

**ANNUAL  
REPORT  
2019-2020**



**DEPARTMENT OF TAXATION  
STATE OF HAWAII**

# DEPARTMENT OF TAXATION

## VISION

*"The Department of Taxation will efficiently and effectively collect the revenue for funding programs and services for the people of Hawaii."*

## MISSION

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

## GOALS

1. To *"Increase Voluntary Compliance"* by
  - a. Increasing oversight utilizing various branches/areas of our Compliance Division
  - b. Developing procedures to ensure a more efficient and timely audit process
2. To *"Reduce Tax Fraud,"* through
  - a. Identification and preventing payment of fraudulent funds
3. To *"Improve customer service to all stakeholders"* by
  - a. Providing services to taxpayers whose issues/concerns cannot be resolved through normal channels
  - b. Providing specialized service to the tax practitioner community
4. To *"Improve technology and efficiencies through the successful implementation of the Tax System Modernization (TSM) project during this period"*
  - a. Complete Rollout 5 of the TSM project
  - b. Re-engineer business processes
5. *"Actively address tax receivable balances"* by
  - a. Collaboration with the Attorney General's office
  - b. Utilization of third parties to improve collections
6. To *"Foster and empower staff"* by
  - a. Developing each employee to his/her full potential

**DAVID Y. IGE**  
GOVERNOR

**JOSH GREEN M.D.**  
LT. GOVERNOR



**ISAAC W. CHOY**  
DIRECTOR OF TAXATION

STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

December 10, 2020

The Honorable David Y. Ige  
Governor, State of Hawaii  
Executive Chambers, State Capitol

Dear Governor Ige:

Attached is our Annual Report for the Department of Taxation (the Department) for the period from July 1, 2019 to June 30, 2020 (FY 2020). The report provides an overview of the Department's operations in FY 2020.

State Tax collections declined in FY 2020 due to the economic impacts of the COVID-19 pandemic and income tax filing deadlines shifts. The State collected \$7.83 billion in tax revenue in FY 2020, a 5.4% decline from FY 2019. The largest tax type by revenue is the General Excise Tax (GET). In FY 2020, the State collected \$3.44 billion from this tax, a decline of \$105 million from the previous year. The decline in GET revenue was due to the economic impacts of COVID-19 that occurred beginning in March 2020 and the ensuing shutdowns. The second largest tax type, the Individual Income Tax (IIT), declined by 8.1% in FY 2020 relative to FY 2019. The revenue decline for this tax was mainly attributed to a collections shift that occurred due to a filing deadline delay (see next paragraph).

Revenue declines in FY 2020 are in part due to filing deadline shifts that resulted from government's response to COVID-19. The State of Hawaii followed the Federal Government in delaying the filing deadline for the 2019 tax year from April 20, 2020 to July 20, 2020. The delay shifted \$308.3 million of net income tax revenues (individual and corporate) from FY 2020 to FY 2021. Total tax collections for FY 2020 would have been \$8.13 billion if the \$308.3 million is added to FY 2020, which would represent a 1.7% annual decrease versus the 5.4% decline reported. IIT collections would have been \$2.64 billion if the shifted revenue were added to the FY 2020 collections, a 2.8% annual increase versus the 8.1% decline reported (see table).

**Impact of Filing Deadline Delay on FY 2020 Collections**  
**(\$ thousands)**

	FY 2020	FY 2019	% Change Actual	Collection Shift	FY 20 Adjusted	% Change Adjusted
<b>GET</b>	3,436,138	3,541,389	-3.0%		3,436,138	-3.0%
<b>Individual-Inc</b>	2,359,816	2,568,616	-8.1%	281,558	2,641,374	2.8%
<b>Corporate-Inc</b>	8,407	163,676	-94.9%	26,707	35,114	-78.5%
<b>TAT</b>	564,298	600,310	-6.0%		564,298	-6.0%
<b>All Other</b>	1,456,549	1,401,033	4.0%		1,456,549	4.0%
<b>Total Tax Coll.</b>	<b>7,825,208</b>	<b>8,275,024</b>	<b>-5.4%</b>	<b>308,265</b>	<b>8,133,473</b>	<b>-1.7%</b>

**Departmental Organization**

The Department of Taxation (DOTAX) is composed of three main divisions. The first is the Tax Services and Processing Division, which has the responsibility of helping taxpayers voluntarily pay \$7,051 million for all types of taxes, representing 94.7% of FY 2020 collections.

Our second division is the Compliance Division which has the responsibility of maintaining a high tax compliance rate through a mix of educational and enforcement efforts. The Compliance Division's efforts resulted in \$396 million of additional tax collections in FY 2020, representing 5.3% of all collections. As a note, the Compliance Division includes District Offices on our neighbor islands, Special Enforcement Section, and Criminal Investigation Division.

Our third division is the Tax Administration Division which is composed of the Director's Office, Rules Office, Tax Research and Planning Office, Administrative Services Office, and the Information Technology Services Office. Although these sections do not directly generate tax revenues, they are an integral part of the entire voluntary tax compliance system for the State of Hawaii.

The Department continues to operate in an efficient manner with total expenditures of \$26.7 million in FY 2020 (\$6.3 million from overhead and \$20.5 million from personnel). The Department's operations only required 36 cents for every \$100 that it collects.

**Operational Highlights**

September 2019 marked an important milestone for the Department: the completion of the fifth and final functional phase of work under the Tax System Modernization (TSM) project. The project began in July 2015. Since then, the DOTAX staff have worked to design, test, and deploy the technical configurations and learn the new systems, while maintaining operations. This project has impacted every aspect of the Department.

*Some of the highlights include:*

*Increased electronic filing and payments.* Mandatory e-filing requirements for corporate income, withholding, franchise, public service company, general excise and use for monthly filers, and transient accommodations for monthly filers accelerated the shift to online payments and filings.

*Electronic returns continue to contribute a larger percentage of the return base.* The Department processed 2.7 million tax returns in FY 2020, 920,578 (34%) paper and 1,799,757 (66%) electronic.

*The Department improved service to taxpayers and tax practitioners.* This is important for maintaining and improving voluntary compliance. The answer rate of incoming calls increased to 82% in FY 2020 from 75% in FY 2019, an important metric of the Department's response to taxpayer concerns.

*The Department increased the number of completed audits despite the operational impacts of COVID-19.* The Compliance Division completed 27,491 audit cases in FY 2020, an increase of 12.3% from FY 2019. This increase occurred despite the operational impacts of COVID-19. The Special Enforcement Section (SES) continued its efforts to pursue non-compliant taxpayers in special sectors of the economy. In FY 2020, SES's initiative to identify non-compliant taxpayers yielded \$10.9 million in impact revenue.

### ***Operational Impacts of COVID-19 and Forthcoming Challenges***

The Department has made tremendous efforts to adapt to the COVID-19 crisis, but challenges remain. Like many people in Hawaii, the Department has had to make difficult choices in the face of greater demands and fewer available resources. DOTAX closed its offices to the public and reduced the number of employees physically working in its offices out of public health concerns. As a result, the Compliance Division and the Taxpayer Service and Processing Division were forced to curtail operations and reduce public services. Safety precautions and new work arrangements created new costs, particularly related to IT purchases, that were difficult to absorb given the budgetary restrictions.

A statewide hiring freeze has left the Department in a precarious personnel situation that threatens revenue collections. Due to a mix of staff departures and the inability to hire replacements, 17% of the Department's permanent positions are vacant (see table). Personnel shortages in the Information Technology Services Office pose a particularly acute threat as the Department must deploy new IT capabilities in the face of the COVID-19 crisis while simultaneously overseeing the conclusion of the Tax System Management (TSM) project.

**Full Time Permanent Positions by Division**

Division	Filled Pos.	Vacant Pos.	Total	Vacant Pos./ Total
<b>Tax Services and Processing</b>	121	14	135	10%
<b>Compliance</b>	120	16	136	12%
<b>Tax Administration</b>	75	36	111	32%
<b>DOTAX-ALL</b>	<b>316</b>	<b>66</b>	<b>382</b>	<b>17%</b>

Staffing challenges are likely to worsen in the coming months with the expected 10% Reduction-In-Force and a wave of retirements. The staffing shortage, which will be aggravated by a Reduction-In-Force, poses the near-term threat of diminishing the operational capabilities of the Department, which would impair the State's ability to collect tax revenue when it is needed most. In the longer-term, institutional knowledge is threatened by the retirement of long-time staff. The Department is unable to hire new staff and facilitate the transmission of knowledge due to the state-wide hiring freeze. The anticipated Reduction-In-Force will likely accelerate the retirement cycle, creating the possibility that vital institutional knowledge will leave with retiring employees.

Performance of an understaffed revenue department could have a major effect on voluntary compliance and collections. There will be a loss in tax revenue for this fiscal year and subsequent fiscal years. These factors must be considered in the evaluation of the Department's performance in FY 2020 and in subsequent years.

Despite the challenges posed by the COVID-19, the Department continues to pursue its goals of increased voluntary compliance, improved processing, enhanced productivity, and improved customer service for all its stakeholders. We are proud and appreciative of all that our staff has risen to the challenges of FY 2020.

Sincerely,

/s/

Isaac W. Choy  
Director of Taxation

## DOTAX by the Numbers

	FY20	FY19	Change
<b>Total Taxes Collected (billions)</b>	\$7.83	\$8.28	(\$0.45)
<b>DOTAX (billions)</b>	\$7.45 (95% of total taxes)	\$7.87 (95% of total taxes)	(\$0.42)
<b>Other Departments (billions)</b>	\$0.38	\$0.40	(\$0.02)
<b>DOTAX Taxes Collected (\$)¹</b>			
<b>General Excise (billions)</b>	\$3.44	\$3.54	(\$0.10)
<b>Individual Income (billions)</b>	\$2.36	\$2.57	(\$0.21)
<b>Other (billions)</b>	\$1.65	\$1.76	(\$0.11)
<b>Open Taxpayers/Accounts</b>			
<b>Returns Processed (#)</b>	2,720,335	2,664,137	56,198
<b>Paper</b>	920,578 (34%)	1,048,814 (39%)	(128,236)
<b>Electronic</b>	1,799,757 (66%)	1,615,323 (61%)	184,434
<b>Taxpayers Served (#)</b>			
<b>Phone</b>	233,582	270,290	(36,708)
<b>Answer Rate</b>	82%	75%	10%
<b>Licenses Processed (#)</b>	41,796	41,232	564
<b>Audit</b>			
<b>Audits Issued (#)</b>	27,491	24,490	3,001
<b>Assessments (millions)</b>	\$148.9	\$132.6	\$16.2
<b>Recoveries (millions)</b>	\$76.1	\$33.2	\$42.9
<b>Collections</b>			
<b>Starting Delinquent Balance (millions)</b>	\$1,037.6	\$971.4	\$66.2
<b>New Debts (millions)</b>	\$269.1	\$270.1	\$1.0
<b>Recoveries (millions)</b>	\$220.2	\$191.3	\$28.9
<b>Uncollectible (millions)</b>	\$48.9	\$21.8	\$27.1
<b>Ending Delinquent Balance (millions)</b>	\$1,055.4	\$1,037.6	\$17.8
<b>Cases (#)</b>	68,269	63,992	4,277
<b>Operating Costs (millions)</b>	\$26.8 (\$0.36 per \$100 tax collected)	\$25.8 (\$0.33 per \$100 tax collected)	\$1.0
<b>Staffing</b>	382	373	9

¹ Source: STO. Includes tax, fees, penalties, interest.

## **FY 2020 in Review**

<b>July 19</b>	
<b>August 19</b>	Statewide Tax Workshops for Practitioners
<b>September 19</b>	Final Functional phase of TSM project went live Mandatory E-file (Fuel, Liquor, Tobacco)
<b>October 19</b>	Mandatory E-file (Rental Vehicle)
<b>November 19</b>	TSM Rollout 4 goes live
<b>December 19</b>	
<b>January 20</b>	Year-end changes go live Mandatory E-File (corporate income, withholding, franchise, public service company, general excise and use for monthly filers, and transient accommodations for monthly filers) Eliminated requirement for Reconciliation account and return
<b>February 20</b>	
<b>March 20</b>	Wage levy available on HTO Tax Announcement 2020-01: Relief for Taxpayers Affected by the COVID-19 Emergency
<b>April 20</b>	Governor's mandatory work from home order
<b>May 2020</b>	
<b>June 2020</b>	



## TABLE OF CONTENTS

### LETTER OF TRANSMITTAL TO THE GOVERNOR

<b>1.0 COLLECTION AND DISTRIBUTION OF TAXES .....</b>	<b>1</b>
1.1 OVERVIEW .....	1
1.2 GENERAL EXCISE AND USE TAXES.....	4
1.3 INDIVIDUAL INCOME TAX.....	7
1.4 CORPORATE INCOME TAX.....	10
1.5 TRANSIENT ACCOMMODATIONS TAX .....	12
1.6 FUEL TAX AND ENVIROMENTAL RESPONSE TAX.....	15
1.7 MOTOR VEHICLE AND RENTAL VEHICLE TAXES AND FEES .....	21
1.8 CIGARETTE AND TOBACCO TAX .....	22
1.9 PUBLIC SERVICE COMPANY TAX .....	24
1.10 UNEMPLOYMENT INSURANCE TAX.....	25
1.11 INSURANCE PREMIUM TAX.....	26
1.12 LIQUOR TAX .....	27
1.13 CONVEYANCE TAX.....	28
1.14 TAX ON BANKS AND OTHER FINANCIAL CORPORATIONS.....	30
1.15 ESTATE AND TRANSFER TAX .....	31
1.16 COUNTY SURCHARGE TAX .....	32
1.17 TOTAL TAX COLLECTIONS.....	34
1.18 DISTRIBUTION OF TAXES .....	35
1.19 TRENDS IN TAX COLLECTIONS .....	38
<b>2.0 TAX ADMINISTRATION.....</b>	<b>40</b>
2.1 OVERALL PERFORMANCE .....	40
2.2 TAX SERVICES AND PROCESSING DIVISION .....	41
2.3 COMPLIANCE DIVISION .....	42
2.4 STAFF OFFICES .....	56
2.5 MANAGEMENT PERSONNEL .....	62
2.6 ORGANIZATION CHART .....	63
2.7 DISTRICT OFFICES .....	64
<b>3.0 APPEALS AND LITIGATION.....</b>	<b>66</b>
3.1 ADMINISTRATIVE APPEALS OFFICE .....	66
3.2 BOARDS OF TAXATION REVIEW .....	66
3.3 CIVIL DECISIONS, SETTLEMENTS AND OTHER LEGAL MATTERS .....	67
<b>4.0 ADMINISTRATIVELY ATTACHED ENTITIES .....</b>	<b>78</b>
COUNCIL ON REVENUES .....	78
BOARDS OF TAXATION REVIEW .....	78

## 1.0 COLLECTION AND DISTRIBUTION OF TAXES

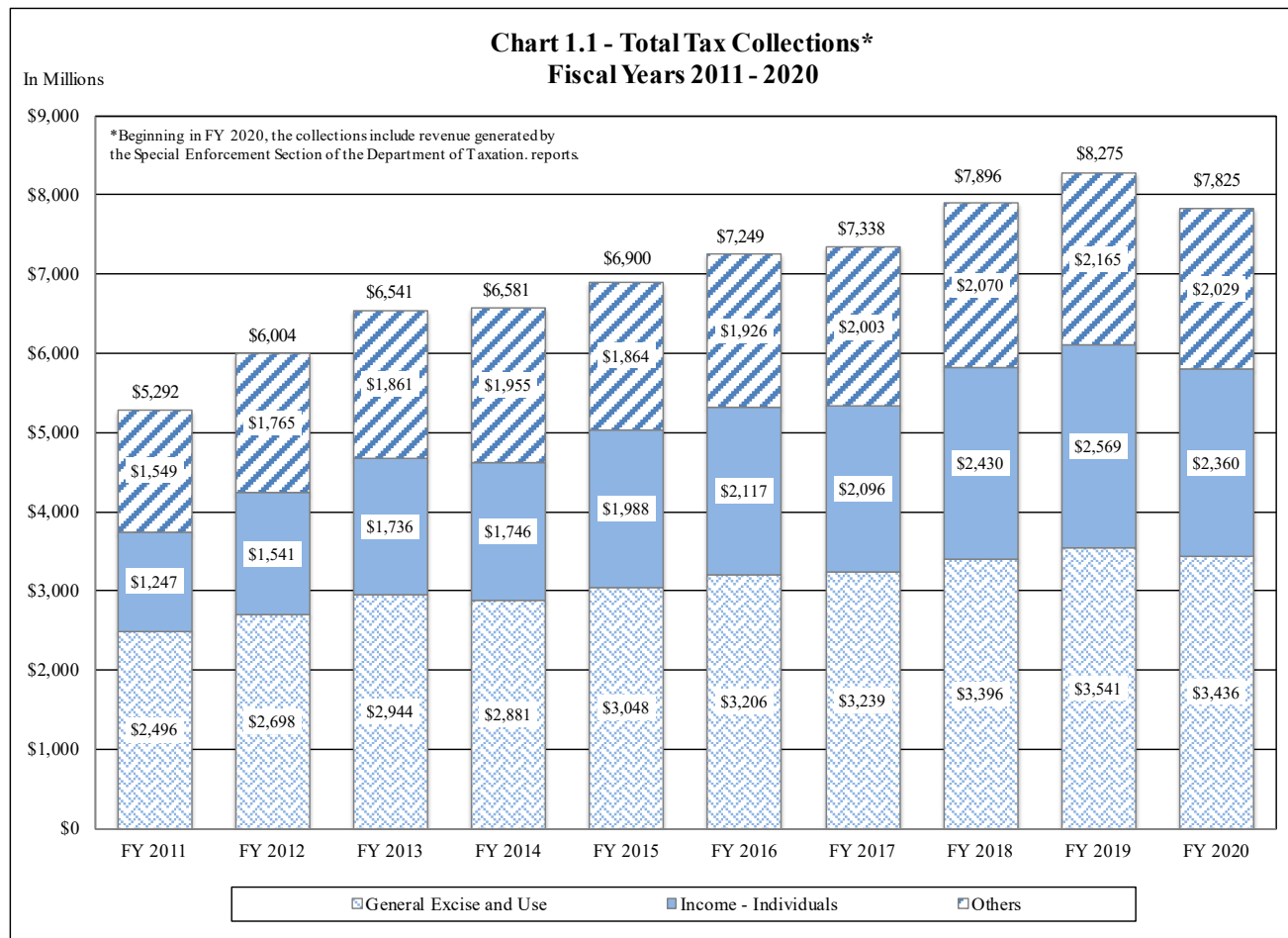
### 1.1 OVERVIEW

**The Department of Taxation (Department) is responsible for the revenue collection of most taxes levied by the State.** In addition, the Department collects the fuel taxes imposed by the counties, and the county surcharges imposed by the City and County of Honolulu, the County of Hawaii, and the County of Kauai. In fiscal year (FY) 2020, the Department collected a total of \$7.45 billion in net tax revenues, down from \$7.87 billion collected in FY 2019.

The Department's Office of Tax Research and Planning (TRP) tracks revenues from taxes collected by the Department as well as other taxes that are administered by other state and local agencies. Henceforth, revenues from the taxes tracked by TRP will be referred to as "total tax collections."

**Total tax collections declined in FY 2020 due to the economic impacts of the COVID-19 pandemic and shift in filing deadlines.** Total tax collections were \$7.83 billion in FY 2020, down from \$8.28 billion in FY 2019. Tax collections increased steadily from FY 2011 until FY 2019 due to an improving economy, better tax administration, and new tax measures. In the second half of FY 2020, Hawaii's economy suffered from the effects of the COVID-19 pandemic and total tax collections declined 5.4% from FY 2019. Chart 1.1 shows the main components of the total tax collections for FY 2011 through FY 2020.

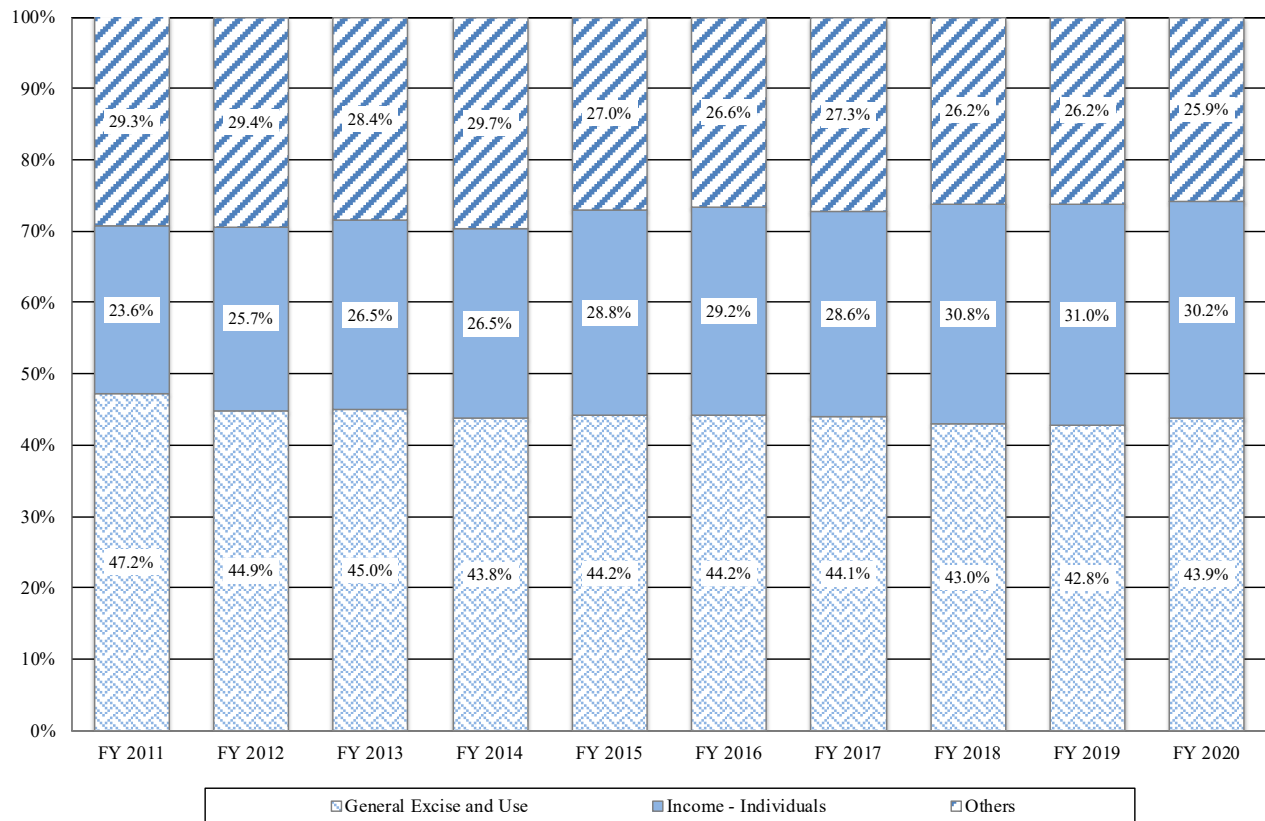
**Shifts in filing deadlines overstate the decline in tax revenues in FY 2020.** In response to the COVID-19 pandemic, the State of Hawaii followed the Federal Government in delaying the filing deadline for the 2019 tax year from April 20, 2020 to July 20, 2020. The delay shifted \$308.3 million worth of income tax revenues (individual and corporate) that would normally have been reported in FY 2020 to FY 2021. If adjusted to include the \$308.3 million in deferred tax payments, total tax collections for FY 2020 would have been \$8.13 billion, an 1.7% decrease from FY 2019 versus the 5.4% decline reported.



**The relative composition of the State's revenue system followed trends seen in previous years.** The State's biggest sources of tax revenue are the general excise tax (GET)<sup>2</sup> and the individual income tax (IIT). In FY 2020, net GET collections amounted to \$3.44 billion and accounted for 43.9% of total tax collections, and net collections of the IIT amounted to \$2.36 billion and accounted for 30.2% of total tax collections. Chart 1.2 shows the shares of total tax collections accounted for by the GET and the IIT for FY 2011 through FY 2020.

<sup>2</sup> Throughout this report, the term "GET" will be used to include collections from both the general excise tax and the use tax. The use tax complements the general excise tax and is levied on imports into the State from an unlicensed seller.

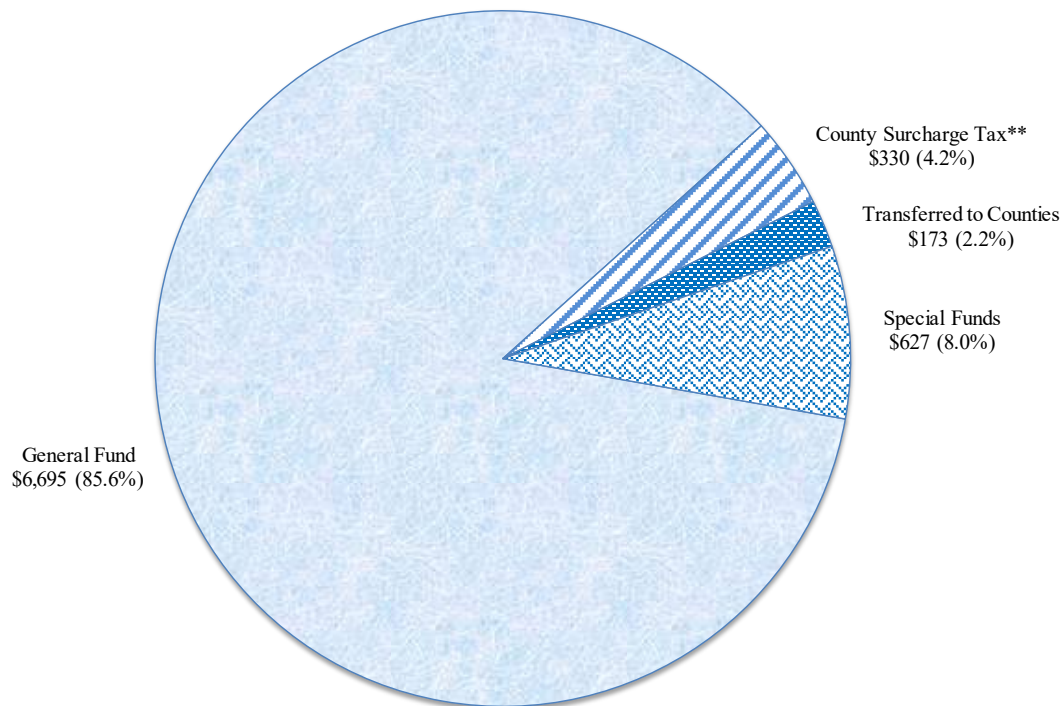
**Chart 1.2 - Tax Revenue Composition\***  
**Fiscal Years 2011 - 2020**



\*Details may not add to totals due to rounding.

**Of the total tax collections in FY 2020, \$6.69 billion, or 85.6%, was deposited into the State's General Fund.** The tax revenues deposited into the General Fund are used to pay most of the State's operating expenses. An additional \$503.3 million, or 6.4% of the total tax collections, was transferred to the counties, including transfers of the fuel taxes imposed by the counties, county surcharges imposed by the City and County of Honolulu, the County of Hawaii and the County of Kauai, and revenues from the transient accommodations tax that were allocated to the counties. The remaining \$627.1 million, or 8.0%, was transferred to various other State special funds. Chart 1.3 shows how the total tax collections were distributed in FY 2020.

**Chart 1.3 - Fiscal Year 2020 Distribution of Tax Revenues\***  
(In millions of dollars)



\*Details may not add to totals due to rounding.

\*\*Includes amounts allocated as of June 30, 2020 from the general excise tax surcharges imposed by the City and County of Honolulu, by the County of Hawaii, and by the County of Kauai.

## 1.2 GENERAL EXCISE AND USE TAXES

### 1.2.1 Overview

**The GET produces more revenues than any other tax type.** Unlike the sales taxes imposed by many states and localities, Hawaii's GET is imposed on the business rather than on the customer. The GET covers virtually all forms of business activity: It is imposed at the rate of 0.50% on wholesaling, wholesale services, producing and manufacturing; at the rate of 0.15% on insurance commissions received by general agents, subagents and solicitors; and at the rate of 4.00% on most other activities, including retailing, business and professional services, contracting, theatre, amusement, radio, interest, commissions, and rentals. The fee for a GET license is a one-time charge of \$20. Despite the relatively low tax rates, the GET generates substantial revenue because the tax base is very broad.

## 1.2.2 Revenue

Revenue from the GET decreased from \$3.54 billion in FY 2019 to \$3.44 billion in FY 2020, a drop of 3.0%, due to the economic impacts of COVID-19. Chart 1.4 shows the total revenues from the GET and from the tax levied on the various categories of income for FY 2011 through FY 2020. Table 1.1 shows collection of the GET in greater detail for FY 2019 and FY 2020.

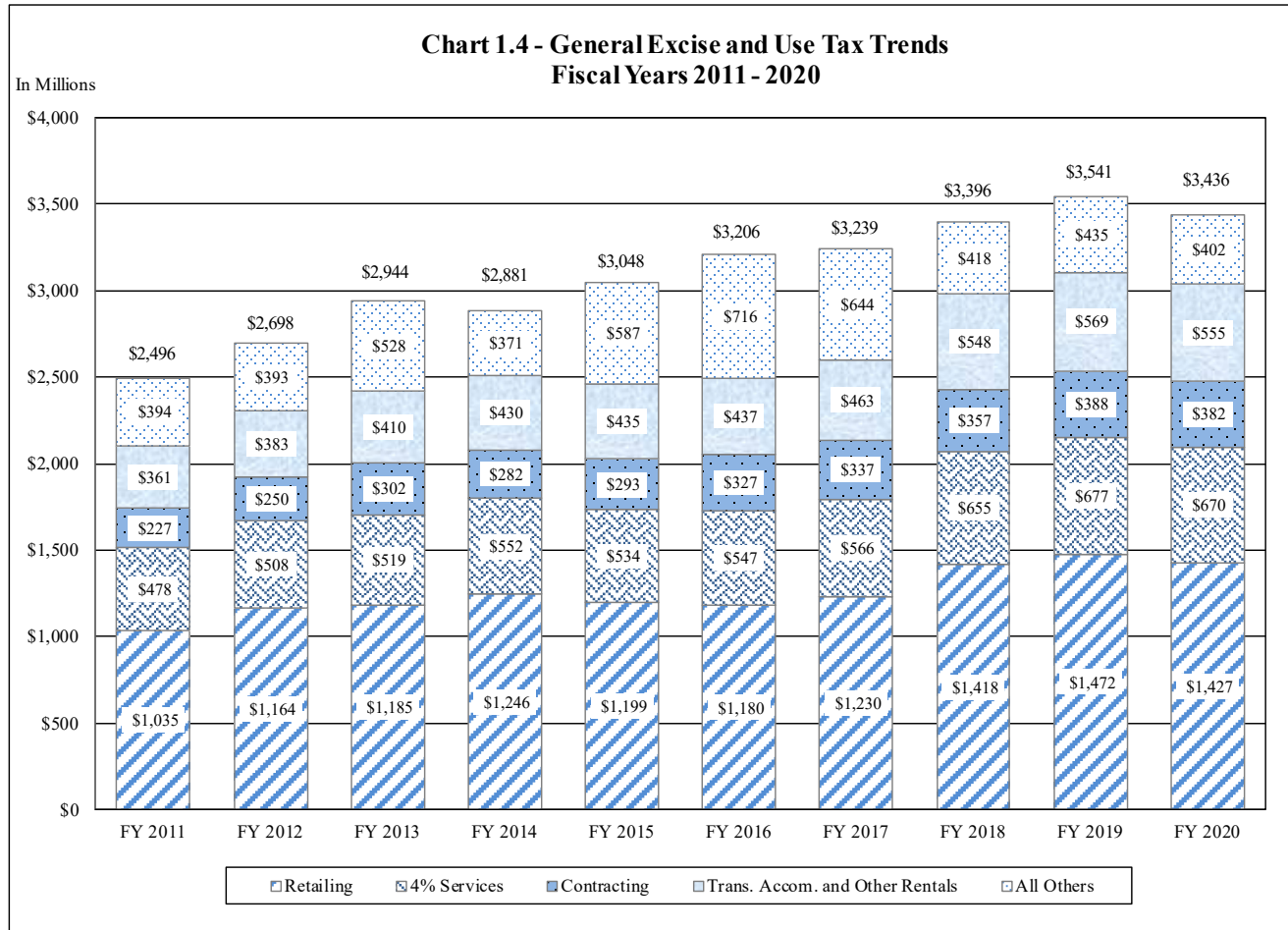


TABLE 1.1 - GENERAL EXCISE AND USE TAX BASE AND TAXES  
FOR FISCAL YEARS ENDING JUNE 30, 2020 AND 2019  
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	FY 2020 <sup>2</sup>	FY 2019	Difference	
				Amount	% Change
<u>TAX BASE</u>					
Retailing		\$ 35,679,505	\$ 36,800,989	\$ (1,121,484)	(3.0)
Services		16,750,247	16,927,042	(176,795)	(1.0)
Contracting		9,541,026	9,706,222	(165,196)	(1.7)
Trans. Accom. Rentals		5,214,531	5,669,106	(454,575)	(8.0)
All Other Rentals		8,667,122	8,564,302	102,820	1.2
All Others (4%)		5,892,817	6,542,739	(649,922)	(9.9)
Subtotal		\$ 81,745,248	\$ 84,210,401	\$ (2,465,153)	(2.9)
Producing		\$ 302,786	\$ 295,937	\$ 6,849	2.3
Manufacturing		561,377	596,190	(34,814)	(5.8)
Wholesaling		17,417,525	18,061,507	(643,982)	(3.6)
Use (1/2%)		6,885,687	7,279,558	(393,871)	(5.4)
Services (Wholesale)		1,006,563	1,005,178	1,385	0.1
Insurance Solicitors		702,176	753,946	(51,770)	(6.9)
Subtotal		\$ 26,876,114	\$ 27,992,317	\$ (1,116,203)	(4.0)
TOTAL - ALL ACTIVITIES		<u>\$ 108,621,361</u>	<u>\$ 112,202,717</u>	<u>\$ (3,581,356)</u>	<u>(3.2)</u>
<u>TAX</u>					
Retailing	4.00%	\$ 1,427,180	\$ 1,472,040	\$ (44,859)	(3.0)
Services	4.00%	670,010	677,082	(7,072)	(1.0)
Contracting	4.00%	381,641	388,249	(6,608)	(1.7)
Trans. Accom. Rentals	4.00%	208,581	226,764	(18,183)	(8.0)
All Other Rentals	4.00%	346,685	342,572	4,113	1.2
All Others (4%)	4.00%	235,713	261,710	(25,997)	(9.9)
Subtotal		\$ 3,269,810	\$ 3,368,416	\$ (98,606)	(2.9)
Producing	0.50%	\$ 1,514	\$ 1,480	\$ 34	2.3
Manufacturing	0.50%	2,807	2,981	(174)	(5.8)
Wholesaling	0.50%	87,088	90,308	(3,220)	(3.6)
Use (1/2%)	0.50%	34,428	36,398	(1,969)	(5.4)
Services (Wholesale)	0.50%	5,033	5,026	7	0.1
Insurance Solicitors	0.15%	1,053	1,131	(78)	(6.9)
Subtotal		\$ 131,923	\$ 137,323	\$ (5,400)	(3.9)
Unallocated <sup>1</sup>		<u>\$ 34,405</u>	<u>\$ 35,650</u>	<u>\$ (1,245)</u>	<u>(3.5)</u>
TOTAL - ALL ACTIVITIES		\$ 3,436,138	\$ 3,541,389	\$ (105,251)	(3.0)

<sup>1</sup> Includes collections from penalty and interest, assessments and corrections, delinquent collections, refunds, protested payments, settlements and business activities of disabled persons.

<sup>2</sup> Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

NOTE: Details may not add to totals due to rounding.

### ***1.2.3 Recent Legislation***

Act 2, SLH 2019, defines "marketplace facilitator" to be any person who sells or assists in the sale of tangible personal property, intangible personal property, or services on behalf of another by providing a forum for the listing or advertisement of the item and by collecting payment from the purchaser either directly or indirectly. The Act deems marketplace facilitators to be the sellers of tangible personal property, intangible personal property, and services sold through the marketplace. The Act also deems sales of tangible personal property and of services by sellers to a marketplace facilitator to be sales at wholesale. The Act took effect January 1, 2020.

## **1.3 INDIVIDUAL INCOME TAX**

### ***1.3.1 Overview***

Hawaii's individual income tax (IIT) generally follows the federal definitions for determining net taxable income, but has its own exemptions, tax credits, and tax rates. For taxable years beginning after December 31, 2017, the IIT has twelve tax brackets, with rates ranging from 1.40% to 11.00%.

### ***1.3.2 Revenue***

**The IIT is the State's second largest source of tax revenue, and collections declined due to delays in the filing deadline.** Net IIT collections in FY 2020 were \$2.36 billion, down by 8.1% from the \$2.57 billion collected in FY 2019. The biggest part of IIT collections is taxes withheld on employee wages. In FY 2020, withholding tax collections were \$2.13 billion, an increase of 1.4% over the \$2.10 billion withheld in FY 2019. Total IIT refunds in FY 2020 were \$544.7 million, up from \$520.3 million in FY 2019. Chart 1.5 shows total collections of the IIT, along with wage withholding, payments with returns, estimated taxes, and refunds, for FY 2011 through FY 2020. Table 1.2 shows the figures for total collections of the IIT, broken down by its components, in FY 2019 and FY 2020.

**Delays in filing deadlines shifted IIT collections from FY 2020 to FY 2021, resulting in a decline in collections that would have otherwise been an increase in IIT collections.** Due to the COVID-19 pandemic, the Department extended tax year 2019's State income tax filing deadline from April 20, 2020 to July 20, 2020. The filing extension was automatic and extended the dates that taxpayers could file and pay taxes without incurring interest or penalties. The tax deadline extension shifted \$281.6 million worth of IIT collections from FY 2020 to FY 2021. If the IIT collections that resulted from the deadline extension were added back into FY 2020, IIT collections would have been \$2.64 billion, a 2.8% increase from FY 2019.

### ***1.3.3 Recent Legislation***

Act 69, SLH 2019, selectively conforms Hawaii income tax and estate tax laws to the Internal Revenue Code (IRC) as of December 31, 2018. For Hawaii's income tax, the Act is effective June 7, 2019, and applies to taxable years beginning after December 31, 2018.

Act 221, SLH 2019, establishes an economic nexus standard for Hawaii's income taxes. The Act



states that a person without physical presence is engaging in business in the State if the person has \$100,000 or more in income sourced to the State or has 200 or more transactions sourced to the State. The new nexus standard is similar to the economic nexus standard for the general excise tax established by Act 41, SLH 2018. The Act is effective July 2, 2019 and applies to taxable years beginning after December 31, 2019.

Act 267, SLH 2019, establishes a new, nonrefundable income tax credit for taxpayers who rehabilitate historic structures pursuant to a rehabilitation plan certified by the Department of Land and Natural Resources' State Historic Preservation Division. The credit is equal to 30% of the qualified expenses incurred as part of the certified rehabilitation plan. In addition, the credit is subject to an aggregate cap of \$1 million per year. The Act is effective July 1, 2019, applies to qualified rehabilitation expenditures incurred in taxable years beginning after December 31, 2019, and is repealed on December 31, 2024.

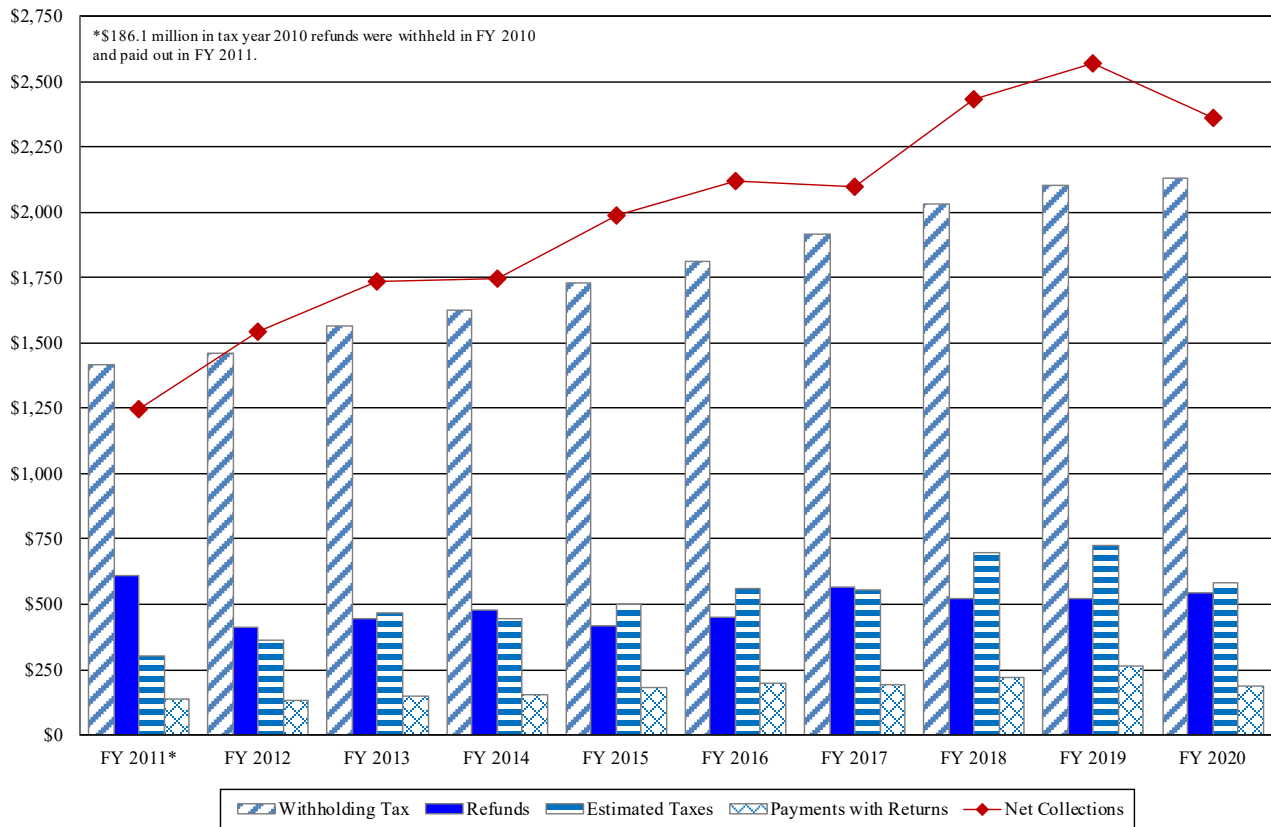
Act 232, SLH 2019, requires income tax withholding for nonresident taxpayers based on the taxpayer's distributive share of income attributable to the State as shown on the partnership's, estate's, and trust's return for the taxable period. The amount withheld is equal to the highest marginal tax rate applicable to a nonresident taxpayer multiplied by the amount of the taxpayer's distributive share of income attributable to the State. Withholding is not required for a publicly traded partnership, as defined by section 7704(b) of the IRC. A publicly traded partnership is required to file an annual information return of each unit holder with income sourced to Hawaii. The Act was to take effect July 2, 2019 and apply to taxable years beginning after December 31, 2018, but implementation of the Act has been delayed until further notice.

Act 13, SLH 2020, conforms Hawaii income and estate and generation-skipping transfer tax laws to the Internal Revenue Code of 1986, as amended as of March 27, 2020, with special provisions to conform to parts of federal Public Law 116-136, the Coronavirus Aid, Relief, and Economic Security Act, which took effect on March 27, 2020. Conforms Hawaii estate and generation-skipping transfer tax laws to the Internal Revenue Code of 1986, as amended as of December 31, 2019.

Act 61, SLH 2020, amends section 235-12.5, Hawaii Revised Statutes (HRS), which governs the Renewable Energy Technologies Income Tax Credit (RETITC). This measure repeals the RETITC for commercial projects with a total output capacity of 5 megawatts or greater for taxable years beginning after December 31, 2019 and provides grandfathering exceptions for commercial solar projects. This measure is effective upon approval and applies to taxable years beginning after December 31, 2019.

**Chart 1.5 - Components of the Individual Income Tax  
Fiscal Years 2011 - 2020**

In Millions



**TABLE 1.2 - TAXES PAID BY INDIVIDUALS  
(In Thousands of Dollars)**

	FY 2020 <sup>1</sup>	FY 2019	Difference	
			Amount	% Change
Declaration of Estimated Taxes	\$ 584,539	\$ 724,325	\$(139,786)	(19.3)
Payment with Return	188,780	262,322	(73,542)	(28.0)
Withholding Tax on Wages	2,131,242	2,102,253	28,989	1.4
Subtotal	\$2,904,561	\$3,088,900	\$(184,339)	(6.0)
Refunds	544,745	520,284	24,461	4.7
NET	\$2,359,816	\$2,568,616	\$(208,800)	(8.1)

<sup>1</sup> Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

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

## 1.4 CORPORATE INCOME TAX

### 1.4.1 Overview

**Corporate Income Tax (CIT) collections are highly cyclical, and they are a small part of Hawaii's total tax collections.** Hawaii's CIT has three tax brackets. The brackets and the corresponding tax rates are as follows: 4.4% on taxable income up to \$25,000; 5.4% on taxable income over \$25,000 but not over \$100,000; and 6.4% on taxable income over \$100,000. The tax rate for corporate capital gains is 4.0%.

### 1.4.2 Revenue

**Net CIT collections declined due to a large increase in refunds and revenue shifts due to the delay in filing deadlines.** Net CIT collections totaled \$8.4 million in FY 2020, a decrease of 94.9% from the previous year's total of \$163.7 million. The steep decline in CIT collections was due to large increase in Corporate refunds, increasing to \$176.4 million in FY 2020 from \$94.3 million in FY 2019. In FY 2020, the CIT accounted for just 0.1% of total tax collections. Chart 1.6 shows total collections of the CIT, broken down by its components, for FY 2011 through FY 2020. Table 1.3 shows data on collections of the CIT for FY 2019 and FY 2020.

**The delay in filing deadline resulted in a decrease in FY 2020 collections for CIT.** Due to the COVID-19 pandemic, the Department extended tax year 2019's income tax filing deadline from April 20, 2020 to July 20, 2020. The filing extension was automatic and extended the dates that taxpayers could file and pay taxes without incurring interest or penalties. The tax deadline extension shifted \$26.7 million worth of CIT collections from FY 2020 to FY 2021. If the CIT collections that resulted from the deadline extension were added back into FY 2020, CIT collections would have been \$35.1 million, a 78.5% decrease from FY 2019 versus the 94.9% reported.

### 1.4.3 Recent Legislation

Act 96, SLH 2019, changes the sales factor sourcing rules for sales of services and intangibles. Sales of tangible personal property are already sourced using market sourcing. In general, market sourcing means sales are sourced according to where the taxpayer's sales are located. Previously, sales of services and intangibles were sourced according to where the business activity was located. The Act took effect June 7, 2019 and applies to taxable years beginning after December 31, 2019.

Act 260, SLH 2019, establishes a new Ship Repair Industry Tax Credit which is intended to offset costs incurred in constructing and placing into service a purpose-built floating drydock at Pearl Harbor for use by the United States Navy, provided that no credit is allowed after December 31, 2026. The Act also repeals the Capital Infrastructure Tax Credit under section 235-17.5, HRS. The Act took effect on January 1, 2020 and applies to taxable years beginning after December 31, 2021.

Act 261, SLH 2019, amends the Tax Credit for Research Activities (TCRA) such that references to the base amount contained in section 41 of the IRC do not apply, and credit may be taken based upon all qualified research expenses incurred in Hawaii without regard to the amount of expenses for previous years. The Act provides that the Department of Business, Economic Development, and Tourism must certify all claims for the tax credit and establishes an annual aggregate cap of \$5 million. Taxpayers must still claim the federal research credit under IRC section 41 to claim the

TCRA. Act 261 extends the TCRA through December 31, 2024. The Act is effective for taxable years beginning after December 31, 2019.

Act 275, SLH 2019, amends the motion picture, digital media, and film production income tax credit (film credit) by increasing the film credit annual aggregate cap from \$35 million to \$50 million. The Act is effective July 10, 2019 and applies to taxable years beginning after December 31, 2018.

Act 13, SLH 2020, conforms Hawaii income and estate and generation-skipping transfer tax laws to the Internal Revenue Code of 1986, as amended as of March 27, 2020, with special provisions to conform to parts of federal Public Law 116-136, the Coronavirus Aid, Relief, and Economic Security Act, which took effect on March 27, 2020. Conforms Hawaii estate and generation-skipping transfer tax laws to the Internal Revenue Code of 1986, as amended as of December 31, 2019.

Act 61, SLH 2020, amends section 235-12.5, Hawaii Revised Statutes (HRS), which governs the Renewable Energy Technologies Income Tax Credit (RETITC). This measure repeals the RETITC for commercial projects with a total output capacity of 5 megawatts or greater for taxable years beginning after December 31, 2019 and provides grandfathering exceptions for commercial solar projects. This measure is effective upon approval and applies to taxable years beginning after December 31, 2019.

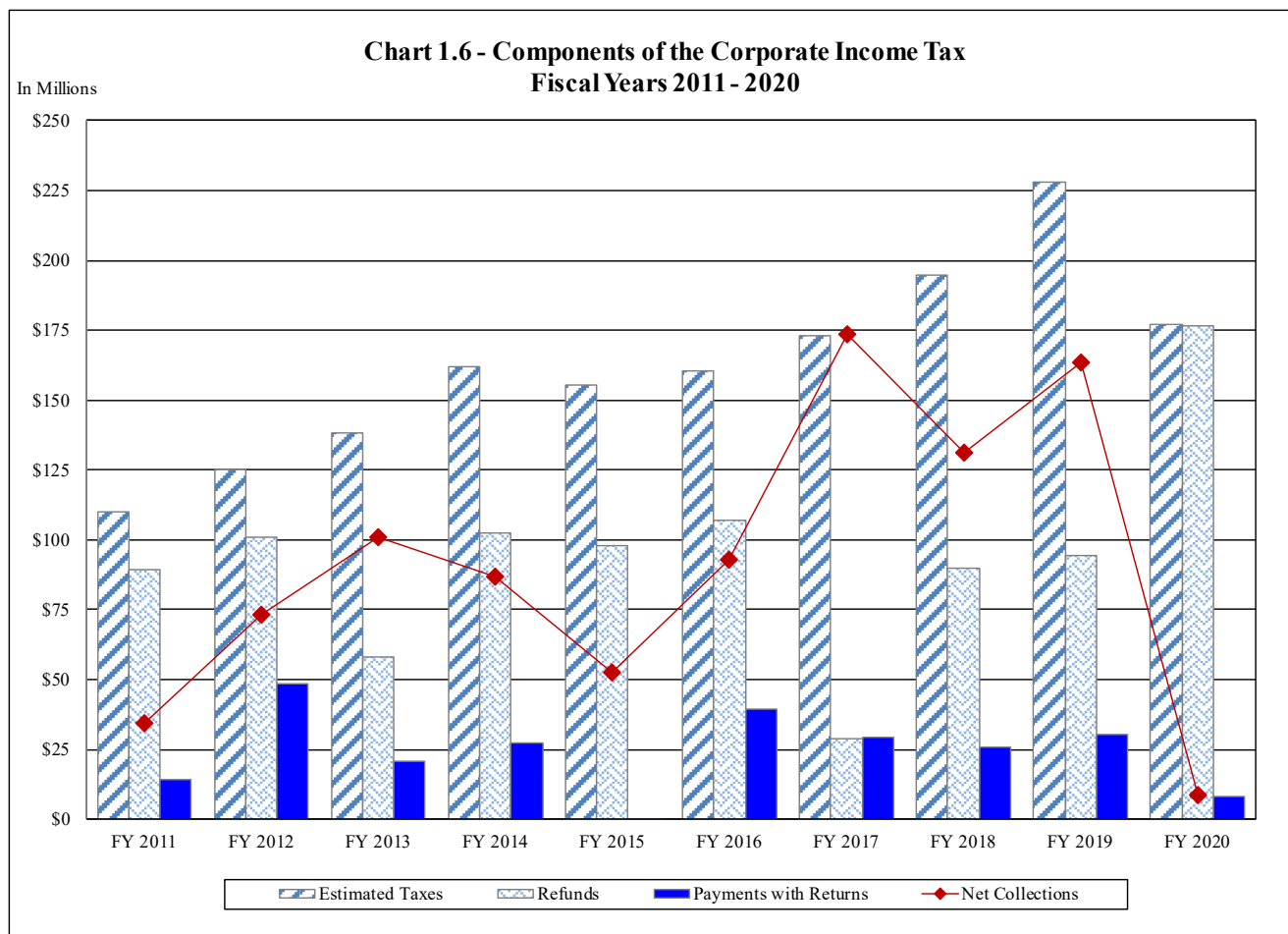


TABLE 1.3 - TAXES PAID BY CORPORATIONS  
(In Thousands of Dollars)

	FY 2020 <sup>1</sup>	FY 2019	Difference	
			Amount	% Change
Declaration of Estimated Taxes	\$ 176,946	\$ 227,904	\$ (50,958)	(22.4)
Payment with Return	7,892	30,091	(22,199)	(73.8)
Subtotal	\$ 184,838	\$ 257,995	\$ (73,157)	(28.4)
Refunds	176,431	94,319	82,111	87.1
NET	\$ 8,407	\$ 163,676	\$(155,269)	(94.9)

<sup>1</sup> Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

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

## 1.5 TRANSIENT ACCOMMODATIONS TAX

### 1.5.1 Overview

**The Transient Accommodation Tax is the third largest source of tax revenues in the state.** The transient accommodations tax (TAT) is 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. Starting January 1, 2018 through December 31, 2030, the TAT rate was increased from 9.25% to 10.25%. 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 each registration of 6 or more units.

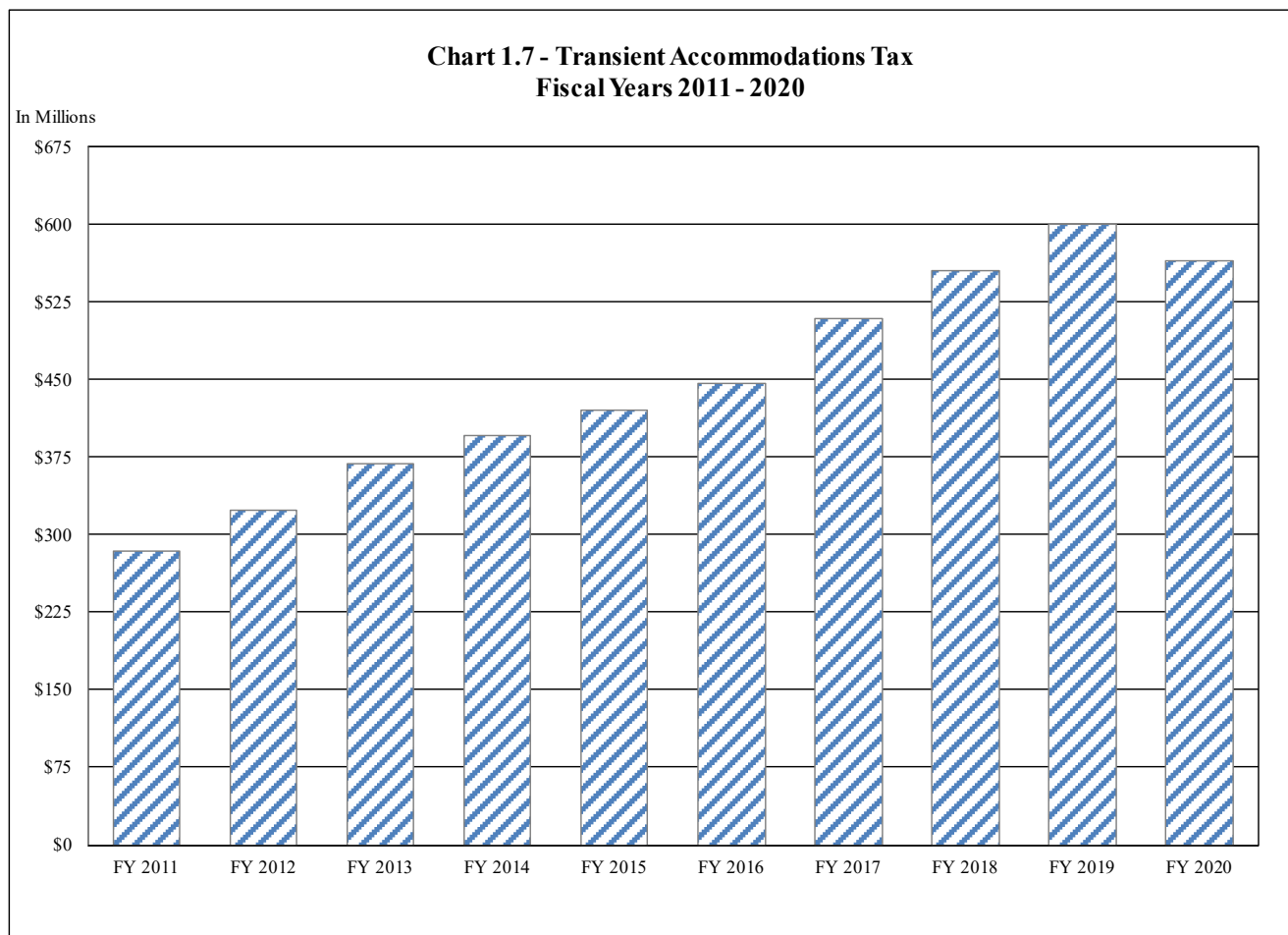
### 1.5.2 Revenue

**TAT collections fell in FY 2020 due to the shutdown of the State's tourism industry in response to the COVID-19 crisis.** TAT collections totaled \$564.3 million for FY 2020, a decrease of 6.0% from the \$600.3 million collected in FY 2019. In FY 2020, collections from the TAT were distributed as follows: \$85.8 million went to the counties; \$13.8 million went to the Convention Center Enterprise Special Fund; \$65.8 million went to the Tourism Special Fund; \$1.3 million went to the Turtle Bay Conservation Easement Special Fund; \$2.5 million went to the Special Land and Development Fund; \$53.9 million went to the Mass Transit Fund; \$3.7 million went to the Tax Administration Fund; and the remainder (\$337.6 million) went to the General Fund. Chart 1.7 shows collections of the TAT for FY 2011 through FY 2020. Chart 1.8 shows the allocations of the tax among the various funds. Table 1.4 shows TAT collections and allocations in FY 2019 and FY 2020.

**The Governor's Emergency Proclamation altered the distribution of TAT collections.** Governor Ige's Sixth Supplementary Proclamation related to COVID-19 suspended Section 237D-6.5(b), Hawaii Revised Statutes, for the months of May and June in 2020. The Section distributes part of the transient accommodations tax (TAT) to the counties and to various special funds. With the suspension, all of the TAT collections for May and June of 2020, with the exception of the special levy for Honolulu's rail project, went to the General Fund.

### 1.5.3 Recent Legislation

Act 20, SLH 2019, imposes the transient accommodations tax on resort fees and defines resort fees as "any mandatory charge or surcharge imposed by an operator, owner, or representative thereof to a transient for the use of the transient accommodation's property, services, or amenities." The Act is effective July 1, 2019.



**Chart 1.8 - Transient Accommodations Tax Distributions  
Fiscal Years 2011 - 2020**

In Millions

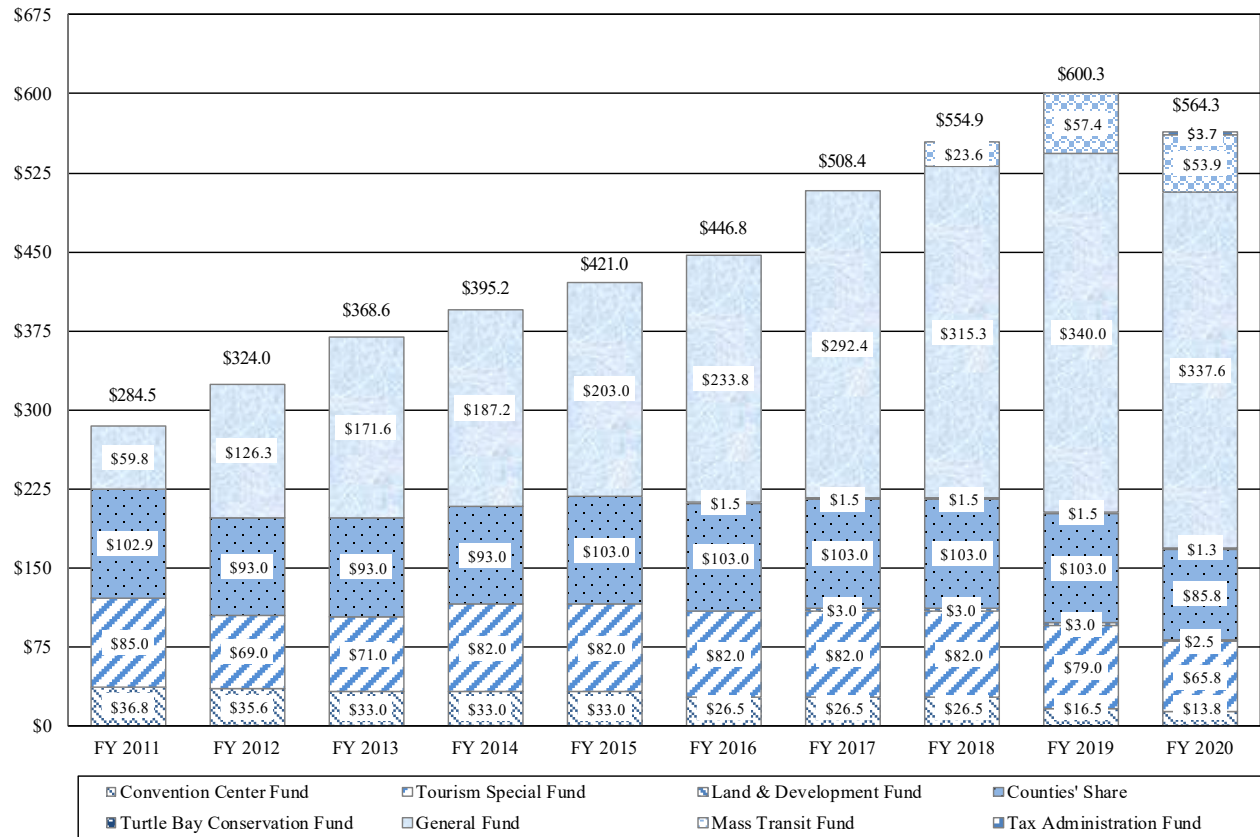


TABLE 1.4 - TRANSIENT ACCOMMODATIONS TAX  
(In Thousands of Dollars)

	FY 2020 <sup>2</sup>	FY 2019	Difference	
			Amount	% Change
Collection				
Trans. Accom./Time Share Occ. Tax	\$ 564,298	\$ 600,310	\$ (36,011)	(6.0)
Trans. Accom./Time Share Occ. Fees	20	24	(4)	(17.9)
Total	\$ 564,318	\$ 600,334	\$ (36,016)	(6.0)
Distribution <sup>1</sup>				
Counties Share <sup>3</sup>	\$ 85,833	\$ 103,000	\$ (17,167)	(16.7)
Convention Center Fund <sup>3</sup>	13,750	16,500	(2,750)	(16.7)
Tourism Special Fund <sup>3</sup>	65,833	79,000	(13,167)	(16.7)
Turtle Bay Special Fund <sup>3</sup>	1,250	1,500	(250)	(16.7)
Land & Development Fund <sup>3</sup>	2,500	3,000	(500)	(16.7)
Mass Transit Fund	53,857	57,354	(3,497)	(6.1)
Tax Administration Fund	3,674	-	3,674	n/m
General Fund	337,620	339,980	(2,360)	(0.7)
Total	\$ 564,318	\$ 600,334	\$ (36,016)	(6.0)

<sup>1</sup> For details on distribution see section 237D-6.5, HRS.

<sup>2</sup> Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

<sup>3</sup> Governor Ige's Sixth Supplementary Proclamation suspended Section 237D-6.5(b), Hawaii Revised Statutes, for the months of May and June in 2020. The Section distributes part of the transient accommodations tax (TAT) to the counties and to various special funds. With the suspension, all of the TAT collections for May and June in 2020, with the exception of the special levy for Honolulu's rail project, went to the general fund.

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

n/m = not meaningful.

## 1.6 FUEL TAXES

### 1.6.1 Overview

The State and county fuel taxes are imposed on the distributors. The State Legislature sets the State fuel tax rates, whereas county councils set the county rates. There is also an environmental response tax (officially renamed as the "environmental response, energy and food security tax" by Act 73, SLH 2010) that is levied on each barrel of petroleum products and each million British thermal units (MMBtu) of non-petroleum fossil fuels sold by a distributor to any retail dealer or end user. The effective rates for the fuel taxes and for the environmental response tax are shown on page 18.

### 1.6.2 Revenue

**Fuel tax collections fell in response to the decline of economic activity associated with the COVID-19 crisis.** Fuel tax collections amounted to \$169.2 million in FY 2020, a decrease of 5.2% from the \$178.4 million collected in FY 2019. Total taxable fuel consumption decreased from 953.3 million gallons in FY 2019 to 907.0 million gallons in FY 2020. The biggest consumption of taxable



fuel was gasoline (430.2 million gallons) and the second biggest consumption was aviation fuel (238.4 million gallons). Together, gasoline and aviation fuel accounted for 73.7% of the total consumption of taxable fuel in FY 2020.

**Collections of the environmental response tax amounted to \$26.1 million in FY 2020, a decrease of 6.6% from the \$28.0 million collected in FY 2019.** The environmental response tax rate on each barrel of petroleum product was \$1.05. The tax was levied on 23.8 million barrels of petroleum in FY 2020, down from 25.2 million barrels in FY 2019. The environmental response tax rate on each MMBtu of non-petroleum fossil fuels was nineteen cents. The tax was levied on 5.9 million MMBtu of non-petroleum fossil fuels in FY 2020, down from 8.0 million MMBtu in FY 2019. Chart 1.9 shows collections of the fuel taxes and the gallons consumed of the various fuel types, for FY 2011 through FY 2020. Data for taxable gallons consumed in FY 2019 and FY 2020 are given in Table 1.5.

The revenues from fuel taxes are distributed to several special funds. One percent of the fuel taxes paid on liquid fuel, not including aviation fuel, are deposited into the Boating Special Fund. Fuel taxes paid on sales of aviation fuel are deposited into the Airport Revenue Fund. Remaining revenues from the State fuel taxes are deposited into the State Highway Fund, whereas remaining revenues from county fuel taxes are deposited into the counties' highway funds.

Revenues from the environmental response tax were distributed as follows in FY 2020. For each barrel taxed at \$1.05: five cents went to the Environmental Response Revolving Fund administered by the Department of Health for oil spill prevention and remediation programs; five cents went to the Energy Security Special Fund administered by the Department of Business, Economic Development, and Tourism to support the Hawaii clean energy initiative program; fifteen cents went to the Agricultural Development and Food Security Special Fund administered by the Department of Agriculture to fund activities intended to increase agricultural production or processing that may lead to reduced importation of food, fodder, or feed from outside the state; ten cents went to the Energy Systems Development Special Fund; and the remainder (seventy cents) went to the General Fund. For each MMBtu taxed at nineteen cents, one cent went to the Environmental Response Revolving Fund, three cents went to the Energy Security Special Fund, three cents went to the Agricultural Development and Food Security Special Fund, two cents went to the Energy Systems Development Special Fund, and the remainder (ten cents) went to the General Fund.

Table 1.6 shows how the fuel taxes and the environmental response tax were allocated in FY 2019 and FY 2020. The table also shows allocations of motor vehicle taxes and fees, and rental motor vehicle taxes to the State Highway Fund.

### ***1.6.3 Recent Legislation***

Act 122, SLH 2019, reduces the allocations of the environmental response tax to the Energy Security Special Fund from fifteen cents to five cents. The Act is effective July 1, 2019.

SCHEDULE OF FUEL TAX RATES PER GALLON <sup>4</sup>  
(Effective July 1, 2020)

TYPE OF FUEL	STATE TAX	COUNTY TAX	TOTAL TAX
<b>GASOLINE AND DIESEL OIL (HIGHWAY):</b>			
City & County of Honolulu	16.0 ¢	16.5 ¢	32.5 ¢
County of Maui <sup>3</sup>	16.0	24.0	40.0
County of Hawaii	16.0	23.0	39.0
County of Kauai	16.0	17.0	33.0
<b>LIQUEFIED PETROLEUM GAS (HIGHWAY):</b>			
City & County of Honolulu	5.2 ¢	5.4 ¢	10.6 ¢
County of Maui	5.2	11.5	16.7
County of Hawaii	5.2	7.6	12.8
County of Kauai	5.2	5.6	10.8
<b>ETHANOL (HIGHWAY):</b>			
City & County of Honolulu	2.4 ¢	2.4 ¢	4.8 ¢
County of Maui	2.4	11.5	13.9
County of Hawaii	2.4	3.3	5.7
County of Kauai	2.4	2.5	4.9
<b>METHANOL (HIGHWAY):</b>			
City & County of Honolulu	1.9 ¢	1.8 ¢	3.7 ¢
County of Maui	1.9	11.5	13.4
County of Hawaii	1.9	2.5	4.4
County of Kauai	1.9	1.9	3.8
<b>BIODIESEL (HIGHWAY):</b>			
City & County of Honolulu	4.0 ¢	8.3 ¢	12.3 ¢
County of Maui	4.0	0.0	4.0
County of Hawaii	4.0	0.0	4.0
County of Kauai	4.0	0.0	4.0
NAPHTHA (Power-Generating Facility): All Counties	2.0 ¢	0.0 ¢	2.0 ¢
<b>COMPRESSED NATURAL GAS (HIGHWAY):</b>			
City & County of Honolulu	4.0 ¢	8.2 ¢	12.2 ¢
County of Maui <sup>3</sup>	4.0	11.9	15.9
County of Hawaii	4.0	11.4	15.4
County of Kauai	4.0	8.4	12.4
<b>LIQUEFIED NATURAL GAS (HIGHWAY):</b>			
City & County of Honolulu	4.0 ¢	8.2 ¢	12.2 ¢
County of Maui <sup>3</sup>	4.0	11.9	15.9
County of Hawaii	4.0	11.4	15.4
County of Kauai	4.0	8.4	12.4
<b>BIODIESEL BLEND (HIGHWAY):</b>			
County of Maui	3.9 ¢	6.0 ¢	9.9 ¢
<b>ENVIRONMENTAL RESPONSE, ENERGY, &amp; FOOD SECURITY TAX</b>			
All Counties, per barrel of petroleum products <sup>1</sup>	105.0 ¢	0.0 ¢	105.0 ¢
All Counties, per million BTU of fossil fuels <sup>2</sup>	19.0	0.0	19.0

<sup>1</sup> Does not include aviation fuel.

<sup>2</sup> Does not include petroleum products. BTU = British thermal unit.

<sup>3</sup> Effective July 1, 2020, pursuant to Maui County Resolution No. 20-82.

<sup>4</sup> Gasoline used for agricultural equipment off highways, aviation fuel, and diesel oil used off highways are taxed by the State at 1 cent per gallon.

**Chart 1.9 - Fuel Tax and Trends in Fuel Consumption  
Fiscal Years 2011 - 2020**

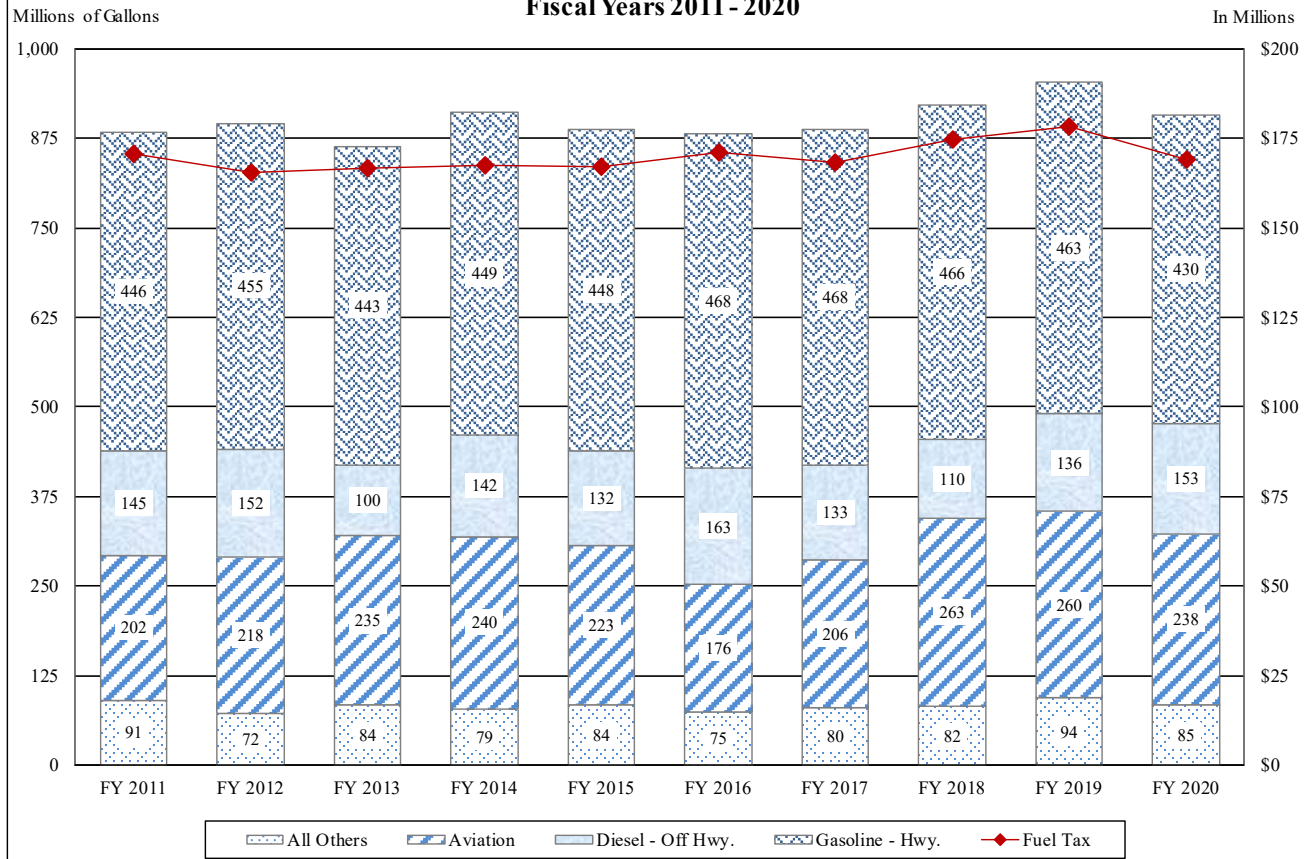


TABLE 1.5 - TAXABLE GALLONS OF FUEL CONSUMED  
(In Thousands of Gallons)

	FY 2020	FY 2019	Difference	
			Amount	% Change
Gasoline	430,203	463,318	(33,115)	(7.1)
Diesel Oil - Off Highway	153,461	135,732	17,728	13.1
Diesel Oil - Highway	43,596	48,029	(4,433)	(9.2)
Liq. Pet. Gas - Highway	11	7	4	62.5
Small Boats - Gasoline	1,352	1,547	(194)	(12.6)
Small Boats - Diesel Oil	3,366	3,103	263	8.5
Aviation Fuel	238,438	260,491	(22,053)	(8.5)
Other Fuel <sup>1</sup>	36,619	41,022	(4,403)	(10.7)
Total Gallons	907,047	953,250	(46,203)	(4.8)
Environmental Response Tax				
Petroleum Products (Barrel) <sup>2</sup>	23,787,386	25,177,846	(1,390,459)	(5.5)
Fossil Fuels (MMBtu) <sup>3</sup>	5,930,593	7,969,937	(2,039,345)	(25.6)

<sup>1</sup> Other fuel includes ethanol, methanol, biodiesel, naphtha, compressed natural gas, and liquefied natural gas.

<sup>2</sup> Barrel = 42 U.S. gallons of petroleum products.

<sup>3</sup> MMBtu = 1 million British thermal units.

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

TABLE 1.6 - ALLOCATION OF FUEL TAXES  
(In Thousands of Dollars)

	FY 2020 <sup>1</sup>	FY 2019 <sup>2</sup>	Difference	
			Amount	% Change
STATE HIGHWAY FUND				
Gasoline	\$ 68,296	\$ 73,551	\$ (5,255)	(7.1)
Diesel Oil - Off Highway	1,553	1,374	178	13.0
Diesel Oil - Highway	6,906	7,608	(702)	(9.2)
Liq. Pet. Gas - Highway	1	0 <sup>4</sup>	0 <sup>4</sup>	62.7
Other Fuel <sup>3</sup>	763	854	(91)	(10.7)
Subtotal	\$ 77,518	\$ 83,388	\$ (5,870)	(7.0)
Motor Vehicle	134,211	138,126	(3,915)	(2.8)
Rental Vehicle	72,501	57,991	14,509	25.0
TOTAL	\$ 284,229	\$ 279,505	\$ 4,724	1.7
COUNTY HIGHWAY FUNDS				
City and County of Honolulu	\$ 47,043	\$ 51,140	\$ (4,097)	(8.0)
County of Maui	15,207	16,430	(1,223)	(7.4)
County of Hawaii	20,108	17,343	2,765	15.9
County of Kauai	5,228	5,729	(502)	(8.8)
TOTAL	\$ 87,586	\$ 90,643	\$ (3,057)	(3.4)
BOATING SPECIAL FUND	\$ 1,668	\$ 1,758	\$ (90)	(5.1)
STATE AIRPORT FUND				
Aviation Fuel	\$ 2,384	\$ 2,605	\$ (221)	(8.5)
ENVIRONMENTAL RESPONSE REVOLVING FUND	\$ 1,249	\$ 1,339	\$ (90)	(6.7)
ENERGY SECURITY FUND	\$ 1,367	\$ 4,016	\$ (2,648)	(66.0)
ENERGY SYSTEMS DEVELOPMENT FUND	\$ 2,497	\$ 2,677	\$ (180)	(6.7)
AGRICULTURAL DEVELOPMENT AND FOOD SECURITY FUND	\$ 3,746	\$ 4,016	\$ (270)	(6.7)
GENERAL FUND	\$ 17,244	\$ 15,904	\$ 1,341	8.4

<sup>1</sup> Fuel tax collections were \$169,413 thousand for fiscal year 2020, of which \$258 thousand could not be distributed because the corresponding tax returns were not yet available.

<sup>2</sup> Includes amounts totaling \$183 thousand in undistributed fuel tax from previous years that were included in several monthly reports in fiscal year 2019. Fuel tax collections were \$178,211 thousand for fiscal year 2019.

<sup>3</sup> Other fuel includes ethanol, methanol, biodiesel, naphtha, compressed natural gas, and liquefied natural gas.

<sup>4</sup> Less than \$500.

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

## **1.7 MOTOR VEHICLE TAXES AND FEES**

### ***1.7.1 Overview***

**Motor vehicle taxes consist of vehicle registration tax, motor vehicle rentals, tour vehicles, and car-sharing services.** The State levies an annual registration fee per vehicle and a tax based on vehicle weight. The State also levies the rental motor vehicle, tour vehicle, and car-sharing vehicle surcharge tax (RVST). The tax on rentals of motor vehicles is imposed on the lessor. The rate of the tax was \$3.00 per day but will be increased to \$5.00 per day effective July 1, 2019. The tax on tour vehicles is imposed on the tour vehicle operator. The rate of the tax is \$65 per month for each tour vehicle in the 26-passenger seat and over category, and \$15 per month for each tour vehicle in the 8 to 25 passenger seat categories. The tax on motor vehicles that are rented or leased by a car-sharing organization is imposed on the car-sharing organization. The rate of the tax is 25 cents per half-hour. There is a one-time \$20 registration fee for those subject to any part of the RVST.

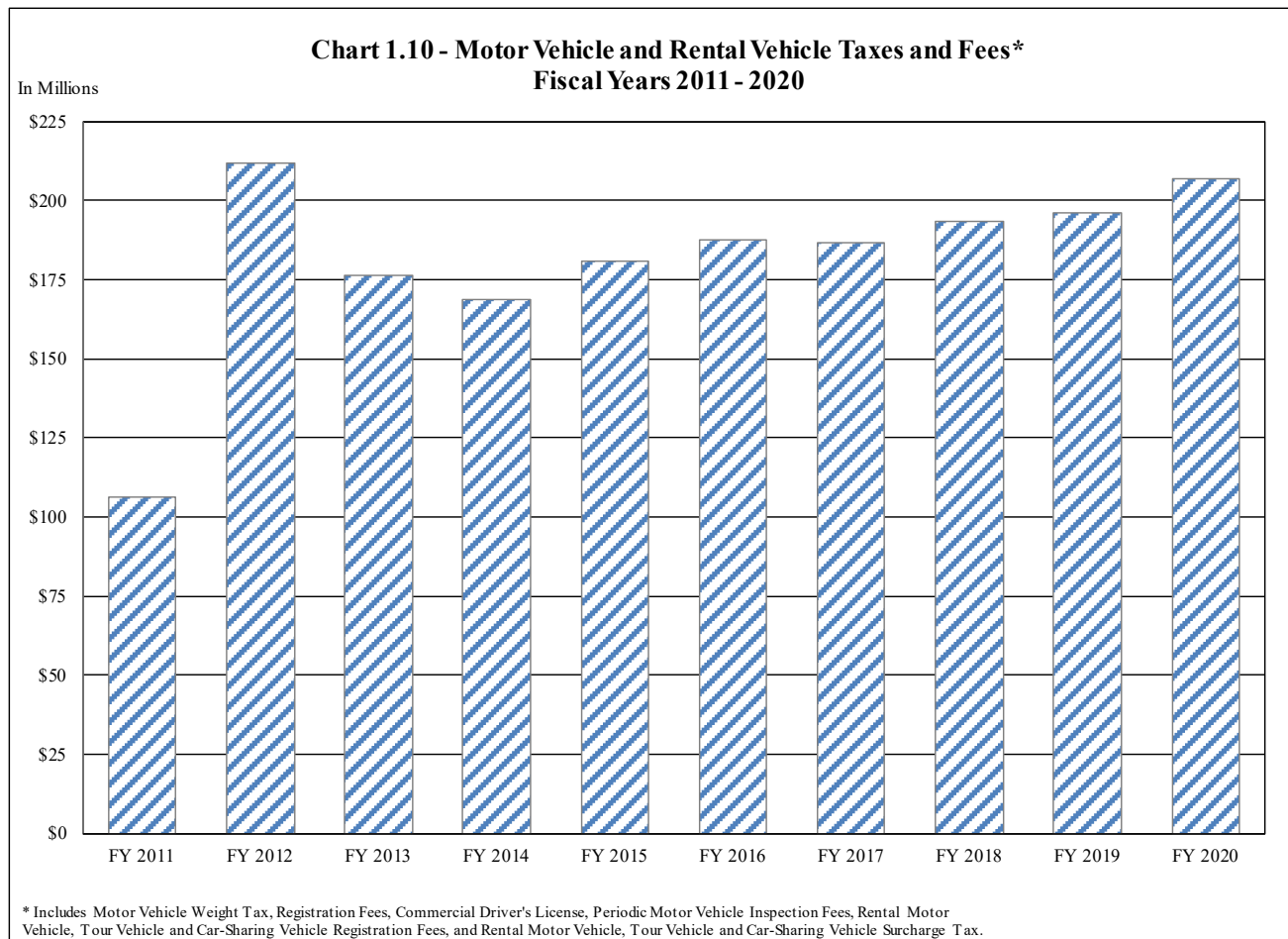
### ***1.7.2 Revenue***

**Revenues from the State's motor vehicle taxes were down in FY 2020.** The State's motor vehicle taxes and fees totaled \$134.2 million, down from \$138.1 million in FY 2019, a decrease of 2.8%. The State's RVST amounted to \$72.5 million in FY 2020, up from \$58.0 million in FY 2019, an increase of 25.0%. The increase in RVST collection was caused by the new tax rate of \$5.00 per day, which was effective on July 1, 2019.

The Chart 1.10 shows the total motor vehicle taxes and fees for FY 2011 through FY 2020. The large increase in FY 2012 was caused by a temporary increase in the rate of the RVST to \$7.50 per day, which was in place from July 1, 2011 to June 30, 2012. The collections for FY 2013 also reflect one month of collections at the higher tax rate, since the collections lag the liabilities incurred by one month.

### ***1.7.3 Recent Legislation***

Act 174, SLH 2019, repeals the \$2 per day rental motor vehicle surcharge on lessees without a valid Hawaii driver's license and increases the rate of the rental motor vehicle surcharge tax from \$3 per day to \$5 per day. The repeal of the \$2 per day surcharge was done, because the original law may have been unconstitutional under the dormant commerce clause of the United States Constitution. The Act also repeals the special allocations of the \$2 per day surcharge to the various counties and deposits the full \$5 per day into the highway fund. The Act is effective July 1, 2019.



## 1.8 CIGARETTE AND TOBACCO TAX

### 1.8.1. Overview

**A range of tobacco taxes are levied on wholesalers and retail merchants.** Wholesalers and dealers, as those terms are defined in section 245-1, Hawaii Revised Statutes (HRS), must pay an excise tax on the sale or use of tobacco products and on each cigarette or little cigar sold, used, or possessed. The tax per cigarette or little cigar was increased to 16 cents for sales on and after July 1, 2011. The excise tax on large cigars is 50% of the wholesale price and the excise tax on all other tobacco products (tobacco in any form except cigarettes, little cigars or large cigars) is 70% of the wholesale price. A \$2.50 tobacco tax license is required and must be renewed before July 1 each year. Cigarette wholesalers and dealers are required to affix a stamp to each individual cigarette package as proof that the tax has been paid. Every retailer engaged in the retail sale of cigarettes and other tobacco products is required to obtain a \$20 retail tobacco permit that must be renewed before December 1 each year.

### 1.8.2 Revenue

**Collections from the cigarette and tobacco tax remained relatively steady in FY 2020.** During FY 2020, collections of the cigarette and tobacco tax (including tobacco licenses) totaled \$112.0

million, down from \$112.5 million in FY 2019, or a decrease of 0.5%. Chart 1.11 shows the total collections of the tax for FY 2011 through FY 2020. The 16 cent tax per cigarette was distributed as follows in FY 2020: 2.000 cents went to the Hawaii Cancer Research Special Fund, 1.125 cents went to the Trauma System Special Fund, 1.250 cents went to the Community Health Centers Special Fund, and 1.250 cents went to the Emergency Medical Services Special Fund. Additionally, a total of \$1.8 million went to the Cigarette Stamp Administrative Fund and the Cigarette and Stamp Enforcement Fund. The remainder of the cigarette and tobacco tax went to the General Fund. Table 1.7 shows collections of the tobacco taxes and how the revenues were allocated in FY 2019 and FY 2020.

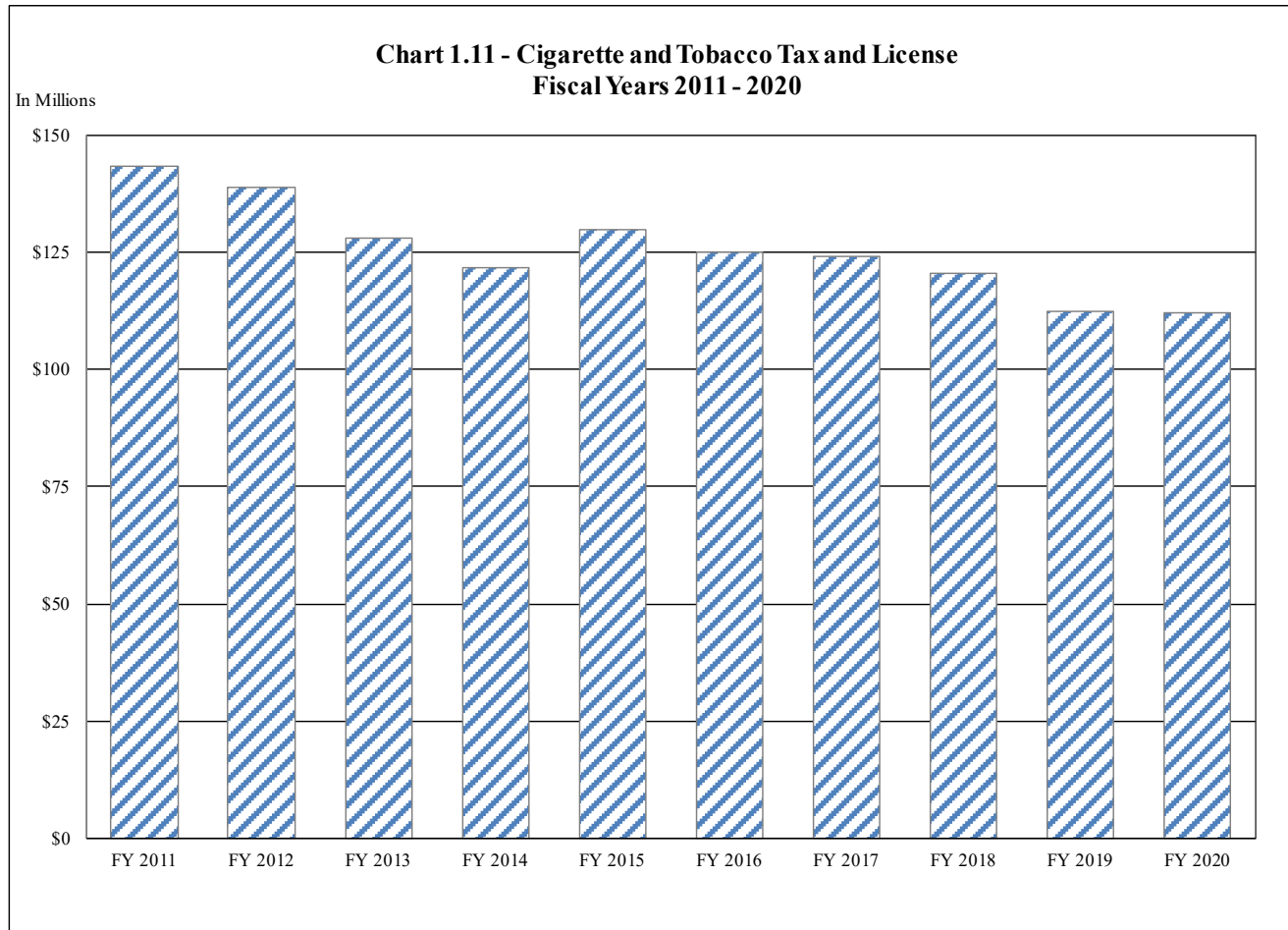




TABLE 1.7 - CIGARETTE AND TOBACCO TAX  
(In Thousands of Dollars)

	FY 2020 <sup>2</sup>	FY 2019	Difference	
			Amount	% Change
Collection				
Tobacco and Licenses	\$ 111,983	\$ 112,518	\$ (535)	(0.5)
Distribution <sup>1</sup>				
Hawaii Cancer Research Fund	\$ 12,591	\$ 12,993	\$ (402)	(3.1)
Trauma System Fund	7,082	6,989	93	1.3
Emergency Medical Services Fund	7,869	8,122	(253)	(3.1)
Community Health Centers Fund	7,869	8,122	(253)	(3.1)
Cigarette Stamp Administrative and Enforcement Funds	1,712	1,766	(54)	(3.0)
Tax Administration Fund	0 <sup>3</sup>	-	0 <sup>3</sup>	n/m
General Fund	74,858	74,526	332	0.4
Total	\$ 111,983	\$ 112,518	\$ (535)	(0.5)

<sup>1</sup> Details on distributions of the revenues are given in section 245-15, HRS.

<sup>2</sup> Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

<sup>3</sup> Less than \$500.

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

n/m = not meaningful.

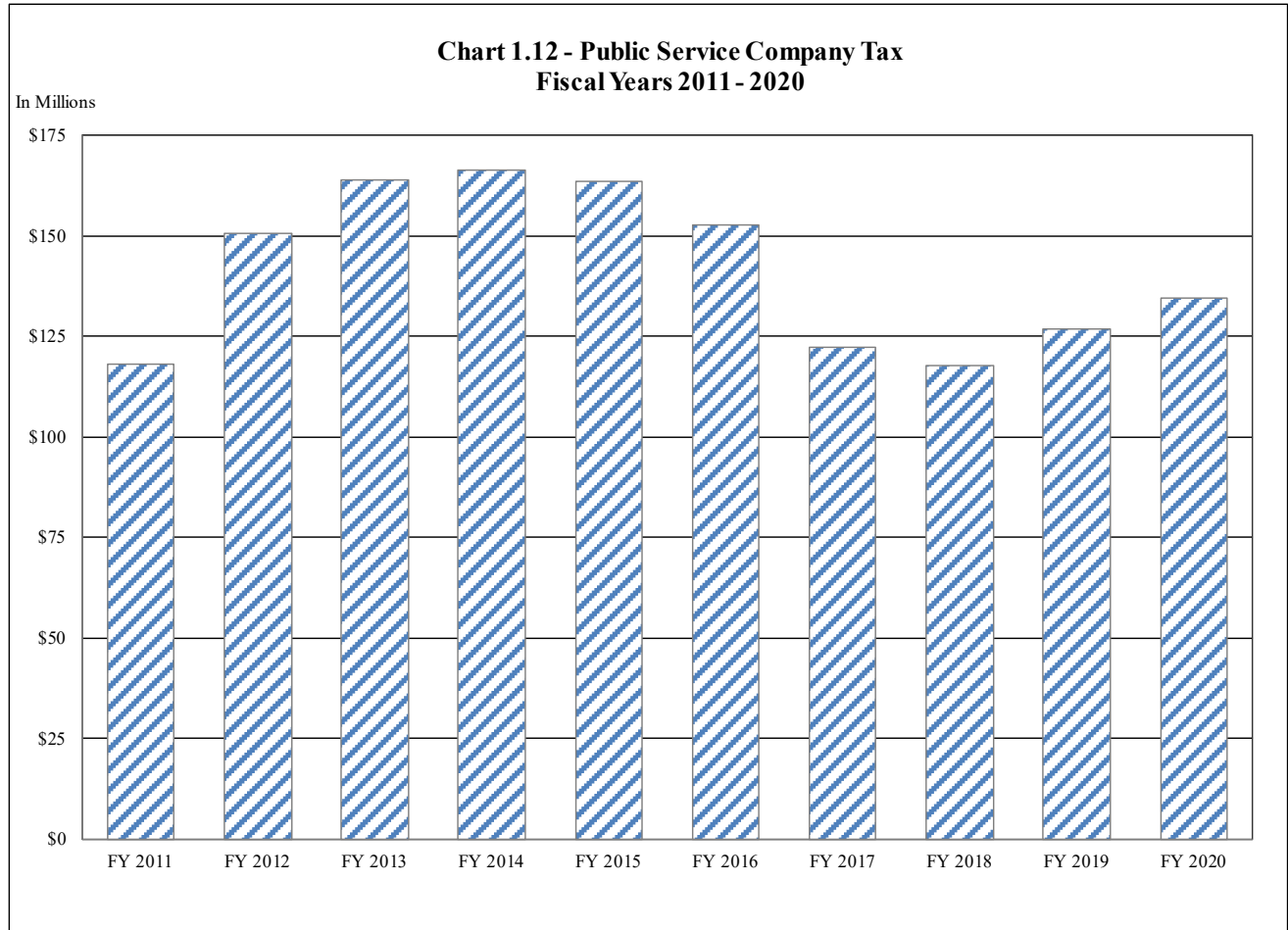
## 1.9 PUBLIC SERVICE COMPANY TAX

### 1.9.1 Overview

**The public service company (PSC) tax is levied on public utility businesses in lieu of all taxes** except income taxes, vehicular taxes imposed under chapter 249, HRS, the franchise tax on public utilities imposed under chapter 240, HRS, and the use tax imposed under chapter 238, HRS. Generally, the tax is applied to gross income from the business of public utilities for the preceding calendar year. The tax rates on the PSC's range from 0.50% (levied on sales for resale) to 8.20%. For a public utility, only the first 4.0% is realized by the State; any excess over 4.0% is distributed to counties that provide a real property tax exemption for property used by the public utility in its business. For a carrier of passengers by land between points on a scheduled route, the gross income from passenger fares is taxed at 5.35%, all of which is realized by the State.

### 1.9.2 Revenue

**PSC collections increased in FY 2020.** The PSC tax yielded \$134.6 million in tax, penalty, and interest in FY 2020, an increase of 6.3% from the \$126.7 million collected in FY 2019. All the revenues from the PSC tax are allocated to the General Fund. Chart 1.12 shows the total collections of the tax for FY 2011 through FY 2020.



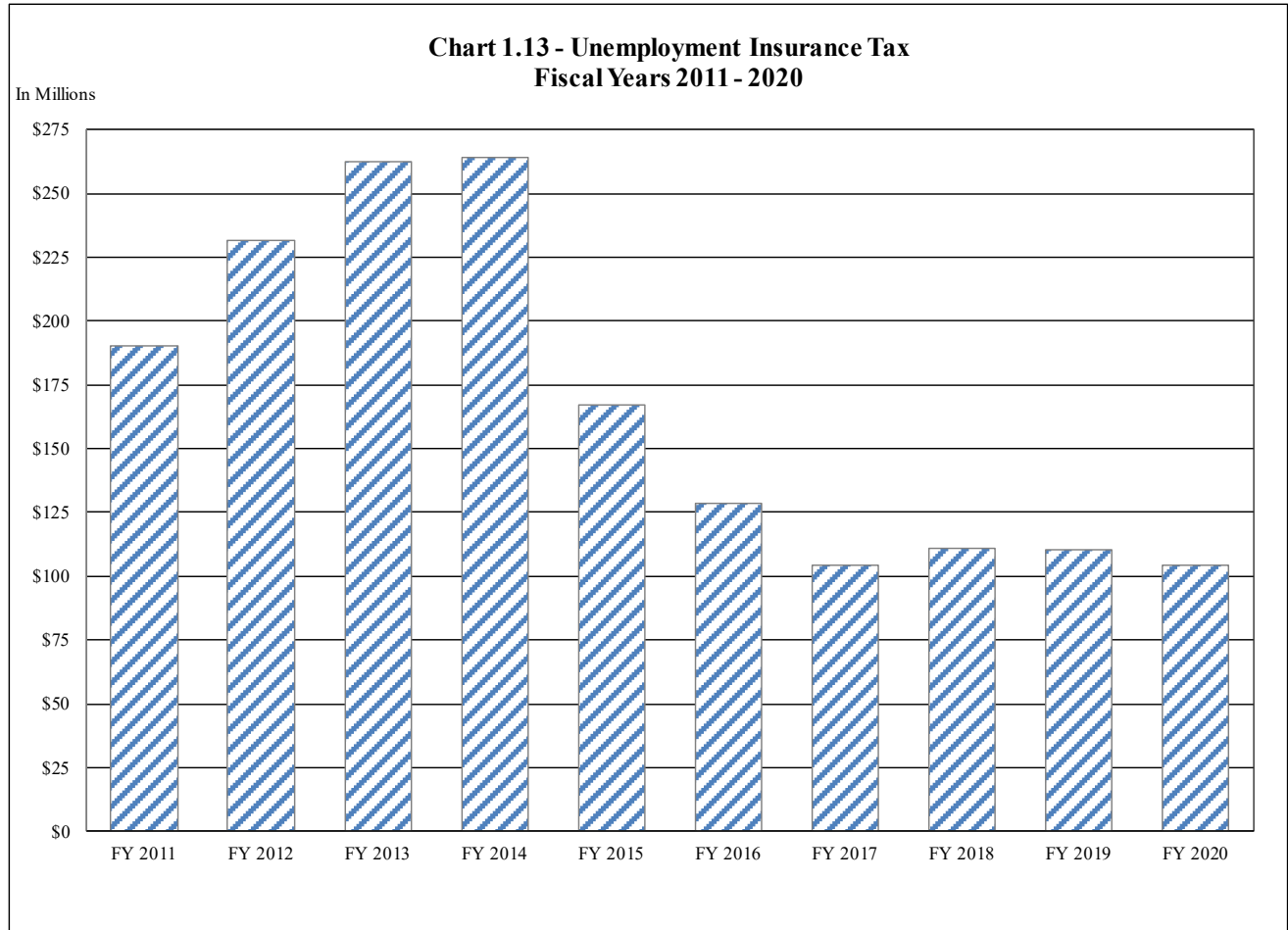
## 1.10 UNEMPLOYMENT INSURANCE TAX

### 1.10.1 Overview

**The unemployment insurance (UI) tax (officially "employment security contributions") is imposed on wages paid by employers with one or more employees, with certain exemptions.** The tax is experience rated, which means the UI tax rate for each year depends on the condition of the UI Trust Fund. The tax base represents the state's average annual wages reported by employers contributing to the Unemployment Trust Fund. For FY 2019, the tax base ranged from \$45,900 in CY 2018 to \$46,800 in CY 2019 and the contribution rate for new employers was 2.4% in both CY 2018 and CY 2019. Revenues from the tax go to the Unemployment Trust Fund. The Department of Labor and Industrial Relations administers the UI tax and the Department of Taxation collects the tax.

### 1.10.2 Revenue

**Yearly revenues from the UI tax declined in FY 2020.** For FY 2020, revenue from the UI tax totaled \$104.1 million, down by 5.7% from \$110.3 million collected in FY 2019. Chart 1.13 shows collections of the UI tax for FY 2011 through FY 2020.



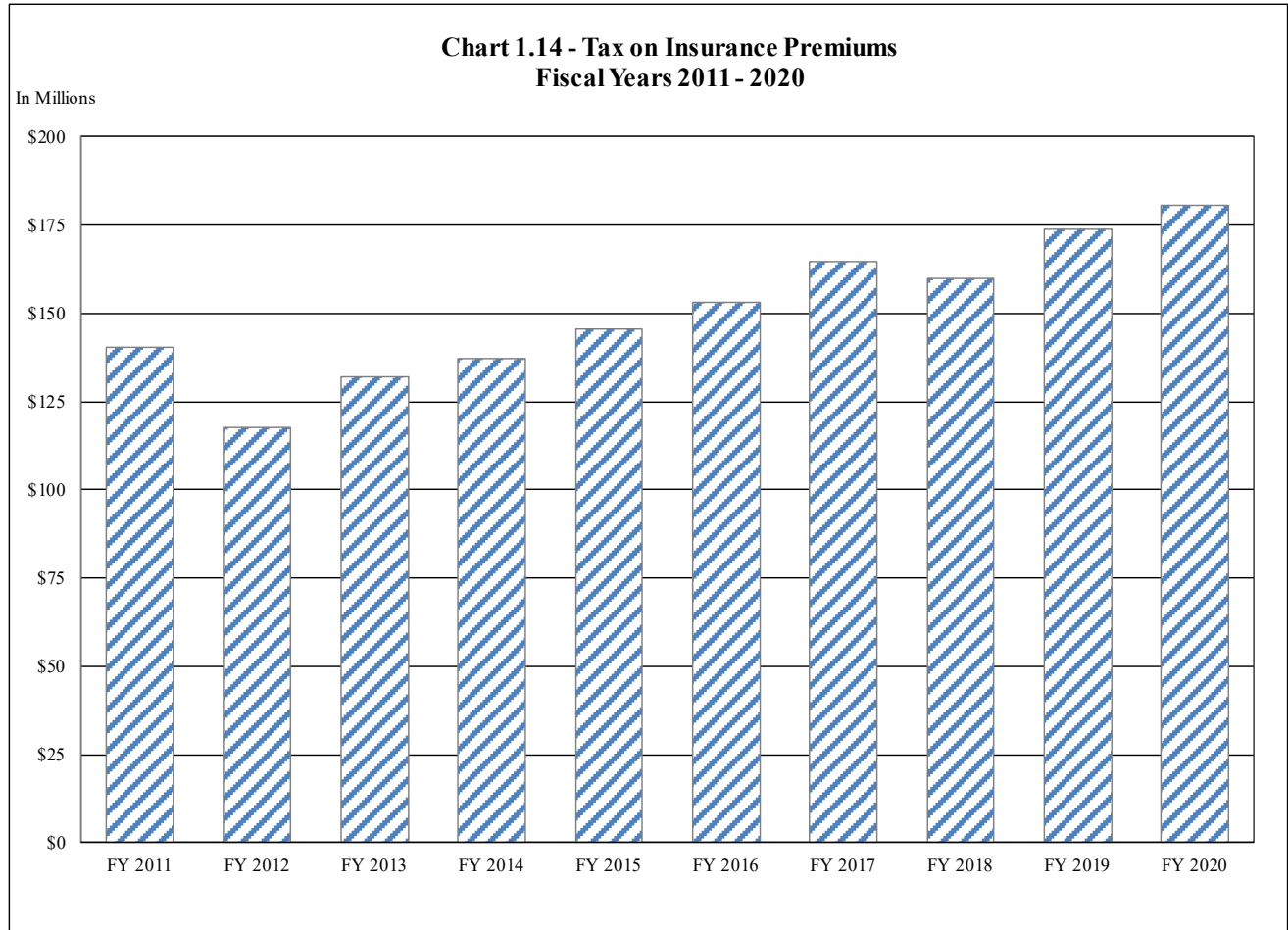
## 1.11 INSURANCE PREMIUM TAX

### 1.11.1 Overview

**The tax on insurance premiums applies to insurance companies (underwriters) based on premiums written in Hawaii.** The insurance premium tax is in lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. The tax rates are as follows: (1) Life Insurance, 2.75%; (2) Surplus Lines, 4.68%; (3) Ocean Marine, 0.8775% on gross underwriting profit; and (4) Other Insurance, 4.265%. To insurers who qualify, there is a 1.0% tax credit to facilitate regulatory oversight. The tax is administered and collected by the Insurance Commissioner, who is required to report to the Director of Taxation the amounts of all taxes collected under chapter 431, HRS.

### 1.11.2 Revenue

**Insurance Premium tax collections increased in FY 2020, totaling \$180.8 million, compared to \$173.8 million in FY 2019, an increase of 4.0%.** Chart 1.14 shows collections of the tax for FY 2011 through FY 2020.



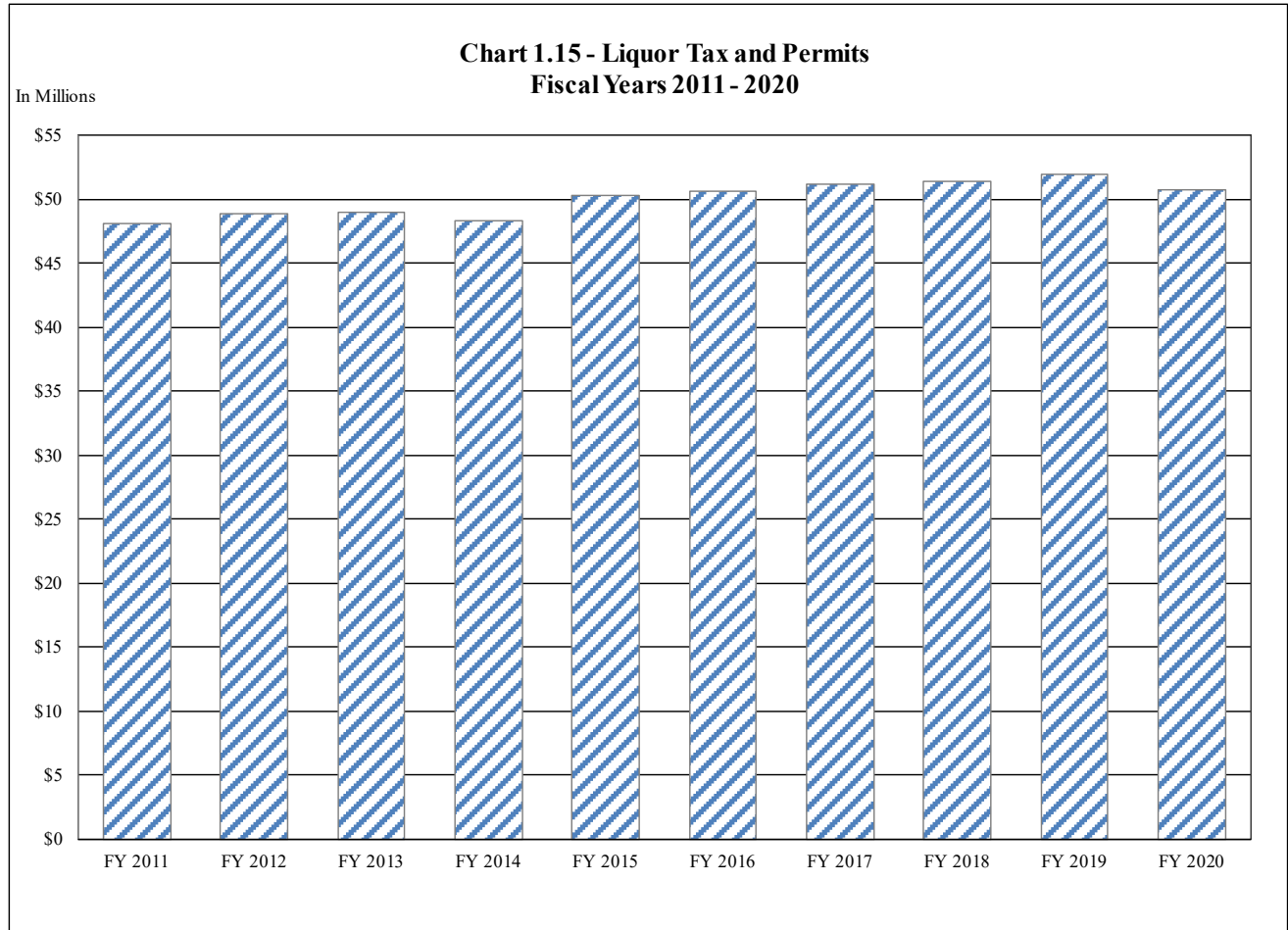
## 1.12 LIQUOR TAX

### 1.12.1 Overview

**The tax on liquor is a gallonage tax imposed on dealers as defined in section 244D-1, HRS, and upon certain others who sell or use liquor.** A \$2.50 liquor tax permit is required and must be renewed before July 1 each year. See section 244D-4, HRS, for exemptions from the tax. The tax rates per wine gallon are \$5.98 on distilled spirits, \$2.12 on sparkling wine, \$1.38 on still wine, \$0.85 on cooler beverages, \$0.93 on beer other than draft beer, and \$0.54 on draft beer.

### 1.12.2 Revenue

**Liquor tax collections fell slightly in FY 2020, totaling \$50.7 million, a decrease of 2.4% from the \$51.9 million collected in FY 2019.** Chart 1.15 shows collections of the liquor tax and permit fees for FY 2011 through FY 2020.



## 1.13 CONVEYANCE TAX

### 1.13.1 Overview

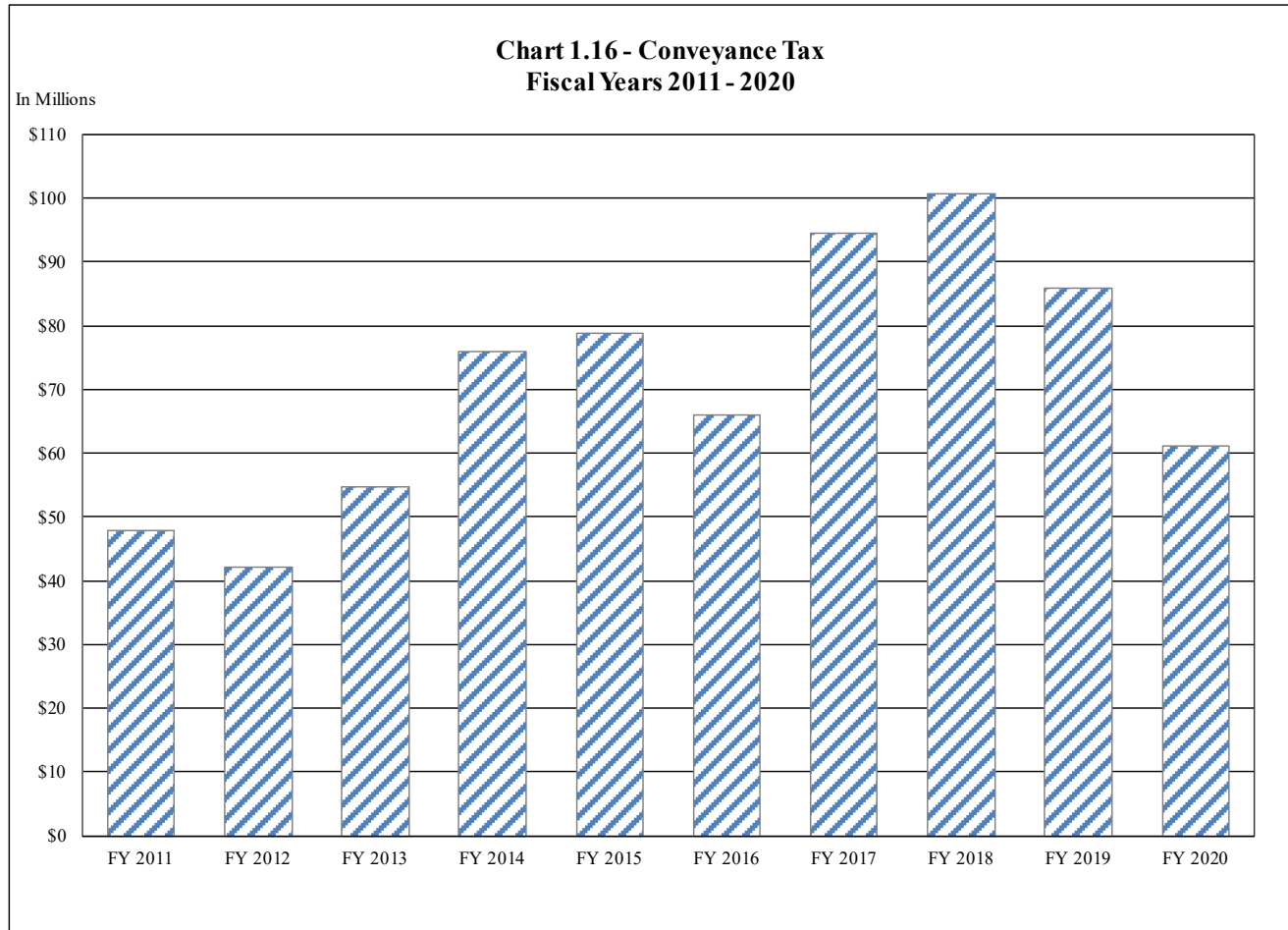
**The conveyance tax is imposed on all documents transferring ownership or interest in real property and is based on the actual and full consideration paid or to be paid.** For a sale of a condominium or single-family residence, the rate of the conveyance tax depends on whether the purchaser is eligible for a county homeowner's exemption from the real property tax. If the purchaser is eligible for the exemption, or if the sale is of real property other than a condominium or single family residence, then the tax rate ranges from 10 cents per \$100 for properties with a value of less than \$600,000 to \$1 per \$100 for properties with a value of \$10,000,000 or more. If the purchaser is ineligible for the exemption, the tax rate for a sale of a condominium or single-family residence ranges from 15 cents per \$100 for properties with a value of less than \$600,000 to \$1.25 per \$100 for properties with a value of \$10,000,000 or more. The conveyance tax is administered by the Department of Taxation, but it is collected by the Bureau of Conveyances in the Department of Land and Natural Resources.

### 1.13.2 Revenue

**For FY 2020, revenue from the conveyance tax totaled \$61.1 million, down from \$86.0 million in FY 2019, a decrease of 28.9%.** The revenues for FY 2020 were distributed as follows: 10% went to the Land Conservation Fund, provided that the amount in excess of \$6.8 million in any fiscal year is deposited into the General Fund; 50% went to the Rental Housing Trust Fund, provided that the amount in excess of \$38.0 million in any fiscal year is deposited into the General Fund; and the remaining 40% went to the General Fund. Chart 1.16 shows collections of the conveyance tax for FY 2011 through FY 2020.

### 1.13.3 Recent Legislation

Act 9, SLH 2020, amends the annual cap of the conveyance tax allocation to the Land Conservation Fund from \$6.8 million to \$5.1 million. The Act took effect July 1, 2020.



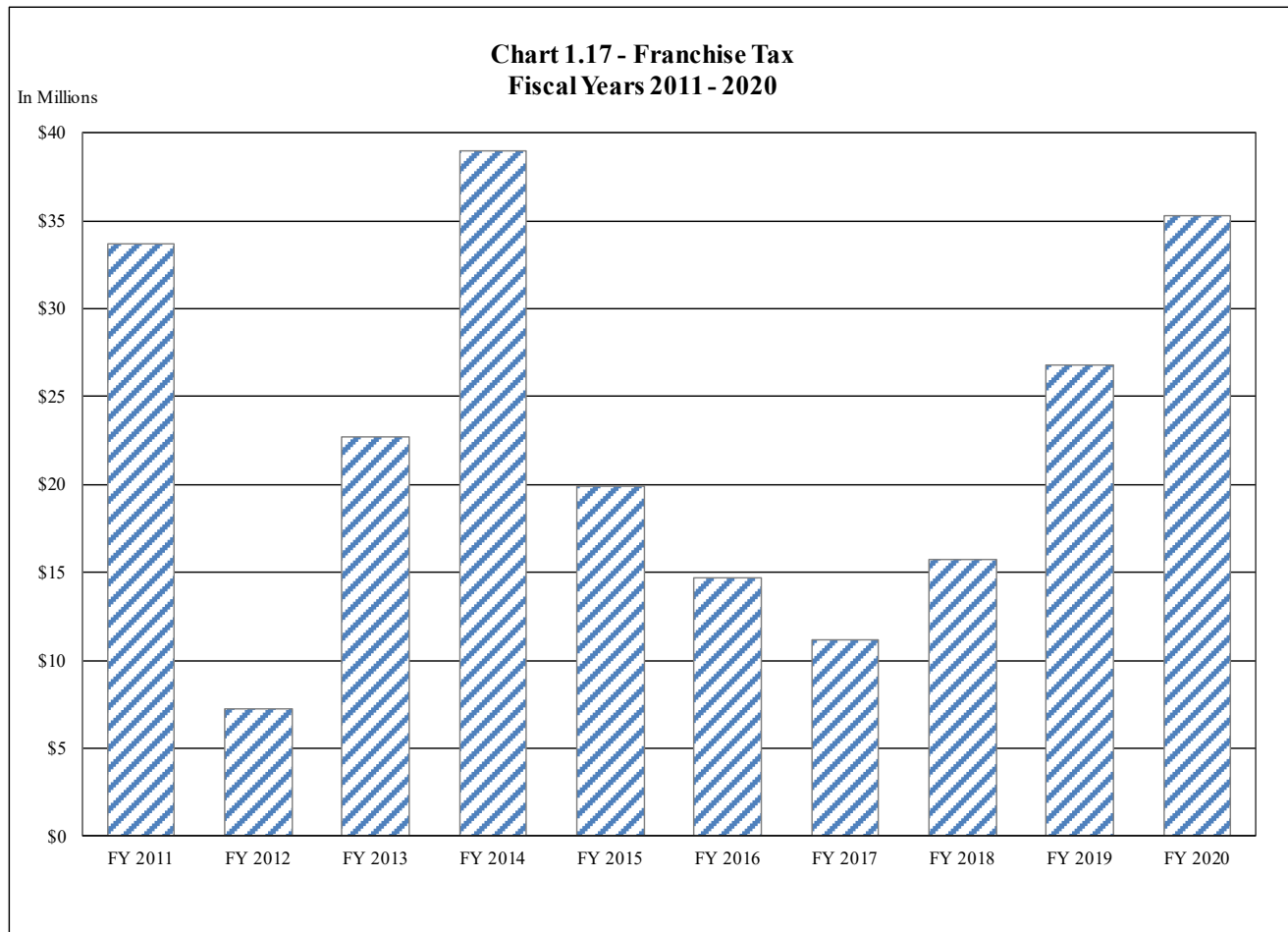
## 1.14 TAX ON BANKS AND OTHER FINANCIAL CORPORATIONS

### 1.14.1 Overview

**The tax on banks and other financial corporations (the franchise tax) is levied on net income** of 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, and subsidiaries not subject to the tax imposed by chapter 235, HRS. The tax is in lieu of the net income tax imposed under chapter 235, HRS, and of the GET, but it uses the definition of net income from chapter 235, with modifications. The tax is levied on net income at the rate of 7.92%. The assessment date is January 1 of each year.

### 1.14.2 Revenue

**For FY 2020, franchise tax collections totaled \$35.3 million, up from \$26.8 million in FY 2019, an increase of 31.6%.** Chart 1.17 shows collections of the franchise tax for FY 2011 through FY 2020. Collections of the tax were low in FY 2012, due partly to a one-time transfer of \$16.5 million to the Litigated Claims Fund.



## **1.15 ESTATE AND TRANSFER TAX**

### ***1.15.1 Overview***

**Hawaii's estate and transfer tax is levied on the transfer of a taxable estate.** The taxable estate is based on the federal definition (with adjustments for nonresidents), but the State has its own tax rate schedule, with tax rates varying from 10.0% to 20.0%. Hawaii's generation skipping tax is also based on the federal taxable transfer but has its own tax rate (currently 2.25%).

### ***1.15.2 Revenue***

**For FY 2020, estate tax collections totaled \$45.5 million, up from \$18.9 million collected in FY 2019.** Chart 1.18 shows collections of the estate and transfer tax for FY 2011 through FY 2020.

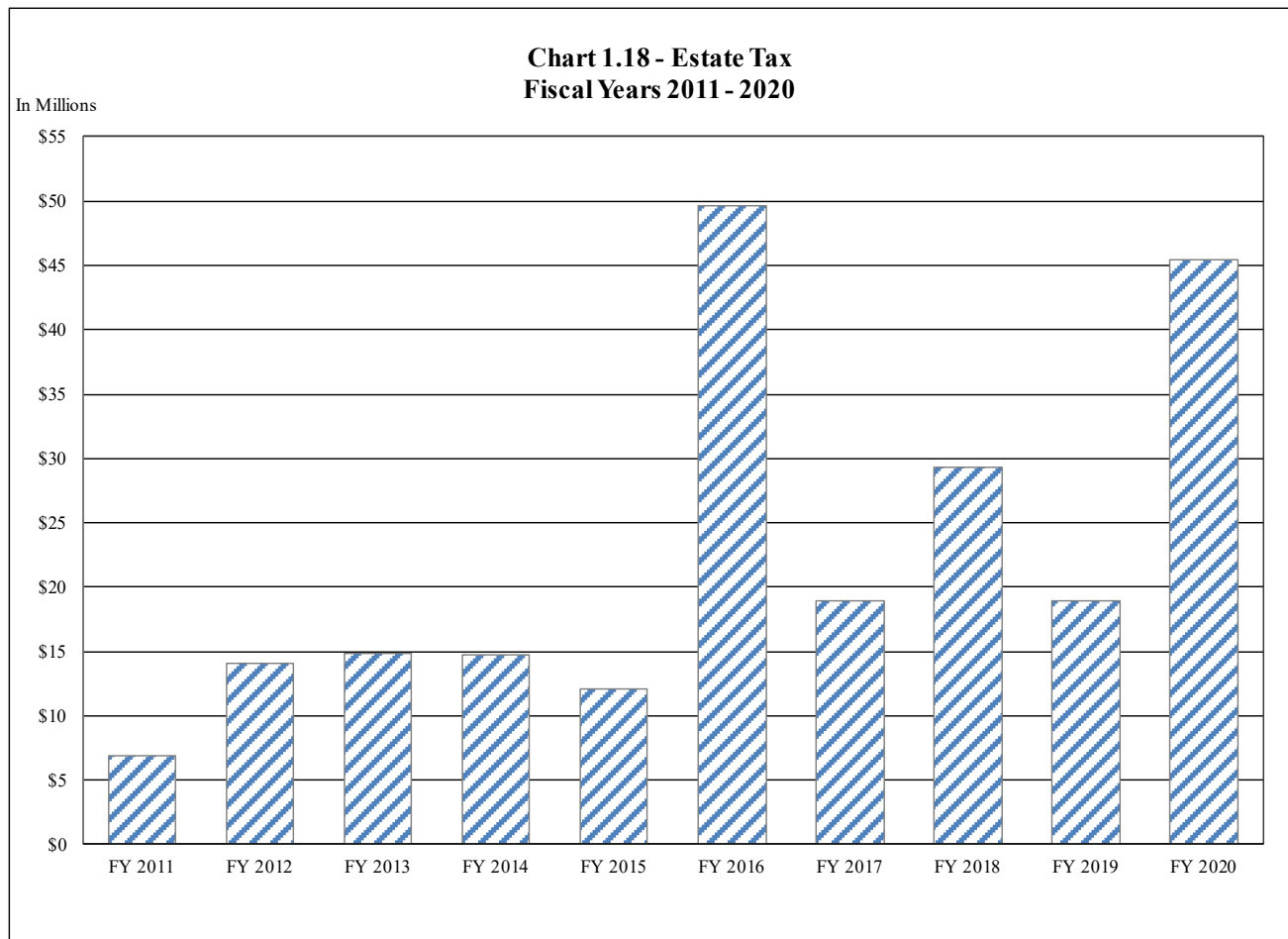
### ***1.15.3 Recent Legislation***

Act 3, SLH 2019, is effective April 4, 2019 and applies to decedents dying after December 31, 2019. The act establishes a new estate tax rate bracket for taxable estates exceeding \$10 million.

Act 69, SLH 2019, selectively conforms Hawaii income tax and estate tax laws to the Internal Revenue Code (IRC) as of December 31, 2018. The Act clarifies that for Hawaii's estate tax, the exclusion amount is fixed at the level that applied to decedents dying on December 31, 2017, which was \$5,490,000. The Act took effect June 7, 2019, and applies to taxable years beginning, and to decedents dying, after December 31, 2018.

Act 13, SLH 2020, conforms Hawaii income and estate and generation-skipping transfer tax laws to the Internal Revenue Code of 1986, as amended as of March 27, 2020, with special provisions to conform to parts of federal Public Law 116-136, the Coronavirus Aid, Relief, and Economic Security Act, which took effect on March 27, 2020. Conforms Hawaii estate and generation-skipping transfer tax laws to the Internal Revenue Code of 1986, as amended as of December 31, 2019.





## 1.16 COUNTY SURCHARGE TAX

### 1.16.1 Overview

**The County surcharge is a tax applied on top of the State's 4.0% General Excise & Use Tax, and their revenues destined for use by local governments.** Act 1, SSLH 2017, authorized the City and County of Honolulu to extend the sunset of its county surcharge from December 31, 2027 to December 31, 2030, which the County did by ordinance. The Act also authorized the other counties to establish a county surcharge, which may be levied from January 1, 2019 to December 31, 2030. New county surcharges were established by ordinance by Hawaii County (0.25%, from January 1, 2019 to December 31, 2020) and by Kauai County (0.50%, from January 1, 2019 to December 31, 2030). The Act reduced the amount that is deducted from the county surcharge collections to reimburse the State for administrative costs from 10% to 1%. The Act took effect September 5, 2017.

Act 11, SLH 2018, extends the period in which a county may adopt a surcharge on state tax, under certain conditions, from March 31, 2018 to March 31, 2019.

Act 247, SLH 2005, granted counties the authority to impose a county surcharge of no more than 0.5% on gross income that is subject to the State's GET at the rate of 4.0% to fund county public

transportation systems. The Department of Taxation is required to administer and collect the surcharge for the counties.

The following counties have adopted the surcharge:

City and County of Honolulu: The county surcharge rate is 0.5% and is effective from January 1, 2007 through December 31, 2030.

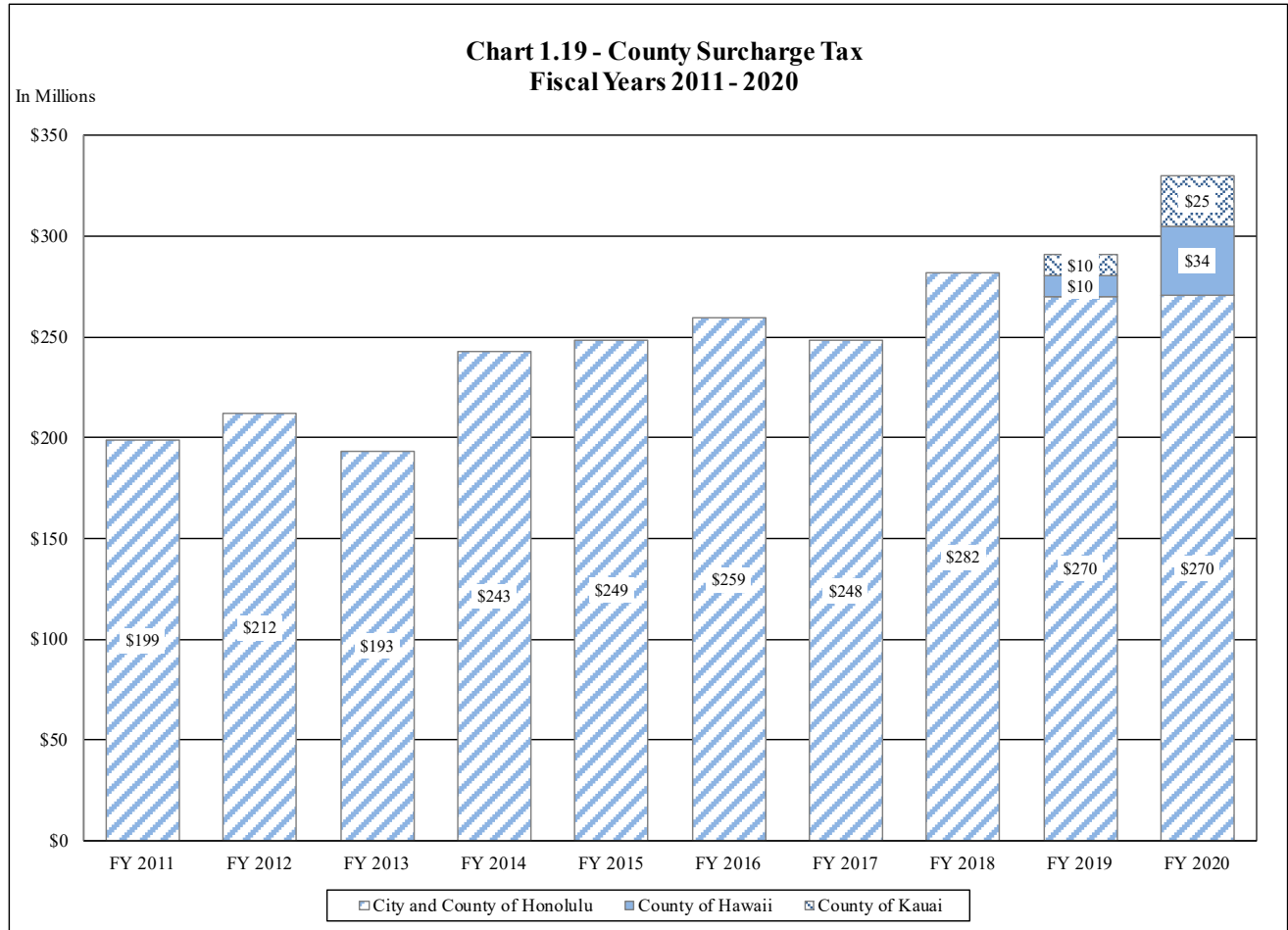
County of Hawaii: The county surcharge rate is 0.25% for the period from January 1, 2019 through December 31, 2019 and 0.5% for the period from January 1, 2020 through December 31, 2030.

County of Kauai: The county surcharge rate is 0.5% and is effective from January 1, 2019 through December 31, 2030.

Starting September 5, 2017, the amount deducted from the county surcharge collections to reimburse the State for administrative costs declined from 10% to 1%.

### ***1.16.2 Revenue***

**For FY 2020, collections of county surcharges totaled \$330.0 million, an increase of 13.5% from the \$290.7 million collected in FY 2019.** Starting in January 2019, the new surcharges imposed by the County of Hawaii and the County of Kauai were included to the county surcharge collections. In FY 2020, collections from the county surcharges were distributed as follows: \$270.4 million went to the City and County of Honolulu; \$34.5 million went to the County of Hawaii; and \$25.0 million went to the County of Kauai. Chart 1.19 shows collections of the county surcharges for FY 2011 through FY 2020.



### 1.17 TOTAL TAX COLLECTIONS

**Total tax collections in FY 2020 amounted to \$7.83 billion, down by 5.4% from the \$8.28 billion collected in FY 2019.** The Department collected the great majority of the total taxes (\$7.45 billion), but the counties collected \$134.2 million in State motor vehicle weight taxes and registration fees, the Insurance Commissioner (in the Department of Commerce and Consumer Affairs) collected \$180.8 million in insurance premium taxes, and the Bureau of Conveyances (in the Department of Land and Natural Resources) collected \$61.1 million in conveyance taxes. The total collections are shown in Table 1.8.

TABLE 1.8 - TAX COLLECTIONS  
(In Thousands of Dollars )

SOURCE OF REVENUE	FY 2020 <sup>6</sup>		FY 2019	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corps.	\$ 35,271	0.45	\$ 26,808	0.32
Conveyance	61,110	0.78	85,965	1.04
Employment Security Contributions	104,068	1.33	110,309	1.33
Fuel <sup>3, 4</sup>	169,156	2.16	178,394	2.16
Environmental Response	26,104	0.33	27,951	0.34
General Excise and Use	3,436,138	43.91	3,541,389	42.80
County Surcharge <sup>5</sup>	329,926	4.22	290,719	3.51
Income - Corporations	8,407	0.11	163,676	1.98
Income - Individuals	2,359,816	30.16	2,568,616	31.04
Inheritance and Estate	45,451	0.58	18,921	0.23
Insurance Premiums	180,753	2.31	173,844	2.10
Liquor and Permits	50,674	0.65	51,913	0.63
Motor Vehicle Tax and Fees <sup>1</sup>	134,211	1.72	138,126	1.67
Rental Vehicle Tax and Fees	72,503	0.93	57,994	0.70
Public Service Companies	134,639	1.72	126,691	1.53
Tobacco and Licenses	111,983	1.43	112,518	1.36
Trans. Accom. Fees	20	0.00	24	0.00
Trans. Accom. Tax	564,298	7.21	600,310	7.25
All Others <sup>2</sup>	681	0.01	855	0.01
<b>TOTAL</b>	<b>\$ 7,825,208</b>	<b>100.00</b>	<b>\$ 8,275,024</b>	<b>100.00</b>

<sup>1</sup> Includes the State motor vehicle weight tax and fees for registration, for registration surcharges, for commercial driver's licenses, and for periodic motor vehicle inspections.

<sup>2</sup> Includes fuel retail dealer permits, fuel penalty and interest, and general excise tax fees.

<sup>3</sup> Fuel tax collections were \$169,413 thousand for fiscal year 2020, of which \$258 thousand could not be distributed because the corresponding tax returns were not yet available.

<sup>4</sup> Includes amounts totaling \$183 thousand in undistributed fuel tax from previous years that were included in several monthly reports in fiscal year 2019. Fuel tax collections were \$178,211 thousand for fiscal year 2019.

<sup>5</sup> Includes amounts allocated as of June 30, 2020 from the general excise tax surcharges imposed by the City and County of Honolulu, by the County of Hawaii, and by the County of Kauai.

<sup>6</sup> Beginning in FY 2020, the collections include revenue generated by the Special Enforcement Section of the Department of Taxation.

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

## 1.18 DISTRIBUTION OF TAXES

**Of the \$7.83 billion in total tax collections in FY 2020, \$6.69 billion or 85.6% was deposited into the State's General Fund.** The four counties received \$173.4 million from county fuel taxes and the TAT. In addition, \$330.0 million of county surcharge was collected for the City and County of Honolulu, the County of Hawaii, and the County of Kauai (before deducting the administrative

fee imposed by the State). The remaining tax revenues not deposited into the General Fund or transferred to the counties were distributed among various State special funds. The State Highway Fund received the largest portion, \$284.2 million. All the unemployment insurance tax (the employment security contributions) went into the Unemployment Trust Fund for unemployment benefits. Table 1.9 shows allocations of taxes to the State's General Fund in FY 2019 and FY 2020. The distributions of the total tax collections among all funds in FY 2019 and FY 2020 are shown in Table 1.10.

TABLE 1.9 - STATE GENERAL FUND  
(In Thousands of Dollars)

SOURCE OF REVENUE	FY 2020		FY 2019	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corps.	\$ 33,271	0.50	\$ 24,808	0.35
Conveyance	22,746	0.34	41,165	0.58
General Excise and Use	3,429,459	51.23	3,541,389	49.59
Income - Corporations	8,407	0.13	163,676	2.29
Income - Individuals	2,359,003	35.24	2,568,114	35.96
Inheritance and Estate	45,451	0.68	18,921	0.26
Insurance Premiums	180,753	2.70	173,844	2.43
Liquor and Permits	50,674	0.76	51,913	0.73
Public Service Companies	134,639	2.01	126,691	1.77
Tobacco and Licenses	74,858	1.12	74,526	1.04
Trans. Accom. Tax	337,601	5.04	339,956	4.76
Environmental Response Tax	17,244	0.26	15,904	0.22
All Others *	703	0.01	882	0.01
TOTAL	<u>\$ 6,694,808</u>	<u>100.00</u>	<u>\$ 7,141,790</u>	<u>100.00</u>

\* Includes fuel retail dealer permits, fuel penalty and interest, general excise fees, trans accom fees and rental vehicle fees.

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

TABLE 1.10 - DISTRIBUTION OF COLLECTIONS  
(In Thousands of Dollars)

	FY 2020		FY 2019	
	Amount Distributed	% of Total	Amount Distributed	% of Total
<u>STATE FUND</u>				
State General Fund	\$ 6,694,808	85.55	\$ 7,141,790	86.31
State Highway Fund	284,229	3.63	279,505	3.38
State Airport Fund	2,384	0.03	2,605	0.03
Boating Special Fund	1,668	0.02	1,758	0.02
Environmental Fund	1,249	0.02	1,339	0.02
Cigarette Stamp Admin/Enf. Fund	1,712	0.02	1,766	0.02
Compliance Resolution Fund	2,000	0.03	2,000	0.02
Unemployment Trust Fund	104,068	1.33	110,309	1.33
Election Campaign Fund	91	0.00	146	0.00
Tourism Special Fund <sup>2</sup>	65,833	0.84	79,000	0.95
Rental Housing Fund	31,970	0.41	38,000	0.46
Convention Center Fund <sup>2</sup>	13,750	0.18	16,500	0.20
Public Libraries Fund	128	0.00	138	0.00
School Repairs and Maintenance Fund	61	0.00	71	0.00
Land Conservation Fund	6,394	0.08	6,800	0.08
Domestic Violence/Child Abuse Neglect Fund	130	0.00	147	0.00
Cancer Research Fund	12,591	0.16	12,993	0.16
Trauma System Fund	7,082	0.09	6,989	0.08
Emergency Medical Service Fund	7,869	0.10	8,122	0.10
Community Health Centers Fund	7,869	0.10	8,122	0.10
Energy Security Fund	1,367	0.02	4,016	0.05
Energy Systems Development Fund	2,497	0.03	2,677	0.03
Agricultural Development and Food Security Fund	3,746	0.05	4,016	0.05
Land and Development Fund <sup>2</sup>	2,500	0.03	3,000	0.04
Turtle Bay Conservation Easement Fund <sup>2</sup>	1,250	0.02	1,500	0.02
Mass Transit Special Fund	53,857	0.69	57,354	0.69
Tax Administration Fund	10,759	0.14	-	-
Subtotal - State	\$ 7,321,864	93.57	\$ 7,790,663	94.15
<u>COUNTY SURCHARGE <sup>1</sup></u>	\$ 329,926	4.22	\$ 290,719	3.51
<u>REVENUES TRANSFERRED TO COUNTIES</u>				
Other County Revenues				
Fuel Tax	\$ 87,586	1.12	\$ 90,643	1.10
Trans. Accom. Tax <sup>2</sup>	85,833	1.10	103,000	1.24
Subtotal - Counties	\$ 173,419	2.22	\$ 193,643	2.34
<b>TOTAL</b>	<b>\$ 7,825,208</b>	<b>100.00</b>	<b>\$ 8,275,024</b>	<b>100.00</b>

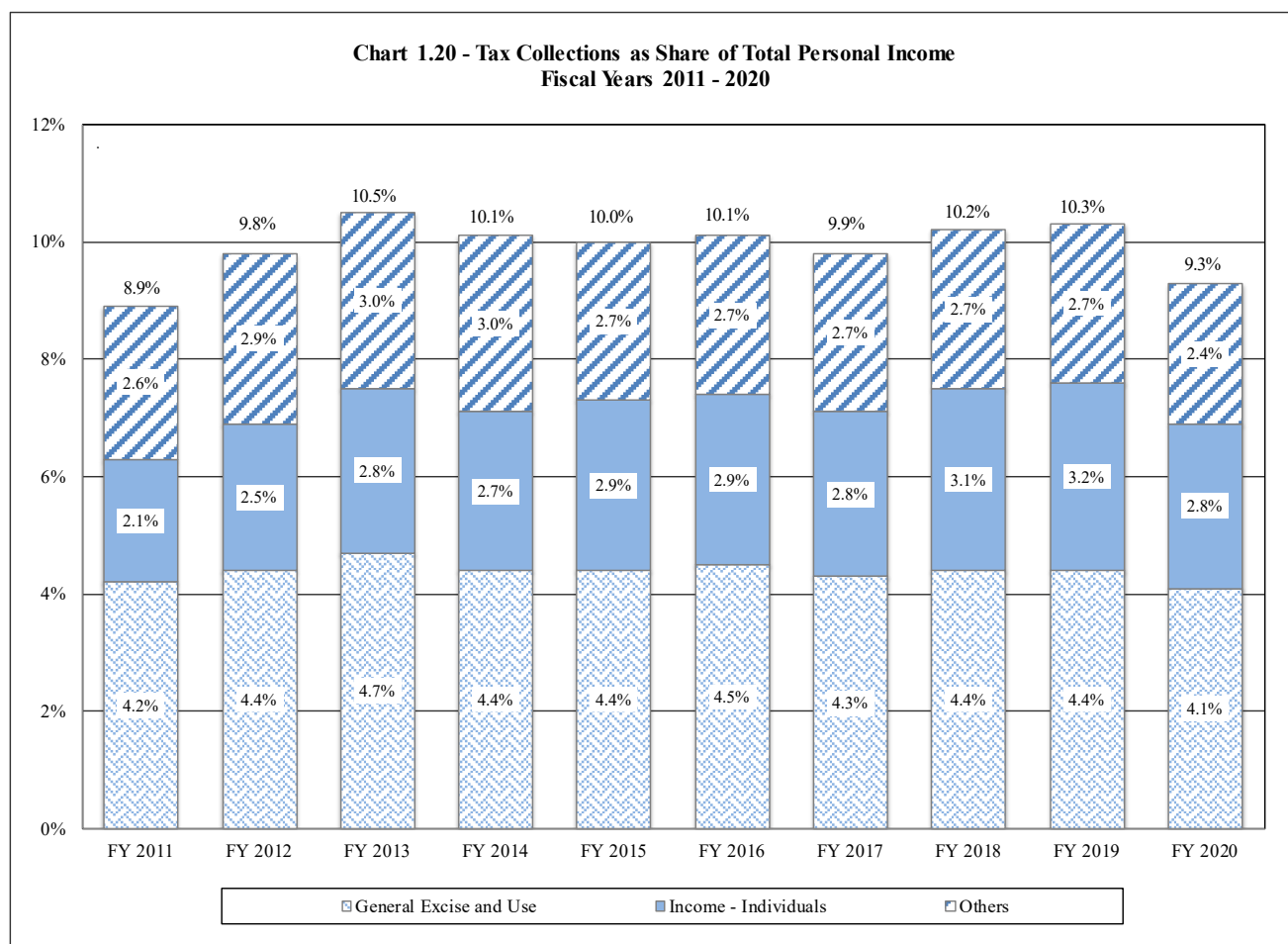
<sup>1</sup> Includes amounts allocated as of June 30, 2020 from the general excise tax surcharges imposed by the City and County of Honolulu, by the County of Hawaii, and by the County of Kauai.

<sup>2</sup> Governor Ige's Sixth Supplementary Proclamation suspended Section 237D-6.5(b), Hawaii Revised Statutes, for the months of May and June in 2020. The Section distributes part of the transient accommodations tax (TAT) to the counties and to various special funds. With the suspension, all of the TAT collections for May and June in 2020, with the exception of the special levy for Honolulu's rail project, went to the general fund.

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

## 1.19 TRENDS IN TAX COLLECTIONS

**Tax collections as a share of total personal income fell in FY 2020.** Table 1.11 provides data on total tax collections for FY 2011 through FY 2020. Chart 1.20 shows total tax collections relative to total personal income (TPI) in the State for FY 2011 through FY 2020.<sup>3</sup> The ratio grew from FY 2011 to FY 2013 but fell from FY 2013 to FY 2014. The ratio stayed roughly the same from FY 2014 to FY 2017 but increased from FY 2017 to FY 2019. The ratio decreased from FY 2019 to FY 2020 by one percentage point. Article VII, Section 9 of the 1978 Hawaii State Constitution imposes a ceiling on appropriations from the General Fund, exclusive of federal funds: the appropriations are not allowed to grow faster than the estimated growth in total personal income. The ceiling is based on the ceiling in the prior year.



<sup>3</sup> The chart uses the most recent figures from the Bureau of Economic Analysis (BEA) for TPI. The Bureau periodically updates TPI figures and the updates often extend back for a number of years.

TABLE 1.11 - HISTORICAL COLLECTIONS FOR SELECTED TAXES  
(In Thousands of Dollars)

SOURCE OF REVENUE	Fiscal Year				
	2011	2012	2013	2014	2015
General Excise and Use	\$2,495,807	\$2,697,951	\$2,944,487	\$2,880,541	\$3,048,207
Income - Individuals	1,247,153	1,541,051	1,736,007	1,745,810	1,988,194
Transient Accom. Tax and Fees	284,472	323,951	368,576	395,242	420,981
Unemployment Insurance	190,511	231,669	262,290	264,178	167,248
Motor and Rental Vehicle <sup>1</sup>	106,166	211,742	176,295	168,726	180,755
Fuel and Environmental <sup>4</sup>	195,336	193,101	193,949	193,550	193,082
Public Service Companies	117,940	150,528	163,930	166,179	163,481
Tobacco and Licenses	143,293	138,798	127,881	121,742	129,851
Insurance Premiums <sup>2</sup>	140,456	117,617	131,906	137,179	145,679
Income - Corporations	34,573	73,026	100,988	87,021	52,319
Liquor and Permits	48,054	48,854	48,962	48,305	50,281
Conveyance	47,906	42,106	54,686	75,831	78,702
Banks - Financial Corporations	33,677	7,229	22,673	38,983	19,930
Total Collections <sup>3</sup>	\$5,292,193	\$6,004,268	\$6,541,300	\$6,581,424	\$6,900,042

SOURCE OF REVENUE	Fiscal Year				
	2016	2017	2018	2019	2020
General Excise and Use	\$3,206,154	\$3,239,225	\$3,395,566	\$3,541,389	\$3,436,138
Income - Individuals	2,116,859	2,095,898	2,430,356	2,568,616	2,359,816
Transient Accom. Tax and Fees	446,794	508,377	554,912	600,334	564,318
Unemployment Insurance	128,577	104,313	110,885	110,309	104,068
Motor and Rental Vehicle <sup>1</sup>	187,704	186,490	193,241	196,120	206,714
Fuel and Environmental <sup>4</sup>	198,136	194,761	201,778	206,345	195,259
Public Service Companies	152,760	122,159	117,641	126,691	134,639
Tobacco and Licenses	125,093	124,066	120,522	112,518	111,983
Insurance Premiums <sup>2</sup>	153,173	164,688	159,814	173,844	180,753
Income - Corporations	93,036	173,666	131,119	163,676	8,407
Liquor and Permits	50,590	51,167	51,383	51,913	50,674
Conveyance	66,083	94,537	100,603	85,965	61,110
Banks - Financial Corporations	14,691	11,174	15,712	26,808	35,271
Total Collections <sup>3</sup>	\$7,249,205	\$7,338,382	\$7,895,708	\$8,275,024	\$7,825,208

<sup>1</sup> Includes State Motor Vehicle Weight Tax, Registration Fees, Registration Surcharge Fees, Commercial Driver's License, Periodic Motor Vehicle Inspection Fees, Rental Motor Vehicle, Tour Vehicle and Car-Sharing Vehicle Registration Fees, and Rental Motor Vehicle, Tour Vehicle and Car-Sharing Vehicle Surcharge Tax.

<sup>2</sup> Excludes Insurance Fees allocated to the General Fund, which were included in previous reports.

<sup>3</sup> Includes the Inheritance and Estate Tax, the County Surcharge, Fuel Permits, Interest and Penalties on Fuel Taxes, General Excise Fees, and Permitted Transfers Tax.

<sup>4</sup> Fuel tax collections were \$171,454 thousand for fiscal year 2016, of which \$268 thousand could not be distributed because the corresponding tax returns were not yet available. Fuel tax collections were \$168,659 thousand for fiscal year 2017, of which \$390 thousand could not be distributed because the corresponding tax returns were not yet available. Includes amounts totaling \$475 thousand in undistributed fuel tax from previous years that were included in several monthly reports in fiscal year 2018. Fuel tax collections were \$174,313 thousand for fiscal year 2018. Includes amounts totaling \$183 thousand in undistributed fuel tax from previous years that were included in several monthly reports in fiscal year 2019. Fuel tax collections were \$178,211 thousand for fiscal year 2019. Fuel tax collections were \$169,413 thousand for fiscal year 2020, of which \$258 thousand could not be distributed because the corresponding tax returns were not yet available.



## 2.0 TAX ADMINISTRATION

### 2.1 OVERALL PERFORMANCE

**The Department of Taxation consists of two divisions, six staff offices, a Public Information Officer, and a Taxpayer Advocate.** The two divisions are the Tax Services and Processing Division and the Compliance Division. The seven staff offices are the Administrative Services Office, the Rules Office, the Tax Research and Planning Office, the Information Technology Services Office, the Technical Services Office, the Administrative Appeals Office and the Tax Practitioner Priority Office.

**The Department's operating budget is a small fraction of total tax revenue.** The total number of authorized permanent positions in the Department was 382 in FY 2020. In FY 2020, the Department's operating expenses were \$26.8 million, up from \$25.8 million in FY 2019. The Department collected \$7.45 billion in taxes in FY 2020, so the cost of collecting each \$100 dollars of taxes was about 36 cents.

**The Department has continued to encourage taxpayers to use electronic transmissions rather than paper returns.** There has been an increase in electronic filing of tax returns and payments, 66% of all returns processed in the fiscal year were processed electronically.

**The Compliance Division's Tax Collections program collected \$220.2 million in delinquent taxes,** compared to \$191.3 million for FY 2019, an increase of \$28.9 million or 15.1%. Field and Office audit issued assessments worth \$148.9M in FY 2020, from which \$76.1 million was collected.<sup>4</sup>

### 2.2 TAX SERVICES AND PROCESSING DIVISION

#### 2.2.1. Overview

**The Tax Services and Processing Division (TSP) is comprised of three branches: Taxpayer Services, Document Processing and Revenue Accounting.** Aside from providing various services to both individual and business taxpayers, the Taxpayer Services Branch (TPS) performs functions relating to licensing and taxpayer account management. The Document Processing Branch (DP) manages the receiving, editing and centralized processing of tax information. It also processes payments received from both paper and electronic filings and secures and deposits tax payments. The Revenue Accounting Branch (RA) maintains revenue control and reconciliation functions for tax revenues as well as producing accounting reports.

**TSP continued to play an important role in supporting the transition to higher levels of electronic filings.** In FY20, 77% of all general excise and transient accommodation taxpayers used Hawaii Tax Online (HTO) for filing returns, a 12% increase over FY19. HTO offers efficiencies for both the taxpayer and the Tax Services and Processing Division

---

<sup>4</sup> The amounts collected during FY 2020 may include assessments and settlements from prior fiscal years.

### ***2.2.2 Taxpayer Services Branch***

The Taxpayer Services (TPS) Branch is made up of three main sections:

- (1) Customer Inquiry – provides information and taxpayer assistance pertaining to all taxes administered by the Department
- (2) Account Management – performs computer-based error correction activities to allow expedient processing, posting and updating of tax returns and payments
- (3) Licensing – processes, issues and updates all licenses and permits issued by the Department

#### Customer Inquiry

**Customer Inquiry provides taxpayer assistance by phone and at the windows.** The volume of walk-in taxpayers decreased in FY2020 due to the COVID19 pandemic causing the office to be closed to the public. The volume of incoming calls was similar to FY2019, but the call answer rate increased from 75% to 82%.

Total Incoming Calls include those calls handled by the interactive voice recognition system and attendants (staff) in the call center. Total Calls to Attendants is the number of callers attempting to talk to an attendant. Total Answer Rate is the percentage of calls requesting to speak to a person.

Fiscal Year	Total Incoming Calls	Total Calls to Attendants	Total Calls Answered	Answer Rate
2020	233,582	154,549	126,287	82%
2019	270,290	170,168	127,092	75%
2018	346,644	158,414	116,697	74%
2017	671,606	131,299	90,786	69%

#### Account Management

**The primary function of Account Management is to review, analyze, and correct errors or other inconsistencies on returns and payments.** These inconsistencies are identified by our computer system during processing and placed on a work list for manual review.

**In FY 2020, the team reviewed and posted 226,102 returns, payments, and other documents** that the automated system was unable to process. Corrections have increased by less than 10% this year. The table below reflects monthly average postings of documents work-listed since FY 2016:

Fiscal Year	# of Postings
2020	18,841
2019	17,444
2018	23,843
2017	22,135
2016	18,162

## Licensing

**The Licensing Section processes business license applications and renewals.** In FY2020, 41,796 business license applications were processed, compared to 41,232 applications the previous fiscal year. 26,468 or 71% of the applications were filed online versus 72% in FY 2019. Taxpayers are using DOTAX's online business license application options: Hawaii Business Express (33%), and HTO (67%). The Section also processed 1,090 cancellations, a 50% decrease from FY 2019.

### ***2.2.3 Document Processing Branch***

**The main function of the Document Processing Branch (DP) is to accurately and efficiently process all tax returns and documents;** to receive, secure, deposit, and account for tax payments; and to ensure proper electronic storage and retrieval of documents. DP is comprised of four sections: Receiving and Sorting, Data Preparation, Imaging and Data Entry, and Monetary Control.

**Although there has been an increase in electronic filing of tax returns and payments, nearly 1 million paper tax returns and other documents were manually processed.** In FY2020, there were 920,578 (34%) paper tax returns and 1,799,757 (66%) electronic tax returns processed. There was over \$8.06 billion in tax-related payments received, an increase of nearly \$80 million from FY 2019. 95% of the payments were processed in 7 days or less.

### ***2.2.4 Revenue Accounting Branch***

**The main function of the Revenue Accounting Branch (RA) is to maintain accounting records for all tax revenues, refunds and adjustments,** district transfers and closing adjustments, and preparation of all Journal Vouchers and Summary Warrant Vouchers. RA is also responsible for error resolution, reconciliation and reporting functions for tax revenues. Specific tasks include the preparation of the Daily Cash Collection Report (Oahu District), the Preliminary Report, the Statement of Tax Operations (STO).

## **2.3 COMPLIANCE DIVISION**

### ***2.3.1 Overview***

**The objective of the Compliance Division is to maximize taxpayer compliance with Hawaii's tax laws in a fair, consistent, and efficient manner.** The Compliance Division is composed of the Oahu Office Audit Branch, the Oahu Field Audit Branch, the Oahu Collections Branch, and the Maui, Hawaii, and Kauai District Tax Offices. In addition to these branches, there are also the Criminal

Investigation Section (CIS), Special Enforcement Section (SES) and the Tax Fraud Unit (TFU). The Division has the following three programs to meet the objectives of the voluntary compliance, self-assessment tax system: (1) auditing/examination, (2) collection, and (3) taxpayer services.

**Due to COVID-19's impact on the State, the Compliance Division shifted its operations to focus on taxpayer services**, such as helping taxpayers use the computer system to make online payments, online payment plans, online tax clearances, and online account corrections. The Division focused on answering phone calls, web messages on Hawaii Tax Online (HTO), and processing refunds from mid-March to end of July 2020. Most audit and collection enforcement functions were suspended to accommodate the temporary operational change.

**In FY 2020, the Compliance Division's Tax Collections program collected \$220.2 million in delinquent taxes**, compared to \$191.3 million for FY 2019, an increase of \$28.9 million or 15.1%. The Office Audit program collected \$22.9 million from assessments and \$43 million from processing Estate and Transfer Tax returns. The Field Audit program collected \$53.8 million from assessments. The Criminal Investigation Section recovered \$3 million in restitution, assessments, penalties, and interest generated through its efforts. The Special Enforcement Section collected \$10.8 million in impact revenue. The Voluntary Disclosure Program brought in revenue of \$33.3 million. The Refund Review Team stopped \$52 million of refunds being issued.

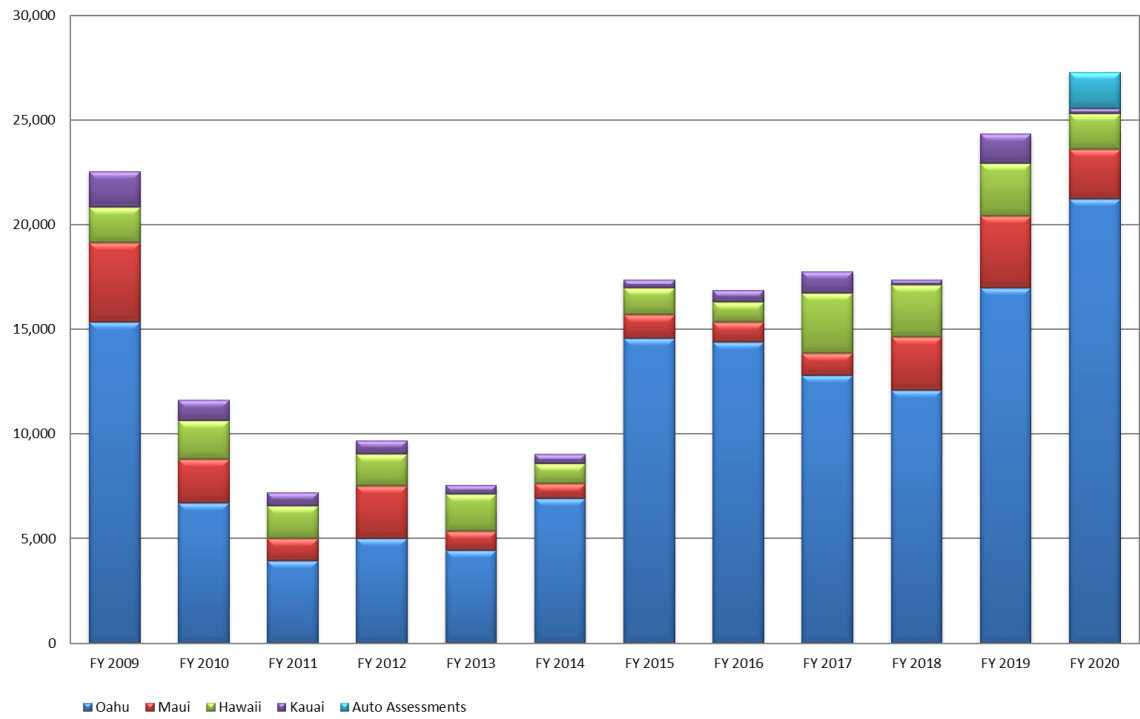
### ***2.3.2 Office Audit Branch***

**The Office Audit Branch performed examinations and audits to enhance voluntary compliance.** In FY 2020, the Office Audit Branch completed 27,294 cases, an increase of 12.2% (2,968 cases) compared to FY 2019, the total dollars assessed was \$75.7 million, a decrease of 13.3% (\$11.6 million) compared to FY 2019. The decrease is attributable to a shift in operational focus due to COVID-19 during the last quarter of the fiscal year. Most of the audits were performed by Oahu Office Audit Branch, followed by the Maui District Office. In FY 2020, the Office Audit Branch collected \$22.9 million from assessments and processed the Estate and Transfer Tax returns, collecting \$43 million on estate tax returns. Charts 2.7 and 2.8 (on the following page) show the number of audits completed and the dollars assessed by Office Audit for FY 2009 through FY 2020.

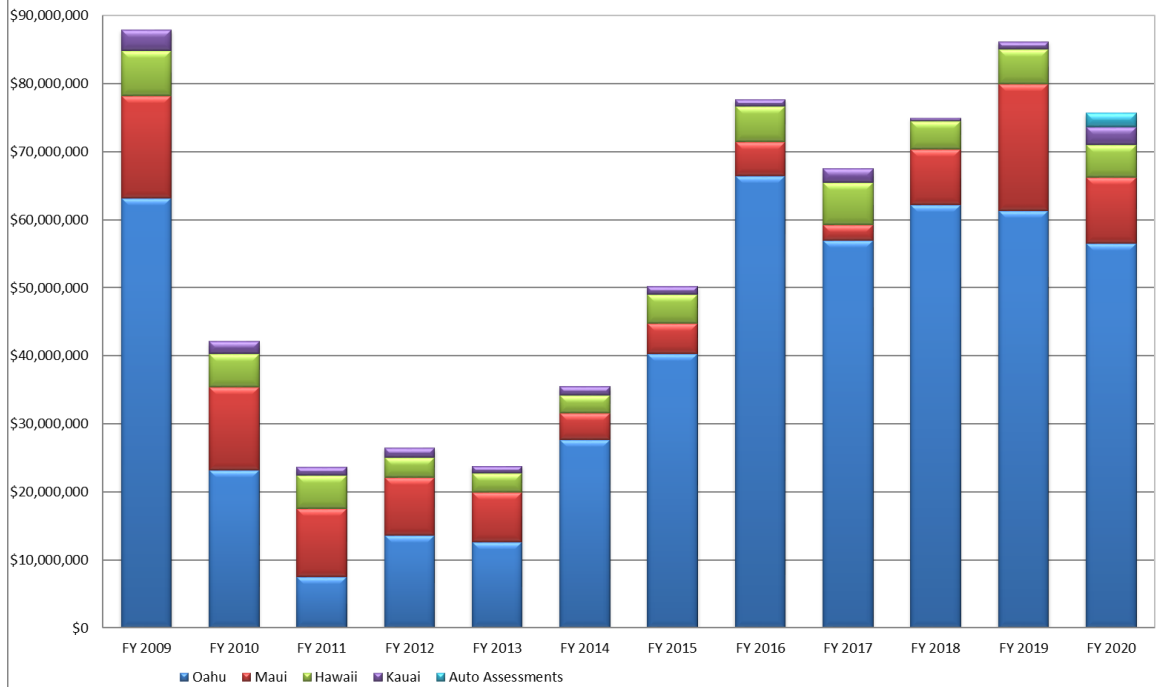
### ***2.3.3 Field Audit Branch***

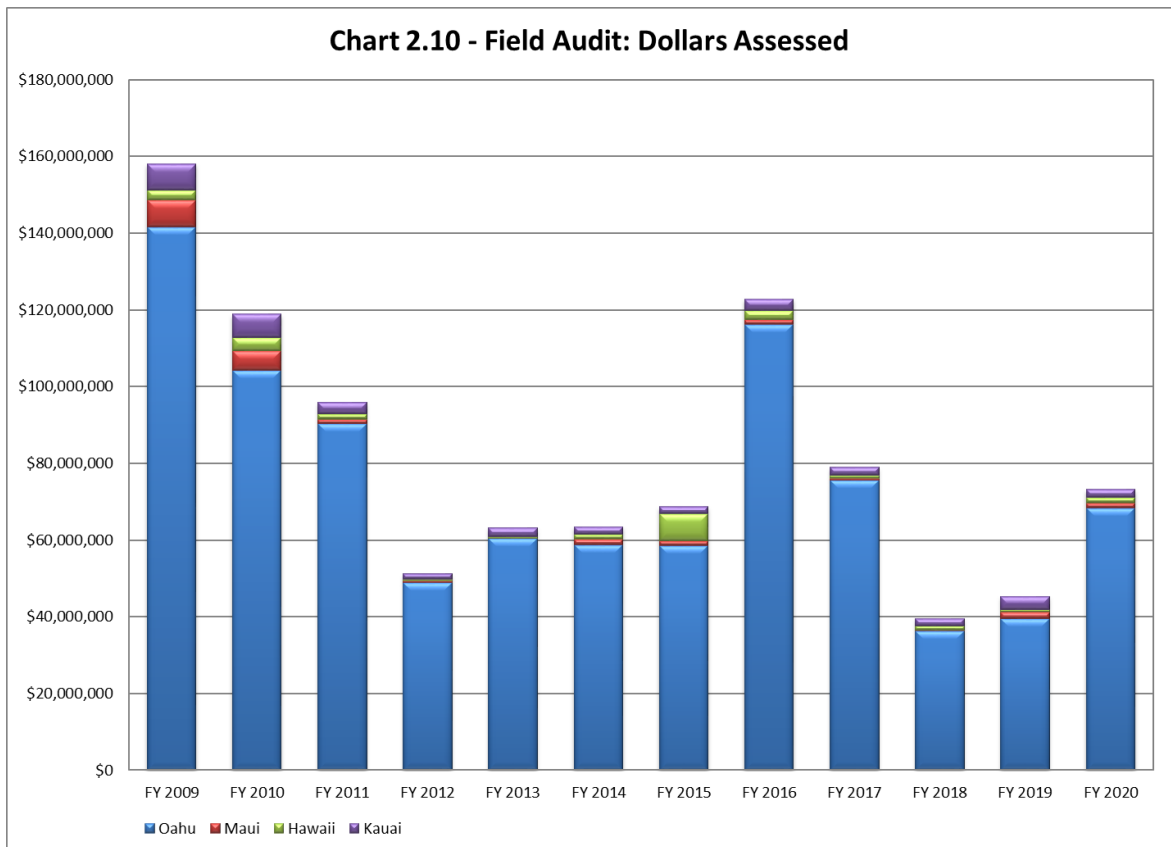
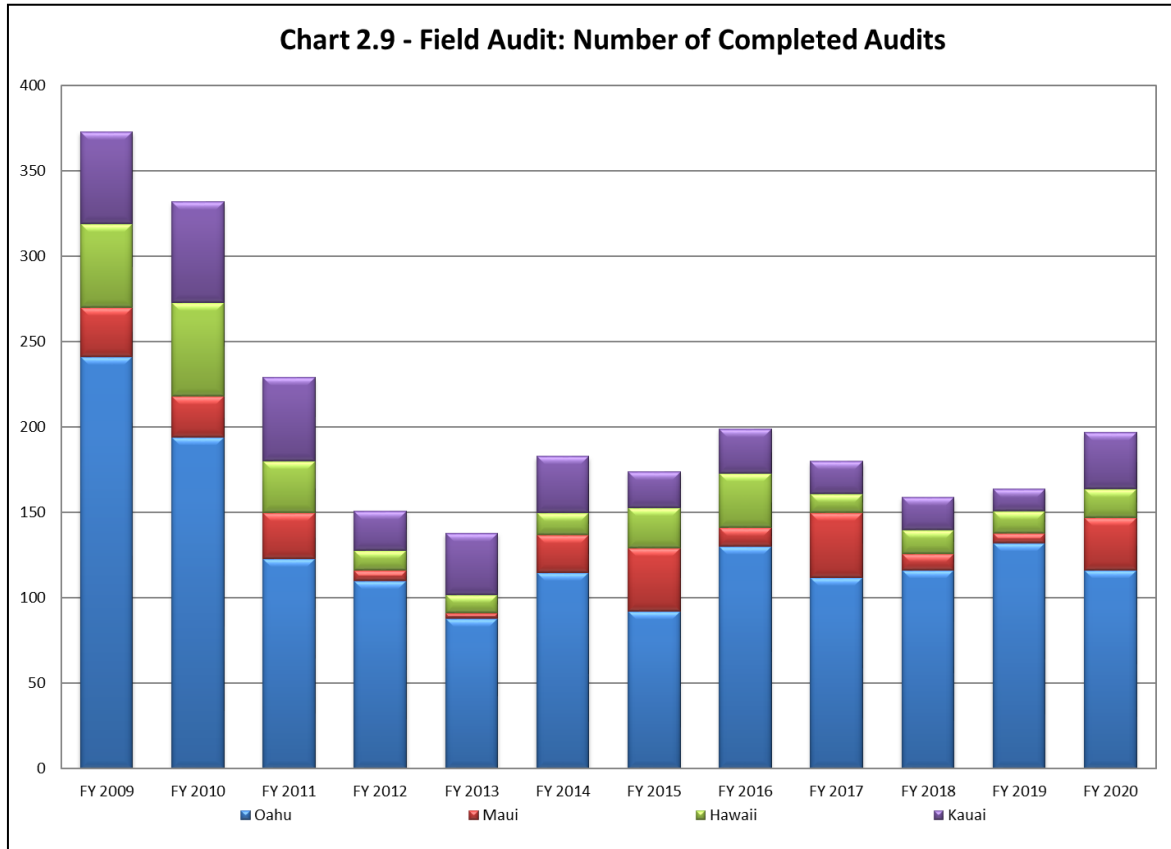
**The Field Audit Branch performed audits involving intricate auditing procedures to enhance voluntary compliance.** In FY 2020, the number of audits completed by Field Audit Branch was 197 cases, an increase of 20.1% (33 cases) compared to FY 2019, and the total dollars assessed was \$73.1 million, an increase of 61.5% (\$27.8 million). Charts 2.9 and 2.10 show the number of audits completed and the dollars assessed by Field Audit for FY 2009 through FY 2020. The Field Audit Branch collected \$53.8 million from assessments.

**Chart 2.7 - Office Audit: Number of Completed Audits**



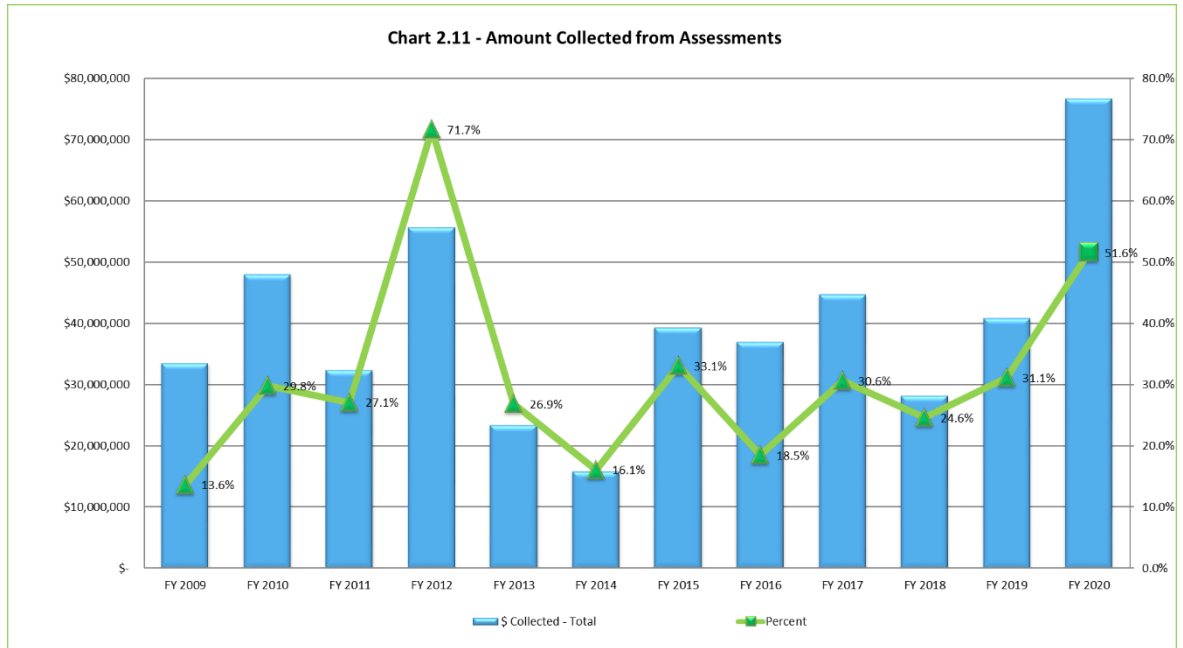
**Chart 2.8 - Office Audit: Dollars Assessed**





### 2.3.4 Revenue - Office and Field Audit Assessments

The Office and Field Audit issued assessments worth \$148.9M in FY 2020 (see Table 2.1). The amount recovered from assessments issued in FY 2020 was \$76.1M at the end of the fiscal year.<sup>5</sup> The amount collected at the time the audits were closed and prior to the mailing of any billing notices in FY 2019 was \$33.2 million. Chart 2.11 shows the amount collected from assessments.



<sup>5</sup> The amounts collected during FY 2020 may include assessments and settlements from prior fiscal years.

**TABLE 2.1 - AMOUNTS ASSESSED FOR FY 2020**

	<u>Office Audit</u>		<u>Field Audit</u>	
	Number of Audits	Dollars Assessed	Number of Audits	Dollars Assessed
Oahu	21,240	\$ 56,504,519	116	\$ 68,374,105
Maui	2,360	\$ 9,758,127	31	\$ 1,294,649
Hawaii	1,700	\$ 4,754,364	17	\$ 1,352,873
Kauai	261	\$ 2,627,569	33	\$ 2,131,912
Automated Assessments	1,733	\$ 2,081,627		
Total FY 2020	27,294	\$ 75,726,206	197	\$ 73,153,539
Total FY 2019	24,326	\$ 87,342,077	164	\$ 45,300,664
Difference	2,968	\$ (11,615,871)	33	\$ 27,852,875

**2.3.5 Special Projects**

The Oahu Office Audit Branch conducted the following special projects during the fiscal year:

- Non-Filers: The examination of non-filer tax accounts resulted in \$9.8 million in assessments and adjustments.
- Special Enforcement, Fraud & Criminal Sections: The examination of tax accounts inclusive of correspondence, review of tax information and preparation of assessments resulted in \$18.5 million in assessments and adjustments.
- Supplemental Audit Scope: Examination of unreported and under-reported income as well as overstated deductions pertaining to general excise tax and net income taxes are inclusive and highlighted below:
  1. Audit adjustments of Hawaii Real Property Tax Act (HARPTA) resulted in \$2.3 million reduction of refunds claimed.
  2. Adjustments of net operating losses deducted amounted to \$1.2 million in additional taxes assessed.
  3. Industry specific focused audits amounted to \$5.4 million in assessments.

The Oahu Field Audit Branch conducted the following special projects during the fiscal year:



- Federal Contractors Project: This project, which targets unlicensed contractors working on federal installations, was started in 1983 and is an ongoing activity. This fiscal year, one audit was completed and resulted in \$1.7 million in assessments.
- Renewable Energy Tax Credit: During the fiscal year, two audit cases involving the renewable energy tax credit were completed resulting in \$268,955 in assessments.
- Other Refund Projects: During this fiscal year, six audit cases involving other refunds were completed resulting in \$9.5 million in assessments.
- Capital Goods Excise Tax Credit: During this fiscal year, three audit cases involving the capital goods excise tax credit were completed resulting in \$87,590 in assessments.
- Liquor Tax: During this fiscal year, five cases involving the liquor tax were completed resulting in \$48,769 in assessments.
- Multistate Tax Commission (MTC) Audits: During the fiscal year, eight multistate audit cases initially examined by the MTC were audited and assessed for Hawaii tax adjustments resulting in \$2.2 million in assessments.

The Maui Office Audit Section conducted the following special projects during the fiscal year:

- HARPTA Reviews: Maui Office Audit examined 1,973 HARPTA exemption claims and made adjustments to those refund requests totaling \$1.3 million.
- Non-filers: The examinations in this area resulted in \$6.8 million in assessments and adjustments.

The Maui Field Audit Section conducted the following special project during the fiscal year:

- Renewable Energy Technologies Income Tax Credits: Maui Field Audit reviewed renewable energy income tax credits claimed in the amount of \$577,611 which resulted in the disallowance of credits in the amount of \$0.

The Hawaii District Office Audit Section conducted the following special projects during the fiscal year:

- HARPTA Reviews: The examinations resulted in \$613,741 in assessments and adjustments of net income taxes.
- Non-Filers and Under-Reporters: The examinations in this area resulted in \$2.8 million in assessments and adjustments.

The Kauai District Field Audit Section conducted the following special projects during the fiscal year:

- HARPTA: Kauai Field Audit conducted and closed 21 HARPTA audit referrals with refund claims totaling \$1.1 million. Out of these audits, we issued \$323,826 in income tax assessments and \$7,620 in GET assessments.
- Capital Goods Excise Tax Credit: Kauai Field Audit also conducted one audit on Capital Goods Excise Tax Credit totaling \$2.9 million and assessed \$88,951 from that audit.

### 2.3.6 Taxpayer Assistance Provided

During FY 2020, neighbor island district tax offices helped taxpayers properly file numerous tax returns and other documents over the telephone, at the service counter, through Hawaii Tax Online (HTO) and via correspondence. The Oahu Office Audit, Field Audit, and Collection units also provided support services to the neighbor island district tax offices and to the Oahu Taxpayer Services Branch when requested. Table 2.2 summarizes the number of times that taxpayer assistance was provided by the Maui, Hawaii, and Kauai District Tax Offices.

**TABLE 2.2 - TAXPAYER ASSISTANCE PROVIDED BY  
MAUI, HAWAII AND KAUAI DISTRICT OFFICES**

	FY2020	FY2019	Difference	
			Number	Percentage
Counter	50,822	71,995	(21,173)	(29%)
Phone Services	50,124	46,712	3,412	7%
Tax Clearances	2,673	4,545	(1,872)	(41%)
Correspondence	18,422	16,264	2,158	13%
Web Notices	1,870			

The Compliance Taxpayer Services sections in the districts provide telephone and counter services for the neighbor islands. The districts continue to receive a steady flow of telephone inquiries and can use the statewide tax data system to assist with any tax inquiry.

In mid-March, the Department of Taxation suspended walk-in services due to the COVID-19 pandemic. Our staff concentrated on answering phones and web messages through the Hawaii Tax Online portal and helping taxpayers to use the online system.

**Providing assistance to taxpayers is part of the Compliance Division's mission to educate and empower taxpayers.** The Compliance Division encourages taxpayers to accurately and voluntarily comply with the State's tax laws. The Compliance Division will continue to engage its taxpayer enabling and empowering activity, as a large part of its mission.

In addition, the neighbor island districts participated in the following activities:

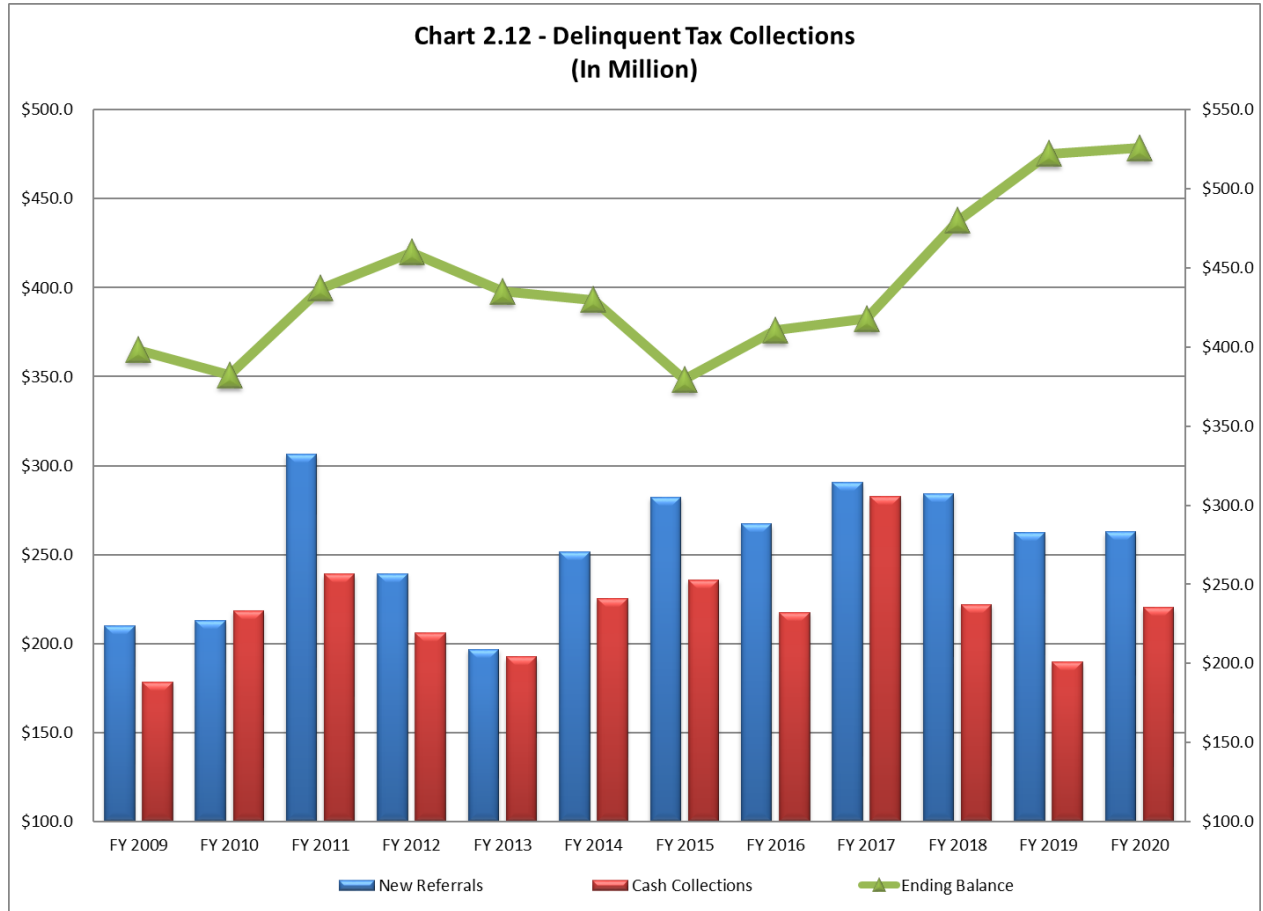
- Maui District
  - 2019 Department of Taxation's Tax Workshop in Maui on August 2, 2019.
- Hawaii District

- 2019 Department of Taxation's Tax Workshop in Kona on August 8, 2019 and in Hilo on August 9, 2019.
- Kauai District
  - 2019 Department of Taxation's Tax Workshop in Kauai on August 15, 2019.

### ***2.3.7 Collection Branch***

**The Compliance Division's Tax Collections program consists of the Oahu collection branch and the collection sections in the Maui, Hawaii, and Kauai District Tax Offices.** Collections of delinquent taxes totaled \$220.2 million for FY 2020, compared to \$191.3 million for FY 2019, an increase of \$28.9 million or 15.1%. The starting delinquent balance for FY 2020 is \$1,037.6 million, compared to \$971.4 million in FY 2019. New debts for FY 2020 totaled \$272.7 million, compared to FY 2019's new debt of \$270.1 million. Uncollectible write-offs increased to \$48.9 million in FY 2020, compared to \$21.8 million in FY 2019. The ending delinquent balance for FY 2020 is \$1,055.4 million, compared to \$1,037.6 million in FY 2019. There are 68,269 collection cases in FY 2020 compared to 63,992 cases in FY 2019.

**The Oahu collection branch accounted for 77% of the statewide delinquent tax collections in FY 2020.** During this period, the Oahu collection branch operated at less than full capacity due to attrition and to special project assignments. Chart 2.12 shows delinquent collections for FY 2009 through FY 2020. For comparison, Table 2.3 shows major performance measures for FY 2020 and FY 2019, including penalty and interest on outstanding tax delinquencies. With the change in tax system and consolidation into one system, the Collection Branch plans to use the new reporting and functionalities to analyze and to improve collection efforts.



**TABLE 2.3 - MAJOR PERFORMANCE MEASURES FOR FY 2020 AND FY 2019**

Measure	FY 2020	FY 2019	Difference	
			Amount	Percentage
Delinquent Taxes (\$ Millions)	\$ 525.8	\$ 516.1	\$ 9.7	1.9%
Delinquent Penalties, Interest, Other (\$ Millions)	\$ 529.6	\$ 521.5	\$ 8.1	1.6%
Total New Delinquent Referrals (\$ Millions)	\$ 269.1	\$ 270.1	\$ (1.0)	(0.4%)
Total Cash Collected (\$ Millions)	\$ 220.2	\$ 191.3	\$ 28.9	15.1%
Uncollectible Tax Write-Offs (\$ Millions)	\$ 48.9	\$ 21.8	\$ 27.1	124.3%
Payment Plan Initiated	14,951	19,822	(4,871)	(24.6%)
Tax Liens Filed	2,817	1,879	938	49.9%
Levies Served	16,837	15,596	1,241	8.0%

### ***2.3.8 Criminal Investigation Section***

**During FY 2020, the Criminal Investigation Section (CIS) continues to achieve substantial**

**outcomes in pursuing its investigative priorities.** In FY 2020, CIS was reduced from three to two Investigators and one of the positions was the Supervisor that oversees both CIS & the Fraud Unit. CIS was conducting three criminal tax investigations into entities with legitimate sources of income, as well into individuals and criminal groups involved in illegal activities, such as narcotics trafficking, gambling, prostitution, and other related financial frauds.

CIS continues to work with the U.S. Attorney's Office and the Federal Bureau of Investigation (FBI) for their assistance, review and federal prosecutions of some of their investigations. During FY 2020, the State of Hawaii Department of Attorney General are awaiting six successful adjudication investigations to be sentenced for felony and misdemeanor tax violations.

**Completed investigations that were referred and not referred for criminal prosecution were turned over to the appropriate Oahu Office Audit Branch, Field Audit Branch or Outer Island District Offices** for further civil examination. In FY 2020, 404 referrals were made to the Oahu Office Audit Branch that resulted in \$2,317,456 in additional assessments. The Maui, Hawaii and Kauai District Offices had 101 referrals that resulted in \$642,444 in additional assessments for CIS.

**An additional \$710,892 in criminal collections and secured returns were made in FY 2020.** These assessments were mutually exclusive to those made in prior years' adjudicated criminal cases. It is estimated that CIS investigative efforts will have yielded approximately \$3.7 million in restitution, assessments, penalties and interest that would have otherwise not been realized by the State of Hawaii. The Criminal Investigation Section will continue to be innovative in its investigative approach and strive to improve its processes for the Department of Taxation.

### ***2.3.9 Special Enforcement Section***

**The Special Enforcement Section (SES) was established in 2009, through the *Cash Economy Enforcement Act*.** Its goal is to ensure that all sectors of Hawaii's economy, especially those that conduct a significant portion of business transactions in cash ("cash economy"), pay their fair share of taxes. In FY 2016, SES was given additional responsibilities for ensuring that short-term vacation rental operators comply with the state's transient accommodations tax laws.

**The SES has broad legal authority to conduct civil investigations of suspected violations of tax laws.** It conducts complex financial investigations to determine correct income subject to tax by securing and examining books, records and other corroborating evidence. It executes a wide range of activities which include investigating complaints, developing leads through various sources, obtaining evidence, securing delinquent and amended tax returns and payments from taxpayers, conducting site visits, inspections, surveys, and training sessions at various events, business locations and short-term rental sites throughout the state for the purpose of educating the public, and business operators about their tax obligations and verifying tax compliance.

In FY 2020, SES was able to pursue leads developed through publicly available and confidential database sources that identified taxpayers who were potentially not compliant with transient accommodations and general excise tax laws. **This effort yielded about \$4.9M in additional TAT and related GET collections during the year** and is expected to continue providing substantial additional tax collections in FY 2021.

The latter half of FY2020 was not without its challenges. From March to June of 2020, SES had to

curtail its educational visits to the field and community outreach efforts in response to the Covid-19 pandemic. While curtailment of such activities are likely to continue until the pandemic eases, SES in response has shifted the focus of its work to projects aimed at procuring leads through online surveys, as well as databases developed with the help of both public agency and private sources.

**SES continues to bring positive change by bringing taxpayers into compliance and in collecting tax revenues.** SES measures its accomplishments by determining the actual tax collections that were remitted by taxpayers on delinquent returns secured by SES. In addition, as taxpayers brought into tax compliance by SES were largely non-filers, an estimation of SES's potential impact on future tax revenues was asserted. This is because had SES not brought the taxpayer into tax compliance, there is a strong likelihood that their non-compliance would have continued indefinitely. The potential tax revenues were based on tax collections remitted by taxpayers for a post compliance period of 18 months after they were brought into tax compliance.

**Accordingly, SES Total Impact Revenue grew to \$10,863,288 in FY 2020, as compared with \$8,549,112 in FY 2019.** This represents a 27.1% increase in revenue over the previous fiscal year. For purposes of comparison, previous year's revenue collections were \$7,973,436 in FY 2018, \$5,268,362 in FY 2017 and \$3,505,618 in FY 2016. Additional details of SES's accomplishments are as follows:

	<u>FY 2020</u>	<u>FY 2019</u>	<u>FY 2018</u>
Complaints Received	349	328	419
Businesses Educated on Compliance of Tax Laws	698	1,561	2,359
Number of Events Visited Throughout the State	94	147	46
GET Impact Revenue Collected	\$7,189,003	\$6,183,255	\$5,754,966
TAT Impact Revenue Collected	<u>3,674,285</u>	<u>2,365,857</u>	<u>2,218,470</u>
Total Impact Revenue Collected from Taxpayers	\$10,863,288	\$8,549,112	\$7,973,436
Total Tax Collected from Secured Delinquent Returns	\$6,051,938	\$4,255,748	\$3,867,116

### ***2.3.10 Tax Fraud Unit (Ad Hoc)***

**The Tax Fraud Unit (TFU) was created in 2013 to address this growing problem resulting from identity theft and other related tax frauds.** Abusive tax promotions have increased over the years, creating a significant threat to the State's tax revenues. Tax fraud promoters and return preparers have grown increasingly bold and sophisticated, utilizing the internet to instantaneously gain access to a wide audience base, causing various tax schemes and scams to grow at a phenomenal rate.

**The TFU researches, develops and identifies both investigative and audit leads for Criminal Investigation, Field and Office Audit Sections.** They are also responsible for detecting, investigating and stopping fraudulent refunds. In January 2020, the TFU continued to utilize the complex manual and advanced automated tools, including Tax System Modernization (TSM) data and the related Fraud Manager program, to identify a significant amount of fraudulent returns by computerized and manual compliance checks. They performed in-depth, technical analyses relating to Criminal and Fraud investigations, as well as Civil Audit operations in a coordinated effort with the impacted sections.

There were two (2) predominant schemes for tax year 2020. The schemes revolved around abusive "Form 1099-R" and "Large W2 Withholding Difference" which incurred fraudulent 2020 requested refunds. The "Form 1099-R" scheme is the return that have suspicious ratios of 1099 data. The return may have multiple W2's claiming similar wages and/or withholding in multiple states from the same employers falsifying or overstating withholding. The "Large W2 Withholding Difference" is when both the employer and employee have provided DOTAX electronic W2 data, where large differences were identified between employer and employee through TSM. These withholding differences are false and overstated withholdings. These schemes if not detected, would have resulted in issuing fraudulent requested refunds.

The Schedule C business losses is still apparent in tax year 2020 as this was the most predominant scheme in tax year 2019. This is where significant amounts of individuals requested refunds that were generated by fraudulent business losses. The alleged losses were used to offset their wages, which then led to their withheld taxes being requested as a refund. These false returns were referred to the appropriate section for investigation and/or audit, or action was taken directly by the fraud unit investigators to address.

**The TSM Fraud Manager captured approximately 1,250 alleged fraudulent refund claims, totaling in excess of \$4.2 million.** Approximately 576 of these fraudulent refunds were associated with inflated Form 1099-R, Large W2 Withholding Difference, and Schedule C loss returns, totaling in excess of \$2.2 million in refund claims.

Other focus areas would include questionable tax return schemes, detected through communications from electronic return originators, financial institutions, return preparers and/or concerned citizens.

The following are the fraud unit results for fiscal year ending 2018, 2019 and 2020:

<b><u>FY</u></b>	<b><u>Fraudulent Refunds Stopped</u></b>	<b><u>Amount</u></b>
2018	230	\$547,956
2019	651	\$1,871,519
2020	552	\$2,033,848

The fraud unit will continue to innovatively use TSM data analysis in its investigations, and to improve its process integration with the Department of Taxation.

### ***2.3.11 Compliance TSM Team (Ad hoc)***

**The Compliance TSM Team is an ad hoc team of employees from various parts of the Compliance Division** (total of about 200 employees) that provide the business user requirements and corrections/improvements necessary to create a TSM integrated tax computer system that best fits the needs of the business users and the taxpayers. The work includes defining the business requirements of the system, development and configuration of software and hardware to meet these requirements, scenario writing and testing of the software and hardware developed, purification and conversion of data, verification of the integrated system, troubleshooting and remediation of TSM issues after rollout through solution requests (SQRs). Rollout 5, the last rollout of miscellaneous taxes was developed and rolled out in September 2019.

Compliance spent over 3,000 hours, or the equivalent of 2 full time employees for this ad hoc team.

**Compliance TSM Team Resources**

	<u>Total Hours</u>
Oahu Field Audit	1,398
Oahu Office Audit	1,259
Oahu Collections	320
Fraud Unit	16
Hawaii District	80
	<u>3,073</u>

**Compliance Change Requests to Improve TSM**

	<u># of SQRs</u>
Beginning Balance	193
New	344
Completed	383
Ending Balance	154

***2.3.12 Refund Review Team (Ad Hoc)***

**The Refund Review Team is an ad hoc team of employees from various parts of the Compliance Division tasked with review of large tax refunds.** This team reviewed large refunds, stopped incorrect amount from being refunded, and improved the TSM accounting system and business analytics. Compliance provided 11,500 hours, or the equivalent of more than seven full-time employees, or about 3.5% of all Compliance employees to this ad hoc team. More resources were devoted to refund review during COVID-19 to expedite the refund process.

During FY 2020:

- 2,250 refunds were reviewed
- \$362 million in refunds were paid
- \$52 million in refunds were corrected and adjusted

**Compliance Refund Review Team Resources**

	<u>Total Hours</u>
Returns Classifying Office	1,448
Oahu Office Audit	5,762
Oahu Field Audit	4,290
	<u>11,500</u>

***2.3.13 Voluntary Disclosure Program***

Pursuant to Tax Information Release No. 2016-02 Re: 6 Practice, Compliance Division reviewed 107 cases which resulted in revenue of \$29.1 million through the program. In addition, the voluntary disclosure team also concluded 35 voluntary disclosure cases received from the Multi-State Commission, resulting in revenue of \$4.2 million.



## 2.4 STAFF OFFICES

### *2.4.1 Administrative Services Office*

**The Administrative Services Office manages the budgetary needs of the Department.** In discharging its duties and responsibilities, the Department incurred operating expenses of \$26.8 million for the year. **The Department collected \$7.35 billion in net tax revenues in fiscal year 2020, so the cost to collect \$100.00 of taxes was \$0.36.** For fiscal year 2020, \$36.7 million was appropriated for the Department.

**The Administrative Services Office submitted the supplemental budget for FY 2021 to the 2020 Legislature.** The Legislature appropriated \$37.8 million for FY 2021 for operating expenses. In fiscal year 2017, the Legislature appropriated \$500,000 CIP funds to improve the safety and security of the Department's offices statewide. Infrastructure and security improvements at various offices are still being addressed. The funds lapsed on June 30, 2020. DOTAX may request CIP funding in fiscal biennium 2021-2023.

#### *2.4.1.2 Personnel Management*

**The Human Resources Office serves as DOTAX's support in personnel management functions** such as recruitment, classification, employee relations, employee training and development, personnel transactions and maintenance of personnel records. The Department had 382 full time positions at the end of FY 2020.

In FY 2020, the Human Resources Office continued to focus on filling vacancies with a 17% vacancy rate. The HR office continued the recruitment efforts to fill vacancies but due to the hiring freeze in early April 2020 we were unable to continue to fill vacancies and our vacancy increased by 5%, closing out the fiscal year at a 20% vacancy rate.

In FY 2020, the Hawaii Modernization Initiative to modernized employee time and leave systems started. This new project aims to benefit human resources and payroll business processes and deliver new employee self-service functions. DOTAX was able to complete the requirements and assigned to go live in December 2020. In FY 2020, the HR Office also started the Online Onboarding project to help with recruitment efficiencies.

**Due to the April 2020 hiring freeze, key leadership positions in the department were not filled.** DOTAX will rely on salary payroll adjustments from turnovers to fund the salary shortfalls to help fill the department's vacancies.

### *2.4.2 Rules Office*

**The function of the Rules Office is to serve as a resource for complex policy recommendations and internal support.** The Rules Office is comprised of the Rules staff and the Technical Section. The Rules Office also assists in the Department's implementation of new legislation and in creating and maintaining the Department's tax forms, form instructions, and publications.

#### ***2.4.2.1 Rules Staff***

**The Rules staff serves as the Department's internal advisory arm to the Director of Taxation on tax policy and advises the Director's Office and the Department on legislative and tax policy issues.** The Rules staff also provided training for Department personnel and did presentations at the Department's annual workshops for tax practitioners. Litigation and other external legal matters are handled exclusively by the Tax & Charities Division of the Department of the Attorney General.

**In addition, the Rules staff assists, counsels, and represents the Department's compliance personnel** with tax disputes and other administrative tax controversies. For example, the Rules staff helps the Department's compliance function in interpreting issues under audit, settlement negotiations and closings, and appeared on behalf of the Department before the Boards of Review. The Rules staff also assisted the Tax & Charities Division of the Department of the Attorney General with the judicial tax appeals and provided support to the Department's Tax System Modernization project.

**For the 2020 legislative session, the Rules staff drafted and submitted five bills that were introduced as part of the Administration's legislative package.** Prior to the start of the legislative session, the Rules staff also reviewed and commented on proposed tax legislation submitted by other executive branch agencies.

**After sorting through all bills introduced to the Legislature, the Rules staff determined that there were approximately 323 measures proposing tax law changes and analyzed them in depth.** The measures were tracked throughout the legislative session and written testimonies were prepared each time a tax measure was heard by the Legislature. The Rules staff also drafted numerous responses to legislative committee chairs to respond to specific questions raised during hearings or to address specific concerns of committee members. After the legislative session was suspended due to the COVID-19 pandemic, the Rules staff drafted and provided support on multiple bills designed to conform State law with the federal CARES Act (P.L. 116-136) and other Congressional pandemic relief measures. The Department also extended tax filing deadlines and Rules staff collaborated with partner agencies and departments to assist the with the State's unemployment insurance and Pandemic Unemployment Assistance programs.

**The Rules staff also prepared Tax Announcements, Tax Information Releases, letter rulings, Administrative Directives, and other publications.** During FY 2020, 13 Tax Announcements and 5 Tax Information Releases were issued. Since 2009, when it became the Department's policy to publicly release taxpayer letter rulings in redacted form, 61 redacted letter rulings have been released.

**In FY 2020, the Department promulgated administrative rules relating to the Motion Picture, Digital Media, and Film Production Income Tax Credit,** clarifying its provisions and establishing procedures for verification review. The Department also promulgated proposed rules relating to revocation of tax licenses due to abandonment; distribution of income tax credits for partnerships, S corporations, estates and trusts; and information to be furnished upon claim for refund of fuel tax for operating vehicles or equipment in areas other than upon the public highways of the State. Finally, the Rules staff also reviewed and certified 52 requests for the credit for research activities pursuant to section 235-110.91, HRS

#### ***2.4.2.2 Technical Section***

**The main function of the Technical Section is to provide outward facing assistance to taxpayers and tax professionals,** as well as internal support to divisions within the Department in regard to complex tax matters and detailed procedural questions regarding tax forms.

**In FY 2020, Technical Section staff responded to 1,821 emails and 3,686 telephone calls, answering questions about the application of the tax laws.** Some of the questions came directly from taxpayers or tax practitioners; others were forwarded by Taxpayer Services, requesting assistance with difficult questions. The Technical Section also responded to requests for formal letter rulings, information letters, determinations of tax status, and answers for tax questionnaires submitted by other government agencies, by educational institutions, or by major tax research database providers.

**The Technical Section staff is also responsible for revising or creating the state's tax forms and instructions each year to incorporate changes in federal and state tax law.** In FY 2020, they reviewed or revised 521 tax forms, 61 tax form instructions, 34 letter templates for the Tax Modernization System, and 45 Tax Publications. For FY 2020, no new forms or instructions were created and none of the existing forms were made obsolete.

**The Technical Section also analyzes and reviews certain applications for tax exemptions.** In FY 2020, the Technical Section received 152 applications from organizations requesting exemption from the general excise tax under section 237-23(b), HRS. Of the 152 applications received, 128 were reviewed and approved, 86 are pending further action, and 13 were cancelled or rejected, either because the organization failed to respond to a request for additional information, or because the organization did not qualify for the exemption. In addition, the Technical Section received and processed 2,272 applications for exemption from the conveyance tax.

Other duties of the Technical Section include reviewing, providing comments, and developing recommendations on legislative bills, administrative rules, Tax Announcements, and Tax Information Releases.

#### ***2.4.3 Tax Research and Planning Office***

**The Tax Research and Planning Office (TRP) produces statistical reports and provides research support and policy analysis.** The main functions of the Tax Research and Planning (TRP) Office include: (1) prepare reports on data collected by the Department, including monthly reports of the State's various taxes and annual reports; (2) provide administrative and technical support to the Council on Revenues; (3) provide economic and statistical analyses to help the Department execute its policies and programs; (4) prepare reports on the revenue consequences of proposed tax legislation; (5) conduct economic analysis on the State's tax system; and (6) provide administrative and technical support to the Tax Review Commission when it is in session.

**The TRP Office prepares the following reports on a monthly, fiscal year, and calendar year basis nine reports.** These include the: (1) State Tax Collections and Distributions; (2) General Excise and Use Tax Collections; (3) Liquid Fuel Tax Base and Collections; (4) Liquid Fuel Tax Allocations by Fund; (5) Liquor Tax Collections and Permits; (6) Tobacco Tax Collections and Licenses, (7) Preliminary Comparative Statement of General Fund Tax Revenues, (8) the General Excise and Use Tax Liability Report by District, (9) the Transient Accommodation Tax Liability by

District, and (9) the Liquor report.

**In FY 2020, the TRP Office produced six annual reports** including the Department of Taxation's Annual Report: 2018–2019, which was completed and submitted in December of 2019. The Office published reports on Tax Credits Claimed by Hawaii taxpayers, Hawaii Individual Income Tax Statistics, Hawaii Business Income Tax Statistics, the Hawaii General Excise and Use Tax Exemptions report, and the Earned Income Tax Credit report.

**For the 2020 Legislative session, TRP staff reviewed tax-related legislative bills and prepared more than 400 revenue estimates for drafted legislation.** Revenue estimates were also prepared for various proposals in response to requests from the administration, legislators, and others. The Office also responds to requests from the general public regarding statistics and trends of the Hawaii tax system.

**An important function of the TRP Office is to provide administrative and technical support to the Council on Revenues.** The seven members of the Council are responsible for forecasting General Fund revenues and the State's Total Personal Income. The Council provides forecasts of State revenue for the current and six subsequent fiscal years. The forecasts are used by the Governor and by the Legislature to develop and administer the State's budget. The Council also forecasts Total Personal Income (TPI) for the current and immediately following calendar years. The growth in Hawaii Total Personal Income is used to set the ceiling for expenditures from the State's General Fund, as required by the State's Constitution.

#### ***2.4.4 Technical Services Office***

**The Technical Services Office manages the Tax System Modernization project.** In Fiscal Year 2020, the Tax System Modernization (TSM) project completed its final major deployment. The final phase went live on September 3, 2019 and enabled all tax types to be managed through the new system and Hawaii Tax Online.

**The TSM project shifted its focus to production support and warranty services.** There are two major releases anticipated annually: (1) Mid-Year Changes in July and (2) Year End Changes in December. Each of these major releases will provide additional features and functionality, including changes to the core software. In addition, weekly releases of bug fixes and enhancements will be delivered throughout the year.

Enhancements implemented in FY 2020 include:

- **Simple file import method of filing general excise, transient accommodations, and withholding returns.** This new functionality allows for multiple returns to be filed at once using a simple spreadsheet format that is uploaded through Hawaii Tax Online and ingested into the system.
- **Wage levy improvements.** A wage levy dashboard was introduced to allow employers to easily and efficiently manage levy payments.
- **Annual license abandonment process.** FY 2020 was the first time that DOTAX utilized its legal authority to revoke abandoned tax licenses. This process is now set up to run annually on July 1. This will benefit taxpayers by ensuring that their open accounts are active.

**Beginning in September 2020, the TSM project will be upgrading the current system to the latest version of the GenTax software.** This upgrade is planned to be completed in August 2021. It includes a redesign of Hawaii Tax Online and enhanced security features.

#### ***2.4.5 Information Technology Services Office (ITSO)***

**The Information Technology Services Office (ITSO) is responsible for providing technical support for the Department's computerized tax systems and applications, local area network, and network-related components and infrastructures.** During FY 2020, ITSO focused on improving the IT infrastructure with a focus on IRS 1075 compliance and helped Department employees adopt new technology solutions to overcome the challenges presented by the COVID-19 pandemic.

*Key initiatives in the fiscal year include:*

1. Fully decommissioning the legacy ITIMS systems in September 2019.
2. Development and deployment of system modifications to accommodate year end changes, which included modifications to implement mandated tax law changes for Act 174, SLH 2019 to increase the rental motor vehicle surcharge tax (RVST) from \$3 to \$5 per day effective July 1, 2019, configurations of a 0.25 percent county surcharge for Hawaii County and 0.50 percent surcharge for Kauai County on General Excise Taxes, and the modification of 21 forms.
3. Expanded the bulk filing process to file withholding taxes: A total of twenty-eight vendors are now using the bulk filing application.
4. Migration of 67,739,087 return images from ITIMS to GenTax systems.
5. Updated 493 workstations to Windows10 and migrated all users to Office365
6. Replaced aging servers with a Hyper Converted Infrastructure (HCI) stack in the offsite data center. The HCI server stack provides a highly available, redundant, expandable platform for daily operations, consolidated resources, and improves efficiency.
7. Expanded the Pure Connect Customer Interaction Center telephony platform to the Collections Section and to improve the taxpayer services.
8. Deployment of an Enterprise Endpoint Detection and Response (EDR)
9. Deployment of a cloud-based networking monitoring tool to improve availability and response time
10. Deployment of a cloud-based Security Information and Events Management (SIEM)
11. Deployment of a secure remote access system
12. Implementation of a cloud-based mass email service to improve email delivery for Hawaii Tax Online

#### ***2.4.6 Taxpayer Advocate***

**The Taxpayer Advocacy Program assists taxpayers who do not have a resolution to their tax related issue after going through normal channels.** This program assisted 1160 taxpayers during the Fiscal Year ending June 30, 2020.

**The Taxpayer Advocate assisted taxpayers in working to resolve systemic problems within the Department.** Examples of issues addressed include processing, inter-departmental and workflow problems which affect taxpayers. Other accomplishments of this office included speaking, teaching, and participating in tax workshops and educational outreaches to tax professionals and the general public.

#### ***2.4.7 Tax Practitioner Priority Office***

**The Practitioner Priority Specialist (PPS) office provides tax practitioners a separate and dedicated connection to the Department's Taxpayer Services functions.** The PPS office has assisted verified tax practitioners via telephone, email, and fax to resolve tax account issues such as locating and applying payments, explaining notices and letters, providing procedural guidance, and assisting with other taxpayer account inquiries. Tax issues outside these parameters were referred for follow up to the appropriate functions within the Department.

**The PPS also assisted verified tax practitioners by working within the Department to improve services (including online) and workflows based on their input.** Other accomplishments of this office included speaking, teaching, and participating in tax workshops and educational outreaches to tax professionals.

## 2.5 MANAGEMENT PERSONNEL

As of June 30, 2020

### OFFICE OF THE DIRECTOR

Director of Taxation ..... Rona M. Suzuki  
Deputy Director of Taxation ..... Damien Elefante

### STAFF OFFICES

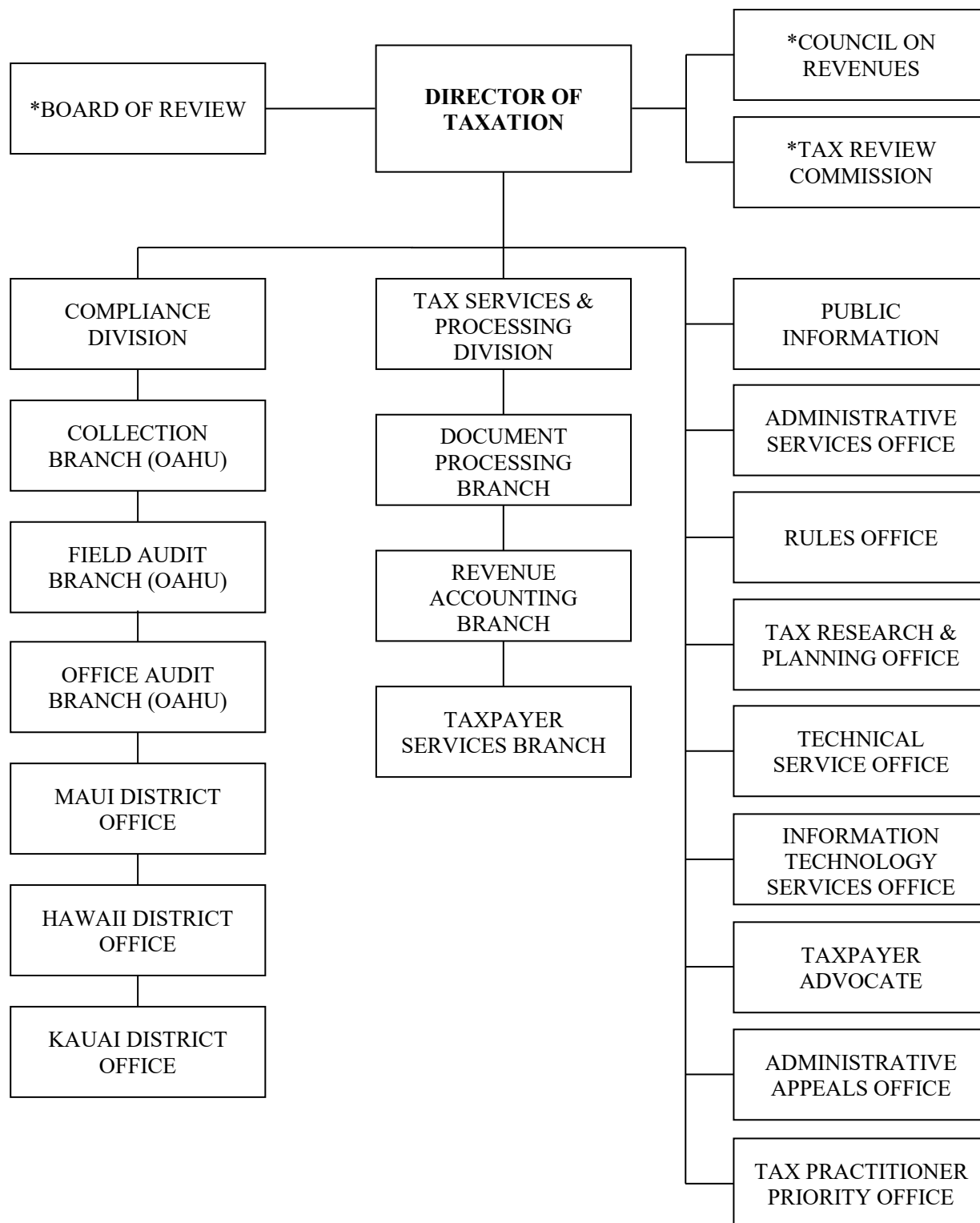
Public Information Officer ..... Deborah Kwan  
Rules Officer ..... Ted Shiraishi  
Technical Section Supervisor ..... Denise Inouye  
Tax Research & Planning Officer ..... Seth Colby  
Senior Economist ..... Yvonne Chow  
Senior TSM Project Manager ..... Michael Otsuji  
Acting Information Technology Services Officer ..... Randy Takehara  
Acting Administrative Services Officer ..... Karen Takemoto  
Personnel Officer ..... Jennifer Egami  
Taxpayer Advocate ..... Jaysen Morikami  
Administrative Appeals Officer ..... Adriane Aarona  
Tax Practitioner Priority Specialist ..... Vacant

### OPERATIONS STAFF

Taxation Compliance Administrator ..... Kevin Wakayama  
Acting Tax Compliance Coordinator ..... Regina Yuen  
Oahu Field Audit Branch Chief ..... Madelaina Lai  
Oahu Office Audit Branch Chief ..... Donald Kuriki  
Acting Oahu Collection Branch Chief ..... Bryce Okamoto  
Maui District Tax Manager ..... John Higgins  
Hawaii District Tax Manager ..... Duquesne Hulihee  
Kauai District Tax Manager ..... Ruth Jackson  
  
Taxation Services Administrator ..... Nicki Ann Thompson  
Document Processing Operations Manager ..... Todd Kuromoto  
Revenue Accounting Branch Chief ..... Jennifer Oshiro  
Taxpayer Services Branch Chief ..... John Pacheco

## 2.6 ORGANIZATION CHART

Department of Taxation  
State of Hawaii



\*For Administrative Purposes.

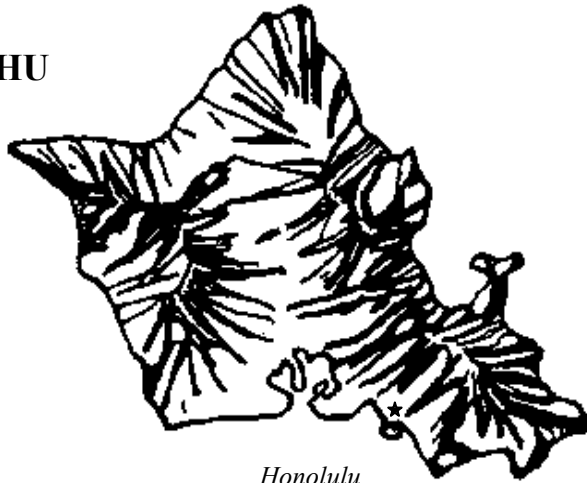


## 2.7 DISTRICT OFFICES

### FIRST TAXATION DISTRICT

City & County of Honolulu

**OAHU**



*Honolulu*

#### **Oahu Office**

830 Punchbowl Street  
Honolulu, Hawaii 96813

### SECOND TAXATION DISTRICT

Counties of Maui and Kalawao



*Kaunakakai*

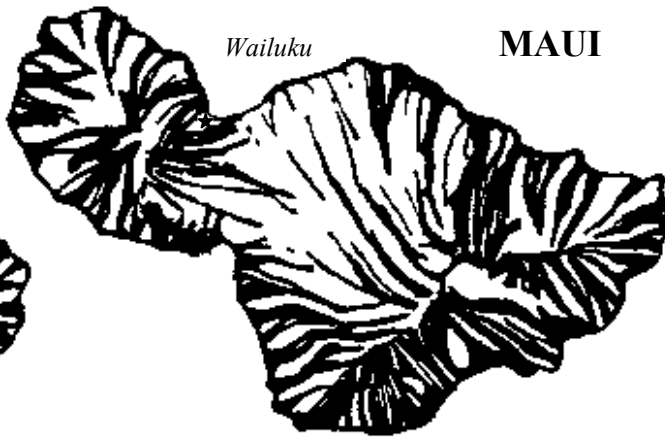
**MOLOKAI**

**LANAI**



*Wailuku*

**MAUI**



**KAHOOLAWE**

#### **Maui Office**

54 South High Street  
Wailuku, Hawaii 96793

#### **Molokai Office**

35 Ala Malama Street #101  
Kaunakakai, Hawaii 96748

## THIRD TAXATION DISTRICT

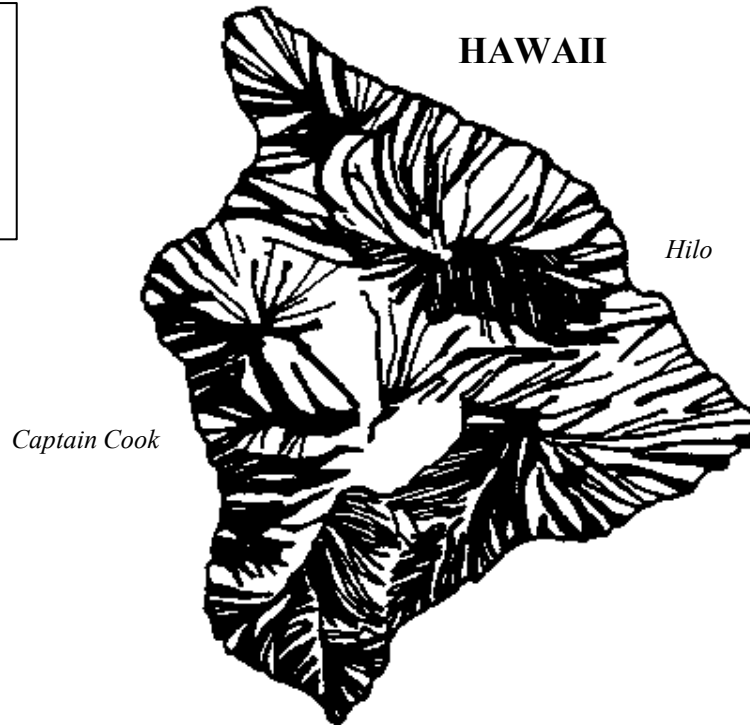
County of Hawaii

### Hilo Office

75 Aupuni Street  
Hilo, Hawaii 96720

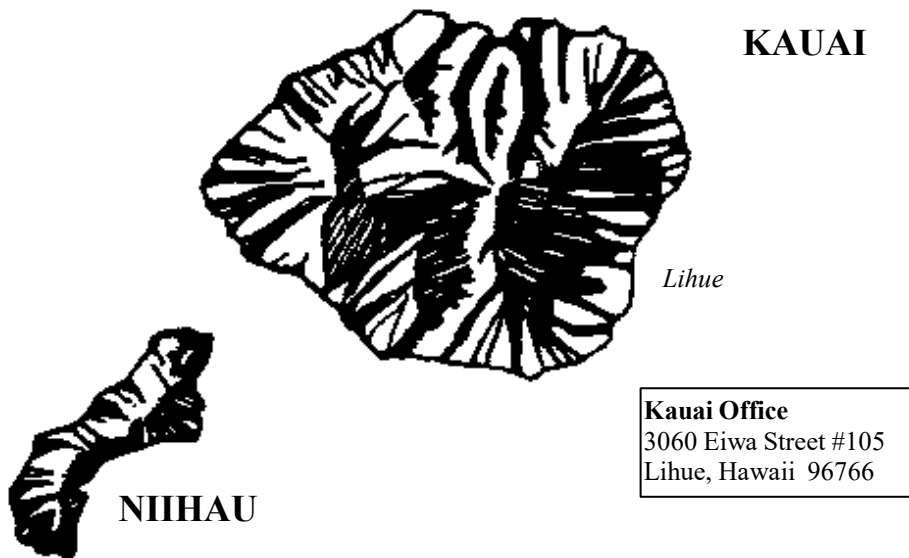
### Kona Office

82-6130 Mamalahoa Highway #8  
Captain Cook, Hawaii 96704



## FOURTH TAXATION DISTRICT

County of Kauai



### Kauai Office

3060 Eiwa Street #105  
Lihue, Hawaii 96766

## 3.0 APPEALS AND LITIGATION

### 3.1 ADMINISTRATIVE APPEALS OFFICE

**The Administrative Appeals Office (AAO) operates the Administrative Appeals and Dispute Resolution (AADR) program.** AADR is a streamlined appeals process that assists taxpayers and return preparers with disputes involving proposed assessments, final assessments, and return preparer penalty assessments. Our mission is to help people resolve tax disputes fairly, expeditiously, and without litigation. The AAO is separate and independent of the Compliance Division that performs audit examinations and issues assessments. For more information, please visit our website at [tax.hawaii.gov/appeals](http://tax.hawaii.gov/appeals).

**In FY 2020, the AAO received 94 appeal application and closed 82 cases.** There were 34 cases pending as of June 30, 2020. The AAO's caseload data is described in further detail in the table below.

AAO Caseload for Fiscal Year 2020

Tax Type	Appeals Received	Appeals Closed <sup>1</sup>	Appeals Pending June 30, 2020
<b>General Excise/Use Tax</b>	54	46	19
<b>Income Tax</b>	34	29	13
<b>Other<sup>2</sup></b>	6	7	2
<b>Total</b>	94	82	34

<sup>1</sup>Appeals closed includes appeals filed in prior fiscal years.

<sup>2</sup>Appeals categorized as "Other" consist of all other taxes administered by the Department such as the transient accommodations tax. It also includes cases where multiple tax types were appealed.

**In the 4th quarter of FY 2020, the AAO's operations shifted from tax appeals to supporting essential state operations in response to the COVID-19 pandemic.** Operations consisted of actively responding to inquiries by phone since state offices were closed to the public, processing unemployment benefit claims filed with the Department of Labor and Industrial Relations, and adjudicating unemployment benefit claims where employees voluntarily separated from employment or were discharged due to misconduct.

### 3.2 BOARDS OF TAXATION REVIEW

**Each taxation district has an administrative (i.e., non-judicial) Board of Taxation Review consisting of five members.** Tax disputes that are not resolved at the district tax office level may be appealed to a Board of Taxation Review unless the dispute involves the Constitution or laws of the United States. Statewide, the boards began the fiscal year with 180 pending tax appeals. In FY 2020, 24 new appeals were filed, 13 appeals withdrawn, and 6 appeals settled; a total of 185 appeals to the Boards of Taxation Review were pending at the end of the fiscal year.

The following table details appeals to the Boards of Taxation Review by taxation district:

Taxation District	First		Second	Third	Fourth	TOTAL
	Field	Office				
Appeals Pending (Beginning)	86	40	36	5	13	180
New Appeals	7	4	0	3	10	24
Appeals Withdrawn	1	1	0	2	9	13
Appeals Settled	1	0	0	1	4	6
BOR Appeals Pending (Ending)	91	43	36	5	10	185

### 3.3 CIVIL DECISIONS, SETTLEMENTS AND OTHER LEGAL MATTERS

#### Matters Closed

This report covers fiscal year 2019-2020. During the last fiscal year, the Tax and Charities Division (“Division”) concluded 691 Tax Department-related legal matters (excluding legislative matters).

Tax Appeals	-	49
Bankruptcies	-	484
Contracts	-	2
Foreclosures	-	139
Miscellaneous	-	3
Quiet Title	-	2
Subpoenas	-	7
Partitions	-	1
Admin Rules	-	4

#### Amounts Collected

Last fiscal year, the Division collected the following amounts for the Department of Taxation (“Department”):

A. Tax Appeals	\$ 1,136,583.39
B. Foreclosures	\$ 157,849.63
C. Bankruptcies	\$ 2,367,272.13
D. TOTAL:	\$ 3,661,705.15

#### **3.3.1 Resolved Tax Appeal Cases**

In the Matter of the Tax Appeal of Patrick O’Brien, Case No. 1 T.X. 11-1-0013, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional income taxes for unreported schedule C income from a single member LLC the Taxpayer owned. Taxpayer denied the income was taxable to him. This case was settled.

In the Matter of the Tax Appeal of Security Resources, LLC, Case No. 1 T.X. 11-1-0014; Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes for underreporting the amount of gross receipts it received. Taxpayer claims the assessments are overstated and that it is entitled to be taxed at the wholesale rate of .5 percent. Taxpayer also claims some of its sales are exempt because they were sales of tangible personal property to the federal government. This case was settled.

In the Matter of Priceline.com, Case Nos. 1 T.X. 13-1-0269, (and consolidated cases 1 T.X. 13-1-0261 through 1 T.X. 13-1-0270, 1 T.X. 14-1-0001 through 1 T.X. 14-1-0010, and 1 T.X. 14-1-0243 through 14-1-0251), Tax Appeal Court, State of Hawaii.

These consolidated tax appeals are by online travel companies Expedia, Inc., Hotwire, Inc., Orbitz, LLC, Trip Network, Inc. dba Cheaptickets.com, and Priceline.com (“OTCs”) from assessments of general excise tax and penalties and interest for the OTCs’ rental motor vehicle transactions in the State for tax years 2000 through 2013, inclusive. On cross motions for summary judgment, the Tax Appeal Court ruled that the OTCs owed general excise tax on their gross receipts on stand-alone rental car transactions, but where the car rental is part of a package transaction, then the OTCs are entitled to an apportionment and need to pay general excise tax only on the portion they retain from the gross amount collected. Both sides appealed. The Hawaii Supreme Court issued its ruling in March 2019 that the OTCs are entitled to a general excise tax apportionment on both stand-alone and package rental car transactions and remanded the matter back to the Tax Appeal Court for recalculation of the OTCs’ general excise tax liability and associated penalties and interest. This case was settled.

In the Matter of the Tax Appeal of Polynesian Cultural Center, Case No. 1 T.X. 16-1-0290, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the Department’s assessment of additional general excise taxes based on the disallowance of the income splitting provisions under Haw. Rev. Stat. § 237-18(f). This case was settled.

In the Matter of the Tax Appeal of Gary Takahashi Sports Marketing Inc., Case No. 1 T.X. 16-1-0319, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessments of general excise tax based on information obtained from the Internal Revenue Service. Taxpayer claimed that the assessments were improper because all sales occurred outside of Hawaii. This case was settled.

In the Matter of the Tax Appeal of Gary K. Takahashi, Case No. 1 T.X. 16-1-0320, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessments of general excise tax based on information obtained from the Internal Revenue Service. Taxpayer claimed that the assessments should have been made on Gary Takahashi Sports Marketing Inc. and not on him individually. This case was settled.

In the Matter of the Tax Appeal of Federal Business Council, Inc., Case No. 1 T.X. 18-1-0315, Tax Appeal Court, State of Hawaii.

Taxpayer appealed final assessments for general excise tax for tax years 2008 through 2013, inclusive. Taxpayer claimed that much of its gross receipts were for services rendered outside of the State and should not be sourced to Hawaii for tax purposes. This case was settled.

In the Matter of the Tax Appeal of Richard A. and Leony C. Wheelock, Case No. 1 T.X. 18-1-0326, Tax Appeal Court, State of Hawaii.

Taxpayers appealed final assessments of income taxes for tax years 2008 through 2010, inclusive. Taxpayers contended that the Department improperly disallowed deductible expenses for mortgage interest in each of the tax years in issue. The parties submitted a stipulation to the Tax Court to allow the case to be placed into the Department's Administrative Appeals and Dispute Resolution Program. This case was settled through the Department's Administrative Appeals process.

In the Matter of the Tax Appeal of EPRODS, LLC, Case No. 1 T.X. 18-1-0360, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from final assessments for general excise taxes for tax years 2013 through 2016, inclusive. Taxpayer challenged the assessments on the basis that it exports the majority of its services and goods out-of-state and therefore was not subject to the general excise tax. This case was settled.

In the Matter of the Tax Appeal of SP Cleaning Inc., Case No. 1 T.X. 18-1-0363, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from final assessments for general excise taxes for tax years 2010 through 2011 and 2013 through 2016, inclusive. Taxpayer claimed that the assessments overstate gross receipts. This case was settled.

In the Matter of the Tax Appeal of Reliable Auto Movers Inc., Case No. 1 T.X. 18-1-0364, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from final assessments for general excise taxes for tax years 2004 through 2017, inclusive. Taxpayer claimed that the assessments incorrectly assess service income at the 4 percent rate instead of the wholesale rate and overstate gross receipts. This case was settled.

In the Matter of the Tax Appeal of Scot Paiva, Case No. 1 T.X. 18-1-0365, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from final assessments for income taxes for tax years 2010 through 2011 and 2013 through 2017, inclusive. Taxpayer claimed that the assessments overstate flow-through income. This case was settled.

In the Matter of the Tax Appeal of Masakazu Hirano, Case No. 1 T.X. 18-1-0366, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from the denials of general excise tax refund claims for tax years 2013 and 2014 and general excise tax assessments for tax years 2015 and

2016. Taxpayer claimed he erroneously paid general excise tax at the 4 percent rate when he should have been paying the wholesale rate. The Tax Appeal Court granted the Department's motion to dismiss on claims related to tax years 2013 and 2014. This case was dismissed in its entirety.

In the Matter of the Tax Appeal of HSI Honolulu Joint Venture Company, Case No. 1 T.X. 19-1-0166, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from the denial of its refund claim for general excise taxes for tax year 2014 and the imposition of penalties for an erroneous claim for refund. Taxpayer claimed that its gross receipts from sales at airport concessions were not subject to general excise tax due to preemption by the federal Anti-Head Tax Act. This case was settled.

In the Matter of the Tax Appeal of HSI Kahului Joint Venture Company, Case No. 1 T.X. 19-1-0167, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from the denial of its refund claim for general excise taxes for tax year 2014 and the imposition of penalties for an erroneous claim for refund. Taxpayer claimed that its gross receipts from sales at airport concessions were not subject to general excise tax due to preemption by the federal Anti-Head Tax Act. This case was settled.

In the Matter of the Tax Appeal of Host GRL LIH F&B, LLC, Case No. 1 T.X. 19-1-0168, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from the denial of its refund claim for general excise taxes for tax year 2014 and the imposition of penalties for an erroneous claim for refund. Taxpayer claimed that its gross receipts from sales at airport concessions were not subject to general excise tax due to preemption by the federal Anti-Head Tax Act. This case was settled.

In the Matter of the Tax Appeal of Kai Jacobsen, Case No. 1 T.X. 19-1-0184, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from final assessments of general excise taxes for tax years 2009 through 2017, inclusive. Taxpayer claimed, among other things, that the assessments improperly include tax on activities conducted and/or sales made outside the State. This case was settled.

### ***3.2.2 Resolved Miscellaneous Tax Cases***

In re Office of Information Practices Opinion Letter No. F19-05, Special Proceeding No. 19-1-0191 DEO, Circuit Court of the First Circuit, State of Hawaii.

The Department appealed the Office of Information Practices' opinion letter finding that the assumptions, source data, and analysis used to create revenue estimates for legislative bills were not

exempt from disclosure. The Department asserted that disclosure would frustrate a legitimate government function and the documents qualify as inchoate and draft working papers of legislative committees. The court affirmed the Office of Information Practices' opinion but denied the requester's motion for attorney's fees.

Department of Taxation, State of Hawaii v. Airbnb, Inc., Special Proceeding No. 19-1-0202 BIA, Circuit Court of the First Circuit, State of Hawaii.

The Department petitioned the court to serve an administrative subpoena on Airbnb, Inc. for records of persons who received payment from Airbnb, Inc. for accommodations in the State from 2016 to the present and persons who posted listings on Airbnb, Inc.'s website in April 2019 for accommodations in the State but who failed to list a Hawaii tax identification number. The parties entered into a stipulation regarding the scope and manner of the production and the court granted the Department's petition.

In re Subpoena No. 20-07-001 Issued by State of Hawaii Department of Taxation, Special Proceeding No. 1CSP-20-0000029, Circuit Court of the First Circuit, State of Hawaii.

Petitioner Kenneth Allen filed a motion to quash the Department's subpoena to Airbnb, Inc. which sought information relating to income Petitioner received from Airbnb, Inc. on the grounds that the subpoena was unreasonable and overbroad. The court denied the motion to quash.

### ***3.2.3 Pending Tax Appeal Cases***

In the Matter of the Tax Appeals of TMI Management, Inc., Case Nos. 1 T.X. 09-0071 and 1 T.X. 09-0072, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes on amounts received for performing work for the federal government. Taxpayer argues, among other things, that the disputed income was exempt because Taxpayer was an employee leasing company and the disputed income was for salaries and expenses of leased employees. This case has been taken off the trial ready calendar.

In the Matter of the Tax Appeals of Bernard & Ellen Fuller and South Pacific Builders, Ltd., Case Nos. 1 T.X. 09-0087, 1 T.X. 09-0088, and 1 T.X. 09-0089, Tax Appeal Court, State of Hawaii.

Taxpayers were assessed additional general excise and net income taxes on amounts received for performing work within the State. Taxpayers argue, among other things, that the disputed income was exempt because Taxpayers paid certain amounts to other contractors. This case was taken off the trial ready calendar to give the parties time to work on settlement. Taxpayers' counsel withdrew from this case and Taxpayers are seeking new counsel.

In the Matter of the Tax Appeal of Julie A. Dunham, Case No. 1 T.X. 12-1-0390, Tax Appeal Court, State of Hawaii.



Taxpayer was assessed general excise and income taxes on non-filed returns for 1999 through 2010, inclusive. Taxpayer argues that the Department's income figures are incorrect. Trial date will be rescheduled.

In the Matter of the Tax Appeal of William A. Bartenstein, Case No. 1 T.X. 13-1-0228, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise and/or use taxes and penalties and interest on goods imported for resale. Taxpayer argues that the Department's income figures are incorrect, and the stacking of the negligence and underpayment penalties is erroneous. Trial is set for March 15, 2021.

In the Matter of the Tax Appeal of Skydiving School, Inc., Case Nos. 1 T.X. 14-1-0217 and 1 T.X. 14-1-0218, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from the denial of a refund claim and assessments of general excise taxes related to its skydiving business. Taxpayer's major issue is that its gross receipts from skydiving activities is not subject to the general excise tax because of federal preemption under the federal Anti-Head Tax Act. Trial briefs were submitted in lieu of a trial. The Tax Appeal Court has yet to rule.

In the Matter of the Tax Appeal of Edward A. Alquero, M.D., Inc., Case No. 1 T.X. 14-1-0219, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional income and general excise taxes, penalties, and interest for underreported income related to his medical practice. Taxpayer claims he is entitled to deductions for certain expenses that the Department disallowed. Trial is set for February 22, 2021.

In the Matter of the Tax Appeal of Darren Truitt, Case No. 1 T.X. 14-1-0228, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the Department's assessment of additional income taxes, and penalties and interest for income attributed to his wholly owned LLC. Taxpayer's counsel withdrew from this case. The Tax Appeal Court took this case off the trial ready calendar to allow Taxpayer time to obtain new counsel.

In the Matter of the Tax Appeal of Construction Servs. & Management LLC, Case No. 1 T.X. 14-1-0229, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the Department's assessment of general excise taxes, and penalties and interest for underreported gross receipts. Taxpayer's counsel withdrew from this case. The Tax Appeal Court took this case off the ready trial calendar to allow Taxpayer time to obtain new counsel.

In the Matter of the Tax Appeal of Hawaiian Airlines, Inc., Case No. 1 T.X. 14-1-0258, Tax Appeal Court, State of Hawaii.

Taxpayer claims a use tax refund alleging that it paid use tax on purchases of jet fuel from World Fuel Services for use and consumption during its inter-island flights. Trial is not set.

In the Matter of the Tax Appeal of Home Depot U.S.A., Inc., Case No. 1 T.X. 15-1-0218, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the Department's disallowance of the wholesale rate on general excise taxes due on sales to customers at its retail stores as well as the Department's denial of the subcontractor deduction related to work performed for customers. Trial is set for October 4, 2021.

In the Matter of the Tax Appeal of Dan S. Tetsutani, Case No. 1 T.X. 15-1-0219, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from a final assessment of additional general excise tax and/or use taxes stating the assessments were improper, or in the alternative, that Taxpayer should pay the wholesale rate. Trial date will be rescheduled.

Maria E. Zielinski v. Blake and Bianca Goodman, Case No. 1 T.X. 15-1-0221; Tax Appeal Court, State of Hawaii.

The Department denied Taxpayers' fully refundable Renewable Energy Technologies tax credits under Haw. Rev. Stat. § 235-12.5 because Taxpayers' adjusted gross income exceeded the statutory threshold entitling them to a fully refundable credit. The Board of Review ruled that Taxpayers could revoke their elections to receive refundable tax credits. Cross motions for summary judgment were heard on July 17, 2017; however, the Tax Appeal Court has not ruled yet. Trial was taken off the trial ready calendar.

In re Tax Appeal of Thomas Aki, Case No. 1 T.X. 16-1-0291, Tax Appeal Court, State of Hawaii.

Taxpayer appeals income tax assessments for tax years 2012 through 2014 in which the Department disallowed business expenses and deductions, disallowed the personal exemption deduction, and disallowed the application of losses from prior years. Trial is set for October 28, 2020.

In re Tax Appeal of Jeffrey Scott Lindner, Case No. 1 T.X. 16-1-0300, Tax Appeal Court, State of Hawaii.

Taxpayer appeals income taxes for tax years 2012 through 2014, inclusive. Taxpayer claims that he properly filed returns to qualify for High Technology Business Investment Tax Credits per Haw. Rev. Stat. § 235-110.9; however, the Department claims that it did not receive the returns. Trial is set for December 13, 2021.

In the Matter of the Tax Appeal of Janice P.C. Hori, Case No. 1 T.X. 17-1-1340, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of general excise taxes that were made based on information obtained from Taxpayer's income tax return. Taxpayer did not file general excise tax returns for the years listed on her income tax return. Trial is set for October 19, 2020.

In the Matter of the Tax Appeal of Certified Erosion Control Hawaii LLC., Case No. 1 T.X. 17-1-1341, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of general excise tax claiming it was entitled to the wholesale rate. Taxpayer was a non-filer and submitted unfiled returns with the auditor during the audit phase.

Although Taxpayer qualified for the wholesale rate, the rate was disallowed because of Haw. Rev. Stat. § 237-41.5. Trial will be rescheduled.

In the Matter of the Tax Appeal of Michelle Richardson, Case No. 1 T.X. 17-1-1349, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of income and general excise taxes that were based on federal data because Taxpayer is a non-filer. Trial is set for October 26, 2020.

In the Matter of the Tax Appeal of Maui Fresh Fish Investors, LLC, Case No. 1 T.X. 17-1-1361, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the Department's disallowance of High Technology Business Investment Tax Credits for tax years 2010 through 2012. Taxpayer claimed that funds set aside in a bank account were at risk as Haw. Rev. Stat. § 235-110.9 requires. Trial is set for June 21, 2021.

In the Matter of the Tax Appeal of Adrienne P. Sweeney, Case No. 1 T.X. 18-1-0316, Tax Appeal Court, State of Hawaii.

Taxpayer appeals the final assessment of income taxes after receiving notification that Taxpayer's administrative appeal had been closed. The final assessment disallows a deduction for repayment of trustee fees claimed on her 2014 Individual Income Tax Return. Taxpayer notified the court on September 10, 2019 that she was withdrawing her appeal. Notice of Withdrawal has not been filed. Trial is not set.

In the Matter of the Tax Appeal of Diamond Resorts Hawaii Collection Members Ass'n, Case Nos. 1 T.X. 18-1-0318, 1 T.X. 19-1-0180, 1 T.X. 19-1-0182, and 1 T.X. 19-1-0183, Tax Appeal Court, State of Hawaii.

These tax appeals involve the denial of Taxpayer's refund claim for general excise taxes for tax years 2014 through 2017, inclusive. Taxpayer claims that it operates timeshares in Hawaii and across the mainland United States and that for the tax years in question, it incorrectly included income from timeshares on the mainland that should not have been reported on its Hawaii return. Trial for 1 T.X. 18-1-0318 is set for November 16, 2020. Trial is not set in the other cases.

In the Matter of the Tax Appeal of Colorado Personnel Resources, Inc., Case No. 1 T.X. 18-1-0334, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments for general excise taxes for tax years 2004 through 2011, inclusive. Taxpayer challenges the assessments claiming that it lacks nexus with Hawaii. Trial is set for the week of December 5, 2022.

In the Matter of the Tax Appeal of Rick YJ Cho, Case No. 1 T.X. 18-1-0412, Tax Appeal Court, State of Hawaii.

Taxpayer seeks a refund of taxes paid under protest in connection with final assessments for general excise and transient accommodations taxes for tax years 2008 and 2010 through 2016, inclusive.

Taxpayer claims that the gross receipts are attributable to other entities and the related entities exemption applies. Trial is set for January 25, 2021.

In the Matter of the Tax Appeal of Gretchen Le Gre and GLG Holdings, LLC, Case No. 1 T.X. 19-1-0171, Tax Appeal Court, State of Hawaii.

Taxpayers filed a Notice of Appeal and a Complaint seeking: (1) a declaratory judgment that the conveyance tax is not applicable to the transfer of real property from a single-member LLC to the sole member; and (2) a refund of a \$443.15 conveyance tax purportedly paid under protest for a transfer of a 10% interest in the property. The Director filed a motion to dismiss arguing: (1) declaratory relief is not available in any controversy with respect to taxes; and (2) Taxpayers failed to request an exemption for the subject transaction. The Court granted the motion to dismiss, but order has not yet been entered.

In the Matter of the Tax Appeal of Dolphin K. Pawn, Case No. 1 T.X. 19-1-0190, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments of income taxes for tax years 2014 through 2017, inclusive. Taxpayer claims that he may be entitled to deductions and adjustments. Trial is not set.

In the Matter of the Tax Appeal of George Hochman, Case No. 1 T.X. 19-1-0197, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments of general excise and withholding taxes for tax years 2003 and 2004 and 2008 through 2018, inclusive. Taxpayer claims, among other things, that the assessments improperly hold him personally liable for the general excise and withholding taxes of six corporations. Trial is not set.

In the Matter of the Tax Appeal of Guy C. Smith, Case No. 1 T.X. 19-1-0203, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments of general excise and transient accommodations taxes for tax years 2008 through 2017, inclusive. Taxpayer claims that the assessments are incorrect. Trial is not set.

In the Matter of the Tax Appeal of Alternative Energy Marketing, Inc., Case No. 1 T.X. 19-1-0207, Tax Appeal Court, State of Hawaii.

Taxpayer made a claim for a refund of \$113,858.50 in Renewable Energy Technologies Income Tax Credit for tax year 2017. The refund claim was denied by the Department. On August 9, 2019, Taxpayer filed an appeal. Trial is not set.

In the Matter of the Tax Appeals of Brian and Lisa Pestana, Case Nos. 1 T.X. 19-1-0210 and 1 T.X. 19-1-0211, Tax Appeal Court, State of Hawaii.

Taxpayers were personally assessed for general excise tax incurred by a corporation they owned. The general excise tax assessments are related to the denial of wholesale rates and out-of-state sales exemptions by the tax benefit rule in Haw. Rev. Stat. § 237-9.3. Trial is not set.

In the Matter of the Tax Appeal of Diamond Resorts Hawaii Collection Development LLC fka Club Sunterra Development Hawaii, LLC., Case Nos. 1 T.X. 19-1-0222, 1 T.X. 19-1-0223, 1 T.X. 19-1-0224, 1 T.X. 19-1-0225, and 1 T.X. 20-0000059, Tax Appeal Court, State of Hawaii.

These tax appeals involve the denial of Taxpayer's refund claims for general excise taxes for tax years 2013 through 2018, inclusive. Taxpayer claims that its refund claims were erroneously denied because the timeshare interests being sold and subject to tax are held in a Hawaii Land and Trust, and, as such, is the sale of real property that is not subject to general excise tax. Taxpayer further claims that the closing costs on the sale of the time share interests and the interest income earned on a financed sale are not subject to general excise tax under the Commerce Clause under the United States Constitution because there is insufficient nexus between the activities and the State and because, in the event that any such taxes are due, such taxes are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of TW Telecom Inc. and Subs., Case No. 1 T.X. 19-1-0257, Tax Appeal Court, State of Hawaii.

Taxpayer appeals final assessments of income taxes for tax years 2008 through 2012, inclusive. Taxpayer claims that it qualifies for the capital goods excise tax credit. Trial is not set.

In the Matter of the Tax Appeal of Stanley Global LLC., Case No. 1 CTX 20-0000053, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final assessments of general excise taxes for tax years 2014 through 2017, inclusive. Taxpayer claims, among other things, that the assessments improperly include tax on activities conducted and/or sales made outside the State of Hawaii. Trial is not set.

In the Matter of the Tax Appeal of S&K Sales Co., Case No. 1 CTX-20-0000058, Tax Appeal Court, State of Hawaii.

Taxpayer appeals from final general excise tax assessments for tax years 2005 through 2009 and 2013 through 2017 for underreported commissions, retailing, wholesaling, other rentals, interest, county surcharge, penalties, and interest. Taxpayer claims the assessments are incorrect. Trial is not set.

In the Matter of the Tax Appeals of Uber Technologies, Inc. and Rasier, LLC., Case No. 1 T.X. 20-1-0065 and 20-1-0066, Tax Appeal Court, State of Hawaii.

Taxpayers were assessed additional general excise taxes, penalties, and interest on services provided in Hawaii. Trial is not set.

In the Matter of the Tax Appeal of DePuy Synthes Sales, Inc., Case No. 1 T.X. 20-1-0067, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes, penalties, and interest on sales of medical equipment. Taxpayer was levied on these assessments and appeals the Department's denial of refund claim on the levied amounts. Taxpayer claims the assessed amounts were paid on returns filed by its parent company but has not substantiated these amounts to date. Trial is not set.

## **Other Civil Cases**

Booking.com v. Isaac Choy, in his official capacity as Director of Taxation, and State of Hawaii Department of Taxation, Case No. 1 CC 19-1-0107-01 JHA. Circuit Court of the First Circuit, State of Hawaii.

Plaintiff Booking.com filed a complaint for declaratory relief alleging Hawaii Administrative Rules § 18-237-29.53-10(a)(3) is invalid and violates the Internet Tax Freedom Act, 47 U.S.C. § 151, by imposing tax in a discriminatory manner. Discovery is ongoing. Trial is not set.

## **4.0 ADMINISTRATIVELY ATTACHED ENTITIES**

As of June 30, 2020

### **COUNCIL ON REVENUES**

Kurt Kawafuchi, Chair  
Marilyn M. Niwao, Vice-Chair  
Carl S. Bonham  
Jessica E. Gluck  
Scott W. Hayashi  
Kristi L. Maynard  
Jack P. Suyderhoud

### **BOARDS OF TAXATION REVIEW**

#### ***FIRST TAXATION DISTRICT***

##### ***(OAHU)***

Neil Hirasuna  
Francis Imada  
Glenn Sakuda  
Vacant  
Vacant

#### ***SECOND TAXATION DISTRICT***

##### ***(MAUI)***

William Curtis  
Alan Bernaldo  
Vacant  
Vacant

#### ***THIRD TAXATION DISTRICT***

##### ***(HAWAII)***

Marilyn Gagen  
Christopher Hannigan  
Valerie Peralto  
Richard Rovelstad

#### ***FOURTH TAXATION DISTRICT***

##### ***(KAUAI)***

Vacant  
Vacant  
Vacant  
Vacant

