



Hawaii Tax News

Administering the tax laws for the State of Hawaii in a consistent, uniform, and fair manner

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State of Hawaii • Department of Taxation

SPRING 2002

Expanded E-filing Options

More tax forms and credit card payment options have been added to our e-filing program! Form N-13, Individual Income Tax Return (Resident Short Form); Form G-49, General Excise/Use Tax Annual Return and Reconciliation; and Form TA-2, Transient Accommodations Tax Annual Return and Reconciliation, are now available for e-filing via the State Internet Portal at www.ehawaii.gov.org. Also, you can now pay with Discover and American Express credit cards in addition to VISA and MasterCard.



For more information, go to our website at www.state.hi.us/tax and select "Internet Filing of Selected Tax Forms," or go directly to www.ehawaii.gov.org/efile. Also, see Department of Taxation Announcement No. 2002-4, Electronic Filing Approved as a Means of Electronic Funds Transfer.

2002 Hawaii Small Business Fair

Coming soon . . . and it's FREE! The Department of Taxation is once again pleased to be one of the organizers of the 2002 Hawaii Small Business Fair featuring government and nonprofit organizations providing free and low-cost services to small businesses.

This free fair will be held on Saturday, May 18th, from 8:00 A.M. to 3:30 P.M. at Kapiolani Community College where there is abundant free parking. Registration is not needed; just come and go as is convenient.

If you, a client, or anyone else you know is interested in starting a business, expanding a business, or just keeping a business alive in the current economy, this fair is for you.

Visit booths and find out about wide range of services that government and nonprofit organizations have to offer, including entrepreneurship training programs, import and export support services, counseling services,

loan programs, and one-stop licensing and business registrations.

Hear keynote speaker, Emme Tomimbang from 11:30 to 12:15, and attend some of the many free seminars being offered throughout the day. Seminar topics include:

- Starting a Small Business
- Choosing the Right Legal Form of Business
- Record Keeping and Cash Flow Management
- Marketing/Advertising Your Business
- Export Marketing Service
- Alternative Financing – We'll Show You the Money
- Options for Businesses in Financial Distress
- Insurance for the Successful Entrepreneur
- How to Spot the SCAM Aimed at Small Business
- QuickBooks and other computer classes
- And much, much more!

Visit the 2002 Hawaii Small Business Fair website at <http://smallbusinessfair.state.hi.us>, or call our Team T.E.A.C.H. Coordinator, Cathy Tokishi, at 587-1786 for more information.

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The Direct Line ☎

By Director Marie Y. Okamura



There are a number of bills this legislative session for economic stimuli through tax incentives, or funding of new and existing programs. Two revenue initiatives are still making their way through the Legislature. One bill proposes to increase the cigarette tax and the other addresses liquor tax increases. One certainty is that there will be budget cuts for all departments to

address part of the projected revenue shortfall. Proposed budget cuts make it even more important that we look for longer-term solutions.

Our electronic filing (ELF) program, an outgrowth of our ongoing systems modernization project, has made important inroads in helping us achieve our vision. ELF has once again expanded (see accompanying article). ELF will only be successful if the public and the tax practitioner community actually use it to its full potential. We will be using ELF when providing counter services and have set up for public use in all district offices.

The joint electronic filing of federal and Hawaii net income tax returns, our JELF program, continues on its success-growth path. We passed the total number of JELF returns filed during 2001 at around mid-point of our filing season this year.

As we restructure and continue to reinvent ourselves, we are fortunate to have Grant Tanimoto on board as the new Deputy Director of Taxation. Grant has been intimately involved with our internal efforts and is already up to speed on the major issues facing us. He is known to most of you in the tax practitioner community as our Administrative Rules Officer for the past five years.

Practitioners' Forum

The Department will be holding a Practitioners' Forum on May 30 in the Princess Ruth Keelikolani Building. The Practitioners' Forum is an informal meeting with Director Marie Okamura and representatives from tax firms to discuss various matters, raise questions, and resolve problems and tax issues. This is not an educational workshop for which education credits are available, but is instead an opportunity for the tax practitioner community to make

their concerns known and to enter into an informal dialog with the Department about those concerns. Audience participation and discussions are the key to a successful Forum.

A registration form for the Practitioners' Forum, when it becomes available, may be obtained from our website at www.state.hi.us/tax, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), or from any district tax office.

New Deputy Director

Grant Tanimoto was appointed to the position of Deputy Director for the Department of Taxation effective January 14, 2002. For the past five years, Grant has served, and will continue to serve, as our Administrative Rules Officer. Prior to that, Grant was a Rules Specialist for our Department for ten years and a Deputy Attorney General in the Commerce and Economic Development, Labor, and Tax divisions. We are fortunate to have someone with Grant's knowledge and experience as our Deputy Director.

Conformity to 2001 Federal Tax Changes

As expected, a number of tax bills have been introduced at the Legislature. Our staff is working hard to track all of them, and we will of course

See Federal Conformity, Page 3



The Hawaii Tax News is a publication of the State of Hawaii, Department of Taxation.

Director: Marie Y. Okamura
 Editor: Lynne Kuroda
 Address: Princess Ruth Keelikolani Building
 830 Punchbowl Street, Room 124
 Honolulu, HI 96813-5094
 Telephone: 808-587-1577
 Fax: 808-587-1584
 E-mail: Technical_Section@tax.state.hi.us
 Website: www.state.hi.us/tax
 Forms By
 Fax/Mail: 808-587-7572
 Toll-Free 1-800-222-7572
 Consumer Dial: 808-587-1234, code 7700

Federal Conformity

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issue formal announcements about any tax measures that are later enacted.

Questions have been raised regarding House Bill 2566, HD 1 and Senate Bill 2824, SD 1 – This is the annual conformity bill to update Hawaii's income tax law to conform with many of the changes made to the Internal Revenue Code by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), P.L. 107-16.

Conformity is proposed with respect to education IRAs, qualified tuition programs, and the exclusion for employer provided educational assistance.

Conformity is also proposed with respect to various pension and IRA provisions (including the increased contribution limits and distribution provisions for qualified pension plans and IRAs), as well as the exclusion for certain restitution payments to Holocaust victims.

Conformity is NOT proposed with respect to the above-the-line deduction for qualified higher education expenses or the federal dependent care credit provisions.

The effective dates will generally be the same as the federal effective dates unless otherwise provided. However, none of these provisions will actually be part of Hawaii law until the conformity bill is actually enacted.

Residential Construction and Remodeling Tax Credit

One of the most talked about changes that you'll see on 2001 Hawaii income tax returns is a new tax credit called the Residential Construction and Remodeling Tax Credit.

The Residential Construction and Remodeling Tax Credit, included in Act 10, Third Special Session of 2001, is a nonrefundable income tax credit of 4% of qualifying costs up to a maximum of \$250,000, in the aggregate, for each residential real property unit. If the amount of the credit is more than the tax liability, the unused credit may be carried over to the following years until used up.

The Department, in administering this new credit, is interpreting this new law to apply to construction, modifications, and alterations that are made to the actual structure of the residential unit. The cost of equipment

(i.e., tangible personal property) added to the structure of the residential unit is eligible for the credit if it becomes permanently affixed to the structure and it is not removable without causing substantial damage to that structure. Stand-alone appliances like washers, dryers, and refrigerators, which do not become integral to the structure of the residential unit, would not qualify for the credit.

This credit is applicable to taxable years beginning after December 31, 2000, but not to taxable years beginning after December 31, 2003, for costs incurred before July 1, 2002. The credit must be claimed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed.

Use Form N-332 to compute this credit, and see Department of Taxation Announcement No. 2001-20 for more information. A Tax Information Release will be issued to clarify which costs qualify for the credit and who (e.g., individual home owners, developers, etc.) may claim the credit in certain circumstances.

Several bills, including House Bill 2574 and Senate Bill 2831, have been introduced at the Legislature to extend the credit. To follow the progress of these bills, go to the Hawaii State Legislature website at www.capitol.hawaii.gov.

Reminders for the April 20 Deadline

Everyone is reminded that the deadline for filing their 2001 Hawaii individual income tax returns and calendar year-end business income tax returns is April 20, 2002. However, since April 20 falls on a Saturday this year, you will have until Monday, April 22, 2002, to file your return. In general, tax returns must be received by the Department no later than April 22nd to be considered "on time". Returns sent through the U.S. Postal Service, however, must be postmarked by midnight, April 22, 2002.

If you mail your tax return to the Department, be sure to put sufficient postage on the envelope. Mail with insufficient postage is not accepted by the Department and will be returned to you. The new postmark date will be the official filing date of your return. The Post Office will not have special hours to accept last minute State tax returns.

In addition to the U.S. Postal Service, certain private delivery service companies designated by the Internal Revenue Service can be used to meet the April 22nd deadline provided that the date recorded or marked by the private delivery service company is on or before April 22.

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April 20 Reminders

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The Department will offer curbside service on Oahu for last minute filers on Monday, April 22, 2002, from 5:00 P.M. to midnight. You may drive up to either the Punchbowl Street or Halekauwila Street sides of the Princess Ruth Keelikolani Building where volunteer Department employees will be stationed to accept tax returns, extension requests, and other documents.

If you cannot complete your State tax return on time, apply for an automatic extension of time to file your return by completing and filing the appropriate Hawaii extension form with the Department no later than April 22, 2002. Comparable federal extension forms will be accepted in lieu of the Hawaii extension forms if completed using amounts for Hawaii income tax purposes. Any reference to "federal" should be crossed off and replaced with "Hawaii". Hawaii extension forms also can be electronically filed via the Internet. Visit our website at www.state.hi.us/tax and select "Internet Filing of Selected Tax Forms" for more information.

The extension form, as well as all other tax forms, may be obtained from our website at www.state.hi.us/tax, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), or from any district tax office.

U.S. Government Smart Pay Credit Card

Businesses subject to Hawaii's general excise tax (GET) may exempt from the GET sales of tangible personal property (i.e., goods) to the federal government. Likewise, fuel distributors subject to the fuel tax may exempt from the fuel tax sales of liquid fuel to the federal government. Tax Information Release (TIR) No. 2001-3 discusses how these exemptions apply when U.S. Government credit cards issued under the General Services Administration's "Smart Pay" program are used to make the purchase.

Three kinds of U.S. Government credit cards are discussed. The Purchase Card is used to buy goods or services for official use only. The Fleet Card is used to buy fuel, oil, maintenance, or repair services for government fleet vehicles. The Travel Card is used for transportation, lodging, and motor vehicle rentals for official government travel.

General Excise Tax Exemption: Sales of goods to a federal agency or employee that are paid for with Smart Pay Purchase Cards or Fleet Cards are exempt from the

GET.

Also exempt are sales of goods to a federal agency or employee that are paid for with Smart Pay Travel Cards and that are billed directly to the federal government (Travel Cards with the number 6, 7, 8, 9, or 0 as the sixth digit). Purchases that are billed to the employee, however, only are exempt if the employee documents the purchase as an official government purchase through a travel authorization.

When fuel is sold, the gas station may claim the GET exemption based on information received from the financial institution issuing the Fleet Card or the credit card transaction processor. The financial institution or credit card transaction processor should in turn exclude the GET from the amount billed to the federal government.

Sales of goods furnished in conjunction with services (even if separately billed), services, and the rental of goods or real property are not exempt from the GET.

Fuel Tax Exemption: Fuel distributors may exempt from the fuel tax sales of fuel to the federal government that are purchased with Smart Pay Purchase Cards or Fleet Cards for official use.

Frequently, however, fuel distributors don't make such sales directly to the federal government. They instead sell the fuel to gas stations that may in turn resell the fuel to a federal agency or employee who purchases the fuel with a Smart Pay Travel Card or Fleet Card for official use. In this case, the fuel distributor cannot know ahead of time that some of the fuel sold to the gas station should have been exempt from the fuel tax.

When the financial institution issuing the Fleet Card or the credit card transaction processor bills the federal government, the fuel tax should be excluded. The gas station should then apply for a refund or credit from the fuel distributor, after which the fuel distributor may apply to the Department for a refund of the fuel tax paid.

TIR No. 2001-3 may be obtained from our website at www.state.hi.us/tax, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), or from any district tax office.

Capital Goods Excise Tax Credit

The capital goods excise tax credit (CGETC) is a refundable income tax credit in the amount of 4% of the eligible cost of certain qualified property used in a business, and must be claimed within 12 months of the close of the tax year for which the credit may be claimed. Tax Information Release (TIR) No. 2001-4

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Capital Goods Credit

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prescribes safe harbors for taxpayers claiming the CGETC.

Businesses must show that either the 4% GET or the 4% use tax has been paid before claiming the credit. The problem is showing that a seller has actually paid the GET.

The Department will generally not deny the CGETC if the taxpayer can provide any one of the following:

- The sales invoice or contract showing the 4% GET visibly passed on;
- The sales invoice showing that the seller has a Hawaii business address;
- The seller's GET license number valid at the time the property was purchased plus certain other information; or
- A statement or affidavit from the seller representing that the GET has been paid.

For more information about the CGETC, see Forms N-312 and N-312A and instructions, and TIR Nos. 88-6, 88-8, and 89-4.

TIR No. 2001-4 may be obtained from our website at www.state.hi.us/tax, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), or from any district tax office.

Corrections to 2001 Tax Forms

The following errors were found on the 2001 Hawaii tax forms as of March 20, 2002.

Form M-19 Instructions

- On page 2, the revision date which reads, "(2000)," should read "(REV. 2001)."

Form N-13

- On page 1, in the Designee Area, text which reads, "Do want . . .," should read "Do you want . . ."

Form N-15 Instructions

- On page 31, under the subheading of Amended Return, the last sentence in the last paragraph which reads, ". . . to amend a Form N-15 filed for taxable year 1997 or 1998," should read ". . . to amend a Form N-15 filed for taxable year 1997 or thereafter."

Schedule K-1 (Form N-20)

- On page 2 of the Schedule, Line 27b(1), which reads, ". . . Schedule K-1, lines 4a through 4f," should read ". . . Schedule K-1, lines 4a, 4b, 4c, 4f,"
- On page 2 of the Schedule, Line 29, column (b) should not reflect a dollar amount, but should contain the following reference "See attached Form N-312A"

Form N-30

- On page 1, Line 16, which reads, ". . . larger than line 14(f)" should read ". . . larger than line 14(e)"
- On page 1, Line 17, which reads, "OVERPAYMENT (If line 14(f) . . ." should read "OVERPAYMENT (If line 14(e) . . ."

Form N-152

- On page 2, Line 38, which reads, ". . . Add lines 13 and 45," should read ". . . Add lines 13 and 37."

Form N-188X Instructions

- On page 1, 1st column, 3rd paragraph, 1st sentence, which reads, ". . . to amend Form N-15 for taxable year 1997 or 1998. They must file an amended return for 1997 or 1998 on Form N-15," should read ". . . to amend Form N-15 for taxable year 1997 or thereafter. They must file an amended return for 1997 or thereafter on Form N-15."

Form N-196

- In the declaration area, text which reads, ". . . calendar year 2000." should read ". . . calendar year 2001."

Form N-314

- There were 2 versions of the form printed with "(Rev. 2001)". The correct version starts with Line 13 on page 2 and the instructions are on a separate sheet. The incorrect version has instructions on page 2.

See Department of Taxation Announcement No. 2002-2, A Listing of New and Obsolete Tax Forms, Instructions, and Schedules; Errors Found on Hawaii Tax Forms as of January 21, 2002.

Recently Issued Tax Publications

The following is a list of the publications issued by the Department of Taxation from July 2001 through March 2002. Copies of these publications may be obtained from our website at www.state.hi.us/tax, by

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Recent Publications

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calling our request line at 587-7572 (toll-free at 1-800-222-7572), or from any district tax office.

TIR No. 2001-2 - Discusses the Director of Taxation's authority to exempt, exclude, or apportion the value of imported property, services, or contracting for use tax purposes; use tax exemptions for imported services and contracting; and the use tax credit for taxes paid to another state.

TIR No. 2001-3 - Discusses the application of the general excise tax, fuel tax, transient accommodations tax, and rental motor vehicle tax to income received from purchases made with the General Services Administration Smart Pay credit cards.

TIR No. 2001-4 - Discusses the definition of "cost"; the payment of tax requirement; and safe harbor guidelines pertaining to the capital goods excise tax credit.

TIR No. 2002-1 - Summarizes statutory rights, obligations, and procedures, relating to the audit of net income, general excise, and use tax returns by the Department which may result in the assessment of additional taxes; appeals from the assessment of taxes; claims for refund or credit; and payment to the State under protest.

Announcement No. 2001-17 - Provides information on Act 293, SLH 2001, which provides a 4% refundable income tax credit for the construction of new drought mitigation water storage facilities, or the repair or reconstruction of existing water storage facilities.

Announcement No. 2001-18 - Provides information on Act 309, SLH 2001, which provides a nonrefundable income tax credit for contributions of in-kind services for the repair and maintenance of Hawaii's public schools.

Announcement No. 2001-19 - Provides information on Act 8, Third Special SLH 2001, which increases the filing thresholds for taxpayers filing withholding, general excise/use, transient accommodations, and rental motor vehicle and tour vehicle surcharge tax returns.

Announcement No. 2001-20 - Provides information on Act 10, Third Special SLH 2001, which provides a 4% nonrefundable residential construction and remodeling income tax credit, and amends the hotel construction and remodeling income tax credit to change it to a 10% nonrefundable credit for a limited time.

Announcement No. 2001-21 - Provides information on Act 9, Third Special SLH 2001, which converts certain transportation service providers who are subject to the public service company tax to the general excise tax.

Announcement No. 2001-22 (Revised) - Announces the adoption of the IRS optional standard mileage rates for 2002.

Announcement No. 2002-1 - Provides a list of candidates for political office who have registered with the campaign spending commission.

Announcement No. 2002-2 - A listing of new and obsolete tax forms, instructions, and schedules; errors found on Hawaii tax forms as of January 21, 2002.

Announcement No. 2002-3 - A listing of the Tax Information Releases in effect and obsolete as of January 25, 2002, and a listing of Hawaii Administrative Rules related to taxation.

Announcement No. 2002-4 - Provides information regarding electronic filing as a means of electronic funds transfer.

Digest of Tax Measures - Enacted by the State of Hawaii, Twenty-first Legislature, Regular Session of 2001.

Pending Tax Publications

The following is a list of the Department's tax projects in progress, and the name and telephone number of the staff member assigned to the project.

Administration of Taxes

- Application of penalties and interest and the waiver of penalties and interest - sections 231-3 and 231-39, HRS.
- Clarify the application of the penalty for failure to pay tax after timely filing a return (section 231-39(b)(3), HRS) where a corporation files an extension for a return and remits taxes with the return.

Income Tax Law

- Clarify the application of the income tax to pension amounts rolled over to an Individual Retirement Account - section 235-7, HRS. (Peter Fritz, 587-1533)
- Clarify whether a taxpayer who files an extension may amend a return during the extension period to change filing status from married filing joint to married filing separate.

General Excise Tax Law

- Clarify the application of the general excise tax for reimbursements - section 237-20, HRS. (Grant

See Pending Publications, Page 7

Pending Publications

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Tanimoto, 587-1569)

- Clarify the application of the general excise tax exemption for scientific contracts - section 237-26, HRS. (Johnson Lau, 587-1562)
- Clarify the application of the general excise tax to sales of property (e.g., goodwill, covenants not to compete, etc.) upon the termination of a business.
- Clarify when the Department may disclose tax return information to persons contractually obligated to pay general excise and use taxes assessed against another under section 237-34(b), HRS.
- Application of the general excise, use, and income taxes on agricultural cooperatives organized under chapter 421, HRS, and farmer's cooperatives meeting the requirements of section 521, IRC.

- Pyramiding relief for Hawaii businesses under Act 71, SLH 1999, and Act 198, SLH 2000.
- General excise tax exemption for exported services and contracting and the use taxation of imported services under Act 70, SLH 1999, and Act 198, SLH 2000.

Conveyance Tax Law

- Clarify the application of the conveyance tax, including transactions involving Fannie Mae. (Grant Tanimoto, 587-1569)

Miscellaneous

- Clarify the use of bonds by cigarette stamping licensees.

Second Quarter State Tax Collections

October - December

(In Millions of Dollars)

	FY 2002	FY 2001	Difference	
			Amount	Percent
Individual Income Tax	\$ 260.7	\$ 268.7	\$ -7.9	-3.0%
Corporate Income Tax	-10.2	3.6	-13.8	nm*
General Excise Tax	409.5	394.7	14.9	3.8%
Transient Accommodations Tax	36.0	41.6	-5.5	-13.3%
All Others	156.3	156.5	-0.2	-0.1%
Total Tax Collections	\$ 852.5	\$ 865.0	\$ -12.5	-1.4%
General Fund Revenues	\$ 739.7	\$ 740.0	\$ -0.2	-0.03%

(Note: Totals may not add up due to rounding.)

* nm = not meaningful

Total tax collections for the second quarter of fiscal year 2002 amounted to \$852.5 million, or \$12.5 million less than the same period of last fiscal year. While corporate income, individual income, and transient accommodations tax collections for the second quarter dropped by a total of \$27.2 million, general excise tax collections grew by \$14.9 million. The increase in general excise tax collections was due in part to the "weekend effect" where the second quarter of fiscal year 2001 ended on a weekend. Since December 31, 2000, fell on a Saturday, general excise taxes normally due on the last day of the month were not due until Tuesday, January 2, 2001. This "weekend effect" pushed \$20 million in general excise tax revenue from December 2000 into January 2001. If the \$20 million in general excise tax revenue were attributed to December 2000, the second quarter of fiscal year 2002 would have reflected a \$5.1 million decrease in general excise tax revenue from the second quarter of fiscal year 2001. The September 11, 2001, terrorist attack could have led to a bigger loss, but spending of the federal tax rebate, low interest rates, and other stimuli created additional economic activities offsetting the impact of the September 11, 2001, event.

Tax collections deposited into the state general fund for the second quarter of fiscal year 2002 totaled \$739.7 million, almost equal to the \$740.0 million deposited the previous fiscal year.

DISTRICT TAX OFFICES

Forms and Information may be obtained from any district tax office, Mondays through Fridays, except State holidays, from 7:45 A.M. to 4:30 P.M.

WEB INFORMATION AND FORMS

www.state.hi.us/tax

OAHU DISTRICT OFFICE

Princess Ruth Keelikolani Building
830 Punchbowl Street
Honolulu, HI 96813-5094
E-mail: Taxpayer_Services@tax.state.hi.us
Fax: 808-587-1488
Telephone:
For Tax Information:
808-587-6515 (January - April 20)
808-587-4242
1-800-222-3229 (Toll-Free)
808-587-1418 (TDD - For the hearing impaired)
1-800-887-8974 (TDD Toll-Free - For the hearing impaired)
Forms By Fax/Mail:
808-587-7572
1-800-222-7572 (Toll-Free)

MAUI DISTRICT OFFICE

State Office Building
54 S. High Street, #208
Wailuku, HI 96793-2198
Telephone: 808-984-8500 Fax: 808-984-8522
E-mail: Maui_Office@tax.state.hi.us

HAWAII DISTRICT OFFICE

State Office Building
75 Aupuni Street, #101
Hilo, HI 96720-4245
Telephone: 808-974-6321 Fax: 808-974-6300
E-mail: Hilo_Office@tax.state.hi.us

KAUAI DISTRICT OFFICE

State Office Building
3060 Eiwa Street, #105
Lihue, HI 96766-1889
Telephone: 808-274-3456 Fax: 808-274-3461
E-mail: Kauai_Office@tax.state.hi.us

Taxpayer Services Branch
State of Hawaii
Department of Taxation
P.O. Box 259
Honolulu, HI 96809-0259