

TAX REVIEW COMMISSION 2025-2027

Third Meeting

March 17, 2026

Tax Credits

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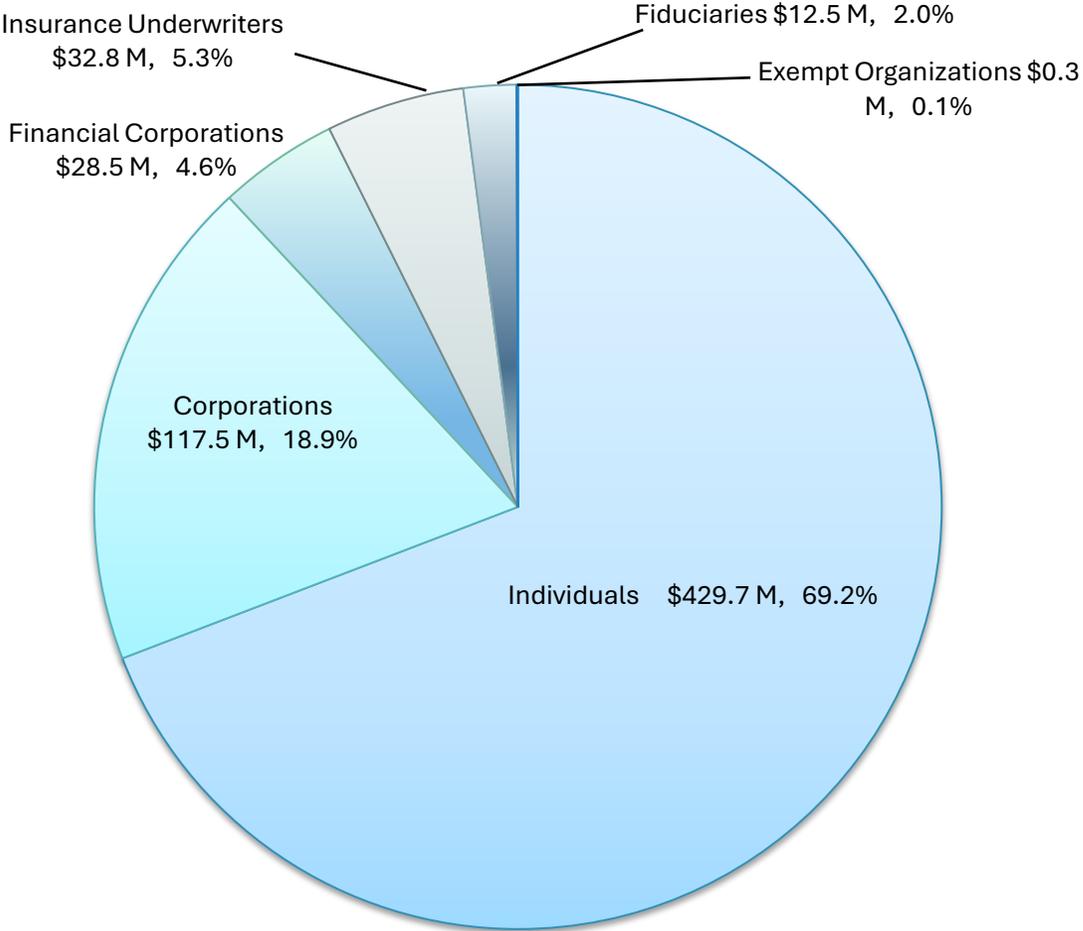


Background Information on Tax Credits

- **Tax credits reduce taxpayer's tax liability** including Hawai'i's individual and business income taxes, the tax on insurance premiums, or the tax on public utilities.
- **Tax credits subtracted directly from the tax liability, so they reduce the amount of taxes dollar-for-dollar:** More valuable than ordinary deductions which only reduce taxable income.



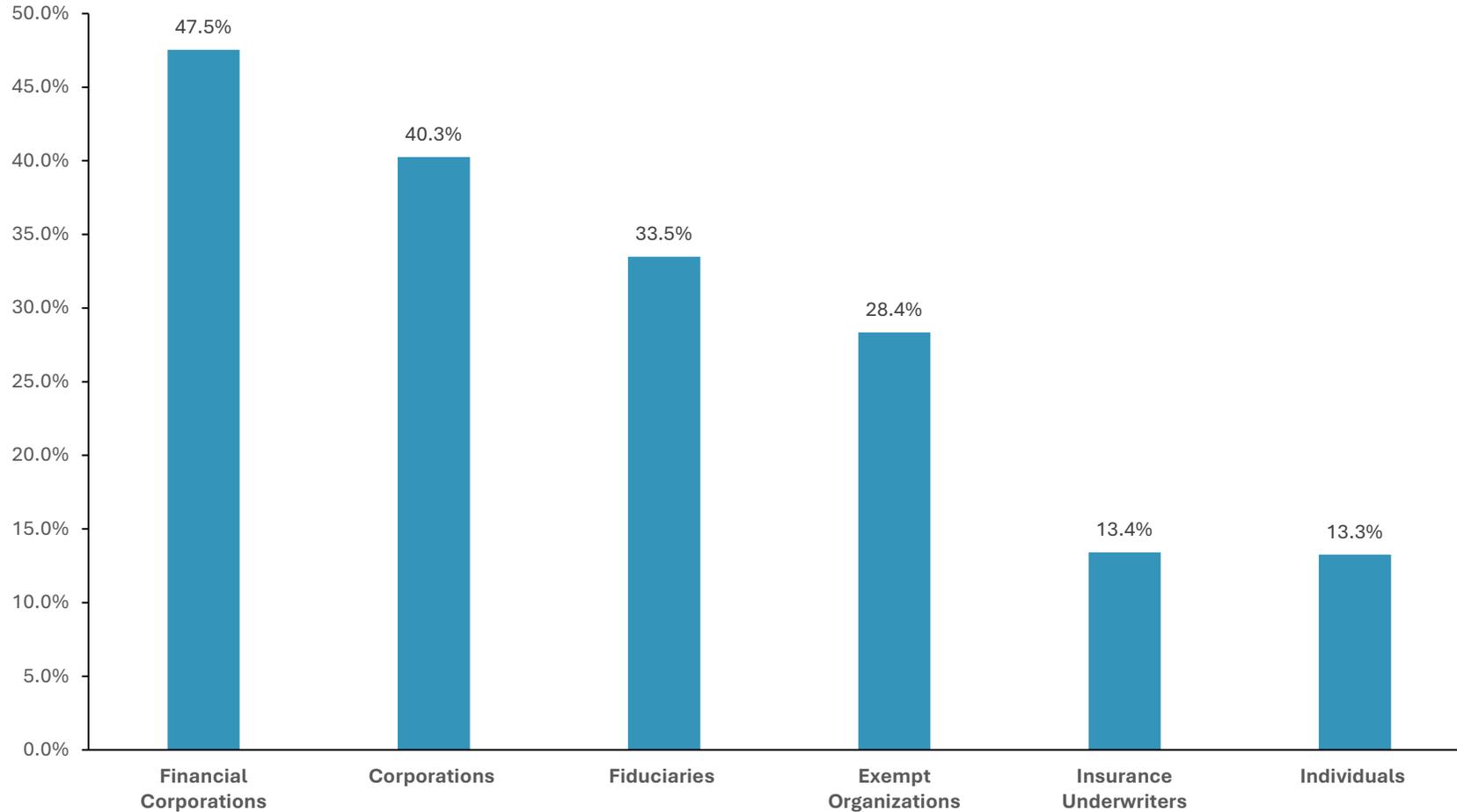
Figure 1
Distribution of Tax Credit Amounts by Taxpayer Type in Tax Year 2023 (Dollar amounts are in \$ millions)



Source: DOTAX Tax Credits Report, December 2025.



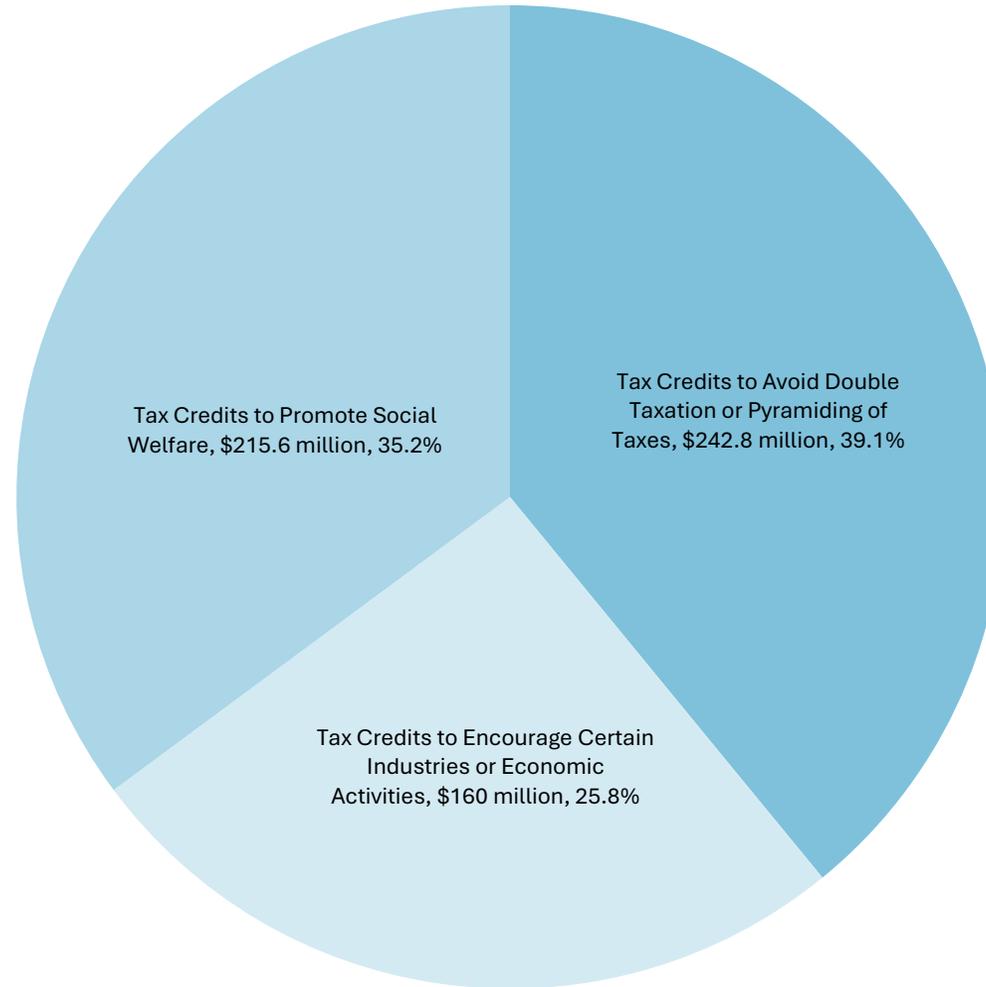
Figure 2
Amount of Tax Credits as a Proportion of Total Tax Liability by Taxpayer Type in Tax Year 2023



Source: DOTAX Tax Credits Report, December 2025.



Figure 4
Amount of Tax Credits by Purpose of the Tax Credit in Tax Year 2023



Source: DOTAX Tax Credits Report, December 2025.



Past Tax Review Commissions Argue

- **Tax exemptions and credits shrink tax base.**
- Results in **higher tax rates on the remaining tax base:**
 - Makes the tax **less efficient** (from an economic standpoint)
 - Frequently makes it **less equitable.**

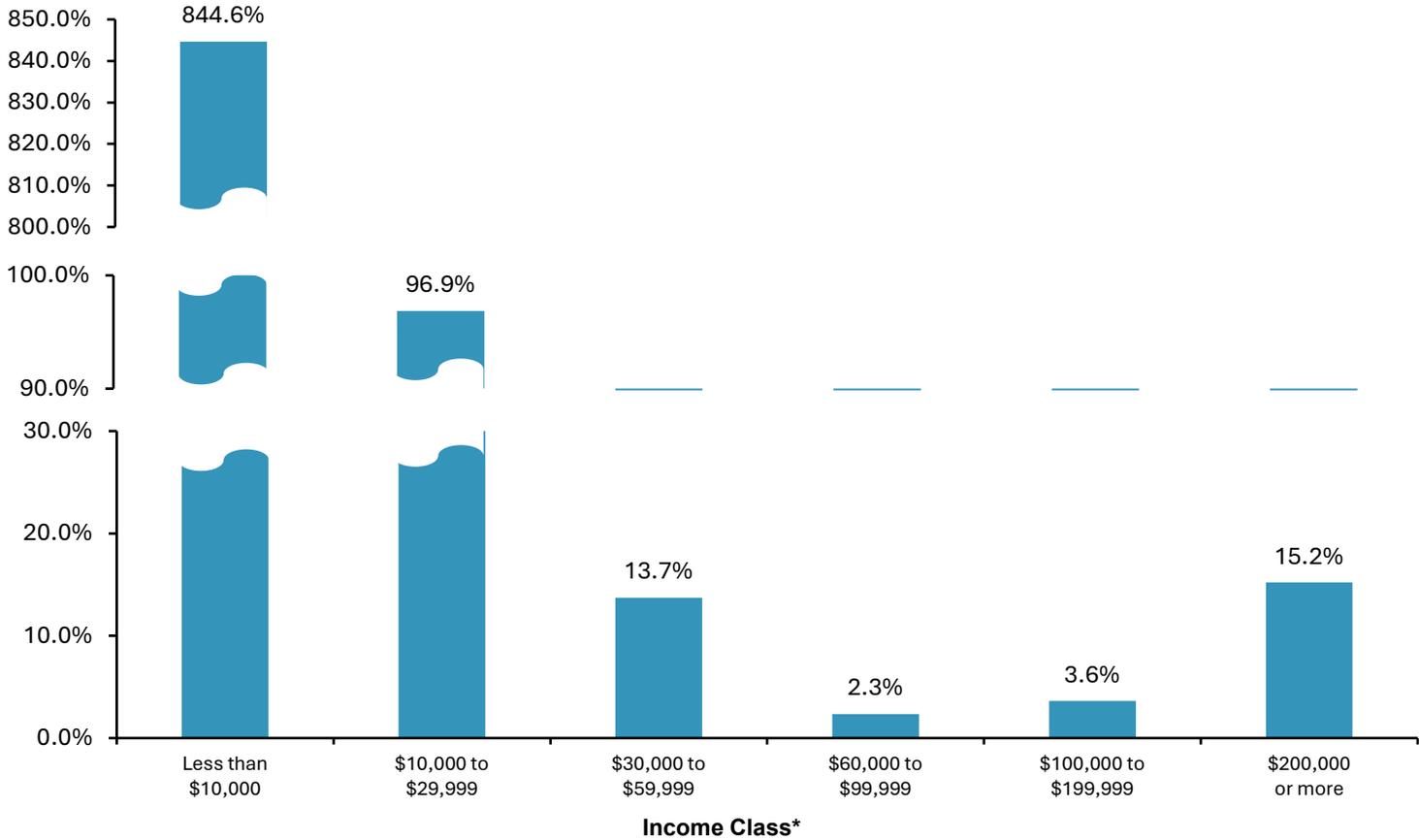


Background Information on Tax Credits (Cont.)

- Tax credits may be refundable or nonrefundable.
 - **Nonrefundable:** tax benefit up to taxpayer's liability.
 - **Refundable:** full amount guaranteed even with zero/negative liability (effectively a subsidy, e.g. film credit, food/excise tax credit).



Figure 3 Amount of Tax Credits Claimed by Individuals as a Proportion of Their Total Tax Liability by Income Class in Tax Year 2023



* Income class is measured using Hawaii AGI for Form N-11 and total AGI for Form N-15.

Source: DOTAX Tax Credits Report, December 2025.



Distribution of Tax Credits in Tax Year 2023

Table 4
Distribution of Tax Credits in Tax Year 2023

	Amount (in \$1,000) % of Total	
Total, All Tax Credits	\$621,270	100.0
Active Tax Credits		
<i>Tax Credits to Promote Social Welfare</i>		
Refundable Food/Excise Tax Credit	\$63,957	10.29
Tax Credit for Low-Income Household Renters	\$1,645	0.26
Tax Credit for Child and Dependent Care Expenses	\$14,820	2.39
Tax Credit for Child Passenger Restraint Systems	\$53	0.01
Tax Credit for Employment of Vocational Rehabilitation Referrals	-	-
Low-Income Housing Tax Credit	\$60,907	9.80
Tax Credit for School Repair and Maintenance	-	-
Earned Income Tax Credit *	\$77,054	12.40
Lifeline Telephone Service Tax Credit	\$9	0.00

Source: DOTAX Tax Credits Report, December 2025.



Distribution of Tax Credits in Tax Year 2023 (Cont.)

<i>Tax Credits to Encourage Certain Industries or Economic Activities</i>		
Fuel Tax Credit for Commercial Fishers	\$603	0.10
Motion Picture, Digital Media, and Film Production Income Tax Credit	\$43,504	7.00
Renewable Energy Technologies Income Tax Credit	\$100,075	16.11
Enterprise Zone Tax Credit	\$639	0.10
Important Agricultural Land Qualified Agricultural Cost Tax Credit	<i>d</i>	<i>d</i>
Tax Credit for Research Activities	\$7,034	1.13
Renewable Fuels Production Tax Credit	\$69	0.01
Healthcare Preceptor Income Tax Credit	\$516	0.08
Historic Preservation Income Tax Credit	<i>d</i>	<i>d</i>
<i>Tax Credits to Avoid Double Taxation or Pyramiding of Taxes</i>		
Capital Goods Excise Tax Credit	\$34,608	5.57
Income Tax Paid to Another State or Foreign Country	\$74,446	11.98
Pass-Through Entity (PTE) Tax Credit	\$133,791	21.54

Source: DOTAX Tax Credits Report, December 2025.



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Summary of Recommendations by Tax Review Commissions	1983-1985	1988-1990	1995-1997	2001-2003	2005-2007	2010-2013	2015-2017
Eliminate or sunset tax exemptions and credits.	X				X		
Minimize all tax exemptions and credits.		X	X	X	X		

Past TRC Recommendations-Sunset and Review:

- 2005-2007 TRC: Include a sunset date that will trigger a review of whether the tax credit or exemption should be continued.
- By reviewing the tax credits and exemptions, the State can ensure that they are meeting the goals of the State.

Status Check:

- Some tax credits enacted with sunset dates and some repealed.
- Some repealed credits replaced with alternatives.
- For the 6 expired tax credits between 2003-2010 and 1 in 2016, excess credits from prior years could be carried over to subsequent years indefinitely and they continue to be claimed as of Tax Year 2023
- Number of tax credits expanded over the years peaking at 22 tax credits as of Tax Year 2023

Summary of Recommendations by Tax Review Commissions	1983-1985	1988-1990	1995-1997	2001-2003	2005-2007	2010-2013	2015-2017
Overhaul the business incentive tax credit process.							
a. Overhaul and update the capital goods excise tax credit.			X				
b. Conduct a cost-benefit study prior to enacting or revising a tax credit program.				X			
c. Require periodic evaluations of all tax incentive programs.				X	X		
d. Require beneficiaries of tax incentive programs to file truth and disclosure reports separately and apart from tax returns and make all aspects of the subsidies public.				X	X		
e. Embed tax incentives in strategic plans to leverage scarce State resources.				X			
f. Encourage public participation in and comment on tax incentive use to foster public accountability.				X			

Past TRC Recommendations-Business Tax Credits:

- **2001-2003 TRC:** State must require accountability for all business tax incentives and ensure that the targeted tax incentive goes through a legislative process where there is accountability for the tax benefit both at the Legislature and through enforcement by DOTAX or some other agency.
- **2020-2022 TRC:** Recommends requiring public disclosure of the identity of the claimant and amount of credit claimed for all existing and new business incentive income tax credits.



Status Check:

- Sunset provisions and reporting requirements have been incorporated into some business incentive tax credits:
 - E.g. the motion picture, digital media, and film production income tax credit (film credit), tax credit for research activities, and renewable fuels production tax credit.



Relevant Legislation–Tax Credits:

- **Act 261, SLH 2016** required the State Auditor to periodically review certain tax exemptions, exclusions, and credits under the GET and use tax, (chapters 237 and 238, HRS), public service company tax (chapter 239, HRS), and insurance premium tax (chapter 431, HRS), beginning in 2018.
- Tasks such as:
 - Determine/estimate the amount of tax expenditure of exclusions, exemptions, credits
 - Determine if they achieved or continue to achieve Legislature’s purpose in enacting them
 - Tax equity and efficiency
 - Determine any economic benefits
 - Determine any annual costs
 - Recommend whether they should be retained without modification, amended, or repealed





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TAX REVIEWS

Section 23-71 et seq., Hawai'i Revised Statutes, requires the Auditor to annually review different tax exemptions, exclusions, and credits on a 10-year recurring cycle, including provisions for the Public Service Company Tax and Insurance Premium Tax.

Section 23-91 et seq., Hawai'i Revised Statutes, requires the Auditor to annually review different tax credits, exclusions, and deductions on a five-year recurring cycle.

Show 10 per page Reset

Search:

Date	Report No - Title	Related Links	Dept/Agency	Subject	Report Type
01/26/2026	26-03, Review of General Excise and Use Tax Provisions Pursuant to Section 23-77, Hawai'i Revised Statutes	Summary	Taxation	General Excise, Use Tax Exemptions	Tax Reviews
01/26/2026	26-02, Review of Income Tax Provisions Pursuant to Section 23-96, Hawai'i Revised Statutes	Summary	Taxation		Tax Reviews
08/21/2024	24-06, Review of General Excise and Use Tax Provisions Pursuant to Section 23-76, Hawai'i Revised Statutes	Summary	Taxation	General Excise, Use Tax Exemptions	Tax Reviews
08/14/2024	24-07, Review of Income Tax Provisions Pursuant to Section 23-95, Hawai'i Revised Statutes	Summary	Taxation		Tax Reviews
12/13/2023	23-15, Review of Income Tax Provisions Pursuant to Section 23-94, Hawai'i Revised Statutes	Summary	Taxation		Tax Reviews

<https://auditor.hawaii.gov/tax-reviews/>



January 2026 Report

Specifically, for 2024 and every fifth year thereafter, Section 23-96, HRS, requires the review of the following income tax incentives:

- Credit to promote the purchase of child passenger restraint systems (Section 235-15, HRS);
- Credit for employment-related expenses for household and dependent care services (Section 235-55.6, HRS);
- Credit for a low-income household renter (Section 235-55.7, HRS); and
- Credit for food and excise tax (Section 235-55.85, HRS).

We determined that all four credits are meeting their stated or inferred purposes and recommend that they be retained.

Link to the complete January 2026 report by State Auditor:

Review of Income Tax Provisions Pursuant to Section 23-96, Hawai‘i Revised Statutes

<https://files.hawaii.gov/auditor/Reports/2026/26-02.pdf>



December 2023 Report

- 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.

Link to the complete December 2023 report by State Auditor:

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

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



December 2023 Report (Cont.)

- 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.

Link to the complete December 2023 report by State Auditor:

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

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



December 2023 Report (Cont.)

- 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).

Link to the complete December 2023 report by State Auditor:

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

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



December 2023 Report (Cont.)

- 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 December 2023 report by State Auditor:

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

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



Income Tax Credit for a Qualified Business in an Enterprise Zone (Section 209E-10, HRS)

THIS CREDIT was enacted as a part of Act 78, SLH 1986, in which the Legislature asserted that there were certain areas in the State needing particular attention of government to help attract private-sector investment. These areas, or “Enterprise Zones,” are meant to be major economic development tools to help bring business and employment opportunities to otherwise economically challenged areas.

Eligible businesses located within an Enterprise Zone that meet hiring requirements are exempt from GET and may claim personal or corporate non-refundable income tax and state unemployment premium credits, among other benefits. Counties can also offer additional incentives, such as incremental property tax relief, priority permit processing, or fee waivers.

Tax Credit at a Glance (2020)

Amount claimed	Number of Claims	Tax Expenditure	Cost Per Low-Income Resident	Meeting its Purpose?
				
\$700,000	42	\$700,000	\$1.46*	Unable to Determine

*Cost per low-income resident used is the amount claimed per year divided by a low-income resident figure of 480,801 derived from Department of Business, Economic Development and Tourism data.

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



Mahalo nui loa

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