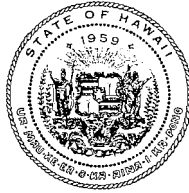


LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

JOINT COMMITTEE ON INTERGOVERNMENTAL AFFAIRS AND
COMMITTEE ON TRANSPORTATION AND GOVERNMENT OPERATIONS

Senator David Ige & Senator Lorraine R. Inouye, Chair

February 7, 2006, 3:00 p.m.

State Capitol, Conference Room 225

TESTIMONY REGARDING S.B. 2814
RELATING TO TAXATION

Department of Taxation

Clay A. Sato, Information Technology Services Officer

The Information Technology Services Office (ITSO) **strongly supports** the County administering the County Surcharge Tax. ITSO performs the automation and computerization of information technology/processing. There are 24 staff positions in ITSO (1 manager, 1 secretary, 3 data administration, 4 network, 1 webmaster, 14 applications). We understand the main arguments that the State: 1) already has an existing infrastructure (*e.g.* staff, processes, computer system); 2) eliminating duplication of services; 3) cost efficiencies; and 4) concerns of privatization. Our viewpoint though is that the appropriate entity to collect the tax is the County.

This testimony is not targeted to dispute the arguments above, but to provide some insight into the impact of placing the administration on the State. Below are points that will negatively impact the State's ability to collect revenue and responsiveness to its stakeholders, and require increases in funding, staffing, and infrastructure.

- Integrated Tax Information Management System (ITIMS), the state's computer tax system, was not designed to apportion for counties.
 - Modifying ITIMS for county(s) will complicate future development and maintenance (*e.g.* increase complexity, lengthen delivery time, degrade system capacity, etc.) for the life of the ITIMS system.
 - Implementing system requirements for counties places greater risk on destabilizing ITIMS.
- Tight timeframe to implement the County Surcharge tax by January 2007.
 - The mechanism (*i.e.* staffing and system) must be developed and ready for the administration of the tax in less than 1 year. Resources will need to be pulled from current operations.
 - Will need to start ASAP, as compression of timetables will further increase costs.

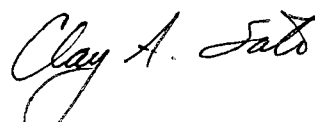
- CGI-AMS has stated must start by August (which would require much overtime work on both nights and weekends for both CGI-AMS and DOTAX staff) or will not be able to be done before January 2007.
- Jeopardize and/or increase risk to other on-going initiatives.
 - ITIMS Imaging System - CGI-AMS in development to include more forms.
 - Electronic filing – Enabling more forms for public to e-file.
 - 2006 Tax Law Changes – Regular annual modifications (e.g. year changes, forms & booklets creation, etc.).
 - ITIMS hardware/software upgrades – Manufacturers forced upgrades are anticipated to be needed by 2007.
- Conflict with other possible initiatives.
 - 2006 Tax Law Changes – Legislative modifications (e.g. increasing standard deductions, tax credits, etc.).
 - Streamline Sales Tax Project (SSTP) – CGI-AMS has stated that both cannot be done before 2007.
 - Post-ITIMS benefits project – ITIMS system enhancements to generate more revenue and efficiencies.
- Current IRS statutes would not provide the City and County to review the ITIMS system, including the County Surcharge portion.
- With either the County or the State (*i.e.* DOTAX to contract CGI-AMS) a private entity will need to be contracted in the short term.
- DOTAX does not have funding to contract CGI-AMS or any vendor before 2007.

Finally, it is important that we inform the decision-makers that ITSO staff alone will not be able to make all of the needed modifications because of the following in addition to some of the reasons above:

- ITSO is staffed at levels to keep operations going and perform small to medium scale development. County Surcharge is a large-scale project.
- Many members of ITSO are relatively new and all are still learning the system.
- Key ITSO staff members are near the point of burnout. Recently completed the 5-year ITIMS systems replacement project in 2005.

For the reasons set forth herein, the Department respectfully requests this Committee pass this measure as proposed. Thank you for this opportunity to testify.

Respectfully submitted,



CLAY A. SATO
Information Technology Services Officer