



August 14, 2024

VIA EMAIL

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawai'i State Capitol, Room 409
Honolulu, Hawai'i 96813

VIA EMAIL

The Honorable Scott K. Saiki
Speaker, House of Representatives
415 South Beretania Street
Hawai'i State Capitol, Room 431
Honolulu, Hawai'i 96813

Re: *Review of Income Tax Provisions Pursuant to Section 23-95, Hawai'i Revised Statutes,*
Report No. 24-07

Dear President Kouchi and Speaker Saiki:

Please find attached Report No. 24-07, *Review of Income Tax Provisions Pursuant to Section 23-95, Hawai'i Revised Statutes*, along with a copy of the Auditor's Summary. The audit was performed pursuant to Section 23-91 et seq., Hawai'i Revised Statutes, and is a report on certain tax exclusions and credits.

The report is accessible through our website at:
<https://files.hawaii.gov/auditor/Reports/2024/24-07.pdf>.

The summary is also accessible through our website at:
<https://files.hawaii.gov/auditor/Overviews/2024/24-07AuditorSummary.pdf>

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

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Attachments

ec/attach: Members of the Senate
Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor's Summary

Review of Income Tax Provisions Pursuant to Section 23-95, Hawai'i Revised Statutes

Report No. 24-07



ILLUSTRATION: ISTOCK.COM

THIS REPORT ASSESSES four credits and three deductions allowable under Hawai'i's Income Tax laws. Section 23-91 et seq., Hawai'i Revised Statutes (HRS), require the Auditor to review income tax provisions annually, on a five-year recurring cycle.

Specifically, this report reviews the following tax provisions:

- Deduction for individual housing account deposits, Section 235-5.5, HRS;
- Deduction for property losses due to a natural disaster, Section 235-7(f), HRS;
- Credit for cesspool upgrades, conversions, or connections, Section 235-16.5, HRS;
- Deduction for the maintenance of an exceptional tree, Section 235-19, HRS;
- Credit for the employment of a vocational rehabilitation referral, Section 235-55.91, HRS;
- Credit for in-kind services contributions for public school repair and maintenance, Section 235-110.2, HRS; and
- Credit for ownership of a low-income housing building, Sections 235-110.8 and 241-4.7, HRS.

This review informs the public and policymakers of the purposes, costs, and benefits of seven Hawai'i income tax incentives, and includes recommendations to address issues arising from the incentives and their usage.

We determined that three provisions accomplish their purposes and two do not. However, we were unable to determine whether one other provision achieved the primary purpose for which it was adopted and could not analyze the achievement of purpose of one provision that had been repealed. The inability to draw conclusions with respect to one provision stemmed primarily from a lack of data regarding its utilization. Determining whether purposes have been met was also frustrated by a lack of claim tracking or statutorily identified benchmarks or metrics. With respect to some provisions, our analysis of underlying bills or their legislative histories could not determine what outcomes the Legislature had intended to achieve.

We recommend that the Legislature retain four provisions and modify two. We recommend that the Legislature remove from future reviews the seventh provision, the credit for cesspool upgrades, conversions, or connections (Section 235-16.5, HRS). That credit was repealed on December 31, 2020.



Link to the complete report:

**Review of Income Tax Provisions Pursuant to Section 23-95,
Hawai'i Revised Statutes**

<https://files.hawaii.gov/auditor/Reports/2024/24-07.pdf>

Review of Income Tax Provisions Pursuant to Section 23-95, Hawai'i Revised Statutes

A Report to the Legislature
and the Governor of the
State of Hawai'i

Report No. 24-07
August 2024



OFFICE OF THE AUDITOR
STATE OF HAWAII



OFFICE OF THE AUDITOR STATE OF HAWAI'I

Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawai'i State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawai'i Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

Our Mission

To improve government through independent and objective analyses.

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management, and expenditure of public funds.

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We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

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We report our findings and make recommendations to the governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:
<https://auditor.hawaii.gov>

Foreword

This report assesses tax credits and deductions from taxation under Hawai‘i’s Income Tax and Financial Institutions Tax. Section 23-91 et seq., Hawai‘i Revised Statutes, require the Auditor to review tax incentive provisions on a five-year recurring cycle. We express our appreciation to the Department of Taxation, Legislative Reference Bureau, and Department of Business, Economic Development and Tourism for their assistance in providing data and other information for this report.

Leslie H. Kondo
State Auditor

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ILLUSTRATION: ISTOCK.COM

Review of Income Tax Provisions Pursuant to Section 23-95, Hawai'i Revised Statutes

Introduction

T HIS REPORT assesses a variety of income tax incentives allowed under Hawai'i law. Section 23-91 et seq., Hawai'i Revised Statutes (HRS), require the Auditor to review specific tax provisions on a five-year recurring cycle. For 2023 and every five years thereafter, Section 23-95, HRS, requires the review of the following incentives:

- Deduction for individual housing account deposits (Section 235-5.5, HRS);
- Deduction for property losses due to a natural disaster (Section 235-7(f), HRS);
- Credit for cesspool upgrades, conversions, or connections (Section 235-16.5, HRS);
- Deduction for the maintenance of an exceptional tree (Section 235-19, HRS);
- Credit for the employment of a vocational rehabilitation referral (Section 235-55.91, HRS);

This review informs the public and policymakers of the purposes, costs, and benefits of seven Hawai'i income tax incentives, and includes recommendations to address issues arising from the incentives and their usage.

- Credit for in-kind services contributions for public school repair and maintenance (Section 235-110.2, HRS); and
- Credit for ownership of a low-income housing building (Sections 235-110.8 and 241-4.7, HRS).

The information in this report may be used by lawmakers in evaluating whether any particular incentive should be retained, amended, or repealed. It is intended to serve as a tool for informed policymaking.

Background

Hawai‘i’s Income Tax and Incentives

Hawai‘i enacted its income tax in 1901, before any state at that time. In FY2022, the latest year for which relevant data is readily available, income tax represented Hawai‘i’s largest tax revenue source. It accounted for \$4.02 billion, or 38.4 percent of all tax collections, according to the DOTAX Annual Report for fiscal year 2021-2022. Chapter 235, HRS, is Hawai‘i’s income tax code.

Hawai‘i’s income tax law generally conforms to federal law for determining taxable income, but the State retains its own rates as well as its own exemptions, exclusions, credits, and deductions – collectively known as tax incentives. Most tax incentives reduce revenue to the State and can be characterized as State “spending programs” implemented through the tax code. The decreased revenue is known as a “tax expenditure” and typically means that state program funding must be curtailed or, in the alternative, tax filers must collectively compensate for the lost revenue via other tax measures. Notwithstanding that tax expenditures generally benefit specific groups of tax filers as opposed to all tax filers, the Legislature may find an incentive worthy of continuation for economic or social policy reasons or for the sake of tax equity and efficiency. (See sidebar, “Tax Equity and Efficiency: Finding the Balance” on page 3.)

Periodic reviews of tax incentives are, according to the Legislature, “necessary to promote tax equity and efficiency, adequacy of state revenues, public transparency, and confidence in a fair state government.” In passing Act 261, Session Laws of Hawai‘i (SLH) 2016, the Legislature mandated that the Auditor assess, among other subject matter, whether each incentive continues to achieve its legislative purposes and how it impacts the State economy. Each year, we review a different set of tax incentives as part of a multi-year cycle of reviews. This report, for tax year 2023, focuses on the incentives bulleted above.

Tax Equity and Efficiency: Finding the Balance

OUR MANDATE includes a requirement to assess whether the incentives are necessary to promote or preserve tax equity or efficiency. Because these terms are not defined in the Hawai'i Revised Statutes, we turned to criteria developed by the U.S. Joint Committee on Taxation and the U.S. Government Accountability Office, as detailed in the Association of International Certified Professional Accountants publication *Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals*.

According to that framework, tax efficiency is the principle that a tax system should not unduly impede or reduce the productive capacity of the economy. A tax system should avoid hindering economic goals, such as economic growth, capital formation, and competitiveness with other jurisdictions. A separate, but related, concept states that administrative and compliance costs should be kept low to foster effective tax administration.

Tax equity is the principle of taxing tax filers fairly, which means similar tax filers should be taxed similarly while tax filers with the greatest ability to pay should shoulder the heaviest tax burdens. The concept of horizontal equity provides that two tax filers with equal abilities to pay should pay the same amount of tax, while the concept of vertical equity provides that a person with the greater payment ability pay more.

Lawmakers must carefully balance both principles to optimize tax policy. A tax provision meant to improve efficiency for one group can result in a less equitable treatment of another. A credit designed to increase economic activity in a certain industry or geographic area, for example, will reduce tax equity by providing favorable tax treatment to that industry or area and not to others.



The concept of **horizontal equity** provides that two tax filers with equal abilities to pay should pay the same amount of tax.



In contrast, **vertical equity** provides that a person with the greater ability to pay should pay more tax.

Incentive Types Reviewed

We review two types of income tax incentives in this report: credits and deductions.

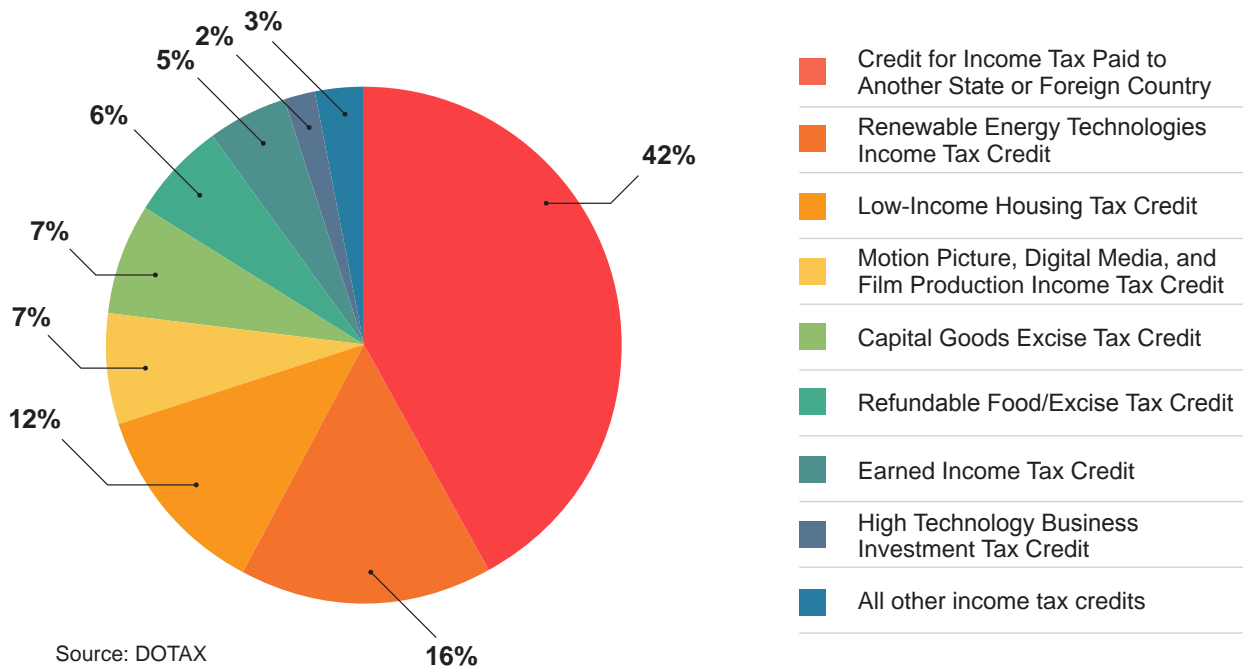
Credits are amounts subtracted directly from a tax filer's tax liability, reducing the amount of taxes due on a dollar-for-dollar basis. Credits can be refundable or nonrefundable.

A *nonrefundable* credit can provide a tax benefit only to the extent that the tax filer has a tax liability, reducing the liability by the amount of the credit. If the credit amount exceeds the tax liability in a particular year, the unused portion of a nonrefundable credit can (usually) be carried forward and applied against future year tax liabilities. Whether and how much of a credit may be carried to another year varies by credit. To the extent the credit exceeds

tax liability, the tax filer is entitled to a tax refund. In other words, a refundable credit can generate a refund, while a nonrefundable credit – alone – cannot.

As tax credits are dollar-for-dollar direct reductions of tax liability, they are usually more valuable to tax filers than ordinary deductions, which reduce a tax filer's taxable income.

Tax Credits by Dollar Amount Claimed



Deductions reduce the amount of income subject to taxation as a subtraction against gross income on a tax return. For example, an individual who earns \$100 of gross income and is entitled to a \$20 deduction is subject to tax on \$80 only, assuming no other factors (such as other deductions or credits) affect that individual's tax position.

Above-the-Line, Below-the-Line, Itemized, and Standard?

INCOME TAX DEDUCTIONS initially fall into one of two categories: “above-the-line” deductions and “below-the-line” deductions, where “the line” is adjusted gross income (AGI).

Above-the-line deductions are those that appear above the AGI line on a tax return. They are subtracted against gross income, effectively lowering a tax filer’s taxable income. They may be claimed regardless of any below-the-line deduction claims.

Below-the-line deductions mostly fall into, and involve choosing between, two subcategories: (a) the standard deduction and (b) itemized deductions. A tax filer must decide whether to take the standard deduction or to itemize – and may not choose both. The standard deduction is a flat amount the State allows as a further subtraction against income, reducing the amount

of a tax filer’s income that is subject to tax. Itemizing involves summing together all below-the-line deductions available to the filer and subtracting the sum against income. Usually, it is in the filer’s interest to choose the higher of the two options, as a higher subtraction yields a lower income level and, therefore, less tax. Apart from a few rare exceptions, if a filer takes the standard deduction, itemized deductions are forgone for the tax year.

An above-the-line deduction may usually be considered by a tax filer as “better than” a below-the-line deduction for three main reasons. First, an above-the-line deduction can be claimed in addition to taking the standard deduction. Second, it is not subject to reduction due to any AGI limitation. Third, it reduces AGI itself, facilitating a tax filer’s ability to qualify for certain credits and other incentives that require staying below an AGI threshold.

Overview of Our Review

What did we review?

We reviewed a total of seven Hawai‘i income tax provisions, including four credits and three deductions.¹ We reviewed data from 2019, 2020, and 2021. While our mandate requires a look at the “previous three calendar years,” the lack of any 2022 or 2023 data² means we can capture a three-year period only by reviewing the period 2019 through 2021.

We drew upon publicly available material, including the Hawai‘i Revised Statutes, Hawai‘i Administrative Rules, State Senate and House committee reports, and various other reports, Announcements, Tax Information Releases, and other publications published by the Department of Taxation (DOTAX). We also communicated with DOTAX directly and reviewed websites and publications by other relevant agencies and organizations, such as the Hawai‘i Housing Finance and Development Corporation’s low-

¹ One such deduction provision, Section 235-5.5, HRS, regarding individual housing accounts, is truly a 3-in-1 provision. The provision includes a deduction for account deposits, an exclusion for account growth, and a deferral for account withdrawals. We focus on the deduction, as per our mandate and as discussed in the Individual Housing Account section of this report.

² At the time of this report’s writing, 2022 and 2023 income tax deduction and credit data is not available.

income housing tax credit webpage. We are required by Section 231-3.3, HRS, to maintain the confidentiality of any information that we received from DOTAX identified as confidential, except to the extent we may include in our report information we deem necessary and relevant for the purpose of legislative review and information that does not identify any specific tax filer or incentive beneficiary.

Exhibit 1. Summary of Results

HRS Section(s)	Incentive Type	Subject Matter Covered	Achieves Purpose?	Recommendation
235-5.5	Deduction	Individual Housing Accounts (IHAs)	Yes	Retain
235-7(f)	Deduction	Natural Disaster Losses	Yes	Retain
235-16.5	Credit	Cesspools	N/A – Already Repealed	None – Already Repealed
235-19	Deduction	Exceptional Trees	Unable to determine	Retain
235-55.91	Credit	Vocational Rehabilitation Referrals	No	Modify
235-110.2	Credit	School Repair and Maintenance	No	Modify
235-110.8 and 241-4.7*	Credit	Low-income Housing	Yes	Retain

Source: Office of the Auditor

*We reviewed these two HRS Sections, 235-110.8 and 241-4.7, together, per our mandate.

Assessment Challenges

Variable Expenditure Values

The Legislature has adopted a tiered tax system under which tax filers at different income levels, and of different filing statuses, are taxed differently. For example, tax rates can differ based on whether a tax filer is filing single or married, or whether a tax filer earns \$50,000 or \$5 million. For that reason, tax expenditures – amounts of tax forgone by the State – vary by tax filer. Without information specific to every tax filer, we could not calculate the exact amount of expenditure associated with a deduction. For the deductions in this report, we estimated the maximum tax expenditure possible – by assuming the highest tax rate possible (11 percent) for individual tax filers. The following example, comparing the effect of a \$2,000 deduction on two different tax filers, demonstrates how tax filer variability affects tax expenditure.

The example on the next page shows how a tax expenditure can vary, from \$144 to \$165, despite a constant deduction of \$2,000 per tax filer.

Example:

	Tax filer 1 (Married Filing Jointly)	Tax filer 2 (Single)
Gross Income	\$50,000	\$100,000
Minus \$2,000 Deduction	- 2,000	- 2,000
Equals Adjusted Gross Income	\$48,000	\$98,000
Minus HI Standard Deduction	- 4,400	- 2,200
Equals Taxable Income	\$43,600	\$95,800
Resultant Tax Bracket	7.20%	8.25%
Income Untaxed via Deduction	\$2,000	\$2,000
Times Rate That Would Have Applied	x .0720	x .0825
Equals Tax Forgone (Expenditure)	\$144	\$165

Please note that this example is simplified for illustrative purposes. The actual tax forgone, for example, would factor in a base amount of tax in addition to the tax calculated as a percentage of taxable income.

Unavailable and Suppressed Data

At the time of this report’s writing, 2022 and 2023 income tax deduction and credit data is not available.

With respect to 2019, 2020, and 2021, significant amounts of data have been suppressed to protect tax filer confidentiality. DOTAX does not disclose tabulations containing data for five or fewer returns or when a particular return represents a large percentage of total claims.

There is also no readily available data showing any causal correlation between any of the incentives reviewed in this report and the state economy or any specific sector or industry. Without such data and without metrics or measurement criteria in any of the relevant statutes, we cannot draw a conclusion about whether an incentive is impacting the state economy. Because we lack specialized economic expertise and economic modeling software, and because expenditure varies by tax filer, any projection on the future cost of deductions and credits would be too speculative and unreliable to be included in this report.



Income Tax Deduction for Individual Housing Account Deposits (Section 235-5.5, HRS)

SECTION 235-5.5, HRS, allows an annual deduction against taxable income of up to \$5,000 (\$10,000 for married tax filers filing jointly) for cash deposited into an individual housing account (IHA), which is a trust established to provide funding for the purchase of the tax filer's first principal residence. It also excludes from income tax all interest accrued in an IHA and spreads IHA withdrawals over 10 years, thereby deferring income to future years. Section 23-95(b)(1), HRS, requires us to

assess only that portion of the statute relating to the "[d]eduction for individual housing account deposit." Consequently, our review focuses on the deposit deduction and not upon the deferral or exclusion aspects of this provision.

The IHA deposit deduction is an "above-the-line" deduction. (See sidebar, "Above-the-Line, Below-the-Line, Itemized, and Standard?" on page 5.)

Tax Deduction at a Glance (2021)

Amount claimed	Number of Claims	Tax Expenditure*	Cost Per Low-Income Resident**	Meeting its Purpose?
				
\$343,498	101	\$37,785	\$0.08	Yes

* We assume the maximum individual tax rate of 11 percent will apply, as discussed in the introductory section of this report.

** Cost per low-income resident is the amount claimed per year divided by a low-income resident population of 480,801 derived from Department of Business, Economic Development and Tourism data.

Legislative History

Section 235-5.5, HRS

1982

Act 285, SLH 1982, created the deduction.

1986

Act 23, SLH 1986, exempted from the 10 percent "penalty" a withdrawal triggered by marriage. A tax filer who withdraws from an IHA for any purpose other than a first-time home purchase must pay an additional 10 percent tax. The Legislature amended the law to exempt from the additional

tax any full distribution of funds caused by marriage to an individual who owns or previously owned a home.

1990

Act 99, SLH 1990, allowed proration of distribution income over ten years.

1992

Act 183, SLH 1992, raised the deduction to \$10,000 for joint filers and allowed retroactive disallowance in cases of a distribution within one year of a contribution.

1994

Act 49, SLH 1994, allowed licensed depository financial services loan companies as trustees.

1998

Act 120, SLH 1998, amended the statute to allow a post-1989 home purchaser who established the account before 1990 to elect to be treated as a pre-1990 home purchaser.

2017

Act 12, SLH 2017, replaced a pronoun and fixed typographical errors.

Incentive Summary

What is the purpose of the provision?

To encourage first-time home buyers to save money for a down payment on a home, noting an intent to have the tax treatment of IHAs resemble that of Individual Retirement Accounts (IRAs).

What were the numbers of claims and amount claimed?

Year	Number of Claims	Amount Claimed	Tax Expenditure Per Auditor**	Tax Expenditure Per DOTAX
2023	No Data*	No Data*	No Data*	No Data*
2022	No Data*	No Data*	No Data*	No Data*
2021	101	\$343,498	\$37,785	No Data*
2020	77	\$300,233	\$33,026	No Data*
2019	128	\$419,512	\$46,146	No Data*

* At the time of the writing of this report, DOTAX continues to collect 2022 and 2023 data.

** We assume the maximum individual tax rate of 11 percent will apply, as discussed in the introductory section of this report. Exact expenditure amounts cannot be calculated because they vary by tax filer. Individual tax filers pay tax at rates varying by level of taxable income, including income unrelated to this exemption and, ultimately, unknown. We have listed the maximum expenditure possible, by multiplying the amount claimed by the maximum individual rate, 11 percent.

Are there additional key qualification requirements or limitations applicable to the deduction?

Yes

- The IHA must be for the tax filer’s first-time purchase of a principal residence, which residence must be in Hawai’i, and the IHA trust documents must state such. If an IHA distribution is made for any other reason, two negative consequences ensue:
 1. the tax filer loses the ability to defer the income, meaning the entire distribution must be included as income, and
 2. the tax filer suffers a tax “penalty”³ equal to 10 percent of the distribution amount. Exceptions to this penalty exist for cases involving death, disability, or marriage to another already owning (or having once owned) a principal residence.
- Contributions are limited to \$5,000 per year (\$10,000 for married tax filers filing jointly) and a combined total of \$25,000. Contributions may be invested in insured savings and time deposits only.

³ The 10 percent “penalty” is not truly a penalty, but is an increase in tax liability equal to 10 percent of the distribution amount. This increase ignores the tax rate to which the tax filer is subject, and applies over and above any increase in tax caused by including the entire distribution as taxable income. It is specific to IHAs, applying only when a person uses an account intended for first-time housing for something other than first-time housing, hence its penal nature.

- The IHA trustee must be a bank, credit union, savings and loan association, or depository financial services loan company with all assets insured. The trustee must file contribution and distribution reports to DOTAX, and must withhold from any distribution taxes equal to 10 percent of the distribution amount. We note that if the beneficiary owes more or less tax than 10 percent of the distribution, he or she may pay or recoup the difference by filing his or her tax return for the year.
- The IHA has a 10-year “lifespan,” meaning all assets in the IHA must be distributed within 10 years of the first contribution.

<p>Is there an economic or employment benefit to Hawai'i, and if so, do the benefits outweigh the costs of the deduction?</p>	<p>Unable to Determine.</p> <p>The impact to the state economy and job growth cannot be determined, as no data shows any causal correlation between either of those and this deduction.</p> <p>The impact to State revenues is negligible. Even at the maximum possible income tax rate for an individual, and ignoring unrelated factors that could reduce tax owed (such as filing status), we calculate the maximum tax revenue loss to the State, for the latest year for which data is available – 2021 – to be only \$37,785.</p>
<p>Is the provision meeting its purpose?</p>	<p>Yes.</p> <p>While we cannot confirm that IHA funds are being used to help finance housing, the fact that IHAs are used at all – as indicated by deductions claimed – indicates that individuals are saving toward downpayments.</p>
<p>Should the provision be retained without modification, amended, or repealed?</p>	<p>Retain.</p> <p>While the number of tax filers claiming the deduction is small, the provision serves its purpose and comes with negligible tax expenditure. That stated, we qualify the performance of this provision in our following comment.</p>
<p>Comments</p>	<p>While the provision seems to encourage saving for a downpayment, we note the following issues with the individual housing account as a vehicle for doing so:</p> <p>First, an IHA is meant for first-time homebuyers only. This significantly limits those who can qualify.</p> <p>Second, IHA savings pale in comparison to the cost of housing in Hawai'i. The maximum aggregate capital contribution to an IHA is \$25,000, and IHA funds may be invested in deposit accounts only. Even if we assume that 2024 contributed capital were to double over the 10-year lifespan of the account, (which is unlikely given that the law allows the amounts to be invested in deposit accounts only), the resultant 2034 amount would be \$50,000. As of 2022, according to the Department of Business, Economic Development and Tourism (DBEDT), the median prices of a single-family house and a condominium, statewide, were \$950,000 and \$550,000, respectively.</p>

Income Tax Deduction for Natural Disaster Losses (Section 235-7(f), HRS)






SECTION 235-7(F), HRS, allows a deduction against income for property losses, not compensated by insurance or otherwise, due to a natural disaster, including:

- Tidal wave
- Hurricane
- Earthquake
- Volcanic eruption
- Flood from a river or stream
- Any other natural disaster

A tax filer may claim the deduction in the taxable year in which the losses were sustained or may prorate the deduction evenly over five consecutive years.

The deduction is an itemized deduction, meaning a tax filer is likely to claim the deduction only if the sum of the tax filer's itemized deductions exceed the tax filer's standard deduction. (See sidebar, "Above-the-Line, Below-the-Line, Itemized, and Standard?" on page 5.) As an itemized deduction, this deduction is reduced for individuals whose adjusted gross income exceeds \$83,400 (or \$166,800 for married tax filers filing jointly).

Tax Deduction at a Glance (2021)

Amount claimed	Number of Claims	Tax Expenditure	Cost Per Low-Income Resident**	Meeting its Purpose?
				
Unable to Determine*	Unable to Determine*	Unable to Determine*	Unable to Determine*	Yes

* Natural disaster losses are reported together with other casualty and theft losses when claimed, meaning they are not distinguishable from such other losses.

** Cost per low-income resident is the amount claimed per year divided by a low-income resident population of 480,801 derived from DBEDT data.

Legislative History

Section 235-7(f), HRS

1959

Act 29, First Sp SLH 1959, created the deduction.

Incentive Summary

What is the purpose of the deduction?	To provide tax relief to tax filers whose property was damaged by a natural disaster when the loss was not covered by insurance or otherwise.				
What were the numbers of claims and amount claimed?	Year	Number of Claims	Amount Claimed	Tax Expenditure Per Auditor	Tax Expenditure Per DOTAX
	2023	Unable to Determine*	Unable to Determine*	Unable to Determine*	Unable to Determine*
	2022	Unable to Determine*	Unable to Determine*	Unable to Determine*	Unable to Determine*
	2021	Unable to Determine*	Unable to Determine*	Unable to Determine*	Unable to Determine*
	2020	Unable to Determine*	Unable to Determine*	Unable to Determine*	Unable to Determine*
	2019	Unable to Determine*	Unable to Determine*	Unable to Determine*	Unable to Determine*
	* Natural disaster losses are aggregated with other casualty and theft losses when reported. We are unable to determine how much of each entry stemmed from natural disaster losses as opposed to stemming from other losses.				
Are there additional key qualification requirements or limitations applicable to the deduction?	The only key requirement is that the disaster loss not already be covered by insurance or otherwise.				
Is there an economic or employment benefit to Hawai'i, and if so, do the benefits outweigh the costs of the deduction?	Unable to determine. There is insufficient data from which to draw any conclusion.				
Is the provision meeting its purpose?	Yes, to the extent the deduction is in fact claimed. If the deduction is claimed, then by its very operation, the tax filer is receiving some relief for the filer's otherwise uncovered losses caused by a natural disaster. The losses are not offset dollar-for-dollar, as the provision is a deduction and not a credit, but some relief exists.				
Should the deduction be retained without modification, amended, or repealed?	Retain. The deduction is designed to provide relief for damage caused by natural disasters when the loss is not covered by insurance or otherwise, and the deduction appears to do just that.				

Other

This deduction is a form of tax relief to which victims of the Maui wildfires may be entitled, but is aggregated with other deductions for casualty and theft losses, which prevents us from drawing meaningful conclusions regarding its usage. We recommend that DOTAX require that disaster losses be reported separately. We note that, for tax filers who claim the deduction, the tax relief does not provide dollar-for-dollar recovery of their property damages caused by a natural disaster. Moreover, for tax filers who claim the standard deduction, the deduction cannot be claimed, and those whose taxable income exceeds the adjusted gross income threshold of \$83,400 (\$166,800 for married tax filers filing jointly), it provides less relief.

Income Tax Credit for Cesspool Upgrades, Conversions, and Connections (Section 235-16.5, HRS)

THIS INCOME TAX CREDIT, codified as Section 235-16.5, HRS, was repealed on December 31, 2020, by Act 120, SLH 2015.

We recommend that the Legislature also repeal Section 23-95(c)(3), HRS, which requires us to review this credit every five years.

Income Tax Deduction for the Maintenance of Exceptional Trees (Section 235-19, HRS)

SECTION 235-19, HRS, allows a deduction against income for reasonably necessary costs incurred to maintain an exceptional tree. The tree must have been designated exceptional by the county arborist advisory committee established under Chapter 58, HRS, meaning the tree must have historic or cultural value because of age, rarity, location, size, esthetic quality, or endemic status worthy of preservation. The deduction is capped at \$3,000 per tree and may be claimed no more than once every three years.

Exceptional trees in the City and County of Honolulu include, but are not limited to:

- Monkeypod Trees
- Baobab Trees
- Banyan Trees
- Fig Trees
- Breadfruit Trees
- Brazil Nut Trees
- Norfolk Island Pine Trees
- Date Palm Trees
- Macadamia Nut Trees

The exceptional trees deduction is an “above-the-line” deduction. (See sidebar, “Above-the-Line, Below-the-Line, Itemized, and Standard?” on page 5.)

Tax Deduction at a Glance (2021)

Amount claimed	Number of Claims	Tax Expenditure**	Cost Per Low-Income Resident*	Meeting its Purpose?
				
\$74,505	Suppressed***	\$8,196	\$0.02	Unable to determine

* Cost per low-income resident is the amount claimed per year divided by a low-income resident population of 480,801 derived from DBEDT data.

** We assume the maximum individual tax rate of 11 percent will apply, as discussed in the introductory section of this report.

*** Data is suppressed to protect confidential tax filer information. DOTAX does not disclose tabulations containing data for 5 or fewer returns or when an individual return represents a large percentage in a tabulation.

Legislative History

Section 235-19, HRS

2004

Act 195, SLH 2004, created the deduction.

Incentive Summary

What is the purpose of the deduction?	To safeguard exceptional trees from destruction caused by land development				
What were the numbers of claims and amount claimed?	Year	Number of Claims	Amount Claimed	Tax Expenditure Per Auditor***	Tax Expenditure Per DOTAX
	2023	No Data*	No Data*	No Data*	No Data*
	2022	No Data*	No Data*	No Data*	No Data*
	2021	Suppressed**	\$74,505	\$8,196	Suppressed**
	2020	Suppressed**	\$56,064	\$6,167	Suppressed**
	2019	7	\$42,207	\$4,643	Suppressed**
	<p>* At the time of the writing of this report, DOTAX continues to collect 2022 and 2023 data.</p> <p>** Data is suppressed to protect confidential tax filer information. DOTAX does not disclose tabulations containing data for five or fewer returns at the state level or when an individual return represents a large percentage in a tabulation.</p> <p>*** We assume the maximum individual tax rate of 11 percent will apply, as discussed in the introductory section of this report. Exact expenditure amounts cannot be calculated because they vary by tax filer. Individual tax filers pay tax at rates varying by level of taxable income, including income unrelated to this exemption and, ultimately, unknown. We have listed the maximum expenditure possible, by multiplying the amount claimed by the maximum individual rate, 11 percent.</p>				
Are there additional key qualification requirements or limitations applicable to the deduction?	<p>Yes.</p> <p>The tax filer must attach to his or her return a notarized affidavit completed by a certified arborist stating that the amount of expenses claimed were reasonable. The affidavit must include the type of tree, the location of the tree, and a description of the expenses incurred.</p>				
Is there an economic or employment benefit to Hawai'i, and if so, do the benefits outweigh the costs of the deduction?	<p>Negligible.</p> <p>We note, however, that the provision was not intended to provide an economic or employment benefit.</p>				
Is the deduction meeting its purpose?	<p>Unable to determine.</p> <p>While available data is insufficient to determine any causal connection between the deduction and the protection of exceptional trees, the maximum amount of the deduction (\$3,000 per tree) seems insufficient to deter property development that may damage or destroy those trees.</p>				
Should the deduction be retained without modification, amended, or repealed?	<p>Retain.</p> <p>While it is unclear whether the deduction is helping to safeguard exceptional tree areas from development, we note that the deduction does incentivize owners of property already containing exceptional trees to maintain those trees.</p>				

Income Tax Credit for the Employment of Vocational Rehabilitation Referrals (Section 235-55.91, HRS)

SECTION 235-55.91, HRS, allows an employer to claim an income tax credit for the hiring of someone who is certified by the Department of Human Services (DHS) as having a physical or mental disability that constitutes a substantial handicap to employment. The credit amount is 20 percent of each disabled employee's first-year wages, up to a maximum credit of \$1,200 per such employee over the course of that employee's first one-year period of employment. Each such employee must be DHS-certified⁴ as having a disability that results in a substantial handicap to employment and referred for employment after having completed, or while

completing, state or federal rehabilitative services. The employee must be employed by the tax filer for at least ninety days, or must have completed at least 120 hours of service, and must not have been employed by the same employer prior to the referral.

The credit is nonrefundable, meaning it reduces tax liability only to the extent the tax filer owes tax. Any credit amount in excess of the tax filer's actual tax liability does not generate a refund, but may be carried to future tax years until exhausted.

Tax Credit at a Glance (2021)

Amount claimed	Number of Claims	Tax Expenditure	Cost Per Low-Income Resident*	Meeting its Purpose?
				
\$0	0	\$0	\$0	No

* Cost per low-income resident is the amount claimed per year divided by a low-income resident population of 480,801 derived from DBEDT data.

Legislative History <i>Section 235-55.91, HRS</i>		
<ul style="list-style-type: none"> 1990 Act 289, SLH 1990, created the credit. 1991 Act 137, SLH 1991, narrowed and clarified various key terms, including "hiring date," "qualified 	<ul style="list-style-type: none"> first-year wages," and "wages," and specified new limitations to claiming the credit. 2008 Act 93, SLH 2008, expanded qualified referrals to include referrals pursuant to an individual work plan developed and implemented by an employment network under the Social Security Act. 	<ul style="list-style-type: none"> 2015 Act 53, SLH 2015, updated cross-references to relevant federal code sections.

⁴ Certification is provided by the Services for the Blind Branch of the Vocational Rehabilitation Division of the Department of Human Services.

Incentive Summary

What is the purpose of the credit? According to a Conference Committee Report, the goal of the credit is to encourage employers to hire individuals suffering from physical or mental disabilities who encounter significant barriers to employment.

What were the numbers of claims and amount claimed?

Year	Number of Claims	Amount Claimed	Tax Expenditure Per Auditor	Tax Expenditure Per DOTAX
2023	No Data*	No Data*	No Data*	No Data*
2022	No Data*	No Data*	No Data*	No Data*
2021	0	\$0	\$0	\$0
2020	Suppressed**	Suppressed**	Suppressed**	Suppressed**
2019	0	\$0	\$0	\$0

* At the time of the writing of this report, DOTAX continues to collect 2022 and 2023 data.
 ** Data is suppressed to protect confidential tax filer information. DOTAX does not disclose tabulations containing data for five or fewer returns at the state level or when an individual return represents a large percentage in a tabulation.

Are there additional key qualification requirements or limitations applicable to the credit? Yes.

Over half the employee's wages must be for services performed in the employer's trade or business, and "wages" for credit purposes do not include payments:

- from any federal rehabilitation referral program;
- from any federal or state on-the-job training program;
- to any dependent, including any relative or household member;
- paid during a strike or lockout; or
- to cover services performed for a party other than the tax filer, unless the tax filer expects a higher amount from that party.

An employer has one year to claim the credit, starting from the end of the year in which the services were performed.

A tax filer may not deduct as a business expense wages used to calculate the credit.

Is there an economic or employment benefit to Hawai'i, and if so, do the benefits outweigh the costs of the credit? Negligible.

The credit was not claimed in 2019 or 2021, and the number of tax filers in 2020 was so low that it is suppressed to protect confidential tax filer information.

Is the credit meeting its purpose? No.

The credit does not appear to be encouraging the hiring of those with physical or mental disabilities posing significant barriers to employment, as no employer claimed the credit for two out of the three years for which DOTAX has data, and so few claimed the credit during the third year that data is suppressed to protect confidential tax filer information.

Should the credit be retained without modification, amended, or repealed?

Modify.

The limited use of this credit suggests that the credit is not achieving the Legislature's intended purpose. We suggest modifying the credit to improve its usage. Precisely how the Legislature should do that is beyond the scope of our mandate and authority, but we do note that qualifying for the credit requires overcoming several hurdles, particularly regarding disabled certification. We also reiterate that the credit amount is 20 percent of first-year wages only. Employers cannot claim a credit for wages of employees continuing beyond their first year.

Income Tax Credit for School Repair and Maintenance (Section 235-110.2, HRS)

SECTION 235-110.2, HRS, allows a licensed contractor, pest control operator, engineer, architect, surveyor, or landscape architect to claim a tax credit for uncompensated repair and maintenance services contributed to public schools. The credit is limited to 10 percent of the value of the services contributed, up to a maximum credit of \$4,000 for any given year.

The credit is nonrefundable, meaning it reduces tax liability only to the extent the tax filer owes tax. Any credit amount in excess of the tax filer's actual tax liability does not generate a refund, but may be carried forward to future tax years until exhausted.

Tax Credit at a Glance (2021)

Amount claimed	Number of Claims	Tax Expenditure	Cost Per Low-Income Resident*	Meeting its Purpose?
				
\$0	0	\$0	\$0	No

* Cost per low-income resident is the amount claimed per year divided by a low-income resident population of 480,801 derived from DBEDT data.

Legislative History

Section 235-110.2, HRS

- **2001**
Act 309, SLH 2001, created the credit.
- **2004**
Act 213, SLH 2004:
 - Shifted credit recordkeeping and other administrative

duties from the Department of Accounting and General Services to the Department of Education (DOE); and

- Established a DOE coordinator position to coordinate repair and maintenance efforts.

Incentive Summary

What is the purpose of the credit?

To eliminate a repair and maintenance backlog for Hawai'i's public schools through the development of a public-private partnership involving stakeholders in Hawai'i's public educational system, including parents of students, alumni, teachers, business, and government, as well as the students themselves.

What were the numbers of claims and amount claimed?

Year	Number of Claims	Amount Claimed	Tax Expenditure Per Auditor	Tax Expenditure Per DOTAX
2023	No Data*	No Data*	No Data*	No Data*
2022	No Data*	No Data*	No Data*	No Data*
2021	0	\$0	\$0	\$0
2020	Suppressed**	Suppressed**	Suppressed**	Suppressed**
2019	Suppressed**	Suppressed**	Suppressed**	Suppressed**

* At the time of the writing of this report, DOTAX continues to collect 2022 and 2023 data.

** Data is suppressed to protect confidential tax filer information. DOTAX does not disclose tabulations containing data for five or fewer returns at the state level or when an individual return represents a large percentage in a tabulation.

Are there additional key qualification requirements or limitations applicable to the credit?

Yes.

The tax filer must:

- be a licensed contractor, pest control operator, engineer, architect, surveyor, or landscape architect; and
- file with DOTAX a certificate from DOE that certifies the amount of the contribution, that the tax filer is licensed, and that the tax filer owes no back taxes, penalties, or interest (substantiated by a DOTAX tax clearance obtained by the tax filer).

A tax filer must file for the credit within one year of the end of the year in which the services were contributed.

Is there an economic or employment benefit to Hawai'i, and if so, do the benefits outweigh the costs of the credit?

Negligible.

The credit was not claimed in 2021, and the number of tax filers in 2019 and 2020 was so low that it is suppressed to protect confidential tax filer information.

Is the credit meeting its purpose?

No.

The credit does not appear to be achieving its purpose because very few tax filers are claiming it and DOE public schools continue to have a growing backlog of repair and maintenance projects. According to a DOE press release, in 2018, the backlog was 3,800 projects at an estimated cost of \$868 million. In 2022, according to a Honolulu Civil Beat article, the backlog had increased to 4,600 projects estimated to cost \$1.4 billion.

Should the credit be retained without modification, amended, or repealed?

Modify.

Tax filers appear not to be availing themselves of the credit in any significant number or by any significant dollar amount. We recommend the Legislators alter the credit, however it deems appropriate, to incentivize better the public-private partnership it originally intended to build to help address the public school repair and maintenance backlog.

Low-Income Housing Tax Credit (Sections 235-110.8 and 241-4.7, HRS)

SECTION 235-110.8, HRS, allows an income tax credit for owning a building that qualifies as a low-income housing project, as that term is defined in federal tax law. That requires that the building meet one of the following three tests:

The 20-50 Test: At least 20 percent of the residential units are rent-restricted and occupied by tenants making 50 percent or less of the area median gross income (AMGI).

The 40-60 Test: At least 40 percent of the residential units are rent-restricted and occupied by tenants making 60 percent or less of AMGI.

The Average Income Test: At least 40 percent of the residential units are rent-restricted and occupied by tenants making no more than each unit's income limitation designated by the building owner, provided that all limitations set by the owner are between 20 and 80 percent of AMGI and average 60 percent or less of AMGI.

The credit amount equals the federal credit amount statutorily allowed, so long as the aggregate of all such federal amounts claimed for all years does not exceed an amount allocated by the Hawai'i Housing Finance and Development Corporation (HHFDC), Hawai'i's administrator of the credit. The federal amount allowed involves

Continued on page 24.

Tax Basis

TAX BASIS, or simply basis, refers to a tax filer's investment in any type of property. In the case of real property, the basis includes the cost of acquiring the property, increased by the cost of improvements and decreased by depreciation taken (if any, as in the case of rental real estate). There are many other items that can increase or decrease basis, and the number after all adjustments is the adjusted basis. Adjusted basis is a key metric for calculating other tax-relevant amounts, such as a sale gain or, as we see in this report, the calculation of a credit amount.

Qualified basis means a part of basis or adjusted basis that qualifies for a particular tax purpose. In the context of the low-income housing tax credit, for example, qualified basis means the amount of a building's adjusted basis that corresponds to units leased by low-income tenants.

Continued from page 23.

a complex present value calculation,⁵ but must equal a minimum of nine percent of the qualified basis of a new, not federally subsidized building or four percent of that of an existing or federally subsidized one. (See sidebar, "Tax Basis" on page 23.)

Section 241-4.7, HRS, allows the credit to be claimed not only for income tax purposes, but also for purposes of the tax on banks and other financial corporations.

We also note that a building whose units are leased to both low-income tenants and other tenants may qualify for a reduced, or "partial," credit. That is, the owner of the building may receive a credit for the units leased to low-income tenants. As long as the owner otherwise qualifies for the credit, the credit equals the qualified basis of the building multiplied by a fraction that represents

how much of the building is occupied by low-income tenants. That fraction may be determined by reference to the number of low-income tenant units, or by a square footage calculation using the total area leased to low-income tenants.





The credit may also be claimed by a building owner who leases units to an organization, including a governmental entity, for transitional housing for the "homeless," as that term is federally defined.

The low-income housing income tax credit is nonrefundable, meaning it reduces tax liability only to the extent the tax filer owes tax. Any credit amount in excess of the tax filer's actual tax liability does not generate a refund, but may be carried forward to future tax years until exhausted.

⁵ More precisely, the federal credit amount equals the qualified basis of the low-income building multiplied by a percentage, where the present value of all such percentages (for the same building) would yield, over a ten-year period, 70 or 30 percent (for a new or existing building, respectively) of that same qualified basis – and where the discount rate, for purposes of the present value calculation, equals 72 percent of the average of published annual federal mid-term and long-term rates applicable to the month during which the building was first used as a low-income building (or, if earlier, the month during which the tax filer and the federal housing credit agency entered into a credit agreement with respect to the building).

For tax years involving pre-2017 HHFDC allocations, the credit amount is calculated using 50 (as opposed to 70 or 30) percent of qualified basis. For tax years 2009-2011 and involving any subawards granted under the American Recovery and Reinvestment Act of 2009 (related to federal monies passed through states for tax filers to build or acquire and rehabilitate low-income buildings), the credit uses 50 percent of what the federal amount would have been absent such subaward.

Tax Credit at a Glance (2021)

Amount claimed	Number of Claims	Tax Expenditure	Cost Per Low-Income Resident*	Meeting its Purpose?
				
\$53,140,000	47	\$53,140,000	\$110.52	Yes

* Cost per low-income resident is the amount claimed per year divided by a low-income resident population of 480,801 derived from DBEDT data.

Legislative History	2005	2017
<p>Sections 235-110.8 and 241-4.7, HRS</p> <p>1988 Act 216, SLH 1988, created the credit.</p> <p>1989 Act 13, SLH 1989, required that, should the federal program expire, the state credit will have a ceiling of \$0.</p> <p>1992 Act 145, SLH 1992, made the low income housing tax credit, which had been enacted for Chapter 235 income tax purposes, applicable for Chapter 241 financial institution franchise tax purposes.</p> <p>2000 Act 148, SLH 2000, removed state credit requirement that federal credit be claimed.</p>	<p>2005 Act 196, SLH 2005, increased the credit from 30 to 50 percent of the applicable percentage of qualified basis.</p> <p>2011 Act 158, SLH 2011, allowed, but reduced, the credit for any building owner awarded a construction or acquisition award under the American Recovery and Reinvestment Act of 2009 (related to federal grant monies distributed to states between 2009 and 2011).</p> <p>Act 158, SLH 2011, also allowed some tax filers to forgo the credit to request an affordable housing loan from HHFDC.</p> <p>2016 Act 129, SLH 2016, altered the amount of the credit for years 2017 and beyond, setting a 5-year limit on how long the credit may be claimed (with an</p>	<p>exception for tax filers allocated more state credits by HHFDC than the new limitations would otherwise allow).</p> <p>2017 Act 12, SLH 2017, clarified and narrowed a few definitions.</p> <p>2021 Act 226, SLH 2021, allowed partnerships and limited liability companies to allocate the credit among constituents however constituents decide.</p> <p>Required tax filers to include Form 8609 (HHFDC allocation) with credit claims.</p> <p>For low-income buildings placed in service in 2021 or later, rendered inoperative certain federal tax code sections and added requirements to how HHFDC administers credit allocation.</p>

Incentive Summary

What is the purpose of the credit? To help finance and otherwise encourage the private development and rehabilitation of affordable rental housing, noting that developers typically sell the credits to investors – generating capital for project development.

Year	Number of Claims	Amount Claimed	Tax Expenditure Per Auditor	Tax Expenditure Per DOTAX
2023	No Data*	No Data*	No Data*	No Data*
2022	No Data*	No Data*	No Data*	No Data*
2021	47	\$53,140,000	\$53,140,000**	\$53,140,000**
2020	39	\$31,610,000	\$31,610,000**	\$31,610,000**
2019	37	\$25,292,000	\$25,292,000**	\$25,292,000**

* At the time of the writing of this report, DOTAX continues to collect 2022 and 2023 data.
 ** With respect to income tax credits, the amount of tax forgone is exactly equal to the amount of credit claimed. That amount would be collected by the State, but for the credit.
 Note: Auditor's expenditure values do not include expenses incurred by HHFDC in administering the low-income housing tax credit. They also do not include HHFDC loans issued in lieu of awarding credits, nor any interest payments made with respect to such loans.

Are there additional key qualification requirements or limitations applicable to the credit? Yes.
 A prospective claimant must apply for and be approved this credit before claiming it. A prospective claimant submits a completed Consolidated Application to HHFDC. Once an application is approved and HHFDC allocates a tax credit amount, the prospective claimant may claim the credit on Form N-586, "Tax Credit For Low-Income Housing."
 The state credit may be claimed for up to five years, unless the HHFDC allocation exceeds the aggregate of federal amounts over five years – in which case all excess HHFDC allocation may be claimed in year six.
 With respect to buildings originally leased in 2021 or later, claiming the credit also causes certain other tax rules to be suspended. Notably, for example, claiming the credit suspends limitations on the amount of loss or credit a tax filer may claim with regard to passive activities. The removal of the passive activity limitations provides additional tax relief to passive investors who own qualified low-income housing, further incentivizing such development.

Is there an economic or employment benefit to Hawai'i, and if so, do the benefits outweigh the costs of the credit? In 2021, this credit was the third-largest Hawai'i income tax credit claimed, by value, after the credit for taxes paid to another jurisdiction and the renewable energy credit. Based on the total claims amount of \$53,140,000 in 2021, and given that the credit is at most only nine percent of adjusted basis, it appears that the aggregate adjusted basis of low-income projects for which the tax credit was claimed is substantial. This means that the credit appears to be incentivizing the ownership of a significant amount of low-income housing.

Is the credit meeting its purpose?

Yes.

While there is no readily available data regarding this credit for the last two years, earlier data suggests that tax filers are building or acquiring low-income housing projects. While we do not know precisely to what extent the credit may have been a causal factor in building or acquiring such projects, the credit does appear to be encouraging the development and rehabilitation of affordable rental housing.

Should the credit be retained without modification, amended, or repealed?

Retain.

The credit appears to be meeting its purpose and incentivizing ownership of low-income housing, thus helping to ensure such housing exists for those needing it.

Special Loan Option

In lieu of claiming the credit, an owner qualifying for the credit may opt to request an affordable housing loan from HHFDC.

We could not determine the amount of affordable housing loans that HHFDC has issued in lieu of the credit, as reports on HHFDC low-income housing activity aggregate expenses and do not otherwise report loan amounts.

Appendix A

Impact on Low-Income Residents and Hawai'i Residents

Section 23-71, HRS, also requires us to estimate the “annual cost of the exemption, exclusion, or credit per low-income resident of the State.” The statute defines “low-income resident” as a state resident who is (1) the only member of a family of one and has an income of not more than 80 percent of the area median income for a family of one; or (2) part of a family with an income of not more than 80 percent of the area median income for a family of the same size. Applying that definition, we find an estimated 480,801 “low-income residents” statewide in 2020 based on data provided by the Department of Business, Economic Development and Tourism. Using that number of low-income residents, we calculate the cost of each exemption per low-income resident, included in the table below.

We also include in the table below the cost of each incentive per Hawai'i resident, regardless of income level. Such cost is calculated using Hawai'i's 2022 resident population of 1,440,196 people. The results in the table below follow and include the Auditor's tax expenditure estimates only; they do not factor in DOTAX expenditure estimates.

Cost of Tax Provisions per “Low-Income Resident”

Statute	Subject Matter Covered	Tax Expenditure Per Auditor	Cost Per DBEDT “Low-Income Resident”	Cost Per Hawai'i Resident
Section 235-5.5, HRS	Individual Housing Accounts (deduction provision)	\$37,785	\$0.08	\$0.03
Section 235-7(f), HRS	Natural Disaster Losses	Unable to Determine*	Unable to Determine*	Unable to Determine*
Section 235-16.5, HRS	Cesspools	(Repealed)	(Repealed)	(Repealed)
Section 235-19, HRS	Exceptional Trees	\$8,196	\$0.02	\$0.01
Section 235-55.91, HRS	Vocational Rehabilitation Referrals	\$0	\$0	\$0
Section 235-110.2, HRS	School Repair and Maintenance	\$0	\$0	\$0
Sections 235-110.8 and 241-4.7, HRS	Low-income Housing	\$53,140,000	\$110.52	\$36.90

* Natural disaster losses are aggregated with other casualty and theft losses when reported. We are unable to determine how much of each entry stemmed from natural disaster losses as opposed to stemming from other losses.

Source: Office of the Auditor

Appendix B

Schedule of Tax Statutes for Review

■ Sections 23-71 through 23-81, HRS

■ Sections 23-91 through 23-96, HRS

Report Date	HRS Ref.	Statute to be reviewed	Notes
2025 Session	23-77	237-24.3(2)	Reimbursements to associations of owners of condominium property regimes or nonprofit homeowners or community associations for common expenses
		237-24.5	Amounts received by exchanges or exchange members*
		237-25(a)(3)	Gross income received from tangible personal property sales to state-chartered credit unions
		237-24.8	Amounts received by financial institutions, trust companies, trust departments, or financial corporations acting as interbank brokers
		237-26	Gross proceeds of scientific contractors and subcontractors
		238-3(j)	The value of property or services exempted by Section 237-26, relating to scientific contracts
		237-27	Amounts received by petroleum product refiners from other refiners
	23-96	235-15	Credit for purchase of child passenger restraint system
		235-55.6	Credit for employment-related expenses for household and dependent care services
		235-55.7	Credit for a low-income household renter
235-55.85		Credit for food and excise tax	

* Note: This exemption was reviewed in the report to the 2020 Legislature

Report Date	HRS Ref.	Statute to be reviewed	Notes	
2026 Session	23-78	237-24.7(1)	Amounts received by hotel operators and hotel suboperators for employee wages and fringe benefits	
		237-24.7(2)	Amounts received by a county transportation system operator under a contract with the county	
		237-24.7(4)	Amounts received by orchard property operators for employee wages and fringe benefits	
		237-24.7(6)	Amounts received from insurers for damage or loss of inventory of businesses located in a natural disaster area	
		237-24.7(7)	Amounts received by community organizations, school booster clubs, and nonprofit organizations for precinct and other election-related activities	
		237-24.7(8)	Interest received by persons domiciled outside the State from trust companies acting as payment agents or trustees on behalf of issuers or payees of interest-bearing instruments or obligations	
		237-24.7(9)	Amounts received by management companies from related entities engaged in interstate or foreign common carrier telecommunications services for employee wages and fringe benefits	
		237-24.7(10)	Amounts received from high technology research and development grants	
		23-92	235-12.5	Credit for renewable energy technology system installed and placed in service in the State. For the purpose of Section 23-91(b)(5), this credit shall be deemed to have been enacted for an economic benefit
			241-4.6	Credit for renewable energy technology system installed and placed in service in the State. For the purpose of Section 23-91(b)(5), this credit shall be deemed to have been enacted for an economic benefit
235-17	Credit for qualified production costs incurred for a qualified motion picture, digital media, or film production			

Report Date	HRS Ref.	Statute to be reviewed	Notes
2027 Session	23-79	237-27.5	Gross proceeds from air pollution control facility construction, reconstruction, operation, use, maintenance, or furnishing
		238-3(k)	The value of air pollution control facilities
		237-27.6	Amounts received by solid waste processing, disposal, and electric generating facility operators under sale and leaseback transactions with political subdivisions that involve the facilities
		237-29	Gross income of qualified persons or firms or nonprofits or limited distribution mortgagors for certified or approved low-income housing projects
		238-3(j)	The value of property, services, or contracting exempted by Section 237-29, relating to certified or approved housing projects
		431:7-208	Credit for low-income housing
		46-15.1(a)	Gross income from county low-income housing projects
		346-369	Compensation received by provider agencies for homeless services or homeless facility management
	23-93	235-7.3	Exclusion of royalties and other income derived from a patent, copyright, or trade secret of a qualified high technology business
		235-9.5	Exclusion for income and proceeds from stock options or stocks of a qualified high technology business or a holding company for a qualified high technology business
		235-17.5	Credit for capital infrastructure costs
		241-4.4	Credit for capital infrastructure costs
		235-110.7	Credit for capital goods used by a trade or business
		241-4.5	Credit for capital goods used by a trade or business
		235-110.91	Credit for research activity
235-110.3		Credit for ethanol facility	
	241-3.5	Deduction for adjusted eligible net income of an international banking facility	

Report Date	HRS Ref.	Statute to be reviewed	Notes
2028 Session	23-80	237-29.5	Value or gross proceeds from tangible personal property shipped out of State
		237-29.53	Value or gross income from contracting or services performed for use outside the State
		238-1, paragraph (9)	Definition of “use”--The value of services or contracting imported for resale, consumption, or use outside the State
		237-29.55	Gross proceeds or gross income from the sale of tangible personal property imported into the State for subsequent resale
	23-94	235-4.5(a)	Exclusion of intangible income earned by a trust sited in this State
		235-4.5(b)	Exclusion of intangible income of a foreign corporation owned by a trust sited in this State
		235-4.5(c)	Credit to a resident beneficiary of a trust for income taxes paid by the trust to another state
		235-55	Credit for income taxes paid by a resident tax filer to another jurisdiction
		235-129	Credit for income taxes paid by a resident tax filer to another jurisdiction
		235-71(c)	Credit for a regulated investment company shareholder for the capital gains tax paid by the company
		235-110.6	Credit for fuel taxes paid by a commercial fisher
		235-110.93	Credit for important agricultural land qualified agricultural cost
		235-110.94	Credit for organically produced agricultural products
		235-129(b)	Credit to a shareholder of an S corporation for the shareholder’s pro rata share of the tax credit earned by the S corporation in this State
209E-10	Credit for a qualified business in an Enterprise Zone; provided that the review of this credit pursuant to this part shall be limited in scope to income tax credits		

Report Date	HRS Ref.	Statute to be reviewed	Notes
2029 Session	23-81	237-23(a)(3)	Fraternal benefit societies, orders, or associations for the payment of benefits to members
		237-23(a)(4)	Corporations, associations, trusts, or societies: (A) Organized and operated exclusively for religious, charitable, scientific, or educational purposes; (B) Operating senior citizens housing facilities qualifying for loans under the United States Housing Act of 1959, as amended; (C) Operating legal service plans; or (D) Operating or managing homeless facilities or other programs for the homeless
		237-23(a)(5)	Business leagues, chambers of commerce, boards of trade, civic leagues, agricultural and horticultural organizations, and organizations operated exclusively for the benefit of the community or promotion of social welfare, including legal service plans
		237-23(a)(6)	Hospitals, infirmaries, and sanitarium
		237-23(a)(7)	Tax-exempt potable water companies serving residential communities lacking access to public utility water services
		237-23(a)(8)	Agricultural cooperative associations incorporated under state or federal law
		237-23(a)(9)	Persons affected with Hansen's disease and kokuas with respect to business within the county of Kalawao
		237-23(a)(10)	Corporations, companies, associations, or trusts organized for cemeteries
		237-23(a)(11)	Nonprofit shippers
	23-95	235-15	Credit for purchase of child passenger restraint system
		235-55.6	Credit for employment-related expenses for household and dependent care services
		235-55.7	Credit for a low-income household renter
		235-55.85	Credit for food and excise tax

APPENDIX B

Report Date	HRS Ref.	Statute to be reviewed	Notes
2030 Session	23-72	237-3(b)	Gross receipts from the following: (A) Sales of securities; (B) Sales of commodity futures; (C) Sales of evidences of indebtedness; (D) Fee simple sales of improved or unimproved land; (E) Dividends; and (F) Sales or transfers of materials and supplies, interest on loans, and provision of services among members of an affiliated public service company group
		237-13(3)(B)	Gross income of contractors from subcontractors
		237-13(3)(C)	Reimbursements to federal cost-plus contractors
		237-13(6)(D)(i),(ii), (iii), and (iv)	Gross receipts of home service providers acting as service carriers
		237-24.3(11)	Amounts received from aircraft and aircraft engine rental or leasing
		237-24.9	Amounts received from aircraft servicing and maintenance and aircraft service and maintenance facility construction
		238-1, paragraph (6)	Definition of "use"--The value of aircraft leases or rental and acquired or imported aircrafts and aircraft engines
		238-1, paragraph (8)	Definition of "use"-- The value of material, parts, or tools for aircraft service and maintenance and aircraft service and maintenance facility construction