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DEPT. COMM. NO. 338

January 26, 2026

VIA EMAIL

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

VIA EMAIL

The Honorable Nadine K. Nakamura
Speaker, House of Representatives
415 South Beretania Street
Hawaiʻi State Capitol, Room 431
Honolulu, Hawaiʻi 96813

Re: *Review of Income Tax Provisions Pursuant to Section 23-96, Hawaiʻi Revised Statutes*, Report No. 26-02

Dear President Kouchi and Speaker Nakamura:

Please find attached Report No. 26-02, *Review of Income Tax Provisions Pursuant to Section 23-96, Hawaiʻi Revised Statutes*, along with a copy of the Auditor's Summary. The review was performed pursuant to Section 23-91 et seq., Hawaiʻi Revised Statutes.

The report is accessible through our website at:
https://files.hawaii.gov/auditor/Reports/2026/26-02.pdf.

The summary is also accessible through our website at:
https://files.hawaii.gov/auditor/Overviews/2026/26-02AuditorSummary.pdf

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

Very truly yours,

Leslie H. Kondo
State Auditor

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

Auditor's Summary

Review of Income Tax Provisions Pursuant to Section 23-96, Hawai'i Revised Statutes

Report No. 26-02



ILLUSTRATION: ISTOCK.COM

THIS REPORT ASSESSES several income tax incentives allowed under Hawai'i law. Sections 23-91 through 23-96, Hawai'i Revised Statutes (HRS), require the Auditor to review specific tax provisions on a five-year recurring cycle.

Specifically, for 2024 and every fifth year thereafter, Section 23-96, HRS, requires the review of the following income tax incentives:

- Credit to promote the purchase of child passenger restraint systems (Section 235-15, HRS);
- Credit for employment-related expenses for household and dependent care services (Section 235-55.6, HRS);
- Credit for a low-income household renter (Section 235-55.7, HRS); and
- Credit for food and excise tax (Section 235-55.85, HRS).

We determined that all four credits are meeting their stated or inferred purposes and recommend that they be retained.

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

Link to the complete report:

Review of Income Tax Provisions Pursuant to Section 23-96, Hawai'i Revised Statutes

https://files.hawaii.gov/auditor/Reports/2026/26-02.pdf

Review of Income Tax Provisions Pursuant to Section 23-96, Hawai‘i Revised Statutes

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

Report No. 26-02
January 2026



OFFICE OF THE AUDITOR
STATE OF HAWAI‘I

OFFICE OF THE AUDITOR
STATE OF HAWAIʻI

Constitutional Mandate

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

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

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

Our Mission

To improve government through independent and objective analyses.

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

Our Work

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

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

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

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

ILLUSTRATION: ISTOCK.COM

Foreword

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

Leslie H. Kondo
State Auditor

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ILLUSTRATION: ISTOCK.COM

Review of Income Tax Provisions Pursuant to Section 23-96, Hawai‘i Revised Statutes

Introduction

THIS REPORT assesses a variety of income tax incentives allowed under Hawai‘i law. Sections 23-91 through 23-96, Hawai‘i Revised Statutes (HRS), require the Auditor to review specific tax provisions on a five-year recurring cycle. For 2024 and every fifth year thereafter, Section 23-96, HRS, requires the review of the following income tax incentives:

- Credit to promote the purchase of child passenger restraint systems (Section 235-15, HRS);
- Credit for employment-related expenses for household and dependent care services (Section 235-55.6, HRS);
- Credit for a low-income household renter (Section 235-55.7, HRS); and
- Credit for food and excise tax (Section 235-55.85, HRS).

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

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

Background

Hawai‘i’s Income Tax and Incentives

Hawai‘i enacted its income tax in 1901 and would have been the first state to adopt such a tax, had Hawai‘i been a state at the time. In FY2024, income tax collections represented Hawai‘i’s second-largest tax revenue source, accounting for $3.76 billion, or 33.99 percent of all tax revenues. Chapter 235, HRS, is Hawai‘i’s income tax law.

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

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

Tax Equity and Efficiency: Finding the Balance

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

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

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

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



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



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

Incentive Reviewed

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

Credits are amounts that will reduce a filer's tax liability on a dollar-for-dollar basis. Certain credits will generate a refund to the tax filer when the amount of credit exceeds the filer's tax liability.

A *nonrefundable* credit provides a tax benefit only to the extent a filer has a tax liability, but provides no current year benefit beyond reducing the filer's liability to zero. If the credit amount exceeds the filer's tax liability in a particular year, the unused portion of a nonrefundable credit usually can be carried forward and applied against the filer's future year tax liabilities until exhausted. Whether and how much of a credit may be carried to other years varies by credit.

A *refundable* credit may be fully claimed in a single year, even if the amount of the credit exceeds the filer's tax liability. The amount of the credit that exceeds the filer's tax liability becomes a refund to be paid to the tax filer.

A tax credit may also be understood in contrast to a tax deduction. A credit reduces tax, while a deduction reduces income. Whereas a tax credit results in a dollar-for-dollar benefit regardless of tax rate and can generate a refund, a deduction benefits a tax filer only to the extent of the filer's rate and only to a minimum income of $0. This can best be illustrated by way of example, using a flat 10 percent tax rate:

	$10,000 Deduction	**$10,000 Refundable Credit**
Adjusted Gross Income:	$50,000	$50,000
Reduction Due to Deduction:	-$10,000	- 0
Resultant Taxable Income:	$40,000	$50,000
Resultant Tax (flat 10%)	$4,000	$5,000
Credits	- 0	- 10,000
Resultant	**$4,000 Tax Due**	**($5,000) Refund**

The example shows how, for a tax filer with taxable income of $50,000, a $10,000 credit should result in a more favorable outcome than a $10,000 deduction. The deduction should result in a tax due of $4,000, while a credit should result in a refund of $5,000.

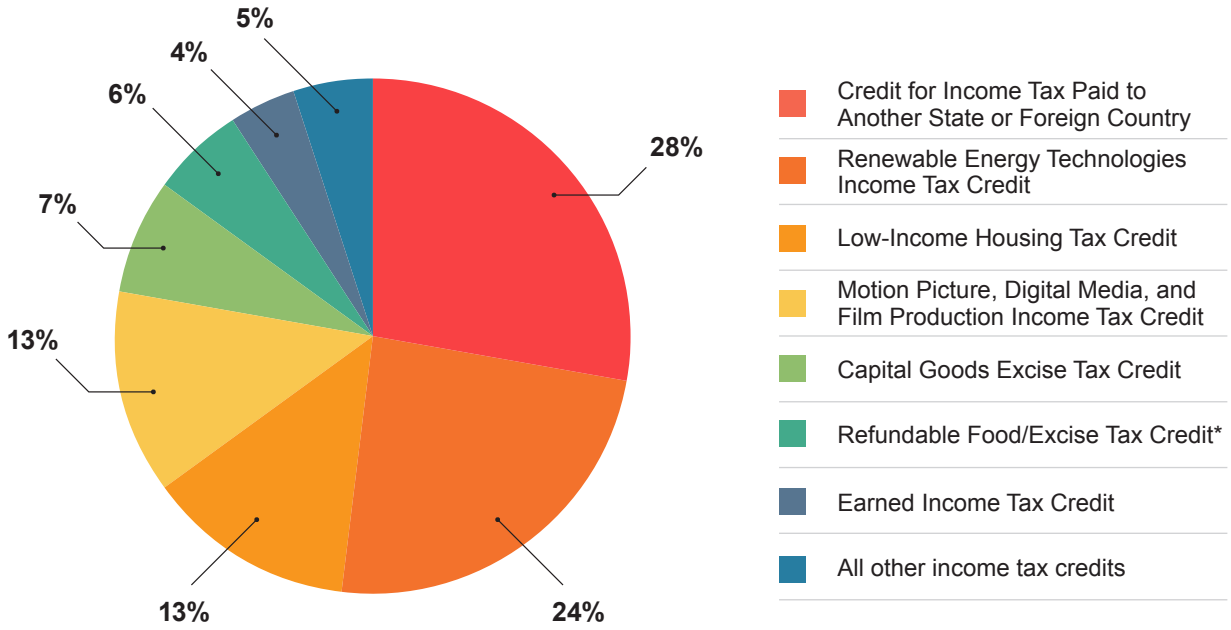
Overview of Our Review

What did we review?

We reviewed four Hawai‘i income tax credits and report the use of each credit based on Department of Taxation (DOTAX) data from 2019, 2020, 2021, 2022, and 2023. While our mandate requires a look at the "previous three calendar years," DOTAX has not, as of this writing, reported income tax credit data for 2024. Accordingly, we evaluated data relating to the credits for the period 2019 through 2023.

We drew upon publicly available material, including reports filed by committees of the State Senate and House of Representatives relating to relevant legislative bills, and various reports, studies, and articles published by DOTAX. We are required by Section 231-3.3, HRS,

Tax Credits by Dollar Amount Claimed



Source: DOTAX

* We review the refundable food/excise tax credit in this report. The three other credits we review fall within the "All other income tax credits" section of the chart.

to protect from public disclosure information that DOTAX deems to be confidential, except to the extent we may report on information that we deem necessary and relevant for legislative review and that does not identify any specific tax filer or incentive beneficiary.

Assessment Challenges

Unavailable and Suppressed Data

At the time of this report's writing, DOTAX has not reported 2024 income tax credit data.

Aside from the direct benefit that credits may provide to tax filers claiming them, we are unaware of any readily available data revealing any other economic impact of the credits. More specifically, there is no readily available data showing a causal correlation between any credit we reviewed and, for example, job growth, income growth, public spending, or gross domestic product within the State. Without such data and without metrics or measurement criteria in our statutory mandate, we cannot draw a conclusion about whether an incentive has a long-term or profound

Exhibit 1. Summary of Results

HRS Section(s)	Incentive Type	Subject Matter Covered	Achieves Purpose?	Recommendation
235-15	Credit	Child passenger restraints	Yes	Retain
235-55.6	Credit	Household and dependent care expenses	Yes	Retain
235-55.7	Credit	Low-income renters	Yes	Retain
235-55.85	Credit	Food and excise tax	Yes	Retain

Source: Office of the Auditor

economic or employment impact. As we lack economic modeling expertise and software, any projection on the future cost of credits would be speculative and unreliable.

Use of Statutory Formula for Low-Income Resident Calculations

An additional concern is that we analyzed the impact of tax incentives on "low-income residents" using a statutorily required formula that may not result in an accurate representation of how an incentive truly affects such residents. We question whether the calculations represent the "value" that a repeal of a particular tax provision would have for low-income residents. Although money generated from repealing a particular exemption or exclusion will likely increase tax revenues, the impact of the additional funds might confer a direct benefit not simply upon low-income residents, in particular, but upon all residents. Further discussion on "low-income resident" calculations, as well as our calculations which are based on the number of low-income households, can be found in Appendix A.[1]

[1] Section 23-71, HRS, requires us to estimate the "annual cost of the exemption [or] exclusion ... per low-income resident of the State." We received data from the Department of Business, Economic Development, and Tourism (DBEDT) on the number of low-income households. (This number, reported by DBEDT from the U.S. Census Bureau's decennial American Community Survey, was last updated in 2020. We believe this to be the best and most accurate data available for this purpose.)

Income Tax Credit to Promote the Purchase of Child Passenger Restraint Systems

Section 235-15, HRS

SECTION 235-15, HRS, provides for an income tax credit of $25 for tax filers who purchase a child passenger restraint system, such as a car seat or booster seat, during the tax year. The credit is limited to $25 per tax year, irrespective of the number of systems purchased. The credit is refundable.

Tax Credit at a Glance (2023)

Amount claimed	Number of Claims	Tax Expenditure	Cost Per Low-Income Household*	Meeting its Purpose?
				
$53,000	2,108	$53,000	$0.30	Yes

* Cost per low-income household is the tax expenditure divided by 174,328 low-income households. (This number, reported by DBEDT from the U.S. Census Bureau's decennial American Community Survey, was last updated in 2020.)

Legislative History

Section 235-15, HRS

1982
Act 134, SLH 1982, established this credit.

Incentive Summary

What is the purpose of the provision?

According to the 1982 Senate Committee on Ways and Means, this credit reduces the cost of approved child passenger restraint systems, encouraging their use and ensuring the safety of children riding in motor vehicles.

Claims & Expenditure

Year	Number of Claims	Amount Claimed	Tax Expenditure
2024	No Data*	No Data*	No Data*
2023	2,108	$53,000**	$53,000**
2022	2,153	$53,825	$53,825
2021	2,067	$51,675	$51,675
2020	2,143	$53,575	$53,575
2019	2,458	$61,450	$61,450

*At the time of this writing, 2023 is the latest year for which DOTAX has published data.

**Amounts in the 2023 DOTAX report are expressed to the nearest $1,000.

Other Key Qualification Requirements or Limitations

The restraint system must meet federal safety standards covering weight, height, rotation, and other physical specifications.

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

Unable to determine.

There is no readily available data correlating the credit with job growth, industry growth, or other economic benefit. We note, however, that the credit was enacted more for the purpose of ensuring child safety than for any economic benefit to the State.

Is the incentive meeting its purpose?

Yes.

The Passenger Restraint System income tax credit was enacted in 1982, in part to encourage the greater use of such systems.

The following year, the Legislature enacted Section 291-11.5, HRS, which mandates that a child under 10 years of age to be in an approved child passenger restraint system when in a moving motor vehicle. A person found in violation of the law may be required to attend safety classes and pay a maximum fine of $800. The tax credit encourages greater use of child passenger restraint systems. The legal requirement to use a child passenger restraint system does the same.

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

Retain.

Given that the purpose of the tax credit is to reduce the purchase price of child passenger restraint systems and thereby encourage their use, the tax credit should be retained. We note, however, that the law requires everyone to restrain their child passengers, making incentivizing the same behavior through a tax credit less meaningful. The credit is fixed at $25, an amount set in 1982. We additionally note that since 1982, the Hawai‘i consumer price index – an indicator of inflation – has risen by over 235%.

Household and Dependent Care Credit
Section 235-55.6, HRS

SECTION 235-55.6, HRS, allows a credit for payments made toward the care of a qualifying household member. The expenses must be incurred to enable the tax filer to be gainfully employed. For married tax filers, both spouses must be gainfully employed, unless one is incapable of self-care. The tax filer must pay over half the cost of maintaining the household, and the cared-for individual must be a dependent under age 13 or a dependent or spouse incapable of self-care. The credit amount varies by adjusted gross income (AGI), ranging from 15 to 25 percent of AGI, and is refundable.

Tax Deduction at a Glance (2023)

Amount claimed	Number of Claims	Tax Expenditure	Cost Per Low-Income Household*	Meeting its Purpose?
$14,820,000	18,119	$14,820,000	$85.00	Yes

* Cost per low-income household is the tax expenditure divided by 174,328 low-income households. (This number, reported by DBEDT from the U.S. Census Bureau's decennial American Community Survey, was last updated in 2020.)

Legislative History

Section 235-55.6, HRS

- **1977**
  Act 196, SLH 1977, established the credit.
- **1979**
  Act 62, SLH 1979, updated references to conform to federal changes and disallowed expenses paid to minor children of the tax filer, regardless of whether the children cared for other children or were dependents.
- **1981**
  Act 234, 1981, raised the credit from five to ten percent of qualified expenses.
- **1982**
  Act 25, SLH 1982:
  - changed the credit amount from ten percent to a calculated "applicable percentage" varying by income level;
  - expanded the credit to apply to care outside the home for dependents aged 15 and above and incapable of caring for themselves, provided they spend at least eight hours per day in the household;
  - defined dependent care centers and added a variety of requirements for expenses paid to such a center, including that it comply with all State laws and regulations;
  - raised the maximum credit from $2,000 to $2,400 in cases of a single cared-for individual, and from $4,000 to $4,800 in cases of multiple individuals; and
  - raised the minimum earned income of a spouse who is a student or unable to care for him/herself from $166 to $200 in cases of a single cared-for individual, and from $333 to $400 in cases of multiple individuals.
- **1985**
  Act 19, SLH 1985, retitled the credit, updated various references and subsection labels, revised qualification rules for the children of divorced couples, and removed a credit limitation based on other income tax credits claimed.

- **1988**
  Act 102, SLH 1988, disallowed overnight camp expenses for purposes of the credit.
- **1989**
  Act 13, SLH 1989:
  - reduced the maximum qualifying age of a child from 14 to 12;
  - mandated that the maximum credit claimable be reduced by any amount of employer-paid dependent care assistance; and
  - required tax filers to supply care provider information, including care provider name and address.

  Act 321, SLH 1989, made the credit refundable.

  Act 322, SLH 1989, raised the maximum credit amount to 25 percent of AGI and set a minimum credit amount of 15 percent of AGI.
- **1993**
  Act 73, SLH 1993, revised care provider identification requirements for providers located outside Hawai'i and, for tax filers claiming certain other credits, ensured that those credits apply before this one.
- **2016**
  Act 235, SLH 2016, made the amount of the credit gradually progressive, with a set percentage of qualified expenses credible for each of seven AGI ranges.
- **2023**
  Act 163, SLH 2023, raised the maximum amount of qualifying expenses to $10,000 and $20,000 for claims involving one or multiple qualifying individuals, respectively. It also changed the progressive nature of the credit, establishing different credit percentage amounts for different filing statuses.

Incentive Summary

What is the purpose of the incentive?

In 1976 the Legislature adopted federal provisions that allowed parents to deduct child-care expenses from their income taxes. (The law was changed from a deduction to a credit after Congress changed the federal deduction to a credit in 1977.) According to the 1976 Senate Ways and Means Committee, the purpose of the credit was to keep pace with increased care costs, provide a benefit to low and middle income families, simplify return filing, and minimize tax filer burden. The incentive aimed to accomplish such goals both by providing tax relief directly and, in so doing, enable certain tax filers to be gainfully employed.

What were the numbers of claims and amount claimed?

Year	Number of Claims	Amount Claimed	Tax Expenditure
2024	No Data*	No Data*	No Data*
2023	18,119	$14,820,000**	$14,820,000**
2022	16,415	$6,479,000	$6,479,000
2021	14,807	$5,637,000	$5,637,000
2020	15,547	$5,308,000	$5,308,000
2019	22,792	$8,747,000	$8,747,000

* At the time of the writing of this report, 2023 is the latest year for which DOTAX has published data.

**Amounts in the 2023 DOTAX report are expressed to the nearest $1,000.

Other Key Qualification Requirements or Limitations

Percentage Limitation

The amount of the credit is determined by the tax filer's AGI, for this sentence and AGI table below.

AGI Range	Creditable Percentage Of Care Expenses
Not over $25,000	25%
$25,000 - $30,000	24%
$30,000 - $35,000	23%
$35,000 - $40,000	22%
$40,000 - $45,000	21%
$45,000 - $50,000	20%
Over $50,000	15%

Earned Income Limitation

The amount of dependent care expenses that can be claimed are limited to:

- For unmarried filers: the filer's earned income.
- For married filers: the lesser of the spouses' earned incomes.
  - Married filers must file jointly.
    - Decreed separated is considered unmarried.
    - A married person filing separately and who furnishes over half of the cost of maintaining a household that for the last six months of the tax year did not include the other spouse is considered unmarried.

Student Spouses and Spouses Incapable of Self-Care

A spouse who is a full-time student or incapable of caring for herself/himself, even if not working, is deemed to have earned income. The amount of earned income is $200 if the spouse is the only person requiring care, or $400 if the tax filer claims the credit with respect to more than one individual under care.

Absolute Limitation

Regardless of earnings, the credit is limited to the following maximums:

- $10,000 in a case of one cared-for individual; and
- $20,000 in a case of multiple cared-for individuals.

Lower Limitation for Receivers of Public Care Assistance

A tax filer benefitting from a care assistance program whose value may be excluded from federal income must reduce the state credit maximum by any assistance amount actually excluded.

Qualification of Expenses

Expenses must be for household services or care only.

- payments to overnight camps do not qualify.
- payments to related persons, including a tax filer's spouse, dependents, or non-dependent minor children, do not count.
- payments to a dependent care center qualifies only if:
  - the center complies with all local laws;
  - the center must provide care for more than six individuals who are not residents of the center;
  - the center receives payment for providing care; and
  - every cared-for individual with respect to whom the credit is claimed either (a) is under 13 years old or (b) regularly spends at least 8 hours per day in the tax filer's household.
  - The term "household services" is not defined by statute, but a DOTAX flyer includes domestic and home health care services as examples of qualifying expenses, and lists utility expenses, home schooling expenses, and clothing and personal items as not qualified.

Divorce and Child Custody

In cases of divorced parents, only the custodial parent may treat the child as a dependent for credit purposes.

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

There is an economic benefit.

The credit provides an economic benefit to a tax filer who cares for a dependent child or incapacitated dependent, and is designed to allow a tax filer in that situation to be gainfully employed. We are unable to determine if the benefit of the credit outweighs the cost of the incentive because the value of that benefit cannot be quantified.

Is the incentive meeting its purpose?

Yes.

The credit helps to offset the cost of caring for others, enabling those who care financially for a dependent to be gainfully employed.

A 2022 report by DOTAX noted that in 2022, per capita claim amounts for the child and dependent care tax credit were greater in the higher adjusted gross income groups. A 2021 report by the Congressional Research Service (CRS) on the *federal* child and dependent care credit recorded that, in 2018, tax filers at the lowest 34 percent of AGI levels claimed only about three percent of child and dependent care credit

amounts, while the top 19 percent by AGI claimed over 44 percent.[2] A separate 2017 report by CRS, using 2014 data, found that 35 percent of claimants were in the highest income quintile (top 20 percent) and only 1 percent were in the lowest quintile.[3] The latter report discussed reasons why lower-income families might not claim the credit, including that childcare needs might be met informally – such as by having a neighbor or older child watch a younger child during a workday – and offered recommendations specific to the federal credit.

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

Retain.

The credit appears to be meeting its purpose.

[2] *Child and Dependent Care Tax Benefits: How They Work and Who Receives Them,* Congressional Research Service Report No. R44993 (February 1, 2021).

[3] *The Child and Dependent Care Credit: Impact of Selected Policy Options,* Congressional Research Service Report No. R45035 (December 5, 2017).

Low-Income Renter Credit
Section 235-55.7, HRS

SECTION 235-55.7, HRS, allows an income tax credit for a tax filer with an adjusted gross income (AGI) of under $30,000 and who pays more than $1,000 in rent for a principal residence in Hawai‘i. The principal residence must be used as such by the tax filer or his or her immediate family. Rent, for purposes of the exemption, excludes payments for utilities, parking stalls, goods storage, yard services, furniture, furnishings, and “the like.”

The credit amount is $50 multiplied by the number of qualified exemptions to which the tax filer is entitled, or double that amount for filers over 65. A tax filer is entitled to one qualified exemption, plus one for any spouse, plus one per dependent – such that a married couple filing jointly with three child dependents, for example, would have five qualified exemptions. The exemptions qualify for credit purposes only if the underlying persons reside in Hawai‘i for more than nine months of the tax year. Persons who, for other income tax purposes, are entitled to additional exemptions due to deficiencies in vision, hearing, or other disability may not count such additional exemptions for purposes of calculating this credit.

The credit is refundable.

Tax Deduction at a Glance (2023)

Amount claimed	Number of Claims	Tax Expenditure	Cost Per Low-Income Household*	Meeting its Purpose?
$1,645,000	17,205	$1,645,000	$9.44	Yes

* Cost per low-income household is the tax expenditure divided by 174,328 low-income households. (This number, reported by DBEDT from the U.S. Census Bureau’s decennial American Community Survey, was last updated in 2020.)

Legislative History

Section 235-55.7, HRS

1977
Act 15, SLH Sp. 1977, established the credit.

1981
Act 230, SLH 1981, increased the amount of credit from an original $20 per qualified exemption to $50 per qualified exemption.

1989
Act 321, SLH 1989, raised the AGI threshold from $20,000 to $30,000.

1990
Act 98, SLH 1990, specified that an individual with no taxable income may claim the credit.

Incentive Summary

What is the purpose of the incentive?

To offset what the 1977 Senate Ways and Means Committee termed "the spiraling cost of housing for many of the more than 120,000 renters in the State" and thereby reinforce and advance "the State's commitment to adequate and affordable shelter for [its] people."

What were the numbers of claims and amount claimed?

Year	Number of Claims	Amount Claimed	Tax Expenditure	Average Amount Per Claim
2024	No Data*	No Data*	No Data*	No Data*
2023	17,205	$1,645,000**	$1,645,000**	$96
2022	16,925	$1,675,000	$1,675,000	$99
2021	17,387	$1,697,000	$1,697,000	$98
2020	17,818	$1,708,000	$1,708,000	$96
2019	20,530	$2,024,000	$2,024,000	$99
2011* **	47,444	$4,900,000	$4,900,000	$103
2000* **	70,016	$7,000,000	$7,000,000	$100

* 2023 is the latest year for which DOTAX has posted data.

**Amounts in the 2023 DOTAX report are expressed to the nearest $1,000.

***We include data for 2000 and 2011 to illustrate a long-term decline in both the number of claims and amounts claimed, as identified by DOTAX and discussed later in this section.

Other Key Qualification Requirements or Limitations

When multiple tax filers live in the same rental unit, each person may claim a pro rata share of the credit – assuming each person meets all other qualification requirements.

Married spouses filing separately may claim only as much of the credit as each could have claimed, had they filed jointly.

No person eligible to be claimed as a dependent may claim this credit.

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

Unable to determine.

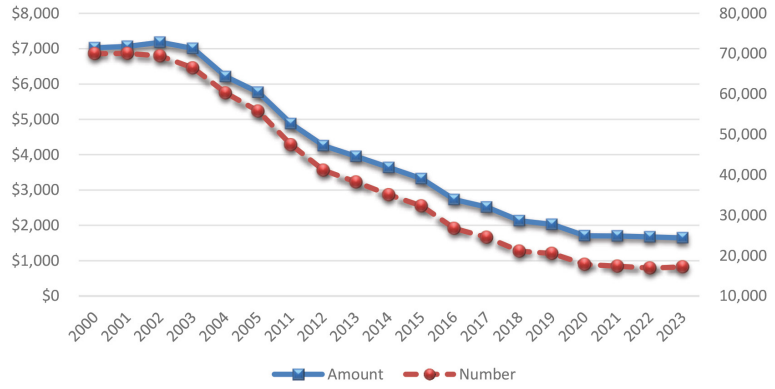
Is the incentive meeting its purpose?

Yes.

As noted by the 1977 Committee on Housing and Hawaiian Homes, the measure “reinforces and advances the State’s commitment to adequate and affordable shelter….” Tax filers with AGI levels low enough to claim this credit can reduce their tax burdens and thereby alleviate the overall cost of living, including the cost of housing, in Hawai‘i.

We note that in its latest Tax Credits Claimed by Hawai‘i Taxpayers report, DOTAX reported a declining trend in both the number of claimants and amounts claimed from 2000 through 2022, publishing the graph pictured below. The credit has remained $50 per qualified exemption claimed since 1981, while inflation – as indicated by the Consumer Price Index for All Urban Consumers used by the U.S. Bureau of Labor Statistics – has risen over 255%. The AGI threshold of $30,000 was last updated in 1989, when per capita income in Hawai‘i was $19,229. Despite fewer filers in 2023, it was the third most commonly claimed tax credit.

Figure 7. The Amount (in $1,000) and Number of Low-Income Household Renters Tax Credit Claims by Year



Source: DOTAX

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

Retain.

The credit appears to be meeting its purpose. As noted above the credit amount was last updated in 1981 and the AGI threshold in 1989.

Refundable Food/Excise Tax Credit
Section 235-55.85, HRS

SECTION 235-55.85, HRS, provides a tax credit to every low-income resident. Originally enacted as the "Low-Income Refundable Tax Credit," it now bears the name of "Refundable Food/ Excise Tax Credit." The main qualification is that a tax filer's adjusted gross income (AGI) be below a fixed threshold. For a single filer, the AGI threshold is $40,000, and the amount of credit varies between $110 and $220 per qualified personal exemption claimed. For every other filer, the threshold is $60,000 and the amount varies between $70 and $220 per qualified exemption. The credit is refundable.

Tax Deduction at a Glance (2023)

Amount claimed	Number of Claims	Tax Expenditure	Cost Per Low-Income Household*	Meeting its Purpose?
$63,957,000	249,806	$63,957,000	$366.88	Yes

* Cost per low-income household is the tax expenditure divided by 174,328 low-income households. (This number, reported by DBEDT from the U.S. Census Bureau's decennial American Community Survey, was last updated in 2020.)

Legislative History

Section 235-55.85, HRS

1998
Act 157, SLH 1998, established the credit as the "low-income refundable tax credit."

2007
Act 211, SLH 2007, renamed the credit from the Low-Income Refundable Tax Credit to the Refundable Food/Excise Tax Credit, increased the credit amount per qualified exemption, raised the eligibility AGI threshold, and clarified that "adjusted gross income" takes on its federal definition.

2015
Act 223, SLH 2015, removed a former requirement that claimants be Hawai'i residents, altered credit amounts such that different filing statuses would result in different credit amounts, and reduced the single filer AGI threshold from $50,000 to $30,000. Act 223 also included a sunset provision, indicating it would be repealed on December 31, 2017.

2017
Act 17, SLH 2017, removed the sunset provision of Act 223, SLH 2015, allowing the credit to continue.

2023
Act 163, SLH 2023, replaced "husband and wife" with "spouses" and doubled the credit amount for all claimants. It also increased the AGI threshold for single filers from $30,000 to $40,000 and, for all other filers, from $50,000 to $60,000.

Incentive Summary

What is the purpose of the incentive?

The general purpose of this credit is to promote social welfare by easing the tax burden upon low-income filers.

What were the numbers of claims and amount claimed?

Year	Number of Claims	Amount Claimed	Tax Expenditure
2024	No Data*	No Data*	No Data*
2023	249,806	$63,957,000**	$63,957,000**
2022	208,786	$24,961,000	$24,961,000
2021	226,416	$26,760,000	$26,760,000
2020	254,262	$29,575,000	$29,575,000
2019	240,158	$28,352,000	$28,352,000
2016* **	254,463	$30,800,000	$30,800,000

* 2023 is the latest year for which DOTAX has posted data

**Amounts in the 2023 DOTAX report are expressed to the nearest $1,000.

***We include data for 2016 to help illustrate how statistics for this credit have changed since the last change to the AGI threshold.

Other Key Qualification Requirements or Limitations

A tax filer claiming the credit must not be claimed as a dependent by another filer and must claim the credit within a year of the close of the tax year to which it relates.

Certain exemptions otherwise allowed under Hawai‘i’s income tax laws do not count toward the number of exemptions used to calculate this credit. Specifically excluded are:

- Any exemption for being 65 or older.
- Any exemption for a person who would otherwise qualify, but was in Hawai‘i for only nine months or less.
- Multiple exemptions for multiple disabilities – meaning only one disability exemption per disabled person.

A minor child receiving support from the Hawai‘i Department of Human Services, Social Security survivor’s benefits, or “the like” may qualify as generating an exemption.

The credit is disallowed for:

- Convicted felons committed to prison and incarcerated for a full tax year;
- Youth committed to correctional facilities and having resided at such facilities for a full tax year; and
- Individuals convicted of misdemeanors and committed to jail and physically confined for a full tax year.

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

There likely is an economic benefit.

249,806 tax filers claimed this credit, resulting in $64,000,000 of refundable tax benefits. While the intent of the credit is to promote social welfare, the additional funds provided to low-income tax filers likely facilitated consumer spending.

Is the incentive meeting its purpose?

Yes.

In 2023, this credit had the highest number of claims among all tax credits.

According to DOTAX, the amount of the credit doubled to a maximum of $220 per qualified exemption in 2023. The AGI threshold also increased for single filers from $30,000 to $40,000 and, for all other filers, from $50,000 to $60,000.

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

Retain.

The credit appears to be meeting its purpose.

Appendix A

Impact on Low-Income Households and Hawai‘i Residents

Section 23-91, HRS, also requires us to estimate the "annual cost of the credit, exclusion or deduction per low-income resident of the State." The statute defines "low-income resident" as a state resident who is (1) the only member of a family of one and has an income of not more than 80 percent of the area median income for a family of one; or (2) part of a family with an income of not more than 80 percent of the area median income for a family of the same size. We received data from the Department of Business, Economic Development, and Tourism (DBEDT) on the number of low-income households. (This number, reported by DBEDT from the U.S. Census Bureau's decennial American Community Survey, was last updated in 2020. We believe this to be the best and most accurate data available for this purpose.) We provide the cost per low-income household in the table below.

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

Cost of Tax Provisions Per Resident and Per Low-Income Household

HRS Section	Subject Matter Covered	Tax Expenditure Per Auditor	Cost Per Hawai‘i Resident	Cost Per DBEDT "Low-Income Household"
Section 235-15, HRS	Child Passenger Restraint System Credit	$53,000	$0.03	$0.30
Section 235-55.6, HRS	Household and Dependent Care Credit	$14,820,000	$10.29	$85.00
Section 235-55.7, HRS	Low-income Renter Credit	$1,645,000	$1.14	$9.44
Section 235-55.85, HRS	Refundable Food/Excise Tax Credit	$63,957,000	$44.40	$366.88

Note: All table values stem from 2023 data, as that is the last year with respect to which data is available.

Source: Office of the Auditor

Appendix B

Schedule of Tax Statutes for Review

Sections 23-71 through 23-81, HRS
Sections 23-91 through 23-96, HRS

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

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

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

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

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

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

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