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# Auditor's Summary

## Review of Income Tax Provisions Pursuant to Section 23-94, Hawai'i Revised Statutes

Report No. 23-15



ILLUSTRATION: ISTOCK.COM

**THIS REPORT ASSESSES** eight credits and two exclusions allowable under Hawai'i's Income Tax laws. Section 23-91 et seq., Hawai'i Revised Statutes (HRS), requires the Auditor to review income tax provisions annually, on a five-year recurring cycle.

Specifically, this report reviews the following tax provisions:

- Exclusion of intangible income of trusts with nonresident beneficiaries, Section 235-4.5(a), HRS;
- Exclusion of intangible income of foreign corporations owned by such trusts, Section 235-4.5(b), HRS;
- Credit for taxes paid to another jurisdiction by trusts, Section 235-4.5(c), HRS;
- Credit for taxes paid to another jurisdiction by S corporations, Section 235-129(a), HRS;
- Credit to S corporation shareholders for credits earned by S corporations, Section 235-129(b), HRS;
- Credit for taxes paid to another jurisdiction by individuals, Section 235-55, HRS;
- Credit to shareholders for taxes on undistributed capital gains of regulated investment companies, Section 235-71(c), HRS;

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**This review informs the public and policymakers of the purposes, costs, and benefits of ten Hawai'i income tax incentives, and includes recommendations to address issues arising from the incentives and their usage.**

- Credit for commercial fisher fuel taxes, Section 235-110.6, HRS;
- Credit for costs of maintaining Important Agricultural Lands, Section 235-110.93, HRS; and
- Credit for qualified businesses in Enterprise Zones, Section 209E-10, HRS.

We determined that six provisions accomplish their purposes and one does not, but were unable to determine whether three other provisions achieved the primary purposes for which they were adopted. The inability to draw conclusions with respect to those three provisions stemmed primarily from a lack of data regarding their utilization. Determining whether purposes have been met was also frustrated by a lack of claim tracking or statutorily identified benchmarks or metrics. With respect to some provisions, it was difficult to determine what outcomes the Legislature intended to achieve, as there is no clear indication from underlying bills or their legislative histories.

We recommend that other state agencies be tasked with performing cost-benefit analyses of the commercial fisher fuel tax credit (Section 235-110.6, HRS) and the Enterprise Zone credit (Section 209E-10, 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 other resources necessary to conduct a thorough cost-benefit analysis of either credit.



Link to the complete report:

**Review of Income Tax Provisions Pursuant to Section 23-94,  
Hawai'i Revised Statutes**

<https://files.hawaii.gov/auditor/Reports/2023/23-15.pdf>