
Tax Credits

Claimed by Hawaii Taxpayers

2003

**Department of Taxation
State of Hawaii**

STATE OF HAWAII

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TAX CREDITS CLAIMED BY HAWAII TAXPAYERS – 2003

INTRODUCTION

Tax credits reduce tax liability dollar for dollar, as opposed to a deduction, which merely reduces the amount of income subject to tax. Nonrefundable tax credits may reduce tax liability to zero, after which any excess credit either cannot be used or may be carried over to future tax years until exhausted. Refundable tax credits also may reduce tax liability to zero, but any excess credit is returned to the taxpayer in the form of a refund.

Two credits were introduced in 1965 to temper the tax burden on low-income taxpayers. Since then, other credits were established to fulfill economic and social goals. By 2003, the number of tax credits had increased to twenty-three.

The first two studies on tax credits were prepared by the Department of Taxation for tax years 1965 and 1970. Their purpose was to evaluate the effectiveness of the tax credits in accomplishing the goals of the Legislature. Beginning with the 1977 tax year, the Department has published annual studies in order to provide current information on tax credits claimed and to assess the impacts of law changes on tax credits. Prior to the 1986 tax year, the studies analyzed credits claimed by individuals only. Since tax year 1986, the studies have had a special section to cover the lifeline telephone service tax credit, which benefits low-income elderly and handicapped residential telephone users but is claimed by the telephone public utility. Beginning with tax year 1997, the studies were expanded to cover credits claimed by corporations,¹ and beginning with tax year 2000, the studies have included financial corporations. Insurance underwriters and fiduciaries (trusts and estates) were added in tax year 2001. The study for tax year 2003 is further expanded to cover exempt organizations.

The current study analyzes the following twenty-three tax credits² available in the 2003 tax year:

- Low-income refundable tax credit
- Low-income household renter's tax credit
- Child and dependent care expenses tax credit
- Child passenger restraint system tax credit
- Capital goods excise tax credit
- Fuel tax credit for commercial fishers
- Motion picture and film production income tax credit
- Hotel construction and remodeling tax credit
- Energy conservation tax credit
- Renewable energy technologies income tax credit
- Employment of vocational rehabilitation referrals tax credit

¹ Throughout this study, corporations are the business entities who file Form N-30. Financial corporations who file Form F-1 are reported separately.

² The tax credit from a regulated investment company, the tax credit for the pro rata share of taxes withheld and paid by a partnership, estate, trust, or S corporation on the sale of Hawaii real property interests, and the tax credit for tax withheld on Form N-4 are not discussed in the text. However, the number of claims and the amounts claimed are included in the category "Other Credits."

- Enterprise zone tax credit
- High technology business investment tax credit
- Technology infrastructure renovation tax credit
- Income tax paid to another state or to a foreign country
- Low-income housing tax credit
- Residential construction and remodeling tax credit
- School repair and maintenance tax credit
- Drought mitigating water storage facility tax credit
- Research activities tax credit
- Individual development account contribution tax credit
- Ethanol investment tax credit
- Lifeline telephone service credit

DATA SOURCE AND METHODOLOGY

The primary data source for this study is the Department of Taxation's computerized Integrated Tax Information Management System (ITIMS). Data from individual tax returns (Forms N-11, N-12, N-13 and N-15), corporation tax returns (Form N-30), fiduciary tax returns (Form N-40), and exempt organization tax returns (Form N-70) are extracted directly from the ITIMS. The data for individuals include tax returns processed by December 2004. For corporations, fiduciaries and exempt organizations, the data include tax returns processed by February 2005. The data for corporations exclude those with no income, no tax credit, and only minimal expenses.

Paper returns were used if computerized data were not available. Franchise tax returns (Form F-1) filed by financial corporations are not included in the ITIMS. Data on Form F-1 were collected manually from paper returns. The data for financial corporations include tax returns filed for tax year 2003.

As mentioned in the introduction, this study covers the lifeline telephone service tax credit claimed on public service company tax returns (Form U-6) by the telephone public utility. Data from Form U-6 are not available from the ITIMS and must be retrieved manually. Form U-6 is excluded from the total return count throughout this study but the amount of lifeline telephone service tax credits claimed is included.

Data on insurance premium tax returns were provided by the Insurance Division of the Department of Commerce and Consumer Affairs (DCCA), which handles insurance underwriters' tax returns. The data on insurance underwriters include tax returns filed for tax year 2003.

Stratified samples were drawn from the returns filed by individuals. Every return with an infrequently claimed tax credit was selected, while returns with only frequently claimed tax credits or with no tax credits were sampled at random. The sample of individual tax returns includes every return with a tax credit other than the low-income tax credit and the low-income

renter's tax credit. Tax returns with only the low-income tax credit or the low-income renter's tax credit, or with no tax credits were chosen by a random sampling.

In addition, the sample includes every return of a corporation, financial corporation, fiduciary, exempt organization or insurance underwriter.

Of the 616,556 total tax returns processed, more than thirteen percent, or 80,932 tax returns, were included in the sample. Figure 1 shows the number of tax returns processed and sampled by taxation district and by type of tax return. The State of Hawaii has four taxation districts: the First District is the island of Oahu; the Second District includes the islands of Maui, Molokai and Lanai; the Third District is the island of Hawaii; and the Fourth District includes the islands of Kauai and Niihau.

Figure 1

Number of Tax Returns Processed and Sampled by Taxation District

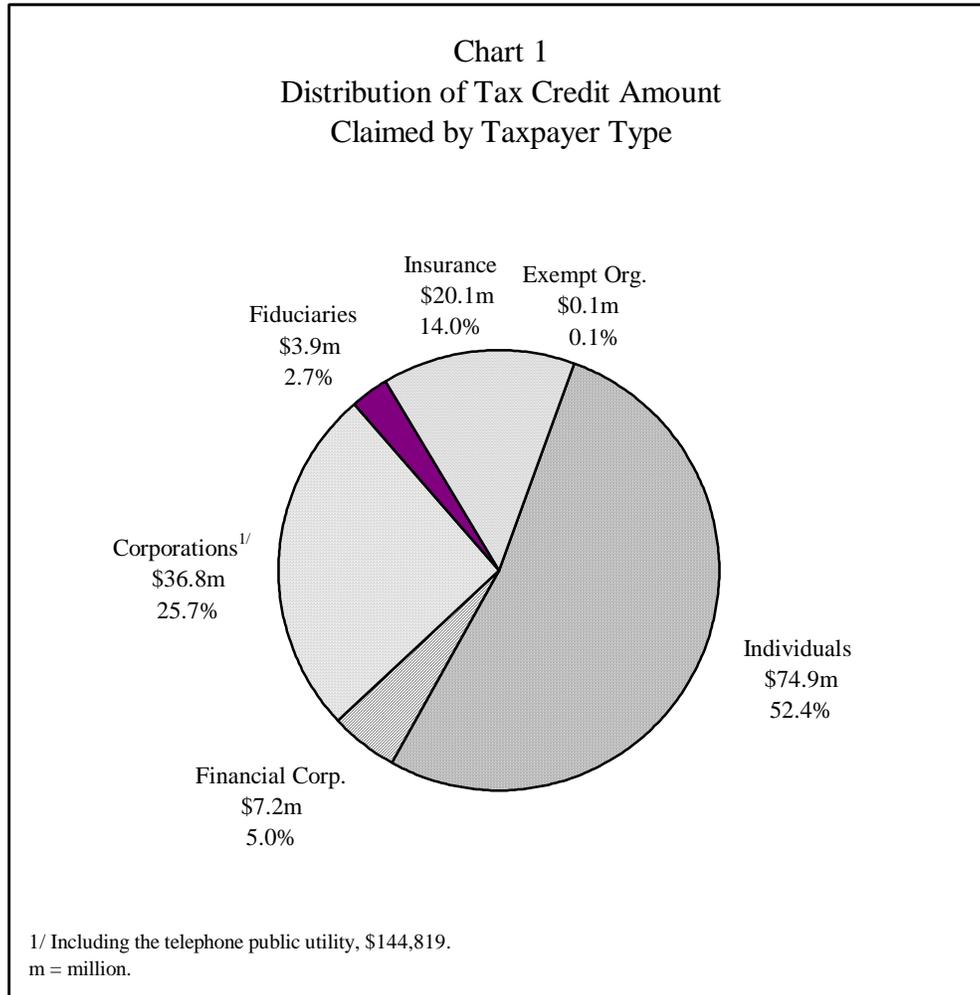
	TAXATION DISTRICT				
	State	First	Second	Third	Fourth
<u>Returns Processed</u>					
N-11	473,649	339,092	54,422	56,237	23,898
N-12	10,477	7,636	972	1,360	509
N-13	42,389	29,971	3,749	6,281	2,388
N-15	58,296	54,028	1,832	1,746	690
N-30	17,019	14,020	1,257	1,350	392
N-40	13,390	12,011	544	607	228
N-70NP	228	189	17	17	5
F-1	151	139	9	2	1
Insurance	957	957	0	0	0
Total	616,556	458,043	62,802	67,600	28,111
<u>Returns in Sample</u>					
N-11	57,349	40,440	7,376	6,811	2,722
N-12	553	391	74	61	27
N-13	1,352	909	135	228	80
N-15	2,694	2,431	123	102	38
N-30	17,019	14,020	1,257	1,350	392
N-40	629	569	22	26	12
N-70NP	228	189	17	17	5
F-1	151	139	9	2	1
Insurance	957	957	0	0	0
Total	80,932	60,045	9,013	8,597	3,277
<u>Percent of Returns Sampled (%)</u>					
N-11	12.1	11.9	13.6	12.1	11.4
N-12	5.3	5.1	7.6	4.5	5.3
N-13	3.2	3.0	3.6	3.6	3.4
N-15	4.6	4.5	6.7	5.8	5.5
N-30	100.0	100.0	100.0	100.0	100.0
N-40	4.7	4.7	4.0	4.3	5.3
N-70NP	100.0	100.0	100.0	100.0	100.0
F-1	100.0	100.0	100.0	100.0	100.0
Insurance	100.0	100.0	0	0	0
Total	13.1	13.1	14.4	12.7	11.7

OVERVIEW

The 2003 legislature enacted two measures related to tax credits. Act 207, SLH 2003, established a nonrefundable income tax credit for renewable energy technology systems installed after June 30, 2003 and based on wind, solar thermal, or solar photovoltaic energy. It took effect on July 1, 2003 and will be repealed on January 1, 2008. The renewable energy technologies tax credit, which replaces the energy conservation tax credit, does not extend the tax credit for heat pumps and ice storage systems that expired on June 30, 2003.

Act 100, SLH 2003, established a nonrefundable, carry-forward tax credit for qualified costs incurred for the development of attractions and educational facilities at the Ko Olina Resort and Marina, or for the development of a training and educational facility at the Makaha Resort. It took effect on May 29, 2003. However, the tax credit is not available until tax year 2005.

The present study analyzes twenty-three of the tax credits available to individuals, corporations, financial corporations, public service companies, fiduciaries, insurance underwriters or exempt organizations. Of the 616,556 total tax returns covered in this study, it is estimated that 40.7% claimed one or more tax credits. Tax credit claims totaled \$142.9 million in tax year 2003, for an increase of 13.5% over the \$125.9 million claimed in tax year 2002. As mentioned in the introduction, the current study is expanded to include exempt organizations. However, as shown in Chart 1, the exempt organizations accounted for only 0.1% of the total credits claimed. Individuals claimed \$74.9 million in tax credits in tax year 2003, or 52.4% of the total. Corporations claimed 25.7% of the total, insurance underwriters claimed 14.0%, financial corporation claimed 5.0%, and fiduciaries claimed 2.7%. Compared to the previous year, all taxpayer types showed an increase in tax credit claims except individuals, whose claims fell by 0.4% from \$75.2 million. Tax credits claimed by corporations rose \$6.6 million from \$30.2 million, claims by insurance underwriters rose \$6.6 million from \$13.5 million, claims by financial corporations rose \$1.1 million from \$6.1 million, and claims by fiduciaries rose \$3.1 million from \$0.8 million.



The slight decline in total credits claimed by individuals from the previous year was due a decrease of \$1.3 million in claims for the residential remodeling tax credit and a decrease of \$2.0 million in claims for the research activities tax credit. However, this \$3.3 million fall in claims was partly offset by the increases in claims of the high technology tax credit (\$2.2 million), of the credit for taxes paid to other jurisdictions (\$0.5 million) and of the hotel remodeling tax credit (\$0.4 million). The increase in total credits claimed by corporations was caused by substantial jumps in claims for the research activities tax credit and for the high technology tax credit. Claims for the research activities tax credit rose \$4.2 million while claims for the high technology tax credit rose \$2.1 million. Corporate claims for the hotel remodeling tax credit rose by \$1.1 million, but their claims for the capital goods excise tax credit fell by \$1.1 million. Tax year 2003 was the first year that financial corporations claimed the high technology tax credit. Their \$2.1 million in claims for the high technology tax credit was partly offset by a decline of \$1.4 million in their claims for the low-income housing tax credit. The upsurge in total credit claims for fiduciaries was the result of a \$2.9 million increase in claims for the credit for taxes paid to other jurisdictions.

Figure 2

Distribution of Tax Credits Claimed

	Number Of Returns	% of Total Returns	% of Total w/Credits	Amount of Credit	
				\$1,000	% of Total
All Returns	616,556	100.00			
Returns with Tax Credits	250,880	40.69	100.00	\$142,949.0	100.00
Low-Income Credit	184,106	29.86	73.38	8,267.8	5.78
Low-Income Renter's Credit	66,492	10.78	26.50	7,006.2	4.90
Dependent Care Credit	26,203	4.25	10.44	8,240.6	5.76
Child Passenger Restraint Credit	4,161	0.67	1.66	104.0	0.07
Capital Goods Excise Credit	5,657	0.92	2.25	20,998.1	14.69
Fuel Credit for Fishers	217	0.04	0.09	94.4	0.07
Motion Picture Credit	7	0.00	0.00	179.7	0.13
Hotel Remodeling Credit	261	0.04	0.10	5,269.9	3.69
Energy Device Credit*	3,272	0.53	1.30	5,359.0	3.75
Vocational Rehabilitation Credit	29	0.00	0.01	30.8	0.02
Enterprise Zone Credit	58	0.01	0.02	996.1	0.70
High Technology Credit	652	0.11	0.26	38,870.3	27.19
Technology Infrastructure Credit	78	0.01	0.03	363.9	0.25
Taxes Paid to Other Jurisdictions	5,398	0.88	2.15	19,609.7	13.72
Low-Income Housing Credit	45	0.01	0.02	2,109.3	1.48
Residential Remodeling Credit	12,726	2.06	5.07	13,070.5	9.14
School Repair & Maintenance	12	0.00	0.00	13.0	0.01
Research Activities Credit	165	0.03	0.07	11,482.4	8.03
Lifeline Telephone Service Credit	N/A	N/A	N/A	114.8	0.10
Other Credits**	292	0.05	0.12	738.5	0.52

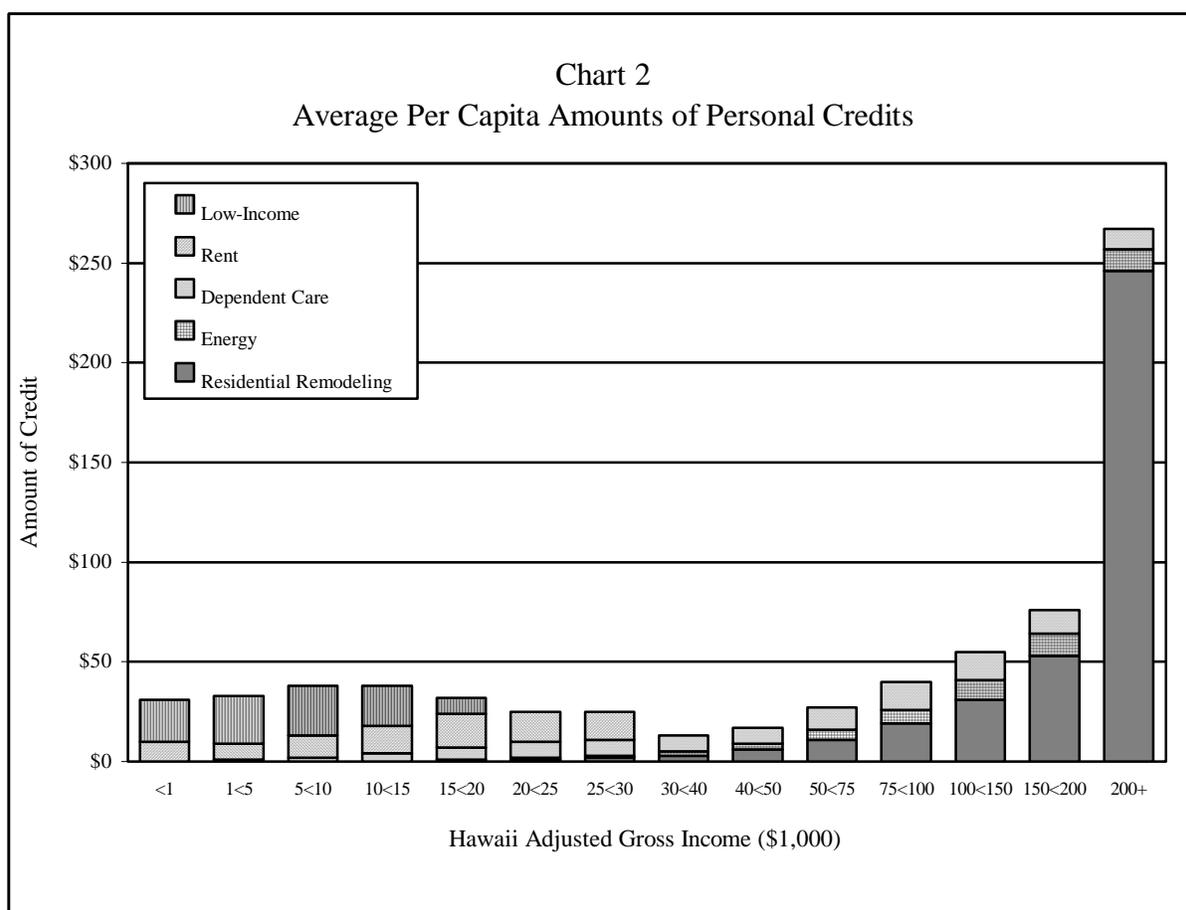
* Includes both the energy conservation tax credit and the renewable energy technology tax credit.

** Includes the tax credit from a regulated investment company, the tax credit for the pro rata share of taxes withheld and paid by a partnership, estate, trust, or S corporation on the sale of Hawaii real property interests, the tax credit for tax withheld on Form N-4, and the drought mitigation tax credit.

Figure 2 shows the tax credits claimed by type of credit. The low-income tax credit was the most frequently claimed credit in tax year 2003 and appeared on 73.4% of tax returns with credits. The amount of the credit totaled \$8.3 million, representing 5.8% of the total for all credits. The second most frequently claimed credit was the low-income renter's tax credit, which appeared on 26.5% of tax returns with credits and accounted for 4.9% of total credit dollars. The high technology tax credit had the largest dollar value of any credits, amounting to \$38.9 million or 27.2% of total for all credits. Despite the large dollar amount, the number of claims for the high technology tax credit was only 652 or 0.3% of all tax returns with credits. The capital goods excise tax credit had the second largest dollar amount, \$21.0 million. A total of 5,657 returns or 2.3% of all tax returns with credits claimed the capital goods excise tax credit.

Chart 2 shows per capita amounts of selected tax credits claimed by individuals in various Hawaii adjusted gross income (AGI) brackets. The amounts were generated by dividing the

dollar amount of each type of tax credit by the number of individuals within each AGI bracket. The number of individuals was calculated by adding the number of exemptions for taxpayers, spouses, and dependents claimed on the tax returns and the number of minor children who received more than half their support from public agencies, such as the State Department of Human Services. These children cannot be claimed as dependents, but they are included as qualified exemptions for purposes of the low-income tax credit.



The low-income renter's tax credit was distributed fairly evenly among the different eligible AGI groups (those with AGI at or below \$30,000), whereas the low-income tax credit dropped as AGI increased and recipients were phased out of the credit (the credit is not available for taxpayers with AGI of \$20,000 or more). Per capita claims for the energy, dependent care, and residential remodeling tax credits were greater in the higher AGI groups, a pattern that was especially pronounced for the residential remodeling tax credit.

Chart 3 compares socially oriented tax credits with economic development tax credits. The elimination of the food tax credit caused total claims for the socially oriented tax credits to plummet in 1999. Since then, claims for these tax credits have changed little.

On the other hand, claims for economic development tax credits have increased sharply each year after 1999 – by \$20.1 million in 2000, \$20.0 million in 2001, \$10.6 million in 2002 and \$14.9 million in 2003. The increase in 2000 was attributable primarily to a \$10.9 million jump in the capital goods excise tax credit, a \$5.9 million jump in the hotel remodeling tax credit, and the inclusion of financial corporations in the study. The increase in 2001 was largely due to the new residential remodeling tax credit, which amounted to \$11.3 million, and the high technology tax credit, which increased by \$9.2 million from the previous year. The increase in 2002 was largely due to the \$16.6 million increase in the high technology tax credit, and the increase in 2003 was largely due to the \$12.7 million increase in the high technology tax credit.

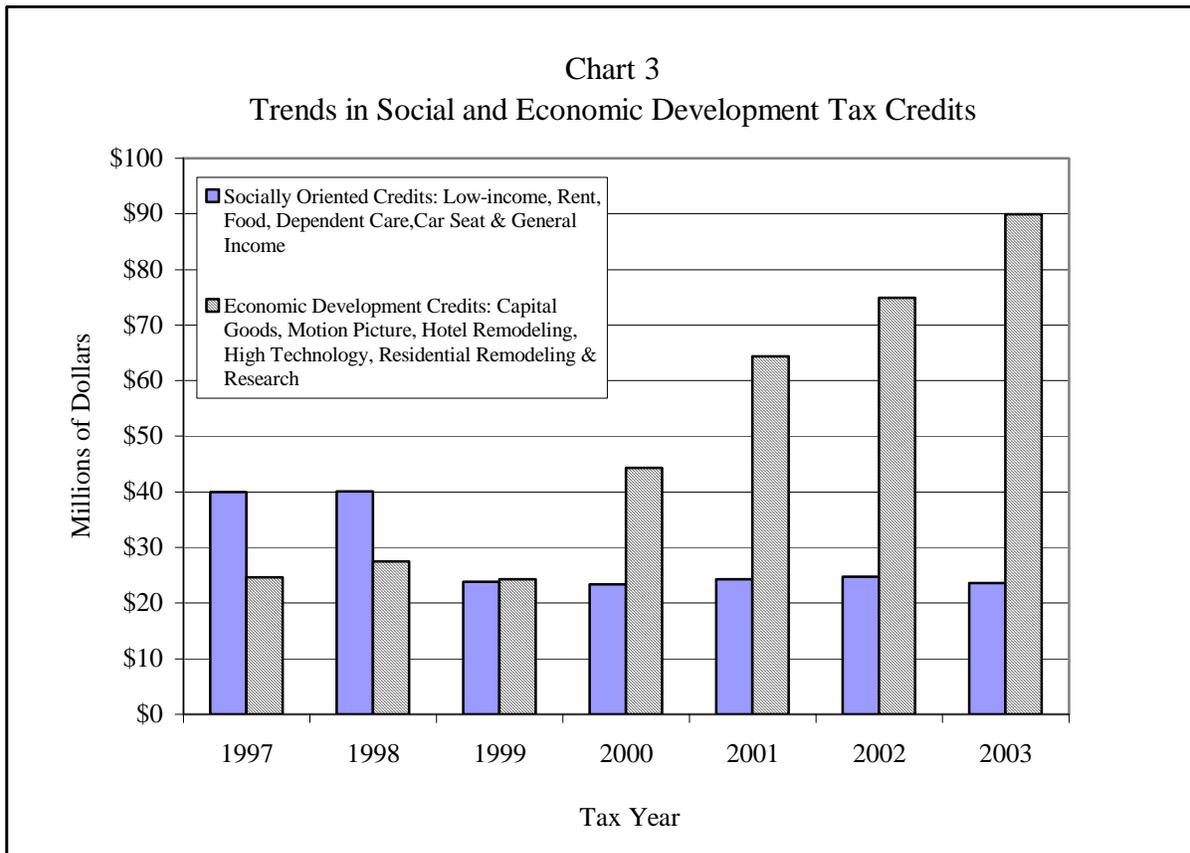


Chart 4 gives a brief history of tax credits in Hawaii. There were just two tax credits to assist low-income taxpayers in 1965: the inversely graduated consumer-type tax credit to mitigate the general excise tax burden and the education tax credit to promote education. That number grew to the twenty-three tax credits available for the 2003 tax year as new tax credits were added as economic incentives, to provide targeted tax relief, and for various other purposes. Qualifying individuals were eligible for all of the tax credits except the lifeline telephone service tax credit. Qualifying businesses (corporations, financial corporations, insurance underwriters and public service companies) were eligible for eighteen of the tax credits. The tax credits not allowed to businesses are the low-income tax credit, the low-income renter's tax credit, the dependent care

DESCRIPTIONS OF THE TAX CREDITS AND ANALYSIS OF THE DATA

This section provides brief descriptions of the twenty-three tax credits available for the 2003 tax year and an analysis of the data regarding those tax credits. Many tax credits require that taxpayers complete a specific tax form to compute the allowable tax credit and to provide specific information or evidence. While some tax credits may be claimed directly on tax returns, a number of tax credits must in some cases first be summarized on a Schedule CR before being transferred to the tax return.

Tax credit forms and instructions are available on the Department's website at www.hawaii.gov/tax, or through the Department's Forms by Fax/Mail Service at 808-587-7572 or toll-free at 1-800-222-7572. Tax credit forms and instructions may also be obtained at any district tax office.

Low-Income Refundable Tax Credit

The low-income refundable tax credit was introduced in tax year 1999 to replace the food tax credit. The food tax credit was previously part of the combined food/excise tax credit, the excise portion of which was eliminated after tax year 1994.

To claim the tax credit, the taxpayer must be a Hawaii resident with Hawaii adjusted gross income (AGI) of \$20,000 or less who is not claimed or eligible to be claimed as a dependent by another taxpayer. The tax credit is computed by multiplying the allowable tax credit by the number of qualified exemptions. Qualified exemptions are those personal exemptions permitted under Hawaii law, except the additional exemption for being age 65 or older. However, the persons for whom the tax credit is being claimed must have physically resided in Hawaii for more than nine months of the taxable year and they may not have been in jail, prison or a youth correctional facility for the full taxable year. Married persons filing separate tax returns must combine their AGI to determine their eligibility for the tax credit.

Minor children who cannot be claimed as dependents by another taxpayer because they receive more than half their support from public agencies, such as the State Department of Human Services, are eligible for the maximum \$35 tax credit amount. The tax credit for these minor children is claimed on tax returns filed by their parents or guardians. The allowable tax credit amounts are based on the taxpayer's AGI as shown below:

<u>Hawaii Adjusted Gross Income</u>	<u>Tax Credit Per Qualified Exemption</u>
Under \$10,000	\$35
\$10,000 " \$15,000	25
\$15,000 " \$20,000	10
Over \$20,000	0

Despite the income limit, the low-income refundable tax credit was the most commonly claimed tax credit. The tax credit appeared on 31.5% or 184,106 of the 584,811 tax returns filed by

individuals in tax year 2003. The total tax credits claimed amounted to \$8.3 million in tax year 2003, which is slightly less than the \$8.5 million claimed in tax year 2002.

Low-Income Household Renter's Tax Credit

Resident taxpayers who rented residential real property during the taxable year may qualify for the refundable low-income household renter's tax credit. To claim the tax credit, the taxpayer must be a Hawaii resident with AGI of less than \$30,000, who is not claimed or eligible to be claimed as a dependent by another taxpayer, and who paid more than \$1,000 in annual rent for real property in Hawaii that was the taxpayer's residence or the residence of the taxpayer's immediate family and that was not wholly or partially exempt from the real property tax. Married persons filing separate tax returns must combine their AGI to determine their eligibility for the tax credit. If a rental unit is shared with another person, the individual's portion of rent determines his or her eligibility.

The tax credit is computed by multiplying \$50 by the number of qualified exemptions. Qualified exemptions are those personal exemptions permitted under Hawaii law, including the additional exemption for being age 65 or older. However, the persons for whom the tax credit is being claimed must have physically resided in Hawaii for more than nine months of the taxable year.

The renter's tax credit appeared on 66,492 tax returns in tax year 2003, and claims for the tax credit totaled \$7.0 million, which is slightly less than the total in tax year 2002 (\$7.2 million). It was the second most commonly claimed tax credit by individuals. Elderly taxpayers claiming at least one additional exemption for being age 65 or older filed 10,568 claims for the tax credit, accounting for 15.9% of the total number of claims and 19.9% of the total dollar value. As shown in Figure 3, 20.5% of individual taxpayers with AGI under \$30,000 (excluding dependent filers) claimed the tax credit.

Figure 3

Tax Returns with Renter's Tax Credit by Adjusted Gross Income Class

Hawaii Adjusted Gross Income		Number of Returns*	Returns with Credit	% with Credit	Credit Amount
	Under \$ 1,000	59,818	9,234	15.4	\$ 935,200
\$	1,000 "	50,906	5,897	11.6	594,250
	5,000 "	50,165	8,987	17.9	905,250
	10,000 "	45,686	10,670	23.4	1,100,800
	15,000 "	44,308	12,493	28.2	1,382,750
	20,000 "	40,684	10,650	26.2	1,152,600
	25,000 "	33,541	8,561	25.5	935,300
TOTAL		325,108	66,492	20.5	7,006,150

* Excludes tax returns filed by dependents.

Child and Dependent Care Expenses Tax Credit

A resident taxpayer who pays for the care of a child under 13 years of age or for a spouse or dependent incapable of self care may qualify for this refundable tax credit if the taxpayer is gainfully employed.³

The tax credit amount ranges from 15% to 25% of qualified care expenses and decreases as AGI increases. The tax credit schedule is shown below.

<u>Hawaii Adjusted Gross Income</u>	<u>Percent of Allowable Expenses</u>
Up to \$22,000	25%
\$22,001 "	\$24,000 24%
\$24,001 "	\$26,000 23%
\$26,001 "	\$28,000 22%
\$28,001 "	\$30,000 21%
\$30,001 "	\$32,000 20%
\$32,001 "	\$34,000 19%
\$34,001 "	\$36,000 18%
\$36,001 "	\$38,000 17%
\$38,001 "	\$40,000 16%
\$40,001 and over	15%

³ Pursuant to section 235-55.6(d)(2), HRS, a spouse who is a student or incapable of caring for oneself may be considered to be gainfully employed and to have earned \$200 per month if the taxpayers have one qualifying individual for purposes of this credit and \$400 per month if they have two or more qualifying individuals.

The tax credit can be taken for care expenses of up to \$2,400 for one qualified individual and \$4,800 for two or more qualified individuals. Allowable expenses may not exceed the taxpayer's earned income; for joint tax returns, the amount may not exceed the income of the spouse with the lower earned income. For example, if a couple with two qualifying children paid \$4,000 for care expenses and one spouse earned \$50,000 while the other earned \$3,000, the eligible expense amount would be \$3,000. Since the couple's AGI is more than \$40,000, the amount of tax credit is 15% of \$3,000 or \$450.

For tax year 2003, the dependent care tax credit was reported on 26,203 tax returns and the total tax credits claimed amounted to \$8.2 million. The total claimed in tax year 2002 was \$8.0 million.

Child Passenger Restraint System Tax Credit

Any taxpayer who purchases one or more new child passenger restraint systems that comply with the federal motor vehicle safety standards in effect at the time of purchase may claim this refundable tax credit. The tax credit was enacted in 1982 to encourage the voluntary purchase of child restraint systems, but car seats became mandatory in the following year. The tax credit is \$25 per tax return regardless of the cost or the number of restraint systems purchased during the year.

A total of 4,161 claims were filed for the child passenger restraint system tax credit in tax year 2003 and a total of \$104,025 claimed, a decrease of 1.2% from the previous year's total of \$105,275.

Capital Goods Excise Tax Credit

Hawaii businesses may claim the capital goods excise tax credit for the purchase of eligible depreciable tangible personal property used in a trade or business. The depreciable property must have a useful life of three years or more, be placed in service in Hawaii, and be subject to either the general excise or use tax. This refundable tax credit is equal to 4% of the qualifying cost of such property provided that the property was not also used to claim the hotel construction and remodeling tax credit, the motion picture and film production income tax credit, or the technology infrastructure renovation tax credit.

A total of \$21.0 million of the tax credit was claimed in tax year 2003 on 5,657 tax returns, down from 6,005 tax returns and \$22.2 claimed in the previous year. Claims by corporations dropped by \$1.1 million (6.8%), from \$16.6 million in tax year 2002 to \$15.5 million in tax year 2003. Individual claims increased from \$3.4 million to \$3.5 million, and financial corporation claims dropped from \$2.1 million to \$1.9 million.

Fuel Tax Credit for Commercial Fishers

The principal operator of a commercial fishing vessel may claim this refundable tax credit for certain fuel taxes paid during the taxable year. The tax credit amount is equal to the fuel taxes imposed under section 243-4(a), HRS.

In tax year 2003, a total of 217 taxpayers claimed \$94,365 for this tax credit, whereas 218 taxpayers claimed \$187,983 for this tax credit in tax year 2002.

Motion Picture and Film Production Income Tax Credit

Any taxpayer who produces a motion picture or television film that benefits Hawaii's economy may claim this refundable tax credit in an amount equal to 4% of the costs incurred in Hawaii for producing the motion picture or television film plus 7.25% of transient accommodations costs incurred in Hawaii for the production.

Seven taxpayers claimed the motion picture tax credit, and their claims totaled \$179,732 in tax year 2003 compared to the \$198,731 claimed by twenty taxpayers in tax year 2002.

Hotel Construction and Remodeling Tax Credit

Act 108, SLH 1997, provided a refundable hotel remodeling tax credit of 4% of hotel remodeling costs incurred in the taxable year. The purpose of the tax credit was to encourage hotel owners to improve their facilities. Act 195, SLH 2000, expanded the tax credit to include new construction. After the 2001 terrorist attack, Act 10, SLH 2001, Third Special Session, temporarily changed the tax credit to a nonrefundable 10% tax credit through June 30, 2003; the previous 4% refundable tax credit provisions were automatically reenacted effective July 1, 2003.

Claims for this tax credit totaled \$5.3 million in tax year 2003; a 40.8% increase from the \$3.7 million claimed in tax year 2002.

Energy Conservation Tax Credit

Taxpayers who install an energy conservation device (solar system, wind energy system, heat pump, or ice storage system) may claim this nonrefundable tax credit, which applies only to the actual cost of the systems, including accessories and installation, but does not include the cost of repairs to existing systems.

The tax credit is equal to 35% of the cost of solar systems, 20% of the cost of wind energy systems and heat pumps, and 50% of the cost of ice storage systems. For single-family residential buildings, the tax credit is limited to \$1,750 for solar systems and \$400 for heat pumps. For multi-unit buildings used primarily for residential purposes, the tax credit is limited

to \$350 per unit for solar systems and \$200 per unit for heat pumps. There are no limits for hotels, commercial buildings, or industrial facilities, or for wind energy systems or ice storage systems.

The energy conservation tax credit expired on June 30, 2003. However, any unused tax credit may be carried over to subsequent years until exhausted.

For purposes of this study, the amounts claimed for the energy conservation tax credit have been combined with the successor renewable energy technologies income tax credit, which is described below.

Renewable Energy Technologies Income Tax Credit

Taxpayers who installed a renewable energy technology system (solar thermal energy system, wind powered energy system, or photovoltaic energy system) and placed it in service after June 30, 2003, may claim this nonrefundable tax credit, which applies only to the actual cost of the system, including the accessories and installation, but not the cost of consumer incentive premiums unrelated to the operation of the system or offered with the sale of the system.

The tax credit amount is 35% of the cost of the solar thermal systems, 20% of the cost of wind powered energy systems, and 35% of the cost of photovoltaic energy systems. For single-family residential properties, the tax credit is limited to \$1,750 for solar thermal systems, \$1,500 for wind powered energy systems, and \$1,750 for photovoltaic energy systems. For multi-family residential property, the tax credit is limited to \$350 for solar thermal energy systems, \$200 for wind-powered energy systems and \$350 for photovoltaic energy systems. For commercial properties, the tax credit is limited to \$250,000 for solar thermal, wind-powered, and photovoltaic energy systems.

For tax year 2003, the tax credit claimed on 3,272 tax returns totaled \$5.4 million. In the previous year, the tax credit claimed on 3,247 tax returns totaled \$5.2 million. Claims on individual tax returns increased from \$2.8 million in tax year 2002 to \$3.2 million in tax year 2003.

Employment of Vocational Rehabilitation Referrals Tax Credit

A taxpayer who employs a vocational rehabilitation referral, or an individual who is certified by the State Department of Human Services, Vocational Rehabilitation and Services for the Blind Division as having a physical or mental disability which results in a substantial handicap to employment may qualify for this nonrefundable tax credit. The tax credit is equal to 20% of the qualifying first-year wages for that taxable year, up to \$6,000. The tax credit claimed on twenty-nine tax returns in tax year 2003 for a total of \$30,779.

Enterprise Zone Tax Credit

A business located in a designated enterprise zone may claim a tax credit equal to a percentage of its net income tax liability and its unemployment insurance premiums paid for employees actually located in the enterprise zone. In the first year, the tax credit is 80% of the qualified amounts, decreasing by 10% each year, down to 20% in the seventh year. The tax credit is nonrefundable and any unused tax credit may not be carried forward.

The tax credit was claimed on 58 tax returns in tax year 2003 for a total of \$996,126. In tax year 2002, the tax credit was claimed on 61 tax returns for a total of \$752,418.

High Technology Business Investment Tax Credit

Taxpayers were allowed to claim this tax credit for tax years beginning after December 31, 1998. The originally enacted nonrefundable tax credit was equal to 10% of investments made on or after July 1, 1999, in a qualified high technology business, up to a maximum of \$500,000. Act 221, SLH 2001, expanded the tax credit to 100% of the qualified investment, up to a maximum tax credit of \$2 million per investment, claimed over five years as follows:

	<u>Tax Credit Percentage</u>	<u>Tax Credit Limitation</u>
Year investment made	35%	\$700,000
Year 2	25%	\$500,000
Year 3	20%	\$400,000
Year 4	10%	\$200,000
Year 5	10%	\$200,000

Taxpayers who had previously claimed the 10% investment tax credit for the 1999 or 2000 tax years were able to claim the tax credit for tax years 2001 and later as applicable under the amended law.

Tax credits claimed for the 1999 and 2000 tax years were \$162,208 and \$387,633, respectively, and grew dramatically thereafter to \$9.6 million in tax year 2001, \$26.2 million in tax year 2002, and \$38.9 million in tax year 2003. The number of claims also increased: 23 in tax year 1999, 103 in tax year 2000, 268 in tax year 2001, 493 in tax year 2002, and 652 in tax year 2003.

Claims by individuals increased from \$11.2 million in tax year 2002 to \$13.4 million in tax year 2003, while claims by corporations more than doubled, from \$1.7 million to \$3.9 million. Claims by insurance underwriters increased from \$13.1 million in tax year 2002 to \$19.4 million in tax year 2003.

Technology Infrastructure Renovation Tax Credit

This nonrefundable tax credit is equal to 4% of costs incurred after December 31, 2000, to plan, design, install, construct, and purchase equipment to provide a commercial building with

technology-enabled infrastructure. Claims for the tax credit more than tripled from tax year 2002 to tax year 2003, growing from \$117,594 to \$363,922.

Credit for Income Tax Paid to Another State or Foreign Country

If a resident individual has out-of-state income that is taxed by another state or foreign country and that is also taxed by Hawaii and the federal government, the taxpayer may claim a tax credit against Hawaii income tax for the net income tax paid to other states or foreign countries if the income was from a source outside Hawaii and earned while the taxpayer was a Hawaii resident. In addition, foreign income cannot be exempt from federal income tax and the federal foreign tax credit may not be claimed. No tax credit is allowed for city or local income taxes paid to another state.

A total of 5,398 taxpayers claimed \$19.6 million for this tax credit in tax year 2003. In tax year 2002, 5,465 taxpayers claimed \$16.2 million for this tax credit.

Low-Income Housing Tax Credit

Owners of residential buildings providing low-income housing may claim this nonrefundable tax credit, which is equal to 30% of the applicable federal low-income housing tax credit under section 42 of the Internal Revenue Code. The income tax credit was enacted in tax year 1988; it was expanded to the financial corporations in tax year 1992 and to the insurance underwriters in tax year 1999.

Claims for the tax credit totaled \$2.1 million in tax year 2003; a 30.3% decrease from the \$3.0 million claimed in tax year 2002. Claims by financial corporations declined from \$2.5 million in tax year 2002 to \$1.1 million in tax year 2003.

Residential Construction and Remodeling Tax Credit

Act 10, SLH 2001, Third Special Session, provided a nonrefundable tax credit equal to 4% of home construction or renovation costs, up to a maximum of \$250,000, incurred after December 31, 2000. Act 174, SLH 2002, extended the original June 30, 2002, sunset date by one year to allow costs incurred before July 1, 2003, to qualify.

The tax credit was claimed on 12,726 tax returns in tax year 2003, down from 17,481 claims in tax year 2002, while the total amount claimed declined from \$13.5 million to \$13.1 million.

School Repair and Maintenance Tax Credit

Act 309, SLH 2001, allows licensed contractors to claim a 10% nonrefundable tax credit, up to \$4,000, on the fair-market value of repair and maintenance services provided at no cost to public

schools. Claims for the tax credit increased from \$8,365 in tax year 2002 to \$13,020 in tax year 2003.

Drought Mitigation Tax Credit

To assist those suffering from drought, Act 293, SLH 2001, provided a refundable tax credit to farmers and ranchers for the construction or repair of a qualifying water storage facility through tax year 2005. The tax credit amount was equal to 4% of qualifying costs. Claims for the tax credit declined from \$4,343 in tax year 2002 to \$495 in tax year 2003.

Research Activities Tax Credit

As originally enacted by Act 178, SLH 1999, the research activities tax credit was a nonrefundable tax credit of 2.5% of qualifying research costs over a base amount, computed in the same manner as the comparable 20% federal research tax credit. Act 297, SLH 2000, increased the tax credit from 2.5% to 20% to match the federal tax credit and made the tax credit refundable. Act 221, SLH 2001, subsequently eliminated the provision that limited it to a percentage of costs in excess of a base amount. That is, the tax credit now applies to all qualified research expenditures rather than to only the amount by which they are increased. Thus, taxpayers who do not increase their qualified expenditures can now claim the tax credit.

As a result of the 2001 legislative changes, more taxpayers claimed the tax credit and the amount claimed increased dramatically from \$1.8 million in tax year 2000 to \$12.4 million in tax year 2001. Claims fell to \$9.2 million in tax year 2002, before growing to \$11.5 million in tax year 2003.

Individual Development Account Contribution Tax Credit

The Individual Development Account (IDA) program is intended to encourage people with low income to save towards specific long-term goals that include obtaining a post-secondary education, buying a first home, and starting a small business. Program participants enroll with a fiduciary organization, which provides matching funds for their deposits. A nonrefundable tax credit is allowed persons donating money to the fiduciary organization for use as matching funds. The tax credit is equal to 50% of the amount donated. Donations qualifying for the tax credit may not be claimed as a deduction for charitable contributions. The tax credit was effective for taxable years 2000 to 2004 with an aggregate limit of \$1 million. The tax credit has never been claimed.

Ethanol Investment Tax Credit

This refundable tax credit was intended to promote the use of ethanol fuel and is available from tax year 2002 to tax year 2011. Any facility producing motor fuel grade ethanol from renewable, organic feed stocks, or from waste materials may qualify as an ethanol production facility.

Investors in such facilities may claim a 100% tax credit over a period of time. The amount of the tax credit is the lesser of 30% of the amount invested or a specified dollar amount based on the nameplate capacity⁴ and which varies from \$150,000 to \$4.5 million. No claims for the tax credit were made in tax year 2003.

Other Refundable Tax Credits

This category includes the tax credit from a regulated investment company, the tax credit for the pro rata share of taxes withheld and paid by a partnership, estate, trust, or S corporation on the sale of Hawaii real property interests, and the tax credit for tax withheld on Form N-4. Claims for these tax credits increased from \$567,380 in tax year 2002 to \$738,037 in tax year 2003.

Lifeline Telephone Service Tax Credit

Lifeline telephone service is available to elderly and disabled residential telephone subscribers with an annual income less than \$10,000. The Public Utilities Commission determines and certifies the lifeline service costs. The telephone public utility may claim a tax credit equal to the sum of foregone revenues and the administrative costs of providing the telephone service to the eligible individuals.

The total tax credit claimed by the public utility was \$144,819 in tax year 2003, compared to \$162,414 in tax year 2002. Figure 4 shows the number of subscribers and the amount of the tax credit claimed since its inception in tax year 1986.

⁴ The nameplate capacity is the stated annual production design capacity of a facility, measured in gallons, based on an operating year of 350 days.

Figure 4

Lifeline Tax Credit and Number of Subscribers
Since Inception of Tax Credit in 1986

Tax Year	No. Subscribers At Year End	Amount Of Credit
1986*	4,520	\$ 98,108
1987	5,561	191,332
1988	6,013	210,932
1989	6,473	225,392
1990	6,166	247,064
1991	5,982	219,464
1992	7,677	232,166
1993	6,500	257,062
1994	6,666	247,579
1995	6,952	266,713
1996	7,318	274,828
1997	7,267	365,926
1998	7,572	169,158
1999	8,090	168,884
2000	7,815	171,218
2001	7,681	171,212
2002	7,532	162,414
2003	6,701	144,819

* In effect seven months.

APPENDIX I

STATISTICAL TABLES

TABLE 1
DOLLAR AMOUNTS OF TAX CREDITS CLAIMED
BY TYPE OF CREDIT AND TYPE OF TAXPAYER - 2003

Type of Credit	ALL	TAXPAYER TYPE							Exempt Organization
		Individuals	Corporations	Financial Corporations	Insurance Underwriters	Fiduciaries			
Low-Income Credit	\$ 8,267,820	\$ 8,267,820	-	-	-	-	-	-	-
Renter's Credit	7,006,150	7,006,150	-	-	-	-	-	-	-
Dependent Care Credit	8,240,648	8,240,648	-	-	-	-	-	-	-
Child Car Seat Credit	104,025	104,025	-	-	-	-	-	-	-
Capital Goods Excise Credit	20,998,071	3,534,591	15,482,773	1,924,111	-	-	-	26,336	30,260
Fuel Credit for Fishing	94,365	69,797	24,568	-	-	-	-	-	-
Motion Picture Credit	179,732	36,259	143,473	-	-	-	-	-	-
Hotel Remodeling Credit	5,269,903	793,910	4,429,457	-	-	-	-	46,536	-
Energy Device Credit*	5,359,021	3,223,174	87,595	2,047,983	-	-	-	269	-
Vocational Rehabilitation Job Credit	30,779	13,056	17,723	-	-	-	-	-	-
Enterprise Zone Credit	996,126	700,164	295,962	-	-	-	-	-	-
High Technology Credit	38,870,301	13,360,232	3,855,197	2,100,658	19,391,764	-	-	162,450	-
Technology Infrastructure Credit	363,922	271,264	55,332	-	-	-	-	37,326	-
Taxes Paid to Other Jurisdictions	19,609,650	16,154,053	-	-	-	-	-	3,455,470	127
Low-Income Housing Credit	2,109,274	37,306	269,465	1,141,895	660,594	-	-	14	-
Residential Remodeling Credit	13,070,490	12,005,429	1,065,061	-	-	-	-	-	-
School Repair & Maintenance	13,020	2,998	5,131	-	-	-	-	4,891	-
Drought Mitigation Credit	495	495	-	-	-	-	-	-	-
Research Activities Credit	11,482,395	542,672	10,859,828	-	-	-	-	1,623	78,272
Other Refundable Credits**	738,037	538,142	63,783	-	-	-	-	135,515	597
Lifeline Telephone Service Credit	144,819	-	144,819	-	-	-	-	-	-
GRAND TOTAL	\$142,949,043	\$ 74,902,185	\$36,800,167	\$ 7,214,647	\$20,052,358	\$ 3,870,430	\$ 109,256		

* Includes the energy conservation tax credit and the renewable energy technology tax credit.

** Includes the tax credit from a regulated investment company, the tax credit for the pro rata share of taxes withheld and paid by a partnership, estate, trust, or S corporation on the sale of Hawaii real property interests, and the tax credit for tax withheld on Form N-4.

TABLE 2
 NUMBER OF RETURNS CLAIMING SELECTED TAX CREDITS BY TYPE OF CREDIT
 AND BY TAXATION DISTRICT - 2003

Type of Credit	STATE	TAXATION DISTRICT			
		First	Second	Third	Fourth
Low-Income Credit	184,106	131,476	19,697	24,308	8,625
Renter's Credit	66,492	50,597	6,857	6,627	2,411
Dependent Care Credit	26,203	19,464	2,735	2,781	1,223
Child Car Seat Credit	4,161	2,966	600	412	183
Capital Goods Excise Credit	5,657	3,857	791	746	263
Fuel Credit for Fishing	217	80	22	90	25
Motion Picture Credit	7	*	*	*	*
Hotel Remodeling Credit	261	183	26	26	26
Energy Device Credit**	3,272	2,020	637	464	151
Vocational Rehabilitation Job Credit	29	25	*	*	*
Enterprise Zone Credit	58	52	*	*	*
High Technology Credit	652	567	49	27	9
Technology Infrastructure Credit	78	*	*	*	*
Taxes Paid to Other Jurisdictions	5,398	3,706	653	707	332
Low-Income Housing Credit	45	39	*	*	*
Residential Remodeling Credit	12,726	8,678	2,145	1,449	454
Research Activities Credit	165	141	9	8	7

* Data suppressed to protect taxpayer confidentiality.

** Includes the energy conservation tax credit and the renewable energy technology tax credit.

TABLE 3
DOLLAR AMOUNTS OF TAX CREDITS CLAIMED BY INDIVIDUALS
BY DISTRICT AND TYPE OF CREDIT - 2003

Type of Credit	STATE	TAXATION DISTRICT			
		First	Second	Third	Fourth
Low-Income Credit	\$ 8,267,820	\$ 5,936,715	\$ 866,205	\$ 1,110,070	\$ 354,830
Renter's Credit	7,006,150	5,374,550	673,000	728,600	230,000
Dependent Care Credit	8,240,648	6,244,958	834,847	817,142	343,701
Child Car Seat Credit	104,025	74,150	15,000	10,300	4,575
Capital Goods Excise Credit	3,534,591	2,093,537	689,224	623,469	128,361
Fuel Credit for Fishing	69,797	20,250	6,563	36,568	6,416
Motion Picture Credit	36,259	34,054	-	2,205	-
Hotel Remodeling Credit	793,910	601,854	14,973	8,170	168,913
Energy Device Credit*	3,223,174	2,123,954	559,853	401,206	138,161
Vocational Rehabilitation Job Credit	13,056	12,022	-	502	532
Enterprise Zone Credit	700,164	687,403	9,244	3,517	-
High Technology Credit	13,360,232	10,767,180	1,441,055	660,556	491,441
Technology Infrastructure Credit	271,264	271,264	-	-	-
Taxes Paid to Other Jurisdictions	16,154,053	9,037,549	3,256,515	2,462,102	1,397,887
Low-Income Housing Credit	37,306	35,277	9	1,970	50
Residential Remodeling Credit	12,005,429	7,367,445	2,585,413	1,318,691	733,880
School Repair & Maintenance	2,998	2,996	-	2	-
Drought Mitigation Credit	495	-	495	-	-
Research Activities Credit	542,672	463,692	1,760	45,391	31,829
Other Refundable Credits**	538,142	464,443	33,683	24,763	15,253
TOTAL FOR INDIVIDUALS	\$ 74,902,185	\$ 51,613,293	\$ 10,987,839	\$ 8,255,224	\$ 4,045,829

* Includes the energy conservation tax credit and the renewable energy technology tax credit.

** Includes the tax credit from a regulated investment company and the tax credit for the pro rata share of taxes withheld and paid by a partnership, estate, trust, or S corporation on the sale of Hawaii real property interests.

TABLE 4
 NUMBER OF INDIVIDUAL RETURNS CLAIMING TAX CREDITS
 BY SIZE OF CREDITS PER RETURN AND BY ADJUSTED GROSS INCOME - 2003

ADJUSTED GROSS INCOME CLASS	Number of Returns with Credits	SIZE OF TAX CREDIT													
		\$25 under \$25	\$25 under \$50	\$50 under \$100	\$50 under \$150	\$100 under \$150	\$150 under \$200	\$200 under \$300	\$300 under \$500	\$300 under \$500	\$500 under \$1,000	\$500 under \$1,000	\$1,000 and over		
Under \$ 5,000	76,696	384	38,213	24,692	7,629	1,838	3,085	458	287	110					
\$ 5,000 "	37,918	227	16,860	12,253	3,701	1,955	1,647	863	357	55					
10,000 "	36,431	38	14,956	12,860	2,322	2,245	2,072	1,305	519	114					
15,000 "	35,096	17,876	3,123	5,967	2,497	2,071	1,426	1,416	602	118					
20,000 "	12,498	103	303	5,373	1,978	1,217	1,948	686	752	138					
25,000 "	10,390	105	210	3,994	2,025	1,194	1,297	635	753	177					
30,000 "	2,390	107	259	233	265	157	245	643	353	128					
35,000 "	2,245	130	242	280	186	136	220	570	314	167					
40,000 "	2,244	103	255	281	177	157	216	553	347	155					
45,000 "	2,410	127	271	300	187	149	234	560	358	224					
50,000 "	10,926	466	1,140	1,318	832	749	981	2,383	1,661	1,396					
75,000 "	8,216	399	775	983	685	512	741	1,713	1,197	1,211					
100,000 "	6,522	263	510	697	466	416	601	1,258	1,036	1,275					
150,000 "	1,892	72	109	142	114	114	145	298	286	612					
200,000 and Over	2,662	73	96	122	79	100	132	241	340	1,479					
TOTAL	248,536	20,473	77,322	69,495	23,143	13,010	14,990	13,582	9,162	7,359					
Percent of Total*	100.0%	8.2%	31.1%	28.0%	9.3%	5.2%	6.0%	5.5%	3.7%	3.0%					

* Details may not add up to total due to rounding.

TABLE 5
 NUMBER OF INDIVIDUAL RETURNS CLAIMING TAX CREDITS
 BY GEOGRAPHICAL AREAS - 2003

Geographical Area	Number of Returns	Low-Income Credit	Renter's Credit	Dependent Care Credit	Child Car Seat Credit	Capital Goods Excise Credit	Energy Device Credit*	Residential Remodeling Credit	Payments to Other States	All Other Credits
STATEWIDE TOTAL	584,811	184,106	66,492	26,203	4,161	3,608	3,259	12,703	5,317	1,309
Oahu										
Kaimuki to Hawaii Kai	45,569	14,877	3,681	2,250	348	474	342	1,642	834	216
Makiki to Waikiki	51,727	19,337	10,400	1,631	200	309	131	1,064	624	141
Downtown, Nuuanu	49,633	21,721	9,212	1,564	233	316	113	805	379	160
Airport, Kalihi	35,646	12,720	6,443	1,651	224	92	86	432	122	50
Kailua, Kaneohe	45,168	12,491	3,090	2,835	438	289	383	1,657	505	100
North Shore	12,594	3,756	1,637	402	70	50	38	183	88	7
Wahiawa, Mililani	32,952	8,245	1,952	2,233	365	128	237	748	164	32
Aiea, Pearl City	34,077	10,469	2,581	1,671	295	133	169	752	204	56
Waipahu	29,448	9,919	4,955	1,801	229	73	165	423	93	15
Kapolei, Ewa	30,085	7,778	2,703	2,355	308	101	271	606	125	23
Waianae Coast	15,723	7,031	2,751	538	85	24	40	130	39	16
Maui										
Wailuku-Kahului	22,867	7,513	2,650	1,119	283	173	205	693	97	24
Kihei	8,861	2,463	1,333	426	72	108	133	431	169	16
Lahaina	9,121	2,354	967	319	62	72	73	275	115	12
Rural Maui	15,944	5,684	1,611	779	169	247	191	683	242	34
Molokai	2,777	1,290	56	35	9	13	24	25	15	8
Lanai	1,401	342	240	59	4	6	6	34	12	3

* Includes the energy conservation tax credit and the renewable energy technology tax credit.

TABLE 5 (Continued)
 NUMBER OF INDIVIDUAL RETURNS CLAIMING TAX CREDITS
 BY GEOGRAPHICAL AREAS - 2003

Geographical Area	Number of Returns	Low-Income Credit	Renter's Credit	Dependent Care Credit	Child Car Seat Credit	Capital Goods Excise Credit	Energy Device Credit*	Residential Remodeling Credit	Payments to Other States	All Other Credits
Hawaii										
Hilo	22,016	9,078	2,755	1,045	160	125	86	310	144	37
Puna to Kau	11,876	6,095	911	394	72	69	94	203	109	18
Kona	19,853	5,495	1,899	810	93	222	187	565	318	53
Kohala	7,788	1,947	633	400	59	101	78	298	149	34
Hamakua	4,997	1,748	477	154	28	44	30	97	28	9
Kauai										
North Kauai	10,703	3,392	1,240	443	65	86	64	200	175	25
Lihue	7,227	2,312	699	352	58	52	39	102	60	5
Koloa to Poipu	2,185	563	14	96	6	18	15	49	40	7
West Kauai	7,367	2,404	459	333	54	38	33	102	54	21
Other / No Zip Code	47,206	3,082	1,143	508	172	245	26	194	413	187

* Includes the energy conservation tax credit and the renewable energy technology tax credit.

TABLE 6
 NUMBER CLAIMING RENTER'S TAX CREDIT, NUMBER OF EXEMPTIONS,
 AND TAX CREDITS CLAIMED, BY ADJUSTED GROSS INCOME - 2003

ADJUSTED GROSS INCOME CLASS	Number Claiming	Number of Exemptions*		Tax Credits Claimed	
		Total	Regular		Age
Under \$ 1,000	9,234	19,065	12,658	6,407	\$ 935,200
\$ 1,000 "	2,713	5,795	4,612	1,183	282,800
3,000 "	3,184	6,230	5,436	794	311,450
5,000 "	4,219	8,150	7,178	972	401,200
7,000 "	3,050	6,814	6,331	483	333,050
9,000 "	3,785	7,754	7,160	594	387,450
11,000 "	4,538	9,651	9,254	397	482,050
13,000 "	4,065	8,102	7,505	597	402,300
15,000 "	5,066	11,577	11,137	440	574,000
17,000 "	7,427	16,183	15,733	450	808,750
20,000 "	10,650	23,206	22,664	542	1,152,600
25,000 "	8,561	18,965	18,618	347	935,300
TOTAL	66,492	141,492	128,286	13,206	\$ 7,006,150

* Reflects the number of personal exemptions claimed for net income purposes.

TABLE 7
TOTAL INDIVIDUAL RETURNS FILED AND LOW-INCOME TAX CREDITS CLAIMED
BY ADJUSTED GROSS INCOME - 2003

ADJUSTED GROSS INCOME CLASS	Total No. of Returns Filed	RETURNS WITH CREDIT			RETURNS WITHOUT CREDIT		
		No. of Returns	No. of Regular Exemptions*	Exemptions per Return	Amount of Tax Credits	No. of Returns	Percent of Total
Under \$ 5,000	133,916	75,837	110,278	1.45	\$3,888,970	58,079	43.4%
" 5,000	57,872	37,183	60,418	1.62	2,106,735	20,689	35.7%
" 10,000	47,910	36,007	63,478	1.76	1,594,790	11,903	24.8%
" 15,000	44,835	34,720	64,182	1.85	657,030	10,115	22.6%
20,000 and Over**	300,278	359	823	2.29	20,295	299,919	99.9%
TOTAL	584,811	184,106	299,179	1.63	\$8,267,820	400,705	68.5%

* Reflects the number of personal exemptions for net income tax purpose only. Regular exemptions exclude age exemptions.

** Foster children are eligible for the low-income credit even if family adjusted gross income is larger than \$20,000.

TABLE 8
 COMPARATIVE DATA ON INDIVIDUAL RETURNS FILED,
 SHOWING NUMBER AND PERCENTAGE CLAIMING THE LOW-INCOME TAX CREDIT - 2003
 STATEWIDE

ADJUSTED GROSS INCOME CLASS	Number of Returns Filed			Returns with Credit			% of Returns with Credit		
	Single ¹	Joint ²	H/H ³	Single ¹	Joint ²	H/H ³	Single ¹	Joint ²	H/H ³
Under \$5,000	92,409	35,605	5,902	48,735	22,110	4,992	52.7	62.1	84.6
" 10,000	38,297	14,683	4,892	22,866	9,977	4,340	59.7	67.9	88.7
" 15,000	29,732	12,002	6,176	20,773	9,293	5,941	69.9	77.4	96.2
" 20,000	25,961	11,352	7,522	19,063	8,428	7,229	73.4	74.2	96.1
20,000 and Over ⁴	110,520	155,521	34,237	157	85	117	0.1	0.1	0.3
TOTAL	296,919	229,163	58,729	111,594	49,893	22,619	37.6	21.8	38.5

¹ Includes married filing separately.

² Includes qualified surviving spouse.

³ Head of Household.

⁴ Foster children are eligible for the low-income credit even if family adjusted gross income is larger than \$20,000.

TABLE 9
 NUMBER CLAIMING DEPENDENT CARE TAX CREDIT, DEPENDENT CARE
 EXPENSES ALLOWED, AND TAX CREDIT CLAIMED, BY ADJUSTED GROSS INCOME - 2003
 STATEWIDE

ADJUSTED GROSS INCOME CLASS	Number of		Returns Claiming Credit	Percent With Credit	Expenses Allowed	Tax Credit Claimed
	Returns Filed	Returns				
Under \$ 5,000	133,916	258	0.2	\$ 325,808	\$ 81,452	
\$ 5,000	57,872	492	0.9	772,908	193,227	
10,000	47,910	789	1.6	1,394,152	348,538	
15,000	44,835	1,141	2.5	1,960,592	490,148	
20,000	40,800	1,464	3.6	2,389,685	577,894	
25,000	33,651	1,420	4.2	2,421,732	527,975	
30,000	30,890	1,328	4.3	2,410,359	463,503	
35,000	22,870	1,196	5.2	2,128,622	357,715	
40,000	22,541	1,212	5.4	2,298,168	344,732	
45,000	17,714	1,324	7.5	2,469,528	370,438	
50,000	62,650	6,303	10.1	12,005,252	1,800,835	
75,000	33,571	4,615	13.7	8,647,593	1,297,173	
100,000	22,801	3,404	14.9	6,556,611	983,518	
150,000	6,278	715	11.4	1,491,958	223,798	
200,000 and Over	6,512	542	8.3	1,197,987	179,702	
TOTAL	584,811	26,203	4.5	\$ 48,470,955	\$ 8,240,648	

TABLE 10
 NUMBER CLAIMING DEPENDENT CARE TAX CREDITS BY ADJUSTED GROSS INCOME
 AND BY EXPENSES ALLOWED - 2003
 STATEWIDE

ALLOWABLE DEPENDENT CARE EXPENSES	TOTAL	ADJUSTED GROSS INCOME					
		Under \$15,000	\$15,000 under \$30,000	\$30,000 under \$50,000	\$50,000 under \$100,000	\$100,000 and Over	
Under \$ 500	4,479	318	730	833	1,851	747	
" 1,000	4,659	273	719	880	2,004	783	
" 1,500	2,978	197	499	538	1,200	544	
" 2,000	2,072	144	321	432	805	370	
" 2,500	7,643	456	1,346	1,632	3,015	1,194	
" 3,000	457	15	50	71	209	112	
" 3,500	504	15	60	84	229	116	
" 4,000	382	12	34	64	183	89	
" 4,500	352	6	29	58	180	79	
4,500 and Over	2,677	103	237	468	1,242	627	
TOTAL	26,203	1,539	4,025	5,060	10,918	4,661	

TABLE 11
 NUMBER CLAIMING CAPITAL GOODS EXCISE TAX CREDIT,
 AMOUNT OF CAPITAL ASSETS PURCHASED, AND TAX CREDIT CLAIMED - 2003
 INDIVIDUAL RETURNS, STATEWIDE

ADJUSTED GROSS INCOME CLASS	Number Claiming	Amount of		Tax Credit Claimed
		Qualified Purchases		
Under \$10,000	521	\$ 10,409,200	\$	416,368
\$10,000 "	290	3,820,825		152,833
20,000 "	226	2,794,475		111,779
30,000 "	233	2,810,600		112,424
40,000 "	213	2,958,125		118,325
50,000 "	479	7,617,500		304,700
75,000 "	392	5,829,725		233,189
100,000 "	418	6,462,825		258,513
150,000 "	228	4,162,275		166,491
200,000 and Over	608	41,499,225		1,659,969
TOTAL	3,608	\$ 88,364,775		\$ 3,534,591

TABLE 12
 NUMBER CLAIMING CAPITAL GOODS EXCISE TAX CREDIT, AMOUNT OF CAPITAL
 ASSETS PURCHASED, AND TAX CREDIT CLAIMED - 2003
 CORPORATION AND FINANCIAL CORPORATION RETURNS, STATEWIDE

GROSS RECEIPTS CLASS	Number Claiming	Amount of		Tax Credit Claimed
		Number Qualified	Purchases	
Under \$ 100,000	188	\$ 5,590,200	\$ 223,608	
\$ 100,000	401	10,057,600	402,304	
500,000	314	6,450,775	258,031	
1,000,000	569	103,732,800	4,149,312	
5,000,000	200	32,431,200	1,297,248	
10,000,000 and Over	280	276,909,525	11,076,381	
TOTAL	1,952	\$ 435,172,100	\$ 17,406,884	

TABLE 13
 INDIVIDUAL RETURNS CLAIMING RESIDENTIAL CONSTRUCTION AND REMODELING TAX CREDIT,
 QUALIFIED CONSTRUCTION COSTS, AND TAX CREDIT CLAIMED, BY ADJUSTED GROSS INCOME - 2003
 STATEWIDE

ADJUSTED GROSS INCOME CLASS	Number of		Returns Claiming Credit	Percent With Credit	Qualifying Construction Costs	Tax Credit Claimed
	Returns Filed	Returns Claiming Credit				
Under \$ 5,000	133,916	52	0.0	\$ 72,625	\$ 2,905	
" 5,000	57,872	132	0.2	166,175	6,647	
" 10,000	47,910	246	0.5	659,600	26,384	
" 15,000	44,835	329	0.7	1,435,750	57,430	
" 20,000	40,800	395	1.0	2,300,675	92,027	
" 25,000	33,651	453	1.3	3,261,425	130,457	
" 30,000	30,890	470	1.5	3,712,450	148,498	
" 35,000	22,870	547	2.4	5,239,875	209,595	
" 40,000	22,541	556	2.5	5,559,650	222,386	
" 45,000	17,714	632	3.6	7,063,225	282,529	
" 50,000	62,650	2,873	4.6	42,573,875	1,702,955	
" 75,000	33,571	2,353	7.0	44,453,400	1,778,136	
" 100,000	22,801	2,051	9.0	52,421,300	2,096,852	
" 150,000	6,278	700	11.2	24,717,900	988,716	
" 200,000	6,512	914	14.0	106,497,800	4,259,912	
and Over	584,811	12,703	2.2	\$ 300,135,725	\$ 12,005,429	
TOTAL						

APPENDIX II

OUTLINE OF TAX CREDIT HISTORY

Outline of Tax Credit History by Year of Enactment

Year	Act	Tax Credit	Tax Credit Description or Modification
1957	1	Out-of-state taxes paid	Credit on portion of income taxes paid to another state or foreign country.
1965	155	Consumer-type	Range established at \$18 to \$0.45 per qualified exemption based on modified adjusted gross income (MAGI).
	155	Education credit	Set at \$50 to \$2 for higher education, \$20 to \$2 for K12, based on modified adjusted gross income (MAGI).
1967	229	Credit against individual income tax	Formerly named the consumer-type credit; limited to residents with MAGI under \$7,000; credit range changed to \$20 to \$1 per qualified exemption.
	229	Education credit	Limited to residents with adjusted gross income (AGI) under \$7,000.
1969	60	Credit against individual income tax	Expanded upper income limit to MAGI under \$10,000, raised maximum credit per qualified exemption to \$21.
1970	180	Drug and medical expense credit	Credit range established at 4% to 1% of expenses, based on MAGI under \$14,000.
	180	Rent credit	Credit range of 2% to 1% of rent paid, inversely graduated to AGI under \$15,000.
1971	59	Drug and medical expense credit	Person aged 65 or older allowed two exemptions beginning with 1972 tax year.
1974	221	Excise credit	Replaced four previous credits: credit against individual income tax, education, drug and medical expense, and rent credits; set at \$30 to \$6 per qualified exemption based on AGI under \$15,000.
1976	189	Energy device credit	Set at 10% of cost of solar device installed after 12/31/74 but before 12/31/81.
	208	Excise credit	Raised maximum credit to \$40 per qualified exemption; raised AGI ceiling to under \$20,000; person aged 65 or over allowed two exemptions.
1977	15	Rent credit	Set at \$20 per qualified exemption; AGI must be less than \$20,000 and annual rent must be greater than \$1,000; age 65 or over allowed two exemptions.
	196	Child and dependent care credit	Set at 5% of care expenses; maximum credit \$100 for one and \$200 for two or more qualified dependents.
1978	19	Hot water insulation credit	Up to \$30 for cost of materials; expired 12/31/84.

Year	Act	Tax Credit	Tax Credit Description or Modification
1980	228	Excise credit	Increased credit per qualified exemption; new range \$48 to \$8.
1981	230	Rent credit	Raised to \$50 per qualified exemption.
	231	General income credit	Set at \$100 per qualified exemption.
	233	Energy device credit	Expanded to include home heat pumps and wind energy devices; extended expiration date to 12/30/85.
	234	Child and dependent care credit	Raised to 10% of expenses; maximum credit raised to \$200 for one and \$400 for two or more qualified decedents.
1982	25	Child and dependent care credit	Changed to graduated credit ranging from 15% to 10% of expenses, based on AGI; maximum credit raised to \$360 for one and \$720 for two or more qualified dependents.
	134	Child passenger restraint credit	Set at \$25 per return for purchase of qualified care seat.
	265	General income credit	Reduced to \$25 per qualified exemption.
1983	67	Energy device credit	Eligibility extended to heat pumps for commercial use.
	97	General income credit	Reduced to \$1 per qualified exemption.
1984	55	General income credit	\$1 per qualified exemption.
1985	81	General income credit	\$1 per qualified exemption.
	232	Energy device credit	Extended expiration date to 12/30/92; increases to 15% if federal energy credit not extended beyond 12/31/85.
1986	49	General income credit	\$1 per qualified exemption.
	66	Energy device credit	Raised to 15% if federal energy credit not retroactively extended or reenacted.
	70	Energy device credit	Expanded to include ice storage systems with credit set at 10% of cost.
1987	41	General income credit	\$1 per qualified exemption.
	239	Food credit	Set at \$45 per qualified exemption; to expire 12/31/90.
	239	Capital goods excise credit	Set at 3% of cost of qualified tangible business property for tax year 1988 and 4% of cost for 1989 and thereafter.
1988	11	Excise credit	Credit range changed to \$55 to \$10 per qualified exemption; AGI ceiling raised to \$30,000.
	185	General income credit	\$1 per qualified exemption.

Year	Act	Tax Credit	Tax Credit Description or Modification
1988	216	Low-income housing credit	30% credit on the qualified basis of each low-income building located in Hawaii as provided in IRC section 43(b).
1989	307	Energy device credit	Raised to 20% of cost if placed in service after 12/31/89.
	321	Medical services excise credit	Set at 4% of qualified medical expenses; maximum credit \$200 for most residents, \$400 if 65 or older, and \$600 if both joint taxpayers 65 years or older.
	321	Rent credit	AGI ceiling raised to \$30,000.
	321	Child and dependent care credit	Credit made refundable if it exceeds tax liability; AGI ceiling for maximum 15% rate raised from \$10,000 to \$22,000.
	322	Child and dependent care credit	Raised rate to 25% to 15% of qualified expenses effective after 12/31/89.
	323	General income credit	\$125 per qualified exemption.
1990	98	Renter's credit	Allowed residents with no taxable income to claim the credit.
	186	General income credit	Reduced to \$60 per qualified exemption.
	187	Food/excise credit	Repealed excise credit and created a permanent food/excise credit; food credit increased from \$45 to \$55 per qualified exemption; no change in excise credit rates.
	319	Energy device credit	Extended expiration date to 12/31/98; credit ceilings set according to device and type of dwelling: solar device--lesser of 35% of cost or \$1,750 if placed in single-family dwelling or \$350 if placed in multi-family dwelling, no cap for hotel, commercial, or industrial installation; heat pump--lesser of 20% of cost or \$400 if installed in single-family unit or \$200 if placed in multi-family unit; no cap for hotel, commercial, or industrial installations; wind energy device--rate increased from 15% to 20% of cost; ice storage systems--rate increased to 50% of cost if installed and placed in service after 12/31/90.
1991	137	Job credit	20% of wage up to \$1,200 per vocational rehabilitation employee.
	179	General income credit	\$1 per qualified exemption.
	217	Medical services excise credit	Extended the medical service excise credit to 12/31/96.
1992	128	General income credit	\$1 per qualified exemption.
1993	184	General income credit	\$1 per qualified exemption.
	315	Medical services excise credit	6% of nursing facility expenses.

Year	Act	Tax Credit	Tax Credit Description or Modification
1994	85	General income credit	\$1 per qualified exemption.
1995	23	Medical services excise credit	Repealed the 4% portion of the tax credit and retains 6% of the nursing facility tax portion.
	93	General income credit	\$1 per qualified exemption.
	134	Medical services excise credit	Repealed the medical service tax credit and the nursing facilities tax credit.
	134	Food/excise credit	Reduced the food portion of the food/excise tax credit from \$55 to \$27 per qualified exemption, and repeals the excise portion of the food/excise tax credit.
1996	286	Enterprise zone credit	Exempted general excise taxes on the gross proceeds from manufacture of tangible personal property, the wholesale of tangible personal property, or the engaging in a service business by qualified businesses in the enterprise zone.
1997	107	Motion picture credit	Provided an income tax credit of up to 4% of costs incurred, and of up to 6% of transient accommodations costs incurred in the production of motion picture or television films in the state.
	108	Hotel remodeling credit	Provided an income tax credit equal to 4% of the renovation costs for each qualified hotel facility located in Hawaii, with tax credit cap of 10% of the transient accommodations tax paid by the taxpayer in the preceding tax year.
1998	156	Motion picture credit	Increases credit from 6% to 7.25% of transient accommodations costs incurred.
	157	Food tax credit	Repealed food tax credit beginning tax year 1999.
	157	Low-income credit	Established refundable graduated low-income credit beginning tax year 1999.
	163	Energy device credit	Extended sunset date for energy device credits to July 1, 2003.
1999	024	Low-income housing credit	Expanded to include insurance companies.
	160	IDA credit	IDA tax credit up to 50% of contribution to an individual development account (IDA).
	178	High technology credit	10% of the investment made by the taxpayer in each qualified high technology business, up to a maximum allowed credit of \$500,000, effective tax years 1999 to 2005.
	178	Research activity credit	Adopts federal income tax credit for increasing research activities, effective tax years 2000 to 2005.

Year	Act	Tax Credit	Tax Credit Description or Modification
1999	306	Qualified improvement credit	Qualified improvement tax credit for capitalized costs of construction and equipment of a permanent nature with respect to resort and hotel properties. Unspecified percent of credit may be applied against GET, income, PSC or TAT.
2000	148	Low-income housing credit	Allows partnerships to claim low-income housing credit.
	184	Individual development account	5% of amount contributed to an IDA up to \$1 million, between January 01, 2000 and December 31, 2004.
	174	Research activity credit	Retains credit for increasing research activities, even if federal credit is repealed.
	289	Ethanol investment credit	16 step investment tax credits for ethanol production facility based on gallons produced, capped at lesser of 30% of investment of specified dollar amount per step. Effective after December 31, 2001.
	297	Research activity credit	Makes the credit refundable.
	297	High technology credit	Eases requirements to qualify for credit.
2001	36	General income credit	\$1 per qualified exemption.
	221	Research activities credit	Removes requirement for increasing research.
	221	High technology credit	Increases maximum credit to \$2 million and credit percentage to 100%.
	293	Drought mitigation credit	4% of cost of construction or repair of qualified water storage facility for farmers and ranchers.
	309	School repair and maintenance credit	10% of fair-market value of repair and maintenance of public schools by licensed contractors.
2001 3 rd SS	10	Hotel construction and remodeling credit	Increases credit to 10% of costs and makes it nonrefundable until June 30, 2003.
	10	Residential construction and remodeling credit	4% of cost of new residential construction or remodeling.
2002	63	General income credit	\$1 per qualified exemption.
	174	Residential construction and remodeling credit	Extends the credit to costs incurred before July 1, 2003.

Year	Act	Tax Credit	Tax Credit Description or Modification
2003	97	Renewable Energy Technologies Credit (Energy Device Credit)	Energy technology installed and placed in service after 6/30/03. Credit ceilings set according to device and type of dwelling: solar device-lesser of 35% of cost or \$1,750 if placed in single family dwelling, \$350 for multi family dwelling, \$250,000 for commercial properties; wind powered systems-lesser of 20% of cost or \$1,500 if installed in single family unit, \$200 if placed in multi family unit, or \$250,000 if placed in a commercial property; photovoltaic energy systems-lesser of 35% of cost or \$1,750 if installed in single family unit, \$350 if installed in multi family unit, \$250,000 if installed in a commercial property.