DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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DEPT. COMM. NO. 113

December 20, 2016

The Honorable Ronald D. Kouchi,
President and Members of the Senate
Twenty-Eighth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Joseph M. Souki,
Speaker and Members of the House of Representatives
Twenty-Eighth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Souki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the following reports:

- 2017 Goals and Objectives Report
- 2016 Annual Report
- 2016 Cash Economy Enforcement Act Report
- 2016 Electronic Funds Transfer Report
- 2014 Hawaii Individual Income Tax Statistics Report
- 2014 Tax Credits Report
- Hawaii General Excise Tax Expenditures Report

In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at tax.hawaii.gov.

Sincerely,

D Elefante
for MARIA E. ZIELINSKI
Director of Taxation

Enclosures

cc: Legislative Reference Bureau Library

DEPARTMENT OF TAXATION
Annual Report REQUIRED BY ACT 100, SESSION LAWS OF HAWAII 1999
For the period of January 1, 2017 through December 31, 2017

The following is a list of the Department of Taxation's goals and objectives for the coming year as required by Act 100, Session Laws of Hawaii, 1999:

GOAL 1: Increase voluntary compliance

Objective 1: Increase oversight utilizing various branches/areas of our Compliance Division

Action Plan 1:
Increased collaboration and information sharing among our Criminal Enforcement Section (CI), Special Enforcement Section (SES), and ad hoc fraud team to identify taxpayer issues and potential non-compliance areas and business sectors.

Action Plan 2:
We will actively engage in community outreach programs including public service announcements. We will help taxpayers understand and meet their Hawaii tax obligations by providing timely and relevant information, and keeping them apprised of new developments. We will provide public outreach through workshops, seminars, and on-site assistance to both taxpayers and tax preparers.

Action Plan 3:
We will utilize in-house tools (including Tax System Modernization software analytics for business taxes which is already operational) as well as IRS-provided data to identify non-filers and returns identified through filters and manual review with questionable and/or inconsistent filing information. We will develop cases for enforcement and prosecution for those who have not filed or who have filed fraudulently.

Action Plan 4:
Actively engage Office Audit and Field Audit staff to work with Rules Office where needed to ensure they are working and closing audits that are consistent with the Administrative Rules of the Department of Taxation.

Objective 2: Develop procedures to ensure a more efficient and timely audit process

Action Plan 1:
We will develop procedures to identify returns to be earmarked for audit, determine scope and reasonable and prudent timeframes for completion.

Action Plan 2:
Develop audit metrics where practicable to ensure fairness and consistency.

<u>GOAL 2:</u> **Reduce tax fraud**

Objective 1: **Identify and prevent payment of fraudulent refunds**

Action Plan 1:
Utilizing filters, internal tools (including Tax System Modernization analytics for business taxes) and IRS-provided data as well as manual review, we will identify fraudulent tax refund returns, enforce and prosecute.

Action Plan 2:
Utilizing filters, internal tools (including Tax System Modernization analytics for business taxes) and IRS-provided data as well as manual review, we will identify potentially fraudulent tax returns. Request additional information to substantiate deduction claims and other questionable data. Enforce and prosecute where applicable.

<u>GOAL 3:</u> **Improve customer service to all stakeholders**

Objective 1: **Provide service to taxpayers whose issues/concerns cannot be resolved through normal channels**

Action Plan 1:
The Office of the Taxpayer Advocate, initiated in late 2015, continues to expand its work with the public to assist them with issues or questions they have been unable to get resolved. In addition to sending out communication to the public regarding these services and having a dedicated webpage, the Taxpayer Advocate will continue to outreach to local tax groups and taxpayer organizations. Given the strong demand in this area, this program will be reviewed and considered for possible expansion to better serve its taxpayers. The Taxpayer Advocate has also served, and will continue to serve, a critical role in assisting taxpayers who are unable to resolve a question or issue relating to the Tax System Modernization.

Objective 2: **Provide specialized service to the tax practitioner community**

Action Plan 1:
The Tax Practitioner Priority Specialist position, which was filled in early 2016, will continue to work closely with the tax practitioner community. This position, which serves in a capacity similar to the IRS counterpart, has been highly sought after by the tax practitioner community.

Action Plan 2:
Increase dialogue and meeting with the tax practitioner community as well as professional organizations to better understand their needs and concerns. The

Tax Practitioner Priority Specialist, who will continue to outreach to local tax groups and tax practitioner groups, has already been asked to speak and meet with many community groups. This position will also continue to be instrumental in assisting tax practitioners with registration and utilization of the new Hawaii Tax Online as part of the Tax Modernization System.

Action Plan 3:
The Administrative Appeals Office, initiated in 2016, will continue to work with taxpayers and tax return preparers to have a quicker way to resolve tax disputes involving audit assessments. Serving as a separate and independent body within the Department of Taxation, it is responsible for administering the Administrative Appeals and Dispute Resolution (AADR) program which offers a way to settle audit disputes without litigation. We will review the success and volume of AADR cases over the next year.

GOAL 4: **Improve technology and efficiencies through the successful implementation of the Tax System Modernization (TSM) project**

Objective 1: **We will complete Rollout 3 of the Tax System Modernization (TSM) project during this period as well as initiate Rollout 4**

Action Plan 1:
With the successful implementation of Rollout 1 of TSM on December 28, 2015 and Rollout 2 on August 15, 2016, we will complete Rollout 3 in August 2017. Rollout 3 will include withholding, corporate income tax, franchise tax and public service company tax.

Action Plan 2:
During 2017 we will continue to refine and configure Rollout 2 tax types as our staff becomes more familiar with its functionality. Through weekly TSM status and stakeholder meetings, Compliance user meetings, Taxpayer Services user meetings, and input from the Taxpayer Advocate and Tax Practitioner Specialist, we will further perfect the Rollout 2 tax type features and processes.

Action Plan 3:
Post August 2017, we will kick off and initiate Rollout 4 which includes individual income tax, fiduciary, partnership, estate and transfer and the cashiering function. Rollout 4 is scheduled to be completed in November 2018.

Objective 2: **We will re-engineer business processes**

Action Plan 1:
As we work through each of the TSM rollouts, we will reduce manual business processes and reduce the use of paper thereby improving efficiency and productivity.

Action Plan 2:
Through the implementation of Rollouts 1 and 2 of TSM, we have provided for electronic registration, filing, and tax payments for all business taxes. We will continue to implement these initiatives for Rollout 3 tax types – corporate income taxes and withholding taxes.

Action Plan 3:
Through enhanced functionality of TSM, we will be able to capture more data for revenue impact determination relative to tax credits and exemptions, demographics and other useful research and planning purposes as Rollouts are completed and once sufficiently relevant data is available.

GOAL 5: Actively address tax receivable balances

Objective 1: Collaborate with Attorney General's office to improve collections

Action Plan 1:
We will continue to utilize the Attorney General's (AG's) office in accordance with the MOA between the AG and the Department of Taxation to increase collections.

Objective 2: Utilize third party to improve collections

Action Plan 1:
We will utilize an outside collection agency which has been selected in 2016 through a procurement process to focus on larger taxpayer accounts primarily on the mainland.

GOAL 6: Foster and empower staff

Objective 1: We will develop each employee to his/her full potential.

Action Plan 1:
Department employees are our greatest assets. We will strive to develop each employee to his/her full potential. Employees will be encouraged to develop individual development plans to meet the responsibilities of their current position and to help them identify areas of growth that will help them qualify for target positions.

Action Plan 2:
We will reinforce the Department's values of respect, teamwork, communication, cooperation, trust, support, integrity, honesty, fairness, and responsibility. We will promote a culture and environment where our workforce continuously seeks to improve and realize their potential.

Action Plan 3:
We will provide training opportunities for our employees to enhance and expand their skills. We will design basic training and annual training for all specialty positions.

Action Plan 4:
We will improve communication with our employees through greater collaboration in meetings and strategic planning sessions.

DEPARTMENT OF TAXATION
STATE OF HAWAII

ANNUAL REPORT
2015–2016

DEPARTMENT OF TAXATION

VISION

"The Department of Taxation will efficiently and effectively collect the revenue for funding programs and services for the people of Hawaii."

MISSION

"Our mission is to administer the tax laws for the State of Hawaii in a consistent, fair and uniform manner."

GOALS

1. To *"Increase Voluntary Compliance*" by
   a. Increasing oversight utilizing various branches/areas of our Compliance Division
   b. Developing procedures and metrics to ensure a more efficient and timely audit process
   c. Actively engage in community outreach programs to educate public in meeting tax obligations

2. To *"Reduce Tax Fraud,"* through
   a. Utilization of screening filters and review criteria
   b. Comprehensive review of questionable refund requests

3. To *"Improve customer service to all stakeholders"* by
   a. Providing services to taxpayers whose issues/concerns cannot be resolved through normal channels
   b. Providing specialized service to the tax practitioner community

4. To *"Improve technology and efficiencies through the successful implementation of the Tax System Modernization (TSM) project during this period"*

5. "*Actively address tax receivable balances"* by
   a. Collaboration with the Attorney General's office
   b. Utilization of an outside collection agency

6. To *"Foster and empower staff" by*
   a. Developing each employee to his/her full potential
   b. Reinforcing the Department's values of respect, teamwork, communication and trust
   c. Providing training opportunities to enhance and expand their skills

DAVID Y. IGE
GOVERNOR

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December 19, 2016

The Honorable David Y. Ige
Governor, State of Hawaii
Executive Chambers, State Capitol

Dear Governor Ige:

Thank you for the opportunity to present you with the attached Annual Report summarizing the operations of the Department of Taxation (Department) for the fiscal year (FY) ending June 30, 2016. The Department collected $6.89 billion in tax revenue in FY2016, or 95% of the $7.25 billion that was collected from all taxes administered by the State. The General Excise Tax (GET) is Hawaii's largest source of revenue and accounted for 44% of the State's total tax collections in FY2016. Revenue from the GET rose to $3.21 billion in FY2016 from $3.05 billion in FY2015, an increase of 5.2%. Revenue from Hawaii's Individual Income Tax (IIT), Hawaii's second largest tax, increased to $2.12 billion in FY2016, up by 6.5% from $1.99 billion in FY2015. The IIT accounted for 29.2% of the State's total tax collections in FY2016.

During FY2016, the Department continued with the Tax System Modernization (TSM) project. The TSM project is a multi-year project with five rollout phases that will completely replace the existing system. The TSM system will expand electronic services, providing taxpayers with online access to accounts and enabling full electronic filing and payment. The project will also automate the licensing, tax clearance, and compliance processes. Additionally, TSM will provide the State with critical data capture capabilities, metrics, and cross-check controls that are not available in the existing legacy system.

During FY2016, the Department completed the initial rollout of the TSM project and initiated Rollout 2. The Department completed Rollout 2 on time as of August 15, 2016. The Department remains on schedule to complete the entire project by mid-2019.

The Department continues to encourage taxpayers to transition from paper tax returns and checks to electronic tax returns and fund transfers. Electronic filing began with 140 thousand electronically filed documents in FY2004 and increased to approximately 1.98 million in FY2016. As a percentage of all documents filed, e-filing has increased from 34% in FY2012 to 48% in FY2016. The amount of total e-payments received has continued to increase, rising from $5.0 billion in FY 2015 to over $5.3 billion in FY2016.

The Department continues to improve service to taxpayers and tax practitioners. This is important to maintaining and improving voluntary compliance. To address this objective, the Department hired a Taxpayer Advocate, a Tax Practitioner Priority Specialist, and an Administrative Appeals Officer. Rollout 1 of the TSM project also supported this goal by updating infrastructure including scanning hardware, mail processing equipment, and a digital telephone system. Our call answer rate had fallen from 80% in FY2009 to approximately 43% in FY2015. Due to the completion of Rollout 1 of TSM and also to aggressive recruitment to fill positions, our call answer rate rose to 72% in FY2016.

The Department aggressively recruited to fill vacancies in other areas as well. As a result, the vacancy rate has fallen from 20% to 14% in FY2016. Vacancies in the Compliance Division have fallen by 45% while those in the Tax Services & Processing and in the Staff Offices have fallen by 14%.

The Compliance Division increased the amount of taxes assessed significantly in FY2016. The amounts assessed grew by 68.6% from $119.0 million in FY2015 to $200.6 million in FY2016. The total number of completed audit cases went down slightly by 2.7% from 17,536 cases in FY2015 to 17,065 cases in FY2016. The amount collected from assessments decreased by 7.3% from $39.9 million in FY2015 to $37.0 million in FY2016.

At the Department of Taxation we continue to pursue our three strategic goals of increased voluntary compliance, improved processing, and enhanced productivity. We are proud and appreciative of all that our staff has accomplished during the past year. Empowered with the tools and technological enhancements as well as significant decreases in our vacancies, our Department has increased efficiency and effectiveness in our operations to ensure the collections of revenues that our State needs for the services and programs essential for maintaining the quality of life in Hawaii.

Sincerely,

/s/

MARIA E. ZIELINSKI
Director of Taxation

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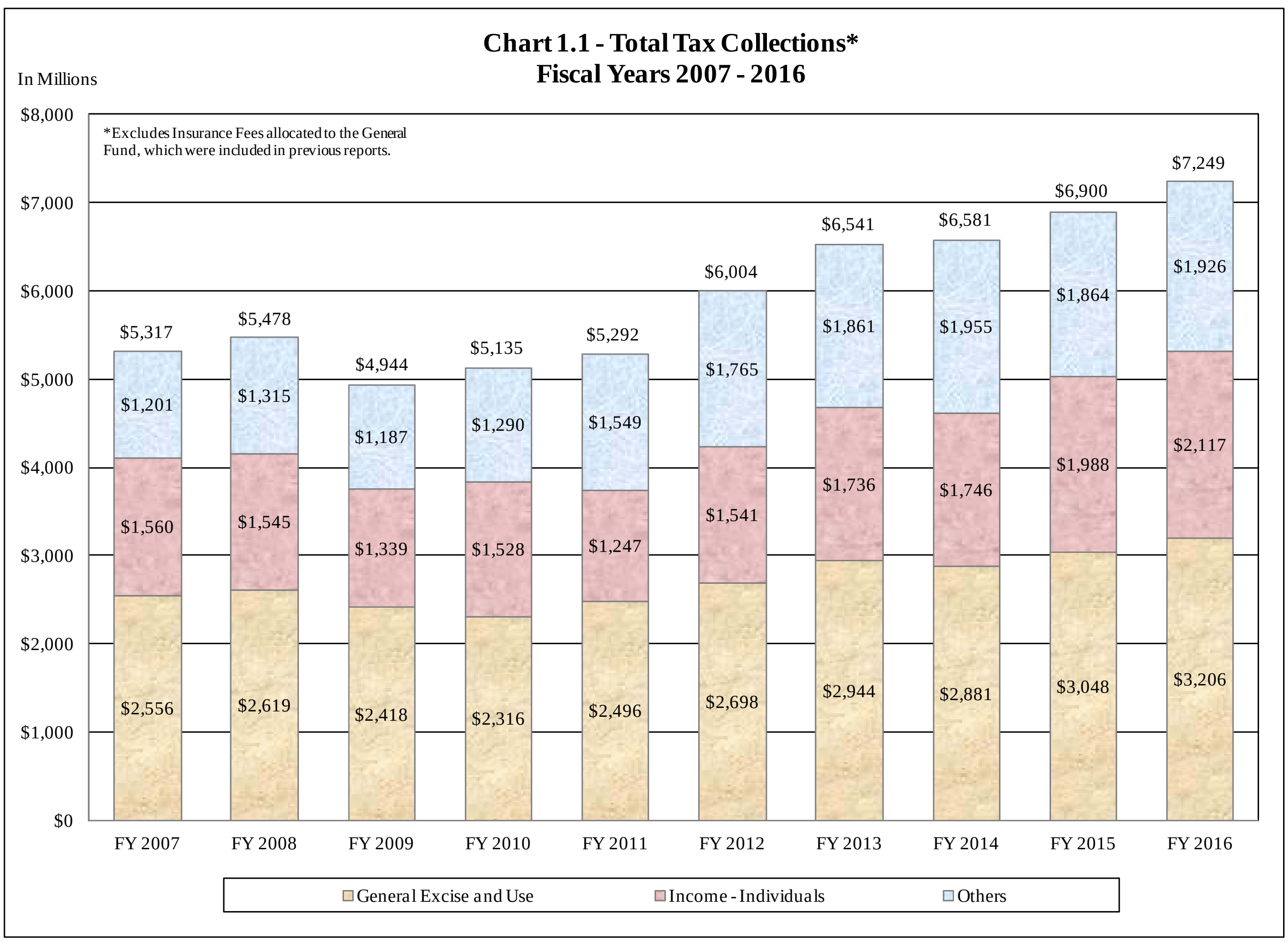
1.0 COLLECTION AND DISTRIBUTION OF TAXES

1.1 OVERVIEW

The Department of Taxation (Department) collects the revenues from most of the various taxes imposed by the State. In addition, the Department collects the county surcharge imposed by the City and County of Honolulu and fuel taxes imposed by the counties. In fiscal year (FY) 2016, the Department collected a total of $6.89 billion in net tax revenues, up from $6.54 billion collected in FY 2015.

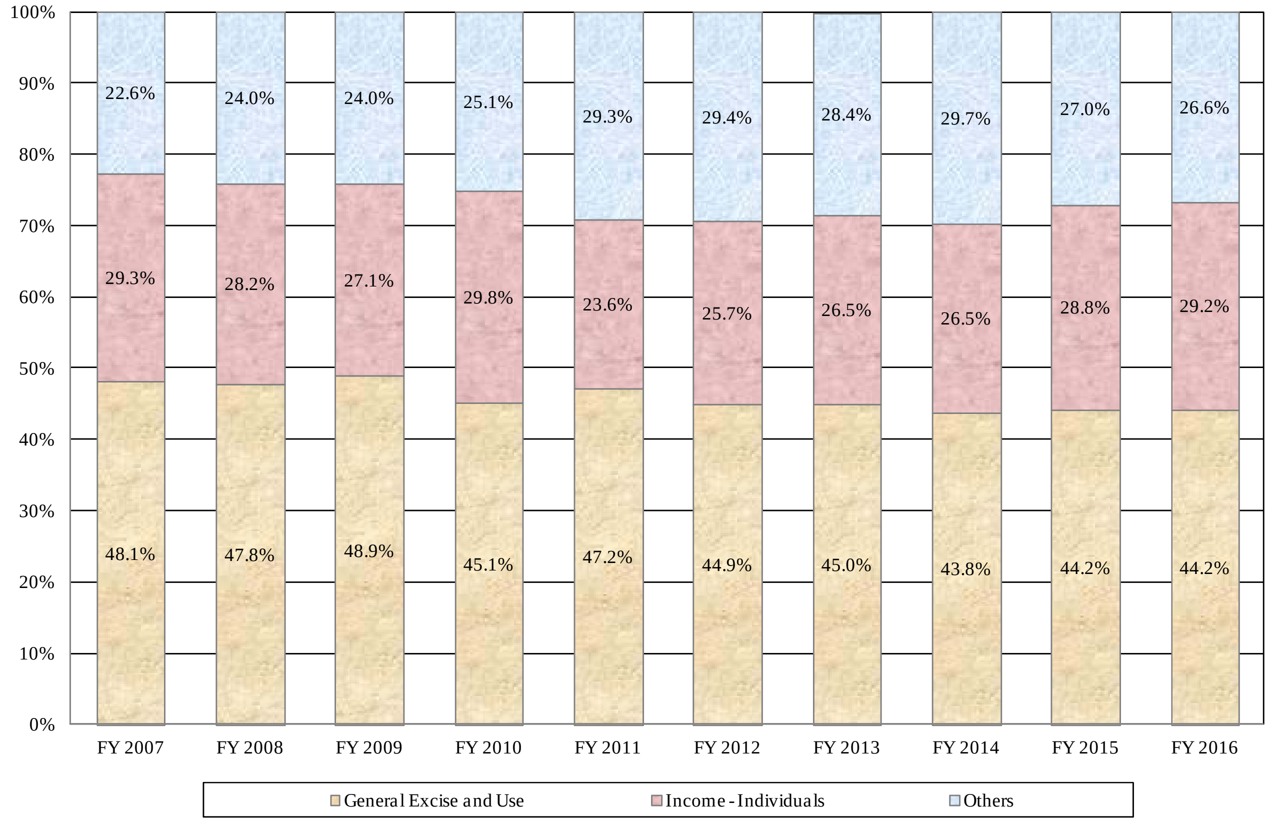
The Department's Office of Tax Research and Planning (TRP) tracks revenues from taxes collected by the Department, and also from taxes that are administered and collected by other State agencies or by the counties. Henceforth, revenues from the taxes tracked by TRP will be referred to as "total tax collections."

Total tax collections were $7.25 billion in FY 2016, up from $6.90 billion in FY 2015. In FY 2009, Hawaii experienced a decline in total tax collections as the Great Recession reduced incomes and spending of consumers and businesses. Since then, total tax collections have risen steadily due to temporary tax measures, an improving economy, and better tax administration. Chart 1.1 shows the main components of the total tax collections for FY 2007 through FY 2016.



The State's biggest sources of tax revenue are the general excise tax (GET)[1] and the individual income tax (IIT). In FY 2016, net GET collections amounted to $3.21 billion and accounted for 44.2% of total tax collections, and net collections of the IIT amounted to $2.12 billion and accounted for 29.2% of total tax collections. Chart 1.2 shows the shares of total tax collections accounted for by the GET and the IIT for FY 2007 through FY 2016.

Chart 1.2 - Tax Revenue Composition*
Fiscal Years 2007 - 2016

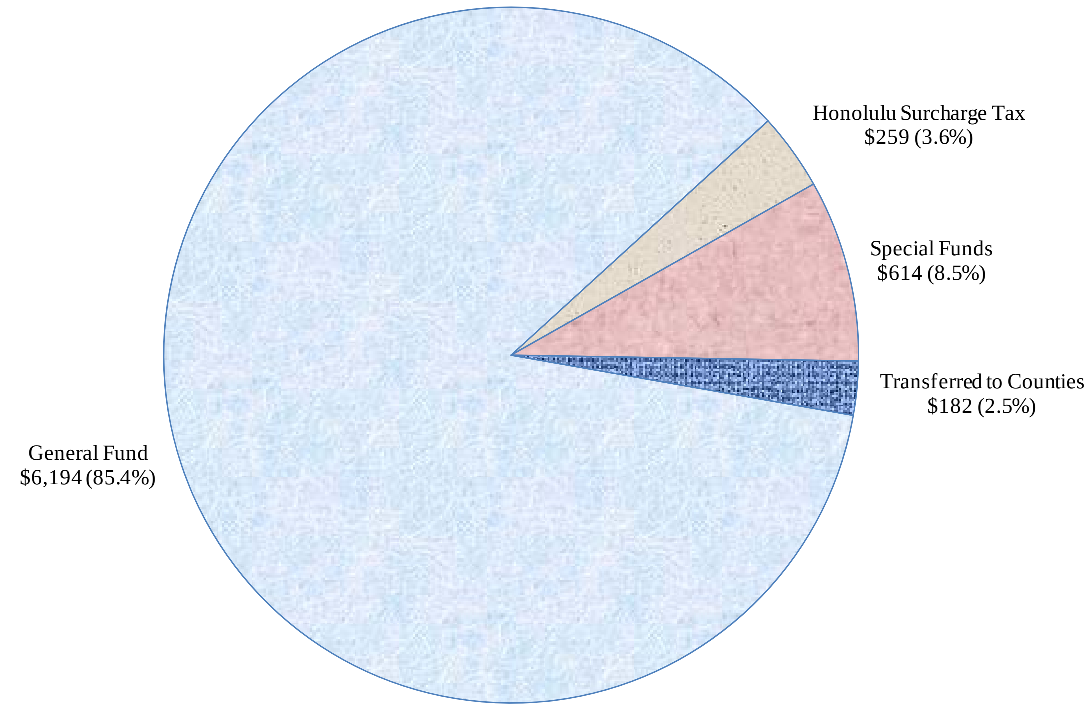


*Details may not add to totals due to rounding.

Of the total tax collections in FY 2016, $6.19 billion, or 85.4%, was deposited into the State's General Fund. The tax revenues deposited into the General Fund are used to pay most of the State's operating expenses. An additional $440.9 million, or 6.1% of the total tax collections, was transferred to the counties, including transfers of the county surcharge imposed by the City and County of Honolulu, fuel taxes imposed by the counties, and revenues from the transient accommodations tax that were allocated to the counties. The remaining $613.9 million, or 8.5%, was transferred to various other State special funds. Chart 1.3 shows how the total tax collections were distributed in FY 2016.

[1] Throughout this report, the term "GET" will be used to include both the general excise tax and the use tax. The use tax complements the general excise tax and is levied on imports into the State from an unlicensed seller.

Chart 1.3 - Fiscal Year 2016 Distribution of Tax Revenues*
(In millions of dollars)



*Details may not add to totals due to rounding.

1.2 GENERAL EXCISE AND USE TAXES

1.2.1 Overview

Unlike the sales taxes imposed by many States and localities, Hawaii's general excise and use taxes (GET) are imposed on the business rather than on the customer. The GET covers virtually all forms of business activity, including services. Despite the relatively low tax rates, the GET generates substantial revenue because the tax base is very broad.

The GET is imposed at the rate of 0.50% on wholesaling, wholesale services, producing, sugar processing and pineapple canning; at the rate of 0.15% on insurance commissions received by general agents, subagents and solicitors; and at the rate of 4.00% on most other activities, including retailing, business and professional services, contracting, theatre, amusement, radio, interest, commissions, and rentals. The fee for a GET license is a one-time charge of $20.

1.2.2 Revenue

Revenue from the GET rose from \$3.05 billion in FY 2015 to \$3.21 billion in FY 2016, a rise of 5.2%. Chart 1.4 shows the total revenues from the GET and from the tax levied on the various categories of income for FY 2007 through FY 2016. Table 1.1 shows collection of the GET in greater detail for FY 2015 and FY 2016.

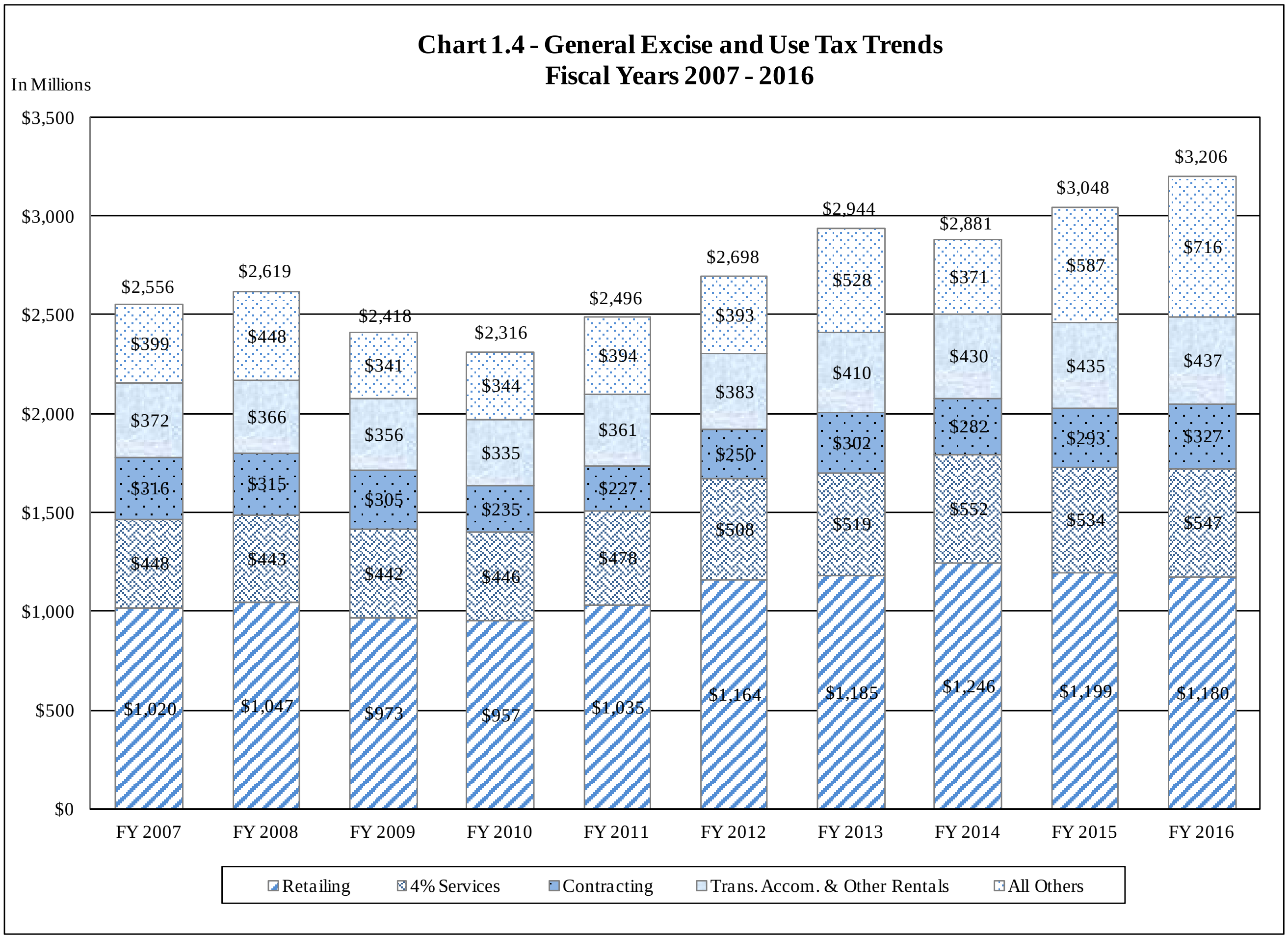


TABLE 1.1 - GENERAL EXCISE AND USE TAX BASE AND TAXES
FOR FISCAL YEARS ENDING JUNE 30, 2016 AND 2015
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	FY 2016	FY 2015	Difference Amount	Difference % Change
TAX BASE					
Retailing		$ 29,497,784	$ 29,987,212	$ (489,429)	(1.6)
Services		13,667,109	13,361,061	306,048	2.3
Contracting		8,184,839	7,321,841	862,998	11.8
Trans. Accom. Rentals		4,441,787	4,327,505	114,282	2.6
All Other Rentals		6,474,425	6,543,583	(69,157)	(1.1)
All Others (4%)		5,406,921	5,486,818	(79,898)	(1.5)
Subtotal		$ 67,672,864	$ 67,028,020	$ 644,844	1.0
Producing		$ 294,609	$ 320,986	$ (26,378)	(8.2)
Manufacturing		733,992	716,115	17,876	2.5
Wholesaling		13,864,351	14,294,275	(429,924)	(3.0)
Use (1/2%)		7,354,311	7,126,839	227,472	3.2
Wholesale Services		707,822	715,538	(7,715)	(1.1)
Insurance Commissions		485,363	488,848	(3,485)	(0.7)
Subtotal		$ 23,440,448	$ 23,662,601	$ (222,153)	(0.9)
TOTAL - ALL ACTIVITIES		$ 91,113,312	$ 90,690,621	$ 422,691	0.5
TAX					
Retailing	4.00%	$ 1,179,911	$ 1,199,488	$ (19,577)	(1.6)
Services	4.00%	546,684	534,442	12,242	2.3
Contracting	4.00%	327,394	292,874	34,520	11.8
Trans. Accom. Rentals	4.00%	177,671	173,100	4,571	2.6
All Other Rentals	4.00%	258,977	261,743	(2,766)	(1.1)
All Others (4%)	4.00%	216,277	219,473	(3,196)	(1.5)
Subtotal		$ 2,706,915	$ 2,681,121	$ 25,794	1.0
Producing	0.50%	$ 1,473	$ 1,605	$ (132)	(8.2)
Manfacturing	0.50%	3,670	3,581	89	2.5
Wholesaling	0.50%	69,322	71,471	(2,150)	(3.0)
Use (1/2%)	0.50%	36,772	35,634	1,137	3.2
Wholesale Services	0.50%	3,539	3,578	(39)	(1.1)
Insurance Commissions	0.15%	728	733	(5)	(0.7)
Subtotal		$ 115,503	$ 116,602	$ (1,099)	(0.9)
Unallocated*		$ 383,736	$ 250,484	$ 133,252	53.2
TOTAL - ALL ACTIVITIES		$ 3,206,154	$ 3,048,207	$ 157,947	5.2

*Includes collections from penalty and interest, assessments and corrections, delinquent collections, refunds, protested payments, settlements and business activities of disabled persons.

NOTE: Details may not add to totals due to rounding.

1.2.3 Recent Legislation

Act 160, Session Laws of Hawaii (SLH) 2013, eliminated the GET exemption for liquor, tobacco and food sold to common carriers for taxable years beginning after December 31, 2013.

Act 163, SLH 2013, made permanent the GET exemptions for common expenses paid by managers, sub-managers, and sub-operators and for hotel employee expenses paid by hotel operators and timeshare projects. The Act also eliminated the aggregate cap on the exempt amounts for taxable years beginning after December 31, 2012.

1.3 INDIVIDUAL INCOME TAX

1.3.1 Overview

Hawaii's individual income tax (IIT) generally follows the federal definitions for determining net taxable income, but has its own exemptions, tax credits, and tax rates. In FY 2016, IIT had twelve brackets, with tax rates ranging from 1.40% to 11.00%, from July 1, 2015 through December 31, 2015; and nine brackets, with tax rates ranging from 1.40% to 8.25%, from January 1, 2016 through June 30, 2016.

1.3.2 Revenue

The IIT is the State's second largest source of tax revenue. The biggest part of IIT collections is taxes withheld on employee wages. In FY 2016, withholding tax collections were $1.81 billion, an increase of 4.7% over the $1.73 billion withheld in FY 2015. Total IIT refunds in FY 2016 were $450.7 million, up from $419.9 million in FY 2015. Net IIT collections in FY 2016 were $2.12 billion, up by 6.5% over the $1.99 billion collected in FY 2015. Chart 1.5 shows total collections of the IIT, along with wage withholding, payments with returns, estimated taxes, and refunds, for FY 2007 through FY 2016. Table 1.2 shows the figures for total collections of the IIT, broken down by its components, in FY 2015 and FY 2016.

1.3.3 Recent Legislation

Act 60, SLH 2009 (Act 60), raised the tax rates for single individuals with taxable incomes over $150,000 and for married couples filing jointly with income over $300,000, by adding new high-end tax brackets with marginal tax rates that range from 9.00% to 11.00%. Before Act 60, the highest income tax rate was 8.25%. The tax rate increases imposed by Act 60 are effective for taxable years beginning after December 31, 2008 and ending before January 1, 2016.

Act 97, SLH 2011 (Act 97), eliminated the deduction for state income taxes paid for individuals with federal adjusted gross income above specified thresholds, and temporarily limited claims for itemized tax deductions. The Act is effective for taxable years beginning after December 31, 2010, but the limits imposed on itemized deductions expire December 31, 2015. The Act 97 also delayed the increases in the standard deduction and personal exemption that were approved under Act 60 until taxable years beginning after December 31, 2012, and made the increases permanent.

Act 256, SLH 2013 (Act 256), removed charitable deductions from the limits on itemized deductions that were imposed by Act 97. Act 256 is effective for taxable years beginning after December 31, 2012.

Act 120, SLH 2015, provided a tax credit for converting cesspools to a septic system, or for connecting to a wastewater system, from July 1, 2015 to December 31, 2020.

Act 223, SLH 2015, increased the food/excise tax credit, but eliminated the tax credit for single taxpayers with federal adjusted gross income (AGI) of $30,000 or more, or other taxpayers with federal AGI of $50,000 or more. The Act applies to tax years 2016 and 2017, and is repealed on December 31, 2017.

Act 230, SLH 2016 (Act 230), allows taxpayers engaged in medical marijuana businesses to deduct business expenses and claim tax credits on their income taxes. Act 230 is effective for taxable years beginning after December 31, 2015.

Act 235, SLH 2016 (Act 235), amends the income tax credit for dependent care expenses by increasing the amount that certain taxpayers may claim for the dependent care expenses. Act 235 is effective for taxable years beginning after December 31, 2015.

Act 258, SLH 2016, provides a new tax credit for organic food production. The tax credit applies to taxable years beginning after December 31, 2016 and is repealed December 31, 2021.

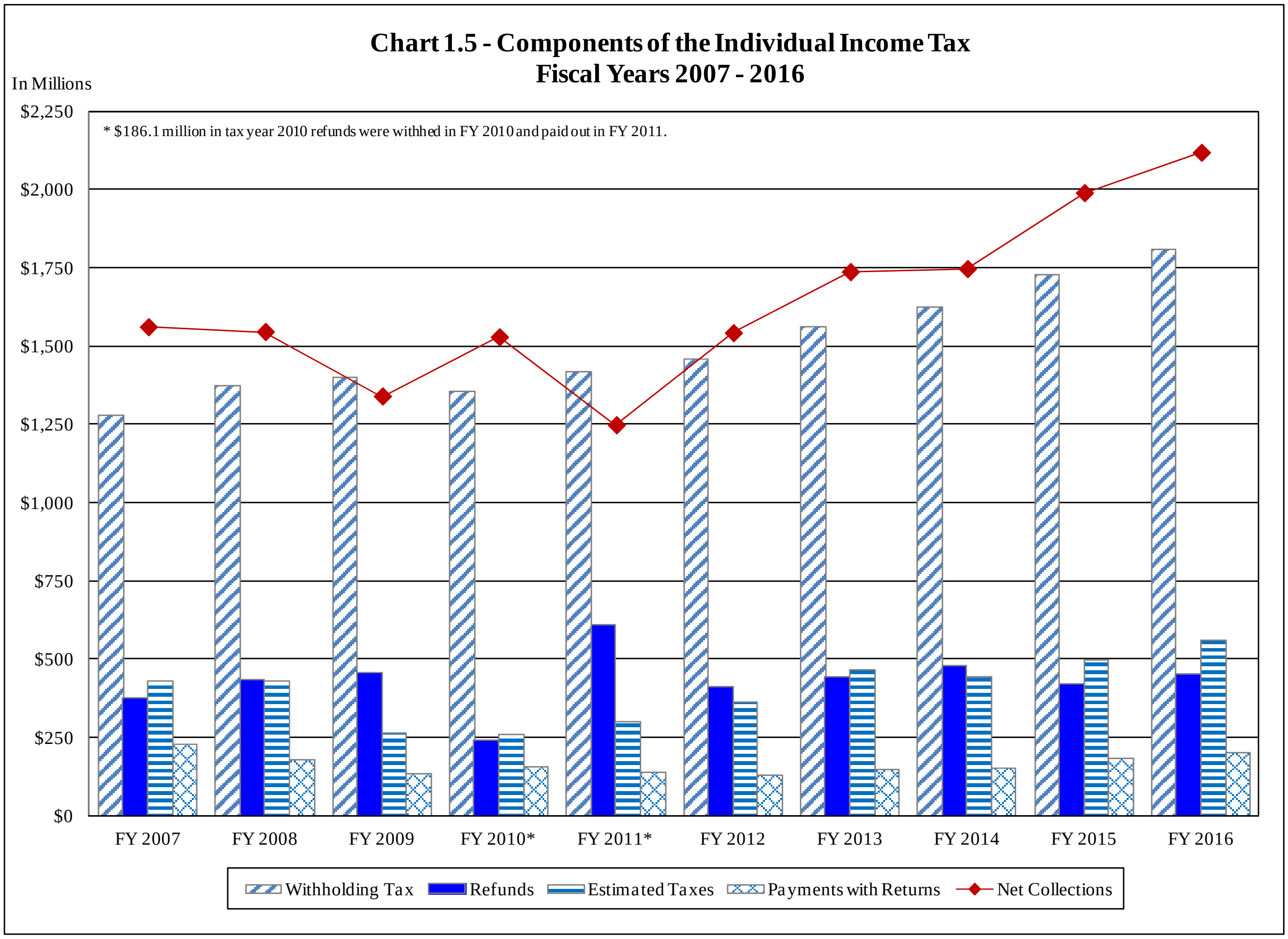


TABLE 1.2 - TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

	FY 2016	FY 2015	Difference Amount	Difference % Change
Declaration of Estimated Taxes	$ 558,669	$ 498,418	$ 60,251	12.1
Payment with Return	199,026	181,142	17,884	9.9
Withholding Tax on Wages	1,809,855	1,728,510	81,344	4.7
Subtotal	$2,567,549	$2,408,071	$159,479	6.6
Refunds	450,690	419,876	30,814	7.3
NET	$2,116,859	$1,988,194	$128,665	6.5

NOTE: Due to rounding, details may not add to totals.

1.4 CORPORATE INCOME TAX

1.4.1 Overview

Hawaii's corporate income tax (CIT) has three tax brackets. The brackets and the corresponding tax rates are as follows: 4.4% on taxable income up to $25,000; 5.4% on taxable income over $25,000 but not over $100,000; and 6.4% on taxable income over $100,000. The tax rate for corporate capital gains is 4.0%.

1.4.2 Revenue

Net CIT collections totaled $93.0 million in FY 2016, an increase of 77.8% from the previous year's total of $52.3 million. CIT collections are highly cyclical, but they are a relatively small part of Hawaii's total tax collections. In FY 2016, the CIT accounted for just 1.3% of total tax collections. Chart 1.6 shows total collections of the CIT, broken down by its components, for FY 2007 through FY 2016. Table 1.3 shows data on collections of the CIT for FY 2015 and FY 2016.

Chart 1.6 - Components of the Corporate Income Tax
Fiscal Years 2007 - 2016

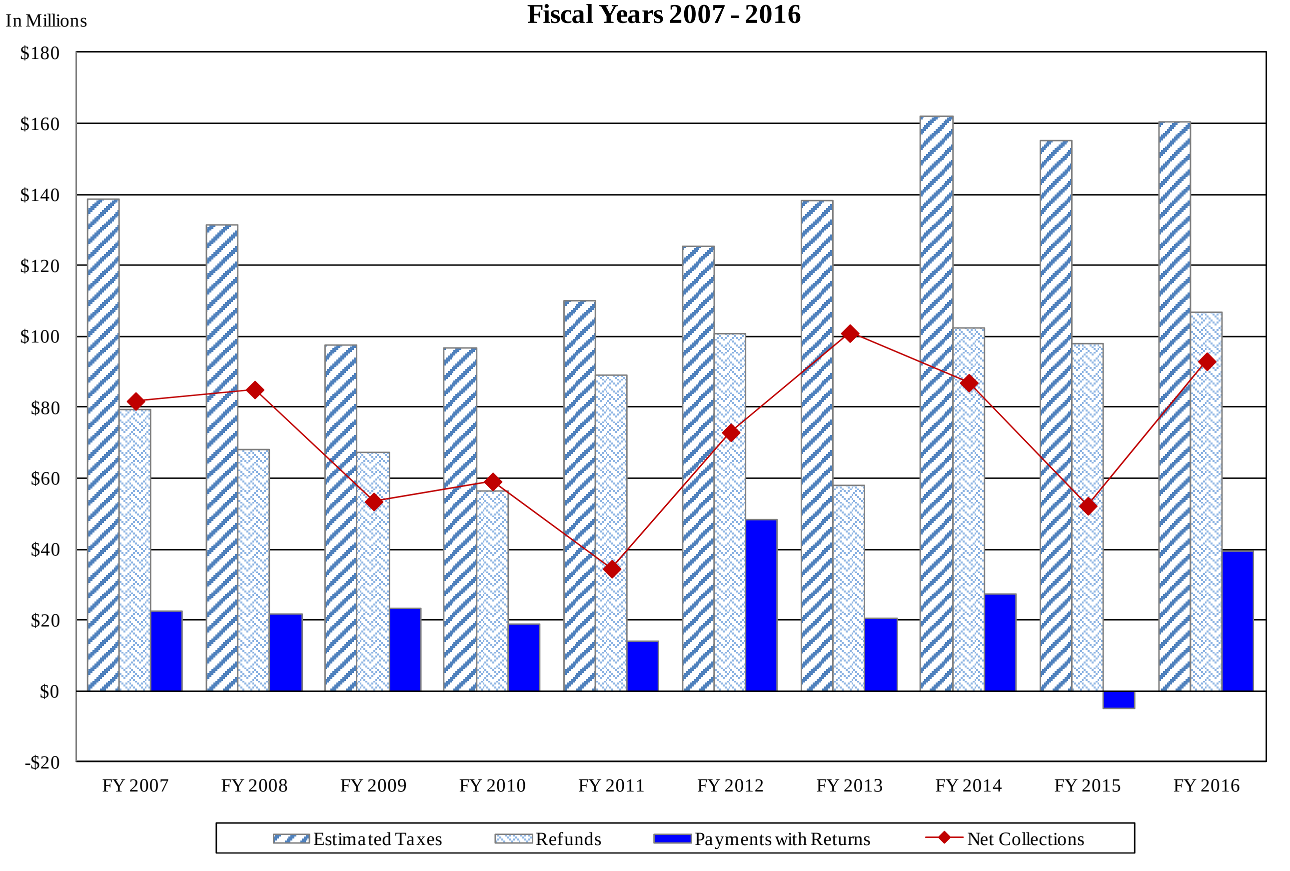


TABLE 1.3 - TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

	FY 2016	FY 2015	Difference Amount	Difference % Change
Declaration of Estimated Taxes	$ 160,563	$ 155,279	$ 5,284	3.4
Payment with Return*	39,459	(5,016)	44,474	n/m
Subtotal	$ 200,022	$ 150,263	$ 49,759	33.1
Refunds	106,986	97,944	9,042	9.2
NET	$ 93,036	$ 52,319	$ 40,717	77.8

NOTE: Due to rounding, details may not add to totals.
*The negative amount is due to tax refunds, which exceeds tax collections.
n/m = not meaningful.

1.5 TRANSIENT ACCOMMODATIONS TAX

1.5.1 Overview

The transient accommodations tax (TAT) is levied on the furnishing of a room, apartment, suite, or the like, which is customarily occupied by the transient for less than 180 consecutive days. The rate for the TAT has been 9.25% since July 1, 2010. The registration fee for transient accommodations operators is a one-time fee of $5 for each registration consisting of 1 to 5 units and $15 for each registration of 6 or more units. In FY 2016, plan managers of time share units paid TAT at the rate of 7.25% on the fair market rental value of the units from July 1, 2015 through December 31, 2015 and at the rate of 8.25% from January 1, 2016 through June 30, 2016.

1.5.2 Revenue

TAT collections totaled $446.8 million for FY 2016, an increase of 6.1% from the $421.0 million collected in FY 2015. In FY 2016, collections from the TAT were distributed as follows: $103.0 million went to the counties; $26.5 million went to the Convention Center Enterprise Special Fund; $82.0 million went to the Tourism Special Fund; $1.5 million went to the Turtle Bay Easement Special Fund; and the remainder ($233.8 million) went to the General Fund. Chart 1.7 shows collections of the TAT for FY 2007 through FY 2016. Chart 1.8 shows the allocations of the tax among the various funds. Table 1.4 shows TAT collections and allocations in FY 2015 and FY 2016.

1.5.3 Recent Legislation

Act 161, SLH 2013 (Act 161), made permanent the TAT rate of 9.25% and made permanent the caps on allocations of the TAT for each fiscal year as follows: $82.0 million to the Tourism Special Fund, $93.0 million to the counties, and $33.0 million to the Convention Center Enterprise Special Fund. The Act also eliminated the $10 daily TAT on each transient accommodation furnished on a complimentary basis that was imposed by Act 103, SLH 2011. Act 161 took effect July 1, 2013.

Act 81, SLH 2014, reduced allocations of the TAT to the Convention Center Enterprise Special Fund from $33.0 million to $26.5 million annually and allocated $3.0 million to the Turtle Bay Easement Special Fund. However, the new allocations mandated by the Act were not made in FY 2015, owing to the pending status of the Turtle Bay purchase.

Act 174, SLH 2014, increased allocations of the TAT to the counties from $93.0 million to $103.0 million per year for fiscal years 2015 and 2016.

Act 93, SLH 2015, raised the tax on resort time share vacation units from 7.25% to 8.25% in calendar year (CY) 2016, and to 9.25% in CY 2017 and thereafter.

Act 117, SLH 2015, allocates $3.0 million of the TAT annually to the Special Land Development Fund, starting in FY 2017.

Act 121, SLH 2015, allocates $1.5 million of the TAT to the Turtle Bay Easement Special Fund, replacing the $3.0 million annual allocation made by Act 81, SLH 2014.

Act 223, SLH 2016, extends the TAT allocation of $103.0 million to the counties to FY 2017.

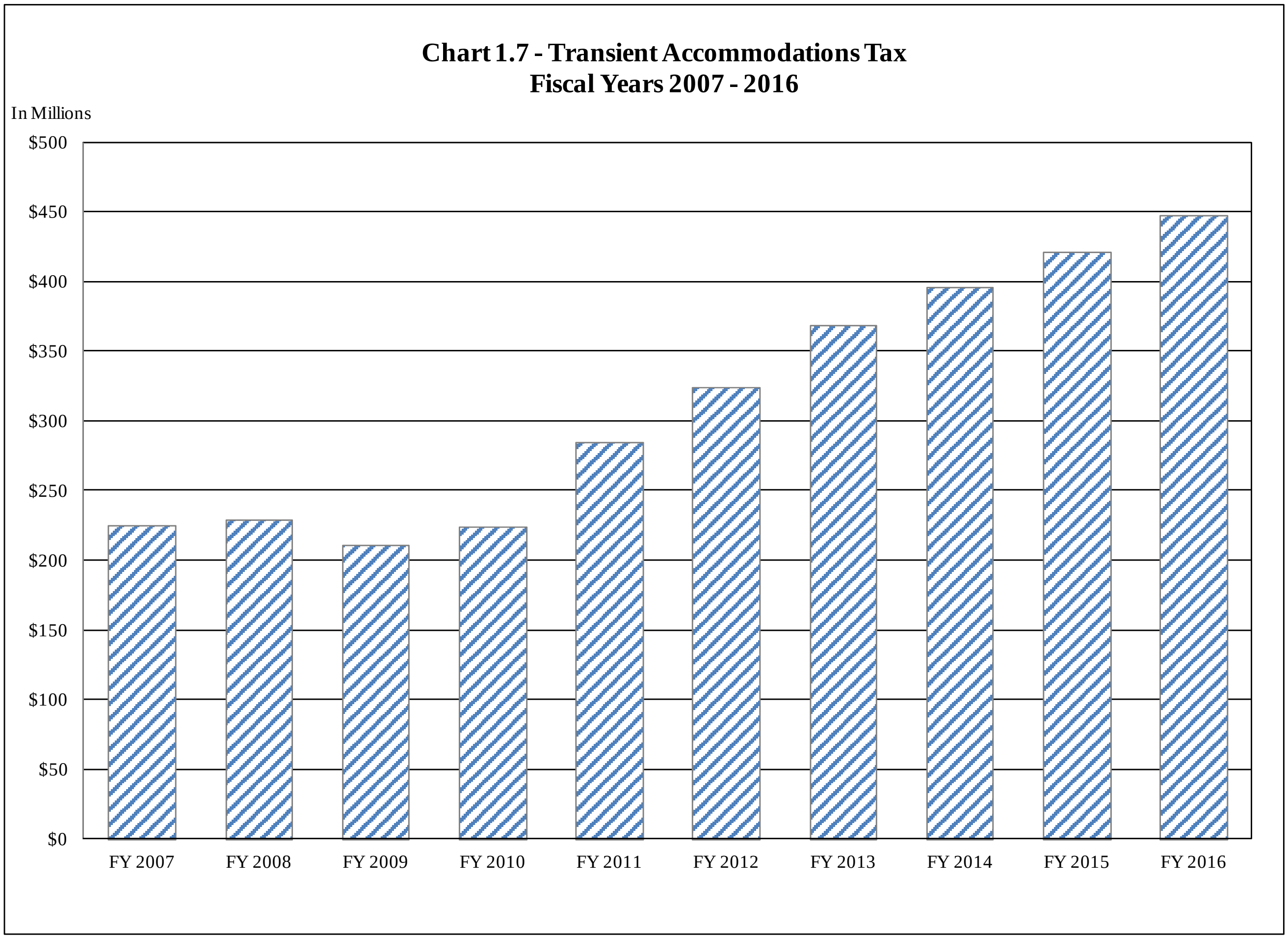


Chart 1.7 - Transient Accommodations Tax
Fiscal Years 2007 - 2016
In Millions
$500
$450
$400
$350
$300
$250
$200
$150
$100
$50
$0
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016

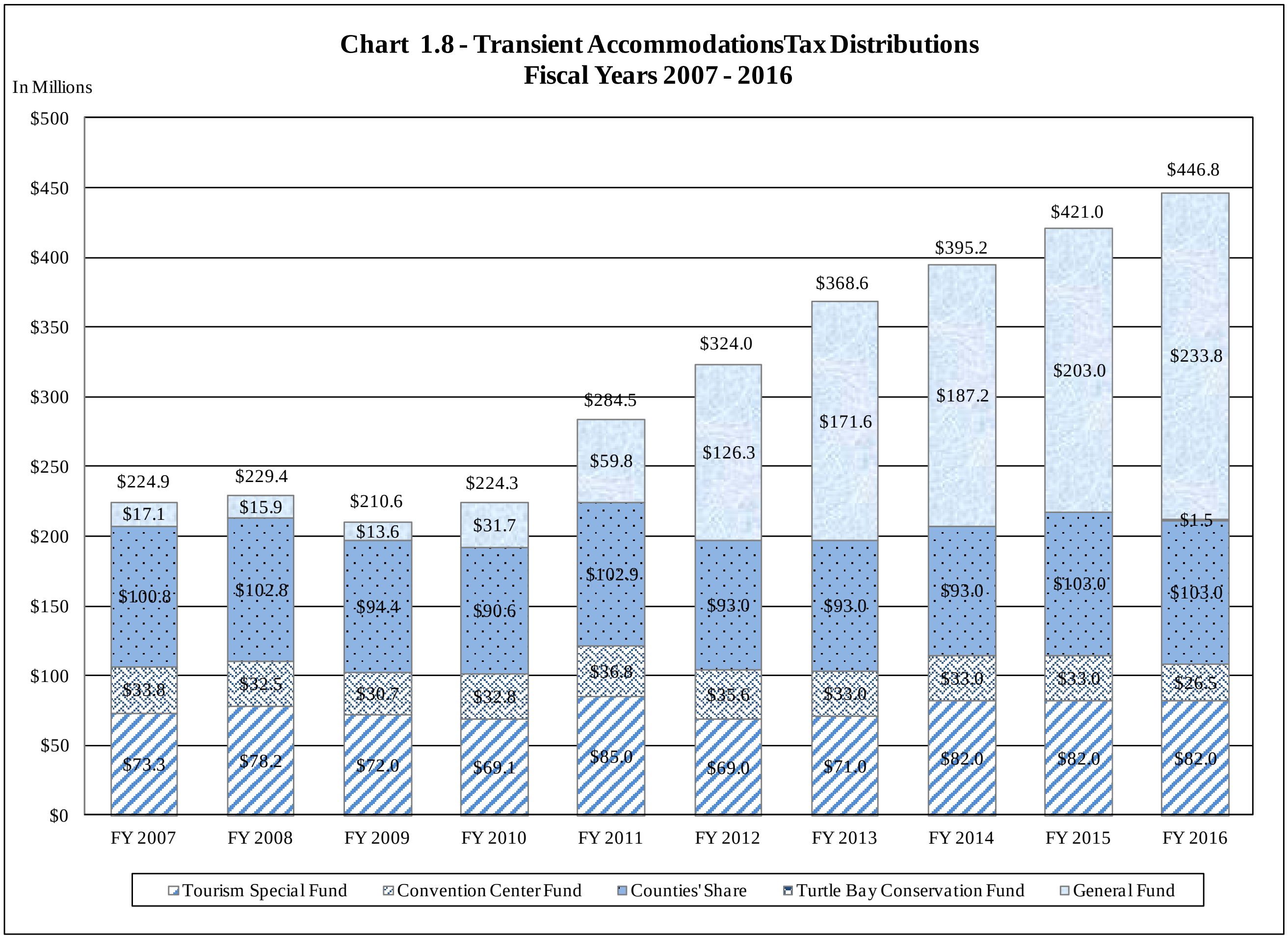


Chart 1.8 - Transient Accommodations Tax Distributions
Fiscal Years 2007 - 2016
In Millions
$500
$450
$400
$350
$300
$250
$200
$150
$100
$50
$0
$224.9
$17.1
$100.8
$33.8
$73.3
$229.4
$15.9
$102.8
$32.5
$78.2
$210.6
$13.6
$94.4
$30.7
$72.0
$224.3
$31.7
$90.6
$32.8
$69.1
$284.5
$59.8
$102.9
$36.8
$85.0
$324.0
$126.3
$93.0
$35.6
$69.0
$368.6
$171.6
$93.0
$33.0
$71.0
$395.2
$187.2
$93.0
$33.0
$82.0
$421.0
$203.0
$103.0
$33.0
$82.0
$446.8
$233.8
$1.5
$103.0
$26.5
$82.0
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
Tourism Special Fund
Convention Center Fund
Counties' Share
Turtle Bay Conservation Fund
General Fund

TABLE 1.4 - TRANSIENT ACCOMMODATIONS TAX
(In Thousands of Dollars)

	FY 2016	FY 2015	Difference Amount	Difference % Change
Collection				
Trans. Accom./Time Share Occ. Tax	$ 446,781	$ 420,970	$ 25,811	6.1
Trans. Accom./Time Share Occ. Fees	13	12	1	12.1
Total	$ 446,794	$ 420,981	$ 25,812	6.1
Distribution*				
Counties Share	$ 103,000	$ 103,000	$ -	0.0
Convention Center Fund	26,500	33,000	(6,500)	(19.7)
Tourism Special Fund	82,000	82,000	-	0.0
Turtle Bay Special Fund	1,500	-	1,500	n/m
General Fund	233,794	202,981	30,812	15.2
Total	$ 446,794	$ 420,981	$ 25,812	6.1

*For details on distribution see section 237D-6.5, HRS.
NOTE: Due to rounding, details may not add to totals.
n/m = not meaningful.

1.6 FUEL TAXES

1.6.1 Overview

The State and county fuel taxes are imposed on the distributors. The State Legislature sets the State fuel tax rates, whereas county councils set the county rates. There is also an environmental response tax (officially renamed as the "environmental response, energy and food security tax" by Act 73, SLH 2010) that is levied on each barrel of petroleum products and each million British thermal units (MMBtu) of non-petroleum fossil fuels sold by a distributor to any retail dealer or end user. The effective rates for the fuel taxes and for the environmental response tax are shown on page 16.

1.6.2 Revenue

Fuel tax collections (including the environmental response tax) amounted to $198.1 million in FY 2016, an increase of 2.6% from the $193.1 million collected in FY 2015. Total taxable fuel consumption declined from 887.1 million gallons in FY 2015 to 882.0 million gallons in FY 2016. The biggest consumption of taxable fuel was gasoline (467.6 million gallons) and the second biggest consumption was aviation fuel (176.4 million gallons). Together, gasoline and aviation fuel accounted for 73.0% of the total consumption of taxable fuel in FY 2016.

Collections of the environmental response tax amounted to $27.0 million in FY 2016, an increase of 3.8% from the $26.0 million collected in FY 2015. The environmental response tax rate on each barrel of petroleum product was $1.05. The tax was levied on 24.8 million barrels of petroleum in FY 2016, up slightly from 24.7 million barrels in FY 2015. The environmental response tax rate on each MMBtu of non-petroleum fossil fuels was nineteen cents. The tax was levied on 4.8 million MMBtu of non-petroleum fossil fuels in FY 2016. Chart 1.9 shows collections of the fuel taxes and the gallons consumed of the various fuel types, for FY 2007 through FY 2016. Data for taxable gallons consumed for FY 2015 and FY 2016 are given in Table 1.5.

The revenues from fuel taxes are distributed to several special funds. One percent of the fuel taxes paid on liquid fuel, not including aviation fuel, are deposited into the Boating Special Fund. Fuel taxes paid on sales of aviation fuel are deposited into the Airport Revenue Fund. Remaining revenues from the State fuel taxes are deposited into the State Highway Fund, whereas remaining revenues from county fuel taxes are deposited into the counties' highway funds.

Revenues from the environmental response tax were distributed as follows in FY 2016: For each barrel taxed at $1.05, five cents went to the Environmental Response Revolving Fund administered by the Department of Health for oil spill prevention and remediation programs; fifteen cents went to the Energy Security Special Fund administered by the Department of Business, Economic Development, and Tourism to support the Hawaii clean energy initiative program; fifteen cents went to the Agricultural Development & Food Security Special Fund administered by the Department of Agriculture to fund activities intended to increase agricultural production or processing that may lead to reduced importation of food, fodder, or feed from outside the state; ten cents went to the Energy Systems Development Special Fund, and the remainder (sixty cents) went to the General Fund. For each MMBtu taxed at nineteen cents, one cent went to the Environmental Response Revolving Fund; three cents went to the Energy Security Special Fund; three cents went to the Agricultural Development & Food Security Special Fund; two cents went to the Energy Systems Development Special Fund, and the remainder (ten cents) went to the General Fund.

Table 1.6 shows how the fuel taxes and the environmental response tax were allocated in FY 2015 and FY 2016. The table also shows allocations of the motor vehicle taxes and fees to the State Highway Fund.

1.6.3 Recent Legislation

Act 107, SLH 2014, reestablished the Energy Systems Development Special Fund and extended the $1.05 per barrel rate for the environmental response tax through fiscal year 2030. (The tax rate was scheduled to go back to $0.05 per barrel at the end of fiscal year 2015.)

Act 185, SLH 2015, applies the environmental response tax to non-petroleum fossil fuels at nineteen cents per million British thermal units effective July 1, 2015, and removes the sunsets to various funds related to the tax.

SCHEDULE OF FUEL TAX RATES PER GALLON [4]
(Effective January 1, 2016)

TYPE OF FUEL	STATE TAX	COUNTY TAX	TOTAL TAX
GASOLINE AND DIESEL OIL (HIGHWAY):			
City & County of Honolulu	16.0 ¢	16.5 ¢	32.5 ¢
County of Maui	16.0	18.0	34.0
County of Hawaii	16.0	8.8	24.8
County of Kauai	16.0	17.0	33.0
LIQUEFIED PETROLEUM GAS (HIGHWAY):			
City & County of Honolulu	5.2 ¢	5.4 ¢	10.6 ¢
County of Maui	5.2	4.7	9.9
County of Hawaii	5.2	2.9	8.1
County of Kauai	5.2	5.6	10.8
ETHANOL (HIGHWAY):			
City & County of Honolulu	2.4 ¢	2.4 ¢	4.8 ¢
County of Maui	2.4	4.2	6.6
County of Hawaii	2.4	1.3	3.7
County of Kauai	2.4	2.5	4.9
METHANOL (HIGHWAY):			
City & County of Honolulu	1.9 ¢	1.8 ¢	3.7 ¢
County of Maui	1.9	3.2	5.1
County of Hawaii	1.9	1.0	2.9
County of Kauai	1.9	1.9	3.8
BIODIESEL (HIGHWAY):			
City & County of Honolulu	4.0 ¢	8.3 ¢	12.3 ¢
County of Maui	4.0	9.0	13.0
County of Hawaii	4.0	0.0	4.0
County of Kauai	4.0	0.0	4.0
NAPHTHA [3] (Power-Generating Facility)	2.0 ¢	0.0 ¢	2.0 ¢
COMPRESSED NATURAL GAS (HIGHWAY):			
City & County of Honolulu	4.0 ¢	8.2 ¢	12.2 ¢
County of Maui	4.0	8.9	12.9
County of Hawaii	4.0	4.4	8.4
County of Kauai	4.0	8.4	12.4
LIQUEFIED NATURAL GAS (HIGHWAY):			
City & County of Honolulu	4.0 ¢	8.2 ¢	12.2 ¢
County of Maui	4.0	8.9	12.9
County of Hawaii	4.0	4.4	8.4
County of Kauai	4.0	8.4	12.4
ENVIRONMENTAL RESPONSE, ENERGY, & FOOD SECURITY TAX			
All Counties, per barrel of petroleum products [1]	105.0 ¢	0.0 ¢	105.0 ¢
All Counties, per million BTU of fossil fuels [2]	19.0	0.0	19.0

[1] Does not include aviation fuel.

[2] Does not include petroleum products. BTU = British thermal unit.

[3] Effective retroactive to January 1, 2016, pursuant to Act 76, SLH 2016.

[4] Gasoline used for agricultural equipment off highways, aviation fuel, and diesel oil used off highways are taxed by the State at 1 cent per gallon.

Chart 1.9 - Fuel Tax and Trends in Fuel Consumption
Fiscal Years 2007 - 2016

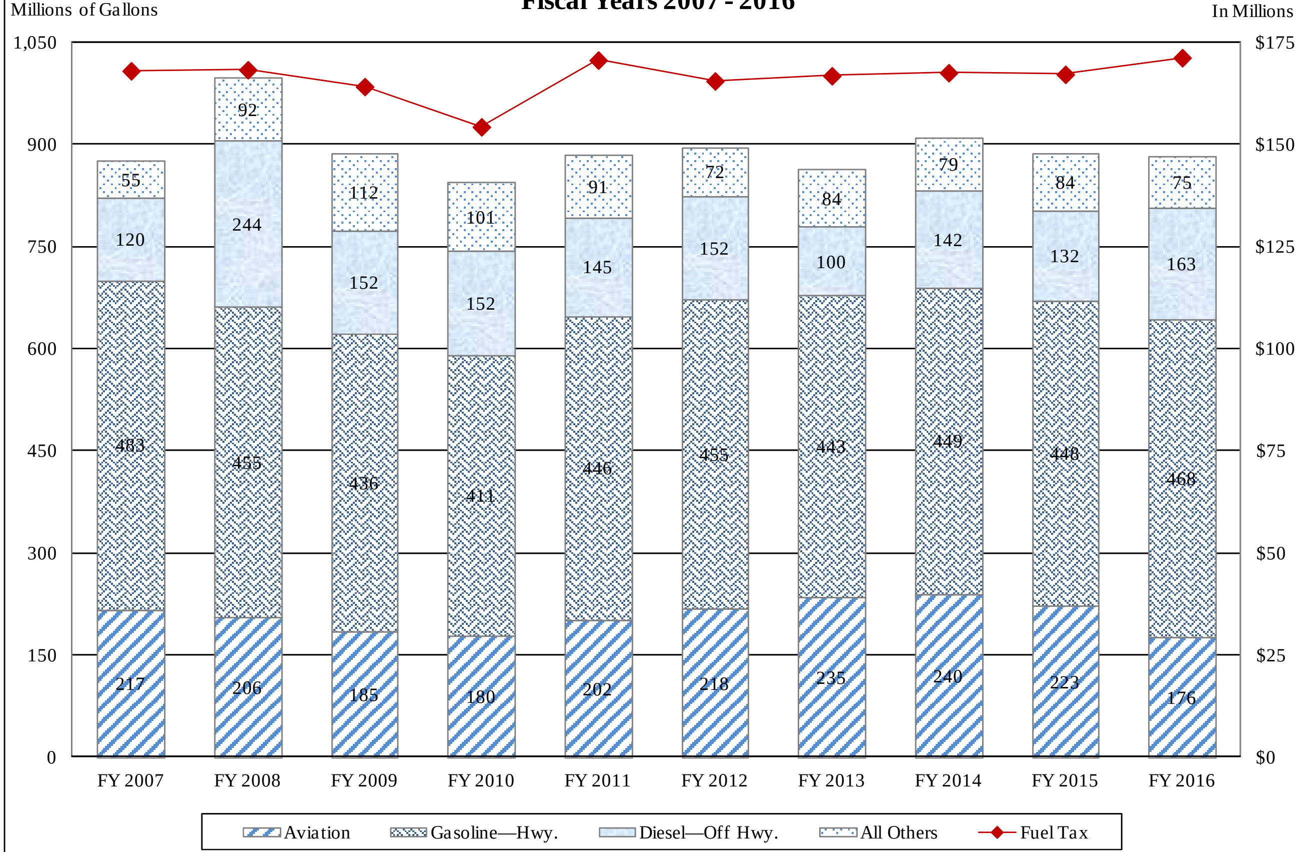


TABLE 1.5 - TAXABLE GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

	FY 2016	FY 2015	Difference Amount	Difference % Change
Gasoline	467,645	448,148	19,497	4.4
Diesel Oil - Off Highway	162,813	132,142	30,671	23.2
Diesel Oil - Highway	48,013	46,601	1,412	3.0
Liq. Pet. Gas - Highway	14	17	(3)	(15.4)
Small Boats - Gasoline	1,369	1,541	(172)	(11.2)
Small Boats - Diesel Oil	2,591	3,005	(415)	(13.8)
Aviation Fuel	176,390	222,666	(46,276)	(20.8)
Other Fuel [1]	23,173	32,977	(9,804)	(29.7)
Total Gallons	882,008	887,097	(5,089)	(0.6)
Environmental Tax				
Petroleum Products (Barrel) [2]	24,792,278	24,721,301	70,977	0.3
Fossil Fuels (MMBtu) [3]	4,835,187	-	4,835,187	n/m

[1] Other fuel includes ethanol, methanol, biodiesel, naphtha, compressed natural gas, and liquefied natural gas.

[2] Barrel = 42 U.S. gallons of petroleum products.

[3] MMBtu = 1 million British thermal units.

NOTE: Due to rounding, details may not add to totals.

n/m = not meaningful.

TABLE 1.6 - ALLOCATION OF FUEL TAXES [1]
(In Thousands of Dollars)

	FY 2016	FY 2015	Difference Amount	Difference % Change
STATE HIGHWAY FUND				
Gasoline	$ 76,915	$ 75,584	$ 1,331	1.8
Diesel Oil - Off Highway	2,678	$ 2,676	3	0.1
Diesel Oil - Highway	7,883	$ 7,843	41	0.5
Liq. Pet. Gas - Highway	1	$ 1	(0)	(15.4)
Other Fuel [2]	540	$ 718	(178)	(24.8)
Subtotal	$ 88,018	$ 86,822	$ 1,196	1.4
Motor Vehicle	132,831	$ 128,814	4,016	3.1
Rental Vehicle	54,872	$ 51,940	2,933	5.6
TOTAL	$ 275,721	$ 267,576	$ 8,145	3.0
COUNTY HIGHWAY FUNDS				
City & County of Honolulu	$ 52,765	$ 50,503	$ 2,261	4.5
County of Maui	12,522	10,900	1,622	14.9
County of Hawaii	7,931	7,650	281	3.7
County of Kauai	5,459	5,169	290	5.6
TOTAL	$ 78,677	$ 74,223	$ 4,454	6.0
BOATING SPECIAL FUND	$ 1,684	$ 1,627	$ 57	3.5
STATE AIRPORT FUND				
Aviation Fuel	$ 2,807	$ 4,453	$ (1,646)	(37.0)
ENVIRONMENTAL RESPONSE REVOLVING FUND	$ 1,288	$ 1,236	$ 52	4.2
ENERGY SECURITY FUND	$ 3,864	$ 3,708	$ 156	4.2
ENERGY SYSTEMS DEVELOPMENT FUND	$ 2,576	$ 2,472	$ 104	4.2
AGRICULTURAL DEVELOPMENT & FOOD SECURITY FUND	$ 3,864	$ 3,708	$ 156	4.2
GENERAL FUND	$ 15,359	$ 14,833	$ 526	3.5

[1] Fuel tax collections were $198,404 thousand for fiscal year 2016. Of the collections, $268 thousand could not be distributed because the corresponding tax returns were not yet available.

[2] Other fuel includes ethanol, methanol, biodiesel, naphtha, compressed natural gas, and liquefied natural gas.

NOTE: Due to rounding, details may not add to totals.

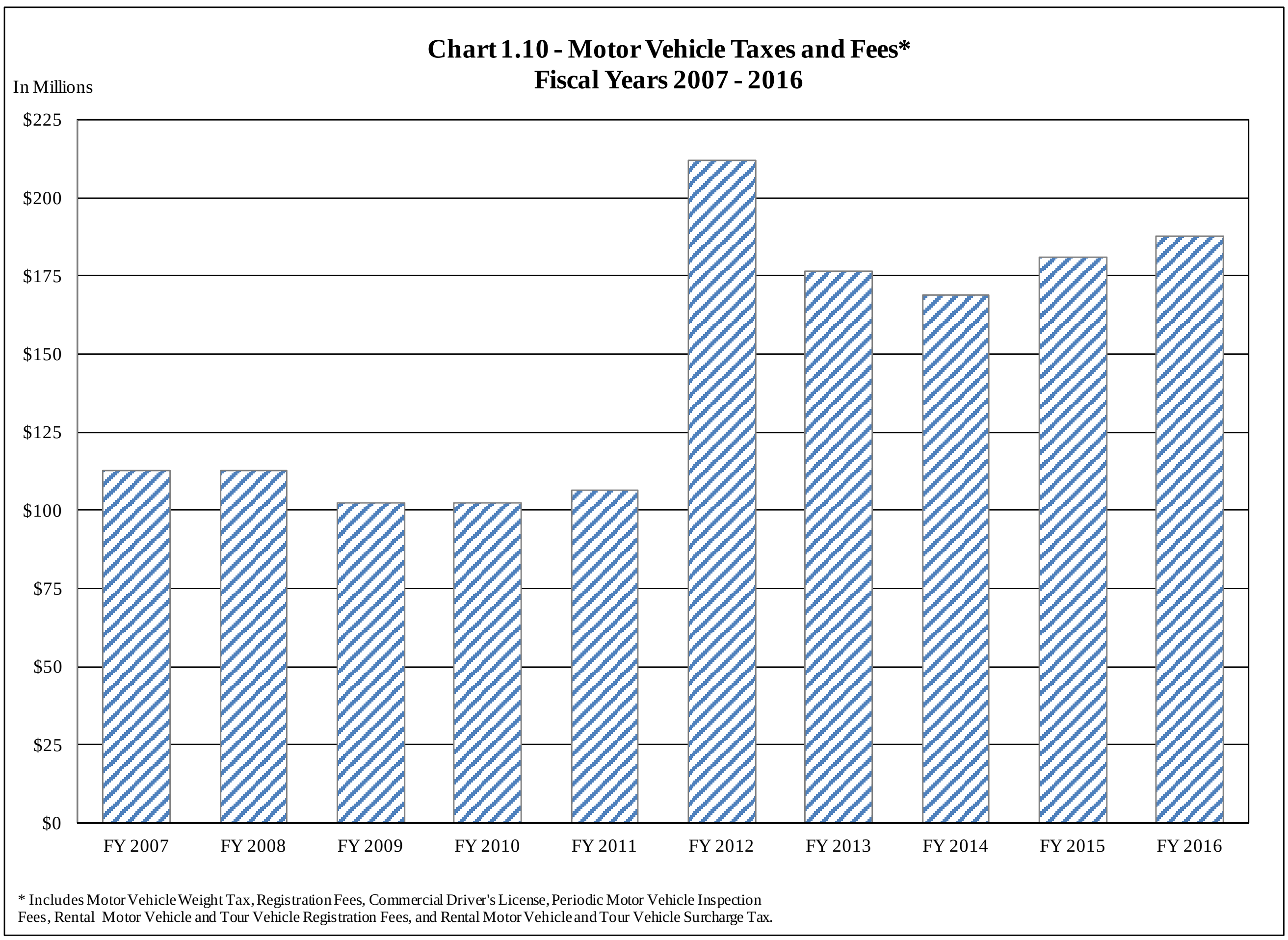
1.7 MOTOR VEHICLE TAXES AND FEES

1.7.1 Overview

The State levies an annual registration fee per vehicle and a tax based on vehicle weight. The State also levies the rental motor vehicle surcharge (RMVS) tax for motor vehicles that are rented or leased. The tax is imposed on the lessor. Effective July 1, 2012, the rate of the RMVS tax is $3.00 per day. There is also a tour vehicle surcharge tax of $65 per month for each tour vehicle in the 25 passenger seat and over category and $15 per month for each tour vehicle in the 8 to 25 passenger seat category. The tax is levied on the tour vehicle operator. There is a one-time $20 registration fee for those subject to the taxes on rental or tour vehicles.

1.7.2 Revenue

For FY 2016, the State's motor vehicle taxes and fees (including the RMVS) totaled $187.7 million, compared to $180.8 million in FY 2015, an increase of 3.8%. Chart 1.10 shows the total motor vehicle taxes and fees for FY 2007 through FY 2016. The large increase in FY 2012 was caused by a temporary increase in the rate of the RMVS to $7.50 per day, which was in place for the period from July 1, 2011 to June 30, 2012. The collections for FY 2013 also reflect one month of collections at the higher tax rate, since the collections lag the liabilities incurred by one month.



1.7.3 Recent Legislation

Act 101, SLH 2014, levied a new car-sharing vehicle surcharge tax of 25 cents per half hour, beginning January 1, 2015.

1.8 CIGARETTE AND TOBACCO TAX

1.8.1 Overview

Wholesalers and dealers, as those terms are defined in section 245-1, Hawaii Revised Statutes (HRS), must pay an excise tax on the sale or use of tobacco products and on each cigarette or little cigar sold, used, or possessed. The tax per cigarette or little cigar was increased to 16 cents for sales on and after July 1, 2011. The excise tax on large cigars is 50% of the wholesale price and the excise tax on all other tobacco products (tobacco in any form except cigarettes, little cigars or large cigars) is 70% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1 each year. Cigarette wholesalers and dealers are required to affix a stamp to each individual cigarette package as proof that the tax has been paid. Every retailer engaged in the retail sale of cigarettes and other tobacco products is required to obtain a $20 retail tobacco permit that must be renewed before December 1 each year.

1.8.2 Revenue

During FY 2016, collections of the cigarette and tobacco tax (including tobacco licenses) totaled $125.1 million, compared to $129.9 million in FY 2015, or a decrease of 3.7%. Chart 1.11 shows the total collections of the tax for FY 2007 through FY 2016. The 16 cent tax per cigarette was distributed as follows in FY 2016: 2.00 cents went to the Hawaii Cancer Research Special Fund, 1.50 cents went to the Trauma System Special Fund, 1.25 cents went to the Community Health Centers Special Fund, and 1.25 cents went to the Emergency Medical Services Special Fund. Additionally, a total of $2.0 million went to the Cigarette Stamp Administrative Fund and the Cigarette and Stamp Enforcement Fund. The remainder of the cigarette and tobacco tax went to the General Fund. Table 1.7 shows collections of the tobacco taxes and how the revenues were allocated in FY 2015 and FY 2016.

1.8.3 Recent Legislation

Act 238, SLH 2015, reduces the allocation of the tax on cigarettes to the Trauma System Special Fund from 1.250 cents per cigarette to 1.125 cents per cigarette, and caps the allocations to the Emergency Medical Services Special Fund and the Community Health Center Special Fund, effective July 1, 2015.

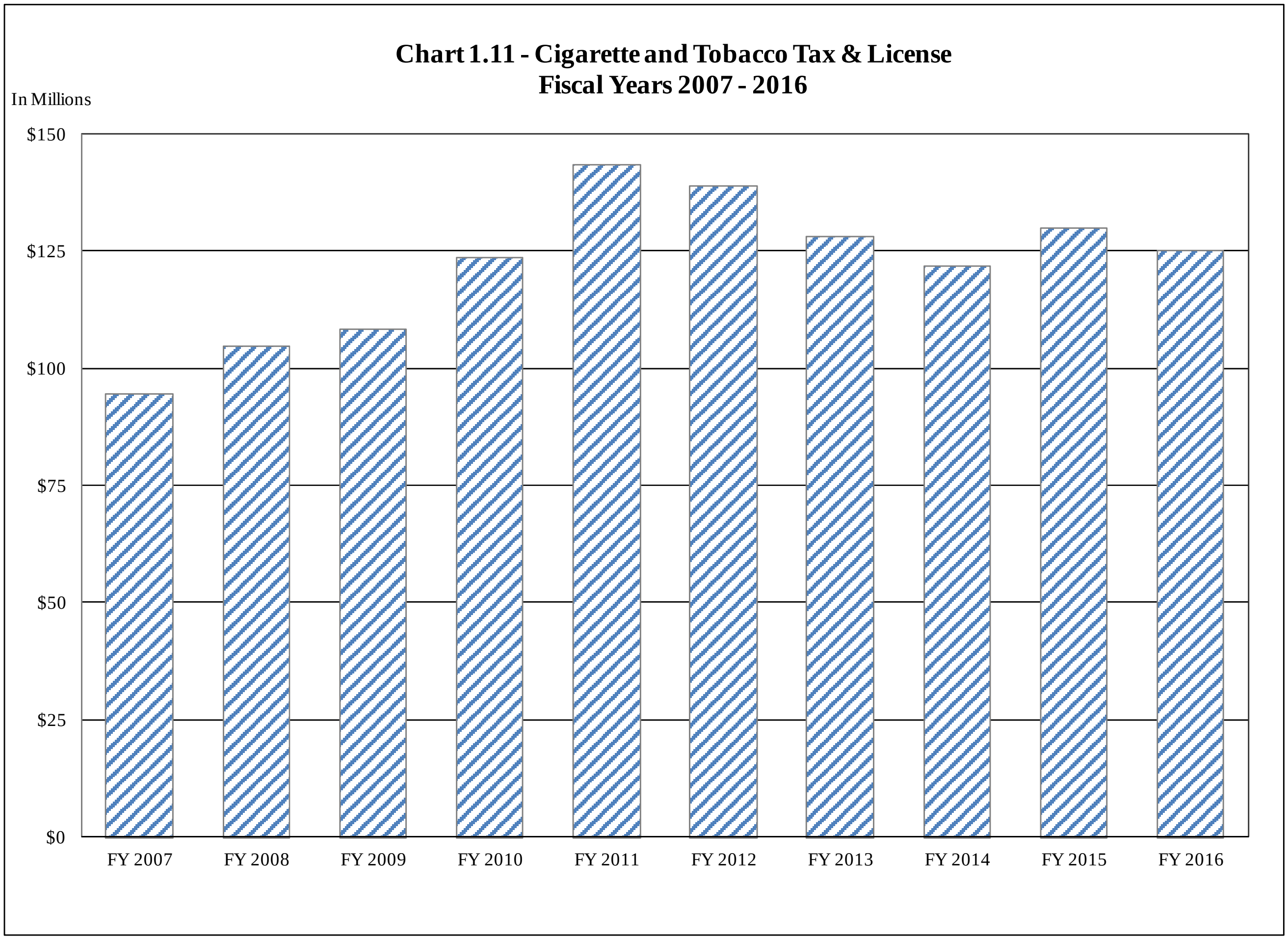


TABLE 1.7 - CIGARETTE & TOBACCO TAX
(In Thousands of Dollars)

			Difference	
	FY 2016	FY 2015	Amount	% Change
Collection				
Tobacco & Licenses	$ 125,093	$ 129,851	$ (4,758)	(3.7)
Distribution*				
Hawaii Cancer Research Fund	$ 14,445	$ 14,995	$ (550)	(3.7)
Trauma System Fund	7,400	11,243	(3,843)	(34.2)
Emergency Medical Services Fund	8,800	9,373	(573)	(6.1)
Community Health Centers Fund	8,800	9,373	(573)	(6.1)
Cigarette Stamp Administrative & Enforcement Funds	1,964	2,038	(75)	(3.7)
General Fund	83,685	82,829	855	1.0
Total	$ 125,093	$ 129,851	$ (4,758)	(3.7)

*Details on distributions of the revenues are given in section 245-15, HRS.

NOTE: Due to rounding, details may not add to totals.

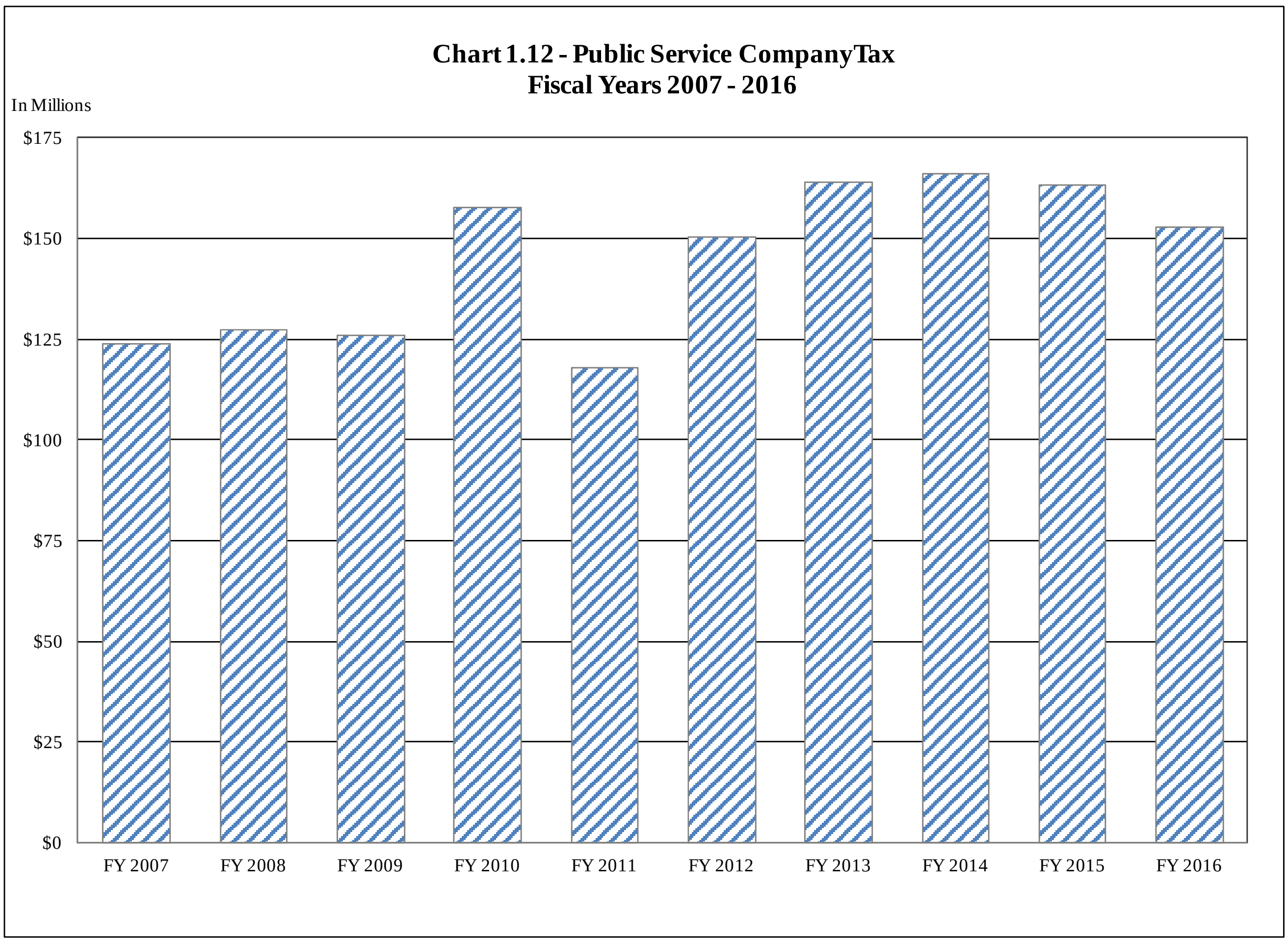
1.9 PUBLIC SERVICE COMPANY TAX

1.9.1 Overview

The public service company (PSC) tax is levied on public utility businesses in lieu of all taxes except income taxes, vehicular taxes imposed under chapter 249, HRS, the franchise tax on public utilities imposed under chapter 240, HRS, and the use tax imposed under chapter 238, HRS. Generally, the tax is applied to gross income from the business of public utilities for the preceding calendar year. The tax rates on the PSC's range from 0.50% (levied on sales for resale) to 8.20%. For a public utility, only the first 4.0% is realized by the State; any excess over 4.0% is distributed to counties that provide a real property tax exemption for property used by the public utility in its business. For a carrier of passengers by land between points on a scheduled route, the gross income from passenger fares is taxed at 5.35%, all of which is realized by the State.

1.9.2 Revenue

The PSC tax yielded $152.8 million in tax, penalty, and interest in FY 2016, a decrease of 6.6% from the $163.5 million collected in FY 2015. All of the revenues from the PSC tax are allocated to the General Fund. Chart 1.12 shows the total collections of the tax for FY 2007 through FY 2016.



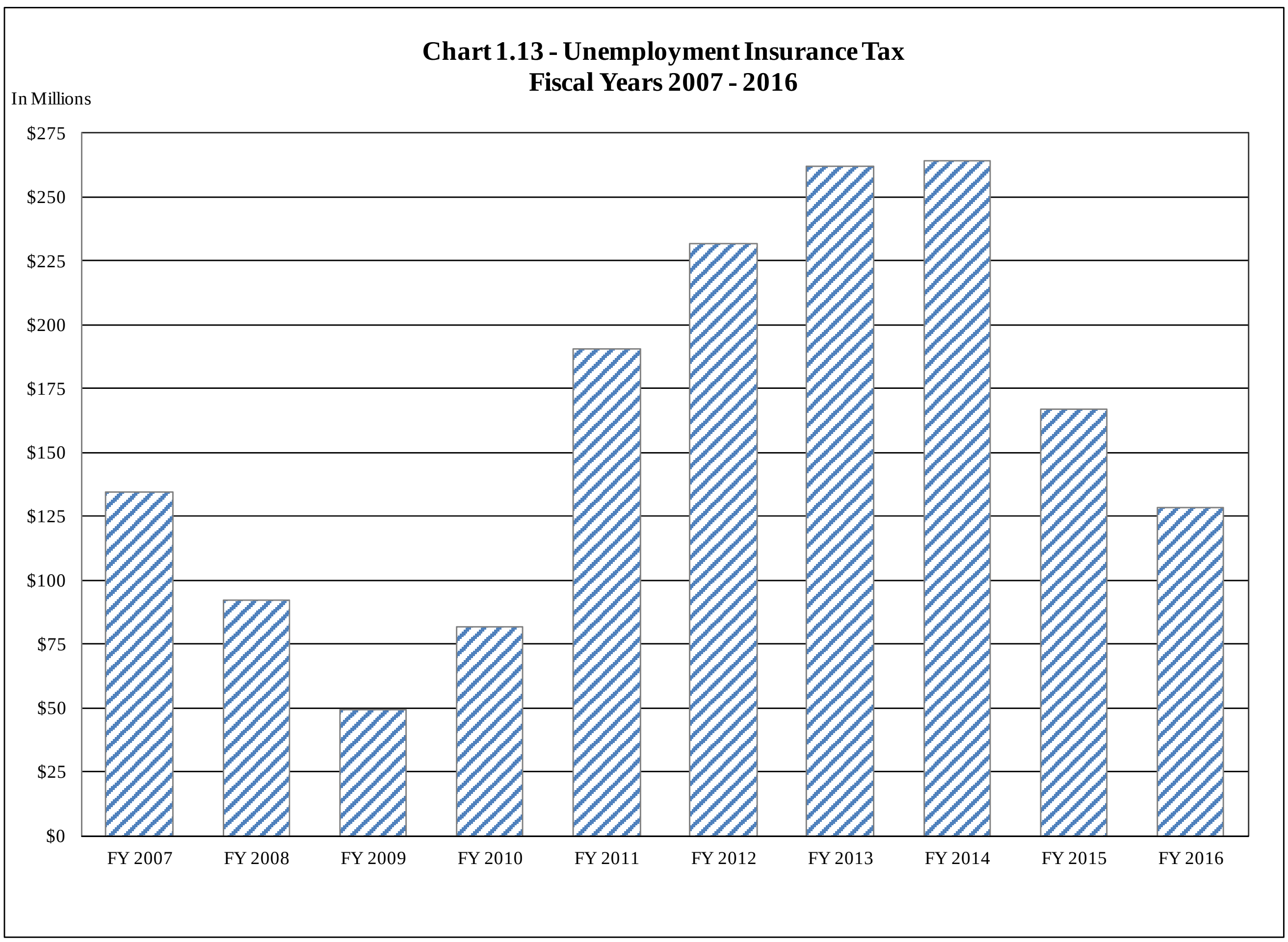
1.10 UNEMPLOYMENT INSURANCE TAX

1.10.1 Overview

The unemployment insurance (UI) tax (officially "employment security contributions") is imposed on wages paid by employers with one or more employees, with certain exemptions. The tax is experience rated. The UI tax rate for each year depends on the condition of the UI Trust Fund. The tax base represents the state's average annual wages reported by employers contributing to the Unemployment Trust Fund. For FY 2016, the tax base ranged from $40,900 in CY 2015 to $42,200 in CY 2016 and the contribution rate for new employers ranged from 3.0% in CY 2015 to 2.4% in CY 2016. Revenues from the tax go to the Unemployment Trust Fund. The Department of Labor and Industrial Relations administers the UI tax and the Department of Taxation collects the tax.

1.10.2 Revenue

For FY 2016, revenue from the UI tax totaled $128.6 million, down by 23.1% from $167.2 million collected in FY 2015. Chart 1.13 shows collections of the UI tax for FY 2007 through FY 2016.



1.11 INSURANCE PREMIUM TAX

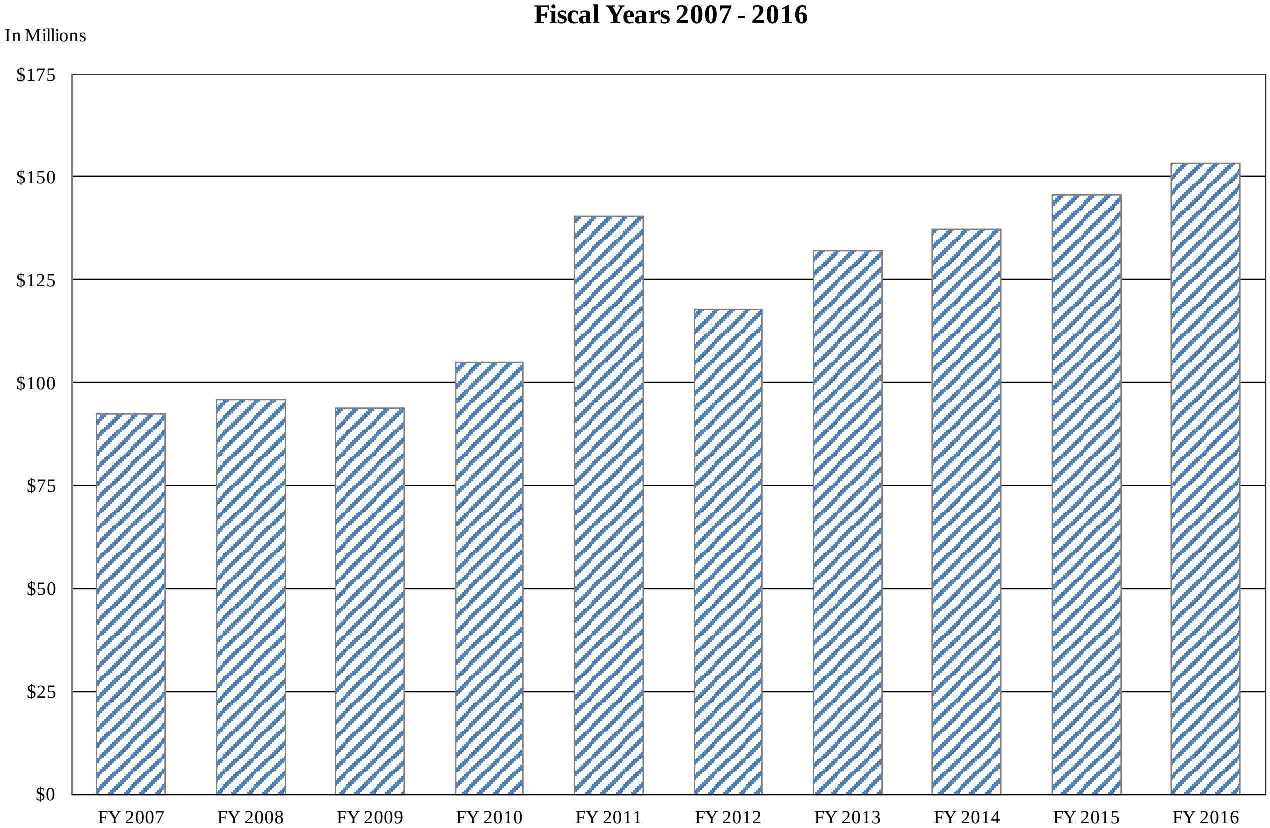
1.11.1 Overview

The tax on insurance premiums applies to insurance companies (underwriters) based on premiums written in Hawaii. The insurance premium tax is in lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. The tax rates are as follows: (1) Life Insurance, 2.75%; (2) Surplus Lines, 4.68%; (3) Ocean Marine, 0.8775% on gross underwriting profit; and (4) Other Insurance, 4.265%. To insurers who qualify, there is a 1.0% tax credit to facilitate regulatory oversight. The tax is administered and collected by the Insurance Commissioner, who is required to report to the Director of Taxation the amounts of all taxes collected under chapter 431, HRS.

1.11.2 Revenue

For FY 2016, the tax on insurance premiums totaled $153.2 million, compared to $145.7 million in FY 2015, an increase of 5.1%. Chart 1.14 shows collections of the tax for FY 2007 through FY 2016.

Chart 1.14 - Tax on Insurance Premiums
Fiscal Years 2007 - 2016



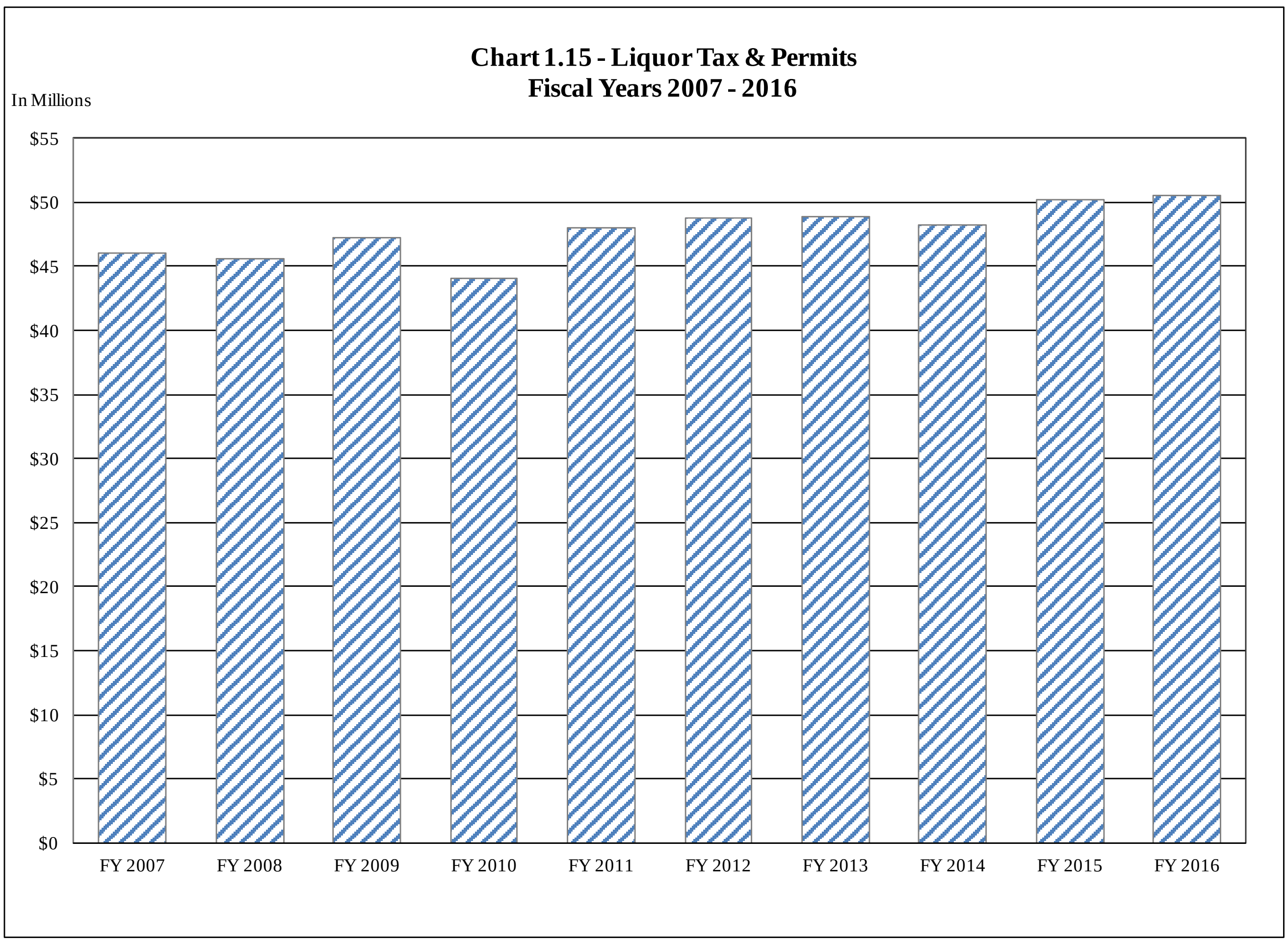
1.12 LIQUOR TAX

1.12.1 Overview

The tax on liquor is a gallonage tax imposed on dealers as defined in section 244D-1, HRS, and upon certain others who sell or use liquor. A $2.50 liquor tax permit is required and must be renewed before July 1 each year. See section 244D-4, HRS, for exemptions from the tax. The tax rates per wine gallon are $5.98 on distilled spirits, $2.12 on sparkling wine, $1.38 on still wine, $0.85 on cooler beverages, $0.93 on beer other than draft beer, and $0.54 on draft beer.

1.12.2 Revenue

For FY 2016, the liquor tax and permit fees totaled $50.6 million, an increase of 0.6% from the $50.3 million collected in FY 2015. Chart 1.15 shows collections of the liquor tax and permit fees for FY 2007 through FY 2016.



1.13 CONVEYANCE TAX

1.13.1 Overview

The conveyance tax is imposed on all documents transferring ownership or interest in real property and is based on the actual and full consideration paid or to be paid. For a sale of a condominium or single family residence, the rate of the conveyance tax depends on whether the purchaser is eligible for a county homeowners' exemption from the real property tax. If the purchaser is eligible for the exemption, or if the sale is of real property other than a condominium or single family residence, then the tax rate ranges from 10 cents per $100 for properties with a value of less than $600,000 to $1 per $100 for properties with a value of $10 million or more. If the purchaser is ineligible for the exemption, the tax rate for a sale of a condominium or single family residence ranges from 15 cents per $100 for properties with a value of less than $600,000 to $1.25 per $100 for properties with a value of $10,000,000 or more. The conveyance tax is administered by the Department of Taxation, but it is collected by the Bureau of Conveyances in the Department of Land and Natural Resources.

1.13.2 Revenue

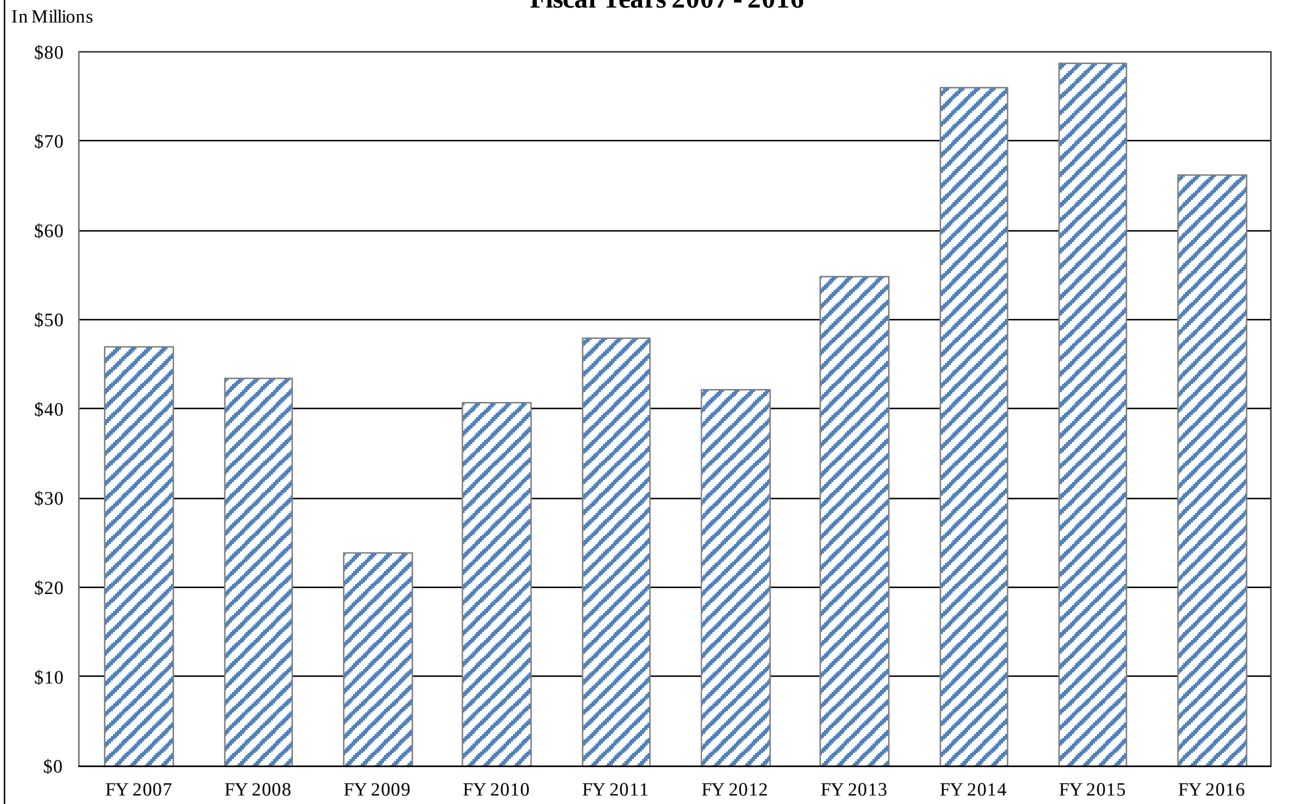
For FY 2016, revenue from the conveyance tax totaled $66.1 million, compared to $78.7 million in FY 2015, a decrease of 16.0%. The revenues for FY 2016 were distributed as follows: 10% went to the Land Conservation Fund, provided that the amount in excess of $6.8 million in any fiscal year is deposited into the General Fund; 50% went to the Rental Housing Trust Fund, provided that the amount in excess of $38.0 million in any fiscal year is deposited into the General Fund; and the remaining 40% went to the General Fund. Chart 1.16 shows collections of the conveyance tax for FY 2007 through FY 2016.

1.13.3 Recent Legislation

Act 163, SLH 2014, increases allocations of the conveyance tax to the Rental Housing Trust Fund from 30% to 50% beginning July 1, 2014.

Act 84, SLH 2015, eliminates the contributions of the conveyance tax to the Natural Area Reserve Fund, effective July 1, 2015, and caps the allocations to the other special funds.

Chart 1.16 - Conveyance Tax
Fiscal Years 2007 - 2016



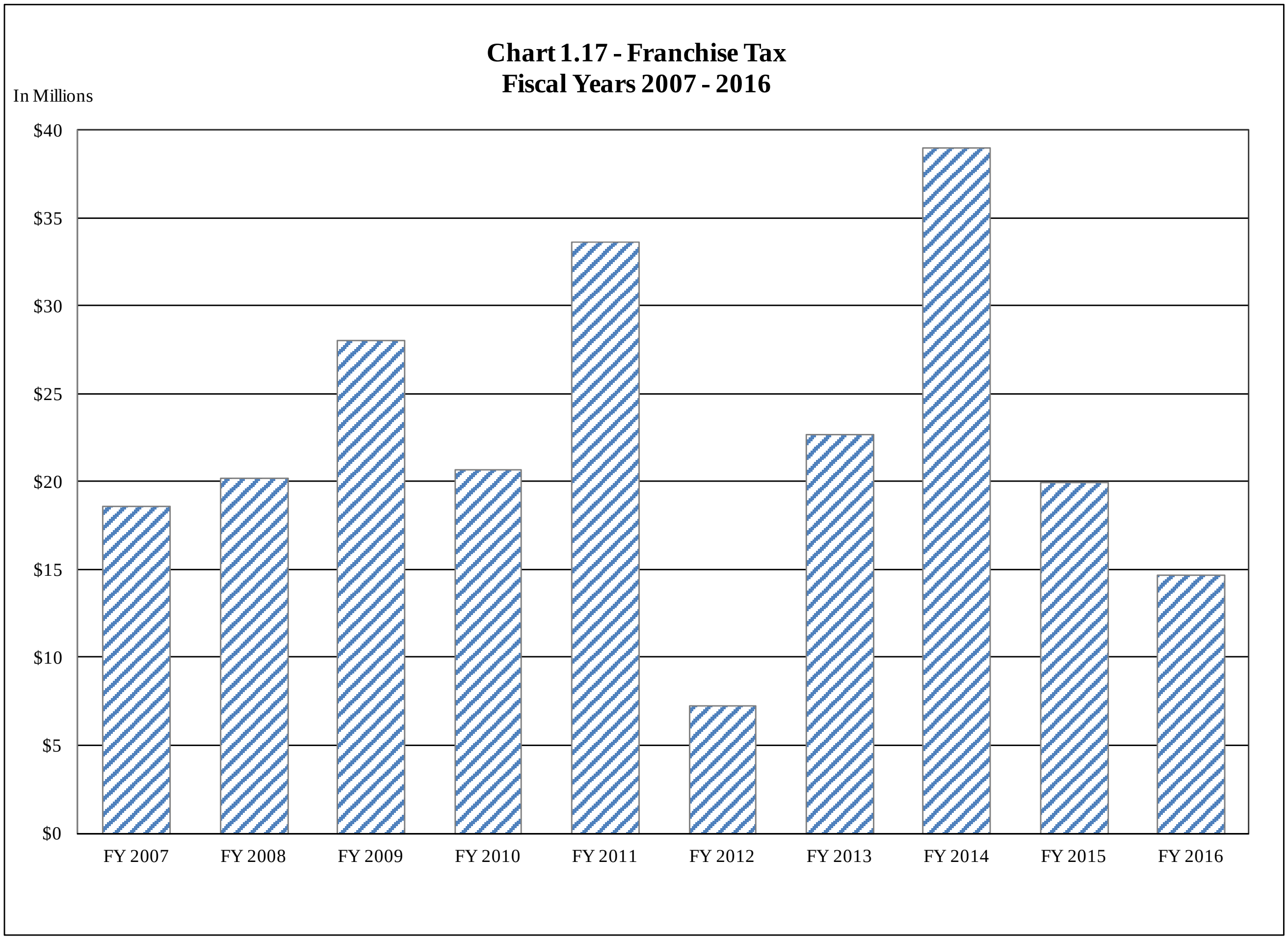
1.14 TAX ON BANKS AND OTHER FINANCIAL CORPORATIONS

1.14.1 Overview

The tax on banks and other financial corporations (the franchise tax) is levied on net income of banks, building and loan associations, development companies, financial corporations, financial services loan companies, trust companies, mortgage loan companies, financial holding companies, small business investment companies, and subsidiaries not subject to the tax imposed by chapter 235, HRS. The tax is in lieu of the net income tax imposed under chapter 235, HRS, and of the GET, but it uses the definition of net income from chapter 235, with modifications. The tax is levied on net income at the rate of 7.92%. The assessment date is January 1 of each year.

1.14.2 Revenue

For FY 2016, franchise tax collections totaled $14.7 million, compared to $19.9 million in FY 2015, a decrease of 26.3%. Chart 1.17 shows collections of the franchise tax for FY 2007 through FY 2016. Collections of the tax were low in FY 2012, due partly to a one-time transfer of $16.5 million to the Litigated Claims Fund.



1.15 ESTATE AND TRANSFER TAX

1.15.1 Overview

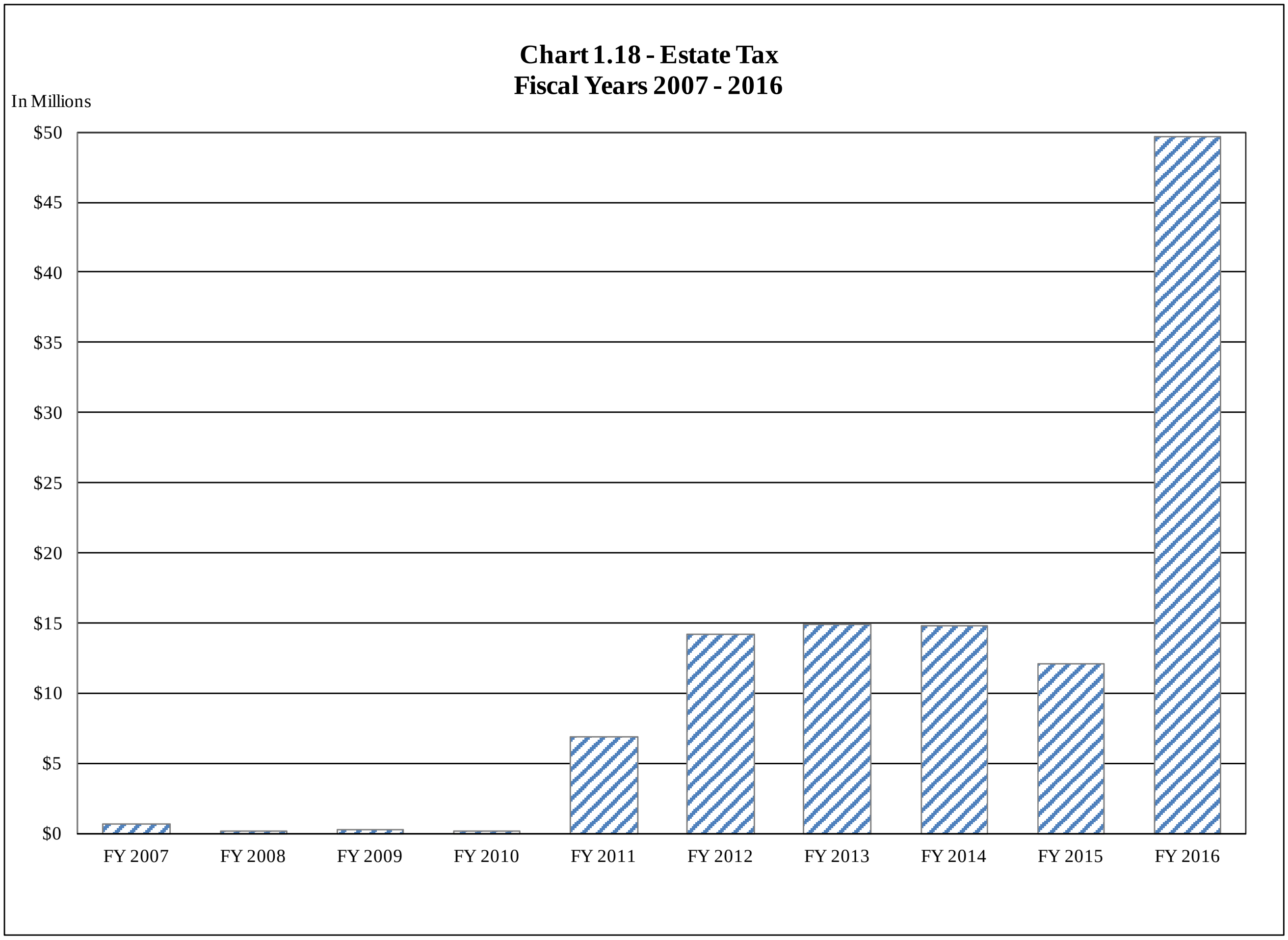
Hawaii's estate and transfer tax is levied on the transfer of a taxable estate. The taxable estate is based on the federal definition (with adjustments for nonresidents), but the State has its own tax rate schedule, with tax rates varying from 10.0% to 15.7%. The generation skipping tax is also based on the federal taxable transfer, but has its own tax rate (currently 2.25%).

1.15.2 Revenue

For FY 2016, estate tax collections totaled $49.6 million, compared to $12.1 million collected in FY 2015. Chart 1.18 shows collections of the estate and transfer tax for FY 2007 through FY 2016.

1.15.3 Recent Legislation

Act 44, SLH 2014, conformed Hawaii's estate tax to the Internal Revenue Code and closed a loophole in the tax for decedents dying after December 31, 2013.



1.16 CITY AND COUNTY OF HONOLULU SURCHARGE TAX

1.16.1 Overview

Act 247, SLH 2005, granted counties the authority to impose a county surcharge of no more than 0.5% on gross income that is subject to the State's GET at the rate of 4.0% to fund county public transportation systems. The Act specified that the surcharge be levied no earlier than January 1, 2007 and that it be automatically repealed on December 31, 2022. The Department of Taxation is required to administer and collect the surcharge for the counties. The City and County of Honolulu was the only county to adopt the surcharge, which took effect on January 1, 2007. The State keeps 10.0% of the collections from the county surcharge as administrative costs, and Honolulu County receives the remaining 90.0% of the collections.

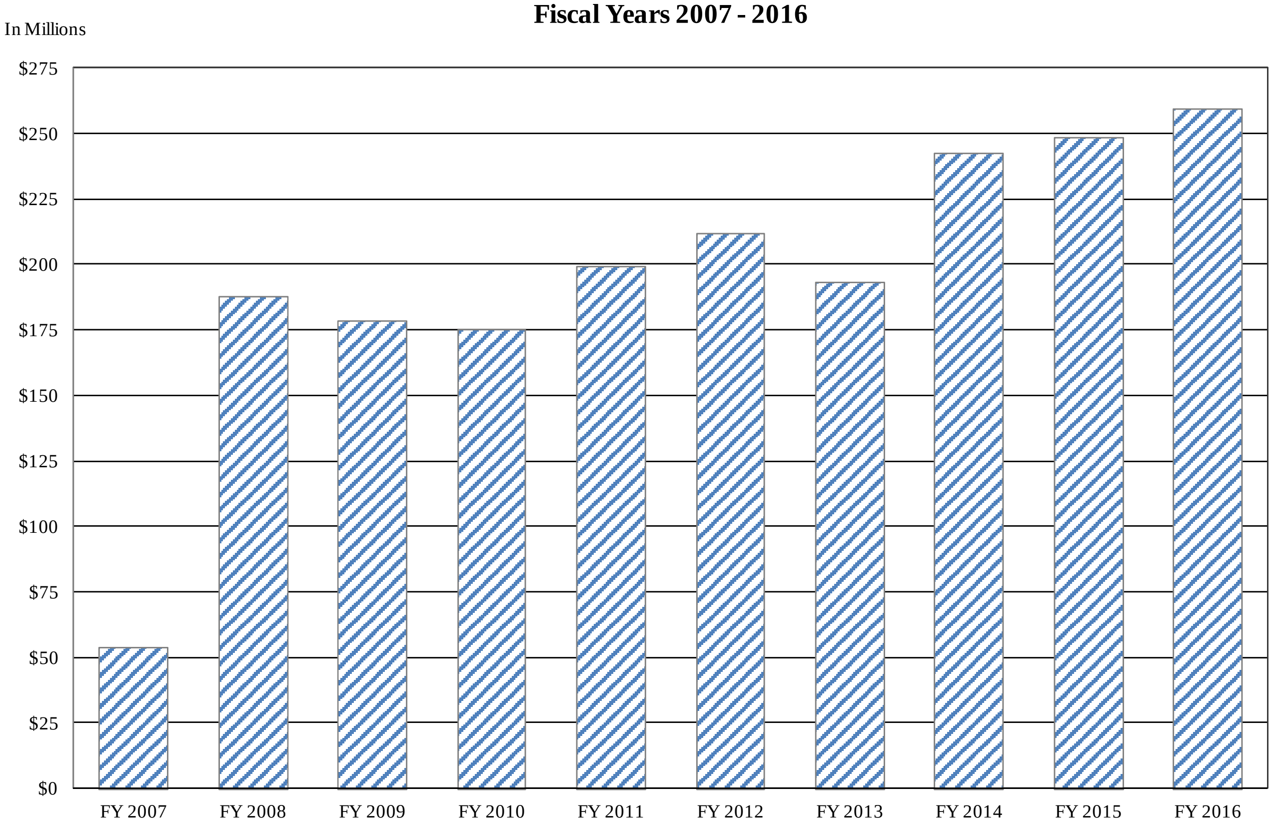
1.16.2 Revenue

For FY 2016, collections of Honolulu's county surcharge totaled $259.2 million, an increase of 4.3% from the $248.5 million collected in FY 2015. Chart 1.19 shows collections of the county surcharge for FY 2007 through FY 2016.

1.16.3 Recent Legislation

Act 240, SLH 2015, allows the counties to establish new county surcharges or to extend an existing surcharge through December 31, 2027, as long as the action is taken by July 1, 2016. Any new county surcharge would take effect January 1, 2018.

Chart 1.19 - County Surcharge Tax*
Fiscal Years 2007 - 2016



*Collections started in January 2007.

1.17 TOTAL TAX COLLECTIONS

Total tax collections in FY 2016 amounted to $7.25 billion, up by 5.1% from the $6.90 billion collected in FY 2015. The Department collected the great majority of the total taxes ($6.89 billion), but the counties collected $132.8 million in State motor vehicle weight taxes and registration fees, the Insurance Commissioner (in the Department of Commerce and Consumer Affairs) collected $153.2 million in insurance premium taxes, and the Bureau of Conveyances (in the Department of Land and Natural Resources) collected $66.1 million in conveyance taxes. The total collections are shown in Table 1.8.

TABLE 1.8 - TAX COLLECTIONS
(In Thousands of Dollars)

SOURCE OF REVENUE	FY 2016 Amount Collected	FY 2016 % of Total	FY 2015 Amount Collected	FY 2015 % of Total
Banks - Financial Corps.	$ 14,691	0.20	$ 19,930	0.29
Conveyance	66,083	0.91	78,702	1.14
Employment Security Contributions	128,577	1.77	167,248	2.42
Fuel & Environmental [3]	198,136	2.73	193,082	2.80
General Excise & Use	3,206,154	44.23	3,048,207	44.18
Honolulu County Surcharge	259,248	3.58	248,518	3.60
Income - Corporations	93,036	1.28	52,319	0.76
Income - Individuals	2,116,859	29.20	1,988,194	28.81
Inheritance and Estate	49,613	0.68	12,071	0.17
Insurance Premiums	153,173	2.11	145,679	2.11
Liquor & Permits	50,590	0.70	50,281	0.73
Motor Vehicle Tax [1]	187,704	2.59	180,755	2.62
Public Service Companies	152,760	2.11	163,481	2.37
Tobacco & Licenses	125,093	1.73	129,851	1.88
Trans. Accom. Fees	13	0.00	12	0.00
Trans. Accom. Tax	446,781	6.16	420,970	6.10
All Others [2]	693	0.01	742	0.01
TOTAL	$ 7,249,205	100.00	$ 6,900,042	100.00

[1] Includes motor vehicle weight tax, registration fees, commercial driver's license, periodic motor vehicle inspection fees, rental motor vehicle and tour vehicle registration fees, and rental motor vehicle and tour vehicle surcharge tax.

[2] Includes fuel retail dealer permits, fuel penalty and interest, permitted transfers tax, and general excise fees.

[3] Fuel tax collections were $198,404 thousand for fiscal year 2016. Of the collections, $268 thousand could not be distributed because the corresponding tax returns were not yet available.

NOTE: Due to rounding, details may not add to totals.

1.18 DISTRIBUTION OF TAXES

Of the $7.25 billion in total tax collections in FY 2016, $6.19 billion or 85.4% was deposited into the State's General Fund. The four counties received $181.7 million from county fuel taxes and the TAT. In addition, $259.2 million of county surcharge was collected for the City and County of Honolulu (before deducting the 10% administrative fee imposed by the State). The remaining tax revenues not deposited into the General Fund or transferred to the counties were distributed among various State special funds. The State Highway Fund received the largest portion, $275.7 million. All of the unemployment insurance tax (the employment security contributions) went into the Unemployment Trust Fund for unemployment benefits. Table 1.9 shows allocations of taxes to the State's General Fund in FY 2015 and FY 2016. The distributions of the total tax collections among all funds in FY 2015 and FY 2016 are shown in Table 1.10.

TABLE 1.9 - STATE GENERAL FUND
(In Thousands of Dollars)

	FY 2016		FY 2015	
SOURCE OF REVENUE	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corps.	$ 12,691	0.20	$ 17,930	0.31
Conveyance	26,415	0.43	11,534	0.20
General Excise & Use	3,206,154	51.76	2,992,707	52.18
Income - Corporations	93,036	1.50	52,319	0.91
Income - Individuals	2,116,392	34.17	1,987,752	34.66
Inheritance and Estate	49,613	0.80	12,071	0.21
Insurance Premiums	153,173	2.47	145,679	2.54
Liquor & Permits	50,590	0.82	50,281	0.88
Public Service Companies	152,760	2.47	163,481	2.85
Tobacco & Licenses	83,685	1.35	82,829	1.44
Trans. Accom. Tax	233,781	3.77	202,970	3.54
Environmental Tax	15,359	0.25	14,833	0.26
All Others *	708	0.01	755	0.01
TOTAL	$ 6,194,356	100.00	$ 5,735,141	100.00

* Includes fuel retail dealer permits, fuel penalty and interest, permitted transfers tax, general excise fees, trans accom fees and rental vehicle fees.

NOTE: Due to rounding, details may not add to totals.

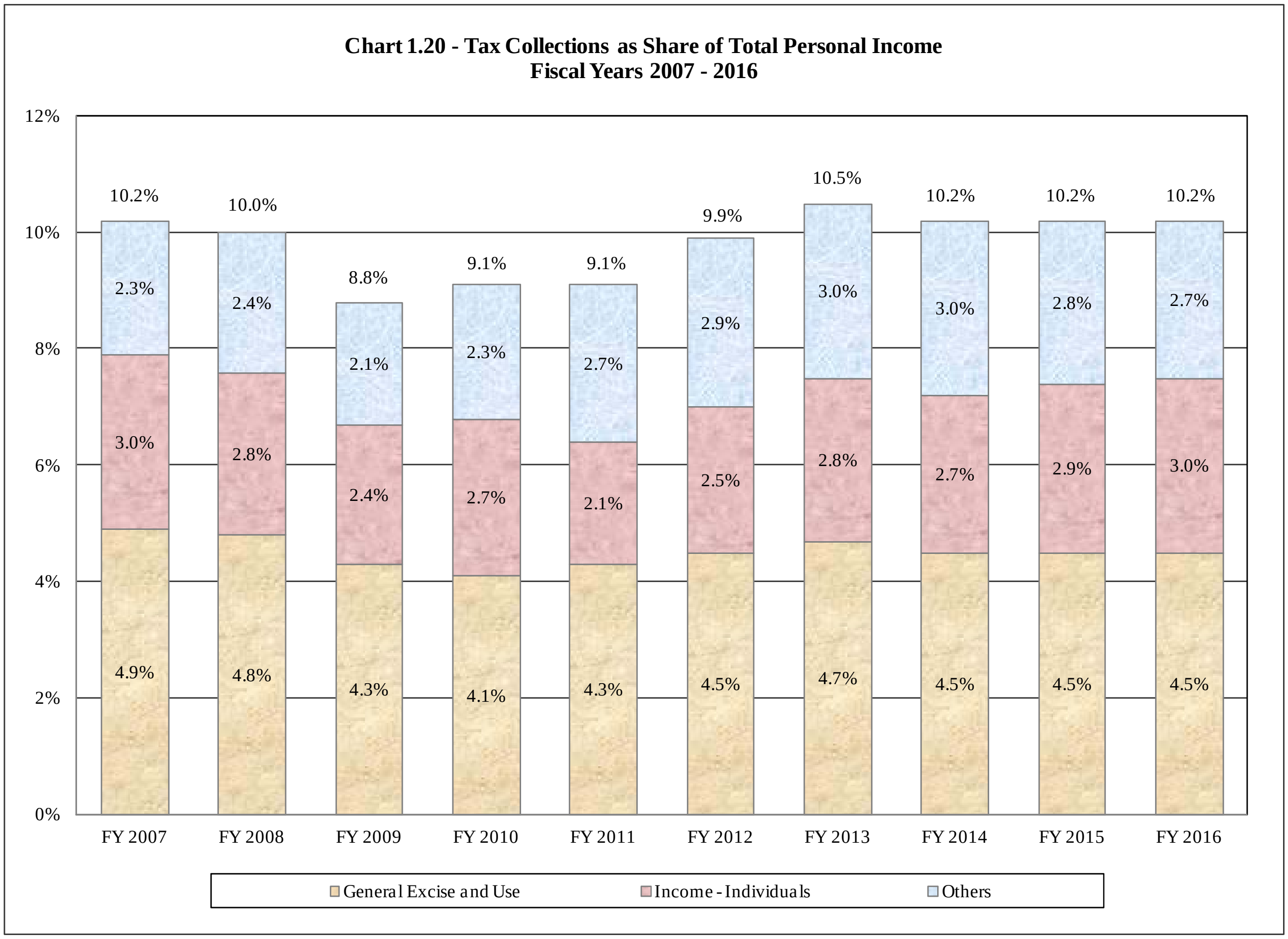
TABLE 1.10 - DISTRIBUTION OF COLLECTIONS
(In Thousands of Dollars)

	FY 2016		FY 2015	
	Amount Distributed	% of Total	Amount Distributed	% of Total
STATE FUND				
State General	$ 6,194,356	85.45	$ 5,735,141	83.12
State Highway	275,721	3.80	267,576	3.88
State Airport	2,807	0.04	4,453	0.06
Boating Special Fund	1,684	0.02	1,627	0.02
Environmental Fund	1,288	0.02	1,236	0.02
Cigarette Stamp Admin/Enf. Fund	1,964	0.03	2,038	0.03
Compliance Resolution Fund	2,000	0.03	2,000	0.03
Unemployment Trust Fund	128,577	1.77	167,248	2.42
Election Campaign Fund	180	0.00	162	0.00
Tourism Special Fund	82,000	1.13	82,000	1.19
Rental Housing Fund	33,057	0.46	39,511	0.57
Natural Area Reserve Fund	-	-	19,755	0.29
Convention Center Fund	26,500	0.37	33,000	0.48
Public Libraries Fund	66	0.00	66	0.00
School Repairs & Maintenance Fund	72	0.00	69	0.00
Land Conservation Fund	6,611	0.09	7,902	0.11
Domestic Violence\Child Abuse Neglect Fund	149	0.00	145	0.00
Cancer Research Fund	14,445	0.20	14,995	0.22
Trauma System Fund	7,400	0.10	11,243	0.16
Emergency Medical Service Fund	8,800	0.12	9,373	0.14
Community Health Centers Fund	8,800	0.12	9,373	0.14
Energy Security Fund	3,864	0.05	3,708	0.05
Energy Systems Development Fund	2,576	0.04	2,472	0.04
Agricultural Development & Food Security Fund	3,864	0.05	3,708	0.05
Hurricane Relief Fund	-	-	55,500	0.80
Turtle Bay Conservation Easement Fund	1,500	0.02	-	-
Subtotal - State	$ 6,808,280	93.92	$ 6,474,302	93.83
HONOLULU COUNTY SURCHARGE	$ 259,248	3.58	$ 248,518	3.60
REVENUES TRANSFERRED TO COUNTIES				
Other County Revenues				
Fuel Tax	$ 78,677	1.09	$ 74,223	1.08
Trans. Accom. Tax	103,000	1.42	103,000	1.49
Subtotal - Counties	$ 181,677	2.51	$ 177,223	2.57
TOTAL	$ 7,249,205	100.00	$ 6,900,042	100.00

NOTE: Due to rounding, details may not add to totals.

1.19 TRENDS IN TAX COLLECTIONS

Table 1.11 provides data on total tax collections for FY 2007 through FY 2016. Chart 1.20 shows total tax collections relative to total personal income (TPI) in the State for FY 2007 through FY 2016.[2] From FY 2007 to FY 2009, the ratio declined, with big declines in collections of both the GET and the IIT relative to TPI. The ratio grew from FY 2009 to FY 2013, but fell from FY 2013 to FY 2014. The ratio stayed the same from FY 2014 to FY 2016.



[2] The chart uses the most recent figures from the Bureau of Economic Analysis (BEA) for TPI. The Bureau periodically updates TPI figures and the updates often extend back for a number of years.

TABLE 1.11 - HISTORICAL COLLECTIONS FOR SELECTED TAXES
(In Thousands of Dollars)

SOURCE OF REVENUE	Fiscal Year 2007	2008	2009	2010	2011
General Excise and Use	$2,555,762	$2,618,787	$2,417,580	$2,316,434	$2,495,807
Income - Individuals	1,560,286	1,544,835	1,339,056	1,528,110	1,247,153
Transient Accom. Tax & Fees	224,942	229,388	210,622	224,252	284,472
Unemployment Insurance	134,612	92,279	49,071	82,017	190,511
Motor Vehicle Tax [1]	112,412	112,448	101,991	102,319	106,166
Fuel and Environmental [4]	169,712	169,927	165,717	155,703	195,336
Public Service Companies	124,017	127,481	126,069	157,661	117,940
Tobacco and Licenses	94,387	104,624	108,164	123,489	143,293
Insurance Premiums [2]	92,196	95,742	93,720	104,721	140,456
Income - Corporations	81,834	85,081	53,522	59,186	34,573
Liquor and Permits	46,034	45,620	47,242	44,074	48,054
Conveyance	46,887	43,421	23,772	40,634	47,906
Banks - Financial Corporations	18,599	20,212	28,075	20,666	33,677
Total Collections [3]	$5,316,593	$5,478,491	$4,944,133	$5,134,807	$5,292,193

SOURCE OF REVENUE	Fiscal Year 2012	2013	2014	2015	2016
General Excise and Use	$2,697,951	$2,944,487	$2,880,541	$3,048,207	$3,206,154
Income - Individuals	1,541,051	1,736,007	1,745,810	1,988,194	2,116,859
Transient Accom. Tax & Fees	323,951	368,576	395,242	420,981	446,794
Unemployment Insurance	231,669	262,290	264,178	167,248	128,577
Motor Vehicle Tax [1]	211,742	176,295	168,726	180,755	187,704
Fuel and Environmental [4]	193,101	193,949	193,550	193,082	198,136
Public Service Companies	150,528	163,930	166,179	163,481	152,760
Tobacco and Licenses	138,798	127,881	121,742	129,851	125,093
Insurance Premiums [2]	117,617	131,906	137,179	145,679	153,173
Income - Corporations	73,026	100,988	87,021	52,319	93,036
Liquor and Permits	48,854	48,962	48,305	50,281	50,590
Conveyance	42,106	54,686	75,831	78,702	66,083
Banks - Financial Corporations	7,229	22,673	38,983	19,930	14,691
Total Collections [3]	$6,004,268	$6,541,300	$6,581,424	$6,900,042	$7,249,205

[1] Includes State Motor Vehicle Weight Tax, Registration Fees, Commercial Driver's License, Periodic Motor Vehicle Inspection Fees, Rental Vehicle Registration Fees and Rental Vehicle Surcharge Tax.

[2] Excludes Insurance Fees allocated to the General Fund, which were included in previous reports.

[3] Includes the Inheritance and Estate Tax, the Honolulu County Surcharge, fuel permits, interest and penalties on fuel taxes, general excise fees, and permitted transfers tax.

[4] Fuel tax collections were $198,404 thousand for fiscal year 2016. Of the collections, $268 thousand could not be distributed because the corresponding tax returns were not yet available.

2.0 TAX ADMINISTRATION

2.1 OVERALL PERFORMANCE

The Department of Taxation consists of two divisions, six staff offices, a Public Information Officer, and a Taxpayer Advocate. The two divisions are the Tax Services and Processing Division and the Compliance Division. The six staff offices are the Administrative Services Office, the Rules Office, the Tax Research and Planning Office, the Information Technology Services Office, the Administrative Appeals Office and the Tax Practitioner Priority Office.

The total number of authorized permanent positions in the Department in FY 2016 was 384, the same as in fiscal year 2015. The Department's operating budget is a small fraction of total tax revenue. In FY 2016, the Department's operating expenses were $24 million, down from $25.5 million in FY 2009. The Department collected $6.89 billion in taxes in FY 2016, so the cost of collecting each $100 dollars of taxes was about 35 cents.

The Department has continued to encourage taxpayers to use electronic transmissions rather than paper returns. Although there has been a significant increase in electronic filing of tax returns and payments, over 1 million paper checks and over 2 million paper tax returns and other documents were manually processed by the Department in FY 2016.

The total number of audit cases completed by the Compliance Division (the Office Audit Branch and Field Audit Branch combined) declined by 2.7%, from 17,536 in FY 2015 to 17,056 in FY 2016. Total assessments, however, increased by 68.6%, from $119.0 million in FY 2015 to $200.6 million in FY 2016. $2.2 million of the total audit assessments were referred by the Criminal Investigation Section.

2.2 TAX SERVICES AND PROCESSING DIVISION

2.2.1 Overview

The Tax Services and Processing Division (TSP) is comprised of three branches: Taxpayer Services, Document Processing, and Revenue Accounting. The Taxpayer Services Branch (TPS) provides various services to individual and business taxpayers and performs functions relating to licensing and taxpayer account management. The Document Processing Branch (DP) receives, edits, and processes tax information and payments received from both paper and electronic filings. DP is also responsible for securing and depositing tax payments. The Revenue Accounting Branch (RA) maintains revenue control and performs reconciliation functions for all State tax revenues. RA also prepares various revenue related reports, including the monthly Preliminary Report (on revenues collected) and the Statement of Tax Operations (STO).

The TSP Division has continued its efforts to improve efficiency, effectiveness, and accountability in support of the Department's Strategic Plan. In FY 2016, the first rollout of the Tax System Modernization Project (TSM) was implemented to update the infrastructure. This included installing up-to-date scanning hardware, equipment to process incoming mail, and a digital telephone system, known as the interactive voice response (IVR). The IVR allows employees to provide timely service for incoming calls from taxpayers and helps them report the number, source, and duration of the calls and to keep descriptions of the calls.

Staff members from TSP continue to help to test and implement the TSM. The second rollout was in August 2016 and included processing of the general excise tax, the transient accommodations tax, the use tax, the rental motor vehicle and tour vehicle surcharge, and the county surcharge. These taxes account for over 40% of total State revenue collections.

The Division's strategic plan for upcoming years continues to call for initiatives to promote electronic filing and electronic payment in order to make processing more efficient and to help reduce staffing needs, particularly during peak filing periods. Using electronic data also improves accuracy and allows greater flexibility in reporting. With TSM underway, the Division looks forward to utilizing new technology and business processes to improve customer service and the accuracy of reporting in order to increase voluntary compliance and to modernize processing. The Division successfully recruited and trained candidates for vacancies in Taxpayer Services during FY 2016. The statistics below reflect the results from the additional employees in the Division.

2.2.2 Taxpayer Services Branch

The Taxpayer Services (TPS) Branch is made up of three main sections:

(1) Customer Inquiry, which provides information and taxpayer assistance pertaining to all taxes administered by the Department.

(2) Account Management, which performs computer-based error correction activities to expedite processing, posting, and updating of tax returns, payments, and other documents.

(3) Licensing, which processes, issues, and updates all licenses and permits issued by the Department.

Customer Inquiry

The digital telephone system (IVR) was implemented in December 2015, so the call statistics for FY 2016 come from two systems. Yearly call statistics are reported below:

FY	Total Incoming Calls	Total Calls Answered	Answer Rate
2016	385,605	275,924	72%
2015	417,659	180,452	43%
2014	369,010	153,286	42%
2013	326,501	193,988	59%
2012	312,441	173,948	56%
2011	513,503	205,383	40%
2010	380,142	232,471	61%
2009	364,804	291,228	80%
2008	284,217	228,875	81%
2007	181,663	162,576	89%
2006	299,582	148,981	50%
2005	346,972	111,846	32%
2004	147,514	106,146	72%
2003	332,399	76,392	23%

Since the Department started to encourage electronic filing, the number of walk-in taxpayers serviced on Oahu has declined. The average number of taxpayers served each month is shown below for FY 2011 through FY 2016.

FY	No. of Taxpayers
2016	3,582
2015	3,558
2014	4,290
2013	4,451
2012	5,416
2011	6,131

Account Management

Account Management reviews, analyzes, and corrects errors or other inconsistencies on returns and other documents that were identified by our computer system during processing and placed on a work list for manual review. In FY 2016, the team reviewed and posted 217,942 returns, payments, and other documents that the automated system was initially unable to process. The chart below shows monthly average postings of work-listed documents since FY 2011.

FY	No. of Postings
2016	18,162
2015	16,434
2014	18,222
2013	14,849
2012	14,908
2011	16,758

During the 2016 net income tax filing season, the Department received fraudulent individual income tax returns filed for tax year 2015. Account Management was instrumental in examining potentially fraudulent filings, particularly those that contained certain defined inconsistencies that required manual review. The figure for FY 2016 in the tabulation above includes filings that were reviewed because they were flagged as potentially fraudulent.

Licensing

The Licensing section processed 36,336 business license applications in FY 2016, compared to 32,853 applications in FY 2015. In FY 2016, 56% of the applications were filed online (20,359), up from 50% in FY 2015, because of a concerted effort to encourage taxpayers to utilize the Department’s online business license application option, "Hawaii Business Express." The Section also processed 10,537 cancellations in FY 2016, an increase of 20% from FY 2015.

2.2.3 Document Processing Branch

The Document Processing Branch (DP) processes all tax returns and documents; receives, secures, accounts for, and deposits tax payments; ensures proper storage and retrieval of documents; and performs various functions relating to electronic filing. DP is comprised of six sections: Receiving and Sorting, Data Preparation, Imaging and Data Entry, Monetary Control, File Maintenance, and Electronic Processing.

Although there has been an increase in electronic tax return filings and in electronic tax payments, over 1.08 million paper checks and over 2.18 million paper tax returns and other documents were manually processed by DP in FY 2016. There were also over 1.98 million electronic tax returns processed in the year. In total, over $7.39 billion in tax-related payments were received in FY 2016, which is an increase of about $440 million from FY 2015. Over $5.3 billion was received by electronic means in FY 2016, compared to $5.0 billion in FY 2015.

2.2.4 Revenue Accounting Branch

The Revenue Accounting Branch (RA) maintains accounting records for all tax revenues, refunds, adjustments, district transfers, and closing adjustments, and prepares all Journal Vouchers and Summary Warrant Vouchers. RA is also responsible for error resolution, reconciliation, and reporting functions for all State tax revenues. Specific tasks include the preparation of the Daily Cash Collection Report (Oahu District), the Preliminary Report, and the Statement of Tax Operations (STO).

The Preliminary Report is released by the fifth working day of each month and is a summary of all revenues received by the Department in the previous month, less the amount of tax refunds paid. The STO is a formal, detailed report of State revenues that is based on the Preliminary Report and is prepared by the tenth working day of each month. The RA Branch has consistently and diligently met the critical deadlines for these reports throughout this fiscal year, as well as in past years.

The RA Branch also performs manual accounting activities for all miscellaneous tax collections (with the exception of the estate and transfer tax); prepares journal entries for the various administratively-established trust accounts and for other legislatively mandated purposes; maintains the manual accounting system for all protested payments and tax appeals; provides allocation reports to the Department of Accounting & General Services and to the Department of Budget & Finance; accounts for all tax refunds; and handles all refund exception activities, such as returned checks, tracers, or forgeries.

2.3 COMPLIANCE DIVISION

2.3.1 Overview

The objective of the Compliance Division is to maximize taxpayer compliance with Hawaii's tax laws in a consistent, uniform, and fair manner. The Compliance Division is composed of the Oahu Office Audit Branch, the Oahu Field Audit Branch, the Oahu Collections Branch, and the Maui, Hawaii, and Kauai District Tax Offices. In addition to these branches, there are also the Special Enforcement Section (SES) and the Criminal Investigation Section (CIS). The Division has the following three programs to meet the objectives of the voluntary compliance, self-assessment tax system: (1) auditing/examination, (2) collection, and (3) taxpayer services (information dissemination).

2.3.2 Office Audit Branch

The Office Audit Branch performed examinations and audits to enhance voluntary compliance. In FY 2016, the Office Audit Branch completed 16,866 cases, a decrease of 2.9% (496 cases) compared to FY 2015, but the total dollars assessed was $77.7 million, an increase of 54.7% ($27.5 million) compared to FY 2015. The majority of the audits were performed by Oahu Office Audit Branch, followed by the Hawaii District Office. In FY 2016, the Office Audit Branch processed the Estate and Transfer Tax returns and collected $16.1 million for estate tax returns. Charts 2.7 and 2.8 (on the following page) show the number of audits completed and the dollars assessed by Office Audit for FY 2006 through FY 2016.

2.3.3 Field Audit Branch

Similar to the Office Audit Branch, the Field Audit Branch performed examinations and audits to enhance voluntary compliance. The Field Audit Branch handled audits involving intricate auditing procedures. In FY 2016, the Field Audit Branch completed 199 cases, an increase of 14.4% (25 cases) compared to FY 2015, and the total dollars assessed was $122.9 million. Charts 2.9 and 2.10 show the number of audits completed and the dollars assessed by Field Audit for FY 2006 through FY 2016.

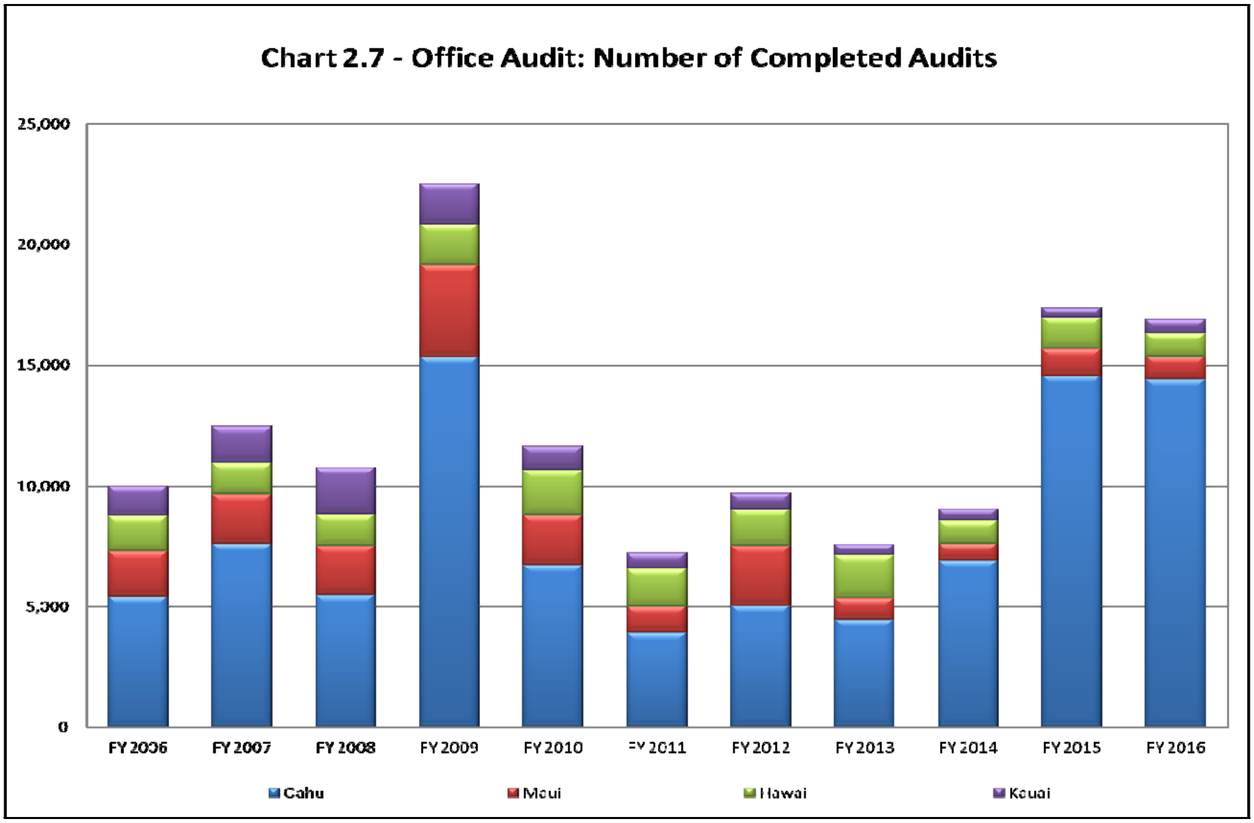


Chart 2.7 - Office Audit: Number of Completed Audits
25,000
20,000
15,000
10,000
5,000
0
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
Oahu
Maui
Hawaii
Kauai

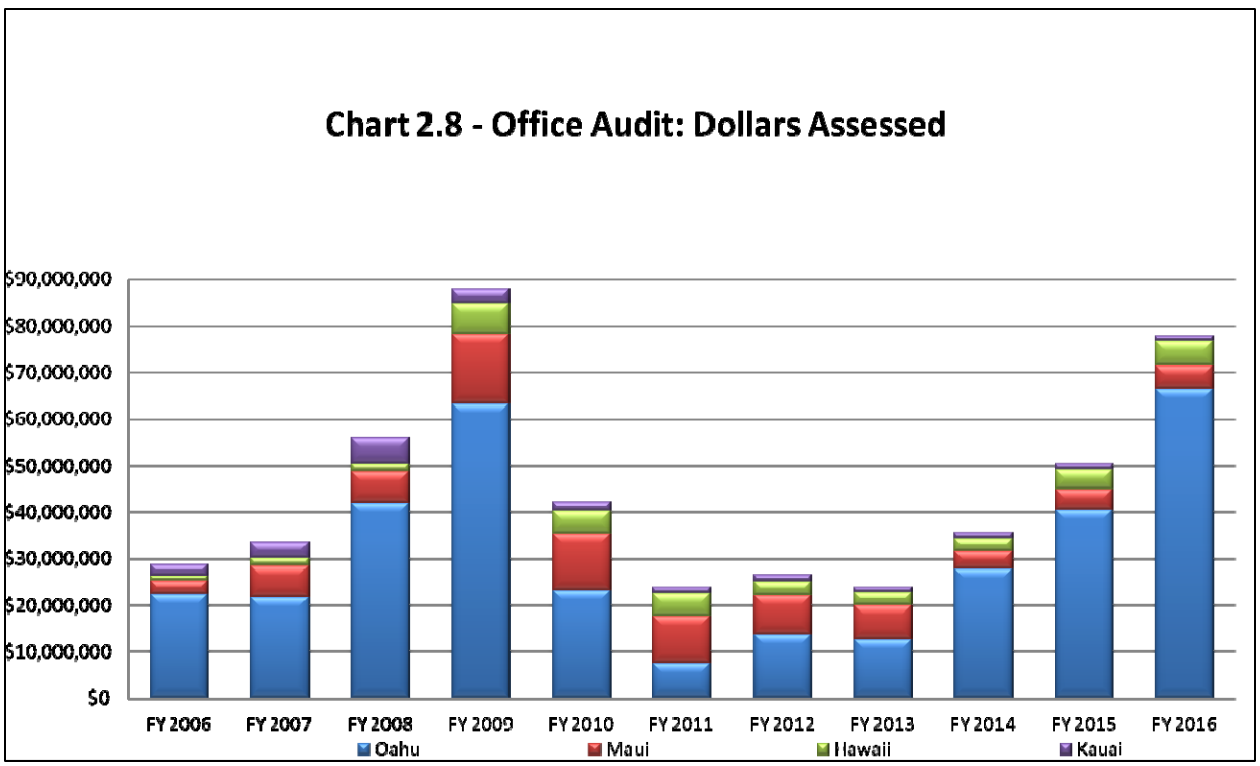


Chart 2.8 - Office Audit: Dollars Assessed
$90,000,000
$80,000,000
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
Oahu
Maui
Hawaii
Kauai

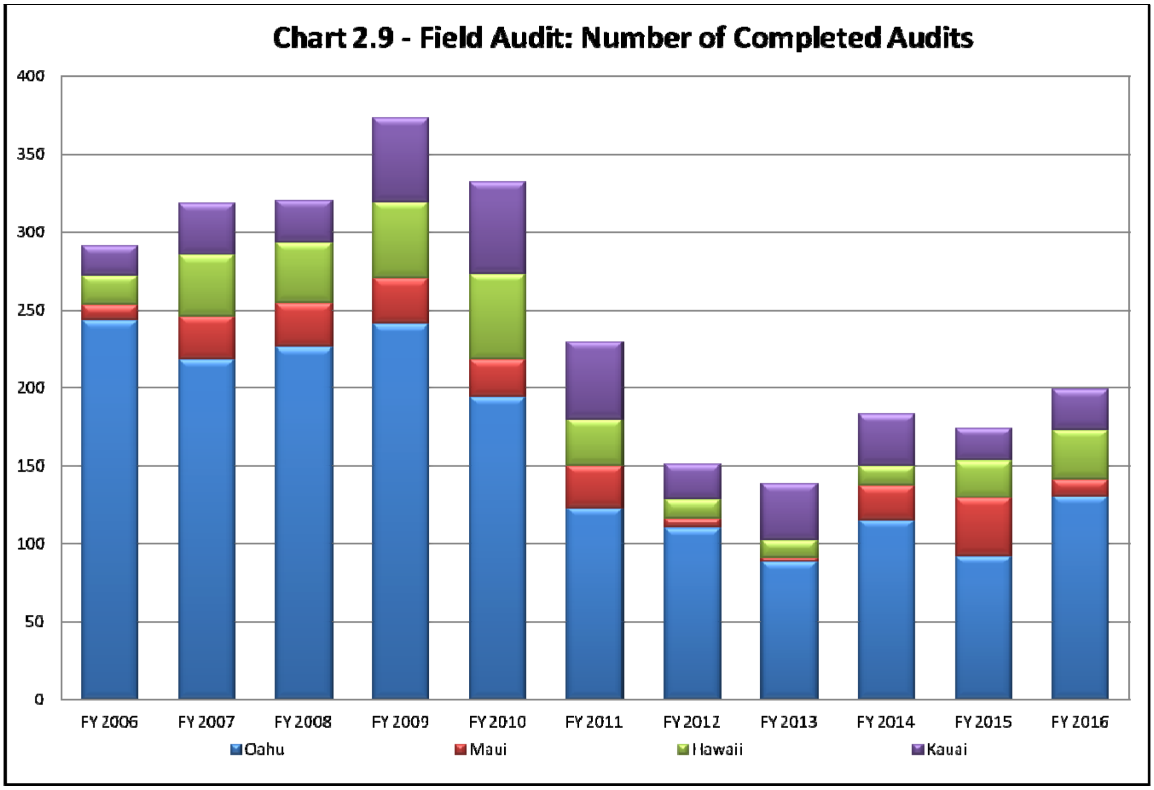


Chart 2.9 - Field Audit: Number of Completed Audits
400
350
300
250
200
150
100
50
0
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
Oahu
Maui
Hawaii
Kauai

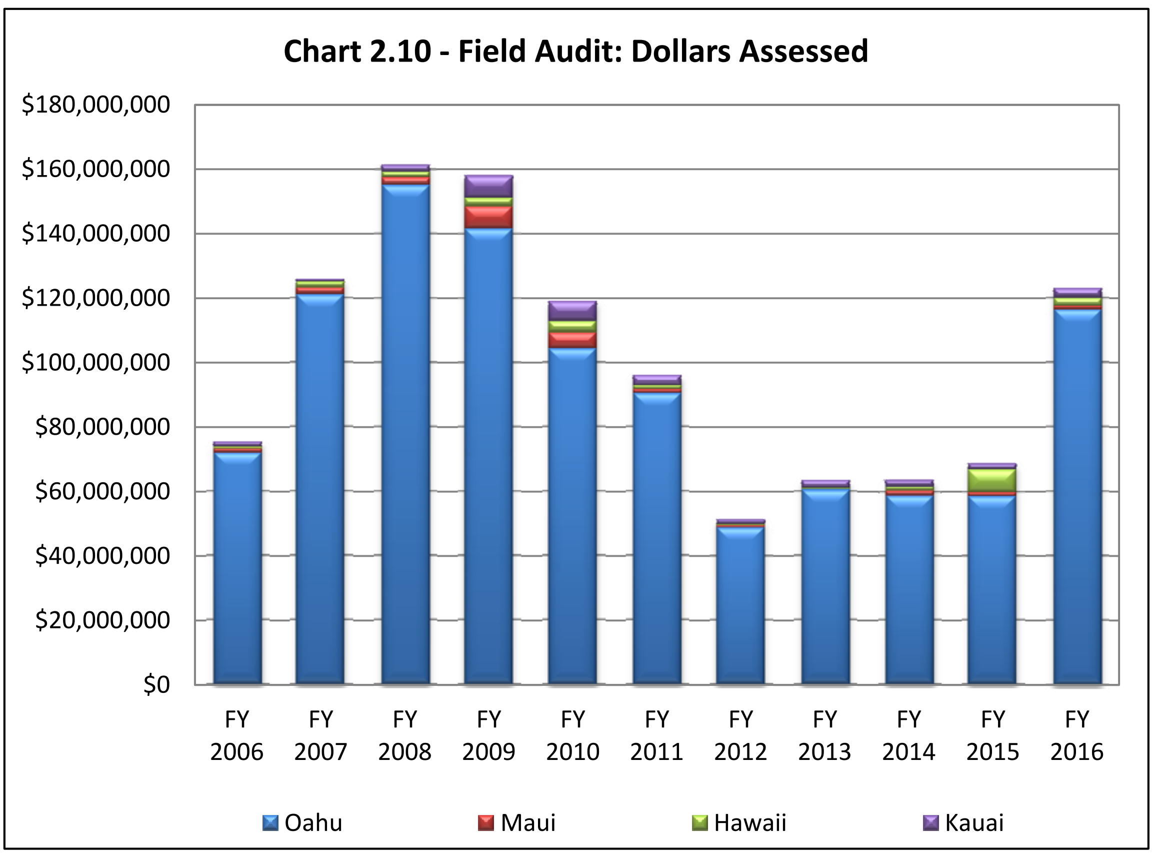
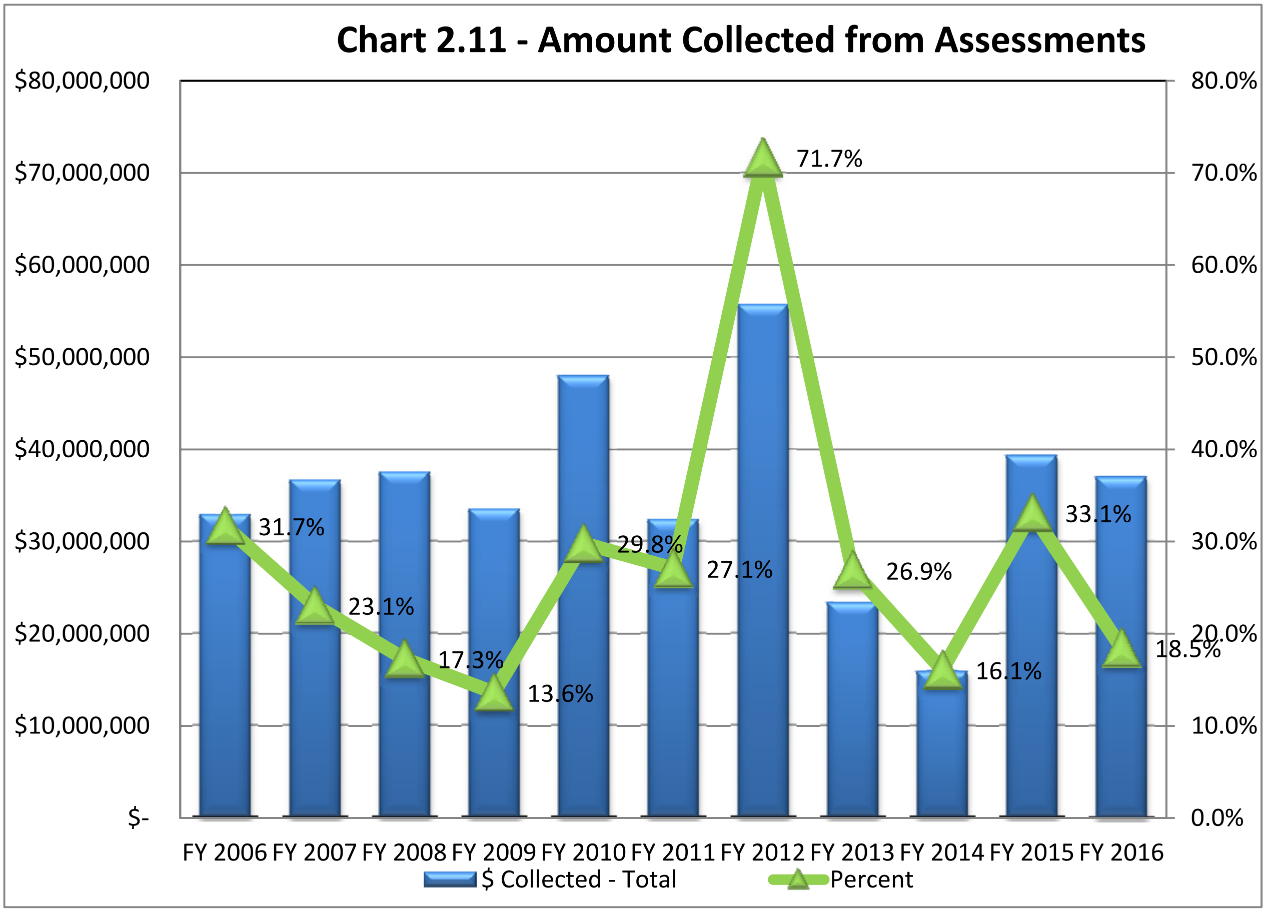


Chart 2.10 - Field Audit: Dollars Assessed
$180,000,000
$160,000,000
$140,000,000
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$0
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016
Oahu
Maui
Hawaii
Kauai

2.3.4 Revenue – Office and Field Audit Assessments

The amount collected at the time the audits were closed and prior to the mailing of any billing notices decreased from $39.3 million in FY 2015 to $37.0 million in FY 2016.[3] The figure for FY 2016 represents a collection rate of 18.5%. Chart 2.11 summarizes the amounts collected from assessments made by the Office and Field Audit Branches for FY 2006 through FY 2016. Table 2.1 shows the amounts assessed for FY 2016.



[3] The amounts assessed are the assessments generated during FY 2016. The amounts collected during FY 2016 may include assessments and settlements from prior fiscal years.

TABLE 2.1 - AMOUNTS ASSESSED FOR FY 2016

	Office Audit		Field Audit	
	Number of Audits	Dollar Assessed	Number of Audits	Dollar Assessed
Oahu	14,390	$66,459,410	130	$116,266,709
Maui	951	$ 4,968,855	11	$ 1,160,214
Hawaii	962	$ 5,249,421	32	$ 2,458,091
Kauai	563	$ 1,018,804	26	$ 2,995,656
Total FY 2016	16,866	$77,696,490	199	$122,880,670
Total FY 2015	17,362	$50,219,290	174	$ 68,743,016
Difference	(496)	$27,477,200	25	$ 54,137,654

2.3.5 Special Projects

Oahu Office Audit Branch conducted the following special projects during the fiscal year:

- Renewable Energy Tax Credit: The reviews of the tax credits claimed resulted in $406,360 in assessments and adjustments.

- 1099-MISC: The examination of tax returns resulted in $1.0 million in assessments and adjustments.

- Non-Filers: The examination of tax returns resulted in $13.6 million in assessments and adjustments.

- Itemized Deductions: The examination of tax returns resulted in $6.8 million in assessments and adjustments.

Oahu Field Audit Branch conducted the following special projects during the fiscal year:

- Federal Contractors Project: This project, which targets unlicensed contractors working on federal installations, was started in 1983 and is an ongoing activity. Six audits were completed and resulted in $480,356 in assessments.

- Referral Cases from the Criminal Investigation Unit: Five cases that were either originally considered for possible criminal prosecution or that arose pursuant to a criminal investigation were completed, resulting in $3,723,731 in assessments.

- Renewable Energy Tax Credit: The review of the credits claimed resulted in $6,181,699 in assessments from 11 audits.

- Multistate Tax Commission: During this fiscal year, 12 audit cases were completed that resulted in $60,940,475 in assessments.

- Online Travel Companies: The Field Audit Branch assisted the Attorney General's Office and issued assessments to nine online travel companies. The assessments totaled $15,149,234.

The Maui Office Audit Section conducted the following special projects during the fiscal year:

- Miscellaneous Deduction Project: Maui Office Audit assessed 186 taxpayers a total of $615,393 in tax, $1,095 in late filing penalties, $9,323 in negligence penalties, $34,626 in understatement of tax or overstatement of refund penalties and $63,338 in interest.

- Renewable Energy Technologies Income Tax Credits: Maui Office Audit examined renewable energy income tax credits claimed in the amount of $1,120,000, which resulted in the disallowance of credits in the amount of $160,751.

The Maui Field Audit Section conducted the following special project during the fiscal year:

- Renewable Energy Technologies Income Tax Credits: Maui Field Audit reviewed renewable energy income tax credits claimed in the amount of $963,707 which resulted in the disallowance of credits in the amount of $39,131.

The Hawaii District Office Audit Section conducted the following special projects during the fiscal year:

- Renewable Energy Tax Credits: The review of renewable energy tax credits claimed resulted in $55,058 in assessments and adjustments.

- Itemized Deductions: The examination of tax returns resulted in $677,187 in assessments and adjustments.

- 1099-MISC: The examination of tax returns resulted in $780,202 in assessments and adjustments.

Hawaii District Field Audit Section conducted the following special project during the fiscal year:

- Capital Goods Excise Tax Credit: The review of the credits claimed resulted in $46,735 in assessments and adjustments.

2.3.6 Taxpayer Assistance Provided

During FY 2016, the personnel in neighbor island district tax offices helped taxpayers properly file numerous tax returns and other documents over the telephone, at the service counter, and via correspondence. The Oahu Office Audit, Field Audit, and Collection units also provided support services to the neighbor island district tax offices and to the Oahu Taxpayer Services Branch when requested. Table 2.2 summarizes the number of times that taxpayer assistance was provided by the Maui, Hawaii, and Kauai District Tax Offices.

TABLE 2.2 - TAXPAYER ASSISTANCE PROVIDED BY
MAUI, HAWAII AND KAUAI DISTRICT OFFICES

	FY 2016	FY 2015	Difference Number	Difference Percentage
Counter	73,568	72,998	570	0.8
Phone Services	51,694	56,213	(4,519)	(8.0)
Tax Clearances	5,542	7,462	(1,920)	(25.7)
Correspondence	19,872	18,856	1,016	5.4

The taxpayer services sections in the districts provide telephone and counter services, supplementing the centralized customer services provided by the Oahu TSP Division. The districts continue to receive a steady flow of telephone inquiries, and can use the statewide tax data system to assist with any tax inquiry.

Providing assistance to taxpayers is part of the Compliance Division's continuing emphasis on taxpayer education and problem resolution. The Compliance Division believes that it is important to maintain taxpayers' willingness to accurately and voluntarily comply with the State's tax laws, so it will continue to emphasize its "taxpayer enabling and empowering activity."

2.3.7 Collection Branch

The Compliance Division's Tax Collections program consists of the Oahu collection branch and the collection sections in the Maui, Hawaii, and Kauai District Tax Offices. Collections of delinquent taxes totaled $217.6 million for FY 2016, compared to $235.9 million in FY 2015, a decrease of $18.3 million or 7.8%. The Oahu collection branch accounted for 82% of the statewide delinquent tax collections in FY 2016. The Oahu collection branch experienced a 16% reduction in delinquent collectors in FY 2016 owing to special project assignments and attrition. New delinquency referrals were down $15.1 million or 5.3%. Chart 2.12 shows delinquent collections for FY 2006 through FY 2016. Table 2.3 shows major performance measures for FY 2016 and FY 2015.

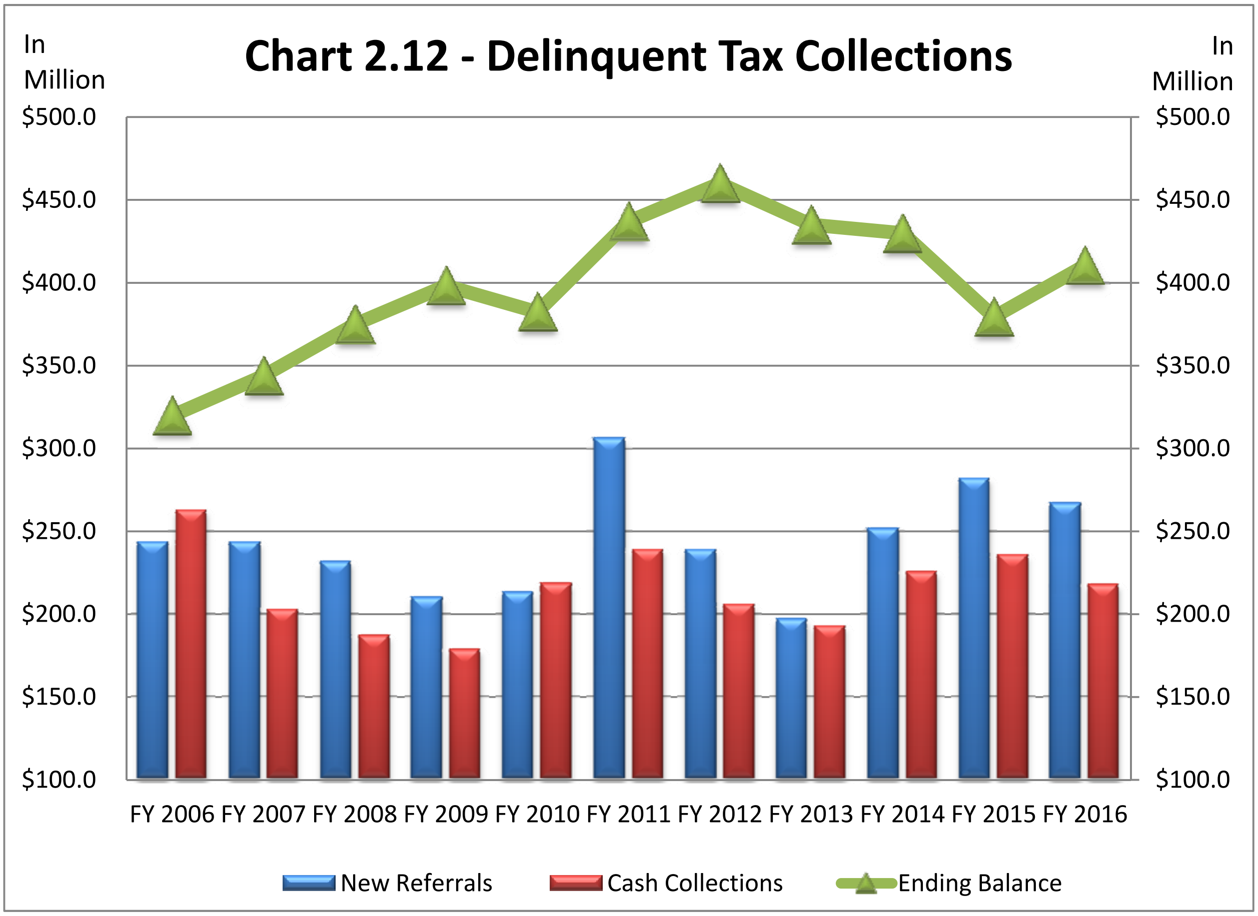


Chart 2.12 - Delinquent Tax Collections

TABLE 2.3 - MAJOR PERFORMANCE MEASURES FOR FY 2016 AND FY 2015

			Difference	
Measure	FY 2016	FY 2015	Amount	Percentage
Total Delinquent Tax Balance ($ Millions)	$ 410.5	$ 384.2	$ 26.3	6.8
Total New Delinquent Referrals ($ Millions)	$ 267.2	$ 282.3	$ (15.1)	(5.3)
Total Cash Collected ($ Millions)	$ 217.6	$ 235.9	$ (18.3)	(7.8)
Uncollectible Tax Write-Offs ($ Millions)	$ 23.3	$ 92.1	$ (68.8)	(74.7)
Payment Plans Initiated	33,237	33,055	182	0.6
Tax Liens Filed	2,886	3,130	(244)	(7.8)
Levies Served	21,001	21,599	(598)	(2.8)

2.3.8 Criminal Investigation Section

During FY 2016, the Criminal Investigation Section (CIS) made significant strides in refocusing its investigative priorities and has achieved substantial outcomes. CIS conducted 35 investigations, including those on entities with legitimate sources of income and those on individuals and groups involved in illegal activities, such as narcotics trafficking, gambling, prostitution, and financial frauds. In addition, CIS conducted three investigations relating to threats made against Department employees and two internal investigations.

Three joint investigations were referred to the U.S. Attorney's Office for review and federal prosecution. The cases are described as follows:

(1) A fraudulent refund scheme with a State of Hawaii loss in excess of $275,000.

(2) An investigation involving multiple defendant tax preparers and over 400 tax returns.

(3) An investigation relating to a false and fraudulent tax return filed by an individual with a high public profile.

In an ongoing investigation of multiple businesses, the overall entity made unsolicited admissions after the fact and filed their returns, with payments, for one of the businesses.

In one significant investigation, a mainland corporation, upon learning that they were under criminal investigation by CIS, made unsolicited admissions after the fact and filed their returns with payments. The investigation has been referred to the Hawaii AG's office for prosecution. The investigation was initiated based on an anonymous letter. Investigative techniques in the case included using a confidential informant and executing state search warrants.

Another significant investigation was of a multiple refund fraud scheme perpetuated by a criminal group based in another state. The investigation was initiated by CIS and was subsequently conducted jointly with the state police and the department of revenue of the other state. The investigation revealed that the criminal group targeted 40 states. The other state suffered little or no losses due to their own internal controls. However, the State of Hawaii suffered over $500,000 in losses through the issuance of fraudulent refunds. The investigation has been referred to an out-of-state jurisdiction for prosecution. It is anticipated that over 25 suspects will be arrested at the culmination of the investigation. The out-of-state prosecuting authority agreed to seek restitution for the State of Hawaii losses. Investigative techniques in the case included using computer forensics and executing out-of-state search warrants.

CIS is currently investigating other mainland companies doing business in the State of Hawaii with similar magnitudes of criminal and civil liabilities at stake.

During FY 2016, CIS completed investigations that were not referred for criminal prosecution. These investigations were referred to either Oahu Office Audit or to Oahu Field Audit for civil assessments that totaled an estimated $2,191,888. Additionally, over $400,000.00 was paid by taxpayers under investigation for outstanding tax liabilities.

CIS will continue to be innovative in its investigative approach and will strive to improve its processes for the Department.

2.3.9 Special Enforcement Section

Act 134, SLH 2009, provided resources for the creation of the Special Enforcement Section (SES). SES is an initiative to increase compliance by businesses that conduct a significant number of difficult-to-trace cash transactions in what has been called the "cash economy." SES began conducting investigations in FY 2010.

In FY 2016 the unit was given a new assignment, namely to bring into compliance short term rentals or transient accommodations (TA), specifically TAs rented through websites. This area has a high percentage of non-compliance and it is difficult to identify the taxpayers. SES divided its resources between efforts to bring the short term rentals into compliance and efforts to continue work on the cash economy.

Act 204 went into effect in FY 2016. The Act allowed SES to fine certain individuals and brokers (entities running websites) for failing to display the proper information. To ensure proper information was reaching the public, SES sent out over 70 letters to brokers in FY 2016.

The unit has increased its effectiveness and efficiency by working more closely with other parts of the Department to streamline the compliance process for the taxpayers, from filing to payment. Revenue collected as a result of SES efforts more than doubled from FY 2015 to FY 2016. The tabulation below provides statistics on SES operations from FY 2014 to FY 2016.

	FY 2016	FY 2015	FY 2014
Complaints filed by anonymous persons	364	391	195
Vendors educated on how to comply with tax laws	1,470	1,554	1,005
Sites visited throughout the State of Hawaii	28	60	18
Number of investigations completed	31	34	31
Number of referrals sent for assessment	30	7	22
Total liability on secured returns - SES Project	$ 2,944,583	$ 2,332,782	$ 996,211
Total liability on secured returns - TA Project	$ 1,638,607	N/A	N/A
Revenue collected	$ 3,505,618	$ 1,619,235	$ 805,776

2.4 STAFF OFFICES

2.4.1 Administrative Services Office

2.4.1.1 Fiscal Office

The Administrative Services Office submitted the Department's supplemental budget for FY 2017 to the 2016 Legislature. The Legislature appropriated $28.8 million for the Department's FY 2017 operating expenses.

For fiscal year 2016, $29.7 million was appropriated for the Department, but in discharging its duties and responsibilities, the Department incurred operating expenses of only $24 million for the year. The Department collected $6.89 billion in net tax revenues in fiscal year 2016, so the cost to collect $100.00 of taxes was about 35 cents.

2.4.1.2 Personnel Management

In FY 2016 the Personnel Office emphasized the enforcement of personnel regulations to ensure fair and equitable treatment of employees. However, the continued high vacancy rate hindered the Department in fully achieving its program objectives.

During that fiscal year, the Department's vacancy rate for permanent positions declined from 20% to 14%. Vacancies in the Compliance Division fell by 45% while those in Tax Services & Processing and in Staff Offices both decreased by 14%.

In FY 2017 the Personnel Office will emphasize filling the Department's vacancies as quickly and efficiently as possible. It will also concentrate on helping the Department achieve its objectives by efficiently organizing, placing, and retaining its employees.

To provide sufficient and quality staff in the Department's major program areas, the Personnel Office aims to significantly reduce the Department's vacancies in the new fiscal year. Adjustments to the recruitment process have been made that will expedite recruitment and help program officers select the best qualified candidates available.

The Department had 384 authorized permanent positions for FY 2016, which was the same as in FY 2015. Employees were geographically distributed as follows: Oahu, 315; Hawaii, 28; Maui/Molokai, 24; and Kauai, 17. For FY 2017, the Legislature approved 5 new positions and abolished 1 position, for a net gain of 4 positions (1 per island). The geographic distribution of the positions is as follows: Oahu, 316; Hawaii, 29; Maui/Molokai, 25; and Kauai, 18.

The following tabulation shows the Department's staffing pattern from FY 2013 to FY 2017:

STAFFING PATTERN

(Number of Authorized Permanent Positions)

	Fiscal Year				
By Organization/Operating Program	2017	2016	2015	2014	2013
Headquarters Administration	74	75	75	75	72
Tax Services and Processing Division	118	118	118	118	122
Compliance Division	196	191	191	189	189
TOTAL	388	384	384	382	383

2.4.2 Rules Office

The Rules Office is comprised of the Rules staff and the Technical Section. The function of the Rules Office is to serve as a resource for complex policy recommendations and complex internal support. The Rules Office also assists in the Department's implementation of new legislation and in creating and maintaining the Department's tax forms, form instructions, and publications.

2.4.2.1 Rules Staff

The Rules staff serves as the Department's internal advisory arm to the Director of Taxation on tax policy and advises the Director's Office and the Department on legislative and tax policy issues. Litigation and other external legal matters are handled exclusively by the Tax Division of the Department of the Attorney General.

In addition, the Rules staff assists, counsels, and represents the Department's compliance personnel with tax disputes and other administrative tax controversies. For example, the Rules staff provided assistance to the Department's compliance function in interpreting issues under audit, settlement negotiations and closings, and appeared on behalf of the Department before the Boards of Review. The Rules staff also assisted the Tax Division of the Department of the Attorney General with the judicial tax appeals and provided support to the Department’s Tax System Modernization project.

The Rules staff also testified at legislative hearings on behalf of the Director, provided training for Department personnel, and spoke at several workshops for tax practitioners. For the 2016 legislative session, the Rules staff drafted and submitted nine bills sponsored by the administration, which were submitted to both the House of Representatives and the Senate. Prior to the start of the legislative session, the Rules staff also reviewed and commented on proposed tax legislation submitted by other executive departments.

After reviewing the bills introduced to the 2016 Legislature, the Director's Office and the Rules staff determined there were approximately 250 measures proposing tax law changes and analyzed them in depth. The measures were tracked throughout the legislative session and written testimonies were prepared each time a tax measure was heard by the Legislature. In addition, the Rules staff drafted letters to legislative committee chairs to respond to specific questions raised during hearings or to address specific concerns of committee members.

During the fiscal year, the Rules staff prepared Tax Announcements, Tax Information Releases, letter rulings, Administrative Directives, and other publications. During FY 2016, seven Tax Announcements were issued. Since 2009, when it became the Department’s policy to publicly release taxpayer letter rulings in redacted form, 60 redacted letter rulings have been released.

In FY 2016, the Department promulgated administrative rules relating to the Cash Economy Enforcement administered by the Special Enforcement Section, Reconsideration of Assessment, Alternative Methods of Apportionment, Car Sharing Vehicle Surcharge Tax, Act 204, Session Laws of Hawaii 2015, Disclosure of Tax Return Information, and Revocation of General Excise Tax Licenses because of Abandonment. The Rules staff also reviewed and certified 119 requests for the credit for research activities pursuant to HRS § 235-110.91.

2.4.2.2 Technical Section

The Technical Section is tasked with varying responsibilities to carry out the Department's projects, goals and initiatives, and to support the Department's operational needs. Specifically, the Technical Section assists and advises all divisions within the Department, as well as outside parties such as individual and corporate taxpayers and tax professionals, on complex areas of the state tax laws. For FY 2016, the Technical Section responded to 1,411 email inquiries and 4,481 telephone inquiries. Technical Section also responded to formal requests which includes requests for letter rulings or information letters, determinations of tax status (such as for eligibility for the general excise tax exemptions for air-pollution control facilities), multi-level marketing agreements, and tax surveys and questionnaires from other government agencies, educational institutions, and major tax service product providers.

The Technical Section also reviews, researches, analyzes, and provides comments and recommendations on the technical and procedural aspects of legislative bills, administrative rules, and Tax Information Releases. The staff is responsible for revising or creating the State's tax forms and instructions, incorporating all applicable federal and state tax law changes. For FY 2016, the Technical Section reviewed 292 tax forms and 55 tax form instructions. This past fiscal year saw neither additions nor obsolescence of forms or instructions. As part of the forms process, the Department has a Forms Reproduction Policy under which companies who reproduce state tax forms, such as tax preparation software companies, must submit their facsimiles for review and testing through the Department's tax return scanning machines. For FY 2016, 439 tax forms were submitted to the Technical Section for review, testing, and approval.

Other duties of the Technical Section include analyzing and reviewing certain applications for tax exemptions. In FY 2016, 206 applications for an exemption from the general excise tax were received, 182 applications were reviewed and approved, 67 applications are pending further action and 12 applications were cancelled due to lack of response to a request for additional information or the organization did not qualify as exempt under §237-23(b), HRS. In addition, 2,718 applications for conveyance tax exemptions were reviewed and processed.

2.4.3 Tax Research and Planning Office

The following are the main functions of the Tax Research and Planning (TRP) Office: (1) prepare reports on data collected by the Department, including reports on collections of the State's various taxes, on the income patterns of individual and business taxpayers, and on tax credits claimed by taxpayers; (2) provide administrative and technical support to the Council on Revenues to assist it in preparing its forecasts of General Fund tax revenues and total personal income; (3) provide economic and statistical analyses to help the Department execute its policies and programs; (4) prepare reports on the revenue consequences of proposed tax legislation for the Legislature, the Governor, and other agencies in the Administration; and (5) provide administrative and technical support to the Tax Review Commission when it is in session.

The TRP Office prepares the following reports on a monthly, fiscal year, and calendar year basis:
(1) State Tax Collections and Distributions; (2) General Excise and Use Tax Collections;
(3) Liquid Fuel Tax Base and Collections; (4) Liquid Fuel Tax Allocations by Fund; (5) Liquor Tax Collections and Permits; (6) Tobacco Tax Collections and Licenses, and (7) Preliminary Comparative Statement of General Fund Tax Revenues.

In fiscal year 2016, the TRP Office worked on the Department of Taxation's Annual Report: 2014–2015, which was completed and submitted in November of 2015. The Office also published reports on tax credits claimed by Hawaii taxpayers in tax year 2013 and on statistics on Hawaii's individual income tax in tax year 2013. Owing to staff shortages, the reports on tax credits and on the individual income tax had been discontinued since 2007 when the report for tax year 2005 was issued. Statistics from the report are used to estimate the revenue consequences of legislative proposals and to inform policy officials about the revenue costs of the tax credits.

For the 2016 Legislative session, TRP staff reviewed and tracked tax-related legislative bills and resolutions, and prepared more than 300 revenue estimates for various drafts of the bills. Revenue estimates were also prepared for various proposals in response to requests from the Administration, legislators, and others.

An important function of the TRP Office is to provide administrative and technical support to help the Council on Revenues produce its forecasts of tax revenues. The seven members of the Council are responsible for forecasting State General Fund revenues and the State's total personal income. The Council provides forecasts of State revenue for the current and six subsequent fiscal years. The forecasts are due on September 10, January 10, March 15, and June 1 of each year. The forecasts are used by the Governor and by the Legislature to develop and administer the State's budget. The Council also forecasts total personal income (TPI) for the current and immediately following calendar years. The TPI forecasts are due on August 5 and November 5 of each year. The growth in Hawaii total personal income is used to set the ceiling for expenditures from the State's General Fund, as required by the State's Constitution.

TRP staff applied advanced econometric modeling techniques to data on State tax collections and to data on other economic variables to help the Council produce its forecasts. The Council's last General Fund forecast for fiscal year 2016 was produced on May 24, 2016. The forecast called for tax collections dedicated to the Fund to grow by 6.1% compared with fiscal year 2015. Tax collections actually grew by 8.0%, as General Fund collections grew from $5.74 billion in fiscal year 2015 to $6.19 billion in fiscal year 2016. The Council's last forecast for total personal income for calendar year 2015 was produced on November 5, 2015 and called for growth of 4.0% over calendar year 2014. The actual growth was 4.75%, from $65.99 billion in calendar year 2014 to $69.13 billion in calendar year 2015.

The TRP Office updated its econometric models that were developed to predict General Fund tax collections based on the Council's forecasts for economic variables, including its original model, the model that was developed under a contract with UCLA Anderson Forecast, and the single-equation model that the Office developed at the request of the Council on Revenues.

2.4.4 Information Technology Services Office

The Information Technology Services (ITS) team is responsible for providing technical support for the Department's computerized tax systems and applications, for local area networks, and for network-related components and infrastructures. The System Administration team provides business analysis and functional support for the Department’s operation. It also provides statistical data and facilitates discussion in process improvement.

During FY 2016, the ITS Office's ITS team and the System Administration team continued to focus on managing, administering, and maintaining the Integrated Tax Information Management System (ITIMS). The teams also supported network-related components and infrastructures and provided business analysis and operational support for the Department. In addition, the ITS Office began work on the multi-year Tax System Modernization (TSM) Program, which will eventually replace all of the Department's current information technology systems and applications.

As specified in its charter, the TSM Program is overseen by an executive steering committee consisting of senior Department officials, including the Director of Taxation, which acts as the program executive sponsor. The TSM Program Manager directs the TSM Program Management Office (PMO) and reports to the TSM Executive Steering Committee. The TSM PMO is tasked with providing project management, information technology and system analysis expertise to facilitate the implementation of new technology and business process improvements.

The management of the TSM Program complies with recommendations made by the State Auditor in 2010 and uses experienced professionals and best practice methods to ensure the success of the Department's modernization initiative. Managing information technology projects under a program structure allows for coordination to obtain benefits and control not available from managing projects individually.

Key information technology, system analysis, and operational support initiatives that were continued or accomplished during FY 2016 include the following:

- Completing the State's banking conversion from First Hawaiian to Wells Fargo bank with respect to the transmission of ACH files for direct deposit refunds.

- Implementing the "Lockbox" to expedite General Excise Tax payments processing.

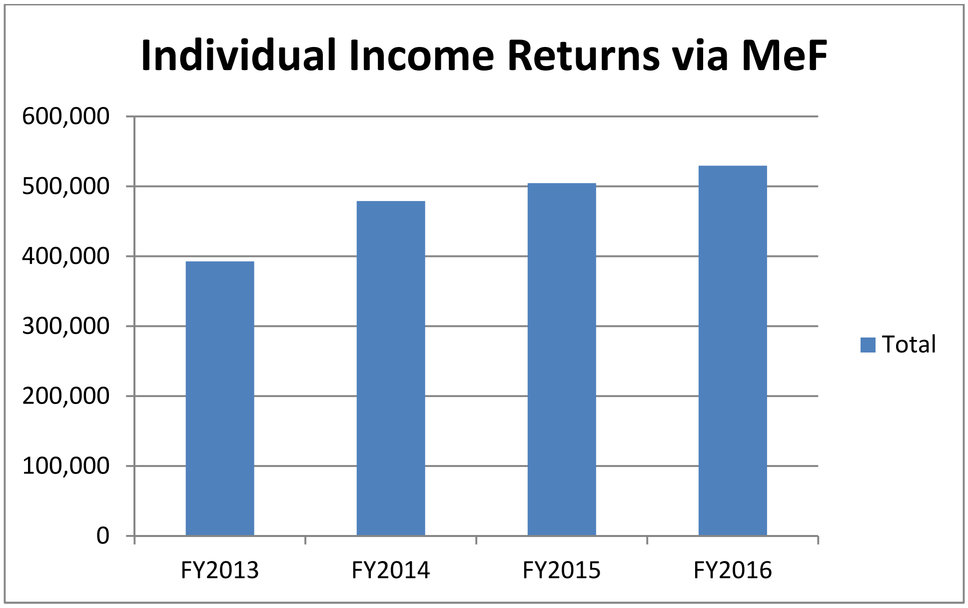
- Providing technical and functional support for the Department's operation.

- Upgrading the Department's networking infrastructure to support the Department's operations and the TSM program.

- The System Administration team addressed 985 help tickets to change user security, to answer general system/tax law questions, or to provide statistical data or quality assurance updates.

- A $30 million contract was successfully executed for the implementation and support of hardware, software, and services in partnership with FAST Enterprises, LLC. Full funding of the awarded proposal will require $60 million to cover the implementation and maintenance of new systems through FY 2025.

    - The first of five planned rollouts successfully went into operation within budget and before the scheduled deadline of December 28, 2015. Aging information technology that was replaced as part of the rollout includes scanning and mail opening equipment, interactive voice response and telephony equipment, and a Modernized Electronic Filing (MeF) system for processing electronic returns received through an interface with the IRS. There were 529,662 individual income tax returns accepted via MeF in fiscal year 2016, an increase of 5% from fiscal year 2015.



- The second rollout of the TSM Program involves the deployment of a new tax information system for General Excise; Use; Seller's Collection; County Surcharge; and Rental Motor Vehicle, Tour Vehicle, and Car-Sharing Vehicle Surcharge tax types. The preparation, definition, and base configuration phases of the second planned rollout were completed. Development, conversion, testing, and training phases were initiated in anticipation of an August 15, 2016 cutover target.

- A request for proposals for independent verification and validation services was issued and awarded. A contract worth about $1.4 million over eight years was executed with Advantech, LLC. Under the contract, consultants conducted a site visit in April 2016 and drafted an initial assessment in May 2016.

- An invitation for bids was issued and an award was made for data center space. Production hardware for the TSM Program was migrated to a secure data center managed by DR Fortress.

Items that will likely continue into the next reporting period include the following: 1) TSM Program rollouts; 2) annual Tax Law Changes; 3) further measures to detect and stop fraudulent refunds.

While the complete replacement of existing legacy systems under the TSM Program is scheduled for completion by mid-2019, priority is being given to replace systems that are impairing the Department's performance in order to provide the State with the greatest benefits at the earliest opportunity.

2.4.5 Administrative Appeals Office

On February 1, 2016, the Department launched the Administrative Appeals and Dispute Resolution program (AADR). This is an informal appeals process authorized by section 231-7.5, HRS, and administered by the Administrative Appeals Office (AAO). The AAO's objective is to resolve tax disputes fairly, quickly, and without litigation. The AAO considers cases that involve proposed, final, and return preparer assessments that were issued as a result of a Department audit. Taxpayers or return preparers who disagree with the Department's assessments may apply to the AADR program. The AAO is separate and independent of the Department offices that conduct audits and issue assessments.

The AAO operated for 5 months in FY 2016. Caseload data for FY 2016 are provided below:

- 29 appeals were filed with the AAO, of which 16 cases were closed and 13 cases are pending.

- The appealed cases consisted of 21 income tax cases, 7 general excise tax cases, and 1 transient accommodations tax case.

- Of the appealed cases, 25 were from the Oahu district, 2 were from the Hawaii district, and 2 were from the Maui district. There were no cases from the Kauai district.

The AAO's short term goal is to make tax practitioners aware of the AADR program and educate them about what the program has to offer. To accomplish this goal, we have presented the AADR program to the National Association of Tax Professionals-Hawaii Chapter, to the Hawaii State Bar Association-Tax Division, and to the tax professionals at the Department's annual summer workshops held on Hawaii, Kauai, Maui, and Oahu. We are planning additional outreach activities in the coming fiscal year. Based on the feedback we received, we have done the following:

(1) Eliminated the requirement that taxpayers must withdraw their appeals from the Board of Review (BOR) in order to participate in the AADR program. After careful consideration, this requirement was eliminated to make the program more accessible to taxpayers.

(2) Set a long-term goal to expand the scope of cases eligible to participate in the AADR program. We received requests to expand the program's scope from taxpayers and tax professionals alike. The AAO's current challenges are staffing and office space. The AAO is staffed with one full-time employee and temporarily housed in office space borrowed from another office in the Department. Legislation was proposed to allow the Director to provide more staffing, but it did not pass.

Overall, the AADR program has been well received and the number of appeals into the program continues to increase. In the next fiscal year, we will continue to develop and refine the program and use various outreach activities to make people aware of the program and to educate them about what it offers. For more information about the program, please visit our website at tax.hawaii.gov/appeals.

2.4.6 Taxpayer Advocate

The Taxpayer Advocacy Program assists taxpayers who do not have a resolution to their tax related issue after going through normal channels. The program was reinstated on October 1, 2015 and helped 882 taxpayers resolve tax related issues during FY 2016.

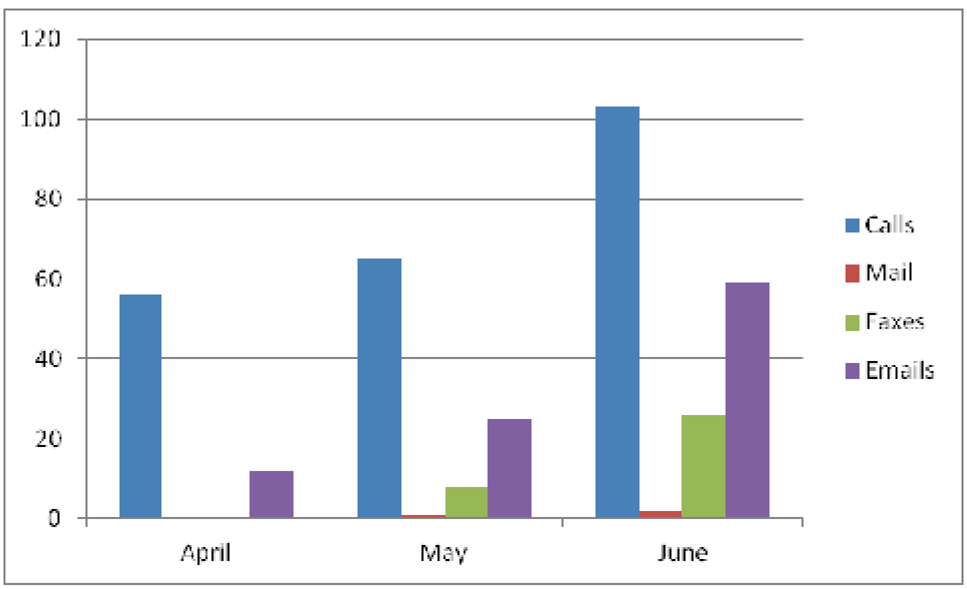
Indirectly, the Taxpayer Advocate worked to resolve problems within the Department that affect taxpayers. Examples of the problems that were found include those in processing of returns, checks and refunds, and in inter-departmental handling of taxpayer issues. Other accomplishments of the office include educating and assisting taxpayers in workshops and through community outreaches.

2.4.7 Tax Practitioner Priority Office

The Tax Practitioner Priority program started on April 1, 2016. The Practitioner Priority Specialist works directly with registered tax practitioners to resolve issues related to taxpayer accounts. The goal of the office is to provide quality service to registered tax practitioners in a timely manner.

The Practitioner Priority Specialist helps tax practitioners by locating and applying payments; explaining Department notices and letters; providing information on the taxpayer's accounts; providing general procedural guidance and time frames; and directing inquiries to the appropriate offices within the Department.

Registered tax practitioners may send inquiries by email, fax, phone, or regular mail. The chart below shows the volume of inquiries received for the months from April through June of 2016.



2.5 MANAGEMENT PERSONNEL
As of June 30, 2016

OFFICE OF THE DIRECTOR

Director of Taxation....................Maria E. Zielinski
Deputy Director of Taxation....................Joseph K. Kim

STAFF OFFICES

Public Information Officer....................Mallory Fujitani
Rules Officer....................Ted Shiraishi
  Technical Section Supervisor....................Denise Inouye
Acting Tax Research & Planning Officer....................Donald Rousslang
  Senior Economist....................Yvonne Chow
Information Technology Services Officer....................Robert Su
Administrative Services Officer....................Dexter Suzuki
Acting Personnel Officer....................Gene J. Dumaran
Taxpayer Advocate....................Jaysen Y. Morikami
Administrative Appeals Officer....................Adriane Aarona
Tax Practitioner Priority Specialist....................Jenny Xu

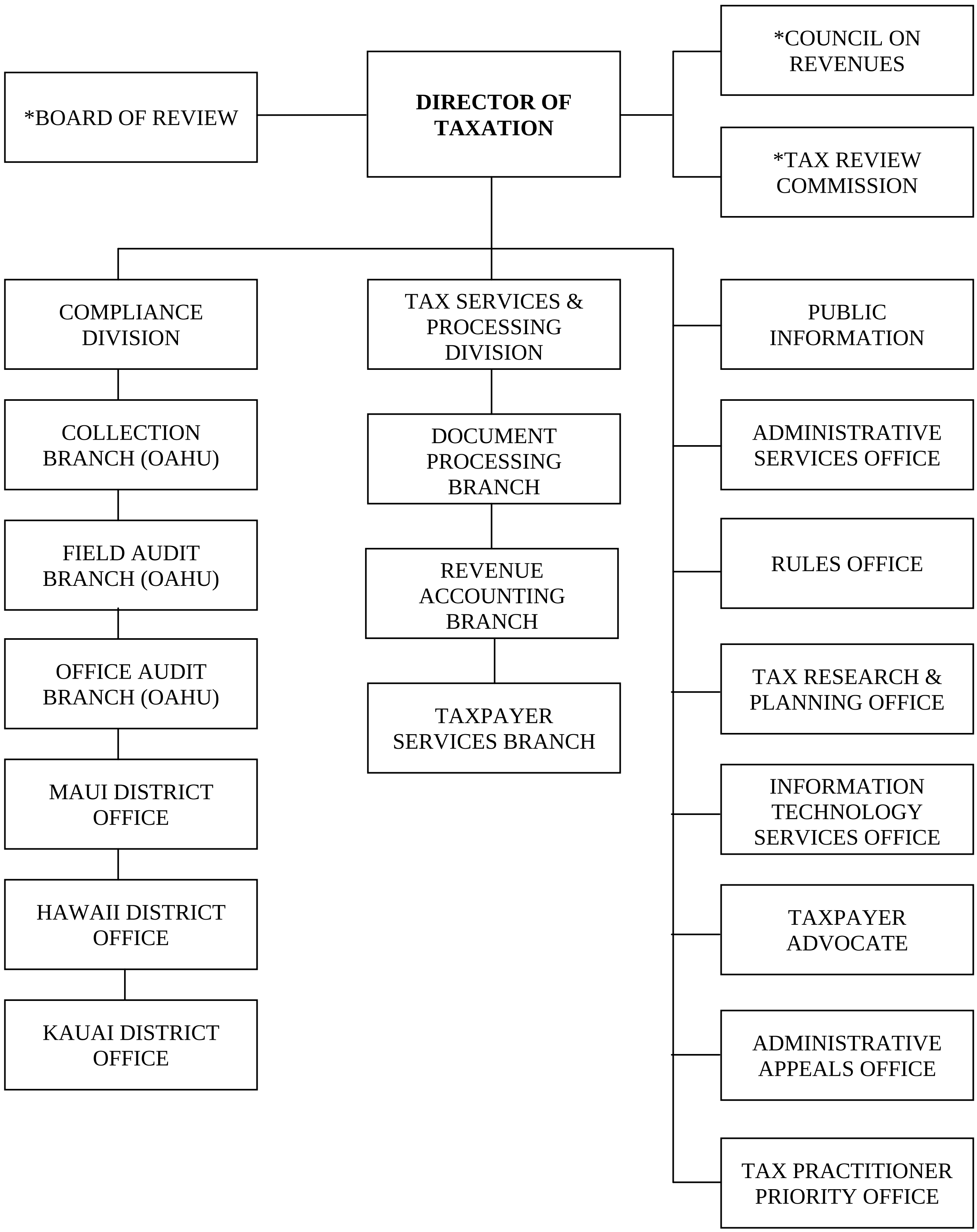
OPERATIONS STAFF

Taxation Compliance Administrator....................Kevin Wakayama
  Tax Compliance Coordinator....................Damien A. Elefante
  Oahu Field Audit Branch Chief....................Madelaina Lai
  Oahu Office Audit Branch Chief....................Donald Kuriki
  Oahu Collection Branch Chief....................William Deeley
  Maui District Tax Manager....................Kathleen Uehara
  Hawaii District Tax Manager....................Duquesne Hulihee
  Kauai District Tax Manager....................Erin Tsuda

Acting Taxation Services Administrator....................Janyne Kaai
  Document Processing Operations Manager....................Todd Kuromoto
  Revenue Accounting Branch Chief....................Jennifer Oshiro
  Taxpayer Services Branch Chief....................John Pacheco

2.6 ORGANIZATION CHART

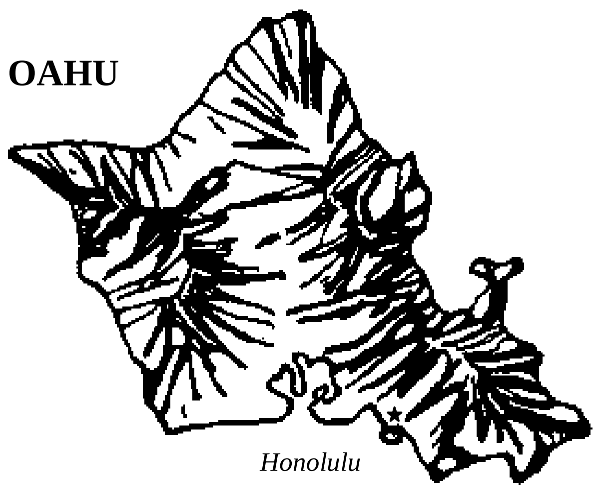
Department of Taxation
State of Hawaii



*For Administrative Purposes.

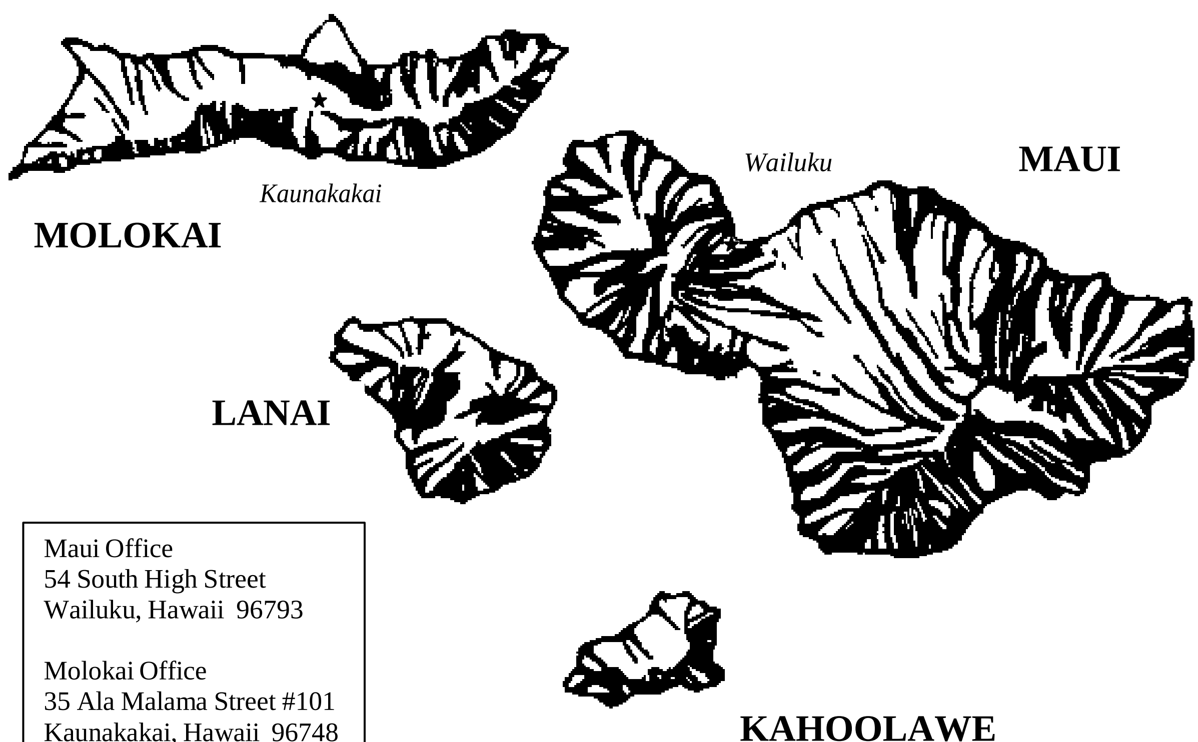
2.7 DISTRICT OFFICES

FIRST TAXATION DISTRICT
City & County of Honolulu



Oahu Office
830 Punchbowl Street
Honolulu, Hawaii 96813

SECOND TAXATION DISTRICT
Counties of Maui and Kalawao



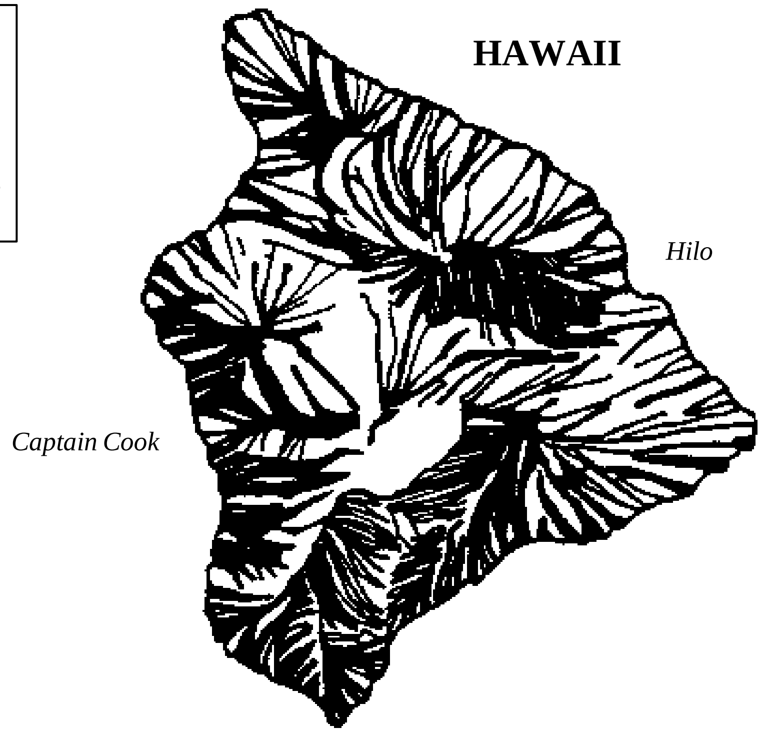
Maui Office
54 South High Street
Wailuku, Hawaii 96793

Molokai Office
35 Ala Malama Street #101
Kaunakakai, Hawaii 96748

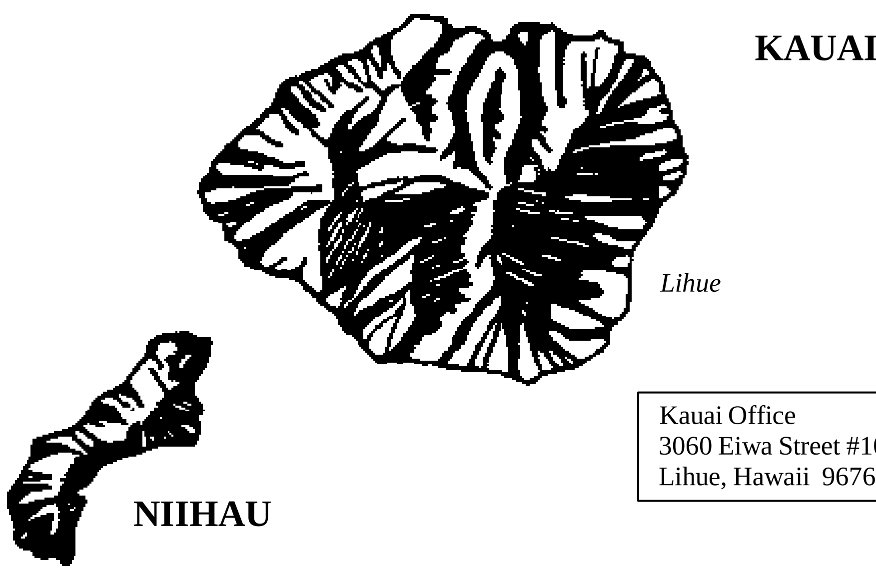
THIRD TAXATION DISTRICT
County of Hawaii

Hilo Office
75 Aupuni Street
Hilo, Hawaii 96720

Kona Office
82-6130 Mamalahoa Highway #8
Captain Cook, Hawaii 96704



FOURTH TAXATION DISTRICT
County of Kauai



Kauai Office
3060 Eiwa Street #105
Lihue, Hawaii 96766

3.0 TAX APPEALS AND LITIGATION

3.1 BOARDS OF TAXATION REVIEW

Each taxation district has an administrative (i.e., non-judicial) Board of Taxation Review consisting of five members. Tax disputes that are not resolved at the district tax office level may be appealed to a Board of Taxation Review unless the dispute involves the Constitution or laws of the United States. Statewide, the boards began the fiscal year with 174 pending tax appeals. During FY 2016, 61 new appeals were filed, 14 appeals withdrawn, and 15 appeals settled; a total of 206 appeals to the Boards of Taxation Review were pending at the end of the fiscal year.

The following table details appeals to the Boards of Taxation Review by taxation district:

	First		Second	Third	Fourth	
Taxation District	Field	Office				Totals
Appeals Pending (Beginning)	76	19	45	26	8	174
New Appeals	30	17	4	7	3	61
Appeals Withdrawn	6	1	0	5	2	14
Appeals Settled	4	2	0	9	0	15
Appeals Pending (Ending)	96	33	49	19	9	206

3.2 CIVIL DECISIONS, SETTLEMENTS AND OTHER LEGAL MATTERS

Matters Closed

During the last fiscal year, the Tax & Charities Division ("Division") closed 854 Tax Department-related legal matters (excluding legislative matters in our case management system that the Department's Legislative Division has not closed). This report also does not include the myriad of charitable oversight, charity registration, and charitable solicitation or charitable trust-related matters the Division routinely handles.

Appeals	-	54
Bankruptcies	-	548
Contracts	-	27
Foreclosures	-	163
Legislation (None closed yet)		
Miscellaneous	-	18
Opinions	-	9
Quiet Title	-	7
Subpoenas	-	28

Amounts Collected

Last fiscal year, the Division collected the following amounts[4]:

Tax Appeals	$ 53,788,009.59[5]
Foreclosures	$ 10,904.36
Bankruptcies	$ 1,330,759.32
Trusts	$ 749.84
Miscellaneous	$ 56,030.32
TOTAL:	$ 55,186,453.43

3.2.1 Settled Cases

Tax Appeal Court

In the Matter of the Tax Appeal of One Napili Way Interval Owners Association, Case No. 09-0069, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes for amounts it received for condominium maintenance fees collected on behalf of its members and paid to the One Napili Way AOAO. Taxpayer asserted the fees it collected were not income for purposes of chapter 237, HRS, and, alternatively, that the amounts were exempt reimbursements under § 237-20, HRS. The parties have reached a settlement in this case.

In the Matter of the Tax Appeal of JTSI, Inc., Case No. 12-1-0276, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise and county surcharge taxes on sales of services to government instrumentalities. Taxpayer argues that it primarily sold tangible personal property to the federal government that is exempt from general excise taxes. This case was settled.

In the Matter of Tax Appeal of James & Associates CPAs, Inc., Case No. 1 T.X. 10-1-001806, Tax Appeal Court, State of Hawaii.

Taxpayer challenged the Department's reclassification and recalculation of its tax liability that was based on Taxpayer's IRC § 338(g) election of a sale of a business. The basis of Taxpayer's claim was that it made an election error on the Form 8023 and the parties to the sale intended a § 338(h)(10) election instead of the § 338(g) election. The case was settled.

In the Matter of Tax Appeal of James Professional Services, Inc., Case No. 1 T.X. 10-1-001807, Tax Appeal Court, State of Hawaii.

Taxpayer challenged the Department's reclassification and recalculation of its tax liability that was based on Taxpayer's IRC § 338(g) election of a sale of a business. The basis of Taxpayer's claim was that it made an election error on the Form 8023 and the parties to the sale intended a

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[4] The Division also secured the dismissal of several tax appeals that would have potentially resulted in refunds to taxpayers from the General Fund and won cases on appeal that will have fiscal impact on similarly situated taxpayers and result in future tax collections that are impossible to forecast.

[5] This figure includes amounts recovered from the Litigated Claims Fund as a result of the Hawaii Supreme Court's March 2015 Travelocity.com decision.

§ 338(h)(10) election instead of the § 338(g) election. Taxpayer also challenged the use tax assessments on property it purchased. The case was settled.

In the Matter of the Taxpayer Appeal of Stephan A. Cipres, Case Nos. 11-1-0084, 12-1-0436, 12-1-0437, Tax Appeal Court, State of Hawaii.

Taxpayer challenged the Department's general excise tax assessments on the basis that the Department incorrectly increased his commissions for certain years and misinterpreted and misapplied the penalty provisions in the HRS. This case was settled.

In the Matter of the Tax Appeal of Safeway Inc., Case No. 12-1-0385, Tax Appeal Court, State of Hawaii.

Taxpayer's claim for refund of use taxes was denied. Taxpayer argued that it should not have paid use taxes on amounts paid to a licensed shipper. The Department asserted use tax was calculated on the landed value of the imported items, including shipping. This case was settled.

In the Matter of the Tax Appeal of Cubic Applications, Inc., Case No. 1 T.X. 14-1-0268, Tax Appeal Court, State of Hawaii.

Taxpayer amended its general excise tax returns claiming refunds under the exported services exemption under § 237-29.53, HRS. The Department of Taxation denied the refund claims. Taxpayer appealed the denial of the refund claims for lack of sufficient substantiation. This case was settled and dismissed by stipulation.

Maria E. Zielinski v. Robert O. Lillie, Jr. and Shari N. Lillie, Case No. 1 T.X. 15-1-0222
Maria E. Zielinski v. Kenneth T. Matsuda and Cynthia H. Matsuda, Case No. 1 T.X. 15-1-0223
Maria E. Zielinski v. Chester M. and Prudence S. Kanehira, Case No. 1 T.X. 15-1-0227
Maria E. Zielinski v. Fred M. and Shirfeir S. Sunada, Case No. 1 T.X. 15-1-0226
Maria E. Zielinski v. Wayne K. and Sheri L. Wills, 1 T.X. 15-1-0228
Maria E. Zielinski v. Paul R. and Claudia S. Johnstone, 1 TX 15-1-0230
Maria E. Zielinski v. Dale andAlison Ohama, Case No. 1 T.X. 15-1-0231
Maria E. Zielinski v. Morris S. and Jeanne A. Creel, Case No. 1 T.X. 15-1-0232

In these cases, the Director of Taxation appealed decisions of the Board of Review. The Department denied Taxpayers fully refundable Renewable Energy Technologies tax credits under § 235-12.5, HRS because Taxpayers' adjusted gross incomes exceeded the statutory threshold entitling them to a fully refundable credit. The Board of Review ruled that Taxpayers could revoke their elections to receive refundable tax credits. These cases were settled.

In the Matter of the Tax Appeal of Andrew Bernstein and Jacqueline S. Showback,
Case No. 1 T.X. 15-1-0249, Tax Appeal Court, State of Hawaii.

Taxpayers appealed from a final assessment reducing their renewable energy tax credit under § 235-12.5, HRS. This case was dismissed by stipulation.

3.2.2 Closed Cases

Tax Appeal Court

In the Matter of the Travelocity.Com, LLC, Case No. 11-1-0020, Tax Appeal Court, State of Hawaii (Consolidated Cases).

Travelocity.com LP, Site 59.com LLC, Expedia, Inc., Hotwire, Inc., Hotels.com, L.P., Orbitz, LLC, Internetwork Publishing Corp. (d/b/a Lodging.com), Trip Network, Inc. (d/b/a CheapTickets.com), priceline.com Inc., and Travelweb LLC filed separate Notices of Appeal to the Tax Appeal Court of the State of Hawaii, timely appealing final notices of assessments of general excise tax and transient accommodations tax for the period 1999 through 2011, inclusive. By orders filed on February 8, 2012 the Tax Appeal Court granted the Department's motions for summary judgment on the general excise tax assessments and denied the Department's assessments of transient accommodations taxes. On August 15, 2013, the Tax Appeal Court entered a final judgment in favor of the State on the general excise tax assessments and against the State on the transient accommodations tax assessments. The amount of general excise tax, penalties and interest owed as of the date of the final judgment was $246.8 million. The Hawaii Supreme Court granted the parties' petition to transfer the appeal directly to the Hawaii Supreme Court. In an opinion issued on March 17, 2015, the Hawaii Supreme Court ruled that the online travel companies are "travel agents" and therefore entitled to the benefit of the income splitting provision of § 237-18(g), HRS, such that Taxpayers are subject to general excise taxes on the amounts that they retain after remitting payments to hotel operators for the hotel rooms they sell online. The Hawaii Supreme Court upheld the imposition of penalties and interest on Taxpayers and upheld the Tax Appeal Court's ruling that Taxpayers are not subject to transient accommodations taxes because they are travel agents. On remand, the parties stipulated to a judgment in favor of the State of Hawaii in the amount of $53.2 million.

In the Matter of the Tax Appeal of Zephyr Insurance Company, Inc., Case Nos. 1 T.X. 13-1-0223, 1 T.X. 13-1-0227, 1 T.X. 13-0229, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing the Insurance Commissioner's tax assessment that disallowed its claim to the Qualified High Technology Business ("QHTB") tax credit pursuant to § 235-110.9, HRS. The disallowance was based on the Department determination letter to the Insurance Commissioner that ruled that Taxpayer was not entitled to claim the QHTB. The claims were dismissed.

Fredrick D. Pablo, Director of Taxation, State of Hawaii vs. BGCH Solar Fund, LLC., Case No. 1 T.X. 14-1-0253, Tax Appeal Court, State of Hawaii.

The Director appealed the Board of Review's decision allowing developer's fee, developer's reimbursement, and bank loan fees as creditable costs under § 235-12.5, HRS. The Tax Appeal court entered judgment in favor of Taxpayer. This case was dismissed.

Fredrick D. Pablo, Director of Taxation, State of Hawaii vs. First Risk Mgmt., Inc., Case No. 1 T.X. 14-1-0254, Tax Appeal Court, State of Hawaii.

The Director appealed the Board of Review's decision allowing developer's fee, developer's reimbursement, and bank loan fees as creditable costs under § 235-12.5, HRS. This case was dismissed.

Fredrick D. Pablo, Director of Taxation, State of Hawaii vs. KEC Solar Fund, LLC, Case No. 1 T.X. 14-1-0255, Tax Appeal Court, State of Hawaii.

The Director appealed the Board of Review's decision allowing developer's fee, developer's reimbursement, and bank loan fees as creditable costs under § 235-12.5, HRS. This case was dismissed.

Maria E. Zielinski vs. Patrick and Grace Duarte, Case No. 1 T.X. 1-15-0233, Tax Appeal Court, State of Hawaii.

The Director of Taxation appealed from a Board of Review Decision in favor of Taxpayers finding that the Taxpayers "irrevocable" election of a fully refundable renewable energy technologies tax credit under section 235-12.5, HRS, could be revoked. The Tax Appeal Court entered judgment in favor of the Department of Taxation after granting the Department's motion for summary judgment.

In re Tax Appeal of Thomas E. Gebhard and Julie M. Gebhard**,** Case No. 1 T.X. 15-1-0247, Tax Appeal Court, State of Hawaii.

The Director appealed the Board of Review's decision allowing developer's fee, developer's reimbursement, and bank loan fees as creditable costs under § 235-12.5, HRS. The Tax Appeal Court entered judgment in favor of Taxpayers. This case was dismissed.

In the Matter of the Tax Appeal of KEC HM Maui Solar Fund LLC, Case No. 1 T.X. 15-1-0248, Tax Appeal Court, State of Hawaii.

Taxpayer appealed an income tax assessment reducing the total renewable energies technologies income tax credit under § 235-12.5, HRS. Taxpayer claimed that all of the costs it claimed qualified for the tax credit and that the reduction of the credit was erroneous. This case was dismissed by stipulation.

3.2.3 Pending Appeals

Hawaii Supreme Court

None.

Intermediate Court of Appeals

In the Matter of the Tax Appeal of CompUSA Inc., Case Nos. 12-1-0264, 12-1-0265, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from the disallowance of a use tax refund request for tax years 2006, 2007, and 2008. Taxpayer argued that under the commerce and equal protection clauses of the United States Constitution the imposition of Hawaii's use tax is unconstitutional. The Tax Appeal Court determined that the use tax is constitutional under the commerce and equal protection clauses of the United States Constitution.

Tax Foundation of the State of Hawaii, Inc. v. State of Hawaii, Case No. 15-1-2020-10, Circuit Court of the First Circuit, State of Hawaii.

In this case, the Tax Foundation of the State of Hawaii brought an action for injunctive and mandamus relief. At issue was the county surcharge on state tax, § 248-2.6, HRS, that requires the Department of Budget and Finance to transfer ten percent of the amount collected to the general fund to reimburse the Department of Taxation's costs of assessment and collection of the surcharge. Plaintiff argued that amounts transferred to the general fund exceed the Department of Taxation's actual costs and expenses. Under these facts, Plaintiff alleged that the statute violated the due process and equal protection clauses of the United States Constitution. The complaint sought refunds on Plaintiff's behalf and on behalf of the City and County of Honolulu. The State moved to dismiss the complaint for lack of subject matter jurisdiction and the court granted the motion.

Tax Appeal Court

In the Matter of the Tax Appeals of TMI Management, Inc., Case Nos. 09-0071 and 09-0072, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes on amounts received for performing work for the federal government. Taxpayer argued, among other things, that the disputed income was exempt because Taxpayer was an employee leasing company and the disputed income was for salaries and expenses of leased employees. This case has been taken off the calendar to give the parties time to work on settlement.

In the Matter of the Tax Appeals of Bernard & Ellen Fuller and South Pacific Builders, Ltd., Case Nos. 09-0087, 09-0088, and 09-0089, Tax Appeal Court, State of Hawaii.

Taxpayers were assessed additional general excise and net income taxes on amounts received for performing work within the state. Taxpayers argued, among other things, that the disputed income was exempt because Taxpayers paid certain amounts to other contractors. Trial is set for July 10, 2017.

In the Matter of the Tax Appeal of CBIP, Inc., Case No. 09-0203, Tax Appeal Court, State of Hawaii.

Taxpayer appealed general excise tax assessments. The parties filed a stipulation for partial dismissal of the case. In the appeal that remains, Taxpayer argued that: (1) the assessment erroneously included general excise tax on amounts that were not gross income but, rather, were rebates of expenses; and (2) penalties were erroneous because non-filing and/or underpayment was not due to negligence or intentional disregard of rules. Trial is set for January 9, 2017.

In the Matter of Tax Appeal of James J. Richard & Rachael D. Richard, Case No. 10-1-1805, Tax Appeal Court, State of Hawaii.

Taxpayers were assessed additional income and general excise taxes. Taxpayers challenged the Department's reclassification and recalculation of its liability that was based on Taxpayers' IRC § 338(g) election on a sale of a business. The basis of Taxpayers' claim was that they made an election error on the Form 8023 and the parties to the sale intended a § 338(h)(10) election instead of the § 338(g) election. Taxpayers also challenged the Department's reclassification of income that changed the amount received as personal loans and/or advances from their business to wages.

In the Matter of the Tax Appeal of JN Group, Inc., Case No. 10-1808, Tax Appeal Court, State of Hawaii.

Taxpayer appealed general excise assessments for tax years ending March 31, 1998 through March 31, 2006, inclusive. Taxpayer claimed that the amounts assessed constituted reimbursements that were exempt under § 237-20, HRS; the assessments of penalties were erroneous because any non-filing or underpayment was not due to negligence or intentional disregard of rules; the assessments violated the due process, commerce, and/or equal protection clauses of the United States Constitution and the Constitution of the State of Hawaii. Trial is set September 18, 2017.

In the Matter of the Tax Appeal of Patrick O'Brien, Case No. 11-1-0013, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional income taxes for unreported schedule C income from a single member LLC the Taxpayer owned. Taxpayer denied the income is taxable to him. Taxpayer's counsel has withdrawn from this case and Taxpayer is seeking new counsel. Trial is set for May 8, 2017.

In the Matter of the Tax Appeal of Security Resources, LLC, Case No. 11-1-0014; Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes for underreporting the amount of gross receipts it received. Taxpayer claims the assessments are overstated and that it is entitled to be taxed at the wholesale rate of .5 percent. Taxpayer also claims some of its sales are exempt because they were sales of tangible personal property to the federal government. Taxpayer's counsel has withdrawn from this case and Taxpayer is seeking new counsel. Trial is set for May 8, 2017.

In the Matter of the Tax Appeal of Ronald Au, Case No. 11-1-0144, Tax Appeal Court, State of Hawaii.

Taxpayer filed a petition to compel the Board of Review to prepare findings of fact and conclusions of law. The court denied the petition but granted leave to the Taxpayer to file a notice of appeal from general excise tax assessments for the period 2002 through 2005, inclusive, totaling $175,000.00. The Tax Appeal Court granted the Department of Taxation's motion to dismiss the appeal for lack of subject matter jurisdiction by order filed February 29, 2012; however, the Court granted Taxpayer's motion for reconsideration of the dismissal. The Court took a motion for summary judgment under advisement.

In the Matter of the Tax Appeal of Kamaaina's Food Service, Inc., Case Nos. 12-1-0237 and 12-1-0244, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise tax and county surcharge when applicable, for unreported service income for tax years 1987 through 1992, 1994, 1995, 1997, 1998, and 2000 through 2009, inclusive, and/or imposed a 25 percent penalty for failure to file and a 25 percent penalty due to negligence or intentional disregard of rules. Taxpayer was assessed for general excise tax for unreported service income for tax years 1993, 1996, and 1999; the Department imposed a 25 percent penalty for failure to file and a 25 percent penalty due to negligence or intentional disregard of rules. Taxpayer disputed the assessments, arguing that the imposition of both penalties is not authorized by statute. Trial is set for March 27, 2017.

In the Matter of the Tax Appeal of Barbara Gilliss, Case No. 12-1-0303, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise and county surcharge taxes, when applicable, for rental income in tax years 2002 through 2011, inclusive. Taxpayer argued that the penalties and interest should be waived. The Department filed a motion for summary judgment that was heard and granted on April 18, 2016. The order granting the motion for summary judgment was entered on August 11, 2016.

In the Matter of the Tax Appeal of Julie A. Dunham, Case No. 12-1-0390, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise and income taxes on non-filed returns for 1999 through 2010, inclusive. Taxpayer argued that the Department's income figures are incorrect. Trial is set for September 11, 2017.

In the Matter of the Tax Appeal of Ronald Au, Case No. 1 T.X. 12-1-0393, Tax Appeal Court, State of Hawaii.

Taxpayer is appealing the Department's income tax assessments on unreported income received for tax years 2008 and 2009. Trial is set for February 20, 2017.

In the Matter of the Tax Appeal of William A. Bartenstein, Case No. 13-1-0228, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise and/or use taxes, penalties and interest on goods imported for resale. Taxpayer argued that the Department's income figures were incorrect and the stacking of the negligence and underpayment penalties was erroneous. Trial is set for March 13, 2017.

In the Matter of Priceline.com, 1 T.X. 13-1-0269, Tax Appeal Court, State of Hawaii. (and consolidated cases).

These consolidated tax appeals are by online travel companies Priceline.com, Travelocity.com, Orbitz.com, Hotels.com ("OTCs") from assessments of general excise tax, penalties and interest for the OTCs' rental motor vehicle transactions in the State for tax years 2000 through 2013, inclusive. The Department assessed the OTCs for their "stand alone" car rentals as well as car rentals included as part of travel or tour packages. The Tax Appeal Court partially granted the Department's motion for partial summary judgment on August 5, 2016. The Tax Appeal Court ruled that the OTCs are taxable on their gross receipts from "stand alone" car rental transactions and that under § 237-18, HRS, the OTCs are taxable on their net receipts from car rentals that are part of tour packages. The Tax Appeal Court has not determined the amount of taxes the OTCs owe.

In the Matter of Charles A. Shipman, Jr., Case No. 13-1-0301, Tax Appeal Court, State of Hawaii.

Taxpayer appealed his tax assessment for general excise and transient accommodation taxes stating the assessed amounts were speculative/inflated and included improper stacking of failure to file penalties with negligence penalties. The parties have agreed to dismiss this case.

In the Matter of the Tax Appeal of Ronald Au, T.A. No. 1 T.X. 14-1-0216, Tax Appeal Court, State of Hawaii.

Taxpayer appealed to the Tax Appeal Court, State of Hawaii from assessments of general excise taxes for 2009 and 2010 in the amount of $13,114.62. The Department moved to dismiss the tax appeal because it was not timely filed and because Taxpayer failed to pay the assessment in his appeal from the Board of Review. The motion was heard on March 17, 2014 and taken under advisement.

In the Matter of the Tax Appeal of Skydiving School, Inc., Case Nos. 1 T.X. 14-1-0217 and 1 T.X. 14-1-0218, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from the denial of a refund claim and assessments of general excise taxes related to its skydiving business. Taxpayer's major issue is that its gross receipts from skydiving activities is not subject to the general excise tax because of federal preemption under the Anti-Head Tax Act, P.L. 103-272, 108 Stat. 1111, as amended, and as codified in 49 U.S.C. § 40116. Trial is set for January 30, 2017.

In the Matter of the Tax Appeal of Edward A. Alquero, M.D., Inc., Case No. 1 T.X. 14-1-0219, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional income and general excise taxes, penalties, and interest for underreported income related to his medical practice. Taxpayer claims he is entitled to deductions for certain expenses that were disallowed by the Department. Trial is set for January 16, 2017.

In the Matter of the Tax Appeal of Avery B. Chumbley, Case No. 1 T.X. 14-1-0226, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise taxes and interest for underreported gross receipts of a non-profit organization's fund raising activities. Taxpayer was assessed personally as the president of the organization at the time. Taxpayer claimed he was entitled to deductions for certain expenses that were disallowed by the Department. Trial is set for February 27, 2017.

In the Matter of the Tax Appeal of Darren Truitt, Case No. 1 T.X. 14-1-0228, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional income taxes, penalties, and interest for income attributed to his wholly-owned LLC. Trial is set for July 17, 2017.

In the Matter of the Tax Appeal of Construction Servs. & Management LLC, Case No. 1 T.X. 14-1-0229, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed general excise taxes, penalties, and interest for underreported gross receipts. Trial is set for July 17, 2017.

In the Matter of the Tax Appeal of Hawaiian Telcom Services Company, Inc., Case No. 1 T.X. 14-1-0231, Tax Appeal Court, State of Hawaii; and
In the Matter of the Tax Appeal of Hawaiian Telcom Services Company, Inc., Case No. 1 T.X. 15-1-0245, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution; the statutes discriminate against interstate commerce and are not fairly apportioned; and that Taxpayer erroneously paid use taxes with respect to services and/or contracting performed within the state by a licensed seller. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Telcom, Inc., Case No. 1 T.X. 14-1-0232, Tax Appeal Court, State of Hawaii; and
In the Matter of the Tax Appeal of Hawaiian Telcom, Inc., Case No. 1 .TX. 15-1-0244, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claims that sections 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution; the statutes discriminate against interstate commerce and are not fairly apportioned; and that Taxpayer erroneously paid use taxes with respect to services and/or contracting performed within the state by a licensed seller. Trial is not set.

In the Matter of the Tax Appeal of Hawaiian Electric Company, Inc., Case No. 1 T.X. 14-1-0233, Tax Appeal Court, State of Hawaii;
In the Matter of the Tax Appeal of Hawaiian Electric Company, Inc., Case No. 1 T.X. 15-1-0296, Tax Appeal Court, State of Hawaii; and
In the Matter of the Tax Appeal of Hawaiian Electric Company, Inc., Case No. 1 T.X. 16-1-0316, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution and that the statutes discriminate against interstate commerce and were not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of BAE Systems Holdings, Inc. & Subs, Case No. 1 T.X. 14-1-0234, Tax Appeal Court, State of Hawaii.

Taxpayer's claims for the High Tech Credit provided under § 235-110, HRS, were denied because Taxpayer did not make an investment as defined by statute. Taxpayer prevailed at the Board of Review and the Department filed this appeal. Trial is set for December 5, 2016.

In the Matter of the Tax Appeal of Hawaiian Airlines, Inc., Case No. 1 T.X. 14-1-0258, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of Hawaii Electric Light Company, Inc., Case No. 1 T.X. 14-1-0259, Tax Appeal Court, State of Hawaii;
In the Matter of the Tax Appeal of Hawaii Electric Light Company, Inc., Case No. 1 T.X. 15-1-0297, Tax Appeal Court, State of Hawaii; and
In the Matter of the Tax Appeal of Hawaii Electric Light Company, Inc., Case No. 1 T.X. 16-1-0317, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the commerce clause and the equal protection clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In the Matter of the Tax Appeal of Maui Electric Company, Inc., Case No. 1 T.X. 14-1-260, Tax Appeal Court, State of Hawaii;
In the Matter of the Tax Appeal of Maui Electric Company, Inc., Case No. 1 T.X. 15-1-0298, Tax Appeal Court, State of Hawaii; and
In the Matter of the Tax Appeal of Maui Electric Company, Inc., Case No. 1 T.X. 16-1-0315, Tax Appeal Court, State of Hawaii.

Taxpayer appealed the denial of use tax refund claims. Taxpayer claimed that §§ 238-2 and 238-2.3, HRS, impermissibly imposes use tax in violation of the commerce clause and the equal protection Clause of the United States Constitution and that the statutes discriminate against interstate commerce and are not fairly apportioned. Trial is not set.

In re Tax Appeal of Longs Drug Stores Ca., LLC, Case No. 1 T.X. 14-1-0240, Tax Appeal Court, State of Hawaii;
In re Tax Appeal of Longs Drug Stores Ca., LLC, Case No. 1 T.X. 15-1-0237, Tax Appeal Court, State of Hawaii; and
In re Tax Appeal of Longs Drug Stores Ca., LLC, Case No. 1 T.X. 16-1-0314, Tax Appeal Court, State of Hawaii.

These cases are on hold pending the outcome of In the Matter of the Tax Appeal of CompUSA Inc., Case Nos. 12-1-0264, 12-1-0265, Tax Appeal Court, State of Hawaii. No trial date will be set until the Tax Appeal Court is notified of a decision in the CompUSA matter.

In the Matter of the Tax Appeal of Home Depot U.S.A., Inc., Case No. 1 T.X. 15-1-0218, Tax Appeal Court, State of Hawaii.

Taxpayer was disallowed the wholesale rate on general excise taxes due on sales to customers at its retail stores. Taxpayer was also denied the subcontractor deduction related to work performed for customers. Trial is set for December 5, 2016.

In the Matter of the Tax Appeal of Dan S. Tetsutani, Case No. 1 T.X. 15-1-0219, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from a final assessment of additional general excise tax and/or use taxes stating the assessments were improper or in the alternative that Taxpayer should pay the wholesale rate of .5 percent. Trial is set for December 4, 2017.

Maria E. Zielinski v. Blake and Bianca Goodman, Case No. 1 T.X. 15-1-0221; Tax Appeal Court, State of Hawaii;
Maria E. Zielinski v. Mark W. Baker and Lisa A. Hendrickson, 1 T.X. 15-1-0225; Tax Appeal Court, State of Hawaii;
Maria E. Zielinski v. Richard J. Peterson and Lynne D. Peterson, Case No. 1 T.X. 15-1-0224; Tax Appeal Court, State of Hawaii;
Maria E. Zielinski v. Timothy M. and Iwalani O. Dayton, 1 T.X. 15-1-0229; Tax Appeal Court, State of Hawaii;
Maria E. Zielinski v. Predrag & Doris Miocinovic, Case No. 1 T.X. 15-1-0234; Tax Appeal Court, State of Hawaii; and
Maria E. Zielinski v. Neal S. and Linda Takase, Case No. 1 T.X. 15-1-0235; Tax Appeal Court, State of Hawaii.

In these cases, the Director of Taxation appealed decisions of the Board of Review. The Department denied Taxpayers fully refundable Renewable Energy Technologies tax credits under section 235-12.5, HRS because Taxpayers' adjusted gross incomes exceeded the statutory threshold entitling them to a fully refundable credit. The Board of Review ruled that Taxpayers could revoke their elections to receive refundable tax credits. On June 22, 2015, the Tax Appeal Court granted the Director's motion for summary judgment in one of the appeals, concluding that Taxpayers could not revoke their election to receive a refundable tax credit and upheld the Department's adjustment of Taxpayers' returns. Trials are scheduled for various dates.

In the Matter of the Tax Appeal of Steve F. Klein and Krista S. Bridges, Case No. 1 T.X. 15-1-0322, Tax Appeal Court, State of Hawaii.

Taxpayers appealed the disallowance of the Renewable Technologies Income Tax Credit under section 235-12.5, HRS, for failing to timely claim the credit. Trial is not set.

In the Matter of the Tax Appeal of New Cingular Wireless, Case No. 1 T.X. 15-1-0241, Tax Appeal Court, State of Hawaii.

Taxpayer filed refund claims for the PSC tax it paid to the State. Taxpayer claimed it paid the tax on amounts not subject to the PSC. The Director denied the refund claims as they were barred by the statute of limitations. Trial is set for November 21, 2016.

In the Matter of Red Time Realty, LLC, Case No. 1 TX 15-1-0261, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from a final assessment of general excise tax on gross income under §§ 237-38 and 237-39, HRS. Trial is set for March 6, 2017.

In re Tax Appeal of Edward K. Fuller, Case No. 1 T.X. 15-1-0270, Tax Appeal Court, State of Hawaii;
In re Tax Appeal of Edward K. Fuller, Case No. 1 T.X. 15-1-310, Tax Appeal Court, State of Hawaii; and
In re Tax Appeal of Fuller Anesthesia, LLC, Case No. 1 T.X. 15-1-0309, Tax Appeal Court, State of Hawaii.

These three cases involve the same Taxpayer and his LLC, appealing general excise and income taxes for fiscal years 2006 through 2013, inclusive. The Department assessed Taxpayers after it disallowed Taxpayers' claims of the wholesale rate and certain deductions. Trial is scheduled for October 2, 2017.

In re Tax Appeal of Escal Institute of Advanced Technologies, Inc., Case No. 1 T.X. 15-1-0276, Tax Appeal Court, State of Hawaii.

Taxpayer, for itself and its shareholders, appealed assessments on tax years 2008 and 2010 for income tax refunds denied; 2011 through 2013, inclusive, for income taxes assessed; and 2008, 2009, 2011 through 2013, inclusive, for general excise taxes assessed, alleging that refunds to shareholders were wrongly denied. Additionally, Taxpayer alleged that income taxes and general excise taxes were assessed on income from services performed outside Hawaii. Trial is scheduled for November 13, 2017.

In the Matter of Charles Mixon, Case No. 1 T.X. 15-1-0281, Tax Appeal Court, State of Hawaii.

Taxpayer appealed from a final assessment of general excise tax for underreported income under § 237-13(6)(A), HRS. Trial is not set.

In re Tax Appeal of David J. Scroggin and Genya G. Scroggin, Case No. 1 T.X. 15-1-0286, Tax Appeal Court, State of Hawaii.

Director prevailed on a motion to dismiss for failure to properly serve this appeal. Subsequently, after the Order granting the motion and Judgment were filed, Taxpayers filed a motion to set aside the dismissal claiming that they did not receive notice of the hearing on the Motion to Dismiss. Director filed an opposition. To date, no ruling has been issued.

In re Tax Appeal of Pacific Isles Equipment Rental Inc., Case No. 1 T.X. 15-1-0315, Tax Appeal Court, State of Hawaii.

Taxpayer's President, a non-attorney, initially filed a Notice of Appeal of general excise taxes for tax years 2010, 2011, and 2012 and made payment "under protest." Taxpayer hired an attorney who filed a Complaint for Refund of Taxes in the tax appeal case. A motion to dismiss was granted in part and denied in part; the appeal survived. Taxpayer claimed that pursuant to § 237-13, HRS, the 0.5 percent wholesale rate applies rather than the 4.5 percent contracting rate. Trial is not set.

In re Tax Appeal of Jeffrey Scott Lindner, Case No. 1 T.X. 16-1-0300, Tax Appeal Court, State of Hawaii.

Taxpayer appealed income taxes for tax years 2012 through 2014, inclusive. Taxpayer claimed that he properly filed returns to qualify for HTBITC credits per § 235-110.9, HRS; however, the Department claims that it did not receive the returns. Trial is not set.

In re Tax Appeal of WC Maui Coast, LLC, Case No. 1 T.X. 16-1-0271, Tax Appeal Court, State of Hawaii.

Taxpayer appealed application of transient accommodations tax assessments for tax years 2012 and 2013 per § 237D-2, HRS. Taxpayer claimed that amounts received from long term contracts with airlines are exempt from Transient accommodations taxes based on AG Opinion 90-6. Trial is scheduled for July 31, 2017.

In the Matter of the Tax Appeal of Polynesian Cultural Center, Case No. 1 T.X. 16-1-0290, Tax Appeal Court, State of Hawaii.

Taxpayer was assessed additional general excise taxes based on the disallowance of the income splitting provisions allowed under § 237-18(f), HRS. Trial is set for December 5, 2016.

In re Tax Appeal of Thomas Aki, Case No. 1 T.X. 16-1-0291, Tax Appeal Court, State of Hawaii.

Taxpayer appealed income tax assessments for tax years 2012, 2013, and 2014 in which the Department disallowed business expenses and deductions under chapter 235, HRS, disallowed the personal exemption deduction, and disallowed the application of losses from prior years. Trial is not set.

In re Tax Appeal of Editha C. Doctolero, Case No. 1 T.X. 16-1-0292, Tax Appeal Court, State of Hawaii.

Taxpayer has a wholesale flower-selling business and failed to fully pay general excise taxes on tax years 2001, 2003, and 2005 through 2013, inclusive. Taxpayer argued that the twelve-month limitation under § 237-9.3, HRS, does not apply because the wholesale rate is not a tax benefit subject to denial under § 237-9.3, HRS, but rather the regular rate of tax on wholesale sales. Trial is not set.

In the Matter of the Tax Appeal of Howard T. Chang and Jenifer M. Chang, Case No. 1 T.X. 16-1-0318, Tax Appeal Court, State of Hawaii.

Taxpayers appealed final assessments of income taxes based on gambling winnings without offset of gambling losses. Trial is not set.

3.2.4 Criminal Investigations/Enforcement Actions

During FYE 2016, three cases were adjudicated with guilty pleas with expected payments for restitution and criminal fines. Prison sentences ranged from 10 days to 90 days with up to four years probation. The three cases included an individual who filed false tax returns to obtain fraudulent refunds, an individual who defrauded three businesses of approximately $500,000 and failed to file a tax return, and an individual who filed false tax returns and fled the state to avoid prosecution. There are four cases pending trial and three cases pending action by the Hawaii Department of the Attorney General or by the local prosecutor's office.

One pending case relates to a tax preparer who failed to pay over $100,000 of withholding taxes. After being contacted by CIS, the tax preparer began to file current returns with payments.

Another case relates to a mainland corporation for the willful failure to file tax returns. The corporation made unsolicited admissions after the fact and filed general excise tax returns with payments.

During FYE 2016, Hawaii’s criminal courts awarded a total of $2,000 in judicial fines and $89,033.81 in restitution. In addition, CIS collected $1,617,932.82 in unpaid taxes, including awarded restitution, civil assessments, penalties, and interest.

ADMINISTRATIVELY ATTACHED ENTITIES

As of June 30, 2016

COUNCIL ON REVENUES

Kurt Kawafuchi, Chair
Marilyn M. Niwao, Vice-Chair
Carl S. Bonham
Christopher Grandy
Elizabeth P. Cambra
Jack P. Suyderhoud
Kristi L. Maynard

BOARDS OF TAXATION REVIEW

FIRST TAXATION DISTRICT
(OAHU)
Eric Ching
Curtis Saiki
Vacant
Vacant
Vacant

SECOND TAXATION DISTRICT
(MAUI)
Alan Bernaldo
Vacant
Vacant
Vacant
Vacant

THIRD TAXATION DISTRICT
(HAWAII)
Marilyn Gagen
Valerie Peralto
Richard Rovelstad
Peter M. Tadaki
Vacant

FOURTH TAXATION DISTRICT
(KAUAI)
Eric N. Yama
Vacant
Vacant
Vacant
Vacant

DEPARTMENT OF TAXATION
ANNUAL REPORT REQUIRED BY ACT 134, SLH 2009, SECTION 9
For the period from July 1, 2015 through June 30, 2016

Act 134, Session Laws of Hawaii 2009, also known as the "Cash Economy Enforcement Act" (hereinafter sometimes referred to as the "Act"), requires at Section 9 of the Act, that the Department of Taxation (Department) report the following information to the Legislature:

1) **The state resources committed to implementing the Cash Economy Enforcement Act; and**

2) **The additional revenues raised as a result of the Act.**

BACKGROUND

The Cash Economy Enforcement Act provided the Department with unique resources to increase taxpayer compliance in the area of the cash economy, as well as high-risk and complex civil tax investigations in general. The primary focus of the Cash Economy Enforcement Act was the creation of the Special Enforcement Section (SES), which is a specialized unit within the Department's Compliance Division comprised primarily of civil investigators.

The Department was authorized at Section 2 of the Act (codified as Section 231-83(b), Hawaii Revised Statutes (HRS), to utilize new hires, as well as existing labor resources to staff the SES operations. Furthermore, Section 2 of the Act authorized the Department to identify the proceeds of SES operations to assist in the funding of the unit. The SES is allowed to identify taxes from any taxpayer, assessment, investigation, or collection matter as a matter of the SES, which may then be deposited into the Tax Administration Special Fund (codified as HRS §231-85). Within the Tax Administration Special Fund's expenditure authority, the Department is allowed to retain the first $700,000 (effective January 1, 2016) to fund the Section's operations, with the remaining fiscal year collections being deposited into the General Fund. See HRS §235-20.5, as amended by Act 204, Session Laws of Hawaii 2015. The Department was also provided legislative authority at Section 8 of the Act to establish six new full-time equivalent (FTE) positions that may be filled by investigators, investigator assistants, licensed attorneys, or other support staff, in addition to using current personnel.

ACTIVITIES AND ACCOMPLISHMENTS

Since passage of the Cash Economy Enforcement Act, the Department has worked diligently in implementing SES's operations within the Compliance Division. In the Department's assessment, it believes that it has been increasingly successful in identifying non-compliance, securing voluntarily filed returns, and collecting tax revenues.

In FY2016, the unit was given an additional assignment of focusing on the compliance of short-term rentals or transient accommodations operators that specifically advertise on websites. This area had experienced a high number of complaints from the public expressing concerns on whether or not these operators were making payments of Transient Accommodations Taxes on the advertised rentals. As a result, SES has dedicated significant resources toward fostering compliance regarding short-term rentals.

The Governor signed Act 204, SLH 2015, on July 2, 2015, which went into effect on January 1, 2016. Act 204 added the definition of "transient accommodations broker" to Chapter 237D and requires registration of operators who fall under the definition of transient accommodations brokers. Act 204 authorizes the Department to issue citations to individuals and website brokers for failing to display proper information on advertisements. To ensure that such brokers were informed of the new requirements under Act 204, SES sent out notification letters to entities who were potentially includable under the definition of transient accommodation brokers.

SES's FY2016 accomplishments include:

- Conducted outreach and informational briefings regarding the SES and the General Excise Tax (GET) and Transient Accommodations Tax (TAT) laws of the State of Hawaii on the islands of Oahu, Maui, Hawaii and Kauai through various business fairs and other groups that requested briefings;

- Conducted site visits at retail establishments, restaurants, shopping malls, industrial parks, farmers' markets, craft fairs, short-term rental establishments, and other places of business across the state and obtained acknowledgment forms from operators that they have been informed of Hawaii's GET and/or TAT laws. Issued written warnings with request to inspect books and records for businesses that did not comply with tax laws;

- Reviewed complaints and information provided by the public and utilized other investigative methods to identify business operators who did not appear to be compliant with GET and TAT laws. Using various investigative techniques, conducted complex tax investigations to determine if the operators had a GET and/or TAT filing obligation and the amount of income subject to taxation. (SES has found increased voluntary compliance following contact with SES Investigators);

- Requested and secured voluntarily filed GET and/or TAT returns and tax payments. When a return could not be secured from the taxpayer, referred the matter to Office Audit for assessment and collection;

- Identified and sent out letters to 67 entities who were potentially transient accommodations brokers advising them of their broker obligations;

- Assisted with the implementation of the Tax System Modernization program to improve SES processes and procedures for greater efficiencies and better identify leads with potential for non-compliance.

I. STATE RESOURCES COMMITTED TO IMPLEMENTING THE CASH ECONOMY ENFORCEMENT ACT

In Fiscal Year 2016, SES expenditures were as follows:

Category	Fiscal Year 2016
Personnel	$345,810
Other Expenses	$186,487
Total	$532,297

As of October 27, 2016, FY2017 SES expenditures were $173,668, consisting of $120,932 in personnel costs and $52,736 in other expenses.

SES currently employs four investigators and a newly hired supervisor. The unit is currently recruiting to fill a fifth investigator position. It was also authorized another investigator position during the last legislative session which will be established shortly. SES continues to visit the neighbor islands to ensure coverage of the entire state.

II. ADDITIONAL REVENUES RAISED BY THE CASH ECONOMY ENFORCEMENT ACT

In Fiscal Year 2016, the SES generated $3,505,618 in revenues. Additional relevant information follows:

	FY2014	FY2015	FY2016
Complaints filed by anonymous persons	195	391	364
Business entities educated on compliance	1,005	1,554	1,470
Site visitations throughout the state	18	60	28
Number of investigations completed	31	34	31
Number of referrals sent for assessment	22	7	30
Total liability on secured returns – SES Project	$996,211	$2,322,782	$2,944,583
Total liability on secured returns – TAT Project	N/A	N/A	$1,638,607
Revenue Collected	$805,776	$1,619,235	$3,505,618

DEPARTMENT OF TAXATION'S
ANNUAL REPORT AS REQUIRED BY Section 231-9.9, Hawaii Revised Statutes

For the period between 7/1/2015 - 6/30/2016

Section 231-9.9, Hawaii Revised Statutes (HRS), relates to remittance of taxes by means of Electronic Funds Transfer (EFT). The Department is required to submit an annual report on the number of taxpayers who were assessed the two percent penalty for failing to timely file by an approved EFT method, the amount of each assessment, and the total amount collected.

The mandatory remittance of taxes by means of EFT applies to (1) taxpayers with tax liabilities exceeding $100,000, and (2) taxpayers with withholding taxes of over $40,000.

Section 231-9.9(c), HRS, imposes a two percent penalty on the amount of taxes owed if a taxpayer mandated to remit taxes using an approved EFT method fails to do so on or before the date the taxes are due, unless failure is due to reasonable cause and not to neglect.

The amount of the EFT penalties imposed for fiscal year 2015 for taxpayers who remit more than $100,000 a year in general excise, transient accommodations, rental and tour vehicle, and more than $40,000 a year in withholding taxes:

EFT Penalties and Interest Assessed
For the 2015-2016 Fiscal Year
For the period of 07/01/2015 – 06/30/2016

	Total Penalty Assessed	Total Penalty Collected	Number Assessed
Individual Income	0.00	185.75	0
Corporate/Partnership	2,581.86	2,581.86	3
General Excise	898,099.47	742,754.38	2536
Transient Accommodations	28,568.69	17,895.47	27
Withholding	31,780.28	30,042.26	326
Rental and Tour Vehicle	89,720.72	40,784.06	31
County Surcharge	72,295.00	62,000.41	1,615
Cigarette and Tobacco	2,249.10	2,249.09	2
Franchise	202,526.42	196,211.58	10
Fuel	20,570.00	20,570.00	1
Public Service Company	188,517.98	97,248.43	15
Total	**$1,536,909.52**	**$1,212,523.29**	**4,566**

The Department's Integrated Tax Information Management System (ITIMS) allows for automated assessment of the penalties associated with EFT, allowing the Compliance Division to focus their resources on collecting the assessed EFT penalties and interest.

Hawaii Individual Income Tax Statistics

Tax Year 2014

DEPARTMENT OF TAXATION

STATE OF HAWAII

STATE OF HAWAII

David Y. Ige, Governor

DEPARTMENT OF TAXATION

Maria E. Zielinski, Director

Damien A. Elefante, Deputy Director

Hawaii Individual Income Tax Statistics

Tax Year 2014

DEPARTMENT OF TAXATION

STATE OF HAWAII

November 2016

Prepared by Tax Research and Planning Office

WEB SITE: tax.hawaii.gov

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Appendix Statistical Tables

Introduction

This study examines statistics from Hawaii individual income tax returns that were filed by resident and nonresident taxpayers for tax year 2014. Nonresident taxpayers include part-year residents and nonresidents who have Hawaii individual income tax liabilities. The Department of Taxation (Department) has prepared annual studies on individual income tax statistics since 1958, but work on the studies was discontinued after 2008, owing to cutbacks in personnel in the wake of the Great Recession. The study for tax year 2012 was the first one published since the study for tax year 2005 was published in February of 2008. The present study is for tax year 2014.

Every individual doing business in the State must file an individual income tax return, whether or not the individual derives taxable income from the business. Also, every individual receiving more gross income than a threshold amount must file a tax return. Generally, the threshold amount for resident taxpayers is the sum of the standard deduction and the personal exemption. For individuals who may be claimed as a dependent on the tax return of another taxpayer (dependent taxpayers), the threshold amount is the standard deduction amount. For nonresident taxpayers, the threshold amount is prorated according to the portion of the taxpayer's total income that is included in Hawaii adjusted gross income (AGI). Taxpayers with income below the threshold may nevertheless want to file an individual income tax return to claim refundable tax credits.

This study presents data taken from Hawaii individual income tax returns filed by all resident and nonresident taxpayers for tax year 2014. In 2014 residents could file Form N-11 or Form-N-13 to pay their Hawaii individual income tax. The shorter and simpler Form N-13 is available for resident taxpayers with taxable income below $100,000 who do not itemize deductions or claim adjustments to income. Form N-11 may be used by an individual taxpayer who is a resident and who files a federal income tax return. Form N-11 uses federal AGI as the starting point for calculating Hawaii taxable income. Nonresidents with Hawaii income tax liabilities and part-year residents must use Form N-15.

Hawaii's Individual Income Tax Law and the Internal Revenue Code

Hawaii generally follows federal definitions for taxable income of individuals, and the State Legislature annually passes legislation to conform Hawaii's income tax law to selected changes to the Internal Revenue Code (IRC). However, there are a number of differences between the income tax laws of Hawaii and the IRC. One major difference is in the definition of taxable income. The IRC definition of taxable income includes social security benefits, distributions from employer-provided pensions, interest on U.S. savings bonds, contributions made to a Hawaii individual housing account and in 2014, the first $6,137 of Hawaii National Guard duty or military reserve pay, whereas Hawaii's does not.

On the other hand, Hawaii includes in taxable income cost-of-living allowances paid to federal civilian employees in Hawaii, State or County employee contributions to the Hawaii state government contributory plan or to the hybrid plan of the Employees Retirement System, and interest on state and local government bonds issued by jurisdictions outside of Hawaii, whereas the IRC does not. Hawaii generally does not conform to tax credits in the IRC and offers a number of its own tax credits that are not available in the IRC.

Hawaii does not conform to the standard deductions or personal exemptions in the IRC. Hawaii's regular personal exemption was $1,144 in 2014, whereas the federal personal exemption was $3,950. However, Hawaii allows an extra personal exemption for taxpayers who are at least 65 years of age and an exemption of $7,000 for a person who is blind, deaf, or totally disabled.

The federal standard deduction for 2014 was $12,400 for married couples filing a joint tax return, $6,200 for single individuals and married couples filing separate tax returns and $9,100 for a head of household, with an additional standard deduction of $1,200 for the aged or blind ($1,500 if the taxpayer is single and not a surviving spouse). Hawaii's standard deductions for 2014 were $4,400 for joint returns, $2,200 if the taxpayer was single or a married individual filing separately, and $3,212 for a head of household.

The federal exemption and standard deduction amounts are adjusted for inflation each year, whereas Hawaii's standard deduction and exemption amounts are not automatically adjusted for inflation.

Individual Income Tax Legislation

Hawaii's Legislature enacted several measures related to individual income taxes that were effective for tax year 2014, of which the following are the most prominent:

Act 60, Session Laws of Hawaii (SLH) 2009
Created new top tax brackets for ordinary income of 9%, 10%, and 11% for taxable years 2009 through 2015, after which the top rate is scheduled to return to 8.25%.

Act 14, SLH, Special Session I, 2009
Phased out the personal exemption for certain high income taxpayers for tax years 2009 through 2014.

Act 97, SLH 2011
Repealed the state tax deduction and capped itemized deductions for certain high income taxpayers for taxable years 2011 through 2015. The caps are set to expire December 31, 2015. The Act also delayed (until 2013) and made permanent a 10% increase in the standard deduction and personal exemption.

Act 256, SLH 2013
Amended section 3 of Act 97, SLH 2011, by carving out charitable contributions from the hard cap amounts. Thus, the total itemized deductions that may be claimed by taxpayers who meet or exceed the income thresholds is limited to the lesser of the overall limitations set by the IRC in tax year 2009, or the hard cap set by Act 97 plus allowable charitable contributions. Act 256 was effective for taxable years beginning after December 31, 2012.

Act 88, SLH 2014
Conformed Hawaii income tax law to the IRC as of December 31, 2013, and made various technical amendments.

Data Source and Methodology

Data for this report were collected from the Department's Integrated Tax Information Management System (ITIMS), which provides data in electronic form. Data from the ITIMS Tax Processing System (ITPS) were retrieved for income tax returns filed for tax year 2014 and processed by March 31, 2016. A total of 703,548 tax returns were extracted for the study. The data taken from the tax returns are items as reported by individuals, before any subsequent audits, but after automatic adjustments that the Department made when processing the returns.

The data items on the tax returns were checked for accuracy by examining the largest entries for each item and checking them against images of the tax returns, and by making sure that figures for total income, deductions, exemptions, and taxable income were consistent with each other.

Number of Tax Returns Filed By Type of Return and Filing Status

Residents filed a total of 618,366 Hawaii individual income tax returns for tax year 2014. Approximately 97% of the resident tax returns were filed on Form N-11 and 3% were filed on form N-13. Of the resident tax returns, 71% were filed by taxpayers on Oahu, 12% by taxpayers on Maui, 13% by taxpayers on Hawaii and 5% by taxpayers on Kauai (the total is greater than 100% due to rounding).

Nonresidents filed a total of 85,182 Hawaii individual income tax returns, or approximately 12% of the total number of returns filed. For residents and nonresidents, the income class for Hawaii AGI less than $5,000 (including tax returns showing losses) contained the most returns. Returns in this income class accounted for 16% of all resident returns and 52% of all nonresident returns.

Table 1
Types of Individual Income Tax Returns Filed for Tax Year 2014

By Hawaii AGI Class 1/

Hawaii AGI Class	Forms N-11	Forms N-13	Forms N-15	All Individual Returns
Less than $5,000	91,046	9,384	44,386	144,816
$5,000 under $10,000	46,268	1,814	9,956	58,038
$10,000 under $20,000	80,851	2,638	10,815	94,304
$20,000 under $30,000	72,557	2,088	5,834	80,479
$30,000 under $40,000	61,692	1,655	3,547	66,894
$40,000 under $50,000	47,164	989	2,224	50,377
$50,000 under $75,000	74,298	1,036	3,162	78,496
$75,000 under $100,000	46,336	303	1,741	48,380
$100,000 under $150,000	45,377	26	1,579	46,982
$150,000 under $200,000	16,418	0	702	17,120
$200,000 under $300,000	9,397	0	550	9,947
$300,000 and over	7,029	0	686	7,715
Total - All Returns	598,433	19,933	85,182	703,548

By Tax District 2/

Tax District	Forms N-11	Forms N-13	Forms N-15	All Individual Returns
Oahu (District 1)	423,211	14,481	80,572	518,264
Maui (District 2)	69,609	1,615	1,793	73,017
Hawaii (District 3)	74,707	3,145	2,039	79,891
Kauai (District 4)	30,906	692	778	32,376
Total - All Returns	598,433	19,933	85,182	703,548

1/ Includes both taxable and nontaxable tax returns.

2/ Forms N-15 for nonresidents that have an out-of-state address are allocated to Oahu.

Table 2 shows the distribution of the number of tax returns and of Hawaii AGI by filing status. Among residents, the 'Single' filing status accounted for 51% of returns. 'Joint' (Married, filing jointly) accounted for 36% of resident returns. 'Head of household,' 'Qualified widower' and 'Married, filing separately' together accounted for 13% of resident returns. Among nonresident tax returns, the most common filing status was 'Joint' (51%), followed by 'Single' (39%). Tax returns with 'Joint' status accounted for 61% of total Hawaii AGI for resident tax returns and 48% of Hawaii AGI for the nonresident returns. Tax returns with 'Single' status accounted for 28% of the total Hawaii AGI reported on the resident tax returns and for 40% of the total Hawaii AGI reported on the nonresident tax returns.

Table 2
Number of Tax Returns and Hawaii AGI by Filing Status – 2014
(Dollar amounts are in millions)

	Residents				Nonresidents			
Status	No. Returns	% of Total	Hawaii AGI*	% of Total	No. Returns	% of Total	Hawaii AGI*	% of Total
Joint	220,510	35.7%	$18,803	60.9%	43,098	50.6%	$452	48.2%
Single	315,838	51.1%	$8,727	28.3%	33,122	38.9%	$375	40.0%
Married, filing separately	13,266	2.1%	$706	2.3%	5,696	6.7%	$59	6.3%
Head of Household	68,420	11.1%	$2,602	8.4%	3,240	3.8%	$51	5.4%
Qualified Widow(er)	332	0.1%	$15	0.1%	26	0.0%	$0	0.0%
Total	618,366	100.0%	$30,854	100.0%	85,182	100.0%	$937	100.0%

Note: Details may not add to totals due to rounding.
*Includes returns with negative AGI.

Highlights of Statistics from Resident Tax Returns

Resident Income and Adjustments

Selected data from resident tax returns are shown in Appendix Tables A-1 and A-2. Figure 1 on the next page shows the major components of resident tax returns for tax year 2014. Residents with taxable income reported aggregate Hawaii AGI of $32.5 billion on their Hawaii income tax returns for 2014. Of the total, $32.2 billion was reported on Form N-11 while the remaining $0.3 billion was reported on Form N-13. Residents with nontaxable income reported aggregate Hawaii AGI of -$1.6 billion on Form N-11 and $3.6 million on Form N-13.

Federal AGI is the starting point for calculating Hawaii taxable income on Form N-11. Hawaii AGI is derived by subtracting income that is taxed by the federal government but not by Hawaii and adding income that is taxed by Hawaii but not by the federal government. The largest income items subtracted from federal AGI are social security benefits and certain employer-provided pensions. The largest income items added to federal AGI are cost-of-living allowances for civilian federal employees, contributions to the state employees' retirement system, and interest on out-of-state bonds. Federal AGI is not reported on Form N-13.

Figure 1
Components of a Resident Tax Return
(Dollar amounts are in millions)

	Taxable Returns	Non-Taxable Returns
Income from all sources other than exempt pensions and social security	$32,045	$ (663)
plus **Adjustments** to income 1/	$425	$ (950)
equals **Hawaii AGI**	$32,470	$ (1,614)
minus **Total Deductions** Itemized deductions or the standard deduction 2/	$5,069	$1,235
and minus **Exemptions**	$1,206	$291
equals **Taxable Income**	$26,195	na
times applicable tax rates equals **Tax Liabilities**	$1,786	na
minus **Tax Credits** 3/	$137	$16
equals **Tax After Credits**	$1,649	$ (16)

Note: Details may not add to totals due to rounding. "na" denotes "not applicable."

1/ Adjustments to income include Hawaii tax refunds, student loan interest, payments to IRA plans, part of reservist or National Guard wages, adjustments for self employed individuals, certain business expenses, moving expenses, alimony paid, forfeited interest, health savings accounts, educator expenses, and federal adjustments.

2/ Itemized deductions are the sum of charitable contributions, interest, taxes, medical and dental expenses, casualty losses and miscellaneous deductions. For more information, see page 10 of this report.

3/ Tax credits available to individuals in 2014 (including carryovers of credits from prior years) include those for refundable food/excise taxes, low-income household renters, child and dependent care expenses, child passenger restraint systems, employment of vocational rehabilitation referrals, low income housing, school repair and maintenance, fuel for commercial fishers, motion picture and digital media, renewable energy technologies, enterprise zones, ethanol facilities, research activities, capital goods excise taxes, individual development accounts, high technology business investment, energy conservation, hotel construction and remodeling, technology infrastructure, residential construction and remodeling, and income taxes paid to another state or foreign country. For more information, see the Department's report entitled Tax Credits Claimed by Hawaii Taxpayers.

Table 3 shows the adjustments that residents made to their federal AGI to calculate their Hawaii AGI on Form N-11, and also the number of tax returns on which the adjustments were reported. For residents who filed Form N-11, federal AGI was $34.5 billion for those with Hawaii taxable income and $1.8 billion for those without Hawaii taxable income. The bulk of the difference between federal AGI and Hawaii AGI was accounted for by social security benefits and pensions that are taxed federally but exempt from Hawaii income tax. Together, these items totaled $2.7 billion for residents with Hawaii taxable income and $2.4 billion for residents without Hawaii taxable income. Items subtracted from federal AGI in 2014 totaled $6.5 billion whereas items added totaled only $0.8 billion. Data on exempt pension and social security incomes are not available for this study for residents who filed Form N-13, however, residents filing Form N-13 claimed only about 3% of the total age exemptions claimed by residents in 2014.

Table 3
Differences Between Federal AGI and Hawaii AGI for Residents
Who Filed Form N-11 for Tax Year 2014
(Dollar amounts are in millions)

	Taxable Returns		Nontaxable Returns	
	No. Returns	Amount	No. Returns	Amount
Federal AGI	499,658	$34,476	98,775	$1,764
MINUS (subtractions from Federal AGI):				
Exempt Pensions Taxed Federally	59,193	$1,805	49,680	$2,030
Social Security Benefits	58,552	$925	32,034	$401
Other Subtractions from Hawaii AGI 1/	68,554	$284	11,505	$1,043
Total Subtractions	132,816	$3,014	55,206	$3,474
PLUS				
Hawaii Additions to Federal AGI 2/	133,685	$708	11,345	$91
EQUALS				
Hawaii AGI	499,658	$32,170	98,775	-$1,617

Note: Details may not add to totals due to rounding.

1/ Includes interest on federal obligations, interest on an Individual Housing Account, expenses connected with federal credits, individual development accounts, certain income from high technology businesses, and other adjustments.

2/ Includes taxable amounts of Individual Housing Accounts, Hawaii tax refunds, excluded income earned outside of the United States, certain depreciation amounts, and other adjustments.

Resident Personal Exemptions and Deductions

All individuals filing a Hawaii income tax return, other than those who may be claimed as a dependent, may claim one personal exemption for themselves and an additional exemption for each qualified dependent. Individuals who are 65 or older may claim an additional personal exemption (the age exemption). The personal exemption amount was $1,144 per exemption in 2014. Individuals who are certified as blind, deaf, or totally disabled could claim a special personal exemption of $7,000 for themselves. For tax year 2014, resident taxpayers reported a total of 1.3 million exemptions (including the age exemption) on 587,483 Hawaii income tax returns, for an average of 2.3 exemptions per return. The aggregate amount of exemptions claimed by residents was $1.5 billion. The number and amount of the exemptions claimed in each income class are shown in Appendix Table A-5.

Residents may reduce their adjusted gross income by a standard deduction amount or by their allowable itemized deductions. The standard deduction amount for 2014 is based on the individual's filing status, as shown below:

Status	Standard Deduction
Single	$2,200
Married Filing Jointly	$4,400
Married Filing Separately	$2,200
Head of Household	$3,212
Qualified Widow(er) with Dependent Child	$4,400

The standard deduction for an individual who may be claimed as a dependent is limited to the greater of $500 or their earned income, up to the full standard deduction for their filing status. In most cases, the dependent individual's filing status is single, and the corresponding maximum standard deduction is $2,200. Unlike the federal standard deduction amounts, which are adjusted annually for inflation, the Hawaii standard deduction amounts are fixed by statute and are infrequently changed (see Table 4).

Table 4
Changes in Hawaii's Standard Deduction Over Time

	Year				
	1982	1987	1989	2007	2014
Status	Standard Deduction ($)				
Single	800	1,000	1,500	2,000	2,200
Married Filing Joint	1,000	1,700	1,900	4,000	4,400
Married Filing Separate	500	850	950	2,000	2,200
Head of Household	800	1,500	1,650	2,920	3,212

There are six categories of itemized deductions: charitable contributions, interest expenses, medical and dental expenses, casualty and theft losses, taxes paid, and miscellaneous deductions. The amounts of itemized deductions that may be claimed are subject to various limitations, including limits on the total amount of such deductions based on the taxpayer's total income. Appendix Table A-4 shows the types and amounts of deductions claimed by residents in 2014, including the standard deductions and itemized deductions, as well as the amounts of itemized deductions that were disallowed owing to the limits on the deductions. The data are summarized in Table 5.

Table 5
Itemized and Standard Deductions Claimed by Residents - 2014
(Dollar amounts are in millions)

Deduction Type	No. Returns	% of All Returns	Amount	% of Total Deductions
Charitable Contributions	232,056	37.5%	$908	14.4%
Interest	165,063	26.7%	$1,918	30.4%
Medical and Dental	77,638	12.6%	$534	8.5%
Casualty and Theft	354	0.1%	$9	0.1%
Taxes	319,839	51.7%	$1,772	28.1%
Miscellaneous	127,693	20.7%	$622	9.9%
Total Itemized Deductions	325,555	52.6%	$5,763	91.4%
Total Disallowed Itemized Deductions	24,309	3.9%	$271	4.3%
Allowable Itemized Deductions	325,555	52.6%	$5,492	87.1%
Total Standard Deductions	292,802	47.4%	$812	12.9%
Total Allowable Deductions	618,366	100.0%	$6,304	95.9%

Note: Details may not add to totals due to rounding.

Resident Taxable Income and Tax Liability

Of the tax returns filed by residents, 17.3% had no taxable income. Residents with taxable income reported total tax liabilities for 2014 of $1.79 billion before tax credits and $1.65 billion after tax credits. Oahu accounted for 71% of the total taxable income of residents, followed by Maui and Hawaii counties, both with 12%, and Kauai with 4%. Appendix Table A-6 shows average Hawaii income tax liabilities and average effective tax rates by income class, both before and after tax credits. Appendix Table A-7 provides data on Hawaii AGI, taxable income, and deductions by tax district.

Figure 2 shows the percentage of total resident tax liability by Hawaii AGI class. Residents with $100,000 or more in Hawaii AGI paid 60.1% of the total taxes paid by residents before tax credits and 59.7% of the total after tax credits. Residents with $200,000 or more in Hawaii AGI paid 34.0% of the total taxes paid by residents before tax credits and 33.1% of the total after tax credits.

Figure 2
Distribution of Total Tax Liabilities of Residents by Hawaii AGI Class
Tax Year 2014

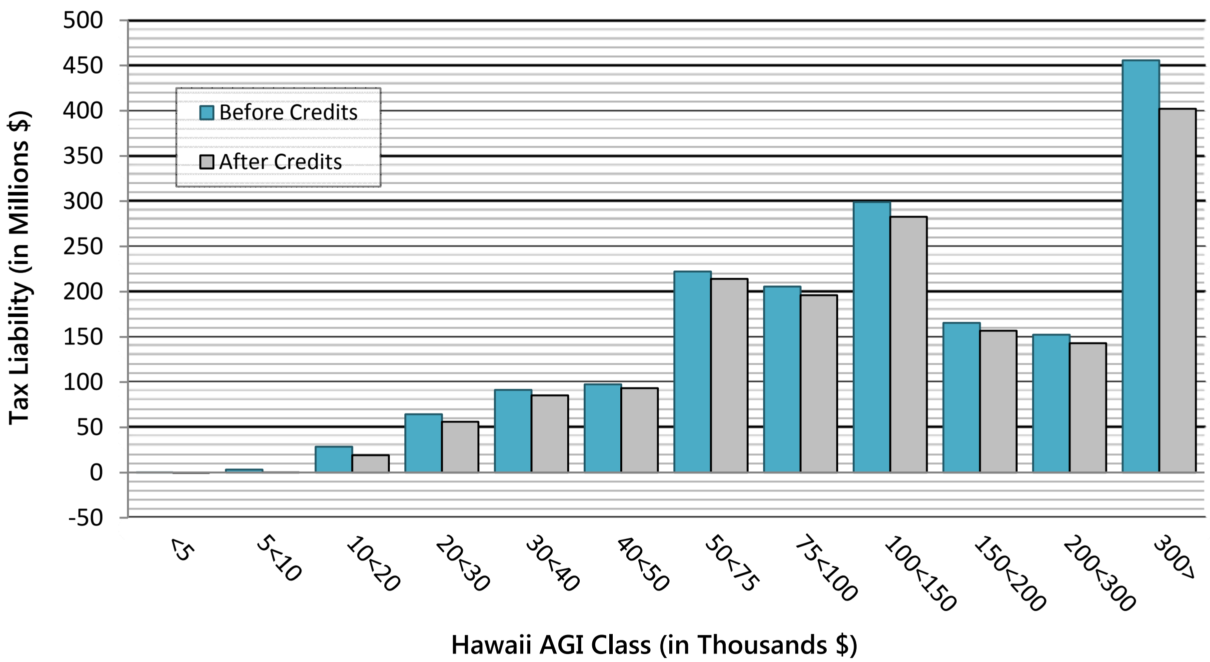
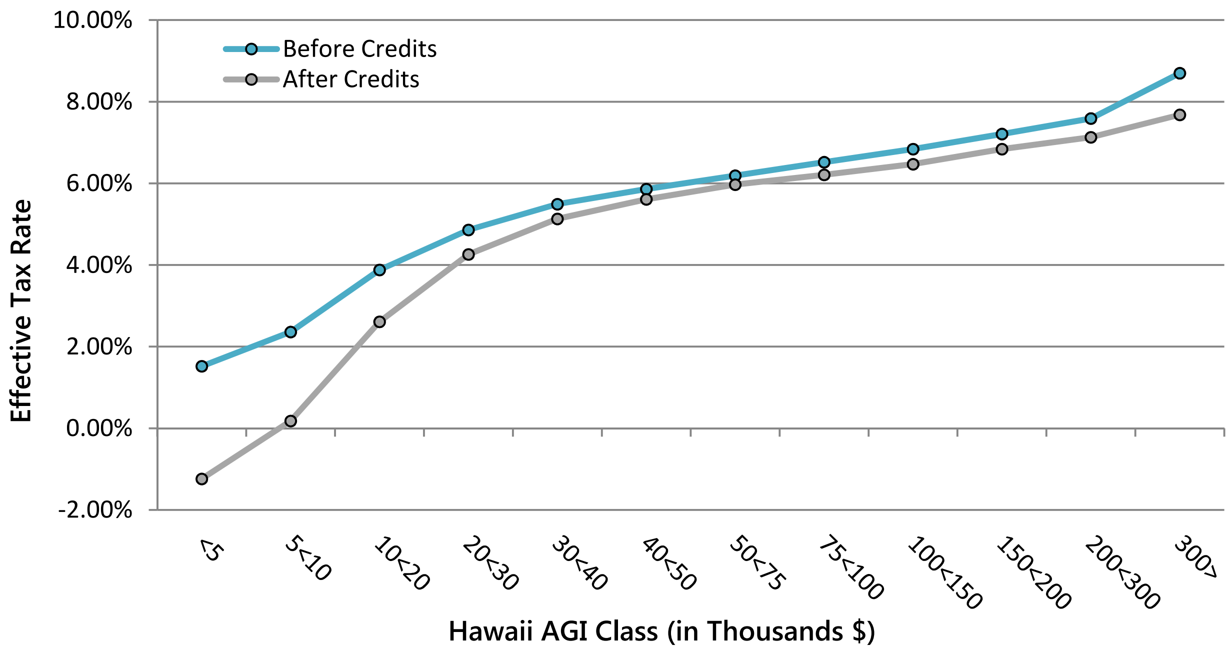


Figure 3 shows the average effective tax rates for residents by income class. 67% of resident returns with Hawaii AGI below $10,000 had no taxable income. For taxpayers with Hawaii AGI below $10,000 who had taxable income, the average effective tax rate was 2.4% before tax credits, but 0.2% after tax credits. The change in the average effective tax rate caused by tax credits was greatest for residents with Hawaii AGI less than $5,000, where tax credits caused the average effective rate on taxable returns to drop by 2.7 percentage points from positive 1.5% to negative 1.2%. The average effective tax rate rises with income, both before and after tax credits, showing that Hawaii's income tax is progressive. The rate of climb of the average effective tax rate is greatest at the low and high ends of the income distribution. See Appendix Table A-6 for the data.

Figure 3
Average Effective Tax Rates on Taxable Income of Residents by Hawaii AGI Class
Tax Year 2014



Highlights of Statistics from Nonresident Tax Returns

Nonresidents, including those who were residents for only part of the tax year, use Form N-15 to file their Hawaii income taxes. For tax year 2014, nonresidents filed 85,182 individual income tax returns. This represents 12% of the total number of resident and nonresident individual income tax returns filed for the year. The worldwide AGI of the nonresidents (what their Hawaii AGI would have been if they had been residents) was $60.3 billion, which is approximately double the total Hawaii AGI for all residents. Appendix Table A-3 provides selected statistics from nonresident tax returns by Hawaii AGI class. Table 6 shows the total AGI, Hawaii AGI, Hawaii taxable income, and Hawaii tax liability before tax credits for nonresidents, by total AGI class.

Table 6

Selected Data from Nonresident Tax Returns By Total (Worldwide) AGI Class - 2014

(Dollar amounts are in millions)

Total AGI Class			No. Returns	Total AGI*	Hawaii AGI	Taxable Income	Hawaii Tax Pre-Credits
TAXABLE RETURNS							
	Loss	Loss	266	-$349	$17	$13	$1
$0	under	$5,000	2,134	$6	$30	$27	$1
$5,000	under	$10,000	3,570	$27	$18	$11	$0
$10,000	under	$20,000	6,769	$101	$59	$42	$1
$20,000	under	$30,000	5,693	$141	$75	$59	$3
$30,000	under	$40,000	4,232	$147	$69	$55	$3
$40,000	under	$5,0000	3,475	$156	$69	$56	$3
$50,000	under	$50,000	6,456	$398	$157	$131	$7
$75,000	under	$75,000	4,600	$400	$145	$121	$7
$100,000	under	$100,000	5,481	$669	$218	$187	$11
$150,000	under	$150,000	2,833	$490	$148	$128	$8
$200,000	under	$200,000	2,757	$670	$176	$163	$11
$300,000	and	over	6,326	$38,759	$793	$764	$60
TOTAL TAXABLE RETURNS			54,592	$41,615	$1,976	$1,757	$116
NON-TAXABLE RETURNS							
	Loss	Loss	3,009	-$4,141	-$442		
$0	under	$5,000	4,638	$4	-$16		
$5,000	under	$10,000	774	$6	-$3	NOT APPLICABLE	
$10,000	and	over	22,169	$22,788	-$578		
TOTAL NON-TAXABLE RETURNS			30,590	$18,657	-$1,039		
TOTAL ALL RETURNS			85,182	$60,272	$937	$1,757	$116

Note: Details may not add to totals due to rounding. A dash ("-") denotes less than $500,000.

*The taxpayer's worldwide adjusted gross income as defined for Hawaii income tax purposes.

Nonresident Deductions and Personal Exemptions

Nonresidents must prorate the standard deduction and personal exemption amounts to determine their Hawaii taxable income. The prorated amounts are determined using the ratio of Hawaii AGI to worldwide AGI. Hawaii AGI, less the prorated exemption amount, and less either the Hawaii itemized deductions or the prorated standard deduction, equals Hawaii taxable income. In 2014, 55,365 nonresident tax returns had the standard deduction and 29,817 nonresident tax returns had allowable itemized deductions. The nonresidents claimed prorated itemized deductions of $893 million, but their allowable itemized deductions were only $238 million. Their prorated standard deductions totaled $70 million and their prorated exemptions totaled $49 million.

Nonresident Taxable income and Tax Liability

As shown in Table 6, income and Hawaii tax liability of the nonresidents is heavily skewed towards the high end of the income distribution. Nonresidents with taxable returns reported $1.76 billion in taxable income in 2014 on total Hawaii AGI of $1.98 billion. Their total Hawaii tax liability before tax credits was $116 million, of which $60 million was owed by nonresidents with worldwide AGI of $300,000 or more. Though not shown in Table 6, nonresidents had total Hawaii tax liability after tax credits of $101 million, including negative amounts of tax owed by nonresidents with nontaxable returns. The average tax liability before tax credits per nonresident return was $1,364 and the average net tax liability after tax credits was $1,186.

Statistics from Tax Returns of Residents Aged 65 or Older

Taxpayers aged 65 years or older may claim an extra personal exemption, the age exemption. The age exemption was claimed on a total of 133,783 resident tax returns for 2014. The tax returns showed total Hawaii AGI of $4.7 billion and total taxable income of $4.1 billion. Slightly more than half of tax returns claiming an age exemption reported taxable income. Income taxes paid on the returns totaled $294 million before tax credits and $256 million after tax credits. The tax returns showed a total of $160 million in standard deductions and a total of $1.4 billion in itemized deductions.

Tax returns filed using Form N-11 that included an age exemption showed $3.0 billion in pension income that was exempt from Hawaii income tax and an additional $1.2 billion in exempt Social Security benefits. Data on exempt pension and social security income are not available for residents filing Form N-13, however, the Form N-11 filings accounted for over 96% of the total number of age exemptions claimed by residents in 2014. Overall, the tax returns averaged $35 thousand in Hawaii AGI per return and $1,858 per return in tax after tax credits. Selected data from resident tax returns with at least one age exemption are shown in Table 7.

Table 7
Selected Data on Resident Tax Returns with at Least One Age Exemption – 2014
(Dollar amounts are in millions)

	Taxable Returns	Nontaxable Returns	Total
Number of Tax Returns	68,460	65,323	133,783
Hawaii AGI	$5,198	-$529	4,669
Standard Deductions	$67	$93	160
Itemized Deductions	$800	$590	1,390
Taxable Income	$4,102	na	4,102
Tax Liability Before Credits	$294	na	294
Tax Liability After Credits	$256	-$8	244
Number of Taxpayers Over 65	64,843	64,485	129,328
Number of Taxpayers' Spouses Over 65	25,753	22,795	48,548

Note: "na" denotes "not applicable."

Statistics from Tax Returns of Disabled Residents

A special personal exemption of $7,000 is available to blind, deaf, or totally disabled taxpayers in lieu of the $1,144 regular personal exemption. A disabled spouse on a joint tax return is also entitled to the $7,000 exemption, but disabled taxpayers may not claim any additional exemptions for dependents or age, so the maximum allowable exemption on a joint tax return with two disabled taxpayers is $14,000.

In 2014, 5,266 resident tax returns were filed with at least one special exemption for disability. These tax returns showed Hawaii AGI of $191 million, Hawaii taxable income of $117 million, and Hawaii income taxes of $7 million before tax credits and $6 million after tax credits. Overall, the tax returns averaged $36 thousand in Hawaii AGI per return and $1,164 per return in tax after tax credits. Selected data from the tax returns are shown in Table 8.

Table 8
Selected Data on Resident Tax Returns with at Least One Disabled Exemption – 2014
(Dollar amounts are in millions)

	Taxable Returns	Nontaxable Returns	Total
Number of Tax Returns	2,978	2,288	5,266
Hawaii AGI	$178	$13	$191
Standard Deductions	$4	$3	$7
Itemized Deductions	$33	$34	$67
Taxable income	$117	na	$117
Tax Liability Before Credits	$7	na	$7
Tax Liability After Credits	$6	$0	$6
Number of Disabled Taxpayers	1,962	1,838	3,800
Number of Disabled Spouses	1,092	529	1,621

Note: "na" denotes "not applicable." A dash ("-") denotes less than $500,000.

Statistics from Tax Returns of Dependent Residents

Taxpayers who may be claimed as dependents by other taxpayers may not claim a personal exemption for themselves. Dependents may itemize deductions or claim the standard deduction, which is the greater of $500 or their earned income (up to the full standard deduction for their filing status).

A total of 28,863 dependents filed tax returns for 2014, including nonresidents. Their Hawaii AGI totaled $200 million and their taxable income totaled $145 million. Their tax returns had tax liability before tax credits of $6.1 million and tax liability after tax credits of $5.9 million. Overall, the tax returns averaged $6,900 in Hawaii AGI per return and $205 per return in tax after tax credits.

Statistics on Net Long-Term Capital Gains

Hawaii taxes long-term capital gains at 7.25% or the taxpayer's marginal tax rate on ordinary income, whichever is less. The alternative rate for long-term capital gains is a significant feature of Hawaii's income tax law because long-term capital gains income constitutes 8% of total taxable income.

Table 9 shows the distribution of long term capital gains by income class for Hawaii residents and nonresidents with taxable returns. As shown in the table, the capital gains are heavily concentrated on the high end of the income distribution.

Table 9
Income Eligible for the Tax Rate on Long-Term Capital Gains
(Dollar amounts are in millions)

Hawaii AGI Class	Long Term Capital Gains		Percent of Total Taxable Income	
	Residents	Nonresidents	Residents	Nonresidents
Less than $5,000	-	-	-	-
$5,000 under $10,000	-	-	-	-
$10,000 under $20,000	-	-	-	-
$20,000 under $30,000	-	-	-	-
$30,000 under $40,000	$5	$1	0.3%	0.7%
$40,000 under $50,000	$9	$1	0.5%	1.4%
$50,000 under $75,000	$35	$7	1.0%	4.0%
$75,000 under $100,000	$48	$9	1.5%	6.8%
$100,000 under $150,000	$111	$24	2.5%	14.0%
$150,000 under $200,000	$105	$26	4.6%	23.3%
$200,000 under $300,000	$160	$35	8.0%	27.8%
$300,000 and over	$1,521	$250	29.0%	44.9%
Total	$1,994	$353	7.6%	20.1%

Note: Details may not add to totals due to rounding.
A dash (-) denotes less than $500,000 or less than 0.05%.

APPENDIX
STATISTICAL
TABLES

TABLE A-1
SELECTED DATA FROM RESIDENT TAX RETURNS BY HAWAII AGI CLASS –2014
($ in thousands)

Hawaii AGI CLASS			Number of Returns		Hawaii AGI		Taxable Income		Tax Liability	
			Number	%	Amount	%	Amount	%	Amount	%
TAXABLE RESIDENT RETURNS										
$0	under	$5,000	15,731	3.1%	$56,433	0.2%	$17,344	0.1%	$264	0.0%
$5,000	under	$10,000	36,852	7.2%	$278,687	0.9%	$139,004	0.5%	$3,284	0.2%
$10,000	under	$20,000	76,440	15.0%	$1,145,243	3.5%	$735,108	2.8%	$28,503	1.6%
$20,000	under	$30,000	72,262	14.1%	$1,801,003	5.5%	$1,319,515	5.0%	$64,567	3.6%
$30,000	under	$40,000	62,387	12.2%	$2,172,562	6.7%	$1,664,298	6.4%	$91,312	5.1%
$40,000	under	$50,000	47,743	9.3%	$2,135,179	6.6%	$1,664,398	6.4%	$97,603	5.5%
$50,000	under	$75,000	75,013	14.7%	$4,599,871	14.2%	$3,589,005	13.7%	$222,191	12.4%
$75,000	under	$100,000	46,556	9.1%	$4,030,896	12.4%	$3,156,998	12.1%	$205,703	11.5%
$100,000	under	$150,000	45,380	8.9%	$5,480,090	16.9%	$4,369,135	16.7%	$299,006	16.7%
$150,000	under	$200,000	16,411	3.2%	$2,802,320	8.6%	$2,293,378	8.8%	$165,394	9.3%
$200,000	under	$300,000	9,395	1.8%	$2,235,911	6.9%	$2,007,885	7.7%	$152,323	8.5%
$300,000	and	over	7,029	1.4%	$5,731,853	17.7%	$5,238,721	20.0%	$455,724	25.5%
TOTAL - TAXABLE RETURNS			511,199	100.0%	$32,470,049	100.0%	$26,194,790	100.0%	$1,785,873	100.0%
NON-TAXABLE RESIDENT RETURNS										
	Loss		13,665	12.8%	-$2,014,390					
$0	under	$5,000	71,034	66.3%	$81,105					
$5,000	under	$10,000	11,230	10.5%	$79,586		NOT APPLICABLE			
$10,000	and	over	11,238	10.5%	$237,974					
TOTAL - NONTAXABLE RETURNS			107,167	100.0%	-$1,615,724					
TOTAL ALL RESIDENT RETURNS			618,366		$30,854,325		$26,194,790		$1,785,873	

Note: Details may not add to totals due to rounding.

TABLE A-2
SELECTED DATA ON ALL TAX RETURNS BY FILING STATUS AND HAWAII AGI CLASS – 2014
($ in thousands)

Hawaii AGI Class	Number of Returns			Hawaii AGI		
	Single*	Joint	H/H**	Single*	Joint	H/H*
TAXABLE RESIDENT RETURNS						
$0 under $5,000	15,715	8	8	$56,364	$32	$38
$5,000 under $10,000	32,219	1,455	3,178	$239,616	$12,946	$26,125
$10,000 under $20,000	52,462	11,648	12,330	$778,507	$179,369	$187,367
$20,000 under $30,000	44,022	14,736	13,504	$1,092,032	$370,444	$338,527
$30,000 under $40,000	35,150	15,634	11,603	$1,222,952	$546,938	$402,673
$40,000 under $50,000	25,821	14,458	7,464	$1,153,175	$649,440	$332,564
$50,000 under $75,000	31,893	34,478	8,642	$1,926,483	$2,151,193	$522,196
$75,000 under $100,000	12,985	29,953	3,618	$1,114,565	$2,606,147	$310,184
$100,000 under $150,000	7,216	36,108	2,056	$850,963	$4,386,645	$242,483
$150,000 under $200,000	1,806	14,219	386	$307,615	$2,429,287	$65,418
$200,000 under $300,000	1,248	7,913	234	$298,471	$1,881,613	$55,827
$300,000 and over	1,121	5,699	209	$900,403	$4,698,164	$133,286
TOTAL TAXABLE RETURNS	261,658	186,309	63,232	$9,941,145	$19,912,217	$2,616,688
NON-TAXABLE RESIDENT RETURNS						
Loss	7,993	5,213	459	-$662,598	-$1,327,130	-$24,662
$0 under $5,000	51,953	15,748	3,333	$52,974	$21,606	$6,526
$5,000 under $10,000	3,882	6,202	1,146	$27,548	$44,631	$7,407
$10,000 and over	3,618	7,038	582	$74,237	$151,860	$11,877
TOTAL NONTAXABLE RETURNS	67,446	34,201	5,520	-$507,839	-$1,109,033	$1,147
TOTAL ALL RESIDENT RETURNS	329,104	220,510	68,752	$9,433,306	$18,803,184	$2,617,835
TOTAL ALL NONRESIDENT RETURNS	38,818	43,098	3,266	$434,273	$451,659	$51,239
TOTAL ALL RETURNS	367,922	263,608	72,018	$9,867,579	$19,254,843	$2,669,074

Note: Details may not add to totals due to rounding.
*Includes returns for married individuals filing seperately.
**Includes returns for heads of households and for qualifying spouses.

TABLE A-2 (CONTINUED)
SELECTED DATA ON ALL TAX RETURNS BY FILING STATUS AND HAWAII AGI CLASS - 2014
($ in thousands)

Hawaii AGI Class			Taxable Income			Tax Liability		
			Single*	Joint	H/H**	Single*	Joint	H/H*
TAXABLE RESIDENT RETURNS								
$0	under	$5,000	$17,332	$9	$3	$263	$0	$0
$5,000	under	$10,000	$130,176	$1,755	$7,073	$3,155	$25	$104
$10,000	under	$20,000	$559,936	$70,103	$105,070	$23,871	$1,466	$3,166
$20,000	under	$30,000	$872,051	$207,698	$239,767	$46,768	$7,217	$10,581
$30,000	under	$40,000	$1,008,431	$349,832	$306,035	$60,335	$15,261	$15,715
$40,000	under	$50,000	$959,791	$446,201	$258,407	$61,071	$22,030	$14,502
$50,000	under	$75,000	$1,592,712	$1,585,725	$410,568	$107,799	$89,224	$25,168
$75,000	under	$100,000	$918,215	$1,994,879	$243,905	$65,862	$123,689	$16,152
$100,000	under	$150,000	$749,952	$3,427,787	$191,396	$56,076	$229,474	$13,455
$150,000	under	$200,000	$280,245	$1,955,385	$57,748	$21,569	$139,536	$4,288
$200,000	under	$300,000	$277,005	$1,680,288	$50,591	$22,633	$125,819	$3,871
$300,000	and	over	$843,364	$4,269,164	$126,193	$79,084	$365,351	$11,289
TOTAL TAXABLE RETURNS			$8,209,209	$15,988,827	$1,996,754	$548,487	$1,119,094	$118,292
NON-TAXABLE RESIDENT RETURNS								
	Loss							
$0	under	$5,000		NOT APPLICABLE			NOT APPLICABLE	
$5,000	under	$10,000						
$10,000	and	over						
TOTAL NON-TAXABLE RETURNS								
TOTAL ALL RESIDENT RETURNS			$8,209,209	$15,988,827	$1,996,754	$548,487	$1,119,094	$118,292
TOTAL ALL NONRESIDENT RETURNS			$624,119	$1,072,553	$60,765	$41,215	$70,969	$4,014
TOTAL ALL RETURNS			$8,833,328	$17,061,380	$2,057,519	$589,702	$1,190,063	$122,306

Note: Details may not add to totals due to rounding.
*Includes returns for married individuals filing separately.
**Includes returns for heads of households and for qualifying spouses.

TABLE A-3
SELECTED DATA FROM NON-RESIDENT TAX RETURNS BY HAWAII AGI CLASS -2014
($ in thousands)

Hawaii AGI Class	Number of Returns	Hawaii AGI	Worldwide AGI*	Number of Exemptions		Hawaii Taxable Income	Hawaii Tax Liability
				Regular	Age		
TAXABLE RETURNS							
$0 under $5,000	14,909	$33,369	$8,384,716	25,129	2,626	$25,227	$391
$5,000 under $10,000	9,395	$68,709	$3,585,871	15,747	1,598	$52,326	$1,286
$10,000 under $20,000	10,455	$150,642	$2,474,953	19,278	1,728	$120,778	$4,571
$20,000 under $30,000	5,709	$140,725	$2,455,895	11,251	816	$116,122	$5,563
$30,000 under $40,000	3,513	$121,746	$1,909,951	7,564	589	$101,725	$5,412
$40,000 under $50,000	2,211	$98,990	$1,980,226	4,942	393	$83,319	$4,743
$50,000 under $75,000	3,156	$192,184	$3,203,038	7,284	545	$164,057	$10,082
$75,000 under $100,000	1,734	$148,929	$2,257,803	4,113	394	$128,826	$8,484
$100,000 under $150,000	1,575	$190,249	$2,444,539	3,778	444	$168,867	$11,693
$150,000 under $200,000	702	$120,675	$2,010,256	1,633	252	$111,537	$8,087
$200,000 under $300,000	549	$133,320	$2,612,252	1,225	285	$127,380	$9,547
$300,000 and over	684	$576,531	$8,295,343	1,488	359	$557,271	$46,337
TOTAL - TAXABLE RETURNS	54,592	$1,976,068	$41,614,845	103,432	10,029	$1,757,436	$116,197
NON-TAXABLE RETURNS							
Loss	13,871	-$1,059,870	$9,359,805	28,913	7,255	NOT APPLICABLE	
$0 under $5,000	15,606	$4,979	$7,861,531	30,898	4,703		
$5,000 under $10,000	561	$3,905	$422,499	1,360	204		
$10,000 and over	552	$12,090	$1,012,881	1,385	219		
TOTAL - NONTAXABLE RETURNS	30,590	-$1,038,897	$18,656,717	62,556	12,381		
TOTAL ALL RETURNS	85,182	$937,171	$60,271,561	165,988	22,410	$1,757,436	$116,197

Note: Details may not add to totals due to rounding.

*The taxpayer's worldwide adjusted gross income as defined for Hawaii income tax purposes.

TABLE A-4

TYPES OF DEDUCTIONS BY HAWAII AGI CLASS - 2014

($ in thousands)

	Contributions		Interest		Medical and Dental		Casualty Loss	
Hawaii AGI Class	No. Returns	Amount	No. Returns	Amount	No. Returns	Amount	No. Returns	Amount
TAXABLE RESIDENT RETURNS								
$0 under $5,000	77	$54	21	$29	84	$122	-	$0
$5,000 under $10,000	1,727	$1,911	437	$1,095	1,658	$3,416	5	$8
$10,000 under $20,000	9,544	$13,656	3,587	$15,612	7,183	$21,494	17	$65
$20,000 under $30,000	15,602	$26,335	6,795	$43,698	7,740	$29,182	30	$97
$30,000 under $40,000	21,114	$35,585	9,683	$74,168	6,814	$28,660	24	$163
$40,000 under $50,000	21,447	$36,704	10,902	$92,924	4,870	$22,603	31	$179
$50,000 under $75,000	42,629	$86,029	27,720	$260,703	6,909	$37,794	53	$307
$75,000 under $100,000	32,832	$75,022	25,365	$281,217	3,097	$21,594	39	$358
$100,000 under $150,000	35,555	$100,954	32,059	$419,309	1,842	$20,588	28	$601
$150,000 under $200,000	13,737	$50,978	12,932	$200,418	418	$11,145	8	$57
$200,000 under $300,000	7,220	$41,884	7,175	$129,234	227	$6,693	7	$368
$300,000 and over	5,095	$389,704	4,906	$159,865	183	$7,274	3	$4
TOTAL TAXABLE RETURNS	206,579	$858,818	141,582	$1,678,273	41,025	$210,563	245	$2,206
NON-TAXABLE RESIDENT RETURNS								
Loss	444	$1,500	4,382	$49,595	6,227	$45,574	29	$4,113
$0 under $5,000	10,765	$8,919	8,139	$60,473	15,713	$103,472	27	$216
$5,000 under $10,000	5,568	$9,072	3,760	$28,984	6,260	$45,108	14	$389
$10,000 and over	8,700	$29,552	7,200	$100,552	8,413	$129,432	39	$1,623
TOTAL NONTAXABLE RETURNS	25,477	$49,043	23,481	$239,604	36,613	$323,587	109	$6,341
TOTAL ALL RESIDENT RETURNS	232,056	$907,860	165,063	$1,917,877	77,638	$534,149	354	$8,546
TOTAL ALL NONRESIDENT RETURNS	15,232	$49,647	7,137	$648,158	3,407	$13,917	28	$731
TOTAL ALL RETURNS	247,288	$957,508	172,200	$2,566,035	81,045	$548,066	382	$9,277

Note: Details may not add to totals due to rounding.

TABLE A-4 (CONTINUED)
TYPES OF DEDUCTIONS BY HAWAII AGI CLASS - 2014
($ in thousands)

Hawaii AGI Class	Taxes		Miscellaneous Deductions		Total Allowable Itemized Deductions	
	No. Returns	Amount	No. Returns	Amount	No. Returns	Amount
TAXABLE RESIDENT RETURNS						
$0 under $5,000	265	$72	97	$94	170	$371
$5,000 under $10,000	2,568	$2,324	1,195	$1,465	2,567	$10,219
$10,000 under $20,000	13,019	$18,063	6,368	$14,321	12,920	$83,212
$20,000 under $30,000	20,564	$41,008	10,364	$33,815	20,302	$173,216
$30,000 under $40,000	32,017	$82,323	13,493	$49,391	31,795	$268,939
$40,000 under $50,000	35,379	$112,984	12,421	$48,186	35,368	$312,723
$50,000 under $75,000	62,432	$275,870	22,776	$101,836	62,495	$759,533
$75,000 under $100,000	43,789	$268,665	15,532	$78,838	43,944	$721,167
$100,000 under $150,000	42,317	$340,438	14,261	$83,176	43,048	$950,905
$150,000 under $200,000	15,465	$171,116	4,576	$33,306	15,666	$451,448
$200,000 under $300,000	7,754	$36,335	2,119	$22,462	8,002	$206,326
$300,000 and over	5,386	$41,467	1,423	$84,252	5,511	$487,149
TOTAL TAXABLE RETURNS	280,955	$1,390,667	104,625	$551,142	281,788	$4,425,208
NON-TAXABLE RESIDENT RETURNS						
Loss	6,649	$25,281	4,607	$11,557	7,539	$137,209
$0 under $5,000	14,931	$26,181	9,187	$17,631	17,665	$215,223
$5,000 under $10,000	6,786	$14,034	3,913	$7,984	7,448	$104,899
$10,000 and over	10,518	$315,516	5,361	$34,166	11,115	$609,257
TOTAL NONTAXABLE RETURNS	38,884	$381,011	23,068	$71,338	43,767	$1,066,589
TOTAL ALL RESIDENT RETURNS	319,839	$1,771,678	127,693	$622,480	325,555	$5,491,797
TOTAL ALL NONRESIDENT RETURNS	25,154	$142,546	5,391	$37,663	29,817	$238,474
TOTAL ALL RETURNS	344,993	$1,914,224	133,084	$660,143	355,372	$5,730,270

Note: Details may not add to totals due to rounding.

TABLE A-4 (CONTINUED)
TYPES OF DEDUCTIONS BY HAWAII AGI CLASS - 2014
($ in thousands)

	Standard Deductions		Total Allowable and Standard Deductions		Disallowed Itemized Deductions	
Hawaii AGI Class	No. Returns	Amount	No. Returns	Amount	No. Returns	Amount
TAXABLE RESIDENT RETURNS						
$0 under $5,000	15,561	$31,398	15,731	$31,770	-	$0
$5,000 under $10,000	34,285	$81,040	36,852	$91,259	-	$0
$10,000 under $20,000	63,520	$170,173	76,440	$253,385	-	$0
$20,000 under $30,000	51,960	$145,258	72,262	$318,474	9	$918
$30,000 under $40,000	30,588	$92,781	62,383	$361,720	20	$1,351
$40,000 under $50,000	12,375	$44,167	47,743	$356,891	20	$857
$50,000 under $75,000	12,518	$49,008	75,013	$808,541	89	$3,006
$75,000 under $100,000	2,611	$9,733	46,555	$730,900	632	$4,528
$100,000 under $150,000	2,332	$6,457	45,380	$957,361	1,080	$14,163
$150,000 under $200,000	745	$2,205	16,411	$453,652	8,676	$15,573
$200,000 under $300,000	1,393	$5,388	9,395	$211,714	8,038	$30,650
$300,000 and over	1,518	$5,970	7,029	$493,120	5,584	$195,416
TOTAL TAXABLE RETURNS	229,406	$643,579	511,194	$5,068,787	24,148	$266,460
NON-TAXABLE RESIDENT RETURNS						
Loss	6,126	$16,863	13,665	$154,071	22	$411
$0 under $5,000	53,365	$135,563	71,030	$350,786	41	$1,668
$5,000 under $10,000	3,782	$15,203	11,230	$120,102	20	$672
$10,000 and over	123	$533	11,238	$609,790	78	$1,584
TOTAL NONTAXABLE RETURNS	63,396	$168,161	107,163	$1,234,750	161	$4,335
TOTAL ALL RESIDENT RETURNS	292,802	$811,740	618,357	$6,303,537	24,309	$270,794
TOTAL ALL NONRESIDENT RETURNS	55,365	$69,716	85,182	$308,190	1,238	$654,188
TOTAL ALL RETURNS	348,167	$881,457	703,539	$6,611,727	25,547	$924,982

Note: Details may not add to totals due to rounding.

TABLE A-5

NUMBER OF DEPENDENTS, NUMBER OF EXEMPTIONS, TAX WITHHELD, PAYMENTS OF DECLARATION, AMOUNTS DUE, AND REFUNDS AND CARRIED FORWARD CREDITS, BY HAWAII AGI CLASS - 2014

($ in thousands)

Hawaii AGI Class	Dependents		Exemptions			Tax Withheld	
	No. Returns	No. Dependents	No. Returns	No. Exemptions	Amount	No. Returns	Amount
TAXABLE RESIDENT RETURNS							
$0 under $5,000	123	123	5,832	6,399	$7,319	12,521	$1,606
$5,000 under $10,000	5,455	7,424	28,675	42,259	$48,424	28,572	$8,236
$10,000 under $20,000	20,841	36,694	71,370	135,487	$156,749	62,422	$40,662
$20,000 under $30,000	22,448	40,456	71,359	140,220	$163,014	64,279	$79,307
$30,000 under $40,000	20,250	36,633	62,190	125,760	$146,545	57,304	$106,449
$40,000 under $50,000	15,310	27,400	47,655	97,855	$113,890	44,349	$110,245
$50,000 under $75,000	28,068	51,510	74,941	174,359	$202,326	69,814	$240,553
$75,000 under $100,000	21,414	39,980	46,538	123,823	$142,998	43,911	$215,825
$100,000 under $150,000	24,264	45,303	45,371	133,835	$153,594	42,841	$294,334
$150,000 under $200,000	9,100	16,688	16,403	50,457	$55,289	15,146	$146,098
$200,000 under $300,000	4,739	8,613	9,389	28,551	$16,312	8,170	$104,414
$300,000 and over	3,194	5,960	7,018	21,434	$12	5,531	$143,763
TOTAL TAXABLE RETURNS	175,206	316,784	486,741	1,080,439	$1,206,472	454,860	$1,491,491
NON-TAXABLE RESIDENT RETURNS							
Loss	1,424	2,204	13,279	31,273	$37,082	2,466	$2,824
$0 under $5,000	6,359	9,951	65,027	143,684	$169,669	16,888	$1,761
$5,000 under $10,000	2,562	5,192	11,217	34,199	$41,163	3,880	$1,489
$10,000 and over	2,101	4,041	11,219	34,510	$42,688	4,566	$4,836
TOTAL NONTAXABLE RETURNS	12,446	21,388	100,742	243,666	$290,603	27,800	$10,909
TOTAL ALL RESIDENT RETURNS	187,652	338,172	587,483	1,324,105	$1,497,074	482,660	$1,502,400
TOTAL ALL NONRESIDENT RETURNS	23,071	42,646	80,965	188,398	$49,413	40,381	$63,325
TOTAL ALL RETURNS	210,723	380,818	668,448	1,512,503	$1,546,488	523,041	$1,565,726

Note: Details may not add to totals due to rounding.

TABLE A-5 (CONTINUED)
NUMBER OF DEPENDENTS AND EXEMPTIONS, TAX WITHHELD, PAYMENTS OF DECLARATION,
AMOUNTS DUE, AND REFUNDS AND CARRIED FORWARD CREDITS BY HAWAII AGI CLASS - 2014
($ in thousands)

Hawaii AGI Class			Payments of Declaration*		Amounts Due**		Refunds and Amounts Credited***	
			No. Returns	Amount	No. Returns	Amount	No. Returns	Amount
TAXABLE RESIDENT RETURNS								
$0	under	$5,000	214	$44	1,844	$49	13,702	$1,912
$5,000	under	$10,000	659	$295	3,746	$250	32,929	$8,530
$10,000	under	$20,000	2,515	$1,749	11,559	$2,498	64,510	$25,730
$20,000	under	$30,000	3,211	$3,273	10,519	$4,201	61,400	$30,636
$30,000	under	$40,000	3,239	$4,449	9,858	$5,290	52,242	$30,866
$40,000	under	$50,000	2,772	$4,743	8,325	$5,591	39,195	$27,200
$50,000	under	$75,000	5,568	$12,778	16,143	$13,976	58,478	$53,190
$75,000	under	$100,000	4,166	$12,940	10,841	$12,425	35,554	$45,076
$100,000	under	$150,000	5,613	$23,529	11,799	$19,018	33,415	$54,128
$150,000	under	$200,000	3,449	$21,728	5,002	$13,409	11,334	$24,452
$200,000	under	$300,000	3,563	$34,952	4,655	$18,842	4,666	$15,142
$300,000	and	over	4,512	$296,995	3,370	$45,111	3,556	$83,777
TOTAL TAXABLE RETURNS			39,481	$417,475	97,661	$140,659	410,981	$400,640
NON-TAXABLE RESIDENT RETURNS								
	Loss		646	$2,162	1	$0	10,847	$10,112
$0	under	$5,000	814	$691	36	$0	61,253	$9,897
$5,000	under	$10,000	480	$499	1	$0	8,790	$3,926
$10,000	and	over	1,072	$2,435	2	$0	8,077	$8,996
TOTAL NONTAXABLE RETURNS			3,012	$5,788	40	$1	88,967	$32,931
TOTAL ALL RESIDENT RETURNS			42,493	$423,263	97,701	$140,659	499,948	$433,572
TOTAL ALL NONRESIDENT RETURNS			9,688	$107,203	14,335	$18,629	46,174	$88,378
TOTAL ALL RETURNS			52,181	$530,466	112,036	$159,288	546,122	$521,950

Note: Details may not add to totals due to rounding.
* Includes estimated tax payments, extension payments and carryovers of credits from the prior year.
** Equal to tax liability after tax credits less tax withheld and less payments of declaration.
*** Equal to the sum of refunds plus amounts credited to the 2015 estimated taxes and plus check-box donations to school repair, public library, and domestic violence funds.

TABLE A-6
AVERAGE TAX LIABILITIES AND EFFECTIVE TAX RATES FOR RESIDENT RETURNS,
BEFORE AND AFTER TAX CREDITS, BY HAWAII AGI CLASS - 2014
($ in thousands)

Hawaii AGI Class			Income Tax Liability				Effective Tax Rates (%)			
			Before Credits		After Credits		Based on Taxable Income		Based on Hawaii AGI	
			Total	Average	Total	Average	Before Credits	After Credits	Before Credits	After Credits
TAXABLE RESIDENT RETURNS										
$0	under	$5,000	$264	$0.0	-$214	$0.0	1.5%	-1.2%	0.5%	-0.4%
$5,000	under	$10,000	$3,284	$0.1	$250	$0.0	2.4%	0.2%	1.2%	0.1%
$10,000	under	$20,000	$28,503	$0.4	$19,180	$0.3	3.9%	2.6%	2.5%	1.7%
$20,000	under	$30,000	$64,567	$0.9	$56,146	$0.8	4.9%	4.3%	3.6%	3.1%
$30,000	under	$40,000	$91,312	$1.5	$85,323	$1.4	5.5%	5.1%	4.2%	3.9%
$40,000	under	$50,000	$97,603	$2.0	$93,381	$2.0	5.9%	5.6%	4.6%	4.4%
$50,000	under	$75,000	$222,191	$3.0	$214,116	$2.9	6.2%	6.0%	4.8%	4.7%
$75,000	under	$100,000	$205,703	$4.4	$196,115	$4.2	6.5%	6.2%	5.1%	4.9%
$100,000	under	$150,000	$299,006	$6.6	$282,751	$6.2	6.8%	6.5%	5.5%	5.2%
$150,000	under	$200,000	$165,394	$10.1	$156,781	$9.6	7.2%	6.8%	5.9%	5.6%
$200,000	under	$300,000	$152,323	$16.2	$143,066	$15.2	7.6%	7.1%	6.8%	6.4%
$300,000	and	over	$455,724	$64.8	$402,091	$57.2	8.7%	7.7%	8.0%	7.0%
TOTAL TAXABLE RETURNS			$1,785,873	$3.5	$1,648,985	$3.2	6.8%	6.3%	5.5%	5.1%
NON-TAXABLE RESIDENT RETURNS										
	Loss		NOT APPLICABLE		-$5,130	-$0.4	NOT APPLICABLE			
$0	under	$5,000			-$7,458	-$0.1				
$5,000	under	$10,000			-$1,942	-$0.2				
$10,000	and	over			-$1,731	-$0.2				
TOTAL NONTAXABLE RETURNS					-$16,262	-$0.2				
TOTAL ALL RESIDENT RETURNS			$1,785,873	$2.9	$1,632,723	$2.7				

Note: Details may not add to totals due to rounding.

TABLE A-7

HAWAII AGI, TAXABLE INCOME, TAX LIABILITY, AND DEDUCTIONS CLAIMED BY RESIDENTS, BY TAX DISTRICT - 2014

($ in thousands)

	Tax District							
	Oahu (District 1)		Maui (District 2)		Hawaii (District 3)		Kauai (District 4)	
Tax Statistic	No. Returns	Amount	No. Returns	Amount	No. Returns	Amount	No. Returns	Amount
Hawaii AGI	437,692	$22,702,802	71,224	$3,399,740	77,852	$3,264,205	31,598	$1,487,577
Taxable Income	363,376	$19,485,499	60,090	$2,812,260	61,480	$2,659,861	26,253	$1,237,170
Standard Deduction	202,447	$556,005	33,547	$93,587	41,286	$118,568	15,522	$43,580
Itemized Deductions:								
Contributions	170,113	$719,275	26,885	$78,058	23,723	$78,406	11,335	$32,121
Interest	116,924	$1,418,315	18,469	$216,754	21,527	$196,225	8,143	$86,583
Medical and Dental	54,942	$392,205	8,745	$54,947	10,109	$63,007	3,842	$23,990
Casualty Loss	225	$6,779	42	$710	74	$977	13	$80
Taxes	230,900	$1,124,237	37,119	$154,622	36,007	$421,446	15,813	$71,373
Miscellaneous	90,532	$453,112	16,919	$79,048	13,340	$59,900	6,902	$30,420
Disallowed Itemized Deductions	19,412	$218,491	2,222	$22,537	1,801	$19,338	874	$10,429
Total Itemized Deductions	235,237	$3,895,432	37,676	$561,602	36,566	$800,624	16,076	$234,138

Note: Details may not add to totals due to rounding.

Tax Credits

Claimed by Hawaii Taxpayers

Tax Year 2014

DEPARTMENT OF TAXATION

STATE OF HAWAII

STATE OF HAWAII

David Y. Ige, Governor

DEPARTMENT OF TAXATION

Maria E. Zielinski, Director

Damien A. Elefante, Deputy Director

Tax Credits

Claimed by Hawaii Taxpayers

Tax Year 2014

Department of Taxation
State of Hawaii

December 2016

Prepared by Tax Research and Planning Office

Web Site: tax.hawaii.gov

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INTRODUCTION

This study examines tax credits that may be applied against Hawaii's net income taxes, against the tax on insurance premiums, or against the tax on public utilities. Tax credits are subtracted directly from the tax liability, so they reduce the amount of taxes dollar-for-dollar. This makes them more valuable than ordinary deductions, which merely reduce the amount of income against which tax is applied. Tax credits may be refundable or nonrefundable. If a tax credit is nonrefundable, it can provide a tax benefit only to the extent that the taxpayer has a tax liability.[1] In contrast, the taxpayer is ensured of receiving the full amount of a refundable tax credit in the year it is claimed, because if the tax credit exceeds the tax liability, the taxpayer receives a check from the government for the difference.

The study reports the value of tax credits that were applied against (and deducted from) tax liability, or that were refunded to taxpayers in tax year 2014. The study does not include the value of tax credits that were claimed in tax year 2014 if the tax credits were denied or carried over to a future year.

The tax returns examined for the study were those filed for tax year 2014 and processed by March 31, 2016. The tax year is the same as the calendar year for most taxpayers, but for taxpayers that have a fiscal year that differs from the calendar year, tax year 2014 is the fiscal year ending in calendar year 2014.

Hawaii's first tax credit was established in 1957 to avoid double taxation of income. Since then, numerous tax credits have been enacted. Most of them are designed to promote social welfare or to encourage certain industries or economic activities. The total number of tax credits reached a peak in tax year 2008, when 21 tax credits were active. In tax year 2014, there were 18 active tax credits.[2] There were also six expired tax credits for which excess credits from prior years could be carried over into tax year 2014.[3]

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[1] For most tax credits, the unused credits can be carried forward to future years, so the full value of the tax credit usually is realized eventually.

[2] The count includes the important agricultural lands tax credit, even though the tax credit could not be claimed during tax year 2014, because the forms needed to claim the tax credit were not yet available. The study does not include the tax credit from a regulated investment company or the credit for taxes withheld on the sale of Hawaii real property. These are not properly tax credits, but are instead deductions from income tax that account for Hawaii income taxes already paid, similar to the deduction for taxes that were withheld on wages.

[3] The count of expired tax credits does not include the renewable energy technologies tax credit for systems installed prior to July 1, 2009.

The Department of Taxation (Department) has prepared studies on tax credits for tax years 1965, 1970, 1977 through 2005, and 2011 through 2014 (the present study). Owing to cutbacks in personnel caused by the Great Recession, work on the studies was discontinued in 2009. The study on tax credits for tax year 2011 was the first one produced since December, 2007, when the study for tax year 2005 was published.

The studies on tax credits produced for tax years before 1986 included only tax credits claimed by individuals. The studies for tax years 1986 and later include the lifeline telephone service tax credit. The studies for tax years after 1986 were expanded to include tax credits claimed by businesses, by fiduciaries (trusts and estates), and by exempt organizations. The present study examines the following active and expired tax credits:

Active Tax Credits

Tax Credits to Promote Social Welfare

- Refundable Food Excise Tax Credit (Food/Excise)
- Tax Credit for Low-Income Household Renters
- Tax Credit for Child and Dependent Care Expenses
- Tax Credit for Child Passenger Restraint Systems
- Tax Credit for Employment of Vocational Rehabilitation Referrals
- Low-Income Housing Tax Credit
- Tax Credit for School Repair and Maintenance
- Lifeline Telephone Service Tax Credit

Tax Credits to Encourage Certain Industries or Economic Activities

- Fuel Tax Credit for Commercial Fishers
- Motion Picture, Digital Media and Film Production Income Tax Credit
- Renewable Energy Technologies Tax Credit
- Enterprise Zone Tax Credit
- Ethanol Facility Tax Credit
- Important Agricultural Lands Tax Credit
- Tax Credit for Research Activities
- Capital Infrastructure Tax Credit

Tax Credits to Avoid Double Taxation or Pyramiding of Taxes

- Capital Goods Excise Tax Credit
- Income Tax Paid to Another State or to a Foreign Country

Expired Tax Credits

Tax Credits to Promote Social Welfare

- Individual Development Account Contribution Tax Credit

Tax Credits to Encourage Certain Industries or Economic Activities

- High Technology Business Investment Tax Credit
- Energy Conservation Tax Credit
- Hotel Construction and Remodeling Tax Credit
- Technology Infrastructure Renovation Tax Credit
- Residential Construction and Remodeling Tax Credit

DATA SOURCE AND METHODOLOGY

The primary data source for the study is the Department's computerized Integrated Tax Information Management System (ITIMS). Data from individual income tax returns (Forms N-11, N-13 and N-15), corporate income tax returns (Form N-30), fiduciary income tax returns (Form N-40), and exempt organization income tax returns (Form N-70NP) are extracted from ITIMS. The data include all tax returns filed for tax year 2014 and processed by March 31, 2016. Many tax credits require that the taxpayer complete a separate form to compute the tax credit and to provide evidence to support the amount claimed, but data from the separate tax credit forms were not available in electronic form and so were not used for the study. Some tax credits are reported directly on the tax return, but most of them are reported on Schedule CR, "Schedule of Tax Credits." The tax credits reported on Schedule CR are summed and only the total is reported on the income tax return. Data on the tax credits are taken from the tax returns and from Schedules CR. The data on tax credits are before any adjustments made by subsequent audits, but after automatic adjustments that the Department made when processing the tax returns.

In addition to data from ITIMS, data were also taken from image copies of paper returns of Form F-1 that were filed by banks and other financial corporations, including building and loan associations, financial services and loan companies, and small investment companies. Data on the lifeline telephone tax credit were obtained from the Public Utilities Commission. Data on tax credits claimed by insurance companies were provided by the Insurance Division of the Department of Commerce and Consumer Affairs, which administers the tax on insurance premiums. The tax forms used for the study and their instructions are available on the Department's website at *tax.hawaii.gov*, or through the Department's "Forms by Fax/Mail Service" at 808-587-4242 or toll-free at 1-800-222-3229. The forms and instructions may also be obtained at any district tax office.

The data for the study come from 739,336 tax returns that were filed for tax year 2014. Table 1 shows the total number of each type of tax return examined for the study.

Table 1
Number of Tax Returns by Type of Taxpayer
for Tax Year 2014

Type of Taxpayer	Tax Form	Number of Returns
Individual	Form N-11	598,433
Individual	Form N-13	19,933
Individual	Form N-15	85,182
Nonfinancial Corporation	Form N-30	17,588
Financial Corporation	Form F-1	260
Insurance Underwriter*	Form 314	1,010
Fiduciary	Form N-40	16,340
Exempt Organization	Form N-70NP	590
TOTAL		739,336

* Data supplied by the Insurance Division of the Department of Commerce and Consumer Affairs.

Table 2 shows the breakdown by income class and the breakdown by taxation district for the individual income tax returns included in the study (Forms N-11, N-13 and N-15).[4] The State has four taxation districts: District 1 is the City and County of Honolulu (Oahu), District 2 consists of Maui and Kalawao Counties (Maui), District 3 is Hawaii County and District 4 is Kauai County. The table also shows the number of individual income tax returns in each of six income classes. For residents (who file Form N-11 or Form N-13), the income class is determined by the Hawaii Adjusted Gross Income (Hawaii AGI). For part-year residents and nonresidents (who file Form N-15), the income class is determined by total AGI, which is the taxpayer's global adjusted gross income as it would be defined if the taxpayer had been a Hawaii resident for the full tax year.

[4] District breakdowns for tax returns from businesses often are not meaningful, because the district is determined by the taxpayer's mailing address. Many businesses with operations throughout the State are headquartered on Oahu and use an Oahu mailing address. Also, nonresident businesses with out-of-State addresses are attributed to Oahu. Therefore, district breakdowns for business tax returns are not shown.

Table 2

Total Number of Individual Income Tax Returns for Tax Year 2014 by Income Class and by Tax District

By Income Class*				
Hawaii AGI*	Forms N – 11	Forms N -13	Forms N - 15	All Individual Returns
less than $10,000	137,314	11,198	14,391	162,903
$10,000 < $30,000	153,408	4,726	14,914	173,048
$30,000 < $60,000	143,702	3,209	14,007	160,918
$60,000 < $100,000	85,788	774	11,803	98,365
$100,000 < $200,000	61,795	26	13,202	75,023
$200,000 or more	16,426	0	16,865	33,291
Total	598,433	19,933	85,182	703,548

By Tax District**				
Tax District	Forms N – 11	Forms N -13	Forms N - 15	All Individual Returns
Oahu (District 1)	423,211	14,481	80,572	518,264
Maui (District 2)	69,609	1,615	1,793	73,017
Hawaii (District 3)	74,707	3,145	2,039	79,891
Kauai (District 4	30,906	692	778	32,376
Total	598,433	19,933	85,182	703,548

* For Form N-15, the income is the taxpayer's global adjusted gross income as defined for Hawaii income tax purposes.

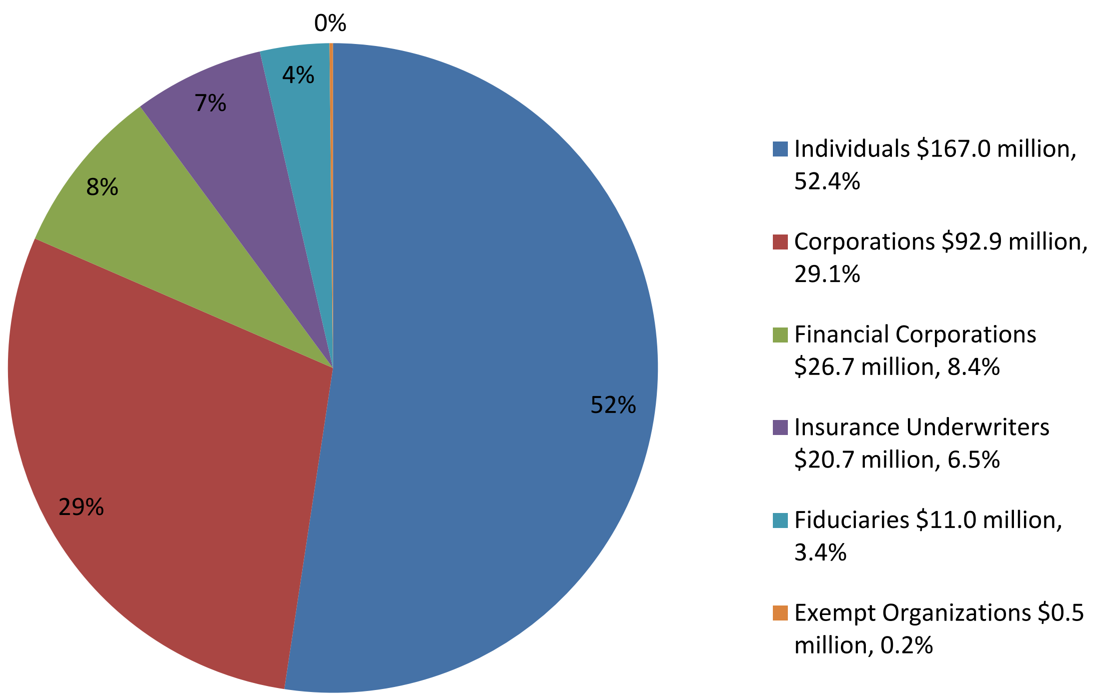
** Forms N-15 for non-residents that have an out-of-state address are allocated to Oahu.

OVERVIEW AND SUMMARY OF RESULTS

The tables in Appendix A show details on the tax credits claimed for tax year 2014. Appendix Table A-1 shows the amount of each tax credit claimed by each type of taxpayer (individuals, nonfinancial corporations, financial corporations, insurance underwriters, fiduciaries and exempt organizations). The results from Table A-1 are summarized in Figure 1, which shows the distribution of tax credits claimed by type of taxpayer, and in Table 3, which shows the distribution of the tax credits claimed by type of tax credit.

Figure 1 shows the breakdown by type of taxpayer for tax credits claimed in tax year 2014. The largest dollar value of tax credits was claimed against individual income tax liabilities. Such claims amounted to $167.0 million, or 52.4% of the total claims for tax credits. Claims against income tax liabilities of nonfinancial corporations were the second largest category, amounting to $92.9 million, or 29.1% of the total claims for tax credits.

Figure 1
Distribution of Tax Credit Amounts by Taxpayer Type in Tax Year 2014



As shown in Table 3, the largest tax credit by dollar value was the renewable energy technologies tax credit which, along with a small amount of carryovers of the energy conservation tax credit, amounted to $112.1 million, or 35.2% of the total tax credits claimed in tax year 2014. The second largest tax credit was income taxes paid to another state or to a foreign country, which amounted to $38.4 million, or 12.0% of the total.

Table 3

Distribution of Tax Credits in Tax Year 2014

	Amount (in $1,000)	% of Total
Total, All Tax Credits	318,831	100.0
Active Tax Credits		
Tax Credits to Promote Social Welfare		
Refundable Food Excise Tax Credit (Food/Excise)	27,700	8.7
Tax Credit for Low-Income Household Renters	3,635	1.1
Tax Credit for Child and Dependent Care Expenses	9,474	3.0
Tax Credit for Child Passenger Restraint Systems	72	0.0
Tax Credit for Employment of Vocational Rehabilitation Referrals	7	0.0
Low-Income Housing Tax Credit	18,189	5.7
Tax Credit for School Repair and Maintenance	*d*	*d*
Lifeline Telephone Service Tax Credit	58	0.0
Tax Credits to Encourage Certain Industries or Economic Activities		
Fuel Tax Credit for Commercial Fishers	293	0.1
Motion Picture, Digital Media and Film Production Income Tax Credit	34,415	10.8
Renewable Energy Technologies Tax Credit	112,130	35.2
Enterprise Zone Tax Credit	1,033	0.3
Ethanol Facility Tax Credit	-	-
Important Agricultural Lands Tax Credit	-	-
Tax Credit for Research Activities	2,870	0.9
Capital Infrastructure Investment Tax Credit	989	0.3
Tax Credits to Avoid Double Taxation or Pyramiding of Taxes		
Capital Goods Excise Tax Credit	28,308	8.9
Income Tax Paid to Another State or to a Foreign Country	38,371	12.0
Expired Tax Credits		
Tax Credits to Promote Social Welfare		
Individual Development Account Contribution Tax Credit	*d*	*d*
Tax Credits to Encourage Certain Industries or Economic Activities		
High Technology Business Investment Tax Credit	37,723	11.8
Energy Conservation Tax Credit*	*	*
Hotel Construction and Remodeling Tax Credit	3,341	1.0
Technology Infrastructure Renovation Tax Credit	9	0.0
Residential Construction and Remodeling Tax Credit	195	0.1

* Data for the tax credit are included with the renewable energy technologies tax credit.

Notes: "*d*" denotes that the data were suppressed to avoid potential disclosure of confidential taxpayer information.

Appendix Table A-2 shows details on the number of tax returns with claims for each type of tax credit for tax year 2014. The tax credits most frequently claimed were the refundable food excise tax credit (claimed on 325,713 individual income tax returns, or 46.3% of these returns), the tax credit for low-income household renters (claimed on 35,030 individual income tax returns, or 5.0% of these returns) and the tax credit for child and dependent care expenses (claimed on 26,299 individual income tax returns, or 3.7% of these returns).

Appendix Table A-3 shows the dollar amounts of the claims for each tax credit made by individuals, broken down by tax district for tax year 2014. Of the $167.0 million in tax credits claimed by individuals for the tax year, $118.9 million (71.2%) was claimed by individuals in District 1 (Oahu),[5] $29.4 million (17.6%) was claimed by individuals in District 2 (Maui), $20.2 million (12.1%) was claimed by individuals in District 3 (Hawaii), and $7.5 million (4.5%) was claimed by individuals in District 4 (Kauai). Appendix Table A-4 shows the number of individual income tax returns with claims for each tax credit by tax district.

Appendix Tables A-5 and A-6 show the dollar amounts and number of claims made by individuals for each tax credit for tax year 2014, broken down by income class as determined by annual Hawaii AGI.[6] Individual returns with Hawaii AGI less than $10,000 claimed a total of $19.4 million in tax credits for the tax year, which was over 3 times as great as their aggregate tax liability before tax credits of $5.9 million. The largest tax credits claimed by the income group were the refundable food/excise tax credit ($10.4 million) and the renewable energy technologies tax credit ($6.9 million). Taxpayers with annual Hawaii AGI of $200,000 or more accounted for the largest dollar value of tax credits ($73.7 million) and also for the largest aggregate tax liability before tax credits. The largest tax credits claimed by this group were the tax credit for taxes paid to another state or to a foreign country ($31.1 million), the renewable energy technologies tax credit ($21.3 million), and the high technology business investment tax credit ($13.7 million).

Appendix B provides a history of Hawaii's tax credits. The chart in Appendix Table B-1 shows the tax credits in existence in each year since 1965. Appendix Table B-2 provides an outline showing the historic development of the tax credits and the year in which each tax credit was enacted.

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[5] The total for Oahu includes tax credits claimed on Form N-15 by nonresidents who had an out-of-state address.
[6] The Hawaii AGI of part-year residents and nonresidents who filed Form N-15 is measured as their total AGI, which includes income not subject to Hawaii income tax, but which is the global income of the taxpayer measured in the same way that global income of residents is measured.

DESCRIPTIONS AND ANALYSES OF THE TAX CREDITS

This section describes the tax credits available for tax year 2014, including expired tax credits for which unused credits could be carried forward and applied against tax liability in tax year 2014. It also gives the amount of each tax credit that was claimed in tax years 2013 and 2014.

Active Tax Credits

Tax Credits to Promote Social Welfare

Refundable Food/Excise Tax Credit (HRS §235-55.85)

The refundable food/excise tax credit was introduced for tax year 2008 by Act 211, Session Laws Hawaii (SLH) 2007, to replace the low-income refundable tax credit. To claim the tax credit, the taxpayer must be a Hawaii resident with federal adjusted gross income (adjusted gross income as defined by the Internal Revenue Code) of less than $50,000 who is not claimed or eligible to be claimed as a dependent by another taxpayer. The tax credit is computed by multiplying an allowable tax credit amount by the number of qualified exemptions. The qualified exemptions are personal exemptions permitted under Hawaii law, excluding the additional exemptions for being age 65 or older or for having a disability. A person for whom the tax credit is claimed must have physically resided in Hawaii for more than nine months of the taxable year and cannot have been confined in jail, prison or a youth correctional facility for the entire year. Married persons filing separate tax returns can claim only the tax credit to which they would have been entitled had they filed a joint return. The allowable amount of the tax credit per qualified exemption is based on the taxpayer's income, but parents or guardians of minor children who cannot be claimed as dependents because they receive more than half their support from public agencies (such as the State Department of Human Services) are eligible for the maximum amount of the tax credit ($85) regardless of their income. The allowable amounts for tax year 2014 are shown below:

Federal Adjusted Gross Income	Tax Credit per Qualified Exemption
Under $5,000	$85
$5,000 but under $10,000	$75
$10,000 but under $15,000	$65
$15,000 but under $20,000	$55
$20,000 but under $30,000	$45
$30,000 but under $40,000	$35
$40,000 but under $50,000	$25
$50,000 and over	$0

The refundable food/excise tax credit was the most commonly claimed tax credit in tax year 2014. The tax credit appeared on 325,713 individual income tax returns, or almost half of the total number of such returns filed for the tax year (703,548 returns). Claims for the tax credit totaled $27.7 million for tax year 2014, down slightly from the $28.3 million claimed for tax year 2013.

Tax Credit for Low-Income Household Renters (HRS §235-55.7)

Taxpayers who rented residential real property during the taxable year may qualify for the refundable tax credit for low-income household renters. To claim the tax credit, the taxpayer must be a Hawaii resident with Hawaii AGI of less than $30,000 who is not claimed or eligible to be claimed as a dependent by another taxpayer. Also, the taxpayer must have paid more than $1,000 in annual rent for real property in Hawaii that was the taxpayer's residence (or the residence of the taxpayer's immediate family) and that was not wholly or partially exempt from the real property tax. Married persons filing separate tax returns must combine their Hawaii AGI to determine their eligibility for the tax credit. If a rental unit is shared with another person, the individual's portion of the rent is used to determine eligibility.

The tax credit is computed by multiplying $50 by the number of personal exemptions permitted under Hawaii law, including the additional exemption for being age 65 or older. A person for whom the tax credit is claimed must have physically resided in Hawaii for more than nine months of the taxable year.

The $30,000 income limitation has not been changed since 1989, when it was raised from $20,000. The amount of the tax credit per exemption was raised from $20 to $50 in 1981, but has remained unchanged since then, despite substantial rises in the cost of housing.

The renter's tax credit was claimed on 35,030 individual income tax returns for tax year 2014. It was the second most commonly claimed tax credit. The amount claimed for tax year 2014 totaled $3.6 million, down slightly from $3.9 million claimed for tax year 2013.

Tax Credit for Child and Dependent Care Expenses (HRS §235-55.6)

A resident taxpayer who is gainfully employed and who pays for the care of a child under 13 years of age or for a spouse or dependent incapable of self care qualifies for the child and dependent care tax credit. The tax credit can be taken for care expenses up to $2,400 for one qualified individual and up to $4,800 for two or more qualified individuals. Allowable expenses may not exceed the taxpayer's earned income. For joint tax returns, the amount may not exceed the income of the spouse with the lower earned income.

The tax credit is refundable and the amount ranges from 15% to 25% of qualified care expenses, with the rate declining as Hawaii AGI increases. The tax credit schedule for tax year 2014 is shown below.

Hawaii Adjusted Gross Income	Percent of Allowable Expenses
Up to $22,000	25
$22,001 - $24,000	24
$24,001 - $26,000	23
$26,001 - $28,000	22
$28,001 - $30,000	21
$30,001 - $32,000	20
$32,001 - $34,000	19
$34,001 - $36,000	18
$36,001 - $38,000	17
$38,001 - $40,000	16
$40,001 and over	15

For tax year 2014, the dependent care tax credit was the third most commonly claimed tax credit and was reported on 26,299 individual income tax returns. The amounts claimed for tax year 2014 totaled $9.5 million, up slightly from the $9.3 million claimed in tax year 2013.

Tax Credit for Child Passenger Restraint Systems (HRS §235-15)

An individual taxpayer who buys a new child passenger restraint system that complies with the federal motor vehicle safety standards in effect at the time of purchase may claim a tax credit of $25 for the tax year, regardless of the cost of the restraint system or the number of restraint systems bought during the year. The tax credit, which is refundable, was enacted in 1982 to encourage people to buy child restraint systems, but the systems became mandatory in the following year. For tax year 2014, the tax credit was claimed on 2,912 individual income tax returns and the total amount claimed was $72 thousand, down from $77 thousand claimed for tax year 2013.

Tax Credit for Employment of Vocational Rehabilitation Referrals (HRS §235-55.91)

A taxpayer who employs an individual who is certified by the Vocational Rehabilitation and Services for the Blind Division of the Department of Human Services, in consultation with the Hawaii State Employment Service of the Department of Labor and Industrial Relations, as having a physical or mental disability that results in a substantial handicap to employment, or who has been referred upon completion of certain rehabilitation plans, may qualify for a tax credit. The tax credit is equal to 20% of the qualifying first-year wages for the taxable year, up to $6,000, and is nonrefundable. The tax credit was claimed on 7 tax returns for tax year 2014 and the total amount claimed was $7 thousand, down from $19 thousand claimed for tax year 2013.

Low-Income Housing Tax Credit (HRS §235-110.8 and §241-4.7, §431:7-208)

Owners of residential buildings who provide low-income housing may claim the low-income housing tax credit. The tax credit is equal to a percentage of the "applicable percentage" of qualified basis, where the applicable percentage is calculated as provided under section 42 of the Internal Revenue Code. The percentage is 30% for buildings placed in service prior to July 1, 2005, and 50% for buildings placed in service after June 30, 2005. Act 158, SLH 2011, allows the taxpayer to elect to receive a low-income housing loan in lieu of the tax credit after July 1, 2011. The tax credit was claimed on 61 tax returns for tax year 2014 and the total amount claimed was $18.2 million, up from claims of $14.7 million for tax year 2013.

Tax Credit for School Repair and Maintenance (HRS §235-110.2)

Act 309, SLH 2001, allows licensed contractors to claim a 10% nonrefundable tax credit, up to $4,000, on the fair-market value of repair and maintenance services provided at no cost to public schools. Data on the tax credit for tax year 2014 were suppressed to prevent potential disclosure of confidential taxpayer information.

Lifeline Telephone Service Tax Credit (HRS §239-6.5)

Lifeline telephone service is available to elderly and disabled residential telephone subscribers who have an annual income less than $10,000. The Public Utilities Commission determines and certifies the lifeline service costs. The telephone public utility may claim a nonrefundable tax credit equal to the sum of foregone revenues and the administrative costs of providing the telephone service to the eligible individuals.

The tax credit was claimed on behalf of 2,297 subscribers as of the end of calendar year 2014 and the amount claimed by the public utility for tax year 2014 was $58 thousand, down from $59 thousand claimed for tax year 2013.

Tax Credits to Encourage Certain Industries or Economic Activities

Fuel Tax Credit for Commercial Fishers (HRS §235-110.6)

The principal operator of a commercial fishing vessel may claim a refundable tax credit for certain fuel taxes paid during the taxable year. The amount of the tax credit is equal to the fuel taxes imposed under section 243-4(a), HRS. The tax credit was claimed on 181 tax returns for tax year 2014 and the total amount claimed was $293 thousand, up from $158 thousand claimed for tax year 2013.

Motion Picture, Digital Media, and Film Production Income Tax Credit (HRS §235-17)

In tax year 2014, taxpayers could claim a refundable tax credit equal to 20% of qualified production costs incurred in a county in Hawaii with a population over 700 thousand and 25% for qualified production costs incurred in a county in Hawaii with a population of 700 thousand or less. The total tax credits allowed for a single qualified production was capped at $15 million. The tax credit was claimed on 30 tax returns for tax year 2014 and the total amount claimed was $34.4 million, up slightly from $31.9 million claimed for tax year 2013.

Renewable Energy Technologies Tax Credit (HRS §235-12.5 and §241-4.6)

Taxpayers who installed a renewable energy technology system (solar thermal energy system, wind powered energy system, or photovoltaic energy system) and placed it in service after June 30, 2003, may claim the renewable energy technologies tax credit. The tax credit applies to the actual cost of the system, including the cost of accessories and installation, but not to the cost of consumer incentive premiums that are unrelated to the operation of the system.

For systems installed and placed in service after July 1, 2006, the tax credit was 35% of the cost for solar thermal systems and photovoltaic systems, and 20% of the cost for wind powered systems. For single-family residential properties, the amount of the tax credit was capped at $2,250 for solar thermal systems, $5,000 for photovoltaic systems, and $1,500 for wind powered systems. For commercial properties, the tax credit was capped at $500,000 for wind powered systems and for photovoltaic systems, and at $250,000 for solar thermal systems. For multifamily residential properties, the tax credit per residential unit was capped at $350 for solar thermal systems and photovoltaic systems, and at $200 for wind powered systems. Act 154, SLH 2009, made the tax credit refundable for certain low income taxpayers and gave other taxpayers the option to claim the tax credit as refundable by accepting a 30% reduction in the amount of the tax credit. The Act was effective for systems installed and placed in service on or after July 1, 2009.

According to the new Administrative Rules that came into effect during tax year 2013, to gain tax credit beyond the cap for a single solar energy system, each separate system (except the last) was required to have a total output capacity of at least 5 kilowatts for single-family residential properties, or 0.360 kilowatts per unit per system for multi-family residential properties, or 1,000 kilowatts for commercial properties.

Table 4 shows the number of returns and the amount of the tax credit claimed for the renewable energy tax credit, and also for carryovers of the energy conservation tax credit that expired June 30, 2003. The first part of the table shows carryovers of tax credits for the renewable energy systems that were installed and placed in service prior to July 1, 2009, along with carryovers of the energy conservation tax credit and carryovers of the renewable energy tax credit for which the date of installation could not be determined. Carryovers of these tax credits were reported on 827 tax returns for tax year 2014 and the amounts claimed totaled $1.9 million.

The second and third parts of Table 4 show the renewable energy tax credit for systems that were installed on or after July 1, 2009, by type of system, by type of taxpayer, and by whether the claim was for a refundable or nonrefundable tax credit. Because unused tax credits can be carried over, and because extensions of existing systems made in later years are also eligible for the tax credit, the number of returns claiming the credit in a year may be larger than the number of new systems installed that year. The tax credit for systems installed and placed in service on or after July 1, 2009 was claimed on 14,902 returns for tax year 2014 and the amounts claimed totaled $110.2 million.

Claims for all systems, including carryovers of the energy conservation tax credit, totaled $112.1 million for tax year 2014, down from the $118.3 million claimed for these tax credits in tax year 2013.

Table 4

Claims for the Renewable Energy Technologies Income Tax Credit and the Energy Conservation Tax Credit in Tax Year 2014

Carryover of the tax credit for systems installed and placed in service before July 1, 2009 1/

Number of returns			Credit amount (in $ thousands) 3/		
All	Individuals	Corporations and others 2/	All	Individuals	Corporations and others 2/
827	805	22	$1,941	$1,580	$361

Refundable tax credits for systems installed and placed in service on or after July 1, 2009

	Number of returns			Credit amount (in $ thousands) 3/		
	All	Individuals	Corporations and others 2/	All	Individuals	Corporations and others 2/
Solar only	2,307	2,284	23	$47,731	$16,242	$31,489
Wind only	3	3	-	$13	$13	-
Breakdown unknown	117	98	19	$7,312	$4,539	$2,773
Total	2,427	2,385	42	$55,056	$20,794	$34,262

Nonrefundable tax credits for systems installed and placed in service on or after July 1, 2009

	Number of returns			Credit amount (in $ thousands) 3/		
	All	Individuals	Corporations and others 2/	All	Individuals	Corporations and others 2/
Solar only	11,837	11,760	77	$50,621	$39,419	$11,203
Wind only	11	11	-	$26	$26	-
Breakdown unknown	627	562	65	$4,486	$3,045	$1,441
Total	12,475	12,333	142	$55,134	$42,490	$12,644

1/ Includes carryovers of the energy conservation tax credit given by section 235-12, HRS, and carryovers of the renewable energy technologies tax credit for which the date of installation could not be determined.

2/ Includes nonfinancial corporations, fiduciaries, nonprofit organizations and financial corporations.

3/ Details may not add to totals due to rounding.

Enterprise Zone Tax Credit (HRS §209E-10, §209E-11)

A qualified business located in a designated enterprise zone may claim a tax credit equal to a percentage of its net income tax liability and of the unemployment insurance premiums it paid for employees located in the enterprise zone. In the first year, the tax credit is 80% of the qualified amounts. The percentage decreases by 10 points each year, until it reaches 20% in the seventh year, after which the business is no longer eligible for the tax credit. The tax credit is nonrefundable and any unused tax credit may not be carried forward. The tax credit was claimed on 66 tax returns for tax year 2014 and the amounts claimed totaled $1.0 million, down from $1.7 million claimed for tax year 2013.

Ethanol Facility Tax Credit (HRS §235-110.3)

The ethanol facility tax credit is meant to encourage construction of large-capacity ethanol production facilities. The amount of the tax credit is equal to 30% of the ethanol production facility's nameplate capacity if that capacity is greater than 500,000 but less than 15 million gallons. The nameplate capacity is the annual production capacity of a facility, measured in gallons, based on an operating year of 350 days. The tax credit is refundable and is limited to 100% of the investments made by the taxpayer in the ethanol production facility. The facility must also meet certain production requirements. Taxpayers who claim the tax credit are prohibited from claiming or receiving any other tax credit for the same taxable year. The total amount of ethanol facility tax credits is capped at $12 million per year. The tax credit was effective for taxable years beginning after December 31, 2003. No claims for the tax credit were made for tax year 2014. The amounts claimed totaled $5 thousand for tax year 2013.

Important Agricultural Land Tax Credit (HRS §235-110.93)

The important agricultural land tax credit is awarded for qualified agricultural costs incurred after July 1, 2008. In the first year, the tax credit per taxpayer is the lesser of 25% of the qualified agricultural costs or $635,000. In the second year, the tax credit is the lesser of 15% of the qualified costs or $250,000, and in the third year the tax credit is the lesser of 10% of the qualified costs or $125,000. More than 50% of the land used by the agricultural business must be deemed “important agricultural land.” Tax credits must be certified by the Department of Agriculture and the aggregate amount of credits claimed cannot exceed $7.5 million in any tax year. The tax credit was not available for tax year 2014, because the Department of Agriculture had not certified any claims for the tax credit.[7]

[7] Claims for the tax credit were reported on Schedule CR by several taxpayers in prior years, but the claims were in error. In most cases, the taxpayer simply used the wrong line on Schedule CR to claim a different tax credit.

Tax Credit for Research Activities (HRS §235-110.91)

The tax credit for research activities was reinstated by Act 270, SLH 2013. The tax credit is refundable and is equal to 20% of increases in qualified research expenses incurred in Hawaii. Eligible research expenses are the same as those in sections 41 of the Internal Revenue Code (IRC), as that section was enacted on December 31, 2011, and in section 280C(c), IRC, provided that the expenses must be incurred in Hawaii. To qualify for the tax credit, the taxpayer must also claim a federal tax credit for the same expenditures. The tax credit is available for tax years beginning after December 31, 2013.

The tax credit was claimed on 69 tax returns for tax year 2014 and the amounts claimed totaled $2.9 million, up from $1.3 million for tax year 2013.

Capital Infrastructure Tax Credit (HRS §235-17.5, §241-4.4)

Act 200, SLH 2014, established the capital infrastructure tax credit for tenants who were relocated due to the Kapalama container terminal modernization project. The tax credit is equal to 50% of the capital infrastructure costs incurred by the qualified infrastructure tenant during the taxable year, up to a maximum of $1,250,000. The tax credit is available for taxable years beginning after December 31, 2013, but not for taxable years beginning after December 31, 2019. The tax credit was claimed on 53 tax returns for tax year 2014 and the amounts claimed totaled $989 thousand.

Tax Credits to Avoid Double Taxation or Pyramiding of Hawaii Taxes

Capital Goods Excise Tax Credit (HRS §235-110.7, §241-4.5)

Businesses may claim the capital goods excise tax credit for the purchase of eligible depreciable tangible personal property used in a trade or business in Hawaii. The tax credit is refundable and is equal to 4% of the qualifying cost of the eligible property, which excludes costs deducted under Internal Revenue Code Section 179. The tax credit serves to reduce pyramiding of the General Excise Tax (GET) by rebating the GET on business-to-business purchases that consist of eligible capital equipment. The cost of such capital equipment ultimately must be recaptured in the price of goods or services it is used to help produce, so without the rebate, the price of the produced goods or services would include the tax on the capital equipment.

The tax credit was claimed on 4,247 tax returns for tax year 2014 and the amounts claimed totaled $28.3 million, up slightly from $27.5 million claimed for tax year 2013.

Income Tax Paid to Another State or Foreign Country (HRS §235-55)

A Hawaii resident individual or other person may claim a credit for income taxes paid to another state or to a foreign country if the income was earned in the other state or country and is not exempt from Hawaii or federal income tax, and if certain other requirements are met. The tax credit was claimed on 7,558 tax returns for tax year 2014 and the amounts claimed totaled $38.4 million, up from $36.0 million claimed for tax year 2013.

Expired Tax Credits

Tax Credits to Promote Social Welfare

Individual Development Account Contribution Tax Credit (HRS §235-5.6)

The individual development account (IDA) program was intended to encourage people with low income to save towards specific long-term goals, including obtaining a postsecondary education, buying a first home, and starting a small business. Program participants enrolled with a fiduciary organization, which provided matching funds for their deposits. A nonrefundable tax credit was allowed for persons donating money to the fiduciary organization for use as matching funds. The tax credit was equal to 50% of the amount donated. Donations qualifying for the tax credit could not be claimed as a deduction for charitable contributions. The tax credit was effective for taxable years 2000 to 2004 with an aggregate limit of $1 million.

To preserve taxpayer confidentiality, the number and dollar amount of IDA tax credits claimed for tax year 2014 are not disclosed.

Tax Credits to Encourage Certain Industries or Economic Activities

High Technology Business Investment Tax Credit (HRS §235-110.9, §241-4.8, §431:7-209)

Taxpayers were allowed to claim the high technology business investment tax credit for tax years beginning after December 31, 1998. As originally enacted, the tax credit was nonrefundable and equal to 10% of investments made on or after July 1, 1999 in a qualified high technology business, up to a maximum credit amount of $500,000. Act 221, SLH 2001, expanded the tax credit to 100% of the qualified investment, up to a maximum of $2 million per investment. The tax credit was claimed over five years as follows:

	Tax Credit Percentage	Tax Credit Limitation
Year of investment	35%	$700,000
Year 2	25%	$500,000
Year 3	20%	$400,000
Year 4	10%	$200,000
Year 5	10%	$200,000

Taxpayers who had previously claimed the 10% investment tax credit for tax years 1999 or 2000 were able to claim the tax credit for tax years 2001 and later as applicable under the amended law. For investments made after May 1, 2009, and for taxable years beginning on or after January 1, 2009 and ending before January 1, 2011, no claim for the tax credit could exceed 80% of the taxpayer's tax liability.

The tax credit expired for taxable years beginning after December 31, 2010, but claims for the tax credit can be made for four years after the year of the investment and carry-overs of the tax credit can continue indefinitely. The tax credit was claimed on 1,939 tax returns for tax year 2014 and the amounts claimed totaled $38.4 million, down slightly from $40.4 million claimed for tax year 2013. The tax credit was the third biggest in terms of the amount claimed in tax year 2014.

Energy Conservation Tax Credit (HRS §235-12)

Taxpayers who installed an energy conservation device prior to July 1, 2003, could claim the energy conservation tax credit, which was nonrefundable. The tax credit applied only to the actual cost of the systems, including accessories and installation, but not the cost of repairs to existing systems.

The tax credit was equal to 35% of the cost of solar systems, 20% of the cost of wind energy systems and heat pumps, and 50% of the cost of ice storage systems. The eligible cost was reduced by any consumer incentive premiums offered with the system. For single-family residential buildings, the tax credit was limited to $1,750 for solar systems and $400 for heat pumps. For multiunit residential buildings, the tax credit was limited to $350 per unit for solar systems and $200 per unit for heat pumps. There were no limits for hotels, for commercial buildings, for industrial facilities, for wind energy systems, or for ice storage systems. The tax credit expired on June 30, 2003, but unused tax credits may be carried over to subsequent years until exhausted. Data on carryovers of the tax credit are included with those for the renewable energy technologies tax credit.

Hotel Construction and Remodeling Tax Credit (HRS §235-110.4, repealed)

The hotel construction and remodeling tax credit was repealed by Act 9, SLH 2007, but unused credits from claims made prior to the expiration date may be carried forward and applied against tax. Although the tax credit was not repealed until 2007, it was not available for costs incurred in taxable years beginning after December 31, 2005. The tax credit was claimed on 5 tax returns for tax year 2014 and the amount claimed totaled $3.3 million. To preserve taxpayer confidentiality, the number and dollar amount of the tax credits claimed for tax year 2013 were not disclosed.

Technology Infrastructure Renovation Tax Credit (HRS §235-110.51)

The technology infrastructure renovation tax credit was nonrefundable and was equal to 4% of costs incurred after December 31, 2000 for planning, designing, installing, constructing, or purchasing equipment to provide a commercial building with technology infrastructure. The tax credit is not available for taxable years beginning after December 31, 2010, but amounts claimed for the tax credit prior to its expiration can be carried forward and applied against tax liability in later years until exhausted. For costs incurred after May 1, 2009, and for taxable years beginning on or after January 1, 2009 and ending before January 1, 2011, no claim for the tax credit could exceed 80% of the taxpayer's tax liability. Carryovers of the tax credit were claimed on 4 returns for tax year 2014 and the amounts claimed totaled $9 thousand, down from $15 thousand claimed for tax year 2013.

Residential Construction and Remodeling Tax Credit (HRS §235-110.45)

Act 10, SLH 2001, Third Special Session, provided a nonrefundable tax credit equal to 4% of home construction or renovation costs incurred after December 31, 2000, up to a maximum of $250,000. The tax credit expired on June 30, 2003, but any unused tax credit may be carried over to subsequent years until exhausted. Carryovers of the tax credit were claimed on 49 tax returns for tax year 2014 and the amounts claimed totaled $195 thousand, up from $166 thousand claimed for tax year 2013.

APPENDIX A

STATISTICAL TABLES

Table A-1
DOLLAR AMOUNTS OF TAX CREDITS CLAIMED
BY TYPE OF CREDIT AND TYPE OF TAXPAYER - 2014 (in $ thousands)

		TAXPAYER TYPE					
Type of Credit	ALL	Individuals	Corporations	Financial Corporations	Insurance Underwriters	Fiduciaries	Exempt Organizations
Active Tax Credits							
Tax Credits to Promote Social Welfare							
Refundable Food Excise Tax Credit (Food/Excise)	$27,700	$27,700	-	-	-	-	-
Tax Credit for Low-Income Household Renters	$3,635	$3,635	-	-	-	-	-
Tax Credit for Child and Dependent Care Expenses	$9,474	$9,474	-	-	-	-	-
Tax Credit for Child Passenger Restraint Systems	$72	$72	-	-	-	-	-
Tax Credit for Employment of Vocational Rehabilitation Referrals	$7	*d*	-	-	-	*d*	-
Low-Income Housing Tax Credit	$18,189	*d*	*d*	$10,014	$7,413	-	-
Tax Credit for School Repair and Maintenance	*d*	*d*	-	-	-	-	-
Lifeline Telephone Service Tax Credit	$58	*na*	*na*	*na*	*na*	*na*	*na*
Tax Credits to Encourage Certain Industries or Economic Activities							
Fuel Tax Credit for Commercial Fishers	$293	$197	$96	-	-	-	-
Motion Picture, Digital Media and Film Production Income Tax Credit	$34,415	$902	$33,513	-	-	-	-
Renewable Energy Technologies Tax Credit	$112,130	$64,864	$29,888	$15,664	-	$1,492	$223
Enterprise Zone Tax Credit	$1,033	$825	*d*	-	-	*d*	-
Ethanol Facility Tax Credit	-	-	-	-	-	-	-
Important Agricultural Lands Tax Credit	-	-	-	-	-	-	-
Tax Credit for Research Activities	$2,870	$453	$2,417	-	-	-	-
Capital Infrastructure Tax Credit	$989	$769	*d*	-	-	*d*	-
Tax Credits to Avoid Double Taxation or Pyramiding of Taxes							
Capital Goods Excise Tax Credit	$28,308	$6,031	$20,916	*d*	-	$286	*d*
Income Tax Paid to Another State or to a Foreign Country	$38,371	$36,370	-	-	-	*d*	*d*
Expired Tax Credits							
Tax Credits to Promote Social Welfare							
Individual Development Account Contribution Tax Credit	*d*	*d*	-	-	-	-	-
Tax Credits to Encourage Certain Industries or Economic Activities							
High Technology Business Investment Tax Credit	$37,723	$15,245	$1,840	*d*	$13,302	$7,129	*d*
Energy Conservation Tax Credit	*	*	*	-	-	*	-
Hotel Construction and Remodeling Tax Credit	$3,341	*d*	*d*	-	-	*d*	-
Technology Infrastructure Renovation Tax Credit	$9	*d*	*d*	-	-	-	-
Residential Construction and Remodeling Tax Credit	$195	$172	*d*	-	-	*d*	-
GRAND TOTAL	$318,831	$167,008	$92,874	$26,650	$20,714	$10,987	$540

* Data for the energy conservation tax credit are included with those for the renewable energy tax credit.
Notes: "*d*" denotes that data in the cell were suppressed to prevent potential disclosure of confidential taxpayer information. "*na*" denotes "not applicable."
Details may not add to totals due to rounding.

Table A-2
NUMBER OF RETURNS CLAIMING TAX CREDITS
BY TYPE OF CREDIT AND TYPE OF TAXPAYER - 2014

	TAXPAYER TYPE						
Type of Credit	ALL	Individuals	Corporations	Financial Corporations	Insurance Underwriters	Fiduciaries	Exempt Organization
Active Tax Credits							
Tax Credits to Promote Social Welfare							
Refundable Food Excise Tax Credit (Food/Excise)	325,713	325,713	-	-	-	-	-
Tax Credit for Low-Income Household Renters	35,030	35,030	-	-	-	-	-
Tax Credit for Child and Dependent Care Expenses	26,299	26,299	-	-	-	-	-
Tax Credit for Child Passenger Restraint Systems	2,912	2,912	-	-	-	-	-
Tax Credit for Employment of Vocational Rehabilitation Referrals	7	*d*	-	-	-	*d*	-
Low-Income Housing Tax Credit	61	*d*	*d*	4	14	-	-
Tax Credit for School Repair and Maintenance	*d*	*d*	-	-	-	-	-
Lifeline Telephone Service Tax Credit	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Tax Credits to Encourage Certain Industries or Economic Activities							
Fuel Tax Credit for Commercial Fishers	181	168	13	-	-	-	-
Motion Picture, Digital Media and Film Production Income Tax Credit	30	17	13	-	-	-	-
Renewable Energy Technologies Tax Credit	15,729	15,523	117	7	-	78	4
Enterprise Zone Tax Credit	66	59	*d*	-	-	*d*	-
Ethanol Facility Tax Credit	-	-	-	-	-	-	-
Important Agricultural Lands Tax Credit	-	-	-	-	-	-	-
Tax Credit for Research Activities	69	49	20	-	-	-	-
Capital Infrastructure Tax Credit	53	45	*d*	-	-	*d*	-
Tax Credits to Avoid Double Taxation or Pyramiding of Taxes							
Capital Goods Excise Tax Credit	4,247	3,027	1,094	*d*	-	103	*d*
Income Tax Paid to Another State or to a Foreign Country	7,558	7,353	-	-	-	*d*	*d*
Expired Tax Credits							
Tax Credits to Promote Social Welfare							
Individual Development Account Contribution Tax Credit	*d*	*d*	-	-	-	-	-
Tax Credits to Encourage Certain Industries or Economic Activities							
High Technology Business Investment Tax Credit	939	840	38	*d*	20	37	*d*
Energy Conservation Tax Credit	*	*	*	-	-	*	-
Hotel Construction and Remodeling Tax Credit	5	*d*	*d*	-	-	*d*	-
Technology Infrastructure Renovation Tax Credit	4	*d*	*d*	-	-	-	-
Residential Construction and Remodeling Tax Credit	49	47	*d*	-	-	*d*	-

* Data for the energy conservation tax credit are included with those for the renewable energy tax credit.

Notes: "*d*" denotes that data in the cell were suppressed to prevent potential disclosure of confidential taxpayer information. "*na*" denotes "not applicable."

Table A-3
DOLLAR AMOUNTS OF TAX CREDITS CLAIMED BY INDIVIDUALS
BY TYPE OF CREDIT AND TAX DISTRICT - 2014 (in $ thousands)

		TAX DISTRICT			
Type of Credit	STATE TOTAL	OAHU* (DISTRICT 1)	MAUI (DISTRICT 2)	HAWAII (DISTRICT 3)	KAUAI (DISTRICT 4)
Active Tax Credits					
Tax Credits to Promote Social Welfare					
Refundable Food Excise Tax Credit (Food/Excise)	$27,700	$18,339	$3,333	$4,541	$1,487
Tax Credit for Low-Income Household Renters	$3,635	$2,696	$339	$460	$140
Tax Credit for Child and Dependent Care Expenses	$9,474	$7,025	$1,006	$986	$457
Tax Credit for Child Passenger Restraint Systems	$72	$50	$10	$9	$3
Tax Credit for Employment of Vocational Rehabilitation Referrals	*d*	*d*	-	-	-
Low-Income Housing Tax Credit	*d*	$198	$9	*d*	*d*
Tax Credit for School Repair and Maintenance	*d*	*d*	-	*d*	*d*
Lifeline Telephone Service Tax Credit	*na*	*na*	*na*	*na*	*na*
Tax Credits to Encourage Certain Industries or Economic Activities					
Fuel Tax Credit for Commercial Fishers	$197	$136	$7	$46	$7
Motion Picture, Digital Media and Film Production Income Tax Credit	$902	*d*	-	*d*	*d*
Renewable Energy Technologies Tax Credit	$64,864	$48,071	$7,631	$6,785	$2,376
Enterprise Zone Tax Credit	$825	$477	*d*	$75	*d*
Ethanol Facility Tax Credit	-	-	-	-	-
Important Agricultural Lands Tax Credit	-	-	-	-	-
Tax Credit for Research Activities	$453	$259	$194	*d*	$1
Capital Infrastructure Investment Tax Credit	$769	$748	$21	$1	-
Tax Credits to Avoid Double Taxation or Pyramiding of Taxes					
Capital Goods Excise Tax Credit	$6,031	$4,813	$540	$438	$240
Income Tax Paid to Another State or to a Foreign Country	$36,370	$21,673	$6,094	$6,579	$2,024
Expired Tax Credits					
Tax Credits to Promote Social Welfare					
Individual Development Account Contribution Tax Credit	*d*	*d*	-	*d*	-
Tax Credits to Encourage Certain Industries or Economic Activities					
High Technology Business Investment Tax Credit	$15,245	$13,301	$966	$298	$680
Energy Conservation Tax Credit	**	**	**	**	**
Hotel Construction and Remodeling Tax Credit	*d*	*d*	-	-	-
Technology Infrastructure Renovation Tax Credit	*d*	*d*	*d*	-	*d*
Residential Construction and Remodeling Tax Credit	$172	$162	*d*	$7	*d*
GRAND TOTAL	$167,008	$118,878	$29,422	$20,225	$7,482

* The figures for Oahu include tax credits claimed on Form N-15 by nonresidents who had an out-of-state adddress.
** Data for the energy conservation tax credit are included with those for the renewable energy tax credit.
Notes: "*d*" denotes that data in the cell were suppressed to prevent potential disclosure of confidential taxpayer information. "*na*" denotes "not applicable."
Details may not add to totals due to rounding.

Table A-4
NUMBER OF INDIVIDUAL INCOME TAX RETURNS WITH CLAIMS FOR TAX CREDITS
BY TYPE OF CREDIT AND TAX DISTRICT - 2014

Type of Credit	STATE TOTAL	TAX DISTRICT OAHU* (DISTRICT 1)	MAUI (DISTRICT 2)	HAWAII (DISTRICT 3)	KAUAI (DISTRICT 4)
Active Tax Credits					
Tax Credits to Promote Social Welfare					
Refundable Food Excise Tax Credit (Food/Excise)	325,713	221,028	39,756	47,107	17,822
Tax Credit for Low-Income Household Renters	35,030	26,328	3,337	3,995	1,370
Tax Credit for Child and Dependent Care Expenses	26,299	19,388	2,803	2,823	1,285
Tax Credit for Child Passenger Restraint Systems	2,912	2,005	396	381	130
Tax Credit for Employment of Vocational Rehabilitation Referrals	*d*	*d*	-	-	-
Low-Income Housing Tax Credit	*d*	30	7	*d*	*d*
Tax Credit for School Repair and Maintenance	*d*	*d*	-	*d*	*d*
Lifeline Telephone Service Tax Credit	*na*	*na*	*na*	*na*	*na*
Tax Credits to Encourage Certain Industries or Economic Activi					
Fuel Tax Credit for Commercial Fishers	168	63	12	71	22
Motion Picture, Digital Media and Film Production Income Tax Credit	17	*d*	-	*d*	*d*
Renewable Energy Technologies Tax Credit	15,523	10,635	2,073	2,208	607
Enterprise Zone Tax Credit	59	31	*d*	16	*d*
Ethanol Facility Tax Credit	-	-	-	-	-
Important Agricultural Lands Tax Credit	-	-	-	-	-
Tax Credit for Research Activities	49	35	11	*d*	*d*
Capital Infrastructure Investment Tax Credit	45	34	7	4	-
Tax Credits to Avoid Double Taxation or Pyramiding of Taxes					
Capital Goods Excise Tax Credit	3,027	2,015	411	396	205
Income Tax Paid to Another State or to a Foreign Country	7,353	4,915	1,010	1,005	423
Expired Tax Credits					
Tax Credits to Promote Social Welfare					
Individual Development Account Contribution Tax Credit	*d*	*d*	-	*d*	-
Tax Credits to Encourage Certain Industries or Economic Activi					
High Technology Business Investment Tax Credit	840	702	69	44	25
Energy Conservation Tax Credit	**	**	**	**	**
Hotel Construction and Remodeling Tax Credit	*d*	*d*	-	-	-
Technology Infrastructure Renovation Tax Credit	*d*	*d*	*d*	-	*d*
Residential Construction and Remodeling Tax Credit	47	32	*d*	10	*d*

* The figures for Oahu include tax credits claimed on Form N-15 by nonresidents who had an out-of-state address.
** Data for the energy conservation tax credit are included with those for the renewable energy tax credit.
Notes: "*d*" denotes that data in the cell were suppressed to prevent potential disclosure of confidential taxpayer information. "*na*" denotes "not applicable."

Table A-5
DOLLAR AMOUNTS OF TAX CREDITS CLAIMED BY INDIVIDUALS
BY TYPE OF CREDIT AND INCOME CLASS* - 2014 (in $ thousands)

Type of Credit	ALL	Less than $10,000	$10,000 to $29,999	$30,000 to $59,999	$60,000 to $99,999	$100,000 to $199,999	$200,000 or more
	INCOME CLASS						
Active Tax Credits							
Tax Credits to Promote Social Welfare							
Refundable Food Excise Tax Credit (Food/Excise)	$27,691	$10,413	$11,899	$5,354	$26	*d*	*d*
Tax Credit for Low-Income Household Renters	$3,635	$1,255	$2,380	-	-	-	-
Tax Credit for Child and Dependent Care Expenses	$9,474	$267	$1,823	$2,007	$2,156	$2,711	$510
Tax Credit for Child Passenger Restraint Systems	$72	$5	$12	$17	$17	$18	$3
Tax Credit for Employment of Vocational Rehabilitation Referrals	*d*	-	-	-	*d*	*d*	$3
Low-Income Housing Tax Credit	*d*	*d*	$12	$8	*d*	-	$241
Tax Credit for School Repair and Maintenance	*d*	-	-	*d*	*d*	-	-
Lifeline Telephone Service Tax Credit	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Tax Credits to Encourage Certain Industries or Economic Activities							
Fuel Tax Credit for Commercial Fishers	$197	$29	$25	$72	$49	$10	$11
Motion Picture, Digital Media and Film Production Income Tax Credit	$902	*d*	*d*	*d*	$188	$106	*d*
Renewable Energy Technologies Tax Credit	$64,864	$6,923	$2,874	$5,313	$11,000	$17,442	$21,311
Enterprise Zone Tax Credit	$825	*d*	-	*d*	$4	$85	$734
Ethanol Facility Tax Credit	-	-	-	-	-	-	-
Important Agricultural Lands Tax Credit	-	-	-	-	-	-	-
Tax Credit for Research Activities	$453	$78	*d*	-	*d*	$44	$315
Capital Infrastructure Investment Tax Credit	$769	-	$2	$5	$14	$59	$689
Tax Credits to Avoid Double Taxation or Pyramiding of Taxes							
Capital Goods Excise Tax Credit	$6,031	$412	$178	$176	$282	$524	$4,458
Income Tax Paid to Another State or to a Foreign Country	$36,370	$16	$172	$594	$1,198	$3,305	$31,084
Expired Tax Credits							
Tax Credits to Promote Social Welfare							
Individual Development Account Contribution Tax Credit	*d*	-	-	*d*	-	-	*d*
Tax Credits to Encourage Certain Industries or Economic Activities							
High Technology Business Investment Tax Credit	$15,245	$1	$10	$107	$270	$1,176	$13,680
Energy Conservation Tax Credit	**	**	**	**	**	**	**
Hotel Construction and Remodeling Tax Credit	*d*	-	*d*	-	*d*	-	-
Technology Infrastructure Renovation Tax Credit	*d*	-	-	-	*d*	-	-
Residential Construction and Remodeling Tax Credit	$172	-	$3	$7	$10	$30	*$122*
GRAND TOTAL	$167,008	$19,408	$19,395	$13,706	$15,243	$25,520	$73,736
AGGREGATE TAX LIABILITY BEFORE TAX CREDITS***	$1,902,147	$5,933	$97,195	$288,522	$347,527	$483,909	$679,061

* Income class is measured using Hawaii AGI for Forms N-11 and N-13 and total AGI for Form N-15.
** Data for the energy conservation tax credit are included with those for the renewable energy tax credit.
*** Tax liabilities reported on individual income tax returns filed for tax year 2014.
Notes: "*d*" denotes that data in the cell were suppressed to prevent potential disclosure of confidential taxpayer information. "*na*" denotes "not applicable."
Details may not add to totals due to rounding.

Table A-6
NUMBER OF INDIVIDUAL INCOME TAX RETURNS WITH CLAIMS FOR TAX CREDITS
BY TYPE OF CREDIT AND INCOME CLASS* - 2014

Type of Credit	ALL	INCOME CLASS Less than $10,000	$10,000 to $29,999	$30,000 to $59,999	$60,000 to $99,999	$100,000 to $199,999	$200,000 or more
Active Tax Credits							
Tax Credits to Promote Social Welfare							
Refundable Food Excise Tax Credit (Food/Excise)	325,644	102,373	131,151	91,863	257	*d*	*d*
Tax Credit for Low-Income Household Renters	35,030	12,865	22,163	2	-	-	-
Tax Credit for Child and Dependent Care Expenses	26,299	574	3,674	5,965	6,713	7,943	1,430
Tax Credit for Child Passenger Restraint Systems	2,912	204	486	695	700	720	107
Tax Credit for Employment of Vocational Rehabilitation Referrals	*d*	-	-	-	*d*	*d*	3
Low-Income Housing Tax Credit	*d*	*d*	22	11	*d*	-	5
Tax Credit for School Repair and Maintenance	*d*	-	-	*d*	*d*	-	-
Lifeline Telephone Service Tax Credit	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Tax Credits to Encourage Certain Industries or Economic Activities							
Fuel Tax Credit for Commercial Fishers	168	33	31	34	38	27	5
Motion Picture, Digital Media and Film Production Income Tax Credit	17	*d*	*d*	*d*	3	7	*d*
Renewable Energy Technologies Tax Credit	15,523	793	1,460	3,028	4,096	4,573	1,573
Enterprise Zone Tax Credit	59	*d*	-	*d*	3	17	36
Ethanol Facility Tax Credit	-	-	-	-	-	-	-
Important Agricultural Lands Tax Credit	-	-	-	-	-	-	-
Tax Credit for Research Activities	49	4	*d*	-	*d*	10	28
Capital Infrastructure Investment Tax Credit	45	-	3	5	9	9	19
Tax Credits to Avoid Double Taxation or Pyramiding of Taxes							
Capital Goods Excise Tax Credit	3,027	307	290	363	397	578	1,092
Income Tax Paid to Another State or to a Foreign Country	7,353	442	917	1,217	1,269	1,739	1,769
Expired Tax Credits							
Tax Credits to Promote Social Welfare							
Individual Development Account Contribution Tax Credit	*d*	-	-	*d*	-	-	*d*
Tax Credits to Encourage Certain Industries or Economic Activities							
High Technology Business Investment Tax Credit	840	3	28	71	94	207	437
Energy Conservation Tax Credit	**	**	**	**	**	*	**
Hotel Construction and Remodeling Tax Credit	*d*	-	*d*	-	*d*	-	-
Technology Infrastructure Renovation Tax Credit	*d*	-	-	-	*d*	-	-
Residential Construction and Remodeling Tax Credit	47	5	11	9	10	8	4

* Income class is measured using Hawaii AGI for Forms N-11 and N-13 and total AGI for Form N-15.
** Data for the energy conservation tax credit are included with those for the renewable energy tax credit.
Notes: "*d*" denotes that the data in the cell were suppressed to prevent potential disclosure of confidential taxapyer information. "*na*" denotes "not applicable."

APPENDIX B

TAX CREDIT HISTORY

Table B-1

NUMBER AND TYPE OF CREDITS AVAILABLE BY TAX YEARS (1965-2014)

	Tax Year																								
	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89
Capital Infrastructure																									
Important Agric. Land																									
Credit for Flood Victims																									
Ethanol Investment / Facility																									
Residential Remodeling																									
Drought Mitigation																									
School Repair																									
Tech. Infrastructure																									
High Technology Bus. Inv.																									
Research Activity																									
Individual Development																									
Low-income, Food/Excise																									
Motion Picture																									
Hotel Remodeling																									
Nurse Facilities																									
Job Rehabilitation																									
Food / Excise																									
Medical Services																									x
Capital Goods Excise																								x	x
Low-Income Housing																								x	x
Food																							x	x	x
Lifeline Telephone																						x	x	x	x
Enterprise Zone																						x	x	x	x
Car Pass. Restraint System																		x	x	x	x	x	x	x	x
General Income																	x	x	x	x	x	x	x	x	x
Commercial Fishers																x	x	x	x	x	x	x	x	x	x
Dependent Care													x	x	x	x	x	x	x	x	x	x	x	x	x
Energy Conservation											x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Renewable Energy Tech.																									
Excise										x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Dangerous Item							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x			
Rent						x	x	x	x				x	x	x	x	x	x	x	x	x	x	x	x	x
Drug / Medical						x	x	x	x																
Education	x	x	x	x	x	x	x	x	x																
Ko Olina																									
Consumer-Type	x	x	x	x	x	x	x	x	x																
Out of State Taxes Paid	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

Table B-1 (Cont.)
NUMBER AND TYPE OF CREDITS AVAILABLE BY TAX YEARS (1965-2014)

	Tax Year																								
	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14
Capital Infrastructure																									x
Important Agric. Land																			x	x	x	x	x	x	x
Credit for Flood Victims																	x								
Ethanol Investment / Facility													x	x	x	x	x	x	x	x	x	x	x	x	x
Residential Remodeling												x	x	x											
Drought Mitigation												x	x	x	x	x									
School Repair												x	x	x	x	x	x	x	x	x	x	x	x	x	x
Tech. Infrastructure												x	x	x	x	x	x	x	x	x	x				
High Technology Bus. Inv.											x	x	x	x	x	x	x	x	x	x	x				
Research Activity											x	x	x	x	x	x	x	x	x	x	x			x	x
Individual Development											x	x	x	x	x										
Low-income, Food/Excise										x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Motion Picture								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Hotel Remodeling								x	x	x	x	x	x	x	x										
Nurse Facilities				x	x	x	x	x																	
Job Rehabilitation		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Food / Excise	x	x	x	x	x																				
Medical Services	x	x	x	x	x																				
Capital Goods Excise	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		x	x	x	x	x	x
Low-Income Housing	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Food						x	x	x	x																
Lifeline Telephone	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Enterprise Zone	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Car Pass. Restraint System	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
General Income	x	x	x	x	x	x						x	x					x	x	x					
Commercial Fishers	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Dependent Care	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Energy Conservation	x	x	x	x	x	x	x	x	x	x	x	x	x	x											
Renewable Energy Tech.														x	x	x	x	x	x	x	x	x	x	x	x
Excise	x	x	x	x	x																				
Dangerous Item																									
Rent	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Drug / Medical																									
Education																									
Ko Olina																x	x	x	x	x					
Consumer-Type																									
Out of State Taxes Paid	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

Table B-2
Outline of Tax Credit History by Year of Enactment

Year	Act	Type of Tax Credit	Description of the Tax Credit or Its Modification
1965	155	Consumer-type	Range established at $18 to $0.45 per qualified exemption based on modified adjusted gross income (MAGI).
	155	Education credit	Set at $50 to $2 for higher education, $20 to $2 for K12, based on modified adjusted gross income (MAGI).
1967	229	Credit against individual income tax	Formerly named the consumer-type credit; limited to residents with MAGI under $7,000; credit range changed to $20 to $1 per qualified exemption.
	229	Education credit	Limited to residents with adjusted gross income (AGI) under $7,000.
1969	60	Credit against individual income tax	Expanded upper income limit to MAGI under $10,000, raised maximum credit per qualified exemption to $21.
1970	180	Drug and medical expense credit	Credit range established at 4% to 1% of expenses, based on MAGI under $14,000.
	180	Rent credit	Credit range of 2% to 1% of rent paid, inversely graduated to AGI under $15,000.
1971	59	Drug and medical expense credit	Person aged 65 or older allowed two exemptions beginning with 1972 tax year.
1974	221	Excise credit	Replaced four previous credits: credit against individual income tax, education, drug and medical expense, and rent credits; set at $30 to $6 per qualified exemption based on AGI under $15,000.
1976	189	Energy device credit	Set at 10% of cost of solar device installed after 12/31/74 but before 12/31/81.
	208	Excise credit	Raised maximum credit to $40 per qualified exemption; raised AGI ceiling to under $20,000; person aged 65 or over allowed two exemptions.
1977	15	Rent credit	Set at $20 per qualified exemption; AGI must be less than $20,000 and annual rent must be greater than $1,000; age 65 or over allowed two exemptions.
	196	Child and dependent care credit	Set at 5% of care expenses; maximum credit $100 for one and $200 for two or more qualified dependents.
1978	19	Hot water insulation credit	Up to $30 for cost of materials; expired 12/31/84.

Table B-2 (Cont.)
Outline of Tax Credit History by Year of Enactment

1980	228	Excise Credit	Increased credit per qualified exemption; new range $48 to $8.
1981	230	Rent credit	Raised to $50 per qualified exemption.
	231	General income credit	Set at $100 per qualified exemption.
	233	Energy device credit	Expanded to include home heat pumps and wind energy devices; extended expiration date to 12/30/85.
	234	Child and dependent care credit	Raised to 10% of expenses; maximum credit raised to $200 for one and $400 for two or more qualified decedents.
1982	25	Child and dependent care credit	Changed to graduated credit ranging from 15% to 10% of expenses, based on AGI; maximum credit raised to $360 for one and $720 for two or more qualified dependents.
	134	Child passenger restraint credit	Set at $25 per return for purchase of qualified care seat.
	265	General income credit	Reduced to $25 per qualified exemption.
1983	67	Energy device credit	Eligibility extended to heat pumps for commercial use.
	97	General income credit	Reduced to $1 per qualified exemption.
1984	55	General income credit	$1 per qualified exemption.
1985	81	General income credit	$1 per qualified exemption.
	232	Energy device credit	Extended expiration date to 12/30/92; increases to 15% if federal energy credit not extended beyond 12/31/85.
1986	49	General income credit	$1 per qualified exemption.
	66	Energy device credit	Raised to 15% if federal energy credit not retroactively extended or reenacted.
	70	Energy device credit	Expanded to include ice storage systems with credit set at 10% of cost.
1987	41	General income credit	$1 per qualified exemption.
	239	Food credit	Set at $45 per qualified exemption; to expire 12/31/90.
	239	Capital goods excise credit	Set at 3% of cost of qualified tangible business property for tax year 1988 and 4% of cost for 1989 and thereafter.
1988	11	Excise credit	Credit range changed to $55 to $10 per qualified exemption; AGI ceiling raised to $30,000.
	185	General income credit	$1 per qualified exemption.
1988	216	Low-income housing credit	30% credit on the qualified basis of each low-income building located in Hawaii as provided in IRC section 43(b).

Table B-2 (Cont.)
Outline of Tax Credit History by Year of Enactment

1989	307	Energy device credit	Raised to 20% of cost if placed in service after 12/31/89.
	321	Medical services excise credit	Set at 4% of qualified medical expenses; maximum credit $200 for most residents, $400 if 65 or older, and $600 if both joint taxpayers 65 years or older.
	321	Rent credit	AGI ceiling raised to $30,000.
	321	Child and dependent care credit	Credit made refundable if it exceeds tax liability; AGI ceiling for maximum 15% rate raised from $10,000 to $22,000.
	322	Child and dependent care credit	Raised rate to 25% to 15% of qualified expenses effective after 12/31/89.
	323	General income credit	$125 per qualified exemption.
1990	98	Renter's credit	Allowed residents with no taxable income to claim the credit.
	186	General income credit	Reduced to $60 per qualified exemption.
	187	Food/excise credit	Repealed excise credit and created a permanent food/excise credit; food credit increased from $45 to $55 per qualified exemption; no change in excise credit rates.
	319	Energy device credit	Extended expiration date to 12/31/98; credit ceilings set according to device and type of dwelling: solar device--lesser of 35% of cost or $1,750 if placed in single-family dwelling or $350 if placed in multi-family dwelling, no cap for hotel, commercial, or industrial installation; heat pump--lesser of 20% of cost or $400 if installed in single-family unit or $200 if placed in multi-family unit; no cap for hotel, commercial, or industrial installations; wind energy device--rate increased from 15% to 20% of cost; ice storage systems--rate increased to 50% of cost if installed and placed in service after 12/31/90.
1991	137	Job credit	20% of wage up to $1,200 per vocational rehabilitation employee.
	179	General income credit	$1 per qualified exemption.
	217	Medical services excise credit	Extended the medical service excise credit to 12/31/96.
1992	128	General income credit	$1 per qualified exemption.
1993	184	General income credit	$1 per qualified exemption.
	315	Medical services excise credit	6% of nursing facility expenses.
1994	85	General income credit	$1 per qualified exemption.

Table B-2 (Cont.)
Outline of Tax Credit History by Year of Enactment

1995	23	Medical services excise credit	Repealed the 4% portion of the tax credit and retains 6% of the nursing facility tax portion.
	93	General income credit	$1 per qualified exemption.
	134	Medical services excise credit	Repealed the medical service tax credit and the nursing facilities tax credit.
	134	Food/excise credit	Reduced the food portion of the food/excise tax credit from $55 to $27 per qualified exemption, and repeals the excise portion of the food/excise tax credit.
1996	286	Enterprise zone credit	Exempted general excise taxes on the gross proceeds from manufacture of tangible personal property, the wholesale of tangible personal property, or the engaging in a service business by qualified businesses in the enterprise zone.
1997	107	Motion picture credit	Provided an income tax credit of up to 4% of costs incurred, and of up to 6% of transient accommodations costs incurred in the production of motion picture or television films in the state.
	108	Hotel remodeling credit	Provided an income tax credit equal to 4% of the renovation costs for each qualified hotel facility located in Hawaii, with tax credit cap of 10% of the transient accommodations tax paid by the taxpayer in the preceding tax year.
1998	156	Motion picture credit	Increases credit from 6% to 7.25% of transient accommodations costs incurred.
	157	Food tax credit	Repealed food tax credit beginning tax year 1999.
	157	Low-income credit	Established refundable graduated low-income credit beginning tax year 1999.
	163	Energy device credit	Extended sunset date for energy device credits to July 1, 2003.
1999	24	Low-income housing credit	Expanded to include insurance companies.
	160	IDA credit	IDA tax credit up to 50% of contribution to an individual development account (IDA).
	178	High technology credit	10% of the investment made by the taxpayer in each qualified high technology business, up to a maximum allowed credit of $500,000, effective tax years 1999 to 2005.
	178	Research activity credit	Adopts federal income tax credit for increasing research activities, effective tax years 2000 to 2005.
	306	Qualified improvement credit	Qualified improvement tax credit for capitalized costs of construction and equipment of a permanent nature with respect to resort and hotel properties. Unspecified percent of credit may be applied against GET, income, PSC or TAT.

Table B-2 (Cont.)
Outline of Tax Credit History by Year of Enactment

2000	148	Low-income housing credit	Allows partnerships to claim low-income housing credit.
	184	Individual development account	5% of amount contributed to an IDA up to $1 million, between January 01, 2000 and December 31, 2004.
	174	Research activity credit	Retains credit for increasing research activities, even if federal credit is repealed.
	289	Ethanol investment credit	16 step investment tax credits for ethanol production facility based on gallons produced, capped at lesser of 30% of investment of specified dollar amount per step. Effective after December 31, 2001.
	297	Research activity credit	Makes the credit refundable.
	297	High technology credit	Eases requirements to qualify for credit.
2001	36	General income credit	$1 per qualified exemption.
	221	Research activities credit	Removes requirement for increasing research.
	221	High technology business investment credit	Increases maximum credit to $2 million and credit percentage to 100%.
	293	Drought mitigation credit	4% of cost of construction or repair of qualified water storage facility for farmers and ranchers.
	309	School repair and maintenance credit	10% of fair-market value of repair and maintenance of public schools by licensed contractors.
2001 (3rd SS)	10	Hotel construction and remodeling credit	Increases credit to 10% of costs and makes it nonrefundable until June 30, 2003.
	10	Residential construction and remodeling credit	4% of cost of new residential construction or remodeling.
2002	63	General income credit	$1 per qualified exemption.
	174	Residential construction and remodeling credit	Extends the credit to costs incurred before July 1, 2003.

Table B-2 (Cont.)
Outline of Tax Credit History by Year of Enactment

2003	207	Renewable energy technologies credit (Energy device credit)	Energy technology installed and placed in service after 6/30/03. Credit ceilings set according to device and type of dwelling: solar-device-lesser of 35% of cost or $1,750 if placed in single family dwelling, $350 for multi-family dwelling, $250,000 for commercial properties; wind powered system-lesser of 20% of cost or $1,500 if installed in single family unit, $200 if placed in multi-family unit, or $250,000 if placed in a commercial property; photovoltaic energy systems-lesser of 35% of cost or $1,750 if installed in single family unit, $350 if installed in multi-family unit, $250,000 if installed in a commercial property.
	100	Ko Olina resort and marina attractions and educational facilities tax credit	Established a nonrefundable, carry-forward tax credit for qualified costs incurred for the development of attractions and educational facilities at the Ko Olina resorts and marina, or for the development of a training and educational facility at the Makaha Resort. It took effect on May 29, 2003 and is available for tax year 2005.
2004	97	Renewable energy technologies credit (Energy device credit)	Clarified that the tax credit is nonrefundable and that unused credit may be claimed in subsequent years until exhausted. Allowed financial institutions to claim the credit for taxable years beginning after 12/30/02, provided that the system was installed after 6/30/03.
	140	Ethanol Facility tax credit	Clarified that the tax credit is equal to 30% of the ethanol production facility's nameplate capacity if greater than 500,000 but less than 15 million gallons. Tax credit is limited to 100% of the total of all investments made by the taxpayer during the 8 year tax credit period. Requires that the facility be operating at a level of production of at least 75%. Facility must be in production before 1/1/12. Effective 7/01/04 and applied to taxable years beginning after 12/21/03.
2005	196	Low-income housing tax credit	Provides incentives for developers to build affordable housing projects by increasing the low-income housing tax credit from 30 to 50 percent of the applicable percentage of the qualified basis of each building located in Hawaii. Effective 7/01/05.
2006	88	Motion Picture and Film Production Income Tax Credit	Increases the Motion Picture and Film Production income tax credit to 15% or 20% of qualified production costs, depending on locale of production. Effective for production occurring after June 30, 2006.
	110	Tax Credit for Flood Victims	Establishes the one-time Tax Credit for Flood Victims, for non-reimbursable costs stemming from the Manoa flooding of October 30, 2004 and the statewide flooding during the first quarter of 2006.
	240	Renewable energy	Increases the limits on the Renewable Energy Technologies credit for single-family residential systems to $2,250 (for solar thermal systems) or $5000 (for photovoltaic systems). Increases the limits for commercial systems to $500,000 per system. Higher limits effective for systems installed after June 30, 2006.

Table B-2 (Cont.)
Outline of Tax Credit History by Year of Enactment

2007	128	Ethanol Facility tax credit	Extended the date for which a qualified ethanol production facility must be in production for purposes of qualifying for the Ethanol Production Facility tax credit by five years, to 1/1/2017.
	151	Renewable Energy	Requires that all renewable energy technology systems be in the State in order to qualify for the Renewable Energy Technologies tax credit. Applies to taxable years beginning after 12/31/2006.
	210	General income credit	The credit is refundable and declines as federal AGI increases. The maximum credit is $160 (for married filing jointly with federal AGI under $5,000).
	211	Food/Excise tax credit	Changes the name of the Low-Income Refundable tax credit to the Refundable Food/Excise tax credit. Amends the credit payout schedule and the adjusted gross incomes. The highest payout is $85 for federal AGI under $5,000 per exemption. Effective for taxable years beginning after 12/31/2007.
2008	58	General income credit	Provides a refundable credit of $1 per exemption (not including extra exemptions for age or disability).
	204	Renewable energy	Requires single family residences with building permits issued after 1/1/2010 to include a solar hot water heating system and disallows the Renewable energy credit for the required systems. For solar, wind or photovoltaic systems placed in service after 12/21/2008, residential home developers are ineligible to claim the credit.
	143	Enterprise Zone tax credit	Extends Enterprise Zone benefits to certain qualifying agricultural businesses, including processing of agricultural products. Effective 7/1/2008.
	233	Important Agricultural Lands tax credit	Provides a refundable tax credit for certain costs benefiting property designated as "Important Agricultural Land," effective 7/1/2008.
2009	84	General income credit	Provides a refundable credit of $1 per exemption, excluding multiple exemptions for age or disability.
	154	Renewable Energy	Combines solar and photovoltaic systems into the single category "solar." The caps per system are unchanged, however, as solar systems used to heat water are still subject to the lower cap of $2,250 per system. An election is granted to make the credit refundable for systmes placed in service on or after 7/1/2009.
	155	Renewable Energy	Amends the requirement that a building permit not be issued for new single family dwellings that to not include a solar water heating system on or after 1/1/2010.
	174	Enterprise Zone tax credit	Amends the definitions of eligible business. Allows agricultural producers, manufacturers and wholesalers to renew eligibility in the program for an additional three years. Effective 7/1/2009.

Table B-2 (Cont.)
Outline of Tax Credit History by Year of Enactment

	178	High technology credit and the Capital goods excise tax credit	Limits claims for the High technology business investment tax credit to 80% of the taxpayer's tax liability, with no carry-over of the excess, for investments after May 1, 2009. Limits the credit amount to the amount of the investment (investors can no longer use special allocations from partnerships to receive more credit than the amount invested). The Act also suspended the Capital goods excise tax credit for calendar year 2009. Effective for the period from 1/1/2009 through 1/1/2011.
2010	21	All tax credits	Requires refundable credits to be claimed first, followed by nonrefundable credits after 1/1/2010.
2011	158	Low income housing tax credit	Grants low-income housing tax credit loans in lieu of low-income housing tax credits and provides a tax credit for certain awards under the American Recovery and Reinvestment Act of 2009. Applies to qualified buildings placed in service after 12/31/2011.
2013	89	Motion Picture and Film Production Income Tax Credit	Extends the Motion Picture and Film Production income tax credit to January 1, 2019, increases the credit ceiling amount from $8 million to $15 million per qualified production, and increases the credit amount from 15% to 20% of qualified production costs in a county with a population of over 700 thousand and increases the credit amount from 20% to 25% in a county with a populations of 700 thousand or less. Effective for production occurring after June 30, 2013.
	270	Tax credit for research activities	Reenacts the State tax credit for research activities. The State credit is equal to 20% of qualified research expenses incurred in Hawaii. The new credit is effective for tax years beginning after December 31, 2012. The Act sunsets December 31, 2019.
2014	101	Important Agricultural Lands tax credit	Clarifies that the tax credit amount is 25% of qualified agricultural costs or $625,000 in the first year, the lesser of 15% of qualified costs or $250,000 in the second year, and the lesser of 10% of qualified costs or $125,000 in the third year.
	200	Capital Infrastructure Tax Credit	Establishes a capital infrastructure tax credit for tenants who are relocated due to the Kapalama container terminal modernization project. The tax credit is the lesser of 50% of the capital infrastructure costs paid or incurred by the qualified infrastructure tenant during the taxable year or $1,250,000. The tax credit is available for taxable years beginning after December 31, 2013, but not for taxable years beginning after December 31, 2019.

Hawaii General Excise Tax Expenditures

DEPARTMENT OF TAXATION

STATE OF HAWAII

STATE OF HAWAII

David Y. Ige, Governor

DEPARTMENT OF TAXATION

Maria E. Zielinski, Director

Damien A. Elefante, Deputy Director

Hawaii General Excise Tax Expenditures

DEPARTMENT OF TAXATION

STATE OF HAWAII

DECEMBER 2016

WEB SITE: tax.hawaii.gov

Introduction

This report presents general excise tax (GET) exemptions that constitute tax expenditures and opportunities to export tax. This is the first report of its kind; the Department of Taxation (Department) has not previously reported on GET exemptions or tax expenditures due to the inability of the legacy tax system to collect and produce such data. Act 94, Session Laws of Hawaii 2015, requires the Department to publish a report on tax expenditures no later than 20 days prior to each regular session of the Legislature.

Given that Rollout 2 of the Tax System Modernization project (TSM) for business taxes was completed on August 15, 2016, ***only*** the future formatted tables of exemption data have been included in this report; no data have been included. In addition to the limited tax filing period covered in this report (August 15 – November 30, 2016), only electronic filing exemption data were captured during this timeframe. Consequently, taxpayers filing paper returns (using the older format return) would not have their exemption data captured. Beginning in 2017, data from ***both*** electronic and updated paper returns will be captured to provide comprehensive exemption data.

This report does include the description of the data that will be reported, the Department's methodology in determining and measuring tax expenditures, and tables categorizing GET exemptions as tax expenditures at the wholesale and retail rate as well as the exemptions that represent opportunities to export tax.

Finally, unlike other reports prepared by the Department, this report is not merely a presentation of data but relies on the determination and categorization of tax exemptions. These decisions are based on a set of debatable assumptions about what constitutes an ideal tax system and what constitutes a tax expenditure.

Data Source

Data for this report are collected from the Department's GenTax system. This is the Department's new system that is being rolled out as part of the TSM Project. The data are from Form Schedule GE. Form Schedule GE is required to be filed along with a taxpayer's periodic and annual GET returns. Form Schedule GE reports the amounts and types of GET exemptions claimed. The data are as reported by taxpayers without any adjustment for audit.

Tax Expenditures

This report presents GET exemptions that are tax expenditures at the wholesale rate (0.5%) and the retail rate (4%), and also presents tax exemptions that are not tax expenditures but are opportunities to export the tax burden.

It is important to understand that the decision to label exemptions as tax expenditures at the wholesale or retail rate or not as tax expenditures at all is based on economic parameters and assumptions and is subject to debate. Thus, if the Department's assumptions change, then the distribution of exemptions among the categories may change.

A tax expenditure is not the same as a tax exemption. For this reason, this report does not present data on all GET exemptions, but only on those the Department considers to be tax expenditures. For purposes of this report, tax expenditures are those tax breaks – whether credits, deductions, or exemptions – that are deviations from a uniform tax on consumption of residents.

Tax Expenditures are not Revenue Estimates

In presenting data on tax exemptions, it is crucial that a clear distinction be made between tax expenditures and revenue estimates. The data presented in this report should not be relied on as an estimate of the amount of revenue that may be realized by repealing an exemption. The reason is that the data presented in this report provide only the amounts of each exemption claimed. To properly estimate the revenue effect of repealing an exemption, substitution and behavioral factors must be accounted for.

Substitution means that if a certain exemption is repealed, a portion of the taxpayers that had been claiming the repealed exemption may be entitled to claim a different exemption for the same activity. As an example, take the enterprise zone exemption. It is possible that taxpayers engaged in business in enterprise zones are exporting the goods and services they sell. Thus, if the enterprise zone exemption were repealed, the taxpayer may instead claim the exported goods and services exemption. This would limit the revenue impact to some amount smaller than the amount claimed under the enterprise zone exemption.

Behavioral factors are the behavioral responses of taxpayers affected by the repeal of an exemption. If an exemption is repealed, some taxpayers may cease engaging in formerly exempted activity. In this case the repeal would not yield the full amount of the tax expenditure, because the gross income previously exempted would no longer be generated.

Additionally, tax expenditures are valued at the tax rate they should be taxed at to achieve the assumed ideal tax system. These assumptions may not agree with the actual tax rates that would apply if an exemption were repealed. For example, each exemption categorized as a tax expenditure at the wholesale rate may not qualify for the .5% rate under the wholesale rules of section 237-4, Hawaii Revised Statutes.

Tax Expenditures at the wholesale rate (.5%)

The tax expenditures reported in this section are those that exempt activity that would ideally be taxed at the wholesale rate of GET. These are mostly business-to-business transactions. Ideally, all business-to-business transactions would be exempt from GET. However, in reality most are subject to GET at the 0.5% rate and thus our assumption becomes that all such transactions should be taxed at the 0.5% rate. Labeling exemptions of business-to-business sales as tax expenditures at the 0.5% rate is based on the assumption that all business-to-business sales should be taxed equally.

Tax Expenditures at the wholesale rate (.5%)		
Exemption	Amount of Exemption claimed ($)	Value of Tax Expenditure ($)
Air Pollution Facilities §237-27.5		
Aircraft leasing §237-24.3(11)		
Aircraft Service and Maint. Facility §237-24.9		
Conv., Conf., and Trade Show §237-16.8		
Common Paymaster §237-23.5(b)		
Contracting in Ent. Zone §209E-11		
Federal Cost-plus Contractors §237-13(3)(C)		
Hawaii Convention Center §237-24.75(2)		
Hotel Operator/Suboperator §237-24.7(1)		
Coin operated devises §237-18(a)		
Producers and Promoters§237-18(b)		
Insurance and Realtors §237-18(e)		
Tour Packagers §237-18(g)		
Motor carriers §237-18(h)		
Intercompany Charges §237-23.5(a)		
Labor Organizations §237-24.3(9)		
Maintenance Fees §§237-24.3(2) & 24(16)		
Merchants' Assoc Dues §237-24.3(8)		
Orchard Operator 237-24.7(4)		
Import Services/Contracting §238-2.3(1)(C)		
Petroleum Refining §237-27		
Professional Employer Orgs §237-24.75(3)		
Certain Property Used by Producers §238-4		
Reimbursement of payroll §237-24.7(9)		
Services to Ships and Aircraft §237-24.3(3)		
Shipbuilding and Ship Repairs §237-28.1		
Stock Exchange Transactions §237-24.5		
Subcontract Deduction §237-13(3)(B)		
Sugar Cane Payments §237-24(14)		
Wholesale Transactions §237-29.55		

Tax Expenditures at the retail rate (4%)

The tax expenditures reported in this section are those that exempt activity that would ideally be taxed at the retail rate of GET. Unlike tax expenditures at the wholesale rate, these are not business-to-business transactions but transactions between businesses and final consumers or the equivalent thereof.

Tax Expenditures at the retail rate (4%)		
Exemption	Amount of Exemption claimed ($)	Value of Tax Expenditure ($)
Affordable Housing §237-29		
Disability Provisions §237-24(13)		
Prescription Drugs §237-24.3(6)		
Enterprise Zones §209E-11		
Mass Transit §237-24.7(2)		
Non-profit Organizations §237-23		

Opportunities to Export Tax

The following exemptions do not qualify as tax expenditures but are GET exemptions that may represent a lost opportunity to export tax. These consist of exemptions of exports and of sales to the federal government. Exemption of exports is not a tax expenditure because it is provided to prevent pyramiding of tax rather than to encourage a certain industry.

Opportunities to Export Tax		
Exemption	Amount of Exemption claimed ($)	Value of Tax Expenditure ($)
Diplomat and Consular §237-24.3(10)		
Exported Services §237-29.53		
Foreign Trade Zone §212-8		
Out-of-state sales §237-29.5(1)		
Sales to U.S. gov/credit unions §237-25(a)		
Scientific contracts §237-26		