



HOUSE COMMITTEE ON FINANCE  
The Honorable Sylvia Luke, Chair  
The Honorable Ty J.K. Cullen, Vice Chair

**S.B. No. 100, S.D. 2, Relating to Taxation**

Hearing: Tuesday, March 21, 2017, 2:00 p.m.

The Office of the Auditor **strongly supports** S.B. No. 100, S.D. 2, Relating to Taxation. The purpose of the measure is to amend provisions requiring the auditor to review certain tax exemptions, exclusions, credits, and deductions established under Acts 245 and 261, Session Laws of Hawai'i 2016 (codified as sections 23-71 through 23-81 and 23-91 through 23-96, Hawai'i Revised Statutes ("HRS")).

Specifically, Acts 245 and 261 require the auditor to determine the amount of tax expenditures for the previous three fiscal years, estimate the amount of expenditures for the current and next two fiscal years, determine whether the incentive is necessary to promote or preserve tax equity or efficiency, and recommend whether the incentive should be retained, amended, or repealed. Acts 245 and 261 also require the auditor to determine whether the incentive has achieved or continues to achieve the purpose for which it was enacted by the legislature.

S.B. No. 100, S.D. 2, amends sections 23-71 through 23-81, HRS, and sections 23-91 through 23-96, HRS, by, among other things: (1) delaying the auditor's review of the tax incentives; (2) providing the auditor with access to department of taxation records that are necessary to conduct the reviews; and (3) clarifying the criterion that the auditor is to apply to assess whether the tax incentive has achieved its legislative purpose.

The amendments to the statute are necessary for a meaningful review of the tax incentives. As Section 1 notes, certain tax incentive data currently is not readily available. Without information from the department of taxation about the amounts of the tax incentives, we are unable to review those incentives. The bill reflects that the department of taxation is undertaking a tax system modernization project that likely will make data relating to the incentives more readily available. While we agree it is prudent to delay the review until after the tax system modernization project has developed more fully, we likely will be unable to provide much of the requested review, including assessing whether the incentive should be retained, amended, or repealed, until the department of taxation collects at least three years of tax incentive-related data.

In addition, to perform the required review of the tax incentives, we must have access to tax records and other information necessary to perform the reviews. The department of taxation has advised us that certain tax incentive-related information likely necessary for our review is confidential, and therefore, we may not be provided access to that information for our review of those incentives. Section 2 of the bill creates a new section in chapter 231 that provides us access to the department of taxation's confidential records necessary to perform our review and assessment of the tax incentives. Without such access to the department's records that we deem necessary and relevant for our review, our reports likely will be of little value to the legislature.

We note that the bill states, "any information marked confidential by the department shall be kept confidential by the legislature." S.B. No. 100, S.D. 2, at page 4, lines 10-12. Our reports are addressed to and primarily intended for the legislature; however, the reports are public records, accessible through our website or upon request. If the intent is for the legislature to protect the tax information that the department deems confidential, we suggest that the legislature clarify whether it intends our reports on the tax incentives to be confidential reports to the legislature.

As the bill notes, we have found that the legislative history for some incentives is not helpful in identifying the legislature's purpose for the incentive. Amendments noted in Section 3 (page 5, lines 17-21) allow us reasonable discretion to identify the purpose of the tax incentive in order to determine whether the incentive is meeting its purpose.

We also strongly support Section 20 of the bill, which appropriates an undetermined amount of funds for our review of the tax incentives. We note that the Joint Legislative Audit and Review Committee (JLARC), which is the State of Washington's functional equivalent of our office, has been conducting a similar review of Washington State's tax incentives. That office has four full-time analysts dedicated to tax incentive reviews as well as one-half of both the director and deputy director's time. We currently have 2 senior analysts and 11 analysts, all of whom are assigned to audit projects. Given the number of audits and the additional reports and studies that the legislature likely will request us to perform, we have concerns about our ability to commit sufficient resources to perform the review of the tax incentives. We request an additional appropriation of \$300,000 to allow us to hire a senior analyst and two analysts to work on the tax incentives as well as to retain an economist or other consultant to assess the economic impact of the incentive to the state.

Thank you for considering our testimony related to S.B. No. 100, S.D. 2.

# TAX FOUNDATION OF HAWAII

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126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

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SUBJECT: ADMINISTRATION, Review of Tax Credits and Deductions

BILL NUMBER: SB 100, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

SYNOPSIS: Delays the reviews by the Auditor of tax exemptions, exclusions, credits, and deductions. Provides the Auditor with access to DOTAX records for the reviews and authorizes the Auditor to include data from the records in its reports to the legislature that do not explicitly identify any specific taxpayer. Adds the organic foods production income tax credit to the schedule of review. Amends the review criterion regarding the legislative purpose of an exemption, exclusion, credit, or deduction to provide more discretion to the Auditor.

EFFECTIVE DATE: Upon approval, provided the appropriation shall take effect on July 1, 2018.

STAFF COMMENTS: Act 261, SLH 2016, requires the State Auditor to periodically review the myriad exemptions, deductions, and other tax benefits now provided under the excise tax chapters, HRS chapters 237, 238, and 239, as well as some miscellaneous provisions.

Act 245, SLH 2016, requires the State Auditor to periodically review the myriad exemptions, deductions, and other tax benefits now provided under the income and franchise tax chapters, HRS chapters 235 and 241, as well as some miscellaneous provisions.

This bill facilitates the processes required by the above Acts and includes within the review schedule the organic foods production income tax credit that was enacted as Act 258, SLH 2016.

Digested 3/17/2017



**LATE**

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Headquarters  
and Refining

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91-480 Malakole St.  
Kapolei, HI 96707

DATE: Tuesday, March 21, 2017  
TIME: 2:00pm  
PLACE: Conference Room 308  
State Capitol  
415 South Beretania Street

Senate Bill 100, Relating to Taxation

Good afternoon Chair Luke, Vice-Chair Cullen and members of the House Committee on Finance,

Island Energy Services, LLC (IES) purchased the assets of the formerly owned and operated Chevron on November 1, 2016, and continues to operate as a key supplier of petroleum products to the Hawaii market and economy. As a refiner and key supplier, IES would like to comment on SB 100, SD 2 and raise a concern for clarification.

In Section 2, subpart (b) of SB 100, SD 2 (page 5, lines 1-5), the bill states:

(b) Notwithstanding any other law to the contrary, the auditor may include in a report of a review that is submitted to the legislature data that:

(1) The auditor deems necessary and relevant for the purpose of legislative review, including information received from the department of taxation pursuant to subsection (a); and

(2) Does not explicitly identify any specific taxpayer or beneficiary of a tax exemption, exclusion, credit, or deduction;

provided that any information marked confidential by the department shall be kept confidential by the legislature."



**ISLAND  
ENERGY**

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Headquarters  
and Refining

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91-480 Malakole St.  
Kapolei, HI 96707

IES's concern is pertaining to the phrase in paragraph (2)... "Does not explicitly identify any specific taxpayer...". It would be IES's contention that any use of aggregated numbers by the State Auditor WOULD explicitly identify a specific taxpayer. IES is one of two refineries in Hawaii. The Department of Taxation (DoTax) and Department of Business, Economic Development & Tourism (DBEDT) both use the policy and principle that aggregated information will not be disclosed if it would identify the taxpayer or its confidential financial information, and have not reported aggregated information concerning the petroleum refineries as it is illogical to aggregate two taxpayers. IES requests that any aggregated information as it relates to a taxpayer that DoTax considers as confidential in its mode of business operation, also be considered confidential by the State Auditor in carrying out of its functions under SB 100, SD 2.

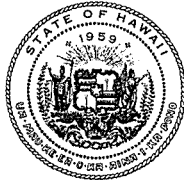
Mahalo for the opportunity to offer our comments on this matter.

Mahalo,

Al Chee  
Vice President  
Island Energy  
Retail Marketing & Community Relations

DAVID Y. IGE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



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MARIA E. ZIELINSKI  
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE  
DEPUTY DIRECTOR

**LATE**

To: The Honorable Sylvia Luke, Chair  
and Members of the House Committee on Finance

Date: Tuesday, March 21, 2017

Time: 2:00 P.M.

Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 100, S.D. 2, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 100, S.D. 2, and provides the following comments for your consideration.

First, as suggested in the Department's testimony submitted to this Committee for S.B. 713, S.D. 1, regarding similar reporting requirements, the Department is willing assume the responsibility of producing the tax expenditure reports that are currently the responsibility of the State Auditor. The Department, therefore, requests that this measure be amended to reflect the following changes:

- Repeal Chapter 23, part VI which was established by Acts 245 and 261, Session Laws of Hawaii 2016;
- Place a nearly identical responsibility on the Department of Taxation in chapter 231, Hawaii Revised Statutes (HRS);
- Clarify the review criteria regarding the achievement of the legislative purpose of the exemption, exclusion, deduction, or credit;
- Amend the list of exemptions, exclusions, deductions, and credits to be reviewed (i.e., add the organic foods production tax credit that was enacted by Act 258, Session Laws of Hawaii 2016, to the review schedule);
- Delay the review schedules established under Act 261;
- Authorize the Department to require a survey to be submitted by taxpayers, as well as a penalty provision of an unspecified amount per instance of noncompliance; and
- Add other clarifying language consistent with the legislative intent to review tax expenditures.

Proposed language is attached to this testimony for the Committee's consideration.

Second, with respect to S.B. 100, S.D. 2, the Department has serious concerns regarding Section 2 of this measure. Section 2 requires the Department to release confidential tax information upon request by the State Auditor. This bill also authorizes the State Auditor to release to the Legislature tax information in aggregated form that does not explicitly identify any specific taxpayer. S.B. 100, S.D. 2, is effective upon approval.

Third, while the Department appreciates the restriction on the Auditor's ability to report confidential tax information contained in Section 2 of the bill's paragraph 231-\_\_ (b)(2), and further appreciates the requirement that the Legislature keep such information confidential, the Department has the following concerns regarding access to confidential tax information.

The Department is seriously concerned about the erosion of taxpayer confidentiality this bill represents. It is important to remember that our State's tax system is based on voluntary compliance with the tax laws. A system based on voluntary compliance requires taxpayers to candidly report their income and to proactively pay the tax they owe. The primary incentive to encourage taxpayers to candidly report tax information is the guarantee of confidentiality of the information they report. The erosion of taxpayer confidentiality could negatively impact the public's confidence in the confidentiality of its tax information, thereby reducing voluntary compliance and impeding the Department's ability to effectively enforce and collect the State's taxes.

Fourth, confidential tax information should only be disclosed on a need-to-know basis. State laws in this area are very strict and the Department takes confidentiality of tax information very seriously. Department personnel and other state personnel authorized to receive confidential tax information are subject to strict criminal penalties for unauthorized disclosure, including the possibility of felony conviction and imprisonment.

Moreover, the Department does not believe that access to confidential tax information, as this measure seems to contemplate, is necessary to produce the reports required under sections 23-71 to 23-81 and sections 23-91 to 23-96, Hawaii Revised Statutes. In general, these reports focus on the cost of a tax expenditure, forecasting future costs of the expenditure, legislative intent or goals of such expenditure, whether the intent or goals of the expenditure were met, and whether the costs of such expenditure were born by low income individuals. Answers to these issues cannot be found by browsing through individual tax records.

Finally, the Department, upon request by the Auditor, is able and willing to provide relevant data in aggregated form for use in producing these reports. Data in this form may be republished by the Auditor without breaching confidentiality laws. For these reasons, the Department does not believe that Section 2 of S.B. 100, S.D. 2, is appropriate or necessary.

Thank you for the opportunity to provide comments.

\_\_\_\_.B. NO.\_\_\_\_

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# A BILL FOR AN ACT

RELATING TO TAX EXPENDITURES.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that, pursuant to Act  
2 245, Session Laws of Hawaii 2016, beginning in 2019, the auditor  
3 is required to review certain credits, exclusions, and  
4 deductions under the income tax and financial institutions tax.  
5 Pursuant to Act 261, Session Laws of Hawaii 2016, beginning in  
6 2018, the auditor is also required to review certain exemptions,  
7 exclusions, and credits under the general excise and use taxes,  
8 public service company tax, and insurance premium tax.

9           The legislature has chosen to relieve the auditor of this  
10 duty and assign the duty to the department of taxation. The  
11 legislature has also chosen to delay the review schedules of the  
12 reviews mandated by Act 261 by one year because relevant tax  
13 impact data may not be readily available in 2018. The department  
14 of taxation is undertaking a tax system modernization project  
15 that will be capable of efficiently collecting and reporting  
16 data on the tax expenditures from exemptions, exclusions,



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1 deductions, and credits. Thus, the legislature finds it prudent  
2 to delay the review schedules until after the tax system  
3 modernization project reaches a higher level of production.

4       The legislature has also chosen to provide the department  
5 of taxation with discretion in identifying and evaluating the  
6 purpose of the exemptions, exclusions, deductions, and credits  
7 to be reviewed and in identifying exemptions, exclusions,  
8 deductions, and credits that should not be reviewed.

9       The legislature also finds that the organic foods  
10 production tax credit should be added to the review schedule.  
11 The tax credit was established by Act 258, Session Laws of  
12 Hawaii 2016, and the schedule of income tax credit reviews was  
13 established by Act 245, Session Laws of Hawaii 2016. Because of  
14 the near simultaneous passage during the Regular Session of 2016  
15 of the bills that became Acts 245 and 258, the organic foods  
16 production tax credit was not included in the review schedule of  
17 Act 245.

18       The purpose of this Act is to:

- 19       (1) Repeal Chapter 23, part VI, Hawaii Revised Statutes,  
20            requiring the auditor to review tax exemptions,  
21            exclusions, deductions, and credits.

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1           (2) Require the department of taxation to conduct reviews  
2           of tax exemptions, exclusions, deductions, and  
3           credits;

4           (3) Clarify the review criteria regarding the achievement  
5           of the legislative purpose of the exemption,  
6           exclusion, deduction, or credit;

7           (4) Amend the list of exemptions, exclusions, deductions,  
8           and credits to be reviewed;

9           (5) Delay the review schedules established under Act 261;  
10          and

11          (6) Add the organic foods production tax credit that was  
12          enacted by Act 258, Session Laws of Hawaii 2016, to  
13          the review schedule.

14          SECTION 2. Chapter 231, Hawaii Revised Statutes, is  
15          amended by adding a new part to be appropriately designated and  
16          to read as follows:

17                **"PART       .   REVIEW OF TAX EXEMPTIONS, EXCLUSIONS,**  
18                **DEDUCTIONS, AND CREDITS.**

19                **§231-       Review of certain tax exemptions, tax credits, tax**  
20                **exclusions, and tax deductions.   (a) The department**  
21                shall review the tax exemptions, exclusions, deductions, and  
22                credits listed in this part.

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1 (b) For each exemption, exclusion, deduction, and credit  
2 listed in this part, the department shall:

3 (1) Determine the amount of tax expenditure for the  
4 exemption, exclusion, deduction, or credit for each of  
5 the previous three calendar years;

6 (2) Estimate the amount of tax expenditure for the  
7 exemption, exclusion, deduction, or credit for the  
8 current calendar year and the next two calendar years;

9 (3) Determine whether the exemption, exclusion, deduction,  
10 or credit has achieved and continues to achieve the  
11 purpose for which it was enacted by the legislature as  
12 determined by the director of taxation;

13 (4) Determine whether the exemption, exclusion, deduction,  
14 or credit is necessary to promote or preserve tax  
15 equity or efficiency;

16 (5) If the exemption, exclusion, deduction, or credit was  
17 enacted because of its purported economic or  
18 employment benefit to the State:

19 (A) Determine whether a benefit has resulted, and if  
20 so, quantify to the extent possible the estimated  
21 benefit directly attributable to the exemption,  
22 exclusion, deduction, or credit; and

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1           (B) Comment on whether the benefit, if any, outweighs  
2           the amount of the tax expenditure of the  
3           exemption, exclusion, deduction, or credit; and

4       (6) Report the amount of the tax expenditure of each  
5       exemption, exclusion, deduction, or credit per low-  
6       income resident of the State. For purposes of this  
7       paragraph, a "low-income resident of the State" means  
8       an individual who is a resident of the State and:

9           (A) Is the only member of a family of one and has an  
10          income of not more than eighty per cent of the  
11          area median income for a family of one; or

12          (B) Is part of a family with an income of not more  
13          than eighty per cent of the area median income  
14          for a family of the same size.

15       This ratio shall be estimated by dividing the annual  
16       tax expenditure for the exemption, exclusion,  
17       deduction, or credit by the number of low-income  
18       residents of the State in the calendar year. The  
19       estimate determined pursuant to this paragraph is  
20       intended to display the effect on low-income residents  
21       of the State if they directly receive, either through  
22       tax reduction or negative tax, the dollar amount of

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1 the tax expenditure saved by elimination of the  
2 exemption, exclusion, deduction, or credit.

3 (c) The director of taxation shall submit the findings of  
4 the reviews required under this part to the legislature and  
5 governor not later than twenty days prior to the convening of  
6 the regular session following the year the review is to be  
7 performed.

8 (d) Where appropriate, the director of taxation may review  
9 an exemption, exclusion, deduction, or credit that is not listed  
10 in this part.

11 (e) Where appropriate, the director of taxation may  
12 determine that an exemption, exclusion, deduction, or credit  
13 listed in this part need not be reviewed.

14 (f) The director of taxation may require any taxpayer  
15 claiming any exemption, exclusion, deduction, or credit to  
16 annually submit information regarding the exemption, exclusion,  
17 deduction, or credit to the department on a form to be  
18 prescribed by the department. Any taxpayer failing to submit  
19 the required information shall be subject to a penalty of  
20 \$ \_\_\_\_\_ for each instance of noncompliance."

21 **"§231- Review beginning in 2019.** (a) The exemptions and  
22 exclusions under the general excise and use taxes listed in this

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1 subsection shall be reviewed in 2019 and every tenth year  
2 thereafter.

3       (1) Section 237-13(3)(B)--Gross income of contractors from  
4           subcontractors;

5       (2) Section 237-13(3)(C)--Reimbursements to federal cost-  
6           plus contractors;

7       (3) Section 237-24.3(11)--Amounts received from aircraft  
8           and aircraft engine rental or leasing;

9       (4) Section 237-24.9--Amounts received from aircraft  
10          servicing and maintenance and aircraft service and  
11          maintenance facility construction;

12       (5) Section 238-1, paragraph (6) of the definition of  
13          "use"--The value of aircraft leases or rental and  
14          acquired or imported aircrafts and aircraft engines; and

15       (6) Section 238-1, paragraph (8) of the definition of  
16          "use"--The value of material, parts, or tools for  
17          aircraft service and maintenance and aircraft service  
18          and maintenance facility construction.

19       (b) The credits under the income and financial institutions  
20 tax listed in this subsection shall be reviewed in 2019 and  
21 every fifth year thereafter.

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1           (1) Sections 235-12.5 and 241--Credit for renewable energy  
2           technology system installed and placed in service in the  
3           State. For the purpose of section 231- (b)(5), this  
4           credit shall be deemed to have been enacted for an  
5           economic benefit; and

6           (2) Section 235-17--Credit for qualified production costs  
7           incurred for a qualified motion picture, digital media,  
8           or film production."

9           "**§231- Review beginning in 2020.** (a) The exemptions and  
10          exclusions under the general excise and use taxes listed in this  
11          subsection shall be reviewed in 2020 and every tenth year  
12          thereafter.

13          (1) Section 237-16.5--Gross income of real property  
14          lessees from sublessees;

15          (2) Section 237-16.8--Value or gross income of nonprofit  
16          organizations from conventions, conferences, trade  
17          shows, and display spaces;

18          (3) Section 349-10--Proceeds earned from annual senior  
19          citizen's fairs;

20          (4) Section 237-23.5--Amounts received from common  
21          payments of related entities;

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1           (5) Section 237-24(13)--Amounts received by blind, deaf,  
2                   or totally disabled persons from their business;

3           (6) Section 237-24(14)--Amounts received by independent  
4                   cane farmers who are sugarcane producers;

5           (7) Section 237-24(15)--Amounts received by foster  
6                   parents;

7           (8) Section 237-24(16)--Reimbursements to cooperative  
8                   housing corporations for operating and maintenance  
9                   expenses;

10          (9) Section 237-24(17)--Amounts received by TRICARE  
11                   managed care support contractors; and

12          (10) Section 237-24(18)--Amounts received by patient-  
13                   centered community care program contractors.

14          (b) The credits, exclusions, and deductions under the  
15          income tax and financial institutions tax listed in this  
16          subsection shall be reviewed in 2020 and every fifth year  
17          thereafter.

18          (1) Section 235-7.3--Exclusion of royalties and other  
19                   income derived from a patent, copyright, or trade secret  
20                   of a qualified high technology business;

21          (2) Section 235-9.5--Exclusion for income and proceeds from  
22                   stock options or stocks of a qualified high technology



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- 1           business or a holding company for a qualified high  
2           technology business;
- 3           (3) Sections 235-17.5 and 241-4.4--Credit for capital  
4           infrastructure costs;
- 5           (4) Sections 235-110.7 and 241-4.5--Credit for capital  
6           goods used by a trade or business;
- 7           (5) Section 235-110.91--Credit for research activity;
- 8           (6) Section 235-110.3--Credit for ethanol facility; and
- 9           (7) Section 241-3.5--Deduction for adjusted eligible net  
10          income of an international banking facility."

11          "**§231- Review beginning in 2021.** (a) The exemptions and  
12          exclusions under the general excise tax, public service company  
13          tax, and insurance premium tax listed in this subsection shall  
14          be reviewed in 2021 and every tenth year thereafter.

- 15          (1) Section 239-2, paragraph (5) of the definition of  
16          "gross income"--Gross income of home service providers  
17          of mobile telecommunications services;
- 18          (2) Section 239-2, exclusions under the definition of  
19          "gross income"--Dividends paid by one member to  
20          another member of an affiliated public service company  
21          group or gross income from the sale or transfer of  
22          materials and supplies, interest on loans, and

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- 1           provision of services among members of an affiliated  
2           public service company group;
- 3           (3) Section 237-3(b)--Gross receipts from the sale or  
4           transfer of materials and supplies, interest on loans,  
5           and provision of services among members of an  
6           affiliated public service company group;
- 7           (4) Section 239-5.5--Gross income of utilities from  
8           monthly surcharges;
- 9           (5) Section 239-5.6--Gross income of electric utility  
10          companies from cable surcharges;
- 11          (6) Section 239-6.5--Tax credit for lifeline telephone  
12          service subsidies;
- 13          (7) Section 237-13(6)(D)(i), (ii), (iii), and (iv)--Gross  
14          receipts of home service providers acting as service  
15          carriers;
- 16          (8) Section 269-172--Green infrastructure charges received  
17          by electric utilities;
- 18          (9) Section 237-29.7--Gross income or gross proceeds  
19          received by insurance companies;
- 20          (10) Section 431:7-207--Tax credit to facilitate regulatory  
21          oversight;

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1           (11) Section 432:1-403--Exemption for nonprofit medical  
2                   indemnity or hospital service associations or  
3                   societies specifically from the general excise tax,  
4                   public service company tax, or insurance premium tax;  
5                   and

6           (12) Section 432:2-503--Exemption for fraternal benefit  
7                   societies specifically from the general excise tax,  
8                   public service company tax, or insurance premium tax.

9           (b) The credit and exclusions under the income tax listed  
10           in this subsection shall be reviewed in 2021 and every fifth  
11           year thereafter.

12           (1) Section 235-4.5(a)--Exclusion of intangible income  
13                   earned by a trust sited in this State;

14           (2) Section 235-4.5(b)--Exclusion of intangible income of a  
15                   foreign corporation owned by a trust sited in this  
16                   State;

17           (3) Section 235-4.5(c)--Credit to a resident beneficiary of  
18                   a trust for income taxes paid by the trust to another  
19                   state;

20           (4) Sections 235-55 and 235-129--Credit for income taxes  
21                   paid by a resident taxpayer to another jurisdiction;

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- 1 (5) Section 235-71(c)--Credit for a regulated investment  
2 company shareholder for the capital gains tax paid by  
3 the company;
- 4 (6) Section 235-110.6--Credit for fuel taxes paid by a  
5 commercial fisher;
- 6 (7) Section 235-110.93--Credit for important agricultural  
7 12 land qualified agricultural cost;
- 8 (8) Section 235-129(b)--Credit to a shareholder of an S  
9 corporation for the shareholder's pro rata share of the  
10 tax credit earned by the S corporation in this State;  
11 and
- 12 (9) Section 209E-10--Credit for a qualified business in an  
13 enterprise zone; provided that the review of this credit  
14 pursuant to this part shall be limited in scope to  
15 income tax credits."
- 16 **"§231- Review beginning in 2022.** (a) The exemptions and  
17 exclusions under the general excise and use taxes listed in this  
18 subsection shall be reviewed in 2022 and every tenth year  
19 thereafter.
- 20 (1) Section 237-24.3(1)--Amounts received from loading,  
21 transporting, and unloading agricultural commodities  
22 shipped interisland;

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- 1           (2) Section 237-24.3(3) (A)--Amounts received from cargo  
2           loading or unloading;
- 3           (3) Section 237-24.3(3) (B)--Amounts received from tugboat  
4           and towage services;
- 5           (4) Section 237-24.3(3) (C)--Amounts received from the  
6           transportation of pilots or government officials and  
7           other maritime-related services;
- 8           (5) Section 238-1, paragraph (7) of the definition of  
9           "use"--The value of oceangoing vehicles for  
10          transportation from one point to another in the State;
- 11          (6) Section 238-3(g)--The value of imported intoxicating  
12          liquor and cigarettes and tobacco products for sale to  
13          persons or common carriers in interstate commerce;
- 14          (7) Section 238-3(h)--The value of vessels constructed  
15          under section 189-25, relating to commercial fishing  
16          vessel loans, prior to July 1, 1969; and
- 17          (8) Section 237-28.1--Gross proceeds from shipbuilding and  
18          ship repair.
- 19          (b) The credit and exclusions under the income tax and  
20          financial institutions tax listed in this subsection shall be  
21          reviewed in 2022 and every fifth year thereafter.

**.B. NO.**           

- 1           (1) Section 235-5.5--Deduction for individual housing  
2           account deposit;
- 3           (2) Section 235-7(f)--Deduction of property loss due to a  
4           natural disaster;
- 5           (3) Section 235-16.5--Credit for cesspool upgrade,  
6           conversion, or connection;
- 7           (4) Section 235-19--Deduction for maintenance of an  
8           exceptional tree;
- 9           (5) Section 235-55.91--Credit for the employment of a  
10          vocational rehabilitation referral;
- 11          (6) Section 235-110.2--Credit for in-kind services  
12          contribution for public school repair and maintenance;  
13          and
- 14          (7) Sections 235-110.8 and 241-4.7--Credit for ownership of  
15          a qualified low-income housing building."

16          "**§231- Review beginning in 2023.** (a) The exemptions and  
17          exclusions under the general excise and use taxes listed in this  
18          subsection shall be reviewed in 2023 and every tenth year  
19          thereafter.

- 20          (1) Section 237-24.3(4)--Amounts received by employment  
21          benefit plans and amounts received by nonprofit

.B. NO.          

- 1           organizations or offices for the administration of  
2           employee benefit plans;
- 3           (2) Section 237-24.3(5)--Amounts received from food  
4           coupons under the federal food stamp program or  
5           vouchers under the Special Supplemental Foods Program  
6           for Women, Infants and Children;
- 7           (3) Section 237-24.3(6)--Amounts received from the sale of  
8           prescription drugs or prosthetic devices;
- 9           (4) Section 237-24.3(8)--Amounts received as dues by  
10          unincorporated merchants associations for advertising  
11          or promotion;
- 12          (5) Section 237-24.3(9)--Amounts received by labor  
13          organizations from real property leases;
- 14          (6) Section 237-24.75(2)--Reimbursements to the Hawaii  
15          convention center operator from the Hawaii tourism  
16          authority;
- 17          (7) Section 237-24.75(3)--Reimbursements to professional  
18          employer organizations from client companies for  
19          employee wages and fringe benefits; and
- 20          (8) Section 209E-11--Amounts received by qualified  
21          businesses in enterprise zones.

.B. NO.          

1           (b) The credits under the income tax listed in this  
2 subsection shall be reviewed in 2023 and every fifth year  
3 thereafter.

4           (1) Section 235-15--Credit for purchase of child passenger  
5           12 restraint system;

6           (2) Section 235-55.6--Credit for employment-related 14  
7           expenses for household and dependent care services;

8           (3) Section 235-55.7--Credit for a low-income household 16  
9           renter; and

10          (4) Section 235-55.85--Credit for food and excise tax; and

11          (5) Section 235-110.94--Credit for organic foods  
12          production."

13          "**§231- Review beginning in 2024.** The exemptions and  
14 exclusions under the general excise and use taxes listed in this  
15 section shall be reviewed in 2024 and every tenth year  
16 thereafter.

17          (1) Section 237-24.3(2)--Reimbursements to associations of  
18          owners of condominium property regimes or nonprofit  
19          homeowners or community associations for common  
20          expenses ;

21          (2) Section 237-24.5--Amounts received by exchanges or  
22          exchange members;



.B. NO.          

- 1           (3) Section 237-25(a)(3)--Gross income received from  
2           tangible personal property sales to state-chartered  
3           credit unions;
- 4           (4) Section 237-24.8--Amounts received by financial  
5           institutions, trust companies, trust departments, or  
6           financial corporations acting as interbank brokers;
- 7           (5) Section 237-26--Gross proceeds of scientific  
8           contractors and subcontractors;
- 9           (6) Section 238-3(j)--The value of property or services  
10          exempted by section 237-26, relating to scientific  
11          contracts; and
- 12          (7) Section 237-27--Amounts received by petroleum product  
13          refiners from other refiners.”
- 14          **“§231- Review beginning in 2025.** The exemptions and  
15          exclusions under the general excise and use taxes listed in this  
16          section shall be reviewed in 2025 and every tenth year  
17          thereafter.
- 18          (1) Section 237-24.7(1)--Amounts received by hotel  
19          operators and hotel suboperators for employee wages  
20          and fringe benefits;

.B. NO.          

- 1           (2) Section 237-24.7(2)--Amounts received by a county  
2                   transportation system operator under a contract with  
3                   the county;
- 4           (3) Section 237-24.7(4)--Amounts received by orchard  
5                   property operators for employee wages and fringe  
6                   benefits;
- 7           (4) Section 237-24.7(6)--Amounts received from insurers  
8                   for damage or loss of inventory of businesses located  
9                   in a natural disaster area;
- 10          (5) Section 237-24.7(7)--Amounts received by community  
11                   organizations, school booster clubs, and nonprofit  
12                   organizations for precinct and other election-related  
13                   activities;
- 14          (6) Section 237-24.7(8)--Interest received by persons  
15                   domiciled outside the State from trust companies  
16                   acting as payment agents or trustees on behalf of  
17                   issuers or payees of interest-bearing instruments or  
18                   obligations;
- 19          (7) Section 237-24.7(9)--Amounts received by management  
20                   companies from related entities engaged in interstate  
21                   or foreign common carrier telecommunications services  
22                   for employee wages and fringe benefits; and

**.B. NO.**           

1           (8) Section 237-24.7(10)--Amounts received from high  
2           technology research and development grants."

3           "**§231- Review beginning in 2026.** The exemptions,  
4           exclusions, or credits under the general excise and use taxes  
5           and insurance premium tax listed in this section shall be  
6           reviewed in 2026 and every tenth year thereafter.

7           (1) Section 237-27.5--Gross proceeds from air pollution.  
8           control facility construction, reconstruction,  
9           operation, use, maintenance, or furnishing;

10          (2) Section 238-3(k)--The value of air pollution control  
11          facilities;

12          (3) Section 231-21.6--Amounts received by solid waste  
13          processing, disposal, and electric generating facility  
14          operators under sale and leaseback transactions with  
15          political subdivisions that involve the facilities;

16          (4) Section 237-29--Gross income of qualified persons or  
17          firms or nonprofits or limited distribution mortgagors  
18          for certified or approved low-income housing projects;

19          (5) Section 238-3(j)--The value of property, services, or  
20          contracting exempted by section 237-29, relating to  
21          certified or approved housing projects;

22          (6) Section 431:7-208--Credit for low-income housing;

.B. NO.          

1           (7) Section 46-15.1(a)--Gross income from county low-  
2           income housing projects; and

3           (8) Section 346-369--Compensation received by provider  
4           agencies for homeless services or homeless facility  
5           management."

6           "**§231- Review beginning in 2027.** The exemptions or  
7           exclusions under the general excise and use taxes listed in this  
8           section shall be reviewed in 2027 and every tenth year  
9           thereafter.

10          (1) Section 237-29.5--Value or gross proceeds from  
11          tangible personal property shipped out of State;

12          (2) Section 237-29.53--Value or gross income from  
13          contracting or services performed for use outside the  
14          State;

15          (3) Section 238-1, paragraph (9) of the definition of  
16          "use"--The value of services or contracting imported  
17          for resale, consumption, or use outside the State; and

18          (4) Section 237-29.55--Gross proceeds or gross income from  
19          the sale of tangible personal property imported into  
20          the State for subsequent resale."

.B. NO.          

1           **"§231- Review beginning in 2028.** The exemptions or  
2 exclusions under the general excise tax listed in this section  
3 shall be reviewed in 2028 and every tenth year thereafter.

4           (1) Section orders, members 237-23(a)(3) --Fraternal  
5           benefit societies, or associations for the payment of  
6           benefits to members;

7           (2) Section 237-23(a)(4)--Corporations, associations,  
8           trusts, or societies:

9           (A) Organized and operated exclusively for religious,  
10           charitable, scientific, or educational purposes;

11           (B) Operating senior citizens housing facilities  
12           qualifying for loans under the United States  
13           Housing Act of 1959, as amended;

14           (C) Operating legal service plans; or

15           (D) Operating or managing homeless facilities or other  
16           programs for the homeless;

17           (3) Section 237-23(a)(5)--Business leagues, chambers of  
18           commerce, boards of trade, civic leagues, agricultural  
19           and horticultural organizations, and organizations  
20           operated exclusively for the benefit of the community  
21           or promotion of social welfare, including legal  
22           service plans;

**.B. NO.**           

- 1           (4) Section 237-23(a)(6)--Hospitals, infirmaries, and
- 2                    sanitaria;
- 3           (5) Section 237-23(a)(7)--Tax-exempt potable water
- 4                    companies serving residential communities lacking
- 5                    access to public utility water services;
- 6           (6) Section 237-23(a)(8)--Agricultural cooperative
- 7                    associations incorporated under state or federal law;
- 8           (7) Section 237-23(a)(9)--Persons affected with Hansen's
- 9                    disease and kokuas with respect to business within the
- 10                   county of Kalawao;
- 11           (8) Section 237-23(a)(10)--Corporations, companies,
- 12                    associations, or trusts organized for cemeteries; and
- 13           (9) Section 237-23(a)(11)--Nonprofit shippers."

14           SECTION 3. Section 231-3.4, Hawaii Revised Statutes, is  
15 amended to read as follows:

16           "**§231-3.4 Publication of Reports.** (a) The department of  
17 taxation shall publish reports on the following:

- 18           (1) Hawaii income patterns - individuals;
- 19           (2) Hawaii income patterns - businesses;
- 20           (3) Tax credits; and
- 21           (4) General excise tax exemptions that:
  - 22                   (A) Are tax expenditures at the wholesale rate;

.B. NO.          

1           (B) Are tax expenditures at the retail rate; and  
2           (C) May be foregone opportunities to export taxes;  
3           provided that the department of taxation shall  
4           have the discretion to determine the exemptions  
5           that fit within each of the categories within  
6           subparagraphs (A), (B), and (C) and those that do  
7           not fit into any of the categories. The  
8           department shall not be required to publish  
9           reports on exemptions that do not fit into any of  
10          the categories.

11          (5) Tax expenditures as described in part        of this  
12 chapter.

13          (b) The department shall make each of these reports  
14 available in both paper form and commonly accessible electronic  
15 forms.

16          (c) The department of taxation shall provide the reports  
17 required by subsection (a)(1) and (3) to the legislature no  
18 later than twenty days prior to the convening of each regular  
19 session; provided that on or before December 31, 2015, the  
20 department of taxation shall report to the legislature on the  
21 status of upgrading its forms and reporting capabilities per the  
22 implementation of the department of taxation's tax system

.B. NO.    

1 modernization. The department of taxation shall provide the  
2 reports required by subsection (a)(2) and (4) to the legislature  
3 no later than twenty days prior to the convening of the 2017  
4 regular session and each session thereafter. The department  
5 shall provide the reports required by subsection (a)(5) on the  
6 schedule provided in part      of this chapter.

7       (d) The department may explore and implement all reasonable  
8 methods of covering the costs of distribution of the reports,  
9 including but not limited to:

10       (1) Setting reasonable fees that will cover the costs of  
11           producing and distributing the reports in paper and  
12           electronic form; and

13       (2) Negotiating licensing fees with commercial information  
14           providers for rights to carry the reports on-line or  
15           in other electronic storage methods.”

16       SECTION 4. Chapter 23, part VI, Hawaii Revised Statutes,  
17 is repealed.

18       SECTION 5. In codifying the new sections added by section  
19 2 of this Act, the revisor of statutes shall substitute  
20 appropriate section numbers for the letters used in designating  
21 the new sections in this Act.



\_\_\_\_\_.B. NO.\_\_\_\_\_

1 SECTION 6. Statutory material to be repealed is bracketed  
2 and stricken. New statutory material is underscored.

3 SECTION 7. This Act shall take effect July 1, 2018.

4

5

6

INTRODUCED BY: \_\_\_\_\_

7

\_\_\_\_.B. NO.\_\_\_\_

**Report Title:**

Taxation; Reviewing and reporting on tax expenditures and tax exemptions.

**Description:**

Requires the department of taxation to review and report on tax expenditures and exemptions. Repeals requirement for auditor to review and report on tax expenditures and exemptions.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

