THE SENATE
THIRTY-THIRD LEGISLATURE, 2026
STATE OF HAWAII

S.B. NO. 3278

JAN 30 2026

A BILL FOR AN ACT

RELATING TO TAX EXPENDITURE EVALUATION.

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

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

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

Income tax credits and general excise and use tax exemptions represent a form of public spending, even though they appear as reduced revenue rather than direct expenditures. Without systematic evaluation, policymakers and the public may lack clear insight, or even hard data, that can show how public resources are being used and whether anticipated outcomes are being achieved.

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

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

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

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

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

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

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

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

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

Accordingly, the purpose of this Act is to facilitate tax reviews and the State's evaluation of tax policies by requiring certain taxpayers to make disclosures in return for their income tax credits or general excise and use tax exemptions.

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

"**§201- Evaluation of tax expenditures.** (a) As a condition to claiming the credit, each taxpayer claiming an income tax credit under chapter 235, other than a tax credit claimed under section 235-15 or under part III of chapter 235, for a period of five tax years following the initial claiming of the credit, shall provide to the department annually on the due date, including extensions, of the taxpayer's income tax return the taxpayer's name and the total cost of the tax credit to the State during the taxable year.

(b) As a condition to claiming the exemption, each taxpayer claiming a general excise tax exemption under chapter 237 and any related use tax exemption under chapter 238, shall provide to the department annually on the due date, including extensions, of the taxpayer's general excise and use

tax return the taxpayer's name, general excise tax license number, the amount exempted, and the total cost of the exemption to the State for the taxable year.

(c) The department, in collaboration with the department of taxation, shall use the information collected to study the effectiveness of the tax expenditures under this section and to prepare summary descriptive statistics. The department shall report the information required under this subsection to the legislature by September 1 of each year.

(d) Notwithstanding any other law to the contrary, the information collected and compiled by the department under this section shall be available for public inspection and dissemination, subject to chapter 92F.

(e) The director of business, economic development, and tourism and the director of taxation shall adopt rules pursuant to chapter 91 and prepare any forms necessary to carry out this section."

SECTION 3. Chapter 231, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"§231- **Department of business, economic development, and tourism; access to tax records or other information for the evaluation of tax expenditures.** Notwithstanding any other law to the contrary, the department shall provide to the department of business, economic development, and tourism any tax records and other information maintained by the department that are requested by the department of business, economic development, and tourism pursuant to section 201- . The information provided by the department to the department of business, economic development, and tourism under this section shall be available for public inspection and dissemination, subject to chapter 92F."

SECTION 4. New statutory material is underscored.

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

INTRODUCED BY: _____

S.B. NO. 3278

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 to, and evaluation by, the Department of Business, Economic Development, and Tourism for certain income tax credits and general excise and use tax exemptions.

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