

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
AND
THE HOUSE COMMITTEE ON FINANCE

August 12, 2009

Chairs Kim and Oshiro and Members of the Committees:

Thank you for this opportunity to present to you an update on the State's fiscal outlook.

The State ended Fiscal Year 09 on June 30, 2009 with a balance of \$8.1 million in the General Fund. This positive balance was achieved through a combination of expenditure controls, program restrictions, and special fund transfers as authorized by the Legislature. It is fortunate that we were able to meet our obligations in an extraordinary year that saw the collapse of the financial market and a global economic recession. As you are all aware, the fiscal challenges remain and become even more critical as we begin the new Fiscal Biennium 2009-11.

REVENUES: ACTUAL COLLECTIONS AND PROJECTIONS

For the fiscal year ending on June 30, 2009, actual general fund tax collections decreased by -9.5% over the previous year. The decline was greater than the -9.0% forecast by the Council on Revenues and resulted in an additional reduction of -\$21 million for the General Fund compared to the earlier estimate.

In May 2009, the Council projected that general fund tax revenue growth would be at 0% for FY 10 and 5.6% for FY 11. Calculated on a lower FY 09 base, general fund tax revenue projections reflect an additional reduction of -\$21 million in FY 10 and -\$22.1 million in FY 11. The next meeting of the Council is on August 27, 2009.

REVENUE ENHANCEMENT

1. Tax Bills

The 2009 Legislature passed a number of bills to provide additional revenues for the General Fund. Among these are: Act 56 (relating to the cigarette tax), Act 58 (relating to the tax on tobacco products), Act 59 (relating to the conveyance tax), Act 60 (relating to the individual income tax), and Act 61 (relating to the transient accommodations tax).

The net effect of these measures has been incorporated into the Council's latest report on revenue forecast, dated August 5, 2009.

Besides the above measures, additional revenues are also expected from other tax bills passed in the 2009 Session. In total, they are expected to raise \$145 million in FY 10 and \$130.6 million in FY 11. The significant measures include:

	<u>FY 10</u>	<u>FY 11</u>
Act 178 (revision of tax credits for high tech)	\$70.1 m	\$69.0 m
Act 196 (GET filing date)	40.0	5.0
Act 134 (cash economy enforcement)	11.4	35.1
Act 14/Special Session 2009 (conforming to federal phase-out provisions)	10.5	10.5
Act 166 (conforming to certain federal penalties)	4.9	6.5
Act 119 (reallocation of tobacco settlement funds)	13.3	13.3

2. Transfers from Special Funds

Act 79/SLH 2009 authorizes the transfer of interest earnings from certain special funds to the General Fund and repeals the exemption from central services assessments previously provided to certain special funds. The revenue impact of this measure is estimated to be \$10.4 million for FY 10 and \$9 million for FY 11.

3. Other revenue additions

- The Department of Taxation's global tax settlement initiative is expected to generate \$15 million in FY 10.
- Publishing the "Top 50" list of tax scofflaws is expected to bring in \$5 million each year.
- Repayment of a previous advance to the Department of Commerce and Consumer Affairs will return to the General Fund \$1 million in FY 10 and \$0.6 million in FY 11.

COST REDUCTIONS

With declining revenues in the General Fund, the State does not have enough resources to cover all spending authorized for the current fiscal biennium, including appropriations in the Biennium Budget for the Executive Branch (\$10.4 billion), appropriations for other branches of State government (\$351 million), and specific appropriation acts (\$22.9 million). The gap between available revenues and authorized expenditures must be closed for the State to meet the Constitutional requirement of a balanced budget. Toward this goal, the Administration has implemented the following measures to reduce and control expenditures:

1. Restriction on program appropriations to generate savings of \$315.4 million in FY 10 and \$343.5 million in FY 11.
2. Restriction on specific appropriations (\$12.6 million in FY 10 and \$0.3 million in FY 11).
3. Restriction on cash CIP for the Department of Education and the University of Hawaii (\$62.5 million in FY 10).

4. Debt service restructure and revision (\$9.2 million in FY 10 and \$12.8 million in FY 11).
5. Reduction of Medicaid benefits (\$21 million for each year).

The combined savings to be generated from all above cost-cutting actions will help us achieve and maintain a general fund balance of \$27.3 million at the end of this fiscal biennium. Any further reduction in revenue projections will require additional steps to close the gap between available revenues and expenditures.

LAPSES

A total of \$307.8 million in general fund appropriations lapsed in FY 09 from the following major sources:

- Budget restrictions (\$82.3 million)
- Medicaid (\$49.8 million)
- Collective bargaining allocation (\$14.7 million)
- Debt service (\$46.2 million)
- Pension accumulation (\$13.9 million)
- Employees' health benefits premiums (\$20.7 million)
- Specific appropriations (\$21.1 million)
- Prior year appropriations (\$16.7 million)

THE NEXT BIENNIUM 2011-13

Our various efforts at controlling expenditures during a time of economic recession and revenue constraint have been necessary to balance the budget and maintain a slim \$27.3 million balance in the General Fund by the end of the current Fiscal Biennium on June 30, 2011. At this time, our projections of revenues and program costs for the next

FB 2011-13 show that the State will need to continue to generate savings of approximately \$500 million in the next biennium to maintain a \$25 million balance by June 30, 2013. While many changes can happen in the next two years, I offer this remark to you, at this time, to apprise you of the State's near-term fiscal outlook beyond the current biennium, if we remain on the same course.

UPDATED FINANCIAL PLAN

A copy of the updated general fund financial plan incorporating all of the above components is attached for your information.

Attachment

GENERAL FUND FINANCIAL PLAN
(in millions of dollars)

	<u>Prelim Act FY 09</u>	<u>Estimated FY 10</u>	<u>Estimated FY 11</u>	<u>Estimated FY 12</u>	<u>Estimated FY 13</u>	<u>Estimated FY 14</u>	<u>Estimated FY 15</u>
REVENUES:							
Executive Branch:							
Tax revenues	4,246.3	4,224.1	4,460.7	4,692.6	4,974.2	5,277.6	5,536.2
Nontax revenues	770.0	476.8	491.0	503.8	513.1	516.3	520.9
Judicial Branch revenues	35.7	35.2	35.9	36.7	37.4	38.2	39.1
Other:							
Other tax bills		145.0	130.6	149.2	95.7	47.1	78.4
Act 79/09 sf transfer/repeal exemp		10.4	9.0	9.1	9.7	9.8	10.0
Repayment - insurance regulation costs		1.0	0.6	0.6	0.5		
Early transfer of excess from PUC (FY10 to FY09)		(7.0)					
Non-legislative revenue enhancement initiatives:							
Global tax settlement		15.0					
Publish the "Top 50" tax scofflaws		5.0	5.0	5.0	5.0	5.0	5.0
Sub-total - Other	0.0	169.4	145.2	163.9	110.9	61.9	93.4
TOTAL REVENUES	5,052.0	4,905.5	5,132.7	5,397.0	5,635.6	5,894.1	6,189.5
EXPENDITURES:							
Executive Branch:							
Executive budget							
Operating	5,230.7	5,144.2	5,267.6	5,741.2	5,875.3	5,964.2	6,065.0
CIP	12.5						
Specific apprns							
Collective bargaining	216.1						
Other - prior leg	34.5						
Claims against the State	1.1	5.0	5.0	5.0	5.0	5.0	5.0
2009 Legislature:							
Specific apprns		12.6	0.3				
Salary reductions (Act 85)		(1.2)	(1.2)				
Restrict specific apprns		(12.6)	(0.3)				
Sub-total - Specific apprns	251.7	3.8	3.8	5.0	5.0	5.0	5.0
Other:							
Restrict UH cash CIP		(12.5)					
Restrict DOE cash CIP		(50.0)					
Restructure/revise debt service		(9.2)	(12.8)	(66.5)	(65.2)	(34.8)	(53.4)
Other out-year costs (difference between PFP and CD1):							
Medicaid				(12.6)	(35.0)	(52.0)	(69.9)
Other costs				(80.9)	(80.9)	(80.9)	(80.9)
		(71.7)	(12.8)	(160.1)	(181.1)	(167.6)	(204.2)
Delay ERS, EUTF, Medicaid paymts			121.0				
Reduce Medicaid benefits		(21.0)	(21.0)				
Sub-total - Exec Br	5,494.9	5,055.3	5,358.6	5,586.1	5,699.2	5,801.6	5,865.8
Legislative Branch	34.0	34.0	34.0	34.0	34.0	34.0	34.0
Judicial Branch (Act 139)	150.4	139.0	139.0	139.0	139.0	139.0	139.0
OHA (Act 140)	3.1	2.5	2.5	2.5	2.5	2.5	2.5
Counties	0.6						
Lapses	(307.8)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	5,375.2	5,165.7	5,469.1	5,696.6	5,809.6	5,912.1	5,976.2

GENERAL FUND FINANCIAL PLAN
(in millions of dollars)

	<u>Prelim Act</u> <u>FY 09</u>	<u>Estimated</u> <u>FY 10</u>	<u>Estimated</u> <u>FY 11</u>	<u>Estimated</u> <u>FY 12</u>	<u>Estimated</u> <u>FY 13</u>	<u>Estimated</u> <u>FY 14</u>	<u>Estimated</u> <u>FY 15</u>
REV OVER EXPEND	(323.2)	(260.2)	(336.4)	(299.6)	(174.1)	(18.0)	213.3
CARRY-OVER BEGIN BALANCE	331.2	8.1	(252.1)	(588.5)	(888.1)	(1,062.2)	(1,080.2)
ENDING BALANCE	8.1	(252.1)	(588.5)	(888.1)	(1,062.2)	(1,080.2)	(866.9)
<hr/>							
COR update (FY 09 at -9.5%)		0.0%	5.6%	5.2%	6.0%	6.1%	4.9%
06-01-09		4,224.1	4,460.7	4,692.6	4,974.2	5,277.6	5,536.2
		0.0%	5.6%	5.2%	6.0%	6.1%	4.9%
08-05-09		4,203.1	4,438.6	4,670.6	4,952.1	5,254.2	5,511.6
		(21.0)	(22.1)	(22.0)	(22.1)	(23.4)	(24.6)
REV OVER EXPEND	(323.2)	(281.3)	(358.4)	(321.6)	(196.1)	(41.4)	188.7
CARRY-OVER BEGIN BALANCE	331.2	8.1	(273.1)	(631.6)	(953.2)	(1,149.3)	(1,190.8)
ENDING BALANCE	8.1	(273.1)	(631.6)	(953.2)	(1,149.3)	(1,190.8)	(1,002.0)
<hr/>							
Actions to close the budget gap:							
Restrictions/furlough savings		(315.4)	(343.5)				
Additional savings/reductions				(319.3)	(196.1)	(41.5)	
REV OVER EXPEND	(323.2)	34.1	(14.9)	(2.3)	(0.0)	0.1	188.7
CARRY-OVER BEGIN BALANCE	331.2	8.1	42.3	27.3	25.0	25.0	25.0
ENDING BALANCE	8.1	42.3	27.3	25.0	25.0	25.0	213.8



DEPARTMENT OF TAXATION

PRESENTATION TO THE JOINT COMMITTEES
ON WAYS AND MEANS AND FINANCE

BY KURT KAWAFUCHI, DIRECTOR

August 12, 2009, 10:00 a.m., Room 309

Agenda

- Tax Revenues
- Tax Fresh Start Program (Tax Amnesty)
- Cash Economy
- Liquidating Inventory
- Status of 2009 Tax Law Changes

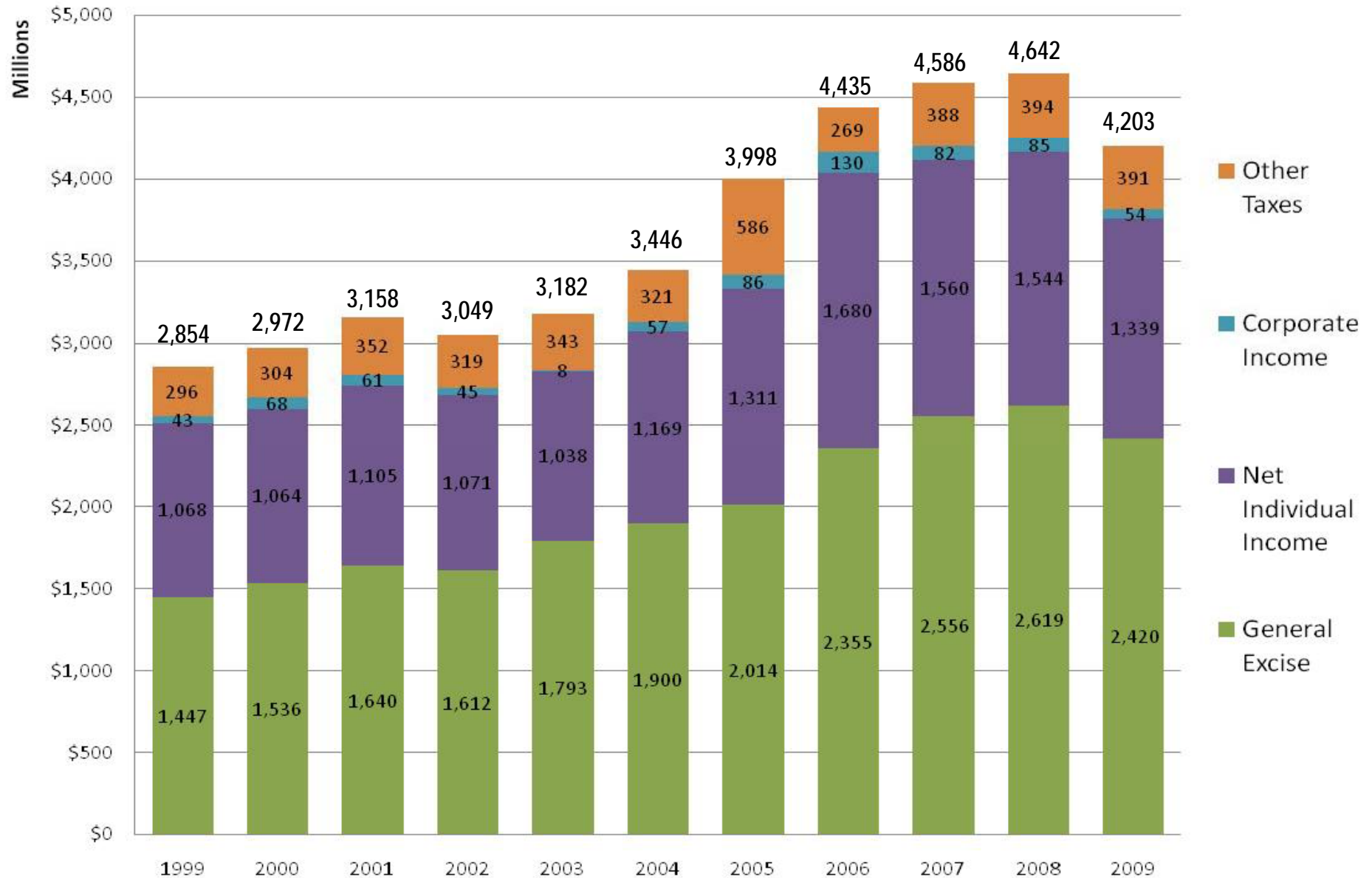




TAX REVENUES

General Funds

Figure 1. General Funds (Fiscal Years: 1999 - 2009)



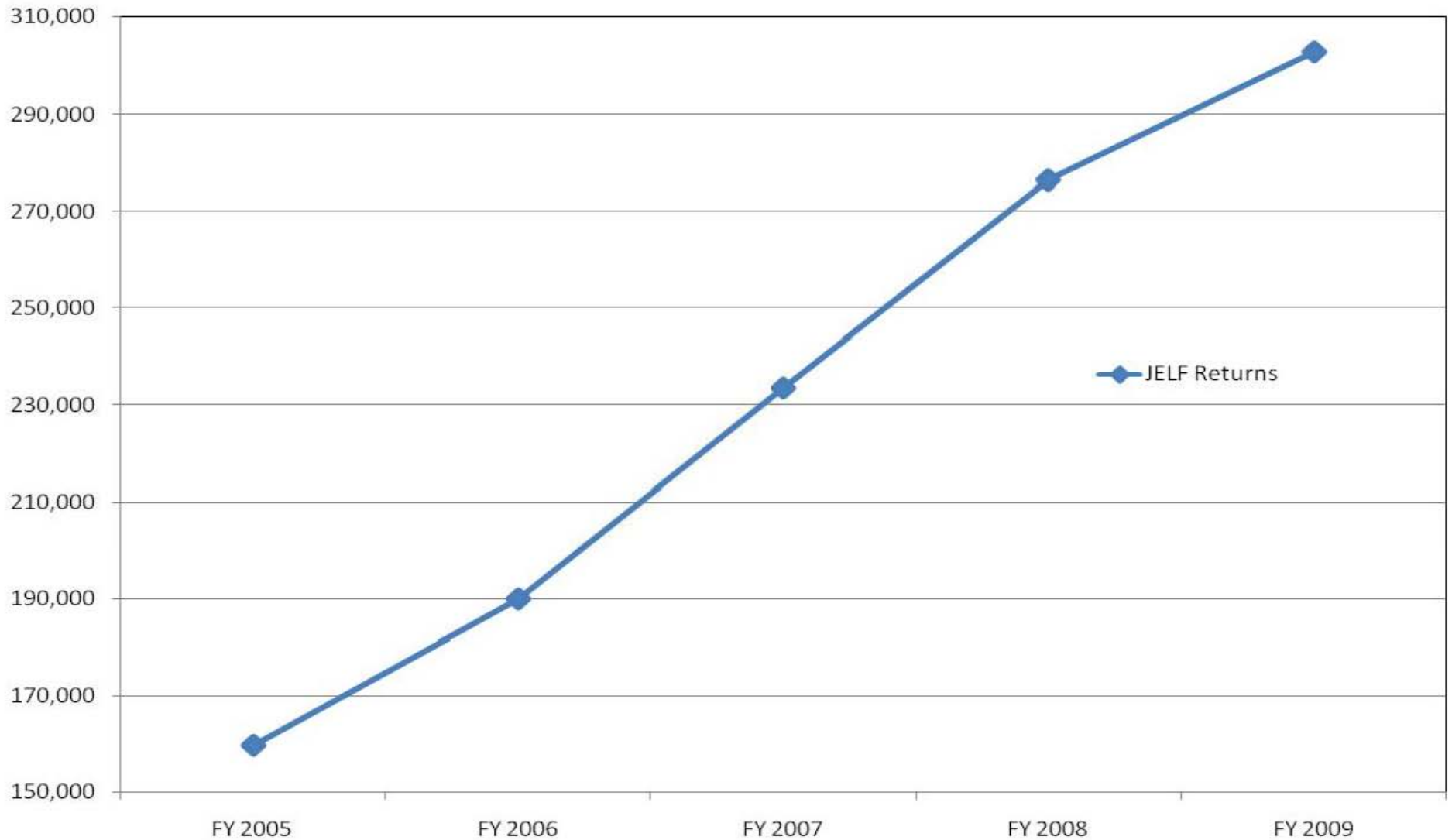
DOTAX Initiatives

- DOTAX initiatives contributing to the collections of General Funds Tax revenues
 - Average business days to deposit checks from taxpayers decreased to 10 business days in FY 2009
 - 75 business days in FY 2006;
 - 17 business days in FY 2007;
 - 16 business days in FY 2008;
 - The overall call answer rate is 79% in FY 2009
 - 63% in FY 2007;
 - 81% in FY 2008;



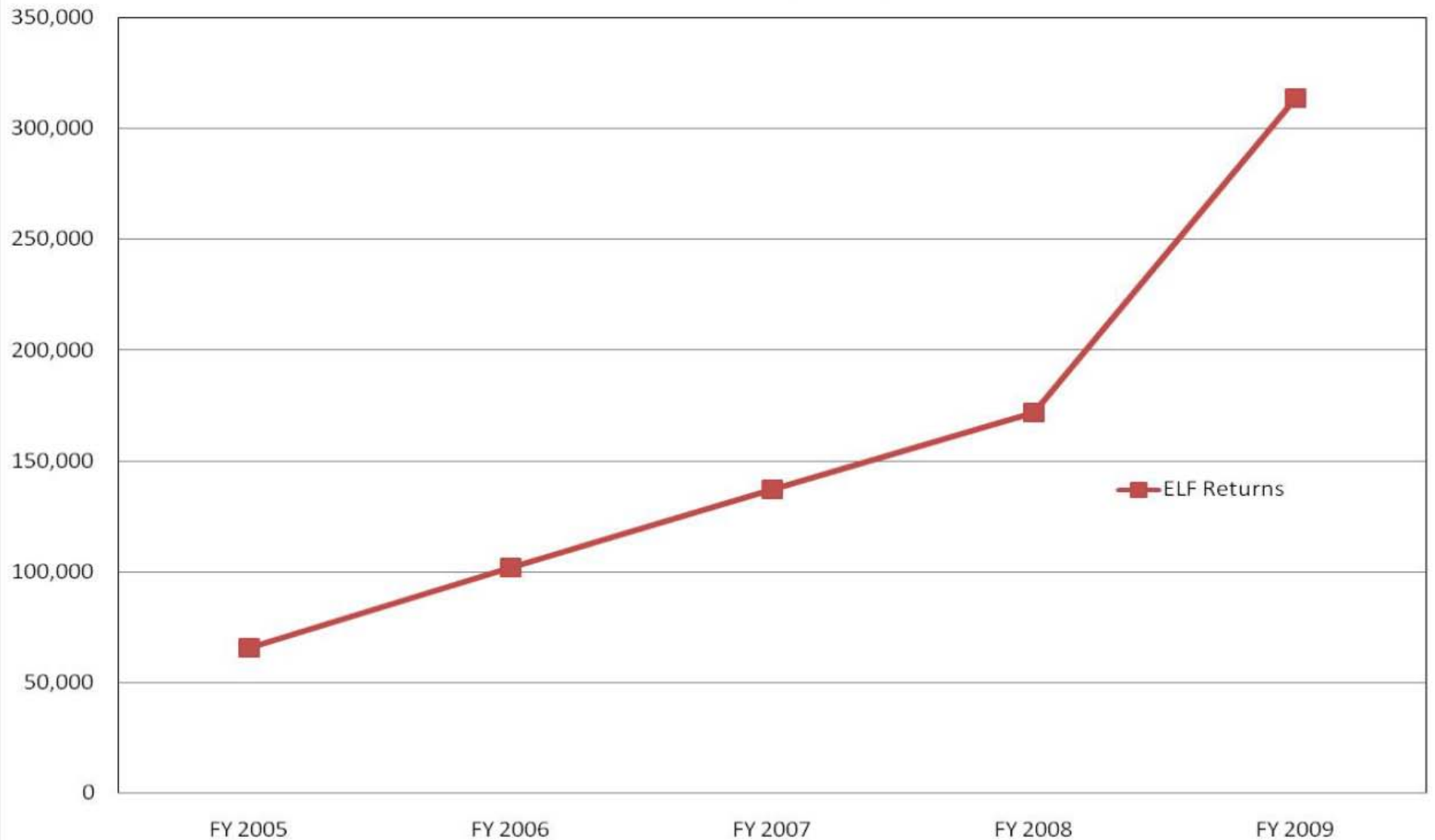
DOTAX Electronic Filing

**Figure 2. Joint Federal/State Individual Income Tax Filing (JELF)
(N-11 and N-15 Returns)**



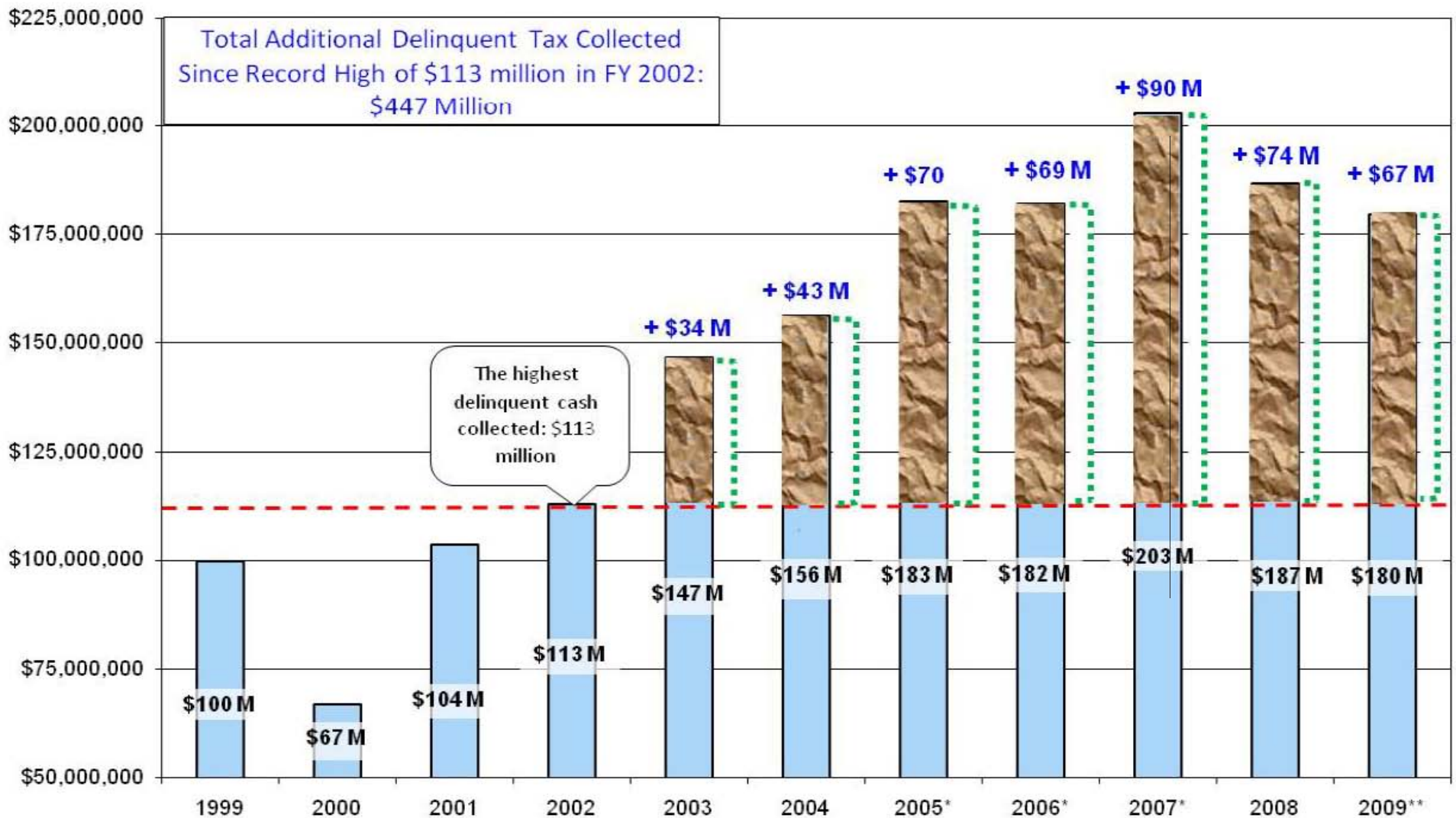
DOTAX Electronic Filing

Figure 3. DOTAX On-line Filing (ELF)
(All Returns: G-45, G-49, N-13, TA-1, TA-2, HW-14)



Delinquent Tax Cash Collections

Figure 4. Delinquent Tax Cash Collections (Fiscal Years 1999 - 2009)



Notes: *Updated as of May 15, 2009; **FY09 preliminary figure as of 7/24/09



TAX FRESH START
PROGRAM
(AMNESTY)

Tax Fresh Start Program (Amnesty)

- Offered on May 27, 2009 to June 26, 2009
- Outreach:
 - Press Releases
 - Newspaper Articles
 - TV News
 - Practitioners Groups, such as: Hawaii Society of CPAs, Hawaii Association of Public Accountants, Hawaii Enrolled Agents, Hawaii Bar Association – Tax Section, Hawaii Bar Association – Probate and Estate Planning Section, etc.
 - National Publications, such as: RIA and BNA Daily Tax Report.
- Budget: Internal resources



Tax Fresh Start Program (Amnesty)

- Total Collected in FY 2009
 - **\$8.4 million**
 - General Excise Tax: \$4.2 million (50%)
 - Income Tax: \$3.9 million (46%)
 - Transient Accommodations Tax/Rental Motor Vehicle: \$0.2 million (2%)
 - Miscellaneous: \$0.1 million (1%)
 - **\$6.0 million** from Offer in Compromise
 - Taxpayers didn't qualify under the Fresh Start program, but qualify under Offer in Compromise
 - Total collected in FY09: **\$14.4 million** (projected was \$7 million)
- Who Participated?
 - 870 taxpayers
 - 2,693 tax years → approx. 3 years per taxpayer



Tax Fresh Start Program (Amnesty)

- Added Benefit
 - People who were off the radar screen came forward.
 - Fresh Start has encouraged an increase in voluntary disclosures to pay back taxes.
 - Why people did not participate in the Fresh Start (Amnesty) program
 - Didn't have the money or information;
 - Ran out of time.
 - The Department always entertains voluntary disclosure.





CASH ECONOMY
PROJECT

Cash Economy

Overall Strategy

- Kick-off with Outreach by the Director's Office and Rules Office
 - Issue Press Release (Issued on July 10, 2009)
 - Creating a Cash Economy on-line site
 - Contacting neighborhood boards, trade organizations, etc.
 - Participating in monthly meetings (if feasible)
 - Practitioner Groups
 - Kona: August 11, 2009 (re-scheduled)
 - Oahu: August 21, 2009 and September 8, 2009
 - Maui: August 27, 2009
 - Hilo: August 26, 2009
 - Kauai: September 11, 2009 (tentative)



Cash Economy

Overall Strategy (Cont.)

- Kick-off with Outreach by the Director's Office and Rules Office (Cont.)
 - Create brochures for public distribution and display
 - Translate into various languages, such as: Chinese, Korean, Vietnamese, etc.
 - Hire Court interpreters or interpreters listed in with Language Access Program to do the work and have DOTAX bilingual employees review the accuracy of the translation.
 - Hold public info briefing at the State Capitol, various high schools, etc.





Does your business involve “cash” transactions?

In July 2009, the Department of Taxation formed the Special Enforcement Section (SES), which is charged with carrying out complex civil enforcement efforts of Hawaii's tax laws.

The highest priority of the SES is to ensure that all Hawaii taxpayers pay their fair share and to prevent the shortchanging of those who comply with Hawaii tax laws.

Hawaii law authorizes the SES to enforce Hawaii tax laws through the issuance of cease and desist citations, which can include substantial monetary fines. The following are offenses citable by the SES:

Failure to produce license upon demand

Every person required to be licensed or permitted under Hawaii tax law is required to produce their license upon demand by the SES. A violation of this provision results in a **fine** not to exceed **\$500** for most persons. Cash-based businesses can be fined up to **\$1,000**.



Failure to obtain a GE license A violation of this provision results in a **fine** not to exceed **\$500** for most persons. Cash-based businesses can be fined up to **\$2,000**.

Failure to keep adequate books and records

Every person doing business in Hawaii is required to keep adequate books and records in order to show taxable receipts, deductions, credits, and other assessments or adjustments to their tax. A violation of this provision results in a **fine** not to exceed **\$1,000** for most persons. Cash-based businesses can be fined up to **\$2,000**.

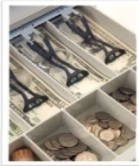


Failure to record transaction by receipt

Businesses with the means of issuing receipts must provide receipts to their customers. It is unlawful to conduct more than **10 business transactions per day** without a receipt where the means for issuing a receipt are available. A violation of this provision results in a **fine** not to exceed **\$1,000** for most persons. Cash-based businesses can be fined up to **\$2,000**.

Failure to record transaction by register

Businesses with the means of recording transactions in a register or similar device (e.g., a computer) must record the transactions. Similar to the offense of failing to record a transaction by receipt, the offense of failing to record a transaction by register occurs where a business conducts more than **10 business transactions per day** without recording the transaction in the register where the means for recording the transaction in a register are available. A violation of this provision results in a **fine** not to exceed **\$1,000** for most persons. Cash-based businesses can be fined up to **\$2,000**.



Tax avoidance price fixing

Persons who offer price differentials where the transaction is paid in cash may violate the offense of tax avoidance price fixing. However, there is no violation where there are legitimate business purposes for offering two prices for a transaction occurring in cash, such as for credit card fee recovery. A violation of this provision results in a **fine** not to exceed **\$2,000** for most persons. Cash-based businesses can be fined up to **\$3,000**.



Possession of currency for tax avoidance purposes

Where a person possesses cash for the purpose of avoiding taxes, the violation of possession of currency for tax avoidance purposes occurs. A violation of this provision results in a **fine** not to exceed **\$2,000** for most persons. Cash-based businesses can be fined up to **\$3,000**.

Interference with a tax official

It is unlawful for any person to interfere with, hinder, obstruct, prevent, or impede investigators of the SES or other Department of Taxation employee in furtherance of obtaining information or property rightfully entitled the Department. However, a person does not commit this violation where they act with good cause. A violation of this provision results in a **fine** not to exceed **\$2,000**.



For more information, please visit www.hawaii.gov/tax

Cash Economy

Sample Brochure



CITATION
(Special Enforcement Section)

- Personal Service
 Certified Mail
 Other _____

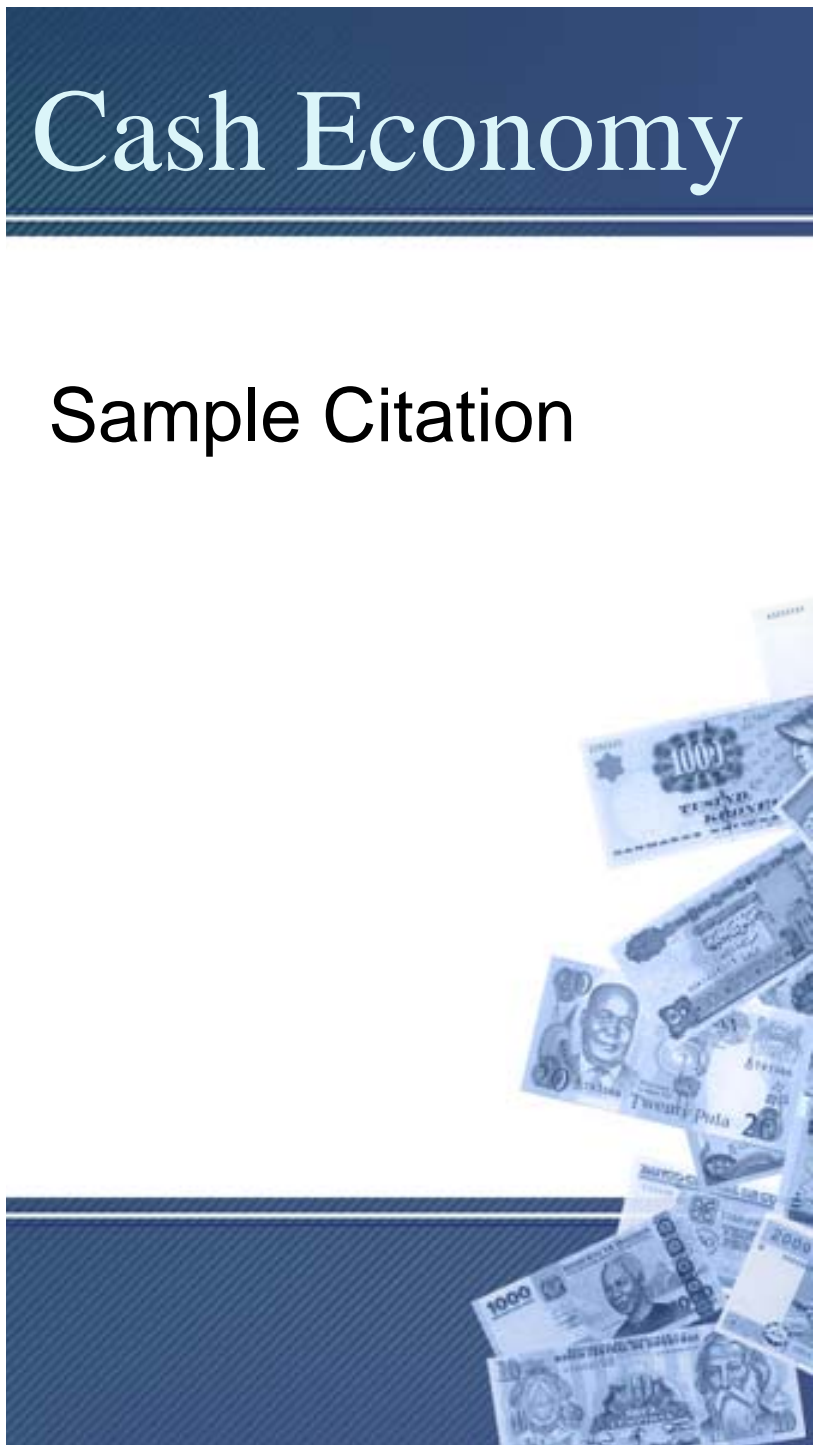
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PART I. IDENTIFICATION OF TAXPAYER/PERSON		
SSN/FEIN:	Hawaii Tax ID No.: W	
NAME	PHONE:	
ADDRESS		
CITY	STATE	POSTAL/ZIP CODE:
PART II. LOCATION OF OFFENSE		
<input type="checkbox"/> Same as Part I		
<input type="checkbox"/> Vehicle _____ License No. _____		
<input type="checkbox"/> Branch/Satellite Location _____		
<input type="checkbox"/> Other _____		
PART III. ALLEGATION OF TAX LAW VIOLATION(S)		
On or about this _____ day of _____, 20____ at about _____ (am)/pm), the undersigned certifies that the above person <input type="checkbox"/> has violated <input type="checkbox"/> is violating <input type="checkbox"/> is about to violate (check all that apply), the following provisions of Title 14, Hawaii Revised Statutes, relating to tax administration:		
<input type="checkbox"/> § 231-J (Failure to Produce License Upon Demand)	<input type="checkbox"/> § 231-N (Tax Avoidance Price Fixing)	
<input type="checkbox"/> § 231-K (Failure to Keep Adequate Books & Records)	<input type="checkbox"/> § 231-O (Possession of Certain Currency)	
<input type="checkbox"/> § 231-L (Failure to Record Transaction by Receipt)	<input type="checkbox"/> § 231-P (Interference with Tax Official)	
<input type="checkbox"/> § 231-M (Failure to Record Transaction by Register)	<input type="checkbox"/> § 237-9 (Failure to Obtain GET License)	
<input type="checkbox"/> Other _____		
PART IV. ALLEGATION OF CASH-BASED BUSINESS		
The undersigned further certifies that, based upon evidence, information, or belief The above person is a cash-based business, as defined in HRS § 231-4, allowing for increased fines, based upon the following:		
<input type="checkbox"/> The above person operates a business	<input type="checkbox"/> Has a past pattern of noncompliance with tax obligations.	
<input type="checkbox"/> for-profit <input type="checkbox"/> not-for-profit, where transactions in goods or services are exchanged substantially for cash and the business is found, based upon reasonable cause including observation or evidence discussed in Part VII, to have met at least one of the following:	<input type="checkbox"/> Does not have a fixed and permanent principal place of business.	
<input type="checkbox"/> Is found to have substantially underreported or misrepresented the proper amount of tax liability on any return or submission to the Department of Taxation.	<input type="checkbox"/> Has not obtained any required tax clearance.	
<input type="checkbox"/> Is required to be licensed, registered, or permitted and is in fact not so licensed, registered, or permitted.	<input type="checkbox"/> Has failed to maintain adequate books and records.	
	<input type="checkbox"/> Does not accept checks or electronic payment devices.	
	<input type="checkbox"/> Offers price differentials where the transaction involves payment of cash.	
	<input type="checkbox"/> Other _____	
PART V. OBSERVATIONS OF ALLEGED VIOLATIONS		
The undersigned further certifies that, based upon evidence, information, or belief, there is cause to issue this cease and desist citation based upon the following:		

PART VI. CIVIL FINE/CEASE & DESIST CITATION		
YOU ARE HEREBY CITED TO CEASE AND DESIST FROM ALL ACTIVITIES FOUND TO BE UNLAWFUL AND IN VIOLATION OF TITLE 14, HAWAII REVISED STATUTES.		
<input type="checkbox"/> No civil fine has been assessed against you and this cease and desist citation serves as a formal warning against further unlawful action.		
<input type="checkbox"/> A civil fine of \$ _____ has been assessed against you.		

XXX COPY — YELLOW

PART VII. JEOPARDY COLLECTION		
The undersigned further certifies that:		
<input type="checkbox"/> The fine in this matter is not determined to be in jeopardy and may be paid within 30 days from the date of this citation.		
<input type="checkbox"/> The fine in this matter has been determined to be in jeopardy and shall be immediately collected. The jeopardy determination is based upon the following: _____ _____		
PART VIII. SPECIAL ENFORCEMENT SECTION CERTIFICATION		
The undersigned certifies that there are just and reasonable grounds to believe the foregoing violations have been committed and this cease and desist citation will be filed with the Director of the Department of Taxation, State of Hawaii, charging the above person accordingly.		
SES Agent	Agent ID	Date
_____	_____	_____
PART IX. ACKNOWLEDGMENT OF RECEIPT		
Signature of Taxpayer/Person or Officer, Member, Partner or Agent _____ Date _____		
Name and Title of Taxpayer or Officer, Member, Partner or Agent of Taxpayer/Person Above _____		
IMPORTANT—YOU HAVE APPEAL RIGHTS		
You have been cited for violation of Hawaii tax laws under Title 14, Hawaii Revised Statutes. This citation is an allegation made by a government official and may be appealed pursuant to Hawaii law.		
IF YOU DO NOT CONTEST THIS CITATION—If you agree with the facts alleged in this citation or wish not to challenge or otherwise appeal the findings contained herein, you may select the option NOT TO CONTEST this citation below, sign, and return this document with full payment to the Special Enforcement Section at the address below within 30 days from the date of this citation. By not contesting this citation, you agree that all further appeal rights are waived and that the fine is immediately collectible. By not contesting this citation, you do not need to appear before the Department of Taxation. Payment must be made in full by check or money order made payable to the State of Hawaii Tax Collector.		
IF YOU WISH TO CONTEST THIS CITATION—If you disagree with the facts alleged in this citation or would like to appeal the findings contained herein, you must select the option TO CONTEST this citation below, sign, and return this document to the Special Enforcement Section at the address below within 30 days from the date of this citation. By contesting this citation, you are filing a formal appeal before the Department of Taxation, at which you must appear. You may hire an attorney or other tax professional to represent your interests. There is no fee for a hearing. Once the Department of Taxation has received a timely request for an appeal, you will receive further notice on the time and date for a hearing before the Director of Taxation or the Director's designee, as well as other information about your rights.		
FURTHER INFORMATION—For more information, please contact the Department of Taxation, Special Enforcement Section, at _____.		
FILING ADDRESS—This citation must be filed with the Special Enforcement Section within 30 days from the date of this citation to the following address: Department of Taxation, Special Enforcement Section 830 Punchbowl Street, Room XXX Honolulu, Hawaii 96813		
DUE PROCESS SELECTION—I wish:		
<input type="checkbox"/> NOT TO CONTEST THIS CITATION AND PAYMENT IS ENCLOSED FOR THE FULL AMOUNT. I understand that by selecting this option, all further appeal rights are waived.		
<input type="checkbox"/> TO CONTEST THIS CITATION AND RECEIVE A HEARING BEFORE THE DIRECTOR OF TAXATION.		
Signature of Taxpayer/Person or Officer, Member, Partner or Agent	Date	
_____	_____	
Name and Title of Taxpayer or Officer, Member, Partner or Agent of Taxpayer/Person Above _____		



Cash Economy

Overall Strategy (Cont.)

- Hotline for Confidential Tips
 - The SES can be contacted 24 hours a day, seven days a week, 365 days a year at the following contact—
 - AUTOMATED PHONE MESSAGING: 808-587-1456
 - EMAIL: SpecialEnforcementSection@hawaii.gov
 - FAX: XXX-XXX-XXXX
 - MAIL: Special Enforcement Section, Room 225
Department of Taxation
PO Box 259
Honolulu, Hawaii 96813
- Publicize/Advertise Few Big Profile Cases
- Be Visible and Be Out There
 - Field work will have a big impact



Cash Economy

Budget

- Draft budget includes 9 positions
 - 6 positions authorized under Act 134, SLH 2009 (SB 972 CD1)
 - 3 administrative rules specialist positions
- Other Current Expenses include:
 - Outreach - 2 one-day trips per island
 - Investigator travel - 6 trips; 5 days/trip per quarter
 - Brochures - creation/translation/printing
 - Advertisements - paid newspaper and radio advertisements
 - CFE membership and training
 - Subpoenas
 - Assumes no cash buys (petty cash expenditures)
- Equipment
 - Laptops with numeric keypads and wireless modems
 - Mobile printers



Cash Economy

Establishing the Special Enforcement Section

- The Cash Economy/Special Enforcement Section (SES) will be under the Compliance Division
 - Establish position descriptions
 - Hire agents
 - Train agents
 - Establish procedures
 - Rules Office help with write ups of the procedures, create forms for fees, etc. (Draft form for issuing fines created and being reviewed).
 - Handling fees collected.



Cash Economy

Target Revenue for FY 2010

- Direct effect: \$1.1 million
- Indirect effect: \$10.8 million
 - From the direct revenue, up to \$0.5 million goes to special fund to fund the Special Enforcement Unit

Draft Timeline

- Outreach: July – September, 2009
- Establishing the SES: July – September, 2009
- Hiring and Training the SES: September, 2009 – June, 2010
- Advertise Few Big Profile Cases: December, 2009 – December, 2010





LIQUIDATING INVENTORY

Liquidating Inventory

Overall Strategy

- Global Settlement Initiative
 - For a limited timeframe, such as: between now until the end of the year (3-month period), DOTAX would offer a global settlement opportunity
 - What is global settlement?
 - Taxpayers can generally settle their cases with DOTAX for $x\%$ of the total assessed amount (tax, penalty, and interest).
 - DOTAX would forego the $y\%$ of the total assessed amount (tax, penalty, and interest).
 - Criteria
 - Final assessment
 - Assessments pending at Court or DOTAX
 - Full payment must be included (no payment plan offered)



Liquidating Inventory

Overall Strategy (Cont.)

- Global Settlement (cont.)

- Criteria (cont.)

- No fraud cases
- No criminal cases
- No refund only cases
- No designated issues. Examples of designated issues:
 - Real Estate Investment Trust (REIT)
 - 0.5% Wholesale
 - Federal pre-exemption of taxation of maritime activities, such as operating sport fishing business
 - Non-profits ability to claim refundable tax credits
 - Frivolous cases
 - Tax protestors, etc.



Liquidating Inventory

Overall Strategy (Cont.)

- Global Settlement (cont.)
 - Why offer settlements?
 - No case is 100%
 - Less resources impacted on trivial cases
 - Resources dedicated to generating optimal revenue
 - \$8 today is worth more than the possible \$10 in the future
 - Government has to pay interest when it loses.
- DOTAX attorneys to work settlement cases with auditors.

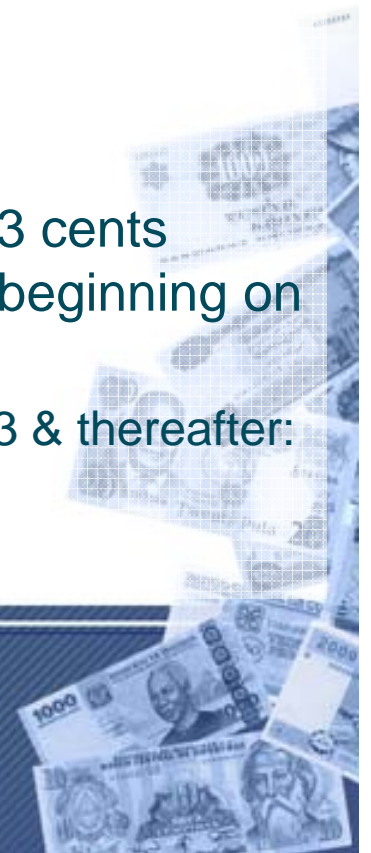




STATUS OF 2009 TAX LAW CHANGES

2009 Tax Law Changes

- Act 14 (Special Session) (HB1544 CD1): Phase-out of personal exemption.
 - Revenue gain: FY10 & thereafter: \$10.5 m/yr.
 - **Planned implementation:** 12/31/09.
- Act 40 (SB1327 HD1): Reduced interest rate on overpayment (refund) from 8%/yr to 4%/yr.
 - Revenue gain: Starting FY10: \$2.7 m/yr.
 - **Planned implementation:** Completed (in production).
- Act 56 (HB 1175 CD1): Increases the per-cigarette tax to 13 cents beginning 7/1/09, 14 cents beginning 7/1/10, and 15 cents beginning on 7/1/11.
 - Revenue gain: FY10: 22.5 m, FY11 & FY12: \$24.2 m/yr, FY13 & thereafter: \$21.6 m/yr.
 - **Planned implementation:** 8/31/09.



2009 Tax Law Changes

- Act 58 (HB 895 CD1): Increases the tobacco tax on tobacco products other than cigarettes and cigars from 40% to 70% of the wholesale price beginning on 9/30/09. Increases the tax on cigars to 50% beginning 9/30/09.
 - Revenue gain: FY10: \$1.2m, FY11 & thereafter: \$1.8m/yr.
 - **Planned implementation:** 8/31/09.

- Act 59 (HB 1741 CD1): Increases the conveyance tax on properties valued at \$2 million or more; Increases the conveyance tax on second homes valued at \$1 million or more.
 - Revenue gain: FY10 - FY12: \$10.1 m/yr, FY13 & thereafter: \$5.6 m/yr.
 - **Planned implementation:** 8/31/09.



2009 Tax Law Changes

- Act 60 (HB1747 CD1):
 - Changes tax rates/brackets, effective taxable years 2009-2014
 - Changes standard deduction & personal exemption, effective taxable years 2011-2014.
 - Revenue gain: FY10 & FY11: \$32.3 m/yr, FY12 – FY15: \$20.8 m/yr.
 - **Planned implementation:** 12/31/09.
- Act 61 (SB 1111 CD1): Increase TAT by 1% for 7/1/09 – 6/30/10, and 2% for 7/1/10 – 6/30/15.
 - Revenue gain: FY10: 28.8 m, FY11: \$60.1 m, FY12: \$63.4 m, FY13: \$67.3 m, FY14: \$71.5 m, FY15: \$76.1 m.
 - **Planned implementation:** Completed (in production).



2009 Tax Law Changes

- Act 84 (HB35 CD1): Mandatory tax credit; \$1/qualified exemption.
 - Revenue loss: FY10: \$1.1 m.
 - **Planned implementation:** 12/31/09.
- Act 133 (SB971 CD1): Annual Conformity to IRS.
 - Revenue loss: FY10: \$3.4 m.
 - **Planned implementation:** 12/31/09.
- Act 154 (SB 464 CD2):
 - Amends the renewable energy technologies income tax credit to encourage use of solar and wind energy systems by allowing refundable credit at reduced rate or for certain taxpayers.
 - Clarifies that credit is not available for systems required for newly constructed single family residences on or after January 1, 2010.
 - Revenue loss: FY10: \$0.2 m/yr.
 - **Planned implementation:** 12/31/09.



2009 Tax Law Changes

- Act 165 (HB1495 CD1): Repeals the deduction of wagering losses for Hawaii state income tax purposes.
 - Revenue gain: FY10 & thereafter: \$0.3 m/yr.
 - **Planned implementation:** 12/31/09.

- Act 166 (HB1739 CD1):
 - Conforming to certain Federal penalties;
 - Promotes expedited tax appeals;
 - Creates 15 yr statute of limitations.
 - Revenue gain: FY10: \$4.9 m, FY11 & thereafter: \$6.5 m/yr.
 - **Planned implementation:** 12/31/09.



2009 Tax Law Changes

– Act 178 (SB199 CD2):

- Establishes a temporary 80% tax credit cap (80% of tax liability) and restricts carryover credits for the high technology business investment tax credit and the technology infrastructure renovation tax credit for investments made after May 1, 2009;
- Limits investment credit allocation ratio to 1 to 1;
- Temporarily suspends the capital goods excise tax credit (May 1, 2009 – Dec. 31, 2009).
- Revenue gain: FY10: \$70.1 m, FY11: \$69.0 m, FY12: \$40.5 m, FY13: \$27.0 m, FY14: \$18.0 m, FY15: \$9.0 m.
- **Planned implementation: 8/31/09.**



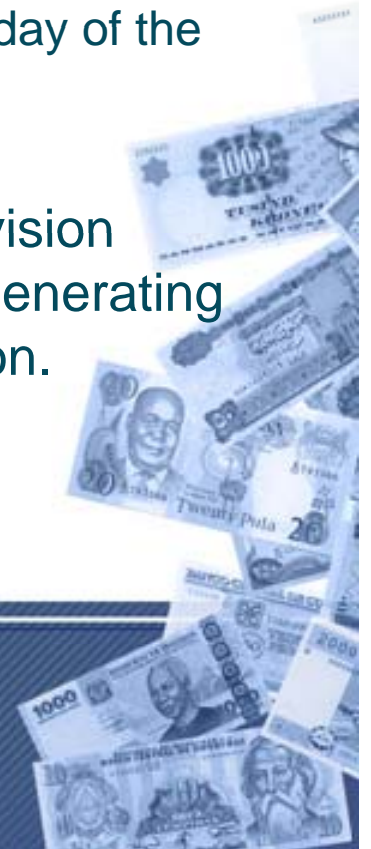
2009 Tax Law Changes

- Act 181 (HB 1550 CD1): Imposes the state income tax on rollovers made by employees of state and county agencies and tax-exempt organizations from qualifying annuity plans and qualifying deferred compensation plans, to eligible retirement plans or individual retirement accounts.
 - **Planned implementation:** 12/31/09.
- Act 184 (SB 470 CD1): Makes various revisions to the liquor license and liquor tax laws. Provides tax clearance for liquor license if on payment plan.
 - Revenue gain: N/A.
 - **Planned implementation:** 8/31/09.



2009 Tax Law Changes

- Act 196 (SB1461 CD2): GE due date advancement to the 20th of the month; e-file and e-pay requirement; GE exemption cap.
 - Revenue gain: FY10: \$40 m, FY11: \$5 m, FY12: \$40 m, FY13: \$0, FY14: (\$40 m).
 - **Planned implementation:** Go live on 2/1/10 (10-day grace period from now until 2/20/10, i.e.: only assess P&I for filing after the last day of the month).
- Act 198 (HB 371 CD1): Extends by 3 years the sunset provision relating to the tax on naphtha fuel sold for use in a power-generating facility. Increases the tax from 1 cent/gallon to 2 cents/gallon.
 - Revenue gain: FY10: \$1.2m, FY11 and thereafter: \$2.5m/yr.
 - **Planned implementation:** 8/31/09.

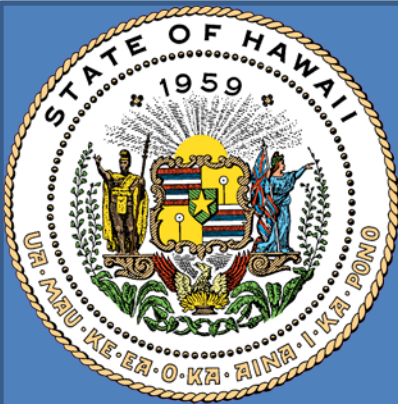




THANK YOU

www.hawaii.gov/tax



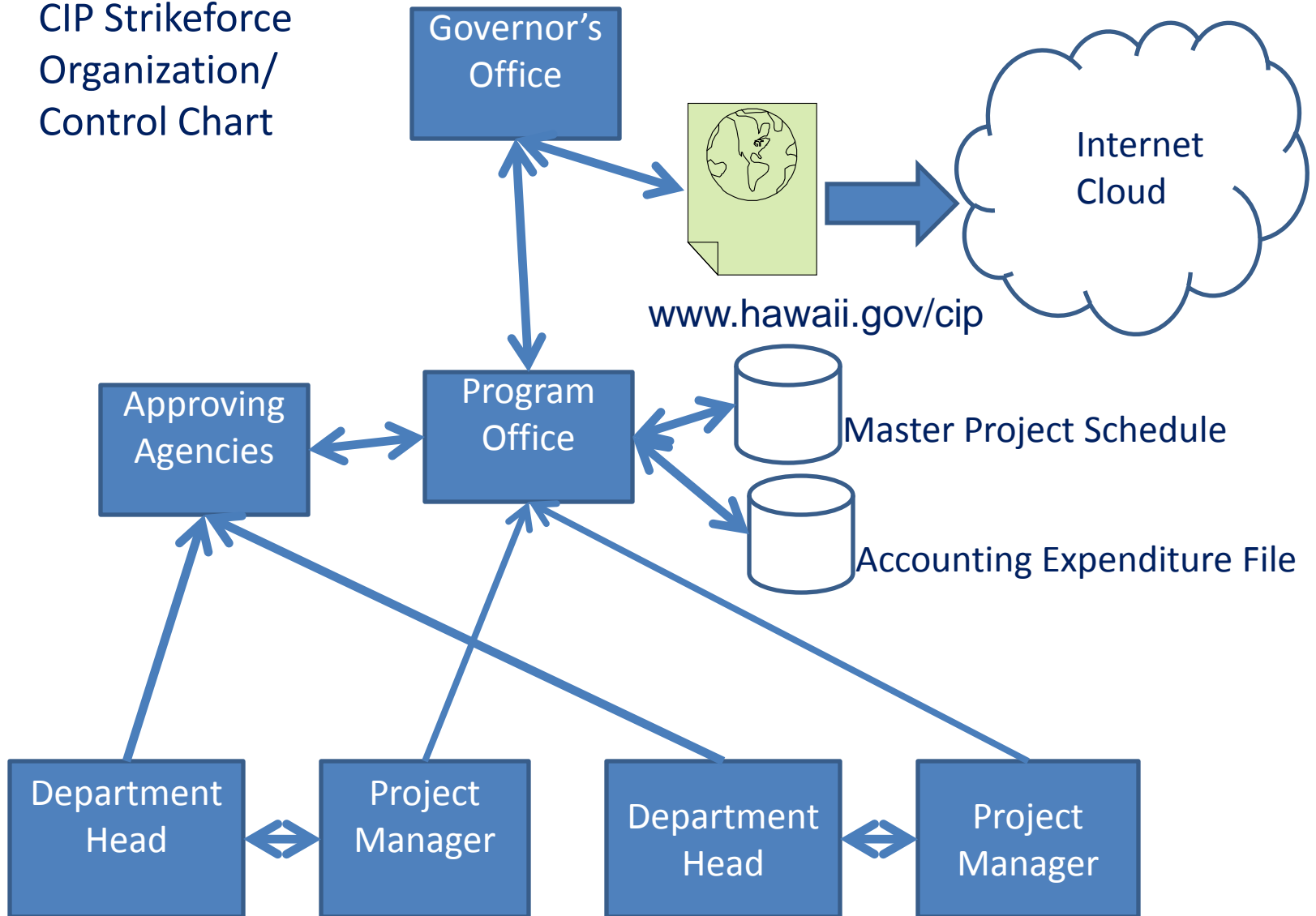


CIP Strikeforce Public Infrastructure Improvement Plan

House Finance and Senate Ways and
Means Briefing

8/12/09

CIP Strikeforce
Organization/
Control Chart



CIP Strikeforce Modus Operandi

Department Head	Project Manager	Program Office
Resolve all problems escalated by project managers	Monitor all departmental projects and milestones	Monitor all project schedules and milestones
Negotiate schedules and approvals by federal, state, and county agencies	Seek resolution of problems by individual project engineers and escalate problems requiring department head involvement	Conduct project review meetings on first and third Mondays of month
	Update all project schedules by first and third Mondays of month	Follow-up on items requiring further or consolidated escalation
		Submit updates to Governor's office for posting on website

CIP Strikeforce Roster

Department Head	Project Manager	Program Office
AGR – Sandra Kunimoto	Keith Aragaki	Russ K. Saito
AGS – Russ K. Saito	Eric Nishimoto	Mark Anderson
BED – Ted Liu	Deepak Neupane	Jessie Inazu
DOD – General Lee	John Hao	Clarence Kubo
EDN – Randy Moore	David Au	
HHL – Kaulana Park	Larry Sumida	
HMS – Lillian Koller	Henry Oliva	
HTH – Chiyome L. Fukino	John Messina	
LNR – Laura Thielen	Carty Chang	
PSD – Clayton A. Frank	Jon Kobayashi	
TRN – Brennon Morioka	Fred Nunes - Harbors	
	Scot Urada - Highways	
	Jeff Chang - Airports	
UOH – Brian Minaai	Bruce Teramoto	

Progress Reports

Project Milestones Tracked

Projects Out to Bid

(Column U – Actual Bid Open Date)

Projects Awarded

(Column W – Actual Construction Award Date)

Projects Under Construction

(Column AA – Actual Construction Start Date)

CIP Strikeforce Projects (Number & Construction \$\$)

Initial List of Projects Posted On The
Web In December 08

Additional Projects

Combined List of Projects
(Initial Posting + Additional)

Outlook

\$1.8 Billion CIP Stimulus Plan – Number of Projects By Department

CIPS Stimulus Program December 2008 Posting by Department					
	Bid Open	Awarded	Started	ACTUAL TOTALS (0-6)	TOTALS (0-6)
AGR	0	2	4	6	7
AGS	6	9	73	88	115
BED	1	1	1	3	11
DHS	6	0	3	9	37
DOD	0	0	0	0	0
EDN	157	93	32	282	1111
HHL	3	3	8	14	22
LNR	5	6	9	20	33
PSD	0	0	0	0	0
TRN	17	15	20	52	78
UOH	19	7	31	57	86
Total	214	136	181	531	1500

\$1.8 Billion CIP Stimulus Plan – Construction Costs By Department

CIPS Stimulus Program December 2008 Posting by Department					
	Bid Open	Awarded	Started	ACTUAL TOTALS (0-6)	TOTALS (0-6)
AGR	\$0	\$4,562,540	\$9,545,925	\$14,108,465	\$15,792,540
AGS	\$12,732,000	\$5,459,973	\$102,122,583	\$120,314,556	\$149,813,756
BED	\$3,500,000	\$2,000,000	\$791,733	\$6,291,733	\$16,570,233
DHS	\$10,144,231	\$0	\$4,409,235	\$14,553,466	\$56,582,566
DOD	\$0	\$0	\$0	\$0	\$0
EDN	\$119,534,637	\$15,145,401	\$83,817,832	\$218,497,870	\$309,717,817
HHL	\$36,913,452	\$46,901,000	\$40,547,982	\$124,362,434	\$193,834,434
LNR	\$35,488,819	\$6,836,708	\$4,582,241	\$46,907,768	\$62,077,768
PSD	\$0	\$0	\$0	\$0	\$0
TRN	\$191,542,621	\$104,340,065	\$151,063,316	\$446,946,002	\$783,937,335
UOH	\$37,002,916	\$6,418,545	\$32,392,842	\$75,814,303	\$187,482,003
Total	\$446,858,676	\$191,664,232	\$429,273,689	\$1,067,796,597	\$1,775,808,452

\$1.8 Billion CIP Stimulus Plan – Additional Projects By Department

Additional Projects (categories 7-11) by Department					
	Bid Open	Awarded	Started	ACTUAL TOTALS (7-11)	TOTALS (7-11)
AGR	0	0	0	0	3
AGS	3	10	5	18	87
BED	0	0	0	0	6
DHS	1	0	0	1	15
DOD	0	1	2	3	12
EDN	9	14	7	30	388
HHL	0	1	1	2	11
LNR	6	3	2	11	82
PSD	0	0	0	0	0
TRN	1	6	5	12	118
UOH	0	0	2	2	31
Total	20	35	24	79	753

\$1.8 Billion CIP Stimulus Plan – Additional Construction Costs By Department

Additional Projects (categories 7-11) by Department					
	Bid Open	Awarded	Started	ACTUAL TOTALS (7-11)	TOTALS (7-11)
AGR	\$0	\$0	\$0	\$0	\$14,610,000
AGS	\$10,850,000	\$8,691,516	\$2,543,410	\$22,084,926	\$408,483,426
BED	\$0	\$0	\$0	\$0	\$14,784,000
DHS	\$1,831,483	\$0	\$0	\$1,831,483	\$42,668,483
DOD	\$0	\$99,000	\$1,686,800	\$1,785,800	\$6,649,000
EDN	\$2,693,462	\$678,000	\$974,050	\$4,345,512	\$234,449,489
HHL	\$0	\$2,259,077	\$2,200,000	\$4,459,077	\$63,563,077
LNR	\$3,119,792	\$783,725	\$2,896,049	\$6,799,566	\$113,058,566
PSD	\$0	\$0	\$0	\$0	\$0
TRN	\$2,000,000	\$33,126,579	\$23,245,443	\$58,372,022	\$1,081,991,218
UOH	\$0	\$0	\$22,330,252	\$22,330,252	\$297,489,190
Total	\$20,494,737	\$45,637,897	\$55,876,004	\$122,008,638	\$2,277,746,449

Expanded CIPS Stimulus Plan – Number of Projects By Department

Expanded CIPS Stimulus Program by Department					
	Bid Open	Awarded	Started	ACTUAL TOTALS (0-11)	TOTALS (0-11)
AGR	0	2	4	6	10
AGS	9	19	78	106	202
BED	1	1	1	3	17
DHS	7	0	3	10	52
DOD	0	1	2	3	12
EDN	166	107	39	312	1499
HHL	3	4	9	16	33
LNR	11	9	11	31	115
PSD	0	0	0	0	0
TRN	18	21	25	64	196
UOH	19	7	33	59	117
Total	234	171	205	610	2253

Expanded CIPS Stimulus Plan – Construction Costs By Department

Expanded CIPS Stimulus Program by Department					
	Bid Open	Awarded	Started	ACTUAL TOTALS (0-11)	TOTALS (0-11)
AGR	\$0	\$4,562,540	\$9,545,925	\$14,108,465	\$30,402,540
AGS	\$23,582,000	\$14,151,489	\$104,665,993	\$142,399,482	\$558,297,182
BED	\$3,500,000	\$2,000,000	\$791,733	\$6,291,733	\$31,354,233
DHS	\$11,975,714	\$0	\$4,409,235	\$16,384,949	\$99,251,049
DOD	\$0	\$99,000	\$1,686,800	\$1,785,800	\$6,649,000
EDN	\$122,228,099	\$15,823,401	\$84,791,882	\$222,843,382	\$544,167,306
HHL	\$36,913,452	\$49,160,077	\$42,747,982	\$128,821,511	\$257,397,511
LNR	\$38,608,611	\$7,620,433	\$7,478,290	\$53,707,334	\$175,136,334
PSD	\$0	\$0	\$0	\$0	\$0
TRN	\$193,542,621	\$137,466,644	\$174,308,759	\$505,318,024	\$1,865,928,553
UOH	\$37,002,916	\$6,418,545	\$54,723,094	\$98,144,555	\$484,971,193
Total	\$467,353,413	\$237,302,129	\$485,149,693	\$1,189,805,235	\$4,053,554,901

Expanded CIPS Stimulus Plan – Outlook

	Projects Not in the Pipeline	Cancelled, Suspended, On hold	Funding lapsed in HB200	Construction Funds not appropriated	Projects Not in the Pipeline with Construction Appropriation	Projects with Estimated Bid Opening by Sept. '09
AGR	4	1	1	0	2	0
AGS	96	18	2	10	66	11
BED	14	2	0	7	5	1
DHS	42	0	0	18	24	18
DOD	9	0	0	0	9	0
EDN	1187	25	0	0	1162	946
HHL	17	0	0	12	5	5
LNR	84	7	4	34	39	7
PSD	0	0	0	0	0	0
TRN	132	16	0	47	69	10
UOH	58	10	0	2	46	21
Total	1643	79	7	130	1427	1019

Expanded CIPS Stimulus Plan – Outlook

	Projects Not in the Pipeline	Cancelled, Suspended, On hold	Funding lapsed in HB200	Construction Funds not appropriated	Projects Not in the Pipeline with Construction Appropriation	Projects with Estimated Bid Opening by Sept. '09
AGR	\$16,910,000	\$2,300,000	\$360,000	\$0	\$14,250,000	\$0
AGS	\$415,860,500	\$16,466,000	\$9,100,000	\$273,628,000	\$116,666,500	\$40,208,000
BED	\$25,062,500	\$3,850,000	\$0	\$7,340,000	\$13,872,500	\$4,632,500
DHS	\$82,866,100	\$0	\$0	\$47,337,000	\$35,529,100	\$25,556,000
DOD	\$5,200,000	\$0	\$0	\$0	\$5,200,000	\$0
EDN	\$322,373,761	\$686,000	\$0	\$0	\$321,687,761	\$196,128,647
HHL	\$103,219,000	\$0	\$0	\$78,973,000	\$24,246,000	\$24,246,000
LNR	\$121,429,000	\$7,820,000	\$680,000	\$56,550,000	\$56,379,000	\$6,600,000
PSD	\$0	\$0	\$0	\$0	\$0	\$0
TRN	\$1,323,499,540	\$199,886,000	\$0	\$413,203,640	\$710,409,900	\$51,678,700
UOH	\$386,826,638	\$16,000,000	\$0	\$135,757,000	\$235,069,638	\$39,302,224
Total	\$2,803,247,039	\$247,008,000	\$10,140,000	\$1,012,788,640	\$1,533,310,399	\$388,352,071

Expanded CIPS Stimulus Plan Summary and Outlook

	Projects in the Pipeline		Total Projects		Projects Not in the Pipeline					
					Total		With Constr \$\$ Appropriated		With Constr \$\$ Appropriated & Est Bid Opening by 9-09	
DEPT	No.	Constr \$\$	No.	Constr \$\$	No.	Constr \$\$	No.	Constr \$\$	No.	Constr \$\$
AGR	6	\$14.1	10	\$30.4	4	\$16.9	2	\$14.3	0	\$0.0
AGS	106	\$142.4	202	\$558.3	96	\$415.9	66	\$116.7	11	\$40.2
BED	3	\$6.3	17	\$31.4	14	\$25.1	5	\$13.9	1	\$4.6
DHS	10	\$16.4	52	\$99.3	42	\$82.9	24	\$35.5	18	\$25.6
DOD	3	\$1.8	12	\$6.6	9	\$5.2	9	\$5.2	0	\$0.0
EDN	312	\$222.8	1499	\$544.2	1187	\$322.4	1162	\$321.7	946	\$196.1
HHL	16	\$128.8	33	\$257.4	17	\$103.2	5	\$24.2	5	\$24.2
LNR	31	\$53.7	115	\$175.1	84	\$121.4	39	\$56.4	7	\$6.6
PSD	0	\$0.0	0	\$0.0	0	\$0.0	0	\$0.0	0	\$0.0
TRN	64	\$505.3	196	\$1,865.9	132	\$1,323.5	69	\$710.4	10	\$51.7
UOH	59	\$98.1	117	\$485.0	58	\$386.8	46	\$235.1	21	\$39.3
Total	610	\$1,189.8	2253	\$4,053.6	1643	\$2,803.2	1427	\$1,533.3	1019	\$388.4

Breakdown of Combined List of Projects by Island

Expanded CIPS Stimulus Plan Summary by Island

	ACTUAL TOTALS (0-11)				GOAL
	Bid Open	Awarded	Started	ACTUAL TOTALS	TOTALS (0-11)
Hawai'i	42	25	48	115	434
Kaua'i	15	6	18	39	150
Lāna'i	0	4	3	7	24
Maui	28	22	19	69	292
Moloka'i	8	2	5	15	52
O'ahu	139	111	111	361	1262
Statewide	2	1	1	4	39
Total	234	171	205	610	2253

Expanded CIPS Stimulus Plan Summary by Island

	ACTUAL TOTALS (0-11)				GOAL
	Bid Open	Awarded	Started	ACTUAL TOTALS	TOTALS (0-11)
Hawai'i	\$142,375,979	\$73,694,555	\$139,217,912	\$355,288,446	\$732,761,496
Kaua'i	\$86,812,310	\$4,398,907	\$22,935,143	\$114,146,360	\$236,287,154
Lāna'i	\$0	\$500,000	\$7,098,213	\$7,598,213	\$28,297,434
Maui	\$52,844,947	\$35,438,609	\$52,721,439	\$141,004,995	\$790,803,880
Moloka'i	\$7,871,192	\$152,000	\$3,012,578	\$11,035,770	\$33,936,492
O'ahu	\$167,648,985	\$120,001,973	\$260,063,420	\$547,714,378	\$2,120,207,031
Statewide	\$9,800,000	\$3,116,085	\$100,989	\$13,017,074	\$111,261,414
Total	\$467,353,413	\$237,302,129	\$485,149,694	\$1,189,805,236	\$4,053,554,901

Challenges Past and Present

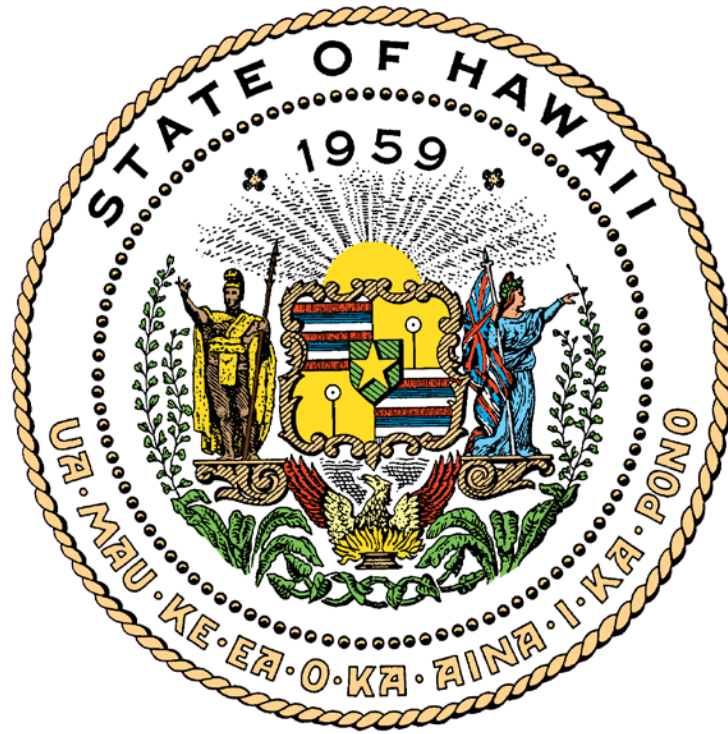
Internal Processing and Approval

Resource Availability

Project Management

Permitting and Approvals

Protests



Mahalo!

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808-586-0400