

Tax Review Commission Recommendation - Increase Resources for Department of Taxation (“DoTax”)

1. The stated Vision and Mission of the Department of Taxation sums up the main points of this recommendation
 - a. **Vision - “The Department of Taxation will efficiently and effectively collect the revenue for funding programs and services for the people of Hawaii”**
 - i. DoTax is the function that drives revenue for the SoH. In FY 2020 DoTax collected \$7.45 billion in net tax revenue.
 - ii. General Fund collections - \$6.69 billion of taxes collected went into the SoH General Fund
 - iii. Revenue collection efficiency
 1. Total expenditures of DoTax was \$26.7 million, resulting in an expense to revenue ration of \$.36/\$100.
 - iv. Although overly simplistic and crude, an additional DoTax compliance FTE with a \$70K total average costs will result in roughly \$2-\$3 million in tax revenue.
 - v. A more nuanced answer should be DoTax requires funding of \$___ to maintain the voluntary tax compliance rate at or above 96%.
 - vi. Without a high voluntary compliance rate, facilitated by DoTax efforts, the fairness, equity and equal treatment of the tax system degenerates
 - b. **Mission – “Our mission is to administer the tax laws for the State of Hawaii in consistent, fair and uniform manner.”**
 - i. Fair and uniform compliance/enforcement efforts help create a stable and equitable funding stream for the SoH
 - ii. New challenges
 1. Act 2, SLH 2019 re: “marketplace facilitators” creates new compliance/enforcement challenges
 2. Short-term vacation rental initiative – FY2020 \$4.9 million in additional taxes were collected due to Special Enforcement Section project, which will yield continuing benefits in future years
 3. Peer-to-peer car sharing
 4. Future types of tax regulations will require resources for compliance/enforcement
 - iii. Uniform compliance/enforcement promotes consistent compliance, which is equitable
 - iv. Greater revenue with existing laws, instead of enacting new laws
 1. Compliance Division of DoTax resulted in \$396 million of additional tax collection in FY2020
 2. DoTax audits recovered \$76.1 million of taxes from \$148.9 million of issued assessments in FY2020

2. Challenges

- a. Consistent Funding – DoTax was subjected to the same budget cuts as all other SoH agencies, which is counter-productive to the needs of the SoH government. It needs stable funding to carry-out its duties.
- b. Human Resource challenges
 - i. Due to hiring freezes and staff departures – DoTax had a 17% vacancy rate
 - ii. Many of these openings are in difficult to staff IT and Finance positions
 - iii. Retaining and replacing DoTax personnel is of key importance
 - iv.
- c. Intense National HR issue of recruiting and retaining qualified staff, particularly in Finance and IT
 - i. Financial analysts, Accountants and Auditors have a less than 3% Q2 2021 unemployment rate.

Hiring and Employment Trends

52% of senior managers in finance and accounting said they are hiring for new positions in the second half of 2021. 45% said they are hiring only for vacated roles or bringing back furloughed employees.

78% said they will be hiring contract workers to support year-end initiatives.

When recruiting for open roles, 59% said their company starts local and broadens its search if too much time passes without finding qualified candidates.

44% said their company is offering signing bonuses for new employees to attract and retain in-demand talent.

76% said turnover on their team has increased since Jan. 1, 2021, mainly due to employees' concerns for their job security.

43% of finance and accounting professionals plan to look for a new job in the second half of 2021.

- 30% cited a salary boost as the main reason.
- 51% seek a full-time consulting or project-based career.

*Current Population Statistics, U.S. Bureau of Labor Statistics, July 2, 2021. Percentages reflect unemployment rates for select positions that were near or below the national unemployment rate at the end of Q2 2021.

Source: Robert Half surveys of more than 270 senior managers with hiring responsibilities and nearly 450 professionals working in finance and accounting in the U.S.

ii. IT professionals

1. Many in demand IT skills have a less than 2% unemployment rate

Hiring and Employment Trends

56% of senior managers in technology said they are hiring for new positions in the second half of 2021. **42%** said they are hiring only for vacated roles or bringing back furloughed employees.

82% said they will hire contract workers to support year-end initiatives.

When recruiting for open roles, **60%** said their company starts local and broadens its search if too much time passes without finding qualified candidates.

53% said their company is offering signing bonuses for new employees to attract and retain in-demand talent.

80% of technology leaders said turnover has increased on their team since Jan. 1, 2021, mainly due to employees' concerns for their job security.

35% of technology professionals plan to look for a new job in the second half of 2021.

- **33%** cited a lack of advancement opportunities at their current company as the main reason.
- **50%** said they seek a full-time, remote-only opportunity in their next role.

*Current Population Statistics, U.S. Bureau of Labor Statistics, July 2, 2021. Percentages reflect unemployment rates for select positions that were near or below the national unemployment rate at the end of Q2 2021.

Source: Robert Half surveys of more than 850 senior managers with hiring responsibilities and 630 professionals working in technology in the U.S.

iii. COVID has changed the workforce dynamic

1. Remote work has made the competition for talent global
2. Employees are requiring flexibility of work conditions

iv. Open item – DoTax Compliance Department – funding formula

3. Conclusion – The most efficient manner for the SoH to obtain sufficient funding is to efficiently and effectively use laws and regulations that are already enacted. These laws and regulations must be enforced in a fair and consistent manner. In order to do this, the DoTax must have adequate and consistent funding to provide the resources to enable it fulfill this mission. It's mission must continue to keep pace with dynamic and disruptive business practices. The level of funding must be responsive to rapidly evolving global and national economic conditions, particularly with respects to human resources.