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**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

S.B. No. 2746, Relating to Taxation

**BEFORE THE:**

Senate Committee on Economic Development and Tourism

**DATE:** Tuesday, February 17, 2026

**TIME:** 1:11 p.m.

**LOCATION:** State Capitol, Room 229

Chair DeCoite, Vice-Chair Wakai, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding S.B. 2746 for your consideration.

S.B. 2746 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), establishing a new, nonrefundable tax credit for individual, qualified taxpayers, who incur medically related travel expenses required to obtain medically necessary care for a dependent or themselves, that is not reasonably available within their county or the State.

The taxpayer cannot be eligible to be claimed by another taxpayer as a dependent on a federal or state income tax return, and the credit must be claimed within twelve months after the close of the taxable year in which the travel expenses were incurred, or the right to claim the credit will be waived. Excess credit may be carried forward until exhausted.

For taxpayers whose household income is less than 300% of the area median income (AMI), the credit equals 100% of qualified medical travel expenses, but is capped at \$2,500 for single filers, \$3,750 for head of household filers, and \$5,000 for

joint or surviving spouse filers.

For taxpayers whose household income is between 300% to 500% of AMI, the credit amount equals 50% of qualified expenses, subject to the same dollar caps based on filing status as noted in the prior paragraph.

No credit is allowed for taxpayers whose household income is above 500% of the AMI.

The Department of Business, Economic Development and Tourism (DBEDT) is responsible for certifying the credit. Taxpayers must submit to DBEDT a licensed health care provider's certificate of medical necessity, a written, certified statement of qualified expenses incurred in the prior year, and any other supporting documentation required by DBEDT, who will issue a certificate of qualifying expenses to the taxpayer which the taxpayer is required to file with their tax return.

Definitions are provided for "caregiver," "dependent," "medical care," "medically required incidentals," "patient," "qualified expenses," and "qualified taxpayer."

DOTAX and DBEDT are to provide an annual report to the legislature summarizing the number of credits claimed broken down by demographic data; the aggregate amount of expenses claimed, aggregate credit amounts allowed, and the average credit per claimant; the fiscal impact to the State and "measurable effects" on patient care access; and recommendations for program changes.

The bill takes effect upon approval, with the tax credit applicable for taxable years beginning after December 31, 2025. The measure will be repealed on January 1, 2031.

First, DOTAX defers to DBEDT regarding certification of the credit and the ability to administer the AMI thresholds.

Second, DOTAX recommends that the bill provision regarding carry-forward of excess credit until exhausted be amended to limit the carry-forward to a maximum of five years, as credits claimed further away from the year actually incurred are difficult to track and administer.

Third, to prevent taxpayers from receiving a double tax benefit by claiming the credit and claiming a deduction for travel expenses incurred for medical care, as allowed under section 235-2.3, HRS, and section 213 of the IRC, DOTAX suggests adding a new subsection that reads as follows:

No other tax credit or deduction shall be claimed under this chapter for travel expenses incurred for

medical care for the taxable year.

Fourth, DOTAX also recommends adding definitions to clarify the basis for how “household income” will be determined and the source of and timing for application of the AMI.

Fifth, DOTAX notes that determining the “measurable effects” on patient care access for the annual report may be challenging because this metric is not easily quantifiable. It also recommends that the bill specify the deadline for submitting the annual report.

Finally, DOTAX recommends an amendment to make the bill effective for “costs incurred after December 31, 2026,” rather than the current “taxable years beginning after. . .” This effective date will provide sufficient time to make the necessary form, instruction, and computer system changes, and provide taxpayers information about this new credit.

Thank you for the opportunity to provide comments on this measure.

# TAX FOUNDATION OF HAWAII

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SUBJECT: INCOME, Tax Credit for Medically Related Travel Expenses

BILL NUMBER: SB 2746

INTRODUCED BY: RICHARDS, LAMOSAO, MCKELVEY, RHOADS, SAN BUENAVENTURA

EXECUTIVE SUMMARY: Establishes an income tax credit for medically related travel expenses not covered by insurance. Sunsets 1/1/2031.

SYNOPSIS: Amends section 235, to add a non-refundable income tax credit for travel expenses incurred by a Hawaii resident, not eligible to be claimed by another as a dependent, and not covered by insurance.

The amount of the credit shall be equal to:

For a taxpayer whose household income does not exceed 300% of the area median income, 100% of the qualified expenses incurred during the taxable year, up to a maximum of \$2,500 (single), \$3,750 (head of household), \$5,000 (joint),

For a taxpayer whose household income is more than 300% but does not exceed 500% of the area median income, 50% of the qualified expenses incurred during the taxable year, up to a maximum of \$2,500 (single), \$3,750 (head of household), \$5,000 (joint),

For a taxpayer whose household income exceeds, 500% of the area median income, \$0.

Every qualified taxpayer, before March 31 of each year in which qualified expenses were incurred in the previous taxable year, shall submit to the department of business, economic development, and tourism (DBEDT) information required to verify the qualified expenses and certify the amount of tax credit. DBEDT shall issue a certificate to the taxpayer to file with the taxpayer's tax return.

DBEDT may assess and collect a fee to offset the costs of certifying tax credit claims.

Tax credits in excess of income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

All claims for the tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91.

Definitions provided include:

"Qualified expenses" means travel expenses not covered by insurance incurred by a patient and one accompanying caregiver to obtain medical care, including: airfare; lodging; ground transportation; medically required incidentals; and parking fees incurred at or near the treatment location.

"Qualified taxpayer" means a taxpayer who incurred qualified expenses during the taxable year for which the credit is claimed; provided that:

(1) the taxpayer or the taxpayer's dependent has received certification of medical necessity from a physician, physician assistant, or advanced practice registered nurse licensed to practice in the State, acting within the scope of their practice, which states that the patient's travel is required because treatment is not reasonably available in the State or the patient's county of residence and could not reasonably be delayed without risk to the patient's health;

(2) the patient's travel and treatment occurred during the taxable year for which the credit is claimed; and

(3) the income of the taxpayer's household does not exceed five hundred per cent of the area median income.

DBEDT, in consultation with the department of taxation, shall prepare annual reports to the legislature with enumerated statistics on the tax credit.

EFFECTIVE DATE: Taxable years beginning after December 31, 2025; repealed on January 1, 2031.

STAFF COMMENTS: This measure provides a tax subsidy to targeted resident taxpayers for medical travel expenses to ensure equitable access to healthcare. While a tax credit may reduce the financial burdens of accessing medical services, lawmakers need to keep in mind two things.

First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount.

The second point to remember about tax credits is that they are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when we need money to support social service programs or our state hospitals ?

In any event, a direct appropriation of a grant or subsidy program would be more accountable and transparent.

Furthermore, the Tax Credit would entail resources to implement, rules to administer the allowance and monitoring of the Credit, implement changes to tax forms and instructions, reprogramming, staff training, and other costs of both the department of taxation and DBEDT that could be massive in amount. A direct appropriation may be a far less costly method to accomplish the same thing.

We recommend that language be inserted to clarify the event triggering availability of the credit, and the start of the period during which credit claims must be filed. Is the credit to be claimed on the tax return upon certification by DBEDT or when the taxpayer incurred costs giving rise to the credit claim? This is because a credit claim cannot be filed prior to certification, and there may be a substantial time lag from costs incurred to certification.

Digested: 2/15/2026