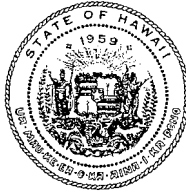


LINDA LINGLE
GOVERNOR

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

Joan M. Bolte, Taxation Services Administrator

and

Ronald Randall, Compliance Administrator

This bill is highly supported by the Tax Services & Processing ("TSP") and Compliance Divisions of the Department of Taxation ("Department"), which consists of 110 permanent and 166 permanent employees, respectively. S.B. 2814 clearly reinforces the ability for the Counties to administer its own taxes and builds upon an existing infrastructure within the Real Property Tax Collection Division of the City & County of Honolulu. On behalf of the staff within the Compliance and TSP Divisions, we urge this Joint Committee to **support** this bill and further encourage this Committee to support the foundational premise behind this measure.

The Department's Integrated Tax Information Management System ("ITIMS"), which allowed the ability to increase tax revenues to nearly \$4.0 billion in fiscal year 2005, was built with the philosophy that only State taxes and/or taxes that the State benefits from would be collected. ITIMS was not implemented to be able to collect taxes for various unrelated entities. To do so now, under the time constraints that the County would require, would mean the possible destabilization of a very successful, complex, ITIMS application for several reasons:

1. Calculation and tracking of residual income (*e.g.*, penalties & interest, partial payments, etc.)
2. Collection and Auditing requirements for the new tax type, including validation and processing of data.
3. The creation of a new tax type within ITIMS is something that must be done with care and testing to ensure that the Department meets its fiduciary responsibilities to the citizens of Hawaii.

However, this revenue success did not come without a cost to the Department, specifically, being understaffed in proportion to the volume of returns and payments that the ITIMS is now able to produce via it's daily billings to delinquent taxpayers. Per an independent study by consultant CGI-AMS entitled, "*Report on Staffing for Taxpayer Services and Document Processing*," the State of Hawaii would need to add a net 76 positions (to front end processing) in order to achieve an "average" staffing ratio comparable with other states. As we are struggling to address our basic core functionality from a staffing perspective after the successful implementation of ITIMS, S.B. 2814 offers a needed relief.

Providing adequate resources is not the answer. The fundamental message from our operational areas is that to date, the Department has only collected those taxes that we are accountable for and/or that we have a vested interest within. If S.B. 2814 is not adopted, precedence would be created and it begs the question of what next? The staff within the Compliance and TSP Divisions is dedicated, hardworking, public servants, but we should only be asking them to do their jobs - collect State taxes.

From a State perspective, concerns over privatization are not considered an issue. As we promote electronic processing as our only true means to offset the manual, labor intensive processing of paper returns, we need a dependable tax specific portal for our taxpayers to utilize. The Department will process all paper returns and payments.

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,



for JOAN M. BOLTE
Taxation Services Administrator

and



RONALD RANDALL
Compliance Administrator