



# 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

FALL 2004

## Business Tax System Implementation

### Computer System Integration

The last major component of our Integrated Tax Information Management System (ITIMS) is being implemented!

ITIMS has already transformed tax filing in this State with e-filing capabilities, an automated billing process, and more. In October, the business tax component is being implemented.

No longer will staff have to switch from one system to the next to assist you with different taxes. The completed system will integrate income tax and business tax information – kind of like having each taxpayer's tax records all in one folder.

To implement the business tax component, we will be taking our computer system off-line for up to two weeks beginning October 1, 2004. During this time, we will continue to accept tax returns and payments, but nothing will be uploaded into the computer until the business tax component is integrated, and the entire system checked and brought back up.

While the system is off-line, Department employees will have limited tax account information available to them, and will not be able to update or make any adjustments to taxpayer accounts. Persons who e-file their returns through the joint Federal-State E-filing program (JELF) or through the State's Internet filing option (ELF) will not be affected by the implementation.

The Department will be able to issue a limited number of new license numbers and have access to reports and other information that will allow the approval of tax clearances if the taxpayer's filing records are up to date and no balances are owed.

When the completed system is brought back on-line, new tax return and other account information will be gradually introduced, checked, and tracked to ensure that the system is working as anticipated and that any problems are quickly resolved before full production is resumed.

Once the implementation occurs, you will see several changes.

For example, the familiar 8-digit number assigned to general excise, use, withholding, transient accommodations, and rental motor vehicle and tour vehicle surcharge tax licensees is being replaced with a new Hawaii Tax Identification Number. The Hawaii Tax

Identification Number will consist of the letter "W", a randomly assigned eight-digit number, and a two-digit sequence number (e.g., W12345678-01).

Taxpayers that formerly had more than one business account (e.g., more than one general excise tax license) will be assigned Hawaii Tax Identification Numbers that are differentiated only by their sequence number.

EXAMPLE: Mr. X currently has two general excise tax licenses (license number 11111111 and license number 22222222). Next year, Mr. X will get two general excise tax forms booklets. One booklet will be numbered W12345678-01, and the other booklet will be numbered W12345678-02.

Licensees will be sent a letter regarding their new numbers after the system implementation. New tax license certificates are NOT being issued and are NOT required; the new system will be able to cross reference the old and new identification numbers. Please make sure, however, that you keep the informational letter in your permanent files.

Taxpayers should continue to use forms pre-printed with their old numbers; the new numbers will first appear on forms booklets issued for their next tax year. Businesses also will NOT need to obtain new resale certificates and the like from existing customers.

### Department Reorganization

Also occurring on October 1<sup>st</sup> is the third phase of our planned reorganization, which will bring our organization in line with the system changes and increase efficiency.

First, document filing and processing is being  
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## The Direct Line

By Director Kurt Kawafuchi

*The business tax component of our Integrated Tax Information Management System (ITIMS) is being implemented!*

*Our ITIMS project, which began in 1999, has gradually enabled the Department to provide new and improved services to you. This final component, along with the third phase of our planned reorganization, brings still more improvements. Integrating income tax and business taxes into a single system will enable our staff to assist you with your tax accounts much more efficiently.*

*This implementation is complex, and we should expect a problem or two. We are working hard to keep them to a minimum and will quickly address any that do occur. Your patience during the transition will be appreciated.*

## System Implementation

(From Page 1)

centralized on Oahu. All new tax forms and instructions will only list an Oahu mailing address.

Second, our Taxpayer Services Branch, which went through a major reorganization to create its one-stop Customer Inquiry Section last October, will now add two new sections. The new Licensing Section will centralize the processing of license applications and changes. The new Account Management Section will assume responsibility for resolving errors on documents so that they can be posted to our tax processing system. Shifting this function from the Compliance Division to the Tax Services and Processing Division will allow the Office Audit Branch and Office Audit sections in all districts to focus on compliance-related activities.

Finally, the External Training and Outreach Section of the Rules Office will become a separate staff office to provide for more direct contact between the Director's Office and the public information functions of this program.

As with any major system implementation, we expect a glitch here and there, but we are confident that our staff, along with our CGI-AMS project partners, will keep these to a minimum and quickly resolve any that may occur. With both a system implementation and a reorganization happening concurrently, your patience and understanding in the coming months will be appreciated.

## Year-End Workshops

Planning has begun for our year-end workshop series. Topics are not yet finalized, but you'll be sure to hear about our revised tax forms since many income tax and business tax forms have changed as a result of the business tax system implementation. CPE credit will be available to attendees.

The information and registration flyer will be available on our website at [www.state.hi.us/tax](http://www.state.hi.us/tax) sometime in October. For more information, contact our External Training and Outreach Office by phone at 808-587-1786, or by e-mail at [Tax.Training.Outreach@hawaii.gov](mailto:Tax.Training.Outreach@hawaii.gov).

## New On Our Website

Something new is on the Tax Department's website at [www.state.hi.us/tax](http://www.state.hi.us/tax). There are actually a couple of new pages. The first is a listing of pending offers in compromise.

In a very limited number of situations, taxpayers unable to meet their tax obligations can arrange a compromise settlement. These offers in compromise usually must be approved by the Governor. The law was changed last year to allow the tax director to accept compromise offers without the Governor's approval IF the tax liability, exclusive of any penalty and interest charges, is \$50,000 or less.

Before the tax director can accept the offer, however, pending offers must first be posted on the Department's website for 5 days.

To view posted information about pending offers  
**See Department's Website, Page 3**



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## Department's Website

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(e.g., taxpayer's name, amount assessed, settlement amount, reasons for the compromise, etc.), go to the bottom of the Department's homepage, select "Useful Links" and then select "Offers in Compromise."

For more information on offers in compromise, see Tax Facts No. 2000-2 and Announcement No. 2003-6. Both are available on the Department's website or by calling the Department's request line at 587-7572 (toll-free at 1-800-222-7572).

The second new page, also accessible under "Useful Links," is a list of authorized tobacco licensees.

This year's Act 157, in part, prohibits anyone from circumventing Hawaii's cigarette tax (currently seven cents per cigarette) by obtaining cigarettes from unlicensed sellers via telephone, mail order, the Internet, etc. Violating this provision is a class C felony if it involves 1,000 or more cigarettes, and a misdemeanor if less than 1,000 cigarettes, so smokers beware! Check this list before making an on-line or mail order purchase.

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## Digest of Tax Measures

The Department of Taxation's Digest of Tax Measures is now available on the Department's website at [www.state.hi.us/tax/](http://www.state.hi.us/tax/)!

As it does each year, the Department has published a summary of State tax legislation enacted and vetoed this year. The Digest also lists the specific sections of the Hawaii Revised Statutes that were affected by the new legislation, as well as provisions of the 2003 federal tax legislation that are operative and inoperative for Hawaii income tax purposes.

A limited number of hard copies are available by calling the Department's request line at 587-7572 (toll-free at 1-800-222-7572), or from any district tax office.

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## Recently Issued Tax Publications

The following is a list of the publications issued by the Department of Taxation from October 2003 through September 2004. Copies of these

publications may be obtained from our website at [www.state.hi.us/tax/](http://www.state.hi.us/tax/). With the exception of the Reports, copies of these publications also may be obtained by calling our request line at 587-7572 (toll-free at 1-800-222-7572), or from any district tax office.

A limited number of the Reports are available for a nominal fee from our Tax Research and Planning Office. Contact them by phone at 808-587-1440 or by e-mail at [Tax.Research@hawaii.gov](mailto:Tax.Research@hawaii.gov) to request an order form.

**Announcement No. 2003-12** - Announces the adoption of the IRS optional standard mileage rates for 2004.

**Announcement No. 2004-01** - Provides information on the increase in the cigarette tax to 7 cents per cigarette for sales, use, or possession of cigarettes after June 30, 2004.

**Announcement No. 2004-02** - Provides information on Act 89, SLH 2004, which brings Hawaii Income Tax Law into conformity with many but not all of the changes made to the Internal Revenue Code as of December 31, 2003.

**Announcement No. 2004-03** - Provides information on Act 96, SLH 2004, which lowers the tax rate on alternative fuel sold for use in operating an internal combustion engine from 1 cent to .25 cents per gallon; and lowers the percentages that are applied to the rate for diesel oil in determining the rates on alternative fuel sold for use in operating a motor vehicle on public highways as follows: ethanol (from .29 to .145); methanol (from .22 to .11); biodiesel (from .5 to .25); and other alternative fuels, other than liquefied petroleum gas (from .5 to .25).

**Announcement No. 2004-04** - Provides information on Act 97, SLH 2004, which provides clarifications to the renewable energy technologies income tax credit.

**Announcement No. 2004-05** - Provides information on Act 140, SLH 2004, which encourages the construction of operational, large-capacity ethanol production facilities by changing the ethanol investment tax credit to a facility tax credit.

**Announcement No. 2004-06** - Announces the decrease in the Kauai County biodiesel fuel tax rate from 6.5 cents to zero cents per gallon, effective July 1, 2004.

**Announcement No. 2004-07** - Provides information on Act 197, SLH 2004, which increases the allowable exclusion from Hawaii net income tax for members of the Hawaii National Guard and reserve components of the Army, Air Force, Marine Corps, and Coast Guard over five years starting January 1, 2005.

**Announcement No. 2004-08** - Provides information on Act 157, SLH 2004, which prohibits the distribution of untaxed cigarettes via the telephone, mail order, the Internet, and other on-line sources.

**Announcement No. 2004-09** - Provides information

See Recent Publications, Page 6

**Criminal Section – Concluded Investigations Resulting  
in Prosecution/Convictions  
Fiscal Year 2004**

Concluded criminal investigations resulting in prosecution/convictions for fiscal year ended 2004 are summarized in the chart below. The Department continues to encourage taxpayers to voluntarily file their tax returns. The Department generally will not initiate a criminal investigation when taxpayers voluntarily come forward to report their failure to file or other omissions.

<b>VIOLATIONS</b>				
<b>Name</b>	<b>Business Activity</b>	<b>Violation</b>	<b>Result</b>	<b>Conviction Date</b>
Richard Basuel	Return Preparer	False Return, Theft	Guilty - Jury	02/17/04
Richard Camacho	Individual Taxpayer	False Return, Theft	Pled Guilty	08/05/04
James Dysarz	Gov't Employee	False Returns, Theft	Pled Nolo	09/12/03
Felise Fainuu	Welfare	False Returns	Pled Nolo	11/03/03
Julieta Fainuu	Welfare	False Returns	Pled Nolo	11/03/03
Stephen Girald, Sr.	Trucking Company	Failure to File GE, PSC, Theft	Pled Nolo	11/18/03
Ashlet Girald	Trucking Company	Failure to File GE, PSC, Theft	Pled Nolo	11/18/03
Elizabeth Jeffries	Individual Taxpayer	Failure to File NI	Pled Guilty	03/23/04
Kauai Freight Service	Trucking Company	Failure to File GE, PSC, Theft	Pled Nolo	11/18/03
Stephen Schaefer	Minister	Evasion	Pled Nolo	03/19/04
April Schaefer	Minister's Spouse	Evasion	Pled Nolo	03/19/04
Robert Ancheta	Optometrist	Failure to File GE	Pled Nolo	12/05/03
George Brown	Contractor	Failure to File GE, Theft WH	Pled Nolo	01/07/04
Crush, Inc.	Gym	Failure to File GE	Pled Nolo	05/21/04
Diamond Head Termite, Inc.	Contractor	Failure to File GE, Theft WH	Pled Nolo	01/07/04
Ernest Fain	Individual Taxpayer	Evasion	Pled Nolo	01/08/04
Ferrari Adventures, Inc.	Rental Vehicle	Failure to File GE, RV	Pled Nolo	11/03/03
Hitoshi Ikeguchi	Entertainment	Failure to File GE	Pled Nolo	03/25/04

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## Criminal Section

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<b>VIOLATIONS</b>				
Name	Business Activity	Violation	Result	Conviction Date
Marks Kahikina, Jr.	Individual Taxpayer	False Return, Theft	Pled Nolo	02/11/04
KIK, Inc.	Entertainment	Failure to File GE	Pled Nolo	03/25/04
Bryant LaPorte	Dentist	Failure to File GE	Pled Nolo	02/17/04
Alejandro Lazo D C, Inc.	Chiropractor	Failure to File GE, WH	Pled Nolo	06/17/04
Alejandro Lazo	Chiropractor	Failure to File GE, WH	Pled Nolo	06/17/04
Nicholas Lovretich	Individual Taxpayer	Failure to File GE, TAT	Pled Guilty	05/07/04
Dennis Makinodan	Wholesale/Retail	Failure to File GE, Theft	Pled Nolo	11/24/03
James Moser	Gym	Failure to File GE	Pled Nolo	05/21/04
Rosemond Nebres	Individual Taxpayer	False Return, Theft	Pled Guilty	04/12/04
Joseph Nuuanu	Individual Taxpayer	Evasion	Pled Nolo	03/22/04
Charles Reindhardt	Individual Taxpayer	False Return, Theft	Pled Nolo	10/13/03
Linda Reinhardt	Individual Taxpayer	False Return, Theft	Pled Nolo	10/13/03
Howard Ritchie	Retail	Failure to File GE	Pled Guilty	05/07/04
S&D Sales, Inc.	Wholesale/Retail	Failure to File GE, Theft	Pled Nolo	11/24/03
Vernon Silva	Individual Taxpayer	False Return, Theft	Pled Nolo	06/07/04
T&D Stores, Inc.	Retail	Failure to File GE	Pled Nolo	05/28/04
Nonito Tadeo	Auto Retail	Failure to File GE	Pled Nolo	11/19/03
Dennis Torres	Retail	Failure to File GE	Pled Nolo	05/28/04
Alvin Tung	Individual Taxpayer	False Return, Theft	Pled Nolo	11/12/03
Betty Tung	Individual Taxpayer	False Return, Theft	Pled Nolo	11/12/03
Gilbert Tung	Individual Taxpayer	False Return, Theft	Pled Nolo	11/25/03
Tevita Ungounga	Contractor	Failure to File GE	Pled Guilty	07/22/04

## Recent Publications

(From Page 3)

on Act 159, SLH 2004, which requires wireless providers to charge customers a 66-cent monthly surcharge to be deposited into a special fund that will be dedicated to upgrading wireless carrier locations and 911 call centers to allow public safety agencies to better locate wireless callers.

**Announcement No. 2004-10** - Provides information on Act 214, SLH 2004, which provides a fraternal benefit, religious, charitable, scientific, educational, or other nonprofit organization under section 501(c) of the Internal Revenue Code, a general excise tax exemption for gross income derived from fees for convention, conference, or trade show exhibit or display spaces.

**Announcement No. 2004-11** - Provides information on Act 228, SLH 2004, which establishes a net income tax check-off to allow taxpayers to voluntarily contribute \$5 on their state income tax returns to be allocated as follows: (1) One-third to the Hawaii Children's Trust Fund, and (2) Two-thirds to be divided equally among the Domestic Violence Prevention Special Fund of the Department of Health and the Spouse and Child Abuse Special Accounts under the Department of Human Services and the Judiciary.

**Announcement No. 2004-12** - Provides information on Act 115, SLH 2004, which extends the "sunset date" of the Integrated Tax Information Management Systems (ITIMS) Special Fund from July 1, 2004 to July 1, 2005.

**Announcement No. 2004-13** - Provides information on Act 195, SLH 2004, which permits a tax deduction of up to \$3,000 for one tax year out of every three consecutive tax years for an individual taxpayer's qualified expenditures to maintain an exceptional tree that is on the taxpayer's private land and is designated as an exceptional tree by the local county arborist committee under chapter 58, Hawaii Revised Statutes.

**Announcement No. 2004-14** - Provides information on Act 123, SLH 2004, which provides for the first tax appeal to either the district board of review or the tax appeal court to be made without payment of the assessed tax.

**Announcement No. 2004-15** - Provides information on Act 215, SLH 2004, which amends various provisions of Act 221, SLH 2001, relating to high technology investment tax credits, extends the sunset date for certain tax incentives to December 31, 2010, and establishes a State Private Investment Fund.

**Hawaii Tax Information at a Glance Brochure** - Revised April 2004.

**Digest of Tax Measures** - Enacted by the State of Hawaii, Twenty-Second Legislature, Regular Session of 2004.

### Reports:

- Annual Report 2002-2003
- Tax Credits Claimed by Hawaii Taxpayers - 2001
- Hawaii Income Patterns - Individuals - 2001

## Pending Tax Publications

The following is a list of some of the Department's pending tax publications.

### Administration of Taxes

- Application of penalties and interest and the waiver of penalties and interest - sections 231-3 and 231-39, HRS.
- Clarification of the offers in compromise process.

### Income Tax Law

- Clarification of the application of the Hawaii tax credit for increasing research activities.

### General Excise Tax Law

- Clarification of the general excise tax rules, including the application of the general excise tax for reimbursements - section 237-20, HRS.

### Transient Accommodations Tax

- Clarification of the application of the transient accommodations tax.

### Conveyance Tax Law

- Clarification of the application of the conveyance tax.

# Fiscal Year Ended 2004 State Tax Collections

## July 2003 - June 2004

(In Millions of Dollars)

	<u>FY 2004</u>	<u>FY 2003</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
Individual Income Tax	\$ 1,169.0	\$ 1,038.1	\$ 130.8	12.6%
Corporate Income Tax	56.7	8.3	48.4	585.7%
General Excise Tax	1,900.4	1,792.7	107.7	6.0%
Transient Accommodations Tax	181.8	170.9	11.0	6.4%
All Others	736.4	723.6	12.8	1.8%
Total Tax Collections	\$ 4,044.2	\$ 3,733.5	\$ 310.7	8.3%
General Fund Revenues	\$ 3,446.4	\$ 3,182.0	\$ 264.3	8.3%

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

Total tax collections for fiscal year 2004 amounted to \$4,044.2 million, or \$310.7 million more than the same period last year. Indicative of a strong economy, general excise tax collections grew by \$107.7 million, or 6.0%, to \$1,900.4 million for fiscal year 2004. Corporate and individual income taxes also showed sizable increases of \$48.4 million and \$130.8 million, respectively, as the previous fiscal year totals were low from the lingering effects of the September 11, 2001 attack and the onset of the 2003 war in Iraq. Transient accommodations taxes also advanced \$11.0 million to \$181.8 million.

Of the \$4,044.2 million collected, \$3,446.4 million was deposited into the state general fund. This \$264.3 million growth over the previous fiscal year represents an 8.3% increase.

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Forms By Fax/Mail:

808-587-7572

1-800-222-7572 (Toll-Free)