaii State Public Library System. Through the statewide library system, approximately 112,000 forms and brochures were distributed to taxpayers during the tax season.

The Taxpayer Services Branch also utilizes newer delivery channels by providing information and forms through the Department's website, forms by fax/mail service, e-mail correspondence, and a CD-ROM (containing forms and relevant tax information). The website continues to see double digit increases (approximately 33% during fiscal 2001) in the number of "hits" it receives. The forms by fax/mail service was improved during the fiscal year by offering taxpayers the opportunity to direct requests for forms to "live people" rather than automated phone answering equipment. The result was that the number of forms provided during tax season through this service increased by 176%. The CD-ROM continues to allow taxpayers to input data onto forms and print the completed forms from their printers; tax preparers find this very useful. As part of the Department's Internet offering, tax clearances as well as one-time event business licenses can also be completed and submitted electronically through the State's Internet portal. Taxpayers and businesses can file these forms at their convenience, twenty-four hours a day, seven days a week, and make payment electronically, if applicable.

Established in September 1999, Team T.E.A.C.H. (Taxpayer Education and Awareness for Compliance in Hawaii) is composed of one full-time coordinator assigned to the Taxpayer Services Branch with at least one member from each tax district. The Team works to keep the public informed by working with other government agencies and various organizations, providing information through newsletters and other publications, and by providing appropriate materials to educators. During this fiscal year, the Team participated in the first annual 2001 Small Business Fair. This unique event featured government and nonprofit organizations that provide free and low-cost services to Hawaii entrepreneurs.

COMPLIANCE DIVISION

The primary objective of the Compliance Division continues to be maximizing taxpayer compliance with Hawaii tax laws. The Division is comprised of audit and collection branches. The objectives of the voluntary-compliance, self-assessment environment are met 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. Twelve percent of the 265,514 net income tax-related documents processed were identified with errors; they were corrected on-line. Exception handling was also performed on general excise, use, transient accommodations and other tax returns. These returns represent the largest volume of returns processed by the Department and include periodic and annual tax returns.

Auditing

To support the self-assessment and voluntary compliance system, the Audit branches performed the following audits during the year.

	Office Audits		Field Audits (cases)	
	<u>Number</u>	<u>Assessments</u>	<u>Number</u>	<u>Assessments</u>
Oahu	4,792	\$ 106,596,484	310	\$ 82,684,480
Maui	747	2,137,376	12	906,806
Hawaii	809	1,251,621	42	4,376,313
Kauai	<u>277</u>	<u>1,929,862</u>	<u>20</u>	<u>613,259</u>
Total FY2001	6,625	\$ 111,915,343	384	\$ 88,580,858
Total FY2000	<u>5,065</u>	<u>9,439,596</u>	<u>415</u>	<u>89,085,989</u>
Difference	<u>1,560</u>	<u>\$ 102,475,747</u>	<u>(31)</u>	<u>(\$ 505,131)</u>

The Office Audit and Field Audit branches closed 7,009 cases for a total of \$200.5 million in assessments, \$102.0 million more than the \$98.5 million assessed in fiscal 2000. The volume of audits performed and assessments made by the Office Audit Branch increased significantly due to an automated non-filer process implemented as part of the ITIMS project. Audit referrals from the automated process and the application of a standardized algorithm for determining assessment amounts on non-filed general excise, withholding, transient accommodations and rental motor vehicle surcharge tax returns resulted in over \$103 million in assessments during the fiscal year.

Criminal Tax Unit

In fiscal year 2001, indictments were returned against 14 individuals and four corporations. The indictments and complaints returned during the year resulted in tax assessments of \$1,242,568 and fines of \$85,000. (See "Criminal Case Summaries" on page 14 for details on each case.)

Taxpayer Assistance

On the neighbor islands, the Compliance Division is also responsible for providing taxpayer assistance. Assistance was provided in over 150,000 instances over the telephone, in person over-the-counter, and through correspondence. In addition, other services were also provided: issuing of licenses, 4,155; tax clearances, 4,941; residency letters, 2,442; and net income tax preparation, 1,362.

There is continued emphasis on taxpayer education and problem resolution to maintain taxpayers' willingness to accurately and voluntarily comply with our tax laws. All three neighbor island district offices continue to provide speakers for tax preparation and other workshops.

Special Projects

Each year the Audit Branch conducts special projects on current or long-standing concerns. In cooperation with federal and other governmental agencies, the Department is able to locate taxpayers who are not in compliance with State tax laws. Among the larger of such projects this year were:

- identification of taxpayers (Schedule C filers) for non-compliance with Hawaii's general excise tax law;
- identification of taxpayers who claimed certain large itemized deductions for substantiation of such deductions;
- identification of real estate brokers and salespersons who have not been in compliance with the general excise tax law;
- identification and audit of returns completed by suspect preparers;
- identification of taxpayers with unreported or underreported general excise tax liability through the Department's audit modeling system;
- joint monitoring with the federal government of U.S. Department of Defense contractors with respect to compliance with State law.

Other special projects centered on compliance issues involving public service companies, rental income recipients, out-state boat purchases, air cargo and freight forwarders, taxi drivers, intermediary service businesses, unlicensed contractors, ROTC instructors, recipients of commissions from timeshare seminars, taxpayers with widely discrepant federal and Hawaii incomes, and microbreweries.

Delinquent Tax Collections

The Division's Collection Program experienced a mixed year. The statewide total for all outstanding delinquent taxes increased from \$217.8 million to \$236 million, or by \$18.2 million. Cash collected rose from \$66.9 million to \$103.5 million, representing a 54.7% increase, mostly due to the automated billing system implemented in March 2000. Other key indicators also showed increases. Uncollectible write-offs resulted in \$8.9 million in accounts written off, which moves towards a more accurate measure of the value of the outstanding delinquent account balance. Much of the \$30.4 million of uncollectible write-offs for fiscal 2000 was due to a large clean-up project to reduce general excise and withholding inventory of "dead" accounts. A table of the major measurements is presented below.

<u>Measurement</u>	<u>FY 2001</u>	<u>FY 2000</u>	<u>Difference</u>	<u>% change</u>
Total Delinquent Balance (\$ millions)	\$ 236	\$ 217.8	\$ 18.2	8.4%
Cash Collected (\$ millions)	\$ 103.5	\$ 66.9	\$ 36.6	54.7%
Payment Plans (#)	2,158	1,934	224	11.6%
Liens Filed (#)	3,085	2,950	135	4.6%
Levies Served (#)	3,020	2,878	142	4.9%
Uncollectible Write-Off (\$ millions)	\$ 8.9	\$ 30.4	(\$ 21.5)	(70.7%)

Collection Program – Special Projects

Several special ongoing projects produced the following results for fiscal 2001:

<u>Project</u>	<u>No. of Accounts</u>	<u>Gross Receipts (\$000)</u>	<u>Tax Liability (\$000)</u>	<u>Total Collected (\$000)</u>
Private Agency Referrals	19,202	\$ --	\$24,825	\$3,004
Real Estate Licensees	1,595	237,534	9,576	5,626
Audit Special Projects	1,891	512,544	24,404	9,615
Bid/Tax Clearance for State & County Contract (as of 7/96) – (includes cost recovery fees)	16,525			7,213

STAFF OFFICES

Administrative Services Office

Fiscal Office

The Administrative Services Office submitted the fiscal biennium budget for fiscal years 2002 and 2003 to the 2001 Legislature. For fiscal years 2002 and 2003, the Department was appropriated \$17.3 million and \$17.2 million, respectively.

The Department incurred operating expenditures of \$17.0 million for fiscal year 2001. With total taxes collected by the Department increasing by \$184 million and expenditures increasing from \$16.4 to \$17.0 million, the cost to collect \$100 of taxes remained at 44 cents, the same as in fiscal year 2000.

Personnel Management

Three hundred forty-three positions were authorized 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 16 new civil service hires, 6 retirements, 108 temporary hires, 6 promotions, 4 transfers and 19 resignations. Other personnel actions included the resignation or termination of 88 temporary employees hired for the tax season.

STAFFING PATTERN (Number of Authorized Permanent Positions)

<u>By Organization/Operating Program</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Headquarters Administration	40	40	40	40	49
Tax Services and Processing Division	99	99	99	99	90
Compliance Division - Audit	111	111	111	111	112
Compliance Division - Collection	93	93	93	93	93
TOTAL	343	343	343	343	344

Employees participated in various training programs to expand their professional skills, thus increasing their efficiency and effectiveness. Computer software use and leadership training programs were some of a series of programs attended by Department employees.

Rules Office

The Administrative Rules Office is the Department's advisory arm to the director of Taxation 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 2001 legislative session, the Rules Office drafted 10 administration-sponsored bills. The Rules Office prepared testimony on 245 bills and 8 resolutions and submitted comments to Governor Cayetano on 22 Acts passed by the Legislature. Members of the Rules Office also testified at legislative committee hearings on behalf of the director.

The Rules Office prepared 23 letters for the governor, 96 letters for the director, 30 Announcements, and five Tax Information Releases. A rule implementing the cigarette tax stamp program was adopted. Office staff also reviewed legislative proposals and rules of other agencies, provided training for Department employees and speakers at several workshops for practitioners.

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. This fiscal year ITSO focused its efforts and resources primarily on two major initiatives: the Integrated Tax Information Management System (ITIMS) project and electronic filing projects.

The first major initiative, the ITIMS project continued into year two of the five-year project for the development and implementation of an integrated system to replace the existing General Excise, Withholding, Transient Accommodations, and Rental Vehicle/Tour Vehicle Surcharge Tax (GEW/TAT) and Comprehensive Net Income Tax (CNIT) computer systems. Two new systems were successfully implemented this fiscal year. The ITIMS Audit Modeling/Selection System (IAMS) houses GEW/TAT, CNIT, and Internal Revenue Service (IRS) data on a convenient client/server platform where potential candidates for auditing can be easily selected for tax assessments. The ITIMS Collections System (ICS) is a new client/server based case management system which facilitates the tracking and processing of delinquent as well as non-filed accounts.

The second major initiative is the expansion of the Department's electronic filing program. Two new programs were introduced. First, the Federal/State Joint Electronic Filing (JELF) via the IRS was implemented in January, allowing taxpayers to electronically file their federal and State income tax return forms. This process provides convenience to the taxpayer and results in efficiencies for the Department due to a reduction of manual paper handling, data entered returns, and error corrections. Second, Internet-based Electronic Filing (ELF) via eHawaiiGov was implemented at the end of March, providing taxpayers the ability to file and pay selected GEW/TAT and CNIT forms over the Internet. This process provides a convenient alternative to taxpayers and streamlines the intake processing of returns.

The Systems Development staff continues to maintain (and enhance when necessary) the GEW/TAT system. In addition, maintenance support has grown to include the new production systems: IAMS, ICS, JELF, and ELF.

The Systems Networking staff continues to improve efforts to provide support to departmental users in all district offices. A web-based Help Desk application, accessible from an Internet browser from anywhere on the Department's network was implemented to provide users with a systematic troubleshooting device. The System Networking staff utilized Optivity, a network management and monitoring software, to better manage the Department's network environment and increase network performance by re-cabling identified switches and hubs causing network congestion and collisions. The Systems Networking staff provides ongoing support on the ITIMS project with the installation, configuration, testing, implementation and training of new technologies, including: the Windows NT operating system; a Backup Server for departmental servers; an IBM ADSM Backup Tape Library Silo, an additional SP Node, and memory

upgrades to the SP Nodes for ITIMS applications; and the replacement/upgrade of all the Department's PCS, notebooks, and workstations.

ITSO continued performing liaison tasks for the CNIT system. Enhancements implemented for the 2000 tax law changes include: the credit for taxes paid to another State or foreign country; the credit for increasing research activities; and the hotel renovation tax credit. Other tasks completed include: correction of the basic record to reflect the postal required city name and zip code of each taxpayer; inactivation of 1999 tax year records; and modification of correspondence.

Tax Research and Planning Office

The Tax Research & 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. During the 2001 legislative session, TR&P reviewed over 270 tax proposals for impact on tax revenues. Twenty of these proposals were enacted into law. The "Legislation" section lists each of these acts with a brief description.

The Council on Revenues, to which TR&P is technical staff, 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 6.0% growth in general fund tax revenues for fiscal 2001 and a 5.5% growth for total personal income in calendar 2000. Actual general fund tax revenues of \$3,157.7 million for fiscal 2001 represented a 6.2% growth over fiscal 2000. Total personal income for calendar 1999 amounted to nearly \$34.2 billion, representing a 4.8% growth from the previous calendar year.

During the 2001 fiscal year, TR&P participated in two bond rating presentations in September 2000 and June 2001 as requested by the director of the Department of Budget and Finance. During the presentations, assistance was provided to interpret the growth trend of tax revenues in light of changes in the tax laws and economic conditions, as well as expected growth trends as forecast by the Council on Revenues.

TR&P completed three publications for this fiscal year. "Tax Credits Claimed by Hawaii Residents (1999)" was published in May 2001. Total tax credits claimed for tax year 1999 amounted to \$74 million--\$53 million claimed by individuals and \$21 million by corporations. Also published in May 2001, "Hawaii Income Patterns - Individuals (1999)" presented results of individual income tax returns filed for tax year 1999. As reported, total adjusted gross income for Hawaii residents amounted to \$18.3 billion, of which \$13.8 billion was taxable. "Hawaii Income Patterns - Corporation, Proprietorship, Partnership (1998)" (published every third year) was published in June 2001. A total of 124,250 returns were filed by businesses whose fiscal year ended in 1998. Total gross receipts of \$53.0 billion was reported for the fiscal year ending 1998.

TAXPAYER ADVOCACY PROGRAM

The Taxpayer Advocacy Program is administered by the Department's Taxpayer Advocate who provides a one-stop service for taxpayer concerns that cannot be resolved through normal channels. Currently, the advocate office is a one-person operation. The main focus is on the needs of the taxpayer on a case-by case basis.

For fiscal year ending 2001, the advocacy program assisted 126 taxpayers with the resolution of their tax matters. 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, non-filed returns and general tax information. Additional cases did not require intervention from the advocate and were resolved by guiding the taxpayer to the right management personnel.

The Taxpayer Advocate participated in the Internal Revenue Service's "Problem Solving Day" on the island of Oahu. Taxpayers were assisted with problems such as non-filing 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.

The Mobile Tax Assistance Program was back on the road with IRS Wage and Investment Division-Field Assistance-Area 6 personnel and Department staff from the neighbor islands. The Taxpayer Advocate coordinated the Department's partnership in this joint outreach venture which provided tax services to communities that do not normally have access to these services. The Hawaii State Public Library provided the use of the various library sites on the islands of Maui, Hawaii, Kauai and Lanai. Other sessions were also held at the Department's district offices on Molokai and Kauai.

During the tax season, the Federal and State Taxpayer Advocates completed a series of "Taxpayer Advocate Days" at various library sites on the island of Oahu. The advocates met with taxpayers to provide one-on-one assistance on tax related matters. Taxpayers who needed assistance with their federal and State tax returns were aided by AARP Tax-Aide volunteers.

MANAGEMENT PERSONNEL

OFFICE OF THE DIRECTOR

Director of Taxation Marie Y. Okamura
Deputy Director of Taxation..... Dean H. Seki

STAFF OFFICES

Rules Officer..... Grant Tanimoto
Tax Research & Planning Officer Francis Okano
Information Technology Services OfficerClay Sato
Administrative Services Officer.....Warren Higashi
Personnel Officer Vacant

OPERATIONS STAFF

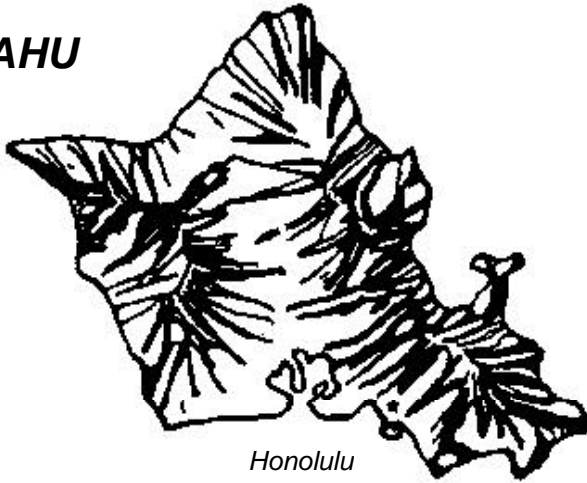
Compliance Division Chief Ronald Randall
Tax Audit Technical Coordinator Richard Chiogioji
Tax Collection Technical Coordinator Wayne Kinoshita
Oahu Field Audit Branch Wayne Griffin
Oahu Office Audit Branch..... Jill Yamasaki
Oahu Collection Branch Lynne Kaneta
Maui District Tax Manager Janis Shinyama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

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

FIRST TAXATION DISTRICT

Island of Oahu

OAHU



Honolulu

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 Branch Chief
Kerry Yoneshige
Taxpayer Services Branch
Vacant
Document Processing Branch
Jerry Ebisu
Revenue Accounting Branch
Deanne Obatake

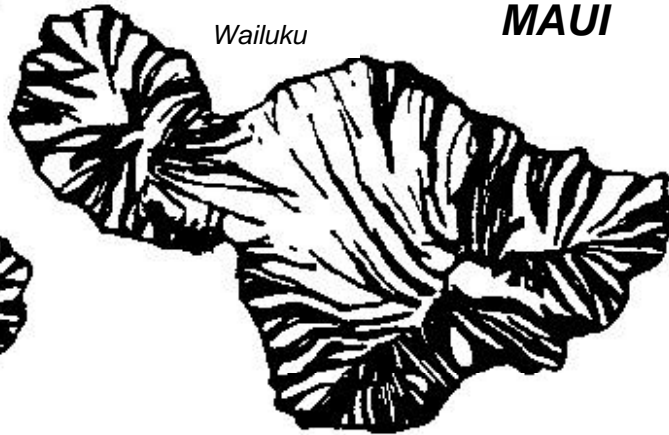
SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai



Kaunakakai

MOLOKAI



Wailuku

MAUI



LANAI



KAHOOLAWE

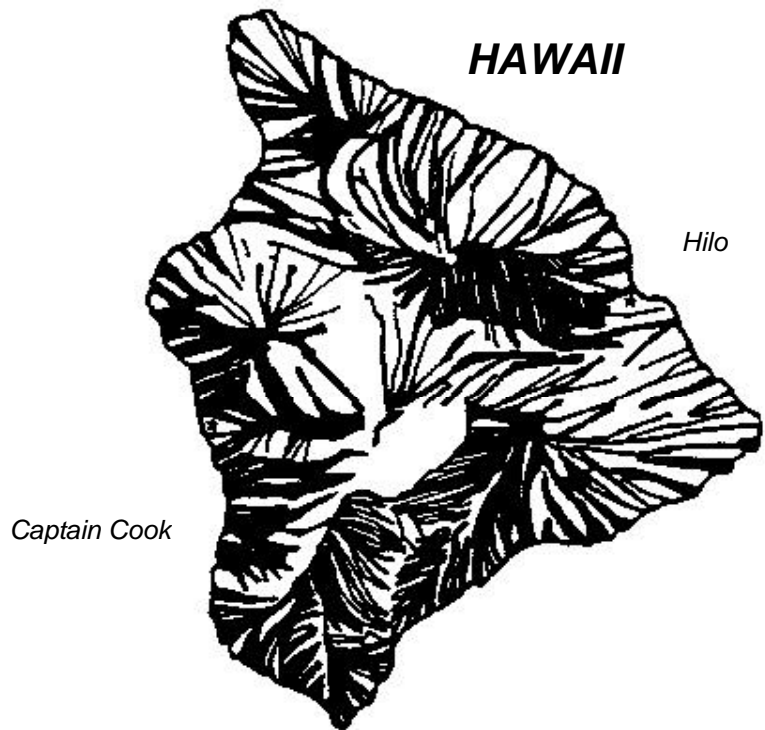
Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

Maui District Office
Janis Shinyama

THIRD TAXATION DISTRICT

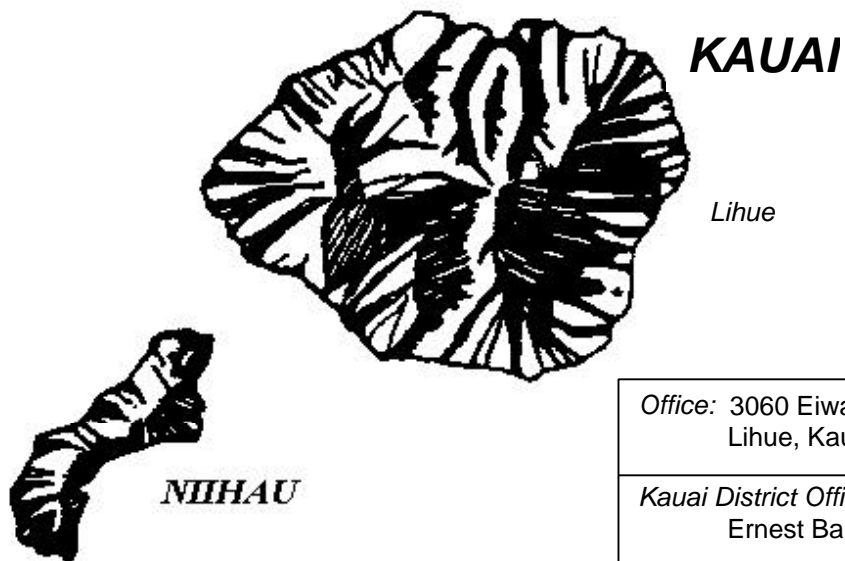
Island of Hawaii

Office: 75 Aupuni Street P.O. Box 83 Hilo, Hawaii 96721
Hawaii District Office Ronald Yabe



FOURTH TAXATION DISTRICT

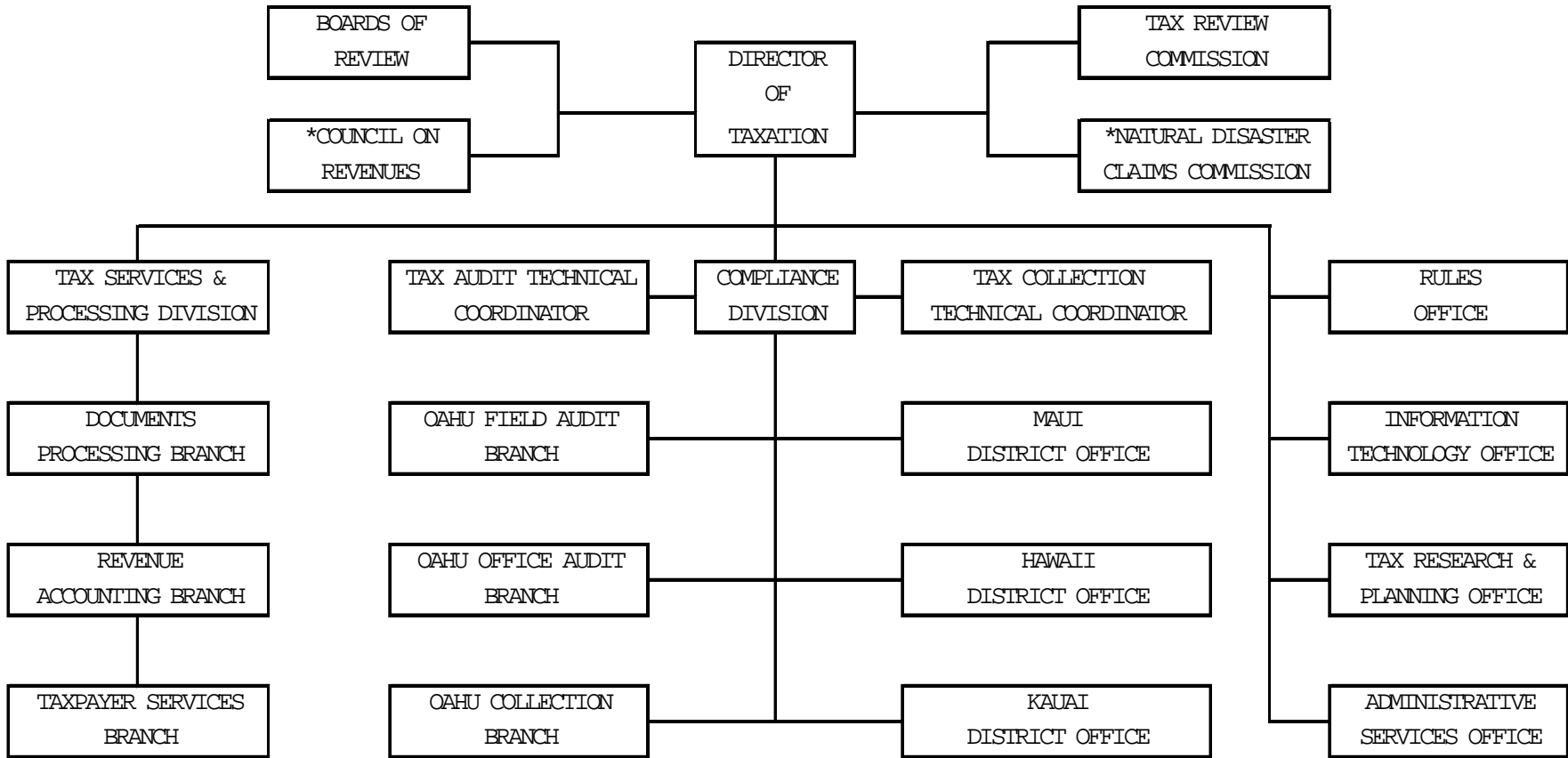
Islands of Kauai and Niihau



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 79 pending tax appeals. Although 22 appeals were settled, 17 new appeals were filed, resulting in a total of 74 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	65	8	6	0	79
New Appeals Filed	5	3	8	1	17
Appeals Settled	11	4	6	1	22
Appeals Pending – Ending	59	7	8	0	74

COURT DECISIONS

Travis v. Department of Commerce and Consumer Affairs, et. al., 99-17520, United States Court of Appeals for the Ninth Circuit

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. Plaintiff appealed the decision to the United States Court of Appeals for the Ninth Circuit. The United States Court of Appeals for the Ninth Circuit affirmed the District Court's dismissal.

Johnson v. Department of Taxation, Civ. 99-412, Circuit Court of the Third Circuit State of Hawaii

Plaintiff sued the State of Hawaii for allegedly failing to timely respond to his request for personal records under HRS chapter 92F. The Court entered a judgment in favor of the Department, concluding that, for purposes of determining whether an agency responded within the ten working day requirement, the response period begins on the date the responding division of the agency receives the request for personal records and ends on the postmark date of the agency response.

In re Tax Appeal of Seven-Eleven Hawaii, Inc., T.A. No. 00-0062

During calendar years 1995, 1996, and 1997, Taxpayer purchased property imported from the mainland and/or Japan from unlicensed sellers that was subject to the imposition of the use tax, Hawaii Revised Statutes chapter 238, but did not report or remit payment for the use tax on the imported property, and the vendor did not pay general excise tax, nor collect use tax on such property. Taxpayer filed a claim for the capital goods excise tax credit for the above-mentioned property for calendar years 1995, 1996, and 1997 despite the fact that no general excise tax or use tax had been paid on the property for which it was claiming the credit. The Director denied Taxpayer's claims for the capital goods excise tax credit because the required tax had not been paid as required by Hawaii Revised Statutes § 235-110.7. The Tax Appeal Court entered Default Judgment in favor of the Director and against Taxpayer for failure to plead or otherwise defend.

In re Tax Appeal of Lois Business Development Corporation, T.A. No. 99-191

Taxpayer, an operator of motion picture theaters, claimed an exemption from general excise tax a business development corporation under HRS chapter 420. The Director denied the exemption, concluding that taxpayer was operating an ordinary business and not engaging in the lending of last resort activities the exemption was designed to encourage. Upon Taxpayer's motion for summary judgment, the Tax Appeal Court entered judgment in favor of Taxpayer, concluding that the Director's apparent determination that Taxpayer was in part a valid business development corporation required the Director to recognize Taxpayer's entire claim for exemption from general excise tax. The Director has appealed this decision to the Hawaii Supreme Court.

State of Hawaii v. Merriles, Crim. No. 00-1-0106(1), Circuit Court of the Second Court

The Deputy Prosecutor's Office issued a subpoena on the Department to produce confidential general excise and income tax records of a welfare fraud suspect. The Department filed a motion to quash the subpoena. The Circuit Court held that the tax records should not be disclosed because the disclosure of tax returns and tax return information, including the absence or presence of a tax return, is prohibited by HRS §§ 235-116 and 237-34.

In re Tax Appeal of Neil Rhoads, Case No. 99-0207, Tax Appeal Court of the State of Hawaii

The issue in this case was whether wages earned as an employee of the State of Hawaii are income taxable under Hawaii income and withholding tax laws. The Tax Appeal Court ruled that such wages are taxable.

CRIMINAL CASE SUMMARIES

During fiscal 2001, indictments and complaints were returned on the following cases:

- A. In August and October 2000, a Grand Jury returned indictments against three tax return preparers who operated a large tax return preparation firm in Hawaii. The tax preparers were charged with multiple felony violations. The scheme involved the claiming of the foreign earned income exemption based on the premise that Hawaii is not a state. In addition, the tax preparers overstated charitable contributions and miscellaneous deductions for their clients. All have pled not guilty and trial is scheduled for fiscal year 2002.
- B. In January 2001, a taxpayer was indicted for multiple felony charges including tax evasion. That taxpayer has pled not guilty and trial is scheduled for fiscal year 2002. The scheme involved the use of a nominee to disguise monies received for the performance of services.
- C. In August 2000, a large Hawaii trucking firm and its principal officers were indicted for theft and failing to file public service company, withholding and general excise tax returns. All have pled guilty and sentencing has been scheduled for July 25, 2002. This trucking firm has been in business for over 40 years and the delinquent taxes totaled in excess of \$700,000.
- D. In March 2001, a dentist and his corporation were charged for theft of withholding taxes, a felony, and failing to file annual general excise tax returns. The principal officer took responsibility and pled guilty to the charges and was fined \$40,000. The tax assessment exceeded \$200,000.
- E. In October 2000, a medical corporation and its treasurer were charged for theft or withholding taxes and failing to file its annual general excise tax returns. The corporation and the treasurer pled guilty to the charges and was fined \$10,000. The tax assessment was over \$1,000,000.

OTHER MATTERS CLOSED

A.	Tax Appeals	-	8
B.	Bankruptcies	-	84 ¹
C.	Foreclosures	-	464
D.	Subpoenas	-	21
E.	Opinions	-	4
F.	Contracts/Bids	-	3
G.	Legislation	-	36
H.	Miscellaneous	-	8
I.	Criminal	-	16

¹ This year's number of closed bankruptcy cases is lower than the average for prior years because of a change in case management procedure that results in more bankruptcy cases remaining open for longer periods while payments are still owed which defers their closure until later fiscal years.

AMOUNTS COLLECTED

A.	Tax Appeals:	\$	268,764.65
B.	Foreclosures:	\$	4,250.00
C.	Bankruptcies:	\$	2,291,916.68 ²
D.	Criminal:	\$	-- ³
E.	Miscellaneous:	\$	251,888.74
	TOTAL:		\$2,8334,676.23

² This figure includes \$102,822.50 for fiscal year 2000 that was not included in the amounts collected for that year.

³ Not available at time of report.

LEGISLATION

During its regular session, the 2001 legislature passed the following tax-related bills:

Act **Brief Description**

- 32 Designates as illegal any package of cigarettes that bears a brand name that is a registered trademark of a Master Settlement Agreement participant and the package is imported by someone other than the participating manufacturer of that cigarette brand. Creates a Class B felony for any person to knowingly affix any cigarette stamp to the package of any cigarettes that are illegal or altered. *Effective April 26, 2001.*
- 36 Allows licensed audiologist to certify impairment of deafness for income tax purposes. *Effective April 26, 2001; applies to taxable years beginning after December 31, 2001.*
- 44 Repeals the 2% penalty provision for taxpayers who elect to participate in the electronic funds transfer (EFT) program and fail to remit their taxes by an approved EFT method on or before the date the taxes are due. *Effective April 26, 2001.*
- 45 Extends confidentiality privileges for certain taxpayer communications under Internal Revenue Code (IRC) section 7525 to all taxes administered by the Department of Taxation under Title 14, Hawaii Revised Statutes. *Effective April 26, 2001; applies to taxable years beginning after December 31, 2000.*
- 64 Effectuates an agreement entered into by and among the State, the Counties and certain public service companies that provides for a sharing of the public service company tax revenues with those counties that establish by ordinance an exemption from the real property tax for public service companies. The portion of the public utility tax over 4% (but not less than 1.885%) would be paid directly to counties that establish by ordinance an exemption from real property tax for public service companies. *Effective July 1, 2001.*
- 113 Ensures that needed resources are available to assist DOTAX in its efforts to meet the obligations of the integrated tax information management systems performance-based contract. *Effective July 1, 2001.*
- 119 Provides a refundable income tax credit of \$1 (multiplied by the number of qualified exemptions the taxpayer is entitled to claim) to each resident individual taxpayer pursuant to Article VII, Section 6, of the Hawaii State Constitution. *Effective May 18, 2001.*
- 125 Simplifies the application process for certain nonprofit organizations seeking exemption from the payment of general excise tax and reduces the filing burden for these organizations. *Effective July 1, 2001.*

- 143 Adjusts the fuel tax to reflect the energy content of alternative fuels and reduces the fuel tax rate of alternative fuels. *Effective May 24, 2001; applies to taxable years beginning after December 31, 2001.*
- 164 Clarifies that the sale of seedstock for producing agricultural and aquacultural products) to a licensed producer or cooperative association, as well as the sale of aquacultural products in general, be treated as a wholesale sale under the general excise tax. *Effective July 1, 2001.*
- 199 Conforms Hawaii income tax law to federal IRC provisions: 1) increases low-income housing tax credit cap, 2) extends and modifies the enhanced charitable deduction for corporate donations of computer technology, 3) extends the medical savings account program through 2002, 4) expands the definition of lump-sum distribution, and 5) repeals the Ticket to Work and Incentives Improvement Act. *Effective May 31, 2001; applies to taxable years beginning after December 31, 2000.*
- 206 Requires DOTAX to continue working with the U.S. government, local businesses, and the labor community to develop a system to enforce the collection of general excise taxes from U.S. mainland contractors working in Hawaii on federal projects. Requests federal assistance. Authorizes DOTAX to contract with entities for the collection of GET. Requires report to the legislature on any proposed legislation. *Effective June 2, 2001.*
- 210 Excludes from the GET amounts received for the rental or leasing of aircraft or aircraft engines used by the renter or lessee for interstate air transportation and exempts from the use tax, the importation and use of aircraft or aircraft engines by a renter or lessee for interstate air transportation. *Effective July 1, 2001.*
- 221 Encourages the continued growth and development of technical businesses by expanding and clarifying prior tax incentives and provides additional tax incentives for technical and non-technical businesses. *Effective July 1, 2001; with provisos.*
- 270 Establishes the Cigarette Tax Stamp Enforcement Special Fund, Tobacco Enforcement Special Fund, and Cigarette Tax Stamp Administrative Special Fund. Prohibits the resale of cigarettes purchased at sales outlets operated under the regulations of the U.S. Armed Services. Creates a presumption that all cigarettes are subject to the cigarette tax. Allows licensees to purchase cigarette tax stamps at a reduction of 0.4% of the denominated value of each stamp purchased. Authorizes DOTAX to increase or decrease the 0.4% reduction by rule under chapter 91, HRS. Appropriates general funds to pay for monitoring, administration, and enforcement of the cigarette tax stamp law. *Effective June 22, 2001; with provisos.*
- 272 Establishes goals for the implementation of renewable portfolio standards by electric utilities. Requires electric utilities to develop and make available net energy metering contracts to eligible customer-generators, which includes wind turbine and solar energy generator facilities that qualify for energy conservation income tax credits. *Effective June 25, 2001.*
- 293 Allows farmers or ranchers a refundable income tax credit equal to 4% of the qualifying costs incurred and paid during the taxable year for the construction of a new qualified water storage facility, or the repair or reconstruction of an existing qualified water storage facility. The credit is available for taxable years beginning after December 31, 2000, but not for taxable years beginning after December 31, 2005. *Effective June 28, 2001.*
- 309 Establishes the Hawaii School Repair and Maintenance Fund for coordination of private and federal efforts to repair and maintain public schools. Provides taxpayers licensed under chapter 444, 460J, or 464, HRS, (e.g. contractors, architects, engineers, surveyors, landscape architects, and pest control operators) a nonrefundable income tax credit equal to 10% of the value of in-kind services contributed to the Fund. The aggregate value of contributions of in-kind services claimed by a taxpayer may not exceed \$40,000. The credit is capped at \$4,000 per eligible

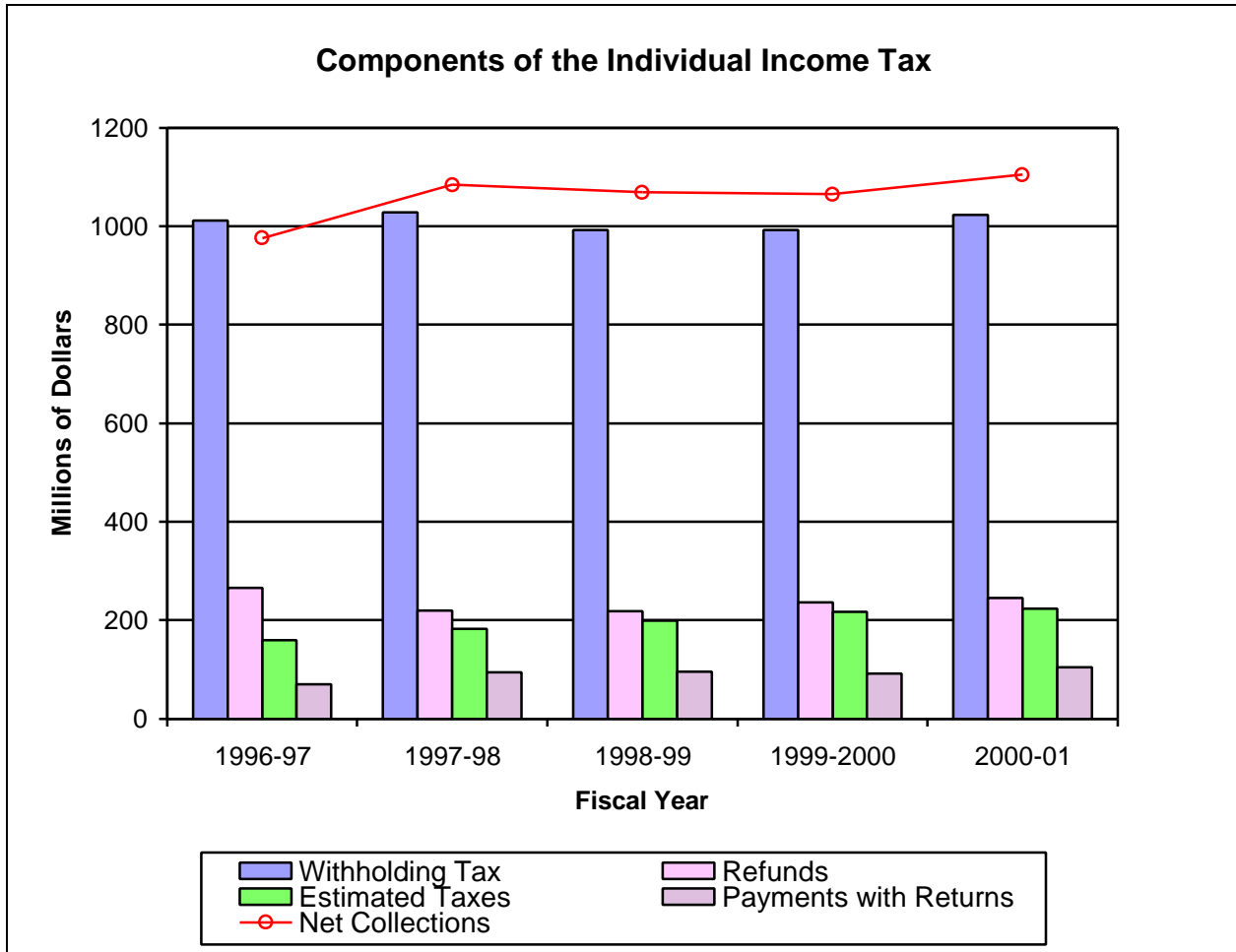
taxpayer, per taxable year. *Effective July 1, 2001; section 2 applies to taxable years beginning after December 31, 2000.*

- 310 Establishes the Hawaii School-Level Minor Repairs and Maintenance Special Fund to provide moneys for school-level minor repairs and maintenance. Allows an individual whose State income tax refund for any taxable year is \$2 or more to designate on the State income tax return \$2 of such refund to be deposited into the Special Fund (\$4 in the case of a joint return of a husband and wife). *Effective July 01,2001; section 3 applies to taxable years beginning after December 31, 2000.*

INCOME ASSESSMENT AND AUDIT

INDIVIDUAL INCOME TAX

The second step of a three-stage income tax reduction (Act 157, SLH 1998) took effect on January 1, 2001. Although the second phase of the individual income tax reduction (Act 157, SLH 1998) has impacted withholding tax on wages starting January 2001, withholding tax on wages increased 3.2% in fiscal 2001 due to improved economic conditions. The growth rate of declarations of estimated taxes increased only 2.8% as capital gains income has stabilized. Overall, net individual income increased by 3.8% or \$40.3 million.



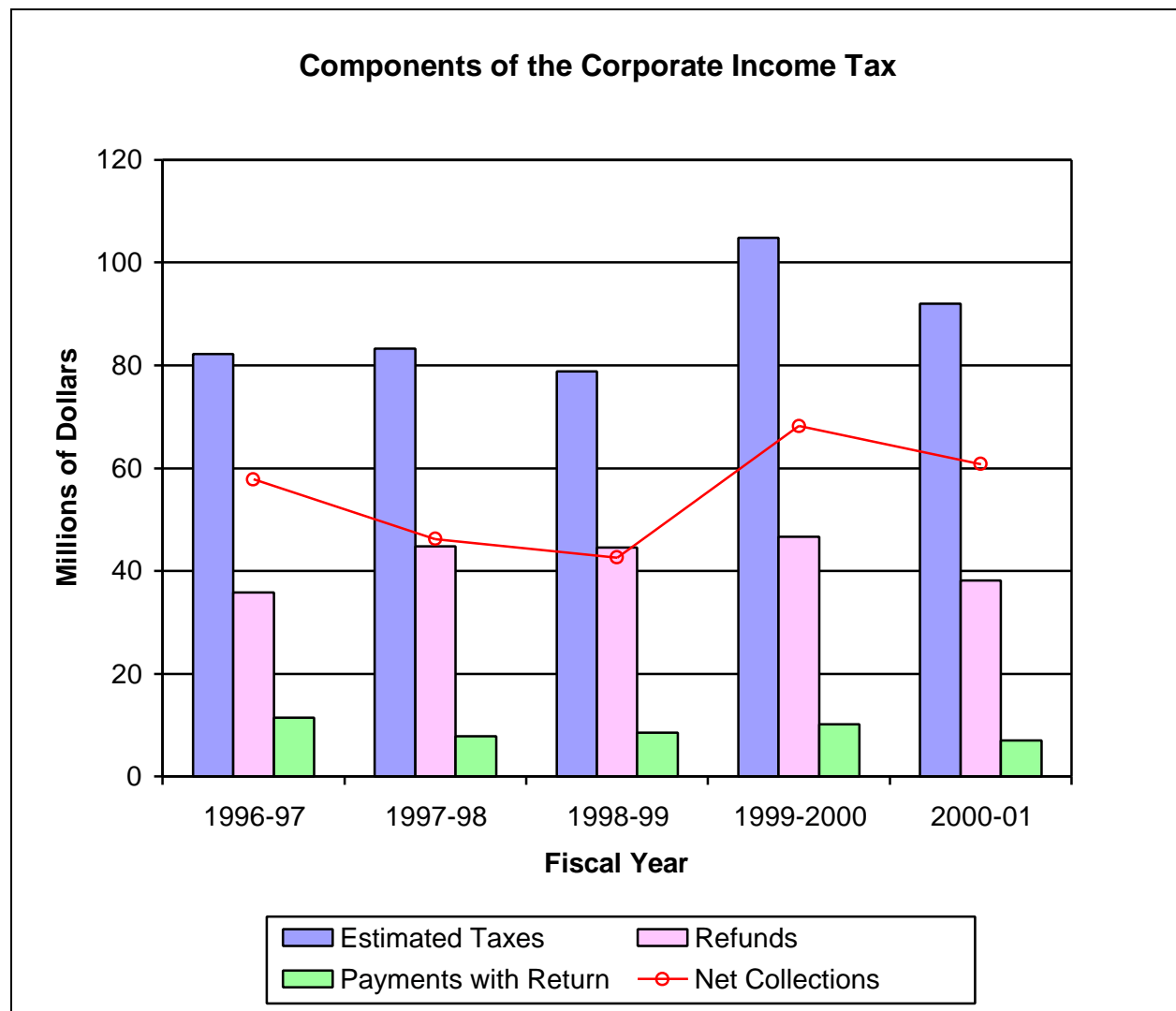
TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

	FY 2001	FY 2000	Difference	
			Amount	%
Declaration of Estimated Taxes	\$ 222,535	\$ 216,509	\$ 6,026	2.8%
Payment with Return	104,729	92,069	12,660	13.8%
Withholding Tax on Wages	<u>1,022,959</u>	<u>991,570</u>	<u>31,389</u>	<u>3.2%</u>
Subtotal	\$ 1,350,222	\$ 1,300,148	\$ 50,075	3.9%
Refunds	<u>245,403</u>	<u>235,591</u>	<u>9,812</u>	<u>4.2%</u>
NET	<u>\$ 1,104,819</u>	<u>\$ 1,064,556</u>	<u>\$ 40,263</u>	<u>3.8%</u>

NOTE: Due to rounding, details may not add to totals.

CORPORATE INCOME TAX

Corporate tax collections totaled \$60.8 million for fiscal year 2001, declining from a record high \$68.2 million in fiscal year 2000. Although lower than last year, net collections for fiscal 2001 was the second highest over the last five years, as shown in the following chart.



TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

	FY 2001	FY 2000	Difference	
			Amount	%
Declaration of Estimated Taxes	\$ 91,956	\$ 104,755	(\$ 12,799)	(12.2%)
Payment with Return	7,008	10,160	(3,152)	(31.0%)
Subtotal	\$ 98,964	\$ 114,916	(\$ 15,952)	(13.9%)
Refunds	38,171	46,701	(8,530)	(18.3%)
NET	\$ 60,793	\$ 68,215	(\$ 7,422)	(10.9%)

NOTE: Due to rounding, details may not add to totals.

GENERAL EXCISE AND USE TAXES

General excise and use taxes made up nearly 45% of total tax collections. The total \$1,640 million collected represents a 6.8% growth over the last fiscal year. All other major components of the general excise taxes also showed increases over the last fiscal year-retailing rose 3.6%, services 6.4%, contracting 13.4%, hotel rentals 5.8% and all other rentals 3.6%.

GENERAL EXCISE AND USE TAX BASE AND TAXES
FOR FISCAL YEARS ENDING JUNE 30, 2001 AND 2000
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	FY 2001	FY 2000	Difference	
				Amount	% Change
TAX BASE					
Retailing		\$17,471,726	\$16,862,769	\$ 608,957	3.6
Services		6,194,922	5,821,855	373,067	6.4
Contracting		3,705,643	3,268,891	436,752	13.4
Hotel Rentals		2,450,104	2,316,788	133,316	5.8
All Other Rentals		3,928,291	3,791,081	137,210	3.6
All Others (4%)		<u>3,371,319</u>	<u>3,133,481</u>	<u>237,838</u>	<u>7.6</u>
Subtotal		\$37,122,005	\$35,194,866	\$ 1,927,140	5.5
Sugar Processing		\$ 15,507	\$ 25,906	(\$ 10,398)	(40.1)
Pineapple Canning		5,123	3,935	1,188	30.2
Producing		527,982	487,762	40,220	8.2
Manufacturing		612,030	583,392	28,638	4.9
Wholesaling		9,238,724	8,506,878	731,846	8.6
Use (1/2%)		5,058,762	4,773,575	285,187	6.0
Intermediary Services		372,414	296,234	76,180	25.7
Insurance Commissions		<u>818,601</u>	<u>974,289</u>	<u>(155,688)</u>	<u>(16.0)</u>
Subtotal		\$16,649,144	\$15,651,972	\$ 997,173	6.4
TOTAL – ALL ACTIVITIES		<u>\$53,771,150</u>	<u>\$50,846,837</u>	<u>\$ 2,924,313</u>	<u>5.8</u>
TAX					
Retailing	4%	\$ 698,869	\$ 674,511	\$ 24,358	3.6
Services	4%	247,797	232,874	14,923	6.4
Contracting	4%	148,226	130,756	17,470	13.4
Hotel Rentals	4%	98,004	92,672	5,333	5.8
All Other Rentals	4%	157,132	151,643	5,488	3.6
All Others (4%)	4%	<u>134,853</u>	<u>125,339</u>	<u>9,514</u>	<u>7.6</u>
Subtotal		\$ 1,484,880	\$ 1,407,795	\$ 77,086	5.5
Sugar Processing	.50%	\$ 78	\$ 130	(\$ 52)	(40.1)
Pineapple Canning	.50%	26	20	6	30.2
Producing	.50%	2,640	2,439	201	8.2
Manufacturing	.50%	3,060	2,917	143	4.9
Wholesaling	.50%	46,194	42,534	3,659	8.6
Use (1/2%)	.50%	25,294	23,868	1,426	6.0
Intermediary Services	.50%	1,862	1,481	381	25.7
Insurance Commissions	.15%	<u>1,228</u>	<u>1,461</u>	<u>(234)</u>	<u>(16.0)</u>
Subtotal		\$ 80,381	\$ 74,850	\$ 5,531	7.4
Unallocated**		<u>74,778</u>	<u>53,632</u>	<u>21,146</u>	<u>39.4</u>
TOTAL – ALL ACTIVITIES		<u>\$ 1,640,039</u>	<u>\$ 1,536,276</u>	<u>\$ 103,763</u>	<u>6.8</u>

NOTE: Due to rounding, details may not add to totals.

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

TRANSIENT ACCOMMODATIONS TAX

Transient accommodations tax (TAT) collections rose 5.1%, partly due to the increase in average hotel room rates. The termination of the transfer of 17.3% of the transient accommodation taxes from the general fund to the Convention Center Capital and Operations Special Fund beginning July 1, 2000 has resulted in an increase of about \$30.7 million for the general fund in fiscal 2001. As the shares of the TAT for the counties and for the Tourism Special Fund remained unchanged, funds to counties and to the Tourism Special Fund also increased 5.1% in fiscal 2001.

TRANSIENT ACCOMMODATIONS TAX (In Thousands of Dollars)

	FY 2001	FY 2000	Difference	
			Amount	%
Trans. Accom./Time Share Occ. Tax	\$ 177,164	\$ 168,568	\$ 8,597	5.1%
Trans. Accom./Time Share Occ. Fees	10	10	0	2.5%
Subtotal	\$ 177,174	\$ 168,577	\$ 8,597	5.1%
Counties Share	\$ 79,370	\$ 75,518	\$ 3,851	5.1%
Convention Center Fund	\$ 0	\$ 29,162	(\$ 29,162)	(100.0%)
Tourism Special Fund	\$ 67,145	\$ 63,887	\$ 3,258	5.1%
General Fund	\$ 30,659	\$ 10	\$ 30,650	nm

nm = not meaningful.

NOTE: Due to rounding, details may not add to totals.

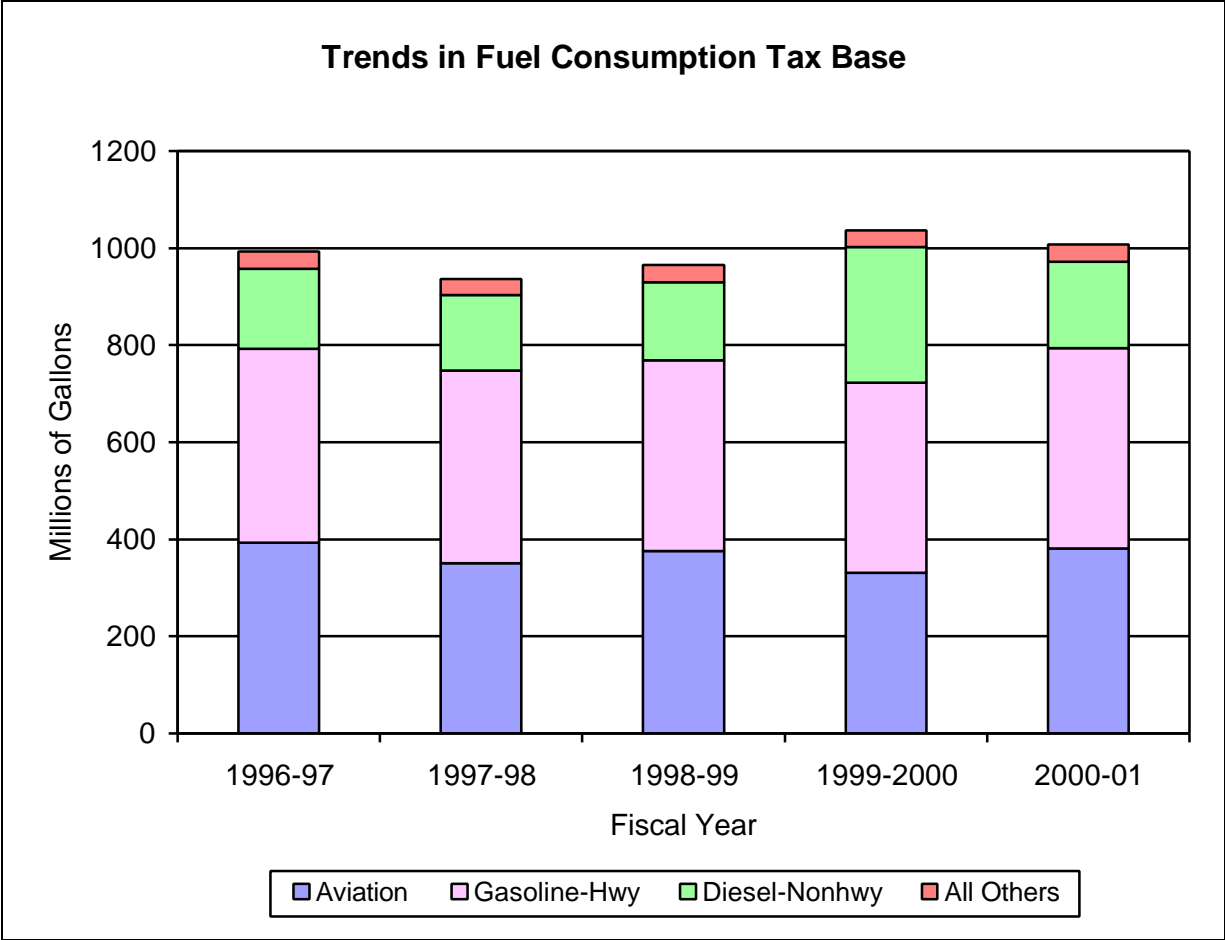
FUEL AND MOTOR VEHICLE TAXES

Fuel consumption dropped 2.8% to 1,007.8 million gallons in fiscal 2001. While gasoline consumption increased by 20.2 million gallons and aviation fuel by 50.3 million, diesel oil (non-highway use) fell 100.8 million gallons. Petroleum sales rose 6.6% to 36.5 million gallons. An environmental response 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 products.

GALLONS OF FUEL CONSUMED (In Thousands of Gallons)

	FY 2001	FY 2000	Difference	
			Amount	%
Gasoline	411,309	391,111	20,198	5.2%
Diesel Oil – Nonhighway	178,390	279,161	(100,770)	(36.1%)
Diesel Oil – Highway	32,550	31,044	1,506	4.9%
Liq. Pet. Gas - Off Highway	3,320	3,236	84	2.6%
Liq. Pet. Gas - Highway	322	347	(25)	(7.1%)
Small Boats - Gasoline	5	3	2	77.3%
Small Boats - Diesel Oil	30	94	(64)	(68.4%)
Aviation Fuel	381,839	331,525	50,314	15.2%
Total Gallons	1,007,766	1,036,520	(28,754)	(2.8%)
Environmental Tax (Barrel)	36,535	34,287	2,248	6.6%

NOTE: Due to rounding, details may not add to totals.

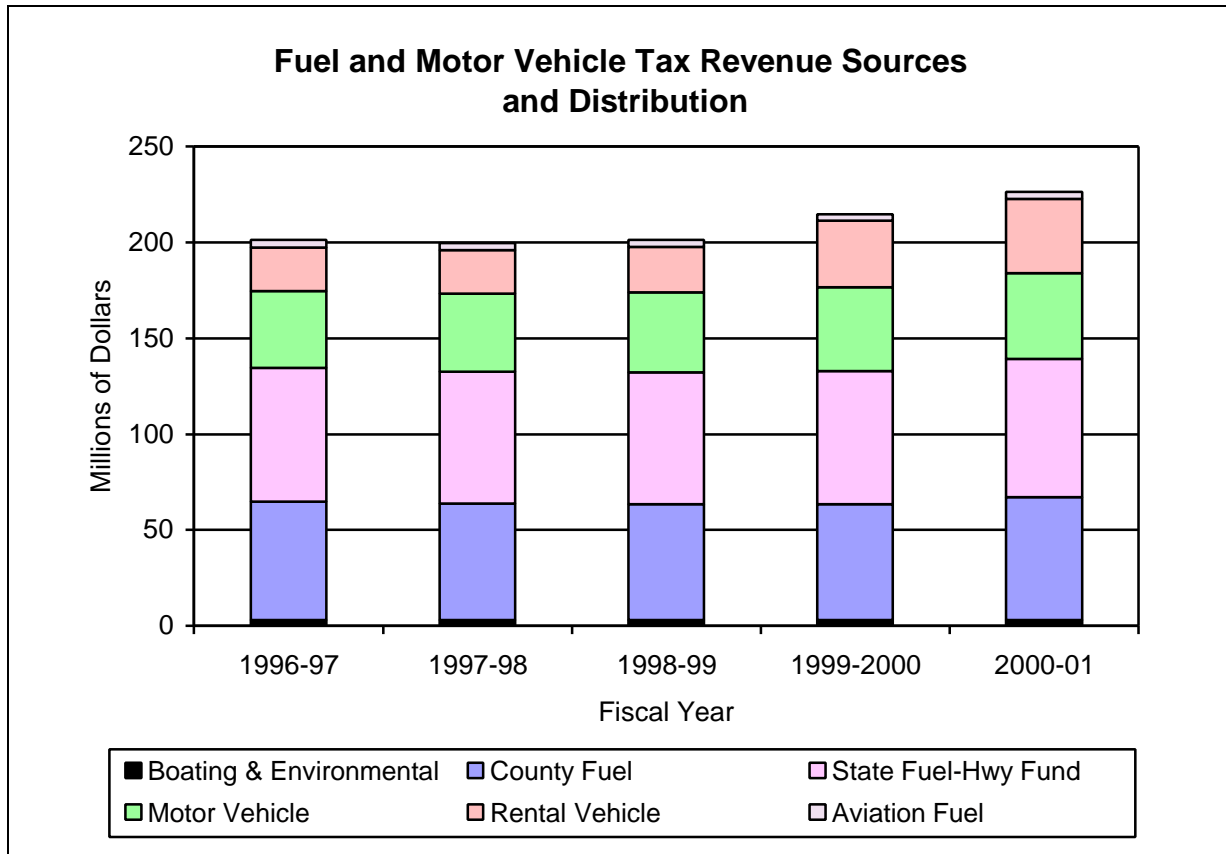


Revenues from fuel taxes are distributed to both the State and counties, and other special funds. Aviation fuel taxes collected are deposited into the airport fund, while all other State fuel tax collections are deposited into the State highway fund, except for 1% of State and county fuel taxes which is deposited into the State boating fund. Revenues from the motor vehicle weight taxes and fees, which are administered and collected by the counties, and rental motor vehicle and tour vehicle surcharge taxes are also added to the State highway fund. Monies from the environmental response tax is deposited into the environmental response revolving fund, which is administered by the Department of Health for oil spill prevention and remediation programs.

ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 2001	FY 2000	Difference	
			Amount	%
STATE HIGHWAY FUND				
Gasoline	\$ 64,872	\$ 61,894	\$ 2,977	4.8%
Diesel Oil – Non-highway	1,766	2,765	(998)	(36.1%)
Diesel Oil - Highway	5,441	4,917	524	10.7%
Liq. Pet. Gas – Off highway	33	32	1	2.6%
Liq. Pet. Gas – Highway	<u>35</u>	<u>38</u>	<u>(3)</u>	<u>(7.1%)</u>
Subtotal	\$ 72,147	\$ 69,646	\$ 2,501	3.6%
Motor Vehicle	44,716	43,469	1,247	2.9%
Rental Vehicle	<u>38,634</u>	<u>34,587</u>	<u>4,047</u>	<u>11.7%</u>
Total	<u>\$ 155,497</u>	<u>\$ 147,701</u>	<u>\$ 7,795</u>	<u>5.3%</u>
COUNTY HIGHWAY FUNDS				
City & County of Honolulu	\$ 46,078	\$ 42,901	\$ 3,178	7.4%
County of Maui	7,914	7,860	54	0.7%
County of Hawaii	6,392	6,202	190	3.1%
County of Kauai	<u>3,491</u>	<u>3,418</u>	<u>74</u>	<u>2.2%</u>
Total	<u>\$ 63,876</u>	<u>\$ 60,380</u>	<u>\$ 3,495</u>	<u>5.8%</u>
BOATING SPECIAL FUND:	<u>\$ 1,374</u>	<u>\$ 1,313</u>	<u>\$ 61</u>	<u>4.6%</u>
STATE AIRPORT FUND:				
Aviation Fuel	<u>\$ 3,818</u>	<u>\$ 3,315</u>	<u>\$ 503</u>	<u>15.2%</u>
ENVIRONMENTAL TAX FUND:	<u>\$ 1,827</u>	<u>\$ 1,714</u>	<u>\$ 112</u>	<u>6.6%</u>

NOTE: Due to rounding, details may not add to totals.



The State legislature sets the State fuel tax rates while the county councils set the county rates. The effective rates for fiscal 2001 are shown below:

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 Hawaii	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	11.0¢	7.0¢	18.0¢
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¢ per gallon.

²Includes 1¢ State license tax on diesel oil.

PUBLIC SERVICE COMPANY TAXES

Public utilities and motor carrier-contract carriers paid public service company taxes totaling \$134.7 million, including penalty and interest. Revenues from public utilities amounted to \$114.1 million while motor contract carriers paid \$19.8 million.

PUBLIC SERVICE COMPANY TAXES (In Thousands of Dollars)

	FY 2001	FY 2000	Difference	
			Amount	%
Public Service Company Taxes	\$ 134,583	\$ 119,115	\$ 15,468	13.0%
Penalty & Interest	85	390	(305)	(78.2%)
TOTAL	<u>\$ 134,668</u>	<u>\$ 119,505</u>	<u>\$ 15,163</u>	<u>12.7%</u>

NOTE: Due to rounding, details may not add to totals.

ESTATE AND TRANSFER TAXES

During fiscal year 2001, a total of 576 estates were settled, of which 409 were taxable. Estate tax collections totaled \$17.5 million, compared to \$22.8 million the year before.

ESTATE AND TRANSFER TAXES (In Thousands of Dollars)

	FY 2001	FY 2000	Difference	
			Amount	%
Estate Tax	\$ 17,456	\$ 22,357	(\$ 4,901)	(21.9%)
Penalty & Interest	85	427	(342)	(80.1%)
TOTAL	<u>\$ 17,541</u>	<u>\$ 22,784</u>	<u>(\$ 5,243)</u>	<u>(23.0%)</u>

NOTE: Due to rounding, details may not add to totals.

OTHER TAXES

Total revenues from other miscellaneous taxes amounted to \$317.0 million a slight \$145 thousand drop from the previous year. As refunds exceeded collections, net franchise receipts collected from banks and other financial corporations resulted in a negative balance. Employment security contributions and liquor tax collections fell from fiscal 2000 by \$8.8 million and \$1.2 million, respectively.

Making up for these losses, tobacco tax collections exceeded last year's total by \$12.7 million. Act 249, SLH 2000, established the Cigarette Tax Stamp Act, requiring licensees to affix stamps on each package of cigarette starting January 1, 2001 and completed by April 1. Consequently, tobacco tax collections for the second half of fiscal 2001 increased by \$11.1 million. Insurance tax premiums increased by \$3.4 million, while conveyance taxes rose \$1.0 million. The conveyance tax is imposed at the 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 under the Department of Land and Natural Resources. Revenues from the conveyance tax are divided among the State general fund (62.5%), the natural area reserve fund (25%) and the rental housing funds (12.5%).

MISCELLANEOUS TAXES
(In Thousands of Dollars)

	FY 2001	FY 2000	Difference	
			Amount	%
Banks & Other Financial Corp.	(\$ 294)	\$ 7,057	(\$ 7,350)	nm
Conveyance*	10,509	9,529	980	10.3%
Empl. Security Contributions	141,187	149,951	(8,764)	(5.8%)
Insurance Premiums	72,113	68,659	3,454	5.0%
Liquor & Permits	37,783	39,000	(1,218)	(3.1%)
Tobacco & Licenses	55,074	42,341	12,733	30.1%
General Excise Licenses & Fees	582	562	20	3.6%
TOTAL	\$ 316,953	\$ 317,098	(\$ 145)	(0.0%)

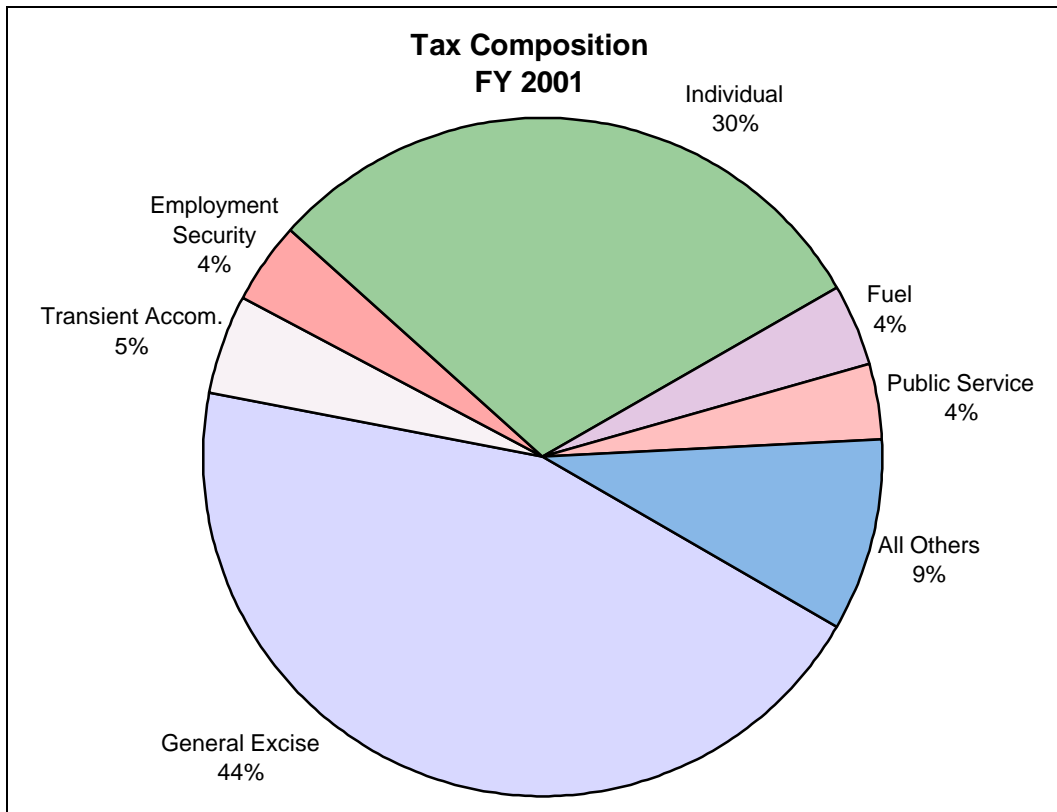
*Includes allocation to "Rental Housing Fund" and "Natural Area Reserve Fund".

nm = not meaningful.

NOTE: Due to rounding, details may not add to totals.

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS



Net tax collections amounted to \$3,678.4 million, 4.7% more than the \$3,511.6 million collected in the previous year. While the Department of Taxation collected the majority of taxes, the Department of Commerce and Consumer Affairs collected \$72.1 million in insurance premium taxes, the Department of Land and Natural Resources collected \$10.5 million in conveyance taxes, and the counties collected \$83.3 million in State motor vehicle weight taxes and registration fees.

SOURCE OF REVENUE	TAX COLLECTIONS FY 2001		FY 2000	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks – Financial Corps.	(\$ 293,743)	(0.01%)	\$ 7,056,749	0.20%
Conveyance	10,508,686	0.29%	9,528,829	0.27%
Employment Security Contrib.	141,187,227	3.84%	149,951,297	4.27%
Fuel	143,041,756	3.89%	136,368,763	3.88%
General Excise & Use	1,640,038,830	44.59%	1,536,276,173	43.75%
Income – Corporations	60,792,656	1.65%	68,214,632	1.94%
Income – Individuals	1,104,819,257	30.04%	1,064,556,365	30.32%
Inheritance and Estate	17,541,004	0.48%	22,784,481	0.65%
Insurance Premiums	72,112,632	1.96%	68,658,671	1.96%
Liquor & Permits	37,782,635	1.03%	39,000,210	1.11%
Motor Vehicle Tax*	83,349,817	2.27%	78,055,861	2.22%
Public Service Companies	134,582,884	3.66%	119,504,765	3.40%
Tobacco & Licenses	55,073,840	1.50%	42,340,593	1.21%
Trans. Accom. Fees	9,748	0.00%	9,513	0.00%
Trans. Accom. Tax	177,164,186	4.82%	168,567,596	4.80%
All Others	694,692	0.02%	745,204	0.02%
TOTAL	<u>\$ 3,678,406,107</u>	<u>100.00%</u>	<u>\$ 3,511,619,701</u>	<u>100.00%</u>

NOTE: Due to rounding, details may not add to totals.

*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 total \$3.68 billion in tax revenues collected, \$3.16 billion, or 85.8% was deposited into the State general fund. The counties received 3.9%, or \$143.2 million, which came from county fuel taxes and a portion of the transient accommodations tax. The remaining \$377.5 million was distributed among several State special funds. The State highway fund received the largest portion, or \$155.5 million. All of the employment security contributions, or \$141.2 million, went into the unemployment trust fund for unemployment benefits. The third largest special fund, the tourism special fund, received a \$67.1 million share of the transient accommodations tax. Distribution of collection is shown in the following table.

DISTRIBUTION OF COLLECTIONS

	FY 2001		FY 2000	
	Amount Collected	% of Total	Amount Collected	% of Total
STATE FUNDS				
State General	\$ 3,157,659,577	85.84%	\$ 2,972,349,815	84.64%
State Highway	155,496,850	4.23%	147,701,449	4.21%
State Airport	3,818,387	0.10%	3,315,247	0.09%
Boating Special Fund	1,373,966	0.04%	1,313,392	0.04%
Environmental Fund	1,826,746	0.05%	1,714,351	0.05%
Bond Reserve Fund	0	0.00%	0	0.00%
Compliance Resolution Fund	2,500,000	0.07%	2,500,000	0.07%
Unemployment Trust	141,187,227	3.84%	149,951,297	4.27%
Election Campaign Fund	212,190	0.01%	253,058	0.01%
Tourism Special Fund	67,145,226	1.83%	63,887,119	1.82%
Rental Housing Fund	1,313,586	0.04%	1,191,104	0.03%
Natural Area Reserve Fund	2,627,172	0.07%	2,382,207	0.07%
Convention Center Fund	0	0.00%	29,162,194	0.83%
Subtotal - State	<u>\$ 3,535,160,927</u>	<u>96.11%</u>	<u>\$ 3,375,721,233</u>	<u>96.13%</u>
REVENUES TRANSFERRED TO COUNTIES				
Fuel	\$ 63,875,624	1.74%	\$ 60,380,185	1.72%
Trans. Accom. Tax	<u>79,369,555</u>	<u>2.16%</u>	<u>75,518,283</u>	<u>2.15%</u>
Subtotal – Counties	\$ 143,245,179	3.89%	\$ 135,898,468	3.87%
TOTAL	<u>\$ 3,678,406,107</u>	<u>100.00%</u>	<u>\$ 3,511,619,701</u>	<u>100.00%</u>

3,671,059,396

NOTE: Due to rounding, details 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 tax 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.

Qualified residents may claim several different tax credits. Among the most common credits claimed by Hawaii residents 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 individual with adjusted gross income of \$20,000 or less, 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 employment. 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.

SOURCE OF REVENUE	STATE GENERAL FUND FY 2001		FY 2000	
	Amount Collected *	% of Total	Amount Collected *	% of Total
Banks – Financial Corps.	(\$ 2,793,743)	-0.09%	\$ 4,556,749	0.15%
Conveyance	6,567,929	0.21%	5,955,518	0.20%
General Excise & Use	1,640,038,830	51.94%	1,536,276,173	51.69%
Income – Corporations	60,792,656	1.93%	68,214,632	2.29%
Income – Individuals	1,104,607,067	34.98%	1,064,303,307	35.81%
Inheritance and Estate	17,541,004	0.56%	22,784,481	0.77%
Insurance Premiums	72,112,632	2.28%	68,658,671	2.31%
Liquor & Permits	37,782,635	1.20%	39,000,210	1.31%
Public Service Companies	134,582,884	4.26%	119,504,765	4.02%
Tobacco & Licenses	55,073,840	1.74%	42,340,593	1.42%
Trans. Accom. Fees	9,748	0.00%	9,513	0.00%
Trans. Accom. Tax	30,649,404	0.97%	0	0.00%
All Others	694,692	0.02%	745,204	0.03%
TOTAL	<u>\$ 3,157,659,577</u>	<u>100.00%</u>	<u>\$ 2,972,349,815</u>	<u>100.00%</u>

* Net of transfers to special funds.

NOTE: Due to rounding, details may not add to totals.

OUTLINE OF THE HAWAII TAX SYSTEM AS OF JULY 1, 2001

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>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. For taxable years beginning after December 31, 2001, the tax rates for individuals as well as estates and trusts range from 1.4% to 8.25% 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 of taxable income.</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, the wholesale tax treatment is expanded 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 239-12	Nature of Tax—(1) Public utility business in lieu of general excise tax. (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: 4% of gross income. (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: (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
<p>(7) Banks, Building and Loan, Financial Services Loan Companies and Certain Other Financial Corporations</p> <p>Chapter 241 — Section 241-1 to 241-7</p>	<p>(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.</p>	<p>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.</p>	<p>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.</p>
<p>(8) Fuel</p> <p>Chapter 243 — Section 243-1 to 243-16</p>	<p>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.</p> <p>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.</p> <p>Effective for taxable years beginning after December 31, 2001, Act 143, SLH 2001, adjusts the fuel tax to reflect the energy content of alternative fuels as follows: ethanol- 0.29 times the rate for diesel; methanol- 0.22 times the rate for diesel; biodiesel- 0.50 times the rate for diesel; liquefied petroleum gas- 0.33 times the rate for diesel; and for other alternative fuels, the rate is based on the energy content of the fuels as compared to diesel fuel, using a lower heating value of 130,000 BTUs per gallon as a standard for diesel, so that the tax rate, on an energy content basis, is equal to half the rate for diesel fuel.</p>	<p>Returns are due monthly on or before the last day of the following month.</p>	<p>At time of filing returns.</p>
<p>(9) Liquor</p> <p>Chapter 244D — Section 244D-1 to 244D-17</p>	<p>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.</p> <p>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.</p>	<p>Returns are due monthly on or before the last day of the following month.</p>	<p>At time of filing returns.</p>

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(10) Cigarette and Tobacco Chapter 245 — Section 245-1 to 245-63	"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, cigarette and tobacco wholesalers and dealers are required 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. Cigarette tax paid through the purchase of cigarette tax stamps by licensees.
(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.
(12) Rental Motor Vehicle and Tour Vehicle Surcharge Tax Chapter 251 — Section 251-1 to 251-15	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.	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.
(13) Unemployment Insurance Chapter 383 — Section 383-1 to 383-176	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 5.4%. 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%. 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 for each calendar year.	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.	At time of filing returns.
(14) Insurance Premiums Chapter 431 — Section 431:7-201 to 431:7-209	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.	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.	At time of filing statements.

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