
Tax Credits

**Claimed by Hawaii
Individuals and Corporations**

1998

**Department of Taxation
State of Hawaii**

STATE OF HAWAII

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Department of Taxation
State of Hawaii
April, 2000

Web Site: <http://www.state.hi.us/tax>

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INTRODUCTION

Beginning with the 1977 tax year, the Department of Taxation has published studies on an annual basis in order to provide current information on trends in credit claims and the effect of statutory changes affecting credits. Up to 1996, these studies covered credits claimed by individuals. For the 1997 tax year, the study was expanded to include credits claimed by corporations. That year, the study examined a number of business-oriented tax credits that previously had not been studied.

The present report for tax year 1998 continues that precedent and covers credits claimed on individual and corporate income tax returns. Credits that can only be claimed on the individual return include: the food tax credit, the low-income renter's tax credit, the dependent care expense tax credit, and the child passenger restraint tax credit. The energy device tax credit can be claimed on both individual and corporate returns, but the vast majority of claims are made by individuals. Other credits are business-oriented, but can be claimed on both individual and corporate returns because individual returns can include business activity from proprietorships, partnerships, and S-corporations. Business-oriented credits include: the capital goods excise tax credit, the fuel tax credit for commercial fishers, the enterprise zone tax credit, the vocational rehabilitation jobs tax credit, the motion picture tax credit, and the hotel remodeling tax credit.

In addition, a section is included with data on the telephone lifeline service credit, which is claimed by the telephone company on its public service company tax return.

Appendix I contains statistical tables showing the distribution of tax credits. Appendix II outlines the history of Hawaii's tax credits since the first consumer-type credit was introduced in 1965. Appendix III contains facsimiles of tax forms relating to tax credits.

TAX CREDITS CLAIMED BY HAWAII INDIVIDUALS AND CORPORATIONS - 1998

SUMMARY

Hawaii taxpayers claimed \$88.3 million in tax credits for tax year 1998 compared to \$80.4 million the previous year. Tax credits claimed by individuals amounted to nearly \$63 million and showed up on 81.7% of individual returns. Tax credits claimed by corporations amounted to \$25.5 million and appeared on 13.1% of corporate returns. Notable developments include sharp increases in the dollar amount claimed for the hotel remodeling credit, the enterprise zone credit, and the motion picture credit.

DATA SOURCE AND METHODOLOGY

A stratified sample of individual and corporation tax returns filed in 1999 for tax year 1998 was the sole source of information for this report. For corporate returns, tax year 1998 refers to accounting years that ended in 1998. One stratum of the sample included every return that contained a tax credit other than the food tax credit and the renter's tax credit. Including every return in this stratum eliminated sampling error for these less frequently claimed tax credits. A second stratum of the sample included every N-15 return with any type of credit, including the food tax credit and the renter's tax credit. Since only a small fraction of persons who file this return type can claim the food and renter's credits, including all of them eliminates sampling error for these credits on N-15 returns. The third stratum was a simple random sample of returns containing only the food and/or renter's tax credits or no tax credits.

Calendar year tax returns are normally due on April 20th of the following year. With extensions, this deadline can be pushed back to October 20th. Therefore, this report used cutoff dates of November 1999 for individual returns and December 1999 for corporate returns in order to capture as many tax year 1998 returns as possible.

Most of the data items used in this report were retrieved directly from the Department of Taxation's computerized Comprehensive Net Income Tax (CNIT) system. Other items not collected by the CNIT system were imputed if a direct relationship existed between those items and items collected by the system. An example is qualified purchases of capital goods, which can be imputed because of its direct relationship with the size of the capital goods excise tax credit, an item collected by the system.

Form N-11 is a simplified return using totals derived from the federal tax return. Nearly three-fourths of Hawaii individual taxpayers used this form. Individuals who did not file a federal return, did not itemize deductions, and had income below \$100,000 that was restricted to wages, interest, dividends, and unemployment compensation could choose

Figure 1
Number of Returns Processed and Sampled by Taxation District

		TAXATION DISTRICT			
		First	Second	Third	Fourth
Returns Processed					
N-11	423,373	311,844	44,791	46,281	20,457
N-12	20,929	15,493	1,987	2,505	944
N-13	72,286	52,519	6,416	9,902	3,449
N-15	48,834	43,059	2,642	2,208	925
N-30	18,387	14,778	1,464	1,695	450
Total	583,809	437,693	57,300	62,591	26,225
Returns in Sample					
N-11	45,670	33,433	4,720	5,117	2,400
N-12	1,290	968	136	125	61
N-13	2,561	1,844	259	325	133
N-15	4,602	3,817	359	305	121
N-30	2,912	2,335	240	274	63
Total	57,035	42,397	5,714	6,146	2,778
Percent of Returns Sampled (%)					
N-11	10.8	10.7	10.5	11.1	11.7
N-12	6.2	6.2	6.8	5.0	6.5
N-13	3.5	3.5	4.0	3.3	3.9
N-15	9.4	8.9	13.6	13.8	13.1
N-30	15.8	15.8	16.4	16.2	14.0
Total	9.8	9.7	10.0	9.8	10.6

to file Form N-13. Individuals who did not file a federal return but who had more complex tax situations were required to file Form N-12. Nonresidents were required to file Form N-15. Beginning with tax year 1997, part-year residents were also required to file Form N-15

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instead of Form N-12. Corporations that file Form N-30, the Corporation Income Tax Return, are directly taxable as entities and are also directly eligible for tax credits. On the other hand, partnerships and S-corporations pass their income tax liability and tax credits to their individual and/or corporate partners or shareholders. Figure 1 shows the number of returns processed by type of return and the size of the sample selected.

Some of the statistics in this report are presented by four taxation districts:

<u>Taxation District</u>	<u>Island(s)</u>
First	Oahu
Second	Maui, Molokai, Lanai
Third	Hawaii
Fourth	Kauai, Niihau

OVERVIEW

Total tax credits claimed by Hawaii taxpayers for tax year 1998 amounted to \$88.3 million, compared to \$80.4 million for 1997. Major components of this change were sharp increases in the amounts claimed for the hotel remodeling credit, for the motion picture credit, for the enterprise zone credit, and for miscellaneous nonrefundable credits. The dollar amount of the hotel remodeling credit doubled from \$0.9 million to \$1.8 million, while the amount claimed for the motion picture credit jumped from just over \$8 thousand to nearly \$700 thousand. Claims for the enterprise zone credit rose from \$11 thousand to \$289 thousand. Miscellaneous nonrefundable credits increased from \$9.8 million to \$15.5 million. This category consists of two credits: the credit for income tax paid to another state or foreign country and the low-income housing credit. Evidence from manual examination of returns indicates that most of this amount was due to the credit for income tax paid to other jurisdictions.

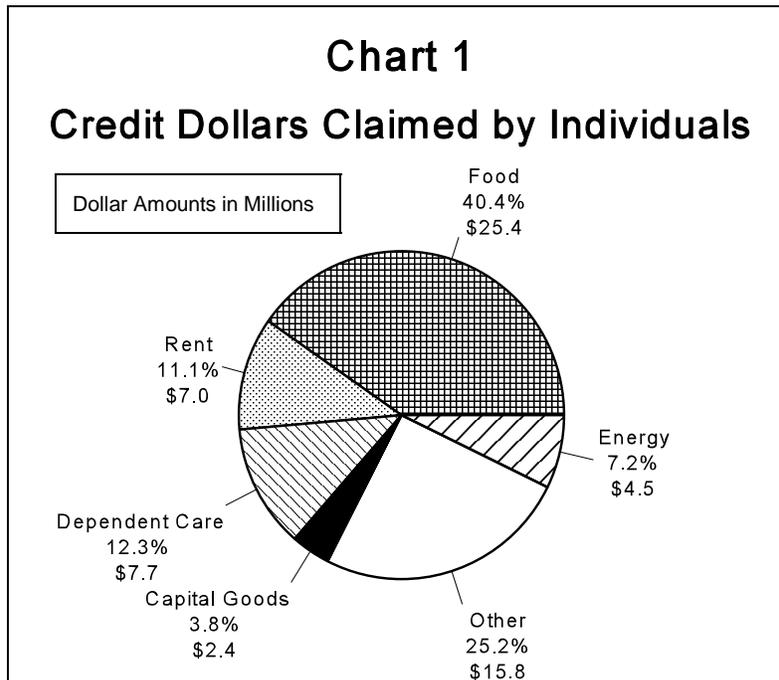
The general income tax credit was not available for tax year 1998. This credit is required by Hawaii's state constitution whenever the state general fund surplus exceeds 5% of general fund revenues for each of two successive years. Tax year 1998 was the third consecutive year in which this condition was not met.

Figure 2
**Percent of Individual and Corporation Returns Claiming Tax Credits
 for the 1998 Tax Year**

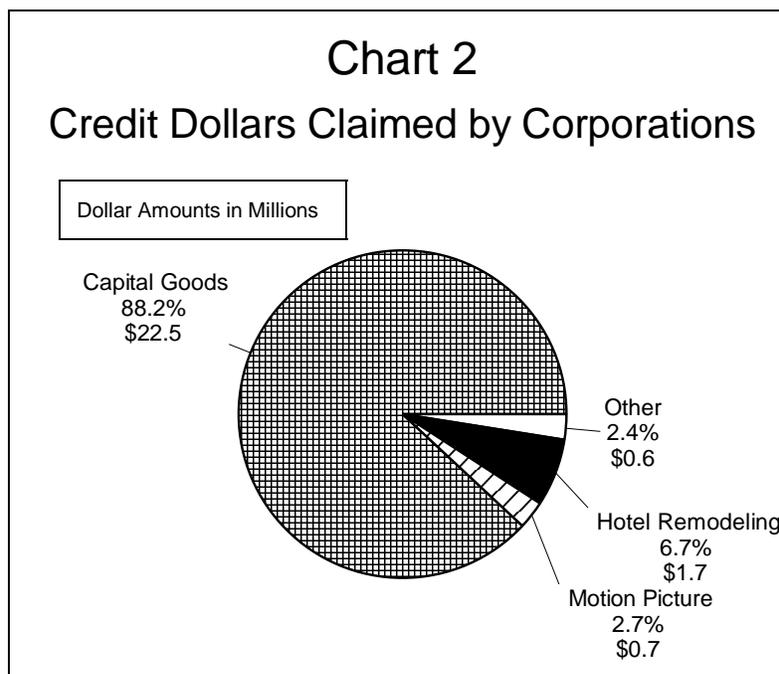
	Number of Returns	Percent of Total Returns	Percent of Total w/Credits
Individual Returns	565,422	100.0	
Returns with Tax Credits	462,064	81.7	100.0
Food Credit	457,994	81.0	99.1
Capital Goods Excise Credit	3,150	0.6	0.7
Child Car Seat Credit	3,442	0.6	0.7
Renter's Credit	71,432	12.6	15.5
Dependent Care Credit	25,843	4.6	5.6
Energy Device Credit	3,987	0.7	0.9
Fuel Credit for Fishers	352	0.1	0.1
Enterprise Zone Credit	13	0.0	0.0
Vocational Rehabilitation Job Credit	19	0.0	0.0
Motion Picture Credit	8	0.0	0.0
Hotel Remodeling Credit	49	0.0	0.0
Miscellaneous Nonrefundable Credits*	7,507	1.3	1.6
Corporation Income Tax Returns	18,387	100.0	
Returns with Tax Credits	2,410	13.1	100.0
Capital Goods Tax Credit	2,348	12.8	97.4
Fuel Credit for Fishers	22	0.1	0.9
Vocational Rehabilitation Job Credit	13	0.1	0.5
Hotel Remodeling Credit	69	0.4	2.9
Energy Device Credit	12	0.1	0.5
Low-Income Housing Credit	15	0.1	0.6
Other Credits**	10	0.1	0.4

* Includes credit for taxes paid to other jurisdictions and low-income housing credit.

** Includes enterprise zone credit and motion picture credit.



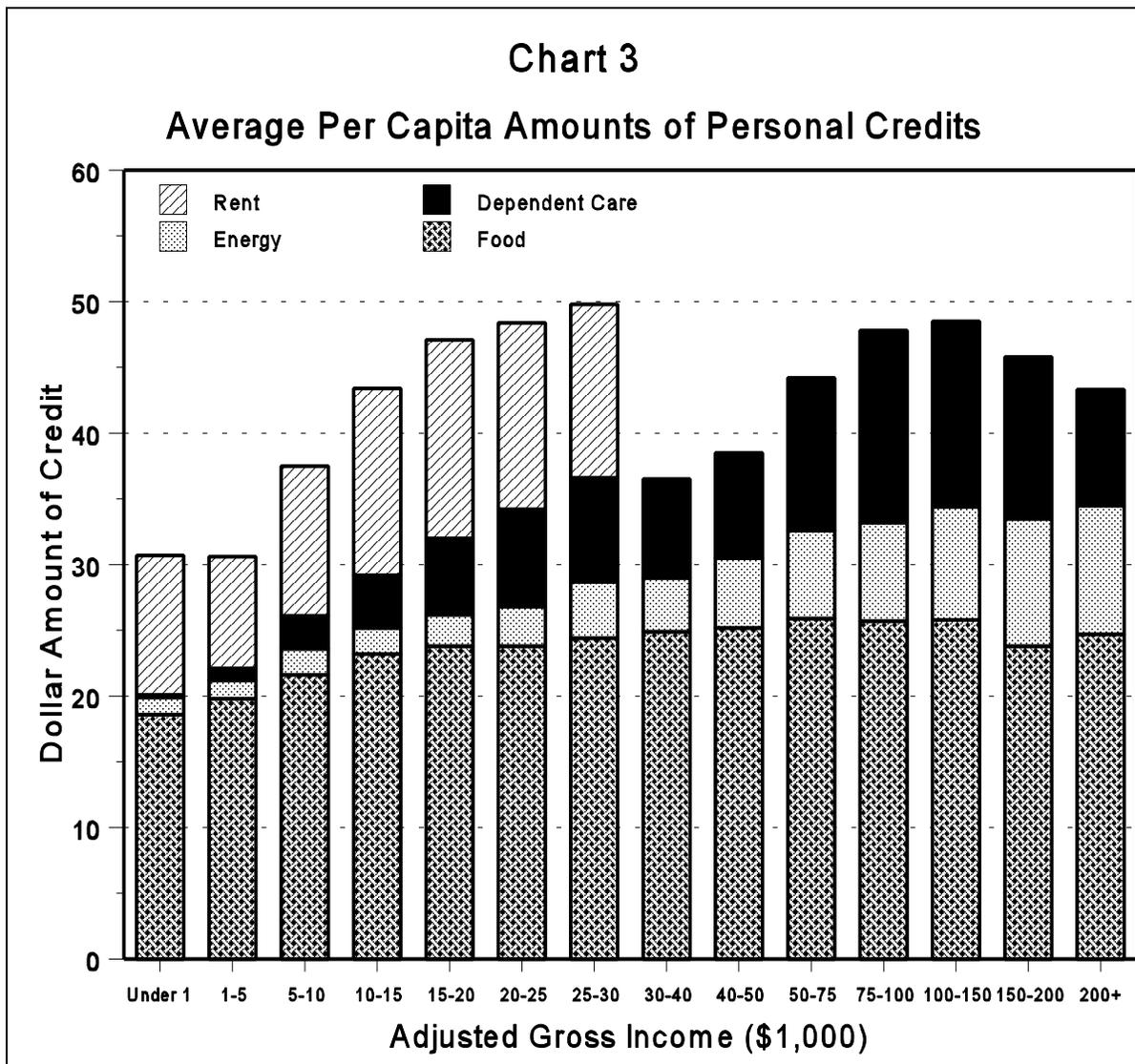
As Figure 2 shows, the food credit was the most commonly claimed credit, appearing on 81% of individual returns. Chart 1 shows that this credit was also the largest in terms of



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credit dollars claimed. Tax year 1998 was the last year for which this credit could be claimed. Among corporation returns, the most commonly claimed credit was the capital goods excise tax credit, which appeared on roughly one-eighth of corporate returns. Chart 2 shows that it accounted for nearly all of the credit dollars claimed by corporations.

Chart 3 depicts per capita amounts of the major personal tax credits claimed on individual returns across adjusted gross income (AGI) brackets. The averages were obtained by dividing the dollar amount claimed for each type of credit by the number of persons within



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each AGI bracket. The number of persons included exemptions for taxpayers, spouses, and dependents. To avoid counting a person twice, age exemptions were excluded. Minor children supported by payments administered by the Department of Human Resources were included since they cannot be claimed as dependents but are still eligible for the food tax credit.

Chart 3 shows that, as one might expect, the per capita claim for the food credit was relatively constant across income levels since this credit involves a flat amount per person. Similarly, the flat rent credit was fairly constant up to the upper limit of AGI eligibility at \$30,000. Per capita claims for both the dependent care credit and the energy device increased with rising income, probably reflecting the increasing ability to pay for more expensive child care and energy devices as income increases. At the highest income levels, per capita dependent care claims dipped somewhat, presumably reflecting a smaller proportion of young children among taxpayers at those elevated income levels.

ANALYSIS OF DATA

Food Tax Credit

Introduced in 1987, the food tax credit was available to any resident who: 1) physically resided in Hawaii for more than nine months of the taxable year; 2) could not be claimed as a dependent by another taxpayer; and 3) was not confined to prison, a youth correctional center, or a jail for the entire taxable year. The credit amount was a flat \$27 per qualified person. No additional credit was allowed for age exemptions.

Tax year 1998 was the last year for which the food tax credit was available. Figure 3 presents claims for this credit since its inception in 1987. For tax year 1999, a graduated low-income tax credit takes the place of the food tax credit. As its name implies, it will only be available to those with low incomes and phases out at AGI \$20,000.

In contrast, the food tax credit was available to all qualified residents, regardless of income. It was claimed on 81% of individual income tax returns in 1998 and amounted to \$25.4 million. This compares with \$25.1 million claimed the previous year. Some individuals, such as dependents filing their own returns and nonresidents, were ineligible for the credit. Excluding dependent returns and nonresident returns, the food credit was claimed on 95% of individual returns.

Figure 3
**Number of Returns Claiming Food Tax Credit
 Since Its Inception in Tax Year 1987**

Tax Year	Returns with Credit	Percent Change	Number of Exemptions	Percent Change
1987	365,619		779,906	
1988	391,379	7.0	814,241	4.4
1989	426,144	8.9	872,657	7.2
1990	430,074	0.9	870,950	-0.2
1991	440,929	2.5	894,672	2.7
1992	458,033	3.9	931,208	4.1
1993	450,250	-1.7	924,526	-0.7
1994	472,544	5.0	963,910	4.3
1995	452,620	-4.2	913,462	-5.2
1996	450,768	-0.4	925,787	1.3
1997	453,358	0.6	931,069	0.6
1998	457,994	1.0	941,926	1.2

Renter's Tax Credit

To qualify for the low-income household renter's tax credit, a Hawaii resident must: 1) physically reside in Hawaii for more than nine months of the taxable year; 2) not be eligible to be claimed as a dependent of another taxpayer; 3) have annual adjusted gross income less than \$30,000; and 4) occupy and pay more than \$1,000 in annual rent for a rental unit that was not wholly or partially exempt from the real property tax. In the case of a shared rental unit, the individual's share of the rent is used to determine whether he or she paid enough rent to qualify for the credit. Each qualified exemption is allowed a \$50 credit. A person with an age exemption is allowed an additional \$50 credit. Married couples filing separately must combine their adjusted gross incomes to determine if they fall under the \$30,000 AGI ceiling.

For 1998, the renter's credit was reported on 71,432 returns and amounted to \$7.0 million. These amounts were down slightly from the \$7.1 million claimed on 72,824 returns for 1997.

Figure 4 shows the percentage of returns claiming this credit for 1998 among resident returns with AGI under the \$30,000 limit. Approximately one-quarter of these residents claimed the credit. Among elderly resident taxpayers (those age 65 or older) with AGI under

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the \$30,000 limit, only 13.7% claimed the renter's credit. This difference may indicate that a smaller proportion of the elderly are renters when compared with the general population.

Figure 4
Number Claiming Renter's Credit by Adjusted Gross Income Class

Adjusted Gross Income			Number of Returns*	Number with Credit	% with Credit
	Under	\$1,000	45,231	10,491	23.2
\$1,000	"	5,000	40,725	6,991	17.2
5,000	"	10,000	45,412	9,992	22.0
10,000	"	15,000	43,536	11,958	27.5
15,000	"	20,000	42,347	12,501	29.5
20,000	"	30,000	69,566	19,499	28.0
TOTAL			286,817	71,432	24.9

*Excludes returns filed by dependents and nonresidents

Dependent Care Tax Credit

Hawaii's dependent care tax credit provides a means of easing the financial burden of resident taxpayers who, in order to be able to hold gainful employment, must pay a care provider to care for a dependent child under age 13 or a disabled dependent or spouse. The portion of care expenses which qualify for the purposes of this credit is limited to a maximum of \$2,400 for one qualified dependent and \$4,800 for two or more qualified dependents. Further limiting the qualified portion of care expenses is the size of the taxpayer's earned income. The portion of care expenses in excess of earned income does not qualify. For joint returns, the limit is the amount of earned income of the lesser-earning spouse. For example, if a couple paid \$4,000 to care for two children and one spouse earned \$50,000 and the other earned only \$3,000, the amount of qualified allowable expenses would be limited to \$3,000. The amount of credit is a specified percentage of qualified allowable expenses, based on the size of adjusted gross income as follows:

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<u>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%

In the case of the couple in the example, the amount of credit would be 15% of \$3,000 or \$450 since their adjusted gross income is more than \$40,000.

For 1998, the dependent care credit appeared on 25,843 returns, an increase of 2.0% from 25,342 for 1997. The dollar amount of credit claimed rose slightly from \$7.6 million to \$7.7 million, while the average amount claimed per return dipped slightly from \$301 to \$297. Although this credit appeared on 4.6% of individual returns, incidence increased sharply with increasing income and peaked at 16.2% among returns with adjusted gross incomes of \$75,000 to \$100,000. This trend can be seen by examining Table 7 in Appendix I.

Child Passenger Restraint System Tax Credit

All Hawaii individual income taxpayers, both residents and nonresidents, are entitled to a flat \$25 credit for the purchase of a new child passenger restraint system meeting federal motor vehicle safety standards. This credit has existed since 1982, when it was introduced to encourage the voluntary use of child car seats. The following year, the legislature made it a legal requirement that young children riding in motor vehicles be restrained in a car seat. Although the use of child car seats was no longer voluntary, the credit was retained.

For 1998, a total of 3,442 returns claimed \$86,050 in car seat credits. These amounts were slightly greater than the \$85,450 claimed on 3,418 returns for 1997.

Capital Goods Excise Tax Credit

Introduced in tax year 1988, the capital goods excise tax credit reimburses businesses for the general excise tax that they pay on the purchase of tangible personal property. To be eligible for the credit, the property must be depreciable, be used in the taxpayer's trade or

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business, and be subject to Hawaii's 4% general excise or use tax. The credit is equal to 4% of the cost of the eligible property.

Compared to 1997, the number of returns claiming the capital goods excise tax credit declined to 5,498 from 5,877, but the dollar amount claimed increased to \$25.0 million from \$23.6 million. The \$25 million claimed for 1998 represented \$625 million in qualified purchases. Since it is a business-oriented credit, it was not surprising that corporations claimed \$22.5 million of the 1998 total. Of this amount, \$18.3 million, which was nearly three-fourths of the \$25 million total, was claimed by only 242 large corporations with business receipts of \$10 million or more.

Fuel Tax Credit for Commercial Fishers

Each principal operator of a commercial fishing vessel may claim a tax credit equal to the fuel taxes paid during the tax year. For 1998, this credit was claimed by 352 individuals and 22 corporations. The higher number for individuals is an indication that most commercial fishers are sole proprietorships. Total credit claimed amounted to \$115,246, which was about 16% less than in the prior year.

Energy Device Tax Credit

Hawaii's energy device credit first appeared in 1976 as a credit equal to 10% of the cost to purchase and install the energy device. Along with the state credit, the federal government offered a 40% credit. Thus, government tax credits were subsidizing half the cost of the device. Tax year 1982 marked the high point in terms of number of claims as 9,514 returns claimed the credit. Energy credit claims plummeted after 1985 when the federal credit expired. The legislature attempted to revive interest in energy-saving devices by increasing the state credit to 15% and then to 20%. The most recent increase in 1990 resulted in a 35% credit for solar energy devices, a 20% credit for heat pumps and wind energy devices, and a 50% credit for ice storage systems. The credit for solar devices was limited to \$1,750 for single-family dwellings and \$350 for multi-family dwellings. For heat pumps, the amount of credit was limited to \$400 for single-family and \$200 for multi-family dwellings.

Between 1995 and 1997, the amount of credit claimed almost doubled from \$2.4 million to \$4.7 million. This increase was spurred by Hawaiian Electric Company's introduction in 1996 of a private sector rebate program for the installation of solar energy devices. The rebate amounts are \$1,500 for the installation of a solar energy system in a new building and \$800 for each system in an existing building. For 1998, credit claims leveled off at \$4.6 million.

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Enterprise Zone Tax Credit

This credit was created to encourage business development in economically-depressed areas designated as enterprise zones. A qualified business located in an enterprise zone may claim the enterprise zone tax credit for a percentage of state net income tax attributable to the conduct of business within a zone and a percentage of the amount of unemployment insurance premiums paid based on the payroll of employees employed at the business firm established in the zone. The applicable percentage is 80% the first year, 70% the second year, 60% the third year, 50% the fourth year, 40% the fifth year, 30% the sixth year, and 20% the seventh year. This credit is not refundable and any unused credit may not be carried forward.

Nineteen Hawaii taxpayers claimed \$289,038 in enterprise zone credits for 1998. The dollar amount claimed represented a sizable increase from the \$11,315 claimed the previous year.

Tax Credit for Employment of Vocational Rehabilitation Referrals

This credit was established by the 1991 legislature to promote the hiring of individuals seeking work after completing vocational rehabilitation. The amount of credit is equal to 20% of the first \$6,000 in first-year wages of the individual hired. In other words, the credit is limited to \$1,200 per individual hired. For 1998, 32 taxpayers claimed \$36,666 in credit.

Motion Picture Tax Credit

Created by the 1997 legislature to encourage motion picture and television production in Hawaii, this credit allows taxpayers to claim a credit for up to 4% of total production costs and up to 6% of transient accommodations costs incurred while filming in Hawaii. For 1998, a total of 12 taxpayers claimed \$693,784 in motion picture credits. This compares to \$8,386 claimed in the inaugural 1997 year.

Hotel Remodeling Tax Credit

Established by the 1997 legislature, this credit was designed to encourage hotel owners to refurbish, repair and renovate their facilities. Available for tax years 1997 and 1998 only, the hotel remodeling tax credit was equal to 4% of qualified renovation costs. However, one cannot simply use the credit amount to impute costs because renovation costs must have been at least equal to 10% of the transient accommodations taxes paid on the property being renovated in order to qualify for the credit. For 1998, 118 taxpayers claimed \$1.8 million for this credit. This was twice as much as the \$0.9 million claimed for 1997.

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Other Nonrefundable Credits

This section covers two nonrefundable credits: the low-income housing credit and the credit for taxes paid to another state or foreign country. Information on these two credits is not directly available from the Department of Taxation's computerized system. Their credit amounts and incidences must be imputed by subtracting amounts for the three previously discussed nonrefundable tax credits -- the energy device credit, the enterprise zone credit, and the tax credit for vocational rehabilitation referrals -- from the grand total of nonrefundable credits. On corporation returns, the imputed amount is known to be the low-income housing credit because it is the only nonrefundable credit for which computerized information is not directly available. On individual returns, the imputed amount is the combination of the low-income housing credit and the credit for taxes paid to other jurisdictions.

Hawaii's low-income housing tax credit is equal to 30% of the federal credit for qualified buildings located in Hawaii. For 1998, claims for this credit appeared on 15 corporate returns and amounted to \$242,576.

On tax year 1998 individual returns, combined claims for miscellaneous nonrefundable credits amounted to \$15.2 million, up from \$9.4 million the previous year. From a small manual survey of returns, most of this amount could be attributed to the tax credit for taxes paid to other jurisdictions. Only a small fraction was for the low-income housing credit.

Lifeline Telephone Service Tax Credit

Lifeline telephone service was initiated in 1986 to provide subsidized telephone service to elderly and disabled telephone subscribers with limited income. The Public Utilities Commission has defined "limited income" as household income less than \$10,000. While these elderly and disabled individuals enjoy a lower rate, the lifeline telephone service tax credit goes to the telephone company, which can claim it on its public utility tax return. The credit is equal to the sum of foregone revenues and administrative costs associated with providing the subsidized rates. At the close of 1998, the telephone company reported 7,572 subscribers who were being serviced at subsidized rates. It claimed \$169,158 for the telephone lifeline service credit.

Figure 5
**Lifeline Credit and Number of Subscribers
 Since Inception of Credit in 1986**

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

* In effect seven months.

APPENDIX I

STATISTICAL TABLES

Tax Credits - 1998

TABLE 1
DOLLAR AMOUNTS OF TAX CREDITS CLAIMED
BY TYPE OF CREDIT AND BY TAXATION DISTRICT - 1998

Type of Credit	STATE	TAXATION DISTRICT			
		First	Second	Third	Fourth
TAX CREDITS CLAIMED BY INDIVIDUALS					
Food Credit	\$ 25,432,002	\$ 18,539,685	\$ 2,692,926	\$ 2,996,028	\$ 1,203,363
Renter's Credit	6,957,550	5,303,750	586,600	684,050	383,150
Dependent Care Credit	7,662,757	5,971,823	691,891	683,001	316,042
Child Car Seat Credit	86,050	62,250	9,950	7,675	6,175
Capital Goods Excise Credit	2,446,087	1,695,030	480,378	178,558	92,121
Fuel Credit for Fishing	104,966	40,479	5,527	48,695	10,265
Motion Picture Credit	11,551	9,940	376	1,017	218
Hotel Remodeling Credit	135,094	121,139	180	13,425	350
Energy Device Credit	4,534,355	2,854,568	806,401	669,215	204,171
Vocational Rehabilitation Job Credit	25,703	19,311	6,299	93	0
Enterprise Zone Credit	236,590	206,584	1,645	13,247	15,114
Other Nonrefundable Credits *	15,244,975	10,273,698	2,312,303	1,564,274	1,094,700
TOTAL FOR INDIVIDUALS	\$ 62,877,680	\$ 45,098,257	\$ 7,594,476	\$ 6,859,278	\$ 3,325,669

*Other non-refundable credits include the low-income housing tax credit and the credit for taxes paid to other jurisdictions.

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TABLE 1 (Continued)
 DOLLAR AMOUNTS OF TAX CREDITS CLAIMED
 BY TYPE OF CREDIT AND BY TAXATION DISTRICT - 1998

Type of Credit	STATE	TAXATION DISTRICT			
		First	Second	Third	Fourth
TAX CREDITS CLAIMED BY CORPORATIONS					
Capital Goods Excise Credit	\$ 22,536,557	\$ 20,970,129	\$ 900,244	\$ 558,227	\$ 107,957
Fuel Credit for Fishing	10,280	2,691	481	7,043	65
Motion Picture Credit	682,233	680,920	1,313	0	0
Hotel Remodeling Credit	1,674,856	1,419,951	185,603	69,302	0
Energy Device Credit	87,173	75,715	2,188	9,270	0
Vocational Rehabilitation Job Credit	10,963	9,807	65	1,091	0
Enterprise Zone Credit	52,448	5,936	5,368	0	41,144
Low-Income Housing Credit	242,576	221,942	1,035	19,599	0
Lifeline Telephone Service Credit	169,158	169,158	0	0	0
TOTAL FOR CORPORATIONS	\$ 25,466,244	\$ 23,556,249	\$ 1,096,297	\$ 664,532	\$ 149,166

Tax Credits - 1998

TABLE 1 (Continued)
 DOLLAR AMOUNTS OF TAX CREDITS CLAIMED
 BY TYPE OF CREDIT AND BY TAXATION DISTRICT - 1998

Type of Credit	STATE	TAXATION DISTRICT			
		First	Second	Third	Fourth
TOTAL CREDITS CLAIMED					
Food Credit	\$ 25,432,002	\$ 18,539,685	\$ 2,692,926	\$ 2,996,028	\$ 1,203,363
Renter's Credit	6,957,550	5,303,750	586,600	684,050	383,150
Dependent Care Credit	7,662,757	5,971,823	691,891	683,001	316,042
Child Car Seat Credit	86,050	62,250	9,950	7,675	6,175
Capital Goods Excise Credit	24,982,644	22,665,159	1,380,622	736,785	200,078
Fuel Credit for Fishing	115,246	43,170	6,008	55,738	10,330
Motion Picture Credit	693,784	690,860	1,689	1,017	218
Hotel Remodeling Credit	1,809,950	1,541,090	185,783	82,727	350
Energy Device Credit	4,621,528	2,930,283	808,589	678,485	204,171
Vocational Rehabilitation Job Credit	36,666	29,118	6,364	1,184	0
Enterprise Zone Credit	289,038	212,520	7,013	13,247	56,258
Other Nonrefundable Credits*	15,487,551	10,495,640	2,313,338	1,583,873	1,094,700
Lifeline Telephone Service Credit	169,158	169,158	0	0	0
GRAND TOTAL	\$ 88,343,924	\$ 68,654,506	\$ 8,690,773	\$ 7,523,810	\$ 3,474,835

*Other non-refundable credits include the low-income housing tax credit and the credit for taxes paid to other jurisdictions.

Tax Credits - 1998

TABLE 2
 NUMBER OF RETURNS CLAIMING SELECTED TAX CREDITS BY TYPE OF CREDIT
 AND BY TAXATION DISTRICT - 1998

Type of Credit	STATE	TAXATION DISTRICT			
		First	Second	Third	Fourth
Food Credit	457,994	335,937	47,168	52,707	22,182
Renter's Credit	71,432	53,344	6,777	7,308	4,003
Dependent Care Credit	25,843	19,486	2,426	2,622	1,309
Child Car Seat Credit	3,442	2,490	398	307	247
Capital Goods Excise Credit	5,498	4,139	528	607	224
Individuals	3,150	2,253	330	395	172
Corporations	2,348	1,886	198	212	52
Fuel Credit for Fishing	374	133	31	157	53
Energy Device Credit	3,999	2,479	692	619	209

Tax Credits - 1998

TABLE 3
 NUMBER OF INDIVIDUAL RETURNS CLAIMING TAX CREDITS
 BY SIZE OF CREDITS PER RETURN AND BY ADJUSTED GROSS INCOME - 1998

ADJUSTED GROSS INCOME CLASS	Number of Returns with Credits	SIZE OF TAX CREDIT									
		under \$50	\$50 under \$75	\$75 under \$100	\$100 under \$150	\$150 under \$200	\$200 under \$300	\$300 under \$400	\$400 under \$500	\$500 under \$1000	\$1000 and over
Under \$ 5,000	81,499	40,935	16,163	9,689	7,851	2,099	2,586	1,291	323	276	286
\$ 5,000 " 10,000	42,793	19,049	10,115	6,480	2,238	1,648	1,581	921	192	400	169
10,000 " 15,000	41,261	17,000	7,634	7,868	2,339	2,283	2,415	702	358	476	186
15,000 " 20,000	40,738	16,046	6,968	8,683	2,254	2,099	2,122	1,513	176	614	263
20,000 " 25,000	34,923	12,252	6,637	7,638	1,857	2,269	1,720	1,172	285	832	261
25,000 " 30,000	32,167	12,978	4,988	7,185	1,897	1,567	1,388	943	176	758	287
30,000 " 35,000	26,744	13,011	5,632	2,593	3,407	673	346	168	152	538	224
35,000 " 40,000	21,034	9,473	4,584	2,407	2,507	681	341	190	298	362	191
40,000 " 45,000	18,703	7,096	4,445	2,090	2,947	813	265	202	355	309	181
45,000 " 50,000	16,612	5,121	3,634	2,755	2,857	833	318	196	405	286	207
50,000 " 75,000	55,309	11,481	14,111	9,214	10,690	2,922	1,727	953	1,812	1,483	916
75,000 " 100,000	25,313	2,671	6,690	4,256	6,022	1,377	999	626	1,099	967	606
100,000 " 150,000	15,984	1,461	4,736	2,844	3,563	600	575	354	609	676	566
150,000 " 200,000	3,706	305	1,536	568	422	125	111	74	145	153	267
200,000 and over	5,278	759	1,308	885	890	78	137	83	125	233	780
TOTAL	462,064	169,638	99,181	75,155	51,741	20,067	16,631	9,388	6,510	8,363	5,390
Percent of Total*	100.0%	36.7%	21.5%	16.3%	11.2%	4.3%	3.6%	2.0%	1.4%	1.8%	1.2%

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

Tax Credits - 1998

TABLE 4
 NUMBER CLAIMING RENTER'S TAX CREDIT, NUMBER OF EXEMPTIONS,
 AND TAX CREDITS CLAIMED, BY ADJUSTED GROSS INCOME - 1998

ADJUSTED GROSS INCOME CLASS			Number Claiming	Number of Exemptions*			Tax Credits Claimed
				Total	Regular*	Age*	
	Under \$	1,000	10,491	20,623	14,650	5,973	\$ 1,046,000
\$	1,000	" 3,000	3,524	7,251	6,309	942	351,750
	3,000	" 5,000	3,467	6,944	5,808	1,136	329,800
	5,000	" 7,000	3,321	7,002	6,109	893	329,100
	7,000	" 9,000	4,294	8,546	7,855	691	414,050
	9,000	" 11,000	4,536	9,350	8,756	594	464,650
	11,000	" 13,000	5,239	10,131	9,784	347	500,650
	13,000	" 15,000	4,560	8,760	8,318	442	430,250
	15,000	" 17,000	5,052	9,534	8,789	745	455,900
	17,000	" 20,000	7,449	15,660	15,258	402	759,300
	20,000	" 25,000	10,485	21,378	20,485	893	1,043,700
	25,000	" 30,000	9,014	16,978	16,928	50	832,400
TOTAL			71,432	142,157	129,049	13,108	\$ 6,957,550

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

Tax Credits - 1998

TABLE 5

TOTAL INDIVIDUAL RETURNS FILED AND FOOD TAX CREDITS CLAIMED BY ADJUSTED GROSS INCOME - 1998

ADJUSTED GROSS INCOME CLASS		Total No. of Returns Filed	RETURNS WITH CREDIT				RETURNS WITHOUT CREDIT	
			No. of Returns	No. of Exemptions*	Exemptions per Return	Amount of Tax Credits	No. of Returns	Percent of Total
	Under \$ 5,000	137,363	80,358	126,577	1.58	\$ 3,417,579	57,005	41.5%
\$	5,000 "	59,274	42,129	68,821	1.63	1,858,167	17,145	28.9%
	10,000 "	49,372	40,864	70,355	1.72	1,899,585	8,508	17.2%
	15,000 "	46,338	40,419	71,090	1.76	1,919,430	5,919	12.8%
	20,000 "	39,201	34,640	64,817	1.87	1,750,059	4,561	11.6%
	25,000 "	34,987	31,933	57,068	1.79	1,540,836	3,054	8.7%
	30,000 "	28,809	26,618	54,504	2.05	1,471,608	2,191	7.6%
	35,000 "	22,536	20,906	44,116	2.11	1,191,132	1,630	7.2%
	40,000 "	20,082	18,609	43,300	2.33	1,169,100	1,473	7.3%
	45,000 "	17,841	16,555	42,018	2.54	1,134,486	1,286	7.2%
	50,000 "	57,157	55,056	152,478	2.77	4,116,906	2,101	3.7%
	75,000 "	26,426	25,166	76,273	3.03	2,059,371	1,260	4.8%
	100,000 "	16,438	15,879	47,004	2.96	1,269,108	559	3.4%
	150,000 "	4,014	3,668	9,728	2.65	262,656	346	8.6%
	200,000 and over	5,584	5,194	13,777	2.65	371,979	390	7.0%
TOTAL		565,422	457,994	941,926	2.06	\$ 25,432,002	107,428	19.0%

* Exemptions claiming food tax credit.

Tax Credits - 1998

TABLE 6
 COMPARATIVE DATA ON INDIVIDUAL RETURNS FILED,
 SHOWING NUMBER AND PERCENTAGE CLAIMING THE FOOD TAX CREDIT - 1998
 STATEWIDE

ADJUSTED GROSS INCOME CLASS		Number of Returns Filed			Returns with Credit			% of Returns with Credit			
		Single*	Joint**	H/H***	Single*	Joint**	H/H***	Single*	Joint**	H/H***	
	Under \$	5,000	99,788	30,449	7,126	54,677	19,945	5,736	54.8	65.5	80.5
\$	5,000	" 10,000	38,824	14,231	6,219	24,661	11,765	5,703	63.5	82.7	91.7
	10,000	" 15,000	30,045	12,868	6,459	23,544	11,153	6,167	78.4	86.7	95.5
	15,000	" 20,000	27,621	11,917	6,800	23,123	10,650	6,646	83.7	89.4	97.7
	20,000	" 25,000	20,714	11,746	6,741	17,700	10,370	6,570	85.4	88.3	97.5
	25,000	" 30,000	19,698	10,482	4,807	17,885	9,255	4,793	90.8	88.3	99.7
	30,000	" 35,000	14,237	10,527	4,045	13,001	9,634	3,983	91.3	91.5	98.5
	35,000	" 40,000	9,882	9,715	2,939	9,038	9,079	2,789	91.5	93.5	94.9
	40,000	" 45,000	7,751	10,728	1,603	7,280	9,731	1,598	93.9	90.7	99.7
	45,000	" 50,000	6,051	10,554	1,236	5,281	10,040	1,234	87.3	95.1	99.8
	50,000	" 75,000	12,588	41,485	3,084	11,923	40,058	3,075	94.7	96.6	99.7
	75,000	" 100,000	3,043	22,819	564	2,768	21,838	560	91.0	95.7	99.3
	100,000 and over		3,109	22,432	495	2,950	21,403	388	94.9	95.4	78.4
TOTAL			293,351	219,953	52,118	213,831	194,921	49,242	72.9	88.6	94.5

* Includes married filing separately .

Tax Credits - 1998

TABLE 7
 NUMBER CLAIMING DEPENDENT CARE TAX CREDIT, DEPENDENT CARE
 EXPENSES ALLOWED, AND TAX CREDIT CLAIMED, BY ADJUSTED GROSS INCOME - 1998
 STATEWIDE

ADJUSTED GROSS INCOME CLASS		Number of Returns Filed	Returns Claiming Credit	Percent With Credit	Expenses Allowed	Tax Credit Claimed
	Under \$ 5,000	137,363	291	0.2	\$ 355,668	\$ 88,917
\$	5,000 "	59,274	586	1.0	852,452	213,113
	10,000 "	49,372	874	1.8	1,314,468	328,617
	15,000 "	46,338	1,281	2.8	1,879,852	469,963
	20,000 "	39,301	1,495	3.8	2,258,659	545,871
	25,000 "	34,987	1,467	4.2	2,290,371	499,429
	30,000 "	28,809	1,349	4.7	2,229,509	428,695
	35,000 "	22,536	1,337	5.9	2,224,873	373,126
	40,000 "	20,082	1,361	6.8	2,393,576	359,048
	45,000 "	17,841	1,421	8.0	2,482,273	372,351
	50,000 "	57,157	6,898	12.1	12,321,852	1,848,327
	75,000 "	26,426	4,271	16.2	7,820,997	1,173,181
	100,000 "	16,438	2,391	14.5	4,621,975	693,311
	150,000 "	4,014	436	10.9	907,800	136,173
	200,000 and over	5,584	385	6.9	884,220	132,635
TOTAL		565,522	25,843	4.6	\$ 44,838,545	\$ 7,662,757

Tax Credits - 1998

TABLE 8
 NUMBER CLAIMING DEPENDENT CARE TAX CREDITS BY ADJUSTED GROSS INCOME AND BY EXPENSES ALLOWED - 1998
 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	5,192	483	1,051	1,173	2,001	484
\$ 500	" 1,000	4,509	287	761	924	2,001	536
1,000	" 1,500	3,040	232	480	621	1,326	381
1,500	" 2,000	2,351	170	376	493	1,036	276
2,000	" 2,500	6,801	428	1,170	1,470	2,916	817
2,500	" 3,000	587	26	63	117	272	109
3,000	" 3,500	459	14	65	86	220	74
3,500	" 4,000	435	13	54	83	231	54
4,000	" 4,500	367	20	31	74	171	71
4,500	and over	2,102	78	192	427	995	410
TOTAL		25,843	1,751	4,243	5,468	11,169	3,212

TABLE 9
 NUMBER CLAIMING CAPITAL GOODS EXCISE TAX CREDIT, AMOUNT OF CAPITAL ASSETS
 PURCHASED, AND TAX CREDIT CLAIMED - 1998
 INDIVIDUAL RETURNS, STATEWIDE

ADJUSTED GROSS INCOME CLASS			Number Claiming	Amount of Qualified Purchases	Tax Credit Claimed
	Under \$	10,000	694	\$ 8,671,500	\$ 346,860
\$	10,000	" 20,000	216	2,107,050	84,282
	20,000	" 30,000	188	2,221,325	88,853
	30,000	" 40,000	213	2,087,375	83,495
	40,000	" 50,000	157	2,001,175	80,047
	50,000	" 75,000	369	3,788,400	151,536
	75,000	" 100,000	299	2,719,300	108,772
	100,000	" 150,000	321	4,133,050	165,322
	150,000	" 200,000	197	3,588,775	143,551
	200,000	and over	496	29,834,225	1,193,369
TOTAL			3,150	\$ 61,152,175	\$ 2,446,087

Tax Credits - 1998

TABLE 10
 NUMBER CLAIMING CAPITAL GOODS EXCISE TAX CREDIT, AMOUNT OF CAPITAL ASSETS
 PURCHASED, AND TAX CREDIT CLAIMED - 1998
 CORPORATION RETURNS, STATEWIDE

GROSS RECEIPTS CLASS			Number Claiming	Amount of Qualified Purchases	Tax Credit Claimed
	Under \$	100,000	312	\$ 8,804,025	\$ 352,161
\$	100,000 "	500,000	584	12,056,175	482,247
	500,000 "	1,000,000	347	5,695,550	227,822
	1,000,000 "	5,000,000	678	29,073,575	1,162,943
	5,000,000 "	10,000,000	185	50,732,775	2,029,311
	10,000,000 and over		242	457,051,825	18,282,073
TOTAL			2,348	\$ 563,413,925	\$ 22,536,557

APPENDIX II

OUTLINE OF TAX CREDIT HISTORY

Outline of Tax Credit History

Year	Act	Tax Credit	Tax Credit Description or Modification
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 (AGI).
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 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.
1980	228	Excise Credit	Increased credit per qualified exemption; new range \$48 to \$8.

Tax Credits - 1998

Year	Act	Tax Credit	Tax Credit Description or Modification
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; expended 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.

Tax Credits - 1998

Year	Act	Tax Credit	Tax Credit Description or Modification
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 tax 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.

Tax Credits - 1998

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	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.

APPENDIX III

FACSIMILES OF N-11, N-12, N-13, N-15, AND N-30 TAX RETURNS AND TAX CREDIT FORMS

The following are links to the 1998 forms on this CD:

Form N-11 *Resident Individual Income Tax Return*
Form N-12 *Resident or Part-Year Individual Income Tax Return*
Instructions for Forms N-11 and N-12

Form N-13 (Short Form) *Individual Income Tax Return*
Instructions for Form N-13

Schedule X *Tax Credits for Hawaii Residents*

Form N-15 *Nonresident Individual Income Tax Return*
Instructions for Form N-15

N-30 *Corporation Income Tax Return*

N-157 *Credit for Energy Conservation*

N-163 *Fuel Tax Credit for Commercial Fishers*

N-312 *Capital Goods Excise Tax Credit*

N-314 *Hotel Remodeling Tax Credit*

N-316 *Motion Picture and Film Production Income Tax Credit*

N-756 *Enterprise Zone Tax Credit*

N-884 *Credit for Employment of Vocational Rehabilitation Referrals*

N-586 *Tax Credit for Low-Income Housing*