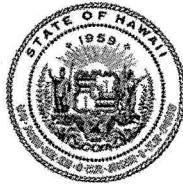


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HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

TESTIMONY REGARDING HB 2922 RELATING TO FUEL TAX

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 7, 2008

TIME: 8:30AM

ROOM: 312

This bill would exempt power-generating facilities utilizing diesel fuel from the license tax on liquid fuel.

The House Committee on Transportation passed this measure unamended.

The Department of Taxation ("Department") **provides comments.**

I. SAVINGS PASSED ON TO CONSUMERS.

As has been noted by other legislative committees considering fuel tax relief for energy producers in the past, the tax on fuel used by power-generating facilities is passed on to consumers.

This Committee, then, should be cognizant of the fact that this bill does not provide any mechanism to assure the tax exemption is passed on to consumers. It is the Department's position that only market forces will dictate whether the tax savings is passed on to consumers. The Department would be very disappointed if the tax exemption provided in this legislation were not likewise passed on to consumers.

II. DEFINITIONAL ERROR

The Department points out that the definition of "power-generating facilities" contained at HRS § 243-1 repeals on December 31, 2009. There would be no definition thereafter. Based upon this bill, these amendments will not repeal with the other tax incentives provided to other power-generating facilities (*e.g.*, naphtha tax rate). A permanent definition should be provided.

III. EFFECTIVE DATE

To allow the Department to administer the exemption in an orderly fashion, the effective date should be delayed until October 1, 2008.

IV. FISCAL IMPACT.

This legislation will reduce highway fund revenue by about \$1.2 million in fiscal year 2009 and by about \$600,000 in fiscal year 2010.