**LINDA LINGLE**
GOVERNOR

**JAMES R. AIONA, JR.**
LT. GOVERNOR

**KURT KAWAFUCHI**
DIRECTOR OF TAXATION

**STANLEY SHIRAKI**
DEPUTY DIRECTOR

STATE OF HAWAII
**DEPARTMENT OF TAXATION**
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

June 7, 2010

# DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2010-04

RE: Act 21, Session Laws of Hawaii 2010, Relating to Tax Credits; Providing the Statutory Ordering of Income Tax Credit Claims.

On April 14, 2010, Governor Linda Lingle signed into law House Bill 2596, as Act 21, Session Laws of Hawaii 2010.

This Act amends Chapter 235, Hawaii Revised Statutes, to provide for the express statutory ordering of income tax credit claims. As amended, Hawaii income tax law requires a taxpayer to utilize refundable income tax credits first; followed by nonrefundable income tax credits.

**EXAMPLE—**Assume that ABC Corp. has a 2010 annual income tax liability of $20,000. During the 2010 taxable year, ABC Corp. is also entitled to the following credits: 1) a $10,000 refundable tax credit for research activities; and 2) $15,000 in nonrefundable low-income housing tax credits. As provided by Act 21, ABC Corp. will be required to utilize its $10,000 in refundable research tax credits first to offset its $20,000 tax liability, followed by the utilization of its nonrefundable low-income housing tax credits to offset the remaining income tax liability. ABC Corp. will be allowed to carry any unused nonrefundable income tax credits to subsequent taxable years.

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|---|---|
| ABC Corp. 2010 Tax Liability | $20,000 |
| Step One: Refundable Credits | <$10,000> (Research Credit) |
| Step Two: Nonrefundable Credits | <$10,000> (Housing Credit) |
| Net Income Tax Liability | $0 |
| Unused Nonrefundable Credits Carried Forward | $5,000 |

Act 21, which was effective upon its approval, applies to taxable years beginning on or after January 1, 2010.

For more information on this Act, please contact the Rules Office at 808-587-1577.

KURT KAWAFUCHI
Director of Taxation