



Hawaii Tax News

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State of Hawaii • Department of Taxation

SUMMER 1998

Tax Season Update

Statistics for the 1998 tax season show that the Department's efforts to improve services to the public have proved to be very successful, as many taxpayers are utilizing the Department's website and Forms by Fax system.

Website - During the past year, the Department of Taxation's website traffic increased substantially as people became comfortable using the Internet. The Department's website averages 20,000 to 30,000 hits per month. This is a huge increase over our first year (Department's website began in June, 1996) when the Department averaged only 6,000 to 9,000 hits per month. The increase in traffic during this year's tax season is even more impressive. From January to April 1998, the Department's website had 325,000 hits! April reached a new high with 129,000 hits! The most popular items downloaded from the website were the 1997 income tax Forms N-15, N-11, N-101A, N-12, and N-13, Schedule X, and their instructions. The next most requested document was the new Form BB-1.

The Department had visitors from all over the world. The majority came from the USA, followed by the U.S. military, Japan, Canada, the UK, and Australia. In the month of March, the Department even had five visitors from South Africa, and one visitor from India!

Many of these hits represent individuals who previously would have called to request forms and information, further freeing our telephone lines and personnel to assist others.

Forms By Fax - For just over a year, taxpayers have been able to obtain some of the most commonly requested income, general excise, transient accommodations, and employer's withholding tax forms by fax. Taxpayers on Oahu request forms by calling 587-7572, while taxpayers outside Oahu call 808-678-0522 from their fax machines. Taxpayers have found this to be quite helpful and convenient since access is available 24-hours a day, 7-days a week from the Department.

In 1997, 6,160 taxpayers requested 7,437 different tax forms. From January through April of this year, 7,048 taxpayers already have requested 9,193 different tax forms.

Discover Card - On March 2, in response to increased taxpayer interest, the Oahu District Office began a pilot program to accept Discover credit cards for the payment of taxes and fees. The Discover Card was the only credit card service that allowed the State to pass

on the transaction fee to the cardholder. Thus far, fewer than 30 taxpayers have used this option. The Department is working with other credit card services on the pass on fee issue. ■

Self-Assessment Project

In a move to broaden audit coverage and make more efficient use of finite resources, the Department of Taxation plans to launch a pilot Self-Assessment Project (SELF) in October. The SELF's objective is to educate selected groups of taxpayers on relevant tax issues and give them the opportunity to report taxes which they may have previously overlooked. The Department believes that the benefits are not only additional revenues, but, through education, SELFs will strengthen taxpayers' competence and enhance future self-compliance.

The Department's initial SELF will involve taxpayers which report large retail sales but no, or minimal, use tax on imported property. From a population of about 800 taxpayers reporting retail sales of more than \$2,000,000, about 30 will be sent information packets describing Hawaii's use tax law and

(See SELF Project, Page 2)

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The Direct Line ☎

By Director Ray K. Kamikawa

We devote the bulk of this *Hawaii Tax News* to the 1998 legislative session. As you read or heard, so much time was spent on the budget and ERTF tax bill, with the final language of each being decided on the last possible day of the extended session. This resulted in many small, but good, money and tax bills getting lost in the shuffle despite their merits and apparent agreement by both houses. In addition, the legislature dropped most business tax relief measures in favor of the governor's desire for a more generous personal income tax package (without increasing the GET). The governor has promised to seek even more by way of personal income tax cuts next session along with reviving some of these business tax measures, e.g., cut in corporate tax rates and relief of specific pyramiding situations under the GET.

The conformity bill did pass with the new section 121 exclusion and retroactive date intact as initially proposed by us. The new accelerated deduction phase in for self-employed health insurance premiums also passed as part of this bill, as did the Roth IRA provisions. What did not pass again this year was the itemized deduction for long-term health care costs and insurance premiums passed by Congress in 1996.

During session, you and the department are in the midst of the filing season. I wish to extend my appreciation for our tax processing crew who, under the leadership of Division Chief Marie Okamura, made it seem easy once again. We ask for your suggestions on improving the process for next season, including suggestions on simplifying our pass-thru entity forms.

I will for the rest of the year be making the rounds at seminars, meetings, and forums trying to explain what happened at the legislature. Wish me luck. ■

SELF Project

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asked to file amended tax returns for all years in which the statute of limitations has not expired, if appropriate. A percentage of the respondents will be asked to verify their responses to determine if the program was effective in teaching the requirements of the law. Taxpayers that do not respond will be subject to a field audit, or may have assessments prepared against them based upon the best available information. ■

Suggestions For Tax Forms

The Department is updating and reviewing tax returns, instructions, and forms for the tax year 1998 and welcomes suggestions from users of the forms. Your suggestions in past years have been most helpful in our effort to simplify and improve the forms.

In particular, we would like to receive input on converting forms to one page. Thus far, the Department has converted the individual income tax return and corporate income tax return to one page and is considering converting the returns for flow-through entities, e.g., partnerships, and S corporations, to one page as well.

You may submit your suggestions by calling the Technical Section at (808) 587-1577, faxing your comments to (808) 587-1584, or mailing your comments to the Technical Section, Department of Taxation, P. O. Box 259, Honolulu, Hawaii 96809-0259. ■

Practitioners' Forum

The first Practitioners' Forum of 1998 was held on May 12 in the Princess Ruth Keelikolani Building. Topics which were discussed included legislative updates; problems with Form N-15, Nonresident and Part-Year Resident Income Tax Return; miscellaneous processing information; suggestions for next year's tax forms; update on the (See Practitioners' Forum, Page 3)



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Practitioners' Forum

(From Page 2)

Compliance Division; and managed audits.

About 77 practitioners currently have signed up to participate in these meetings; only 27 attended this forum. The next meeting will be held in October.

The Practitioners' Forum is an informal meeting with the Tax Director and liaisons or representatives from tax firms to discuss certain matters, brainstorm ideas, bring up questions, and try to resolve problems dealing with tax issues through panel discussions and audience participation. If you are interested in participating in these meetings, send your name, address, telephone number, and fax number to the Taxpayer Services Branch, Technical Section, Department of Taxation, 830 Punchbowl Street, Room 220, Honolulu, Hawaii 96813; or fax this information to the Department of Taxation at (808) 587-1488. ■

Kona Problem Solving Day

The Department of Taxation and the Internal Revenue Service held a joint problem solving day in Kailua-Kona on May 16. The Department assisted a handful of taxpayers with problems ranging from non-filed general excise and net income tax returns to inquiries about their tax liabilities. A "small business help desk" was also available where State and IRS representatives provided general information on tax matters that can be troublesome for small business owners, such as payroll taxes and deposits, recordkeeping, Schedule C, estimated taxes, and employee vs. independent contractor issues. Earlier in the year, joint problem solving days were held on Oahu and Maui. ■

Summer Workshop Report

A total of almost 190 people attended the Department's Summer Workshop which was held on June 4 at the McCoy Pavilion. The workshop covered such topics as legislative updates; the application of state taxes to tourist related activities such as timesharing, export exemptions for *omiyage*, taxability of coupons, TAT issues, tourist weddings, etc.; audit procedures geared towards tourist related activities; update on the systems replacement project; electronic filing initiatives; results of the practitioner

surveys; and filing season statistics.

The next tax workshop will be held in August. ■

Third Quarter State Tax Collections

State tax collections totaling \$825.1 million for the third quarter of fiscal year 1998, represent a 2.7% (\$21.8 million) increase over the \$803.3 million collected in the third quarter of fiscal year 1997. January through March monthly collections totaled \$317.0 million, \$276.3 million, and \$231.8 million, respectively, averaging \$275.0 million per month. For the first nine months of fiscal year 1998, collections are \$0.2 million behind last fiscal year.

While third quarter general excise (+\$9.9 million), net individual income (+\$20.4 million), insurance premiums (+\$2.7 million), transient accommodations (+\$2.0 million) and public service (+\$1.1 million) tax collections showed increases in revenues, corporation income (-\$7.5 million), employment contributions (-\$4.1 million) and fuel (-\$2.2 million) tax collections dropped, resulting in the overall \$21.8 million increase.

Of the \$825.1 million collected in the third quarter of this fiscal year, \$714.5 million was deposited into the state general fund. This compares with \$688.7 million in the third quarter of last fiscal year. As a result, general fund revenues grew 3.7% in the third quarter of fiscal year 1998. This moves cumulative general fund revenues through the first three quarters of the current fiscal year 0.5% ahead of last year. ■

Taxpayer Survey Results

The Department recently conducted a survey, enclosed with the Form 1099-G, which targeted the individual taxpayer. Close to 4,000 responses were received out of the 200,000 Form 1099-Gs mailed out. Most taxpayers completing the survey contacted the Department for tax information and rated our overall services as:

40%	Excellent
33%	Good
8%	Fair
6%	Poor
12%	Undecided

The majority of the taxpayers were pleased with the services provided, complementing the aloha spirit, our

(See Taxpayer Survey, Page 4)

Taxpayer Survey

(From Page 3)

constant efforts to improve services, and the implementation of the Forms by Fax service. Some areas needing improvement were the processing of refunds, non-receipt of notices/forms, and customer improvement (e.g. telephone lines, technique, etc.).

The Department will be reviewing the results of the survey to help in our quest for excellence. ■

Recently Issued Tax Publications

The following is a list of the publications issued by the Department of Taxation from April 1997 through June 1998. Copies of these publications may be obtained from any district tax office, by calling the Forms Request Line on Oahu, or via the Internet. Addresses and telephone numbers are provided on the last page of this newsletter.

Section 18-235-7-03(c), HAR - Relating to the taxation of pensions under the Hawaii Income Tax Law.

Section 18-235-98, HAR - Relating to the requirements for extensions of time for filing income tax returns.

Chapter 18-237 and Sections 18-238-1 and 18-238-2, HAR - Relating to the application of the general excise tax and use tax to the sale of tangible personal property by an out-of-state seller, including drop shipments.

TIR No. 97-2 - Reiterates the requirement that a corporate taxpayer engaged in a unitary business as part of a unitary group must file a combined Hawaii income tax return and clarifies that if any corporation in the unitary group has sufficient nexus with Hawaii, the combined income tax return must include the income and apportionment factors of all corporations of the unitary group.

TIR No. 97-3 - Provides information on the expansion of the "timely mailing treated as timely filing/paying rule" to documents and payments delivered by a designated private delivery service.

TIR No. 97-4 - Provides guidance regarding the application of the business entity classification rules under the "check-the-box" regulations to the Hawaii income tax and other taxes.

TIR No. 97-5 - Explains the proper interpretation of the law regarding business development corporations and associated tax benefits.

TIR No. 98-1 - Provides information on the income tax exemption and credits available for persons engaged

in the motion picture and television film production business.

TIR No. 98-2 - Explains the application of the general excise tax to income received from leasing personal property.

TIR No. 98-3 - Provides information regarding the 1998 Legislation on business development corporations.

Announcement No. 97-7 - Informs taxpayers of the increase in the cigarette tax rates.

Announcement No. 97-8 - Informs taxpayers of the penalties for electronic funds transfer payments that are dishonored and the penalties for failure to remit by an EFT method approved by the Department of Taxation.

Announcement No. 98-1 - Provides a list of candidates for political office who have registered with the campaign spending commission.

Announcement No. 98-2 - Announces the adoption of Hawaii Administrative Rules, relating to the taxation of pensions under the Hawaii Income Tax Law.

Announcement No. 98-3 - Announces the adoption of Hawaii Administrative Rules, relating to the requirements for extensions of time for filing income tax returns.

Announcement No. 98-4 - A listing of the Tax Information Releases in effect and obsolete as of January 23, 1998, and a listing of Hawaii Administrative Rules.

Announcement No. 98-5 - Informs taxpayers of the Department's administration of the dividends received deduction under section 235-7(c), HRS.

Announcement No. 98-6 - A Listing of New and Obsolete/Retired Tax Forms, Instructions, and Schedules; Errors Found on Hawaii Tax Forms as of March 1, 1998.

Announcement No. 98-7 - Informs taxpayers of the increase in the liquor tax rates.

Announcement No. 98-8 - Requesting suggestions for improving the tax forms.

Announcement No. 98-9 - Informs taxpayers of the Hawaii Income Tax Law conformity to the Internal Revenue Code.

Tax Facts No. 97-3 - Provides information on the general requirements for individuals starting a business.

Tax Facts No. 97-4 - Provides information on the 1997 Form N-15 which was revised as a nonresident and part-year resident income tax return.

Tax Facts No. 98-1 - Provides information regarding the general excise tax on medical and dental charges.

Tax Advisory, dated April 21, 1997 - Provides information regarding the application of the general excise tax to tourist wedding activities of churches.

Tax Information, dated April 9, 1998 - Provides information on Act 281, SLH 1997, with respect to nonresident active duty military personnel and their spouses. ■

**STATUS OF SELECTED MEASURES
1998 LEGISLATIVE SESSION**

BRIEF DESCRIPTION OF LEGISLATION	Pass	Dead
Chapter 420, Business Development Corporations		
Phase out of tax benefits and repeal of chapter	✓	
Administration of the Tax Laws		
Criminal penalties for perjury	✓	
Direct sellers collection agreements	✓	
Income tax set off for fines owed to the Judiciary	✓	
Income tax set off for Medicaid overpayments made to providers	✓	
Income tax set off for child/spouse support payments owed	✓	
Private collection agency's authority to collect fees directly from taxpayers		✓
Conveyance Tax		
Redistribution of conveyance tax revenues	✓	
Certain real property transfers exempt from tax		✓
General Excise/Use Tax		
Aircraft maintenance facility GET and use tax exemption clarification	✓	
Sales of imported goods from wholesaler to wholesaler GET exemption	✓	
Elimination of GET subcontract deduction liability/collection requirements for prime contractor	✓	
High technology development corporation research grant GET exemption	✓	
Employee payroll and benefit costs for telecommunication management companies GET exemption	✓	
Use tax on imported services		✓
Exported services GET exemption		✓
GET pyramiding relief for sales of goods and services		✓
Hotel room rentals GET exemption		✓
Aviation training facility and cargo facilities GET and use tax exemptions		✓
Employee leasing companies exempt from GET on certain receipts		✓
Expansion of GET exemption for related entities (management fees and rental income)		✓
Corporate sponsorship payment GET exemption		✓
Capital contributions made in aid of construction GET exemption		✓
Cure of technical error in the effective dates for the sublease deduction		✓
GET income split treatment for tourism related services; destination managers		✓
Preferential 1.5% GET rate for nonprofits and other persons currently exempt		✓
GET base broadening; elimination of selected exemptions		✓

(See Status of Selected Measures, Page 6)

**STATUS OF SELECTED MEASURES
1998 LEGISLATIVE SESSION**

(From Page 5)

BRIEF DESCRIPTION OF LEGISLATION	Pass	Dead
Real estate investment trusts GET exemption for certain receipts		✓
Sales of nonprescription drugs GET exemption		✓
Tax relief for various health care services and providers		✓
Sales of food GET exemption		✓
Amnesty program for GET delinquencies		✓
Insurance Premium Tax		
Repeal of the insurance premium tax credit		✓
Low-income housing premium tax credit for insurance companies to set off premium tax		✓
Net Income Tax		
Conformity to the Internal Revenue Code	✓	
Individual income tax rate relief; bracket expansion	✓	
Low-income refundable tax credit; food tax credit repeal	✓	
Motion picture credit clarification	✓	
Individual Housing Account amendment affecting those established before January 1, 1990	✓	
Expansion of dividends received deduction		✓
Election for nonresident pass-throughs to file composite returns at highest marginal income tax rate		✓
Long-term care deduction (Conformity to IRC)		✓
Reduction of capital gains rate by 30%		✓
Taxation of pensions		✓
Business meals/entertainment income tax deduction increase (50% to 80%)		✓
Purchase of recycling machinery credit		✓
Small business credit for advertising		✓
Small business credit for renovating home or office		✓
Public Service Company Tax		
PSC tax income split treatment for motor carriers	✓	
Tobacco Tax		
Tobacco stamp tax	✓	
Deferral of tobacco tax increase to January 1, 1999	✓	
Restoration of the cigarette tax exemption for sales to the military		✓
Transient Accommodations Tax		
Rate increase from 6% to 7.25%	✓	
Time share subject to TAT	✓	

Current		
TAXABLE INCOME BRACKETS		TAX RATES
lower	upper	
I. SINGLE		
\$0	\$1,500	2.00%
\$1,500	\$2,500	4.00%
\$2,500	\$3,500	6.00%
\$3,500	\$5,500	7.25%
\$5,500	\$10,500	8.00%
\$10,500	\$15,500	8.75%
\$15,500	\$20,500	9.50%
over	\$20,500	10.00%
II. JOINT		
\$0	\$3,000	2.00%
\$3,000	\$5,000	4.00%
\$5,000	\$7,000	6.00%
\$7,000	\$11,000	7.25%
\$11,000	\$21,000	8.00%
\$21,000	\$31,000	8.75%
\$31,000	\$41,000	9.50%
over	\$41,000	10.00%
III. HEAD OF HOUSEHOLD		
\$0	\$1,500	2.00%
\$1,500	\$2,500	3.00%
\$2,500	\$3,500	4.50%
\$3,500	\$5,500	5.90%
\$5,500	\$11,000	7.25%
\$11,000	\$21,000	8.60%
\$21,000	\$41,000	9.60%
over	\$41,000	10.00%

1998 Income Tax Legislation								
TAXABLE INCOME BRACKETS		TAX RATES			PERCENT TAX REDUCTION			
lower	upper	1999-2000	2001	2002	1999-2000	2001	2002	
I. SINGLE								
\$0	\$2,000	1.60%	1.50%	1.40%	-26.3%	-30.9%	-35.5%	
\$2,000	\$4,000	3.90%	3.70%	3.20%	-30.5%	-34.4%	-41.3%	
\$4,000	\$8,000	6.80%	6.40%	5.50%	-22.9%	-27.2%	-36.6%	
\$8,000	\$12,000	7.20%	6.90%	6.40%	-17.4%	-21.8%	-30.8%	
\$12,000	\$16,000	7.50%	7.30%	6.80%	-16.4%	-20.2%	-28.2%	
\$16,000	\$20,000	7.80%	7.60%	7.20%	-16.5%	-19.9%	-27.0%	
\$20,000	\$30,000	8.20%	7.90%	7.60%	-16.8%	-20.0%	-25.9%	
\$30,000	\$40,000	8.50%	8.20%	7.90%	-16.7%	-19.8%	-24.8%	
over	\$40,000	8.75%	8.50%	8.25%	-13.0%	-15.9%	-19.7%	
Total					-16.1%	-19.3%	-25.1%	
II. JOINT								
\$0	\$4,000	1.60%	1.50%	1.40%	-25.4%	-30.1%	-34.7%	
\$4,000	\$8,000	3.90%	3.70%	3.20%	-30.8%	-34.7%	-41.6%	
\$8,000	\$16,000	6.80%	6.40%	5.50%	-22.1%	-26.5%	-36.1%	
\$16,000	\$24,000	7.20%	6.90%	6.40%	-17.3%	-21.7%	-30.8%	
\$24,000	\$32,000	7.50%	7.30%	6.80%	-16.3%	-20.2%	-28.1%	
\$32,000	\$40,000	7.80%	7.60%	7.20%	-16.5%	-19.9%	-27.0%	
\$40,000	\$60,000	8.20%	7.90%	7.60%	-16.7%	-19.9%	-25.9%	
\$60,000	\$80,000	8.50%	8.20%	7.90%	-16.6%	-19.8%	-24.8%	
over	\$80,000	8.75%	8.50%	8.25%	-12.7%	-15.6%	-19.2%	
Total					-15.6%	-18.9%	-24.5%	
III. HEAD OF HOUSEHOLD								
\$0	\$3,000	1.60%	1.50%	1.40%	-29.5%	-33.9%	-38.3%	
\$3,000	\$6,000	3.90%	3.70%	3.20%	-35.5%	-39.2%	-45.5%	
\$6,000	\$12,000	6.80%	6.40%	5.50%	-22.9%	-27.2%	-36.6%	
\$12,000	\$18,000	7.20%	6.90%	6.40%	-18.3%	-22.6%	-31.7%	
\$18,000	\$24,000	7.50%	7.30%	6.80%	-17.3%	-21.2%	-29.1%	
\$24,000	\$30,000	7.80%	7.60%	7.20%	-17.9%	-21.2%	-28.3%	
\$30,000	\$45,000	8.20%	7.90%	7.60%	-17.2%	-20.4%	-26.4%	
\$45,000	\$60,000	8.50%	8.20%	7.90%	-16.6%	-19.7%	-24.7%	
over	\$60,000	8.75%	8.50%	8.25%	-12.6%	-15.5%	-19.1%	
Total					-17.5%	-21.1%	-27.9%	
Revenue Loss (\$mill.)		(\$159)	(\$192)	(\$249)	-15.9%	-19.2%	-24.9%	

Low-Income Tax Credit Schedule	
Adjusted Gross Income	Credit Amount per Exemption
Under \$10,000	\$35
\$10,000 under \$15,000	\$25
\$15,000 under \$20,000	\$10
\$20,000 and over	\$0

Effective for taxable years beginning after December 31, 1998.

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

<http://www.state.hi.us/tax/tax.html>

OAHU DISTRICT OFFICE

Princess Ruth Keelikolani Building
830 Punchbowl Street
Honolulu, HI 96813-5094
FAX: 808-587-1488

TELEPHONE:

For Tax Information:

808-587-6515 (January - April 20)

808-587-4242

1-800-222-3229 (Toll-Free From Neighbor
Islands and Mainland U.S.)

To Request Tax Forms and Order CD-ROM (Nominal
Cost) by Mail:

808-587-7572

1-800-222-7572 (Toll-Free From Neighbor
Islands and Mainland U.S.)

To Request Tax Forms by Fax:

On Oahu: 808-587-7572

All Others: 808-678-0522 from your fax machine

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