
Auditor's Summary

Review of Income and Financial Institutions Tax Provisions Pursuant to Section 23-93, Hawai'i Revised Statutes

Report No. 22-07



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THIS REPORT ASSESSES two tax credits, two exclusions, and one deduction from taxation under Hawai'i's Income Tax and Financial Institutions Tax. Section 23-91 et seq., Hawai'i Revised Statutes, requires the Auditor to review tax provisions on a five-year recurring cycle.

More specifically, this report reviews the following tax provisions:

- Credit for capital goods used by a trade or business, sections 235-110.7 and 241-4.5, HRS;
- Credit for research activity, section 235-110.91, HRS;
- Exclusion of royalties and other income derived from a patent, copyright, or trade secret of a Qualified High Technology Business, section 235-7.3, HRS;
- Exclusion of income and proceeds from stock options or stocks of a Qualified High Technology Business or a holding company for a Qualified High Technology Business, section 235-9.5, HRS; and
- Deduction for adjusted eligible net income of an international banking facility, section 241-3.5, HRS.

Under section 23-93, HRS, this report also was to include reviews of sections 235-17.5, HRS, and 241-4.4, HRS, which are tax credits for capital

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infrastructure costs; and section 235-110.3, HRS, an ethanol facility tax credit. However, these credits have since been repealed; for that reason, we did not review these credits.

As we note in the report, it was difficult to determine the purposes of the tax provisions reviewed and what outcomes the Legislature intended the tax provisions to achieve without any clear indication from the statute, the bills that created the provisions, or the laws' legislative histories. Therefore, we were unable to determine whether the two tax credits, two exclusions, and the deduction were achieving their purposes, primarily due to a lack of reliable data, articulated benchmarks, or other measurables. We recommend the Legislature clearly articulate the purpose of each tax provision and establish specific metrics to measure the provision's effectiveness, which will permit a more thorough and meaningful analysis when we review these provisions in the future.

We further recommend that other state agencies be tasked with performing cost-benefit analyses of the credit for capital goods used by a trade or business (Section 235-110.91, HRS) and the credit for research activity (Sections 235-110.7 and 241-4.5, HRS). While independent, objective, and well-suited to conduct performance audits and studies on the effectiveness of agency operations, we do not have ready access to the specialized economic data and resources necessary to conduct a thorough cost-benefit analysis of these and other tax credits.