
A BILL FOR AN ACT

RELATING TO TAX EXPENDITURE EVALUATION.

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

1 SECTION 1. The legislature finds that certain tax
2 expenditures should be evaluated annually to determine whether
3 they are efficiently fulfilling their intended purpose.

4 Once enacted, these provisions often remain in place for
5 years with limited reassessment. Periodic review and evaluation
6 of tax expenditures is essential to ensure they remain
7 effective, fair, and aligned with evolving public priorities.
8 Regular evaluation strengthens accountability, supports sound
9 budget decisions, ensures equitable competition, and ultimately
10 maximizes benefits for taxpayers.

11 The legislature further finds that income tax credits and
12 general excise and use tax exemptions represent a form of public
13 spending, even though they appear as reduced revenue rather than
14 direct expenditures. Without systematic evaluation,
15 policymakers and the public may lack clear insight, or even hard
16 data, that can show how public resources are being used and
17 whether anticipated outcomes are being achieved.



1 Especially in this uncertain economic climate, there is
2 constant pressure to allocate limited resources among competing
3 needs, such as education, health care, infrastructure, and
4 public safety. Tax expenditures that were justified under past
5 economic or social conditions may no longer reflect current
6 priorities. Reviewing these provisions allows lawmakers to
7 determine whether funds tied up in tax incentives could be
8 better directed elsewhere or whether successful programs merit
9 continued or expanded support. Periodic evaluation helps to
10 align tax incentives with current budget priorities.

11 The legislature believes that effective tax policy should
12 be guided by data, rather than assumptions. Periodic reviews
13 allow for the measurement of outcomes, such as job creation,
14 economic growth, investment levels, or targeted social benefits,
15 relative to the cost of the incentive. When returns are clearly
16 defined and measured, policymakers can distinguish between
17 programs that deliver strong value and those that fall short.

18 The legislature recognizes that regular review can
19 determine if initial objectives have been achieved. Some tax
20 expenditures are enacted with specific goals, such as
21 encouraging renewable energy development, revitalizing



1 distressed communities, or supporting research and development.
2 Over time, circumstances may change or goals may be met.
3 Periodic review can provide the data that can point to whether a
4 credit or exemption should be continued, modified, phased out,
5 or replaced with a more effective approach. A tax expenditure
6 that made sense decades ago may no longer be relevant or
7 efficient today. Periodic evaluation makes sense to ensure that
8 tax policy adapts to changing realities and that necessary
9 adjustments are made to maintain effectiveness and fairness.

10 Most importantly, regular review provides better data for
11 long-term oversight. Collecting and analyzing consistent
12 information on tax expenditures improves legislative oversight
13 and policy design. High-quality data enables evidence-based
14 decision-making, reduces reliance on anecdotal claims, and
15 strengthens the overall integrity of the tax system.

16 The legislature also recognizes that one possible benefit
17 of regular review is ensuring equitable competition among key
18 industry sectors. Long-standing tax expenditures can
19 unintentionally favor certain industries or firms, creating
20 market distortions and competitive imbalances. Periodic review
21 helps determine whether incentives continue to serve a



1 legitimate public purpose or whether they provide unfair
2 advantages that hinder innovation and competition. A level
3 playing field encourages efficiency and economic resilience
4 across sectors.

5 Additionally, from the taxpayer's perspective, periodic
6 evaluation helps identify tangible benefits. Taxpayers deserve
7 assurance that foregone revenue translates into public value,
8 such as economic opportunity, improved services, or long-term
9 fiscal stability.

10 The legislature notes that the periodic review and
11 evaluation of tax expenditures is not merely a best practice,
12 but a necessity for responsible fiscal management. By promoting
13 accountability, aligning incentives with budget priorities,
14 measuring returns, ensuring fair competition, and adapting to
15 change, government can ensure that tax policies serve their
16 intended purpose and deliver meaningful value to taxpayers.
17 Regular evaluation strengthens public trust and helps build a
18 more effective, equitable, and sustainable tax system. Periodic
19 evaluations can clarify whether tax incentives truly benefit the
20 broader public or primarily serve narrow interests.



1 Accordingly, the purpose of this Act is to facilitate tax
2 reviews and the State's evaluation of tax policies by requiring
3 the department of business, economic development, and tourism to
4 study the effectiveness of tax expenditures, prepare summary
5 descriptive statistics, and submit annual reports to the
6 legislature.

7 SECTION 2. Chapter 201, Hawaii Revised Statutes, is
8 amended by adding a new section to part I to be appropriately
9 designated and to read as follows:

10 "§201- Evaluation of tax expenditures. (a) The
11 department, in collaboration with the department of taxation,
12 shall study the effectiveness of tax expenditures and prepare
13 summary descriptive statistics. The department shall submit a
14 report on the information required under this section to the
15 legislature by September 1 of each year.

16 (b) The department, in collaboration with the department
17 of taxation, shall develop the appropriate schedules and tax
18 return forms to collect adequate information for the evaluation
19 of tax expenditures."

20 SECTION 3. Section 235-116, Hawaii Revised Statutes, is
21 amended to read as follows:



1 **"§235-116 Disclosure of returns unlawful; penalty.** All
2 tax returns and return information required to be filed under
3 this chapter shall be confidential, including any copy of any
4 portion of a federal return that may be attached to a state tax
5 return, or any information reflected in the copy of the federal
6 return. It shall be unlawful for any person, or any officer or
7 employee of the State, including the auditor or the auditor's
8 agent with regard to tax return information obtained pursuant to
9 section 23-5(a), to make known intentionally information
10 imparted by any income tax return or estimate made under
11 sections 235-92, 235-94, 235-95, and 235-97 or wilfully to
12 permit any income tax return or estimate so made or copy thereof
13 to be seen or examined by any person other than [~~the~~]:

14 (1) The taxpayer or the taxpayer's authorized agent[~~r~~
15 persons];

16 (2) Persons duly authorized by the State in connection
17 with their official duties, [~~the~~] including staff of
18 the department of business, economic development, and
19 tourism conducting an evaluation of tax expenditures
20 pursuant to section 201- ; or



1 (3) The Multistate Tax Commission or the authorized
2 representative thereof,
3 except as otherwise provided by law. Any offense against the
4 foregoing provisions shall be punishable as a class C felony."

5 SECTION 4. Section 237-34, Hawaii Revised Statutes, is
6 amended by amending subsection (b) to read as follows:

7 "(b) All tax returns and return information required to be
8 filed under this chapter, and the report of any investigation of
9 the return or of the subject matter of the return, shall be
10 confidential. It shall be unlawful for any person or any
11 officer or employee of the State, including the auditor or the
12 auditor's agent with regard to tax return information obtained
13 pursuant to section 23-5(a), to intentionally make known
14 information imparted by any tax return or return information
15 filed pursuant to this chapter, or any report of any
16 investigation of the return or of the subject matter of the
17 return, or to wilfully permit any return, return information, or
18 report so made, or any copy thereof, to be seen or examined by
19 any person; provided that for tax purposes only, the taxpayer,
20 the taxpayer's authorized agent, or persons with a material
21 interest in the return, return information, or report may



1 examine them. Unless otherwise provided by law, persons with a
2 material interest in the return, return information, or report
3 shall include:

- 4 (1) Trustees;
- 5 (2) Partners;
- 6 (3) Persons named in a board resolution or a one per cent
7 shareholder in the case of a corporate return;
- 8 (4) The person authorized to act for a corporation in
9 dissolution;
- 10 (5) The shareholder of an S corporation;
- 11 (6) The personal representative, trustee, heir, or
12 beneficiary of an estate or trust in the case of the
13 estate's or decedent's return;
- 14 (7) The committee, trustee, or guardian of any person in
15 paragraphs (1) through (6) who is incompetent;
- 16 (8) The trustee in bankruptcy or receiver, and the
17 attorney-in-fact of any person in paragraphs (1)
18 through (7);
- 19 (9) Persons duly authorized by the State in connection
20 with their official duties[+], including staff of the
21 department of business, economic development, and



1 tourism conducting an evaluation of tax expenditures
2 pursuant to section 201- ;

3 (10) Any duly accredited tax official of the United States
4 or of any state or territory;

5 (11) The Multistate Tax Commission or its authorized
6 representative;

7 (12) Members of a limited liability company; and

8 (13) A person contractually obligated to pay the taxes
9 assessed against another when the latter person is
10 under audit by the department.

11 Any violation of this subsection shall be a class C
12 felony."

13 SECTION 5. Statutory material to be repealed is bracketed
14 and stricken. New statutory material is underscored.

15 SECTION 6. This Act shall take effect on July 1, 3050, and
16 shall apply to taxable years beginning after December 31, 2026.



Report Title:

DBEDT; Department of Taxation; Taxation; Tax Expenditure Disclosure and Evaluation; Income Tax Credits; General Excise and Related Use Tax Exemptions

Description:

Requires the Department of Business, Economic Development, and Tourism to study the effectiveness of tax expenditures and prepare summary descriptive statistics. Requires annual reports. Authorizes Department of Business, Economic Development, and Tourism staff to access certain information on tax returns for the purpose of studying the effectiveness of tax expenditures. Applies to taxable years beginning after 12/31/2026. Effective 7/1/3050. (SD2)

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