
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 tax returns for their
4 income 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. (a) The
9 department, in collaboration with the department of taxation,
10 shall use the information reported in the statements filed
11 pursuant to 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 (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 to be filed with the department of taxation
20 pursuant to sections 235- , 237- , and 238- .



1 (c) The department of taxation shall share the tax
2 expenditure disclosure forms filed pursuant to sections 235- ,
3 237- , and 238- with the department upon request.

4 (d) Notwithstanding any other law to the contrary, as a
5 condition to claiming a tax credit under chapter 235 or tax
6 exemption under chapter 237 or 238, except a tax credit claimed
7 under section 235-15 or under part III of chapter 235, the
8 department of taxation may require taxpayers to authorize the
9 disclosure of additional tax expenditure information requested
10 by the department for the purpose of evaluating the
11 effectiveness of tax expenditures to be filed with the
12 department of taxation pursuant to sections 235- , 237- ,
13 and 238- ; provided that the department of taxation shall not
14 require the disclosure of any tax records or information
15 prohibited from disclosure under federal law."

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 with the department of



- 1 taxation a form prescribed by the director of taxation which
2 shall include but not be limited to the following information:
- 3 (1) The taxpayer's name;
 - 4 (2) The name of the tax credit being claimed;
 - 5 (3) The amount of tax credit being claimed for the taxable
6 year;
 - 7 (4) The total cost of the tax credit to the State for the
8 taxable year;
 - 9 (5) The type of claimant;
 - 10 (6) The location of use of the tax credit;
 - 11 (7) The annual revenue impact of the tax credit;
 - 12 (8) The number of jobs created by the tax credit;
 - 13 (9) The amount of any additional capital investments
14 created by the use of the tax credit; and
 - 15 (10) Any additional information regarding the tax credit
16 requested by the director of taxation.
- 17 (b) The form shall be filed on or before the date the
18 credit is claimed on the taxpayer's income tax return. Failure
19 to timely file the form shall constitute a waiver of the right
20 to claim the credit.



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

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

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

9 **"§237- Statement as condition to claiming exemption.**

10 (a) As a condition to claiming a tax exemption under this
11 chapter, a taxpayer shall file with the department of taxation a
12 form prescribed by the director of taxation which shall include
13 but not be limited to the following information:

14 (1) The taxpayer's name;

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

16 (3) The name of the tax exemption being claimed;

17 (4) The amount of the tax exemption claimed for the
18 taxable year;

19 (5) The total cost of the tax exemption to the State for
20 the taxable year; and



1 (6) Any additional information regarding the tax exemption
2 requested by the director of taxation.

3 (b) The form shall be filed on or before the twentieth day
4 of the fourth month following the close of the taxable year.
5 Failure to timely file the form shall constitute a waiver of the
6 right to claim the exemption.

7 (c) Notwithstanding any other law to the contrary, the
8 form filed by the taxpayer shall be available for public
9 inspection and dissemination, subject to chapter 92F."

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

13 "§238- Statement as condition to claiming exemption.

14 (a) As a condition to claiming a tax exemption under this
15 chapter, a taxpayer shall file with the department of taxation a
16 form prescribed by the director of taxation which shall include
17 but not be limited to the following information:

- 18 (1) The taxpayer's name;
- 19 (2) The taxpayer's general excise tax license number;
- 20 (3) The name of the tax exemption being claimed;



- 1 (4) The amount of the tax exemption claimed for the
- 2 taxable year;
- 3 (5) The total cost of the tax exemption to the State for
- 4 the taxable year; and
- 5 (6) Any additional information regarding the tax exemption
- 6 requested by the director of taxation.

7 (b) The form shall be filed on or before the twentieth day
8 of the fourth month following the close of the taxable year.
9 Failure to timely file the form shall constitute a waiver of the
10 right to claim the exemption.

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

14 SECTION 6. New statutory material is underscored.

15 SECTION 7. This Act shall take effect on July 1, 3050, and
16 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 the filing of tax expenditure disclosure forms to the Department of Taxation to be used by the Department of Business, Economic Development, and Tourism for evaluation as a condition for claiming certain income tax credits and general excise and use tax exemptions. Applies to tax years beginning after 12/31/2026. Effective 7/1/3050. (SD1)

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

