

TAX REVIEW COMMISSION

MINUTES OF THE TWENTIETH MEETING OF THE
TAX REVIEW COMMISSION
HELD AT 830 PUNCHBOWL STREET, ROOM 221
IN THE CITY AND COUNTY OF HONOLULU
STATE OF HAWAII, ON TUESDAY, OCTOBER 17, 2006

The Commissioners of the Tax Review Commission met at the Department of Taxation, Director Conference Room, in the City and County of Honolulu, State of Hawaii, on Tuesday, October 17, 2006.

Members Present: Chairman Isaac Choy, Manoa Consulting Group, LLC CPA's
Vice-Chairman Ronald Heller, Torkildson Katz Fonseca Moore &
Hetherington, AAL, ALC
Carolyn Ching, Carolyn L. Ching CPA
Christopher Grandy, UH Manoa, Public Administration Program
Melanie King, Bank of Hawaii
Lon Okada, Hawaiian Electric Industries, Inc.

Members Absent: John Roberts, Niwao & Roberts, CPA's

Staff: Tu Duc Pham, Donald Rousslang, Cathleen Tokishi

Other: Joan Bolte, DOTAX
Suzanne Efhan, DOTAX
Diane Erickson, Dept. of the Attorney General
Robert Johnson, DOTAX
Kurt Kawafuchi, DOTAX
Johnell Nakamura, DOTAX
Ronald Randall, DOTAX
Sandra Yahiro, DOTAX

CALL TO ORDER

Chairman Isaac Choy called the meeting to order at 10:35 a.m. with a quorum present.

INTRODUCE DEPARTMENT OF TAXATION DIRECTOR AND OFFICERS

The Chairman turned the meeting over to Director Kawafuchi, who thanked the Commission for the opportunity to provide the Commissioners with an overview of the Department and a

walk-through of some of the offices. He also thanked them for their letter supporting some of their budget requests.

Director Kawafuchi stated that there are close to 400 employees, as well as seasonal employees, on all the major islands (Oahu, Maui, Hawaii, and Kauai), and one on the island of Molokai.

He introduced Joan Bolte, the Division Chief for the front-end processing and taxpayer services, who has three branch chiefs under her for the processing, customer services, and revenue accounting branches. She has about 100 employees plus a lot of seasonal and temporary employees for the filing season, which seems to be year-round these days.

He then introduced Ronald Randall, the Compliance Administrator, who oversees audit, both office audit and field audit, collections, and criminal. Mr. Randall also oversees all the neighbor island district offices, including the taxpayer services functions on the neighbor islands.

The Director then introduced Johnnel Nakamura, the Rules Officer, and Deputy Director Sandra Yahiro. Ms. Nakamura supervises attorneys as well as the Technical Section. They handle rules, legislation, advice and counsel to the operating divisions, forms, tax information releases and announcements, technical taxpayer questions, and high technology investment tax credit certifications and research credit certifications.

He then mentioned Dr. Tu Duc Pham, the head of Tax Research and Planning, with whom the Commission has been working. Dr. Pham also provides support to the Council on Revenues, is in charge of various reports such as the report on tax credits and the Department's annual report, and is a key advisor to the administration with respect to revenue.

Suzanne Eghan, the Administrative Services Officer, was introduced next. Director Kawafuchi then introduced Robert Johnson who was representing the information technology office in place of Clay Sato who was not at work that day.

The Chairman asked how many of them were close to retirement. There were a few, but Director Kawafuchi stated that they are addressing succession planning. Mr. Heller noted that Director Kawafuchi had mentioned 400 employees, and asked if that number was growing, shrinking, or holding steady. Director Kawafuchi said that the actual number was about 360 and there were about 100 tax season temporary employees. Mr. Randall stated that the number has been fairly stable over the last 30 years, although the Department did lose a number of staff during the Cayetano administration, with the Maui and Oahu compliance staff reduced by 50%. Director Kawafuchi stated that it had been as high as 430 at one point, before dropping to about 340. Two years ago, the Legislature granted the Department additional collectors and auditors.

The Chairman asked if everyone was satisfied with current staffing levels; they were not. He asked Mr. Randall what the ideal number would be. Mr. Randall stated that they had always operated with the staff they had and have generally been understaffed due to legislation imposing additional duties without providing additional staff.

The Chairman asked if the Department had a table showing the minimum staffing levels required. There was none, Ms. Bolte stated that additional staffing had been provided for back-end work such as auditing and collecting, but not for additional front-end staff to handle the additional workload that created. She noted that a study by the computer system vendor was done for the Tax Services and Processing Division and showed that they were short 86 full time equivalent (FTE) positions.

Mr. Heller asked for the number of unfilled positions. Mr. Randall stated that he had 20+ unfilled positions in the Compliance Division. Ms. Bolte stated that she had 110 authorized positions and has 8 vacancies.

The Chairman asked if they had asked the Legislature for additional positions every year. Director Kawafuchi stated that they had only done so once and would be doing so again in the next session.

Ms. Ching asked if the new computer system had helped reduce the number of FTE positions needed. Ms. Bolte stated that the system is robust and terrific, but it did not automate the front end. The efficiencies of the new system have in turn resulted in additional work for the front end. For example, billing notices used to go out on a monthly basis and now go out daily. That has generated additional work for her staff from the mail room, to taxpayer services which fields calls from those billed. Mr. Randall added that it would be incorrect to assume that automation results in a reduction of staff. He noted that some things that could be ignored when done manually can no longer be ignored if the process is automated. For example, certain parameters could now be set for different fields on the tax returns for those returns to automatically be identified for compliance intervention. They could reduce those parameters and let all those returns get processed and consequently reduce staff, but if the public wants the Department to properly do its job, then it must realize that automation is only a tool for the process. Therefore, in some areas, in account management for example, the staff may need to double to handle all the cases that the automated system identifies for review. When Compliance did account management, they had perhaps 50 people plus neighbor island staff doing this work. When it transferred to Taxpayer Services, it went down to 10. Due to the austerity program in force by the governor at the time, they couldn't ask for more staff and had to change the parameters.

At this time, brief descriptions of the various operating areas were given.

Ms. Ephan described her office, which includes personnel, fiscal, and budget.

Ms. Nakamura described her office, which included both the rules staff and the technical staff. The Chairman asked if they are required to testify on all tax-related bills. Ms. Nakamura replied that she believes that the legislators are disappointed if they do not. Director Kawafuchi states that they try to attend all of them or at least submit testimony. Mr. Heller asked how much of their time is spent on direct taxpayer assistance. Ms. Nakamura replied that the Technical Section does more, but it is perhaps 50%.

Mr. Johnson described the operations of his office of 24 staff organized into 3 support areas: networking, applications, and database.

Mr. Randall provided additional information about his division, adding that the criminal and civil audit functions must be separate and that, while his division provides administrative support, lead investigator Steve Hironaka works fairly independently in close cooperation with the Director.

Director Kawafuchi distributed a bar chart of delinquent cash collections. He mentioned that Ms. Bolte's staff handle all the calls from initial billings and that collections resulting from those calls were not reflected in the chart; only billings that were more than 30 days past due were classified as delinquent.

Dr. Grandy asked if the Department had calculated a cost per dollar collected. That number, which is published in the Department's annual report, was 38 cents per \$100, but it used to be about 60 cents per \$100. The Chairman asked if the collections reflected old money or new money; it is a combination of both.

Mr. Randall noted that, due to the new computer system, the account management function was transferred from Office Audit to Taxpayer Services, which freed his Office Audit staff to actually conduct audits. He also noted that bills used to be done monthly with a 60-day lag that hurt made it more difficult to collect, while the new system bills daily. They have also been successful in getting the Department of the Attorney General involved with cross jurisdictional issues. Finally, they have access to Accurent, a credit bureau reference so they can track taxpayers. They still need to do more seizures and shut down tax protestors. Training of staff is also needed. Infrastructure is insufficient and a limiting factor. The Chairman asked Mr. Randall to write him a memo about his needs.

Ms. Bolte described the functions of her division. She noted that they handled 450,000 phone calls per year, and that there is a direct correlation between slow processing of returns, bills, etc., and the call volume, which is strictly a staffing issue. She noted that there has been a 20% increase in the volume of returns filed. Their employee growth has been stagnant at 110 FTE for more than five years. Last year they did get authorization for 17 more employees, but that was only for 89-day temporary hires, which meant that there has been a high turnover rate as they find permanent jobs. They had asked for half of the 86 FTE positions that the study had identified, but that was denied. She believes that a part of the solution would be to gain more control over Internet filing and to have electronic filing mandates.

Dr. Grandy asked if she had the physical space to put additional employees. She stated that she does have space for processing but not for taxpayer services. Ms. Ching asked if they were encouraging taxpayers to e-mail questions to the Department because she understands that there is a significant delay in getting a response via e-mail. Ms. Bolte stated that confidential information cannot be e-mailed as they do not have a secure line. The result is that it takes additional time to respond by phone with the taxpayer who may not be available when the staff calls. Mr. Johnson stated that it is not simply a matter of a secure line, but that it would be a

matter of setting up a system in which the taxpayer would have a password and of course the Department would need someone to respond when a taxpayer forgot their password.

EXECUTIVE SESSION MEETING, PURSUANT TO SECTION 92-5(a)(8), HAWAII REVISED STATUTES

At this time, the Chairman called for a motion to adjourn to go into an executive session for a tour of certain secured areas of the Department that were not available for public access.

It was moved by Ms. Ching and seconded by Ms. King that the Commission go into executive session. The motion was carried unanimously.

The meeting reconvened at 12:30 p.m. with Mr. Heller and Ms. King absent.

ADJOURNMENT

It was moved by Dr. Grandy and seconded by Mr. Okada to adjourn the meeting at 12:30 p.m. The motion was carried unanimously.