
Tax Credits

Claimed by Hawaii Taxpayers

2004

**Department of Taxation
State of Hawaii**

STATE OF HAWAII

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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 2004, 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. For tax year 2003, exempt organizations were added to the study.

The current study analyzes the following twenty-three tax credits available in the 2004 tax year²:

- 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 Refundable 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 facility 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, corporations, fiduciaries and exempt organizations include tax returns processed by March 2006. 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 2004.

The lifeline telephone service tax credit is 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 study includes the amount of lifeline telephone service tax credits claimed.

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 2004.

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 634,683 total tax returns processed, more than thirteen percent, or 84,471 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
Returns Processed					
N-11	496,245	353,679	57,003	60,350	25,213
N-12	9,203	6,711	900	1,159	433
N-13	39,008	27,733	3,446	5,782	2,047
N-15	61,846	57,155	1,893	2,085	713
N-30	13,684	11,373	975	1,012	324
N-40	13,314	11,882	572	609	251
N-70NP	208	174	15	13	6
F-1	215	187	14	9	5
Insurance	960	960	0	0	0
Total	634,683	469,854	64,818	71,019	28,992
Returns in Sample					
N-11	51,624	36,324	6,391	6,367	2,542
N-12	421	299	48	56	18
N-13	1,258	864	142	189	63
N-15	2,787	2,517	102	127	41
N-30	13,684	11,373	975	1,012	324
N-40	13,314	11,882	572	609	251
N-70NP	208	174	15	13	6
F-1	215	187	14	9	5
Insurance	960	960	0	0	0
Total	84,471	64,580	8,259	8,382	3,250
Percent of Returns Sampled (%)					
N-11	10.4	10.3	11.2	10.6	10.1
N-12	4.6	4.5	5.3	4.8	4.2
N-13	3.2	3.1	4.1	3.3	3.1
N-15	4.5	4.4	5.4	6.1	5.8
N-30	100.0	100.0	100.0	100.0	100.0
N-40	100.0	100.0	100.0	100.0	100.0
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	13.3	13.7	12.7	11.8	11.2

OVERVIEW

The 2004 legislature enacted two measures related to tax credits. Act 97, Session Laws of Hawaii (SLH) 2004, clarified that the renewable energy technologies income tax credit is nonrefundable and that unused credit may be claimed in subsequent years until exhausted. It allowed financial institutions to claim the credit for taxable years beginning after December 31, 2002, provided that the system was installed after June 30, 2003.

Act 140, SLH 2004, clarified that the amount of the ethanol facility tax credit is equal to 30% of the ethanol production facility's nameplate capacity³ and that it is limited to 100% of the total of all investments made by the taxpayer during the eight year tax credit period if the ethanol production facility met certain production requirements. It took effect on July 1, 2004 and was applied to taxable years beginning after December 31, 2003.

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 634,683 total tax returns covered in this study, it is estimated that 38.3% claimed one or more tax credits. Tax credit claims totaled \$178.7 million in tax year 2004, for an increase of 25.0% over the \$142.9 million claimed in tax year 2003.

As shown in Chart 1, the exempt organizations accounted for only a small percent of the total credits claimed. Individuals claimed \$95.9 million in tax credits in tax year 2004, or 53.6% of the total. Corporations claimed 23.9% of the total, insurance underwriters claimed 12.1%, financial corporations claimed 9.0%, and fiduciaries claimed 1.4%. Compared to the previous year, all taxpayer types showed an increase in tax credit claims except fiduciaries and exempt organizations. Tax credits claimed by fiduciaries fell 37.3%, from \$3.9 million in 2003 to \$2.4 million in 2004. Claims by exempt organizations also fell over this same period, from \$109,000 to \$59,000. Tax credits claimed by individuals rose \$21.0 million to \$95.9 million, claims by corporations rose \$5.9 million to \$42.7 million, claims by financial corporations rose \$8.9 million to \$16.1 million, and claims by insurance underwriters rose \$1.5 million to \$21.5 million.

³ The nameplate capacity is the stated annual production design capacity of a facility, measured in gallons, based on an operating year of 350 days.

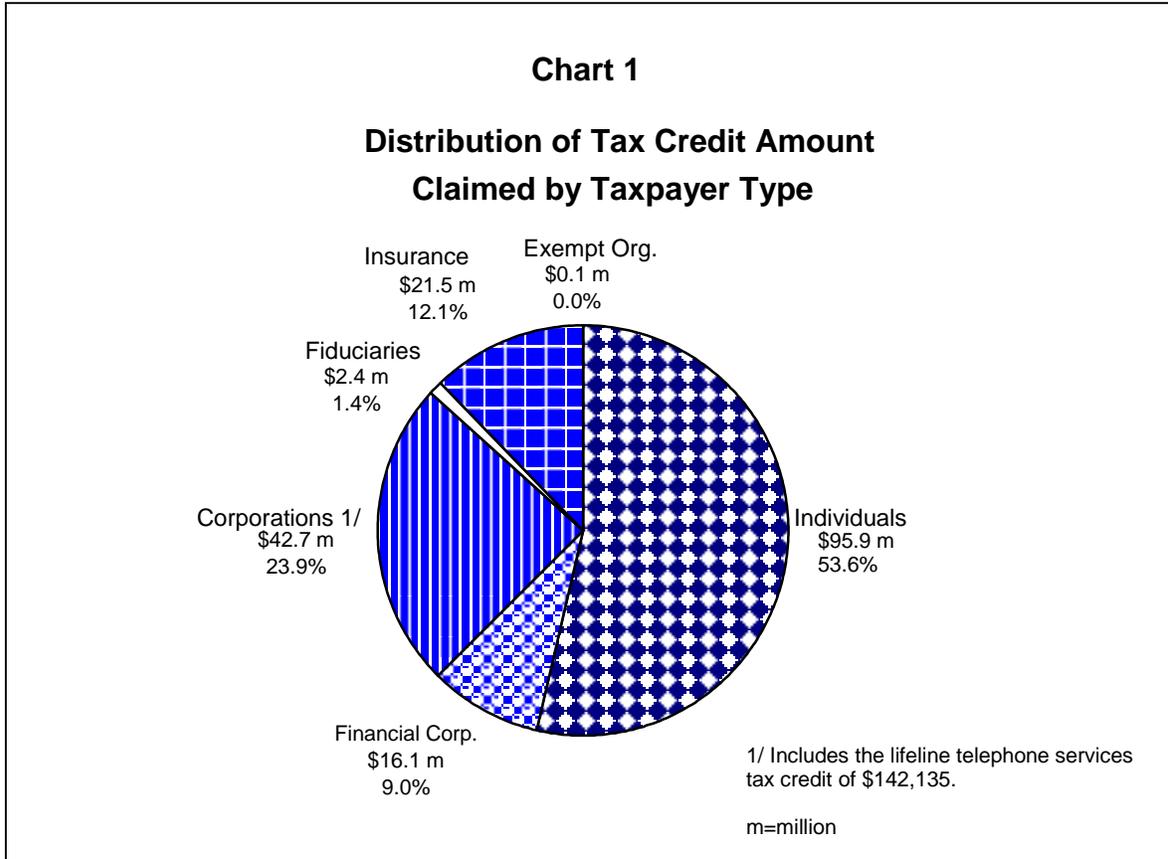


Figure 2 compares selected tax credits by taxpayer type for tax years 2003 and 2004. The 28.0% increase in total credits claimed by individuals was caused by the increase in claims for the capital goods excise credit, hotel remodeling credit, high technology credit, taxes paid to other jurisdictions and research activities credit. These claims increased by \$2.3 million, \$1.3 million, \$13.5 million, \$10.3 million and \$1.5 million respectively. The increase in claims made by insurance underwriters was also caused by the increase in claims for the high technology credit (\$1.3 million). However, corporations had a \$2.9 million decrease in claims for the high technology credit. The \$5.9 million net increase in claims by corporations was caused by the increase in claims for the capital goods excise credit (\$2.9 million) and the hotel remodeling credit (\$6.1 million). The \$8.9 million increase in claims by financial corporations was the result of a \$1.7 million increase in claims for the capital goods excise credit and an \$8.5 million increase in claims for the energy device credit⁴.

⁴ Includes both the energy conservation credit and renewable energy technologies credit.

Figure 2
Comparison of Selected Tax Credits and Taxpayer Type
Tax Years 2003 and 2004

Taxpayer Type and Credit	2004	2003	Difference	
			Amount	% change
Individuals				
Total Credits	\$95,870,131	\$74,902,185	\$20,967,946	28.0
Capital Goods Excise Credit	5,792,394	3,534,591	2,257,803	63.9
Hotel Remodeling Credit	2,141,454	793,910	1,347,544	169.7
High Technology Credit	26,858,573	13,360,232	13,498,341	101.0
Taxes Paid to Other Jurisdictions	26,425,841	16,154,053	10,271,788	63.6
Residential Remodeling Credit	4,741,162	12,005,429	(7,264,267)	(60.5)
Research Activities Credit	2,036,809	542,672	1,494,137	275.3
Corporations 1/				
Total Credits	\$42,744,672	\$36,800,167	\$5,944,505	16.2
Capital Goods Excise Credit	18,372,523	15,482,773	2,889,750	18.7
Hotel Remodeling Credit	10,486,689	4,429,457	6,057,232	136.7
High Technology Credit	994,571	3,855,197	(2,860,626)	(74.2)
Financial Corporations				
Total Credits	\$16,075,914	\$7,214,647	\$8,861,267	122.8
Capital Goods Excise Credit	3,581,043	1,924,111	1,656,932	86.1
Energy Conservation Credit	10,580,000	2,047,983	8,532,017	416.6
Insurance				
Total Credits	\$21,547,993	\$20,052,358	\$1,495,635	7.5
High Technology Credit	20,714,206	19,391,764	1,322,442	6.8

1/ Includes the lifeline telephone services tax credit of \$142,135

Figure 3 shows the tax credits claimed by type of credit. The low-income tax credit was the most frequently claimed credit in tax year 2004 and appeared on 75.7% of tax returns with credits. The amount of the credit totaled \$8.1 million, representing 4.6% of the total for all credits. The second most frequently claimed credit was the low-income renter's tax credit, which appeared on 24.8% of tax returns with credits and accounted for 3.5% of total credit dollars. The high technology tax credit had the largest dollar value of any credits, amounting to \$50.5 million or 28.3% of the total for all credits. Despite the large dollar amount, the number of claims for the high technology tax credit was only 1,040, or 0.4% of all tax returns with credits. The credit for taxes paid to other jurisdictions had the second largest dollar amount, \$28.3 million. A total of 6,171 returns, or 2.5% of all tax returns with credits, claimed the tax credit for taxes paid to other jurisdictions.

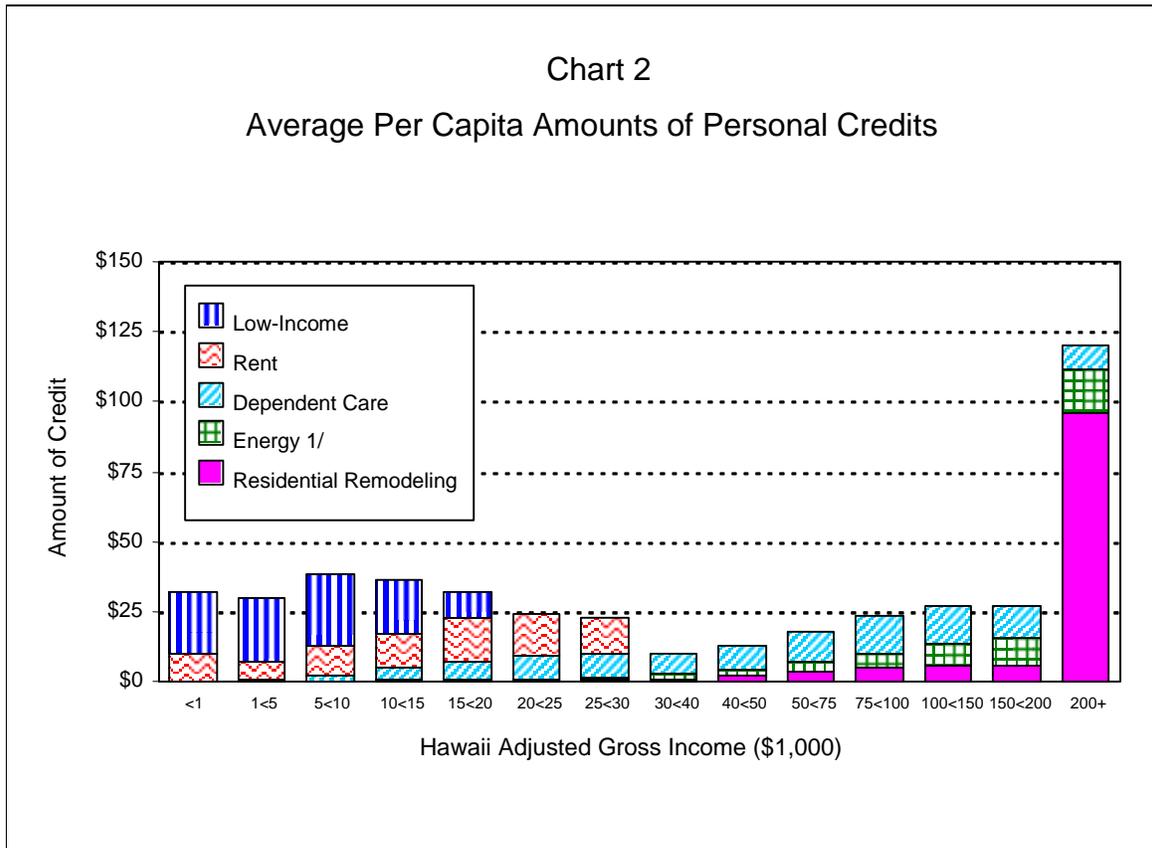
Figure 3
Distribution of Tax Credits

	Number of Returns	% of Total Returns	% of Total w/ Credits	Amount of Credit	
				\$1,000	% of Total
All Returns	634,682	100.00			
Returns with Tax Credits	243,318	38.34	100.00	\$ 178,723.0	100.00
Low Income Credit	184,101	29.01	75.66	8,124.0	4.55
Renter's Credit	60,288	9.50	24.78	6,209.2	3.47
Dependent Care Credit	26,720	4.21	10.98	8,560.6	4.79
Child Car Seat Credit	4,367	0.69	1.79	109.2	0.06
Capital Goods Excise Credit	6,112	0.96	2.51	27,837.0	15.58
Fuel Credit for Fishing	200	0.03	0.08	63.6	0.04
Motion Picture Credit	19	0.00	0.01	750.7	0.42
Hotel Remodeling Credit	292	0.05	0.12	12,735.8	7.13
Energy Conservation Credit	958	0.15	0.39	11,521.5	6.45
Renewable Energy Technologies	1,884	0.30	0.77	2,219.9	1.24
Vocational Rehabilitation Job Credit	24	0.00	0.01	31.8	0.02
Enterprise Zone Credit	76	0.01	0.03	1,163.6	0.65
High Technology Credit	1,040	0.16	0.43	50,543.3	28.28
Technology Infrastructure Credit	30	0.00	0.01	306.4	0.17
Taxes Paid to Other Jurisdictions	6,171	0.97	2.54	28,253.7	15.81
Low-Income Housing Credit	34	0.01	0.01	2,187.8	1.22
Residential Remodeling Credit	2,081	0.33	0.86	5,053.1	2.83
Minor School Repair & Maintenance	17	0.00	0.01	8.1	0.00
Research Activities Credit	245	0.04	0.10	12,204.6	6.83
Lifeline Telephone Service Credit	N/A	N/A	N/A	142.1	0.08
Indv Development Acct Contribution	9	0.00	0.00	2.7	0.00
Other Refundable Credits **	105	0.02	0.04	694.5	0.39

* Data suppressed to protect taxpayer confidentiality.

** Includes the credit from a regulated investment company, the credit for tax withheld or paid by a partnership, estate, trust, or S corporation on the sale of Hawaii real property interests, the credit for tax withheld on Form N-4, and the ethanol facility 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 refundable tax credit (the 'low-income tax credit').



1/ Includes both the energy conservation credit and renewable energy technologies 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 energy⁵, 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 by large amounts each year after 1999 – by \$20.1 million in 2000, \$20.0 million in 2001, \$10.6 million in 2002, \$14.9 million in 2003 and \$19.3 million in 2004. The increase in 2000 was attributable primarily to a \$10.9 million increase in the capital goods excise tax credit, a \$5.9 million increase in the hotel remodeling tax credit, and the inclusion of

⁵ Includes both the energy conservation credit and renewable energy technologies tax credit.

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 increases in 2002 and 2003 were largely due to increases of \$16.6 million and \$12.7 million in the high technology tax credit respectively. In 2004, the increase in economic development tax credits was also mainly due to the \$11.7 million increase in the high technology tax credit. However, it was also caused by the \$7.5 million increase in the hotel remodeling tax credit and the \$6.8 million increase in the capital goods excise tax credit. These increases were somewhat offset by the \$8.0 million decrease in claims for the residential remodeling credit.

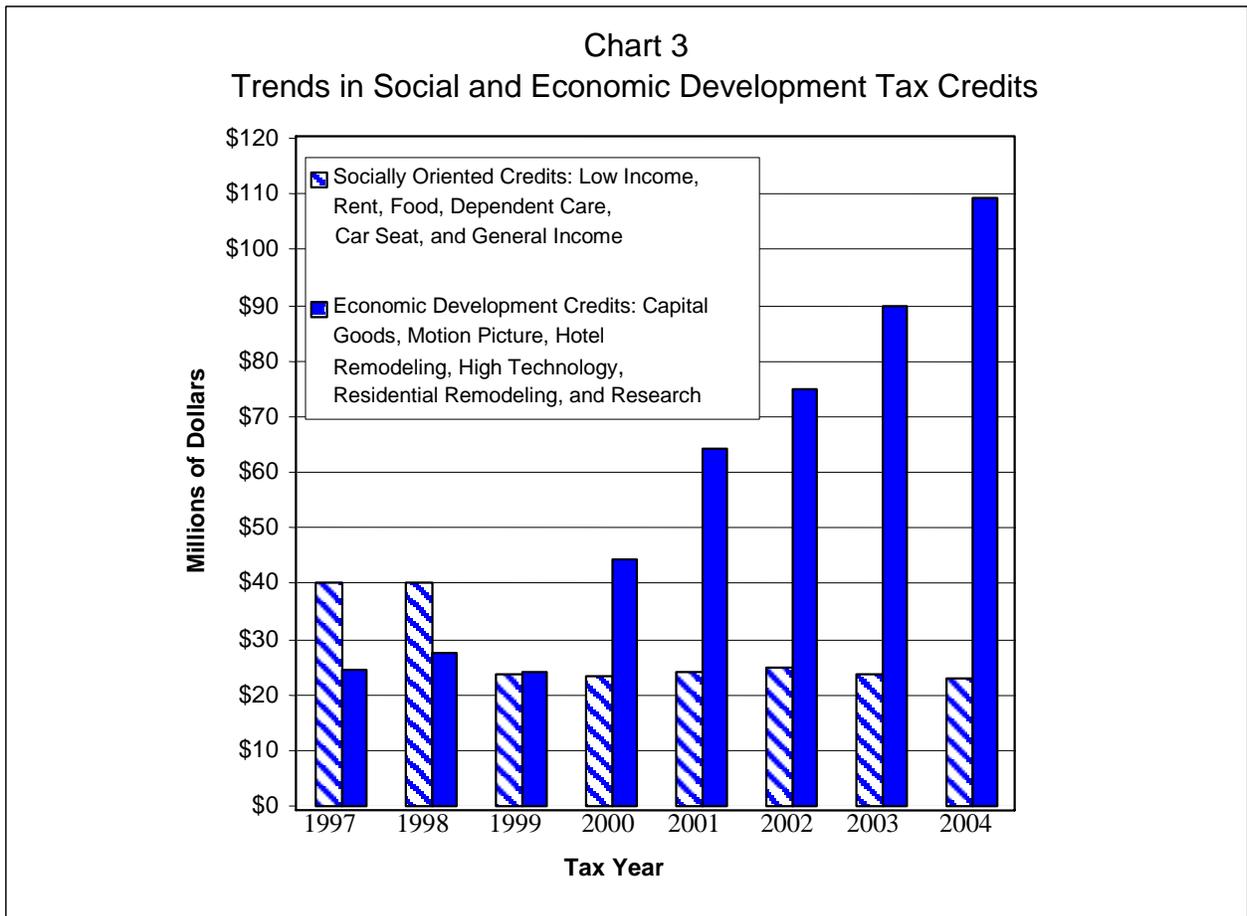


Chart 4 gives a brief history of tax credits in Hawaii. There were just two tax credits to assist low-income taxpayers in 1965: the inversely graduated consumer-type tax credit to mitigate the general excise tax burden and the education tax credit to promote education. That number grew to the twenty-three tax credits available for the 2004 tax year as new tax credits were added to provide economic incentives and targeted tax relief 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

DESCRIPTIONS OF THE TAX CREDITS AND ANALYSIS OF THE DATA

This section provides brief descriptions of the twenty-three tax credits available for the 2004 tax year and an analysis of the data regarding them. Many tax credits require that taxpayers complete a specific tax form to compute the 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 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	under \$15,000	25
\$15,000	to \$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 30.4% or 184,101 of the 606,302 tax returns filed by individuals in tax year 2004. The total tax credits claimed amounted to \$8.1 million in tax year 2004, which is slightly less than the \$8.3 million claimed in tax year 2003.

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 60,288 tax returns in tax year 2004, and claims for the tax credit totaled \$6.2 million, which is 11.4% less than the total in tax year 2003 (\$7.0 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 9,882 claims for the tax credit, accounting for 16.4% of the total number of claims and 20.8% of the total dollar value. The credit was claimed by 16.8% of individual taxpayers with AGI under \$30,000 (excluding dependent filers). Figure 4 shows amounts of the credit claimed, broken down by income class.

Figure 4

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	67,253	8,975	13.3	\$ 941,550
\$ 1,000 < 5,000	66,388	5,093	7.7	466,500
5,000 < 10,000	58,592	8,438	14.4	856,850
10,000 < 15,000	47,327	8,923	18.9	865,450
15,000 < 20,000	43,593	11,300	25.9	1,176,400
20,000 < 25,000	41,432	10,419	25.1	1,093,450
25,000 < 30,000	35,149	7,140	20.3	808,950
TOTAL	359,734	60,288	16.8	\$ 6,209,150

* 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 tax credit if the taxpayer is gainfully employed.⁶

The tax credit is refundable. The 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%

⁶ 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 to have earned \$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 2004, the dependent care tax credit was reported on 26,720 tax returns and the total tax credits claimed amounted to \$8.6 million. The total claimed in tax year 2003 was \$8.2 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 tax credit, which is refundable. 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 4,367 claims were filed for the tax credit in tax year 2004 and a total of \$109,000 was claimed, an increase of 5.0% from the previous year's total of \$104,000.

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 tax credit is refundable and 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 \$27.8 million of the tax credit was claimed in tax year 2004 on 6,112 tax returns, up from \$21.0 million claimed on 5,657 tax returns in the previous year. Claims by corporations increased by \$2.9 million (18.7%), from \$15.5 million in tax year 2003 to \$18.4 million in tax year 2004. Individual claims increased from \$3.5 million to \$5.8 million, and financial corporation claims increased from \$1.9 million to \$3.6 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), Hawaii Revised Statutes (HRS), that the operator paid.

In tax year 2004, a total of 200 taxpayers claimed \$64,000 for this tax credit, whereas 217 taxpayers claimed \$94,000 for this tax credit in tax year 2003.

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 production costs incurred in Hawaii plus 7.25% of transient accommodations costs incurred in Hawaii for producing the film.

Nineteen taxpayers claimed the motion picture tax credit, and their claims totaled \$751,000 in tax year 2004, compared to \$180,000 claimed by seven taxpayers in tax year 2003.

Hotel Construction and Remodeling Tax Credit

Act 108, SLH 1997, provided a refundable 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 increased from \$5.3 million in tax year 2003 to \$12.7 million in tax year 2004. There were 292 claims in 2004, as compared to 261 claims in 2003.

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 tax credit, which is nonrefundable. The tax credit 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 tax year 2004, the energy conservation tax credit was claimed on 958 tax returns and totaled \$11.5 million.

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 that are unrelated to the operation of the system or that are 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.

Figure 5 shows the number of returns and credit amount of the renewable energy technologies income tax credit by category. Of the 1,877 individual returns that claimed the tax credit, 1,586 returns indicated the installment of solar thermal energy devices, 5 wind powered energy systems, 122 photovoltaic energy systems and 43 multiple energy systems. The type of energy system installed was unspecified for 121 returns of individuals and for 7 returns of all other taxpayers.

The tax credit was claimed on 1,884 returns in tax year 2004, and totaled \$2.2 million.

Figure 5
Renewable Energy Technologies Income Tax Credit by Category

Energy Device	Number of Returns			Credit Amount		
	Individuals	All Others*	Total	Individuals	All Others*	Total
Solar	1,586	-	1,586	\$ 1,780,802	\$ -	\$ 1,780,802
Wind	5	-	5	865	-	865
Photov	122	-	122	118,982	-	118,982
Multiple	43	-	43	156,206	-	156,206
Unknown	121	7	128	161,377	1,620	162,997
Total	1,877	7	1,884	\$ 2,218,232	\$ 1,620	\$ 2,219,852

*All others include corporations, financial corporations, insurance underwriters, fiduciaries & exempt organizations

Employment of Vocational Rehabilitation Referrals Tax Credit

A taxpayer who employs a vocational rehabilitation referral, or who employs 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 that results in a substantial handicap to employment may qualify for this tax credit. The tax credit is nonrefundable and is equal to 20% of the qualifying first-year wages for that taxable year, up to \$6,000. The tax credit was claimed on twenty-four tax returns in tax year 2004 and totaled \$32,000.

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 of the unemployment insurance premiums it 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 76 tax returns in tax year 2004 and totaled \$1.2 million. In tax year 2003, the tax credit was claimed on 58 tax returns and totaled \$1.0 million.

High Technology Business Investment Tax Credit

Taxpayers were allowed to claim this tax credit for tax years beginning after December 31, 1998. As originally enacted, the tax credit was nonrefundable and 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 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.

Figure 6 compares claims for the high technology credit by taxpayer type for tax years 1999 to 2004. The total claims for the high technology credit among individuals and insurance underwriters have increased every year since 2001. The total claims for all taxpayers have also increased significantly each year since 1999. Tax credits claimed for the 1999 and 2000 tax years were \$162,000 and \$394,000, respectively, and grew dramatically thereafter to \$9.6 million in tax year 2001, \$26.2 million in tax year 2002, \$38.9 million in tax year 2003 and \$50.5 million in tax year 2004. The number of claims also increased: there were 23 claims in tax year 1999, 103 in tax year 2000, 268 in tax year 2001, 493 in tax year 2002, 652 in tax year 2003 and 1,040 in tax year 2004.

Figure 6
Amount of High Technology Business Investment Tax Credit Claimed by Taxpayer Type
Tax Years 1999 to 2004
(In \$1,000s)

Tax Year	Total	Individuals	Corporations	Financial			Fiduciaries
				Corps	Insurance		
1999	\$ 162.2	n/a	n/a	n/a	n/a	n/a	n/a
2000	393.6	n/a	n/a	n/a	n/a	n/a	n/a
2001	9,579.9	\$ 3,334.3	\$ 225.2	\$ 4.2	\$ 6,013.8	\$ 2.5	
2002	26,185.2	11,191.0	1,710.0	-	13,057.9	226.2	
2003	38,870.3	13,360.2	3,855.2	2,100.7	19,391.8	162.5	
2004	50,543.3	26,858.6	994.6	1,599.7	20,714.2	376.3	

n/a=data not available

In 2004, claims made by individuals increased by \$13.5 million, claims made by insurance underwriters increased by \$1.3 million and claims made by corporations decreased by \$2.9 million.

Technology Infrastructure Renovation Tax Credit

This credit is nonrefundable and 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 certain technology infrastructure. Claims for the tax credit dropped 15.8%, from \$364,000 in tax year 2003 to \$306,000 in tax year 2004. The number of taxpayers claiming this credit also dropped from 78 in tax year 2003 to 30 in tax year 2004.

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, if the income is foreign income, it 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 6,171 taxpayers claimed \$28.3 million for this tax credit in tax year 2004. In tax year 2003, 5,398 taxpayers claimed \$19.6 million for the tax credit.

Low-Income Housing Tax Credit

Owners of residential buildings who provide low-income housing may claim this tax credit, which is nonrefundable and equal to 30% of the applicable federal low-income housing tax credit under section 42 of the Internal Revenue Code. The 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 \$2.2 million in tax year 2004, which is slightly more than the \$2.1 million claimed in tax year 2003. Claims by financial corporations declined from \$1.1 million in tax year 2003 to \$0.3 million in tax year 2004.

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, incurred after December 31, 2000, up to a maximum of \$250,000.

The residential construction and remodeling tax credit expired on June 30, 2003. However, any unused tax credit may be carried over to subsequent years until exhausted.

As a result of the expiration, claims for the residential construction and remodeling tax credit decreased substantially in tax year 2004. The tax credit was claimed on 2,081 tax returns in tax year 2004, down from 12,726 claims in tax year 2003, while the total amount claimed declined from \$13.1 million to \$5.1 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 decreased by 37.6% from \$13,000 in tax year 2003 to \$8,000 in tax year 2004.

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. There were no claims for this tax credit in tax year 2004.

Research Activities Tax Credit

As originally enacted by Act 178, SLH 1999, the research activities tax credit was a nonrefundable tax credit equal to 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 it refundable. Act 221, SLH 2001, subsequently eliminated the provision that limited the tax credit 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. In tax year 2004, claims increased by 6.3% to \$12.2 million.

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.

Nine taxpayers made claims totaling \$3,000 for this credit in tax year 2004.

Ethanol Facility Tax Credit

This refundable tax credit was intended to encourage the construction of operational, large-capacity ethanol production facilities by changing the ethanol investment tax credit to a facility tax credit.

The amount of the tax credit is equal to 30% of the ethanol production facility's nameplate capacity if the nameplate capacity is greater than 500,000 but less than 15 million gallons⁷. It is limited to 100% of the total of all investments made by the taxpayer in the qualifying ethanol production facility during the eight-year tax credit period. The facility must also meet certain production requirements. Taxpayers are prohibited from claiming or receiving any other tax credit for the same taxable year and the total amount of credits available is capped at \$12 million per year. The tax credit was effective from taxable years after December 31, 2003.

A total of \$8,000 of the tax credit was claimed in tax year 2004.

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 decreased from \$738,000 in tax year 2003 to \$686,000 in tax year 2004.

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

⁷ The nameplate capacity is the stated annual production design capacity of a facility, measured in gallons, based on an operating year of 350 days. The prior law contained a 16-tiered credit schedule, which capped the credit at varying dollar amounts, depending on the nameplate capacity of the facility.

providing the telephone service to the eligible individuals.

The total tax credit claimed by the public utility was \$142,000 in tax year 2004, compared to \$145,000 in tax year 2003. Figure 7 shows the number of subscribers and the amount of the tax credit claimed since its inception in tax year 1986.

Figure 7

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
2004	6,437	142,135

* In effect seven months.

APPENDIX I

STATISTICAL TABLES

TABLE 1
DOLLAR AMOUNTS OF TAX CREDITS CLAIMED
BY TYPE OF CREDIT AND TYPE OF TAXPAYER - 2004

Type of Credit	ALL	TAXPAYER TYPE						
		Individuals	Corporations	Financial Corporations	Insurance Underwriters	Fiduciaries	Exempt Organizations	
Low-Income Credit	\$ 8,123,965	\$ 8,123,965	-	-	-	-	-	
Renter's Credit	6,209,150	6,209,150	-	-	-	-	-	
Dependent Care Credit	8,560,641	8,560,641	-	-	-	-	-	
Child Car Seat Credit	109,175	109,175	-	-	-	-	-	
Capital Goods Excise Credit	27,836,975	5,792,394	18,372,523	3,581,043	71,462	19,553	-	
Fuel Credit for Fishing	63,611	56,062	7,549	-	-	-	-	
Motion Picture Credit	750,748	441,622	309,126	-	-	-	-	
Hotel Remodeling Credit	12,735,756	2,141,454	10,486,689	-	107,613	-	-	
Energy Conservation	11,521,457	744,160	197,297	10,580,000	-	-	-	
Renewable Energy Technologies	2,219,852	2,218,232	-	-	1,620	-	-	
Vocational Rehabilitation Job Credit	31,754	16,902	14,852	-	-	-	-	
Enterprise Zone Credit	1,163,616	654,823	508,793	-	-	-	-	
High Technology Credit	50,543,285	26,858,573	994,571	1,599,658	20,714,206	376,277	-	
Technology Infrastructure Credit	306,402	3,879	282,356	-	-	20,167	-	
Taxes Paid to Other Jurisdictions	28,253,717	26,425,841	-	-	1,827,876	-	-	
Low-Income Housing Credit	2,187,783	35,631	1,003,152	315,213	833,787	-	-	
Residential Remodeling Credit	5,053,064	4,741,162	309,443	-	2,459	-	-	
School Repair & Maintenance	8,129	4,129	4,000	-	-	-	-	
Research Activities Credit	12,204,576	2,036,809	10,110,532	-	18,117	39,118	-	
Indv Development Acct Contribution	2,720	2,720	-	-	-	-	-	
Other Refundable Credits*	702,539	692,807	1,654	-	-	-	-	
Lifeline Telephone Service Credit	142,135	-	142,135	-	-	-	-	
GRAND TOTAL	\$ 178,722,972	\$ 95,870,131	\$ 42,744,672	\$ 16,075,914	\$ 21,547,993	\$ 2,425,591	\$ 58,671	

* 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 ethanol facility tax credit.

TABLE 2
 NUMBER OF RETURNS CLAIMING SELECTED TAX CREDITS BY TYPE OF CREDIT
 AND BY TAXATION DISTRICT - 2004

Type of Credit	STATE	TAXATION DISTRICT			
		First	Second	Third	Fourth
Low-Income Credit	184,101	132,106	18,902	23,891	9,202
Renter's Credit	60,288	46,562	5,590	5,891	2,245
Dependent Care Credit	26,720	19,941	2,707	2,906	1,166
Child Car Seat Credit	4,367	3,101	658	432	176
Capital Goods Excise Credit	6,112	4,165	826	772	349
Fuel Credit for Fishing	200	80	25	72	23
Motion Picture Credit	19	17	*	*	*
Hotel Remodeling Credit	292	236	12	19	25
Energy Conservation Credit	958	503	257	164	34
Renewable Energy Technologies	1,884	1,194	328	284	78
Vocational Rehabilitation Job Credit	24	19	*	*	*
Enterprise Zone Credit	76	73	*	*	*
High Technology Credit	1,040	913	71	36	20
Technology Infrastructure Credit	30	30	-	-	-
Taxes Paid to Other Jurisdictions	6,171	4,189	737	884	361
Low-Income Housing Credit	34	29	*	*	*
Residential Remodeling Credit	2,081	1,092	532	336	121
Research Activities Credit	245	223	9	6	7

* Data suppressed to protect taxpayer confidentiality.

TABLE 3
DOLLAR AMOUNTS OF TAX CREDITS CLAIMED BY INDIVIDUALS
BY DISTRICT AND TYPE OF CREDIT - 2004

Type of Credit	STATE	TAXATION DISTRICT			
		First	Second	Third	Fourth
Low-Income Credit	\$ 8,123,965	\$ 5,826,435	\$ 803,855	\$ 1,078,220	\$ 415,455
Renter's Credit	6,209,150	4,798,100	589,900	609,850	211,300
Dependent Care Credit	8,560,641	6,547,258	845,514	840,543	327,326
Child Car Seat Credit	109,175	77,525	16,450	10,800	4,400
Capital Goods Excise Credit	5,792,394	3,785,919	997,785	727,767	280,923
Fuel Credit for Fishing	56,062	16,769	6,710	25,151	7,432
Motion Picture Credit	441,622	436,745	*	*	*
Hotel Remodeling Credit	2,141,454	1,842,493	2,164	218,205	78,592
Energy Conservation	744,160	390,515	202,164	127,256	24,225
Renewable Energy Technologies	2,218,232	1,400,804	372,047	306,819	138,562
Vocational Rehabilitation Job Credit	16,902	12,684	*	*	*
Enterprise Zone Credit	654,823	644,432	*	*	*
High Technology Credit	26,858,573	23,813,716	2,392,621	354,341	297,895
Technology Infrastructure Credit	3,879	3,879	-	-	-
Taxes Paid to Other Jurisdictions	26,425,841	15,784,048	4,809,530	4,137,044	1,695,219
Low-Income Housing Credit	35,631	23,080	*	*	*
Residential Remodeling Credit	4,741,162	3,077,622	987,209	489,523	186,808
School Repair & Maintenance	4,129	4,125	-	4	-
Research Activities Credit	2,036,809	1,962,304	19,666	15,969	38,870
Indv Development Acct Contribution	2,720	2,720	-	-	-
Other Refundable Credits**	692,807	681,509	-	11,229	69
TOTAL FOR INDIVIDUALS	\$ 95,870,131	\$ 71,132,682	\$ 12,068,583	\$ 8,961,785	\$ 3,707,076

* Data suppressed to protect taxpayer confidentiality

** 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 ethano facility tax credit.

TABLE 4
 NUMBER OF INDIVIDUAL RETURNS CLAIMING TAX CREDITS
 BY SIZE OF CREDITS PER RETURN AND BY ADJUSTED GROSS INCOME - 2004

ADJUSTED GROSS INCOME CLASS	Number of Returns with Credits	SIZE OF TAX CREDIT											
		\$25 under \$50	\$50 under \$100	\$100 under \$150	\$150 under \$200	\$200 under \$300	\$300 under \$500	\$500 under \$1,000	\$1,000 and over				
Under \$5,000	77,148	273	24,820	7,392	1,827	2,580	655	214	117				
\$ 5,000 "	38,579	112	12,265	3,120	1,966	1,406	1,013	256	55				
10,000 "	35,071	34	12,540	1,892	1,540	1,460	1,251	411	104				
15,000 "	35,761	19,330	5,945	2,533	1,902	967	1,002	569	117				
20,000 "	12,005	50	5,326	1,374	1,978	1,747	438	706	161				
25,000 "	8,788	79	2,969	1,995	913	969	790	715	173				
30,000 "	2,066	90	207	203	106	186	636	255	130				
35,000 "	1,991	82	226	157	120	183	526	274	132				
40,000 "	1,806	69	234	130	108	152	507	254	138				
45,000 "	1,855	60	257	128	115	165	481	271	166				
50,000 "	8,798	302	1,117	634	581	698	2,249	1,298	937				
75,000 "	6,834	243	871	493	415	574	1,681	1,011	812				
100,000 "	5,797	225	594	421	382	488	1,301	876	987				
150,000 "	1,801	62	133	111	93	136	331	286	524				
200,000 and Over	3,156	68	136	117	90	168	303	355	1,805				
TOTAL	241,456	21,079	67,640	20,700	12,136	11,879	13,164	7,751	6,358				
Percent of Total*	100.0%	8.7%	28.0%	8.6%	5.0%	4.9%	5.5%	3.2%	2.6%				

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

TABLE 5
 NUMBER OF INDIVIDUAL RETURNS CLAIMING TAX CREDITS
 BY GEOGRAPHICAL AREAS - 2004

Geographical Area	Number of Returns	Low-Income Credit	Renter's Credit	Dependent Care Credit	Child Car Seat Credit	Goods Excise Credit	Energy Conserv	Renew Energy Tech	Residential Remodeling Credit	Payments to Other States	Other Refund Credits**
STATEWIDE TOTAL	606,302	184,101	60,288	26,720	4,367	4,525	950	1,877	2,050	6,079	1,518
Oahu											
Kaimuki to Hawaii Kai	48,044	14,935	3,219	2,304	394	645	91	243	197	962	338
Makiki to Waikiki	52,074	18,295	9,356	1,761	248	423	25	52	119	711	170
Downtown, Nuuanu	50,222	20,776	9,097	1,638	252	390	25	79	106	424	184
Airport, Kalihi	35,733	13,068	6,232	1,726	231	112	30	49	58	137	47
Kailua, Kaneohe	47,000	13,559	2,864	2,844	435	380	89	221	194	570	118
North Shore	12,985	4,122	1,773	395	75	74	18	26	29	87	12
Wahiawa, Mililani	32,224	8,613	2,191	2,351	361	172	46	146	77	207	29
Aiea, Pearl City	35,178	9,303	2,334	1,684	276	143	43	110	85	206	45
Waipahu	30,777	10,349	4,222	1,861	253	83	37	83	46	99	16
Kapolei, Ewa	31,495	8,680	2,151	2,335	293	153	70	147	77	182	24
Waianae Coast	15,839	6,737	2,392	514	91	40	12	27	14	34	14
Maui											
Wailuku-Kahului	23,809	6,605	2,244	1,134	317	212	78	109	161	114	28
Kihei	9,288	2,381	1,030	418	81	129	56	47	110	204	18
Lahaina	9,486	2,518	761	275	67	92	49	27	88	135	8
Rural Maui	16,570	5,753	1,211	790	177	261	63	130	161	259	40
Molokai	2,759	1,251	105	38	7	*	8	15	7	18	6
Lanai	1,387	443	240	59	9	*	*	-	6	6	5

* Data suppressed to protect taxpayer confidentiality.

** 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 ethanol facility tax credit.

TABLE 5 (Continued)
 NUMBER OF INDIVIDUAL RETURNS CLAIMING TAX CREDITS
 BY GEOGRAPHICAL AREAS - 2004

Geographical Area	Number of Returns	Low-Income Credit	Renter's Credit	Dependent Care Credit	Child Car Seat Credit	Goods Excise Credit	Energy Conserv	Renew Energy Tech	Residential Remodeling Credit	Payments to Other States	Other Refund Credits**
Hawaii											
Hilo	23,185	9,781	2,995	1,076	177	133	28	45	63	168	27
Puna to Kau	12,745	5,740	793	420	90	83	35	52	51	117	16
Kona	20,290	4,765	1,170	810	98	239	62	112	129	403	45
Kohala	8,231	1,898	502	436	38	123	28	40	71	164	30
Hamakua	5,294	1,761	482	173	30	56	12	34	21	34	6
Kauai											
North Kauai	11,227	3,523	1,090	411	71	147	18	31	58	178	21
Lihue	7,580	2,817	595	345	46	59	4	21	17	73	12
Koloa to Poipu	2,084	456	58	81	12	24	*	6	14	46	3
West Kauai	7,569	2,405	502	330	49	51	11	20	28	62	16
Other / No Zip Code	51,227	3,566	679	511	189	287	8	5	63	479	240

* Data suppressed to protect taxpayer confidentiality.

** 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 ethanol facility tax credit.

TABLE 6
 NUMBER CLAIMING RENTER'S TAX CREDIT, NUMBER OF EXEMPTIONS,
 AND TAX CREDITS CLAIMED, BY ADJUSTED GROSS INCOME - 2004

ADJUSTED GROSS INCOME CLASS	Number Claiming	Number of Exemptions*			Tax Credits Claimed
		Total	Regular	Age	
Under \$ 1,000	8,975	19,568	13,184	6,384	\$ 941,550
\$ 1,000	2,730	5,560	4,296	1,264	278,000
3,000	2,363	3,771	3,110	661	188,500
5,000	3,528	7,075	6,392	683	353,650
7,000	3,085	6,824	6,572	252	338,600
9,000	3,374	6,166	5,526	640	305,550
11,000	3,701	7,298	6,904	394	364,450
13,000	3,673	7,259	7,057	202	360,050
15,000	5,026	10,160	9,816	344	505,500
17,000	6,274	13,422	12,970	452	670,900
20,000	10,419	22,127	21,528	599	1,093,450
25,000	7,140	16,236	15,839	397	808,950
TOTAL	60,288	125,466	113,194	12,272	\$ 6,209,150

* 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 - 2004

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	133,641	76,249	109,014	1.43	\$ 3,901,240	57,392	42.9%
" 10,000	58,592	38,047	60,418	1.59	2,128,400	20,545	35.1%
" 15,000	47,327	34,603	57,586	1.66	1,449,535	12,724	26.9%
" 20,000	43,593	35,194	62,904	1.79	644,265	8,399	19.3%
20,000 and Over**	323,149	8	22	2.75	525	323,141	100.0%
TOTAL	606,302	184,101	289,944	1.57	\$ 8,123,965	422,201	69.6%

* 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 - 2004
 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	92,270	35,115	6,206	50,038	21,232	4,979	54.2	60.5	80.2
" 10,000	39,308	13,787	5,497	23,758	9,568	4,721	60.4	69.4	85.9
" 15,000	31,616	10,057	5,654	21,985	7,454	5,164	69.5	74.1	91.3
" 20,000	26,243	9,519	7,831	20,093	7,679	7,422	76.6	80.7	94.8
20,000 and Over ⁴	120,284	166,607	36,155	2	2	4	0.0	0.0	0.0
TOTAL	309,721	235,085	61,343	115,876	45,935	22,290	37.4	19.5	36.3

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 - 2004
 STATEWIDE

ADJUSTED GROSS INCOME CLASS	Number of		Returns Claiming Credit	Percent With Credit	Expenses Allowed	Tax Credit Claimed
	Returns Filed	Returns				
Under \$ 5,000	133,641	231	0.2	\$ 302,868	\$ 75,717	
\$ 5,000	58,592	430	0.7	683,392	170,848	
10,000	47,327	771	1.6	1,389,524	347,381	
15,000	43,593	1,078	2.5	1,926,612	481,653	
20,000	41,432	1,423	3.4	2,537,187	612,997	
25,000	35,149	1,474	4.2	2,614,193	569,269	
30,000	31,992	1,315	4.1	2,311,488	444,958	
35,000	27,016	1,259	4.7	2,239,044	376,924	
40,000	21,152	1,155	5.5	2,177,908	326,695	
45,000	18,837	1,264	6.7	2,425,848	363,888	
50,000	65,057	6,122	9.4	11,894,786	1,784,260	
75,000	35,848	4,768	13.3	9,162,035	1,374,344	
100,000	27,989	3,807	13.6	7,475,586	1,121,366	
150,000	8,381	895	10.7	1,830,276	274,548	
200,000 and Over	10,296	728	7.1	1,571,927	235,793	
TOTAL	606,302	26,720	4.4	\$50,542,674	\$8,560,641	

TABLE 10
 NUMBER CLAIMING DEPENDENT CARE TAX CREDITS BY ADJUSTED GROSS INCOME
 AND BY EXPENSES ALLOWED - 2004
 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	\$100,000 and Over
Under \$500	4,254	268	611	804	1,753	818	
\$ 500	4,668	262	699	878	1,921	908	
1,000	2,908	169	445	521	1,142	631	
1,500	2,045	129	334	398	765	419	
2,000	8,377	463	1,448	1,680	3,285	1,501	
2,500	446	19	47	70	190	120	
3,000	463	14	42	84	200	123	
3,500	375	16	35	67	172	85	
4,000	361	6	37	63	167	88	
4,500 and Over	2,823	86	277	428	1,295	737	
TOTAL	26,720	1,432	3,975	4,993	10,890	5,430	

TABLE 11
 NUMBER CLAIMING CAPITAL GOODS EXCISE TAX CREDIT,
 AMOUNT OF CAPITAL ASSETS PURCHASED, AND TAX CREDIT CLAIMED - 2004
 INDIVIDUAL RETURNS, STATEWIDE

ADJUSTED GROSS INCOME CLASS	Number Claiming	Amount of		Tax Credit Claimed
		Qualified Purchases		
Under \$10,000	617	\$ 17,520,775	\$	700,831
\$10,000 "	288	3,472,725		138,909
20,000 "	310	3,512,850		140,514
30,000 "	298	3,606,750		144,270
40,000 "	242	3,341,075		133,643
50,000 "	606	8,878,950		355,158
75,000 "	478	7,110,525		284,421
100,000 "	474	8,694,375		347,775
150,000 "	286	7,504,150		300,166
200,000 and Over	926	81,167,675		3,246,707
TOTAL	4,525	\$ 144,809,850		\$ 5,792,394

TABLE 12
 NUMBER CLAIMING CAPITAL GOODS EXCISE TAX CREDIT, AMOUNT OF CAPITAL
 ASSETS PURCHASED, AND TAX CREDIT CLAIMED - 2004
 CORPORATION AND FINANCIAL CORPORATION RETURNS, STATEWIDE

GROSS RECEIPTS CLASS	Number Claiming	Amount of		Tax Credit Claimed
		Number Qualified	Purchases	
Under \$ 100,000	132	\$ 3,781,975	\$ 151,279	
\$ 100,000 "	307	5,835,125	233,405	
500,000 "	227	7,130,250	285,210	
1,000,000 "	439	25,210,625	1,008,425	
5,000,000 "	159	24,907,350	996,294	
10,000,000 and Over	246	481,973,825	19,278,953	
TOTAL	1,510	\$ 548,839,150	\$ 21,953,566	

TABLE 13
 INDIVIDUAL RETURNS CLAIMING RESIDENTIAL CONSTRUCTION AND REMODELING TAX CREDIT,
 QUALIFIED CONSTRUCTION COSTS, AND TAX CREDIT CLAIMED, BY ADJUSTED GROSS INCOME - 2004
 STATEWIDE

ADJUSTED GROSS INCOME CLASS	Number of		Returns Claiming Credit	Percent With Credit	Qualifying Construction Costs	Tax Credit Claimed
	Returns Filed	Returns				
Under \$ 5,000	133,641	17	0.0	\$ 8,900	\$ 356	
\$ 5,000 "	58,592	52	0.1	55,900	2,236	
10,000 "	47,327	99	0.2	353,625	14,145	
15,000 "	43,593	113	0.3	525,100	21,004	
20,000 "	41,432	92	0.2	700,300	28,012	
25,000 "	35,149	111	0.3	984,900	39,396	
30,000 "	31,992	116	0.4	1,464,400	58,576	
35,000 "	27,016	102	0.4	1,535,625	61,425	
40,000 "	21,152	105	0.5	2,195,625	87,825	
45,000 "	18,837	97	0.5	2,269,500	90,780	
50,000 "	65,057	461	0.7	14,269,875	570,795	
75,000 "	35,848	297	0.8	12,169,625	486,785	
100,000 "	27,989	209	0.7	11,898,925	475,957	
150,000 "	8,381	57	0.7	3,476,075	139,043	
200,000 and Over	10,296	122	1.2	66,620,675	2,664,827	
TOTAL	606,302	2,050	0.3	\$ 118,529,050	\$ 4,741,162	

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	207	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 system-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.
2003	100	Ko Olina resort and marina attractions and educational facilities tax credit	Established a nonrefundable, carry-forward tax credit for qualified costs incurred for the development of attractions and educational facilities at the Ko Olina resorts and marina, or for the development of a training and educational facility at the Makaha Resort. It took effect on May 29, 2003 and is available in tax year 2005.
2004	97	Renewable energy technologies credit (Energy device credit)	Clarified that the tax credit is nonrefundable and that unused credit may be claimed in subsequent years until exhausted. Allowed financial institutions to claim the credit for taxable years beginning after 12/30/02, provided that the system was installed after 6/30/03.
2004	140	Ethanol facility tax credit	Clarified that the tax credit is equal to 30% of the ethanol production facility's nameplate capacity if greater than 500,000 but less than 15 million gallons. Tax credit is limited to 100% of the total of all investments made by the taxpayer during the 8 year tax credit period. Requires that the facility be operating at a level of production of at least 75%. Facility must be in production before 1/1/12. Effective 7/01/04 and applied to taxable years beginning after 12/21/03.