
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 certain taxpayers to make disclosures in return for their income
4 tax credits or general excise and use tax exemptions.

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

8 "§201- Evaluation of tax expenditures. The department,
9 in collaboration with the department of taxation, shall use the
10 information reported in the statements filed pursuant to
11 sections 235- , 237- , and 238- to study the
12 effectiveness of the tax expenditures and to prepare summary
13 descriptive statistics. The department shall submit a report on
14 the information required under this section to the legislature
15 by September 1 of each year."

16 SECTION 3. Chapter 235, Hawaii Revised Statutes, is
17 amended by adding a new section to be appropriately designated
18 and to read as follows:

19 "§235- Statement as condition to claiming income tax
20 credits. (a) As a condition to claiming an income tax credit
21 under this chapter, a taxpayer shall file a statement with the



1 department of business, economic development, and tourism,
2 providing the following information:

3 (1) The taxpayer's name;

4 (2) The name of the credit being claimed;

5 (3) The amount of credit being claimed for the taxable
6 year; and

7 (4) The total cost of the tax credit to the State for the
8 taxable year.

9 (b) The statement shall be filed on or before the date the
10 credit is claimed on the taxpayer's income tax return. Failure
11 to timely file the statement shall constitute a waiver of the
12 right to claim the credit.

13 (c) Notwithstanding any other law to the contrary, the
14 statement filed by the taxpayer shall be available for public
15 inspection and dissemination, subject to chapter 92F.

16 (d) This section shall not apply to a credit claimed under
17 section 235-15 or under part III of this chapter."

18 SECTION 4. Chapter 237, Hawaii Revised Statutes, is
19 amended by adding a new section to be appropriately designated
20 and to read as follows:



1 "§237- Statement as condition to claiming exemption.

2 (a) As a condition to claiming an exemption under this chapter,
3 a taxpayer shall file a statement with the department of
4 business, economic development and tourism, providing the
5 following information:

6 (1) The taxpayer's name;

7 (2) The taxpayer's general excise tax license number;

8 (3) The name of the exemption being claimed;

9 (4) The amount of the exemption claimed for the taxable
10 year; and

11 (5) The total cost of the exemption to the State for the
12 taxable year.

13 (b) The statement shall be filed on or before the
14 twentieth day of the fourth month following the close of the
15 taxable year. Failure to timely file the statement shall
16 constitute a waiver of the right to claim the exemption.

17 (c) Notwithstanding any other law to the contrary, the
18 statement filed by the taxpayer shall be available for public
19 inspection and dissemination, subject to chapter 92F."



1 SECTION 5. Chapter 238, Hawaii Revised Statutes, is
2 amended by adding a new section to be appropriately designated
3 and to read as follows:

4 "§238- Statement as condition to claiming exemption.

5 (a) As a condition to claiming an exemption under this chapter,
6 a taxpayer shall file a statement with the department of
7 business, economic development and tourism, providing the
8 following information:

9 (1) The taxpayer's name;

10 (2) The taxpayer's general excise tax license number;

11 (3) The name of the exemption being claimed;

12 (4) The amount of the exemption claimed for the taxable
13 year; and

14 (5) The total cost of the exemption to the State for the
15 taxable year.

16 (b) The statement shall be filed on or before the
17 twentieth day of the fourth month following the close of the
18 taxable year. Failure to timely file the statement shall
19 constitute a waiver of the right to claim the exemption.



1 (c) Notwithstanding any other law to the contrary, the
2 statement filed by the taxpayer shall be available for public
3 inspection and dissemination, subject to chapter 92F."

4 SECTION 6. New statutory material is underscored.

5 SECTION 7. This Act shall take effect on July 1, 3000, and
6 shall apply to taxable years beginning after December 31, 2026.



Report Title:

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

Description:

Requires tax expenditure disclosure statements to, and evaluation by, the Department of Business, Economic Development, and Tourism for certain income tax credits and general excise and use tax exemptions. Applies to tax years beginning after 12/31/2026. Effective 7/1/3000. (HD2)

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