
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 Income tax credits and general excise and use tax
12 exemptions represent a form of public spending, even though they
13 appear as reduced revenue rather than direct expenditures.
14 Without systematic evaluation, policymakers and the public may
15 lack clear insight, or even hard data, that can show how public
16 resources are being used and whether anticipated outcomes are
17 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) As a
9 condition to claiming the credit, each taxpayer claiming an
10 income tax credit under chapter 235, other than a tax credit
11 claimed under section 235-15 or under part III of chapter 235,
12 for a period of five tax years following the initial claiming of
13 the credit, shall provide to the department annually on the due
14 date, including extensions, of the taxpayer's income tax return
15 the taxpayer's name and the total cost of the tax credit to the
16 State during the taxable year.

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



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

4 (c) The department may request in writing that the
5 department of taxation provide the department with any tax
6 records and other information maintained by the department of
7 taxation that is material and directly relevant to preparation
8 of the report required pursuant to subsection (d).

9 (d) The department, in collaboration with the department
10 of taxation, shall use the information collected pursuant to
11 this section to study the effectiveness of the tax expenditures
12 evaluated under this section and to prepare summary descriptive
13 statistics. The department shall report the information
14 required under this subsection to the legislature no later than
15 September 1 of each year.

16 (e) Notwithstanding any other law to the contrary, the
17 information collected and compiled by the department under this
18 section shall be available for public inspection and
19 dissemination, subject to chapter 92F; provided that this
20 requirement shall not apply to any information provided and



1 marked confidential by the department of taxation pursuant to
2 section 231- .

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

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

10 **"§231- Department of business, economic development, and**
11 **tourism; access to tax records or other information for the**
12 **evaluation of tax expenditures. Notwithstanding any other law**
13 **to the contrary, the department shall provide to the department**
14 **of business, economic development, and tourism any tax records**
15 **and other information maintained by the department that are**
16 **material and directly relevant to preparation of the report**
17 **required pursuant to section 201- (d) upon written request from**
18 **the department of business, economic development, and tourism;**
19 **provided that the department shall not provide any tax records**
20 **or information prohibited from disclosure under federal law.**
21 **Any information provided to the department of business, economic**



1 development, and tourism marked confidential by the department
2 shall be kept confidential by the department of business,
3 economic development, and tourism."

4 SECTION 4. New statutory material is underscored.

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

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S.B. NO. 3278
S.D. 1

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. Requires the Department of Taxation to share certain information with DBEDT upon request. (SD1)

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