

JAN 28 2009

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# A BILL FOR AN ACT

RELATING TO THE ECONOMY.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that requiring an  
2 evaluation of all tax expenditures by the State will better  
3 enable the legislature to make fiscally-sound and effective  
4 spending decisions. Tax expenditures are essentially derived  
5 from the revenues generated from the tax code and they generally  
6 are used to support the government's spending programs. Tax  
7 expenditures are usually less visible than other types of public  
8 spending, which makes it harder to evaluate their effectiveness.  
9 Fiscal accountability necessitates a review of the fairness and  
10 efficiency of all tax exclusions, tax exemptions, tax deferrals,  
11 preferential tax rates, and tax credits. The legislature  
12 believes that an accurate and accountable state budget should  
13 reflect the true costs of tax expenditures and fund only those  
14 government spending programs that are effective and efficient  
15 uses of limited tax revenue dollars.

16           The legislature further finds that it is in the best  
17 interest of this State to have an annual report on tax



1 expenditures prepared that will allow policymakers to better  
2 identify and analyze tax expenditures and to periodically make  
3 criteria-based decisions on whether the tax expenditures should  
4 be continued. The annual report on tax expenditures will allow  
5 the spending of the revenues generated under the tax code to be  
6 analyzed and debated in conjunction with the state budget as  
7 well as the internal budgets of state departments and agencies.  
8 The annual report will also provide a mechanism to eliminate  
9 inefficient and inappropriate tax expenditures that will result  
10 in greater accountability and effectiveness of state government  
11 and its spending programs.

12 SECTION 2. Chapter 231, Hawaii Revised Statutes, is  
13 amended by a new section to be appropriately designated and to  
14 read as follows:

15 **"§231- Annual report on tax expenditures; definition.**

16 (a) On or before September 15 in each odd-numbered year the  
17 department shall submit to the legislature an annual report on  
18 all tax expenditures currently in effect in the State.

19 (b) As used in this section, "tax expenditure" means a  
20 credit, deduction, exclusion, exemption, or any other tax  
21 benefit provided under state law.



1        (c) The annual report on tax expenditures shall contain  
2 the following information:

3        (1) A detailed description of each tax expenditure;

4        (2) The statutory authority for each tax expenditure;

5        (3) The purpose and original intent of each tax  
6 expenditure;

7        (4) The actual revenue loss for the most recent fiscal  
8 year for each tax expenditure, or an estimate if the  
9 actual amount cannot be determined; and

10       (5) Whether each tax expenditure has successfully achieved  
11 the intended purpose for which the tax expenditure was  
12 enacted and currently serves, including but not  
13 limited to:

14       (A) The extent to which the tax expenditure is a  
15 successful policy tool;

16       (B) The cost-effectiveness of the tax expenditure;

17       (C) Potential policy alternatives for achieving the  
18 policy goals of the tax expenditure; and

19       (D) The feasibility of repealing or continuing each  
20 tax expenditure.



- 1        (d) Any legislation establishing new or expanded tax  
2 expenditures or extending the sunset date for an existing tax  
3 expenditure shall include the following:
- 4        (1) A sunset provision;  
5        (2) A requirement for an evaluation or study that may also  
6        include requirements for the submission of information  
7        by taxpayers benefiting from a tax expenditure;  
8        (3) Recapture provisions if a taxpayer fails to meet any  
9        requirements that are necessary to qualify for the new  
10       tax benefit; and  
11       (4) Measurable goals or objectives."

12 SECTION 3. New statutory material is underscored.

13 SECTION 4. This Act shall take effect on July 1, 2009.

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INTRODUCED BY: *Carole Fukuemizu*



**Report Title:**

State Tax Expenditures; Annual Report; Evaluation

**Description:**

Requires the department of taxation to provide an annual report on tax expenditures to the legislature on or before September 15th of each odd-numbered year.

