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HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION
TESTIMONY REGARDING SB 2986 SD 1
RELATING TO REFUNDABLE RENEWABLE ENERGY TAX CREDITS

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 12, 2008
TIME: 1:15PM
ROOM: 224

This measure amends the Renewable Energy Technologies Income Tax Credit by allowing the credit to be refundable for those that have little Hawaii taxable income.

The Senate Committee on Energy & Environment amended this measure's effective date.

The Department of Taxation (Department) **strongly supports** this Lingle-Aiona Administration measure as a policy to encourage additional investment in renewable energy technologies.

Under current Hawaii law, pension income, including social security is not taxable. This population includes retirees that may have little Hawaii taxable income (investment income) due to the exclusion, but would otherwise have the resources to invest in these technologies. This legislation will allow those with the resources to obtain a refundable incentive for installations of renewable energy technologies. This legislation also extends to any taxpayer with less than $20,000 of adjusted gross income. This would provide incentives for the lower- and middle-class to invest in these technologies.

Annual revenue loss is estimated to be $41,000, starting in fiscal year 2009.

Based upon the foregoing, the Department urges this Committee to pass this measure unamended. Our estimate for making the renewable energy tax credit refundable for taxpayers with adjusted gross income of $20,000 or less (or $40,000 or less for joint filers) is based on 2005 renewable energy tax credit data. Total number of returns that claimed the renewable energy credit for Single/Married Filing Separate and Head of Households with AGI <$20,000 is 316, with total amount claimed of $117,304. Total number of returns that claimed the renewable energy credit for Single/Married Filing Separate and Head of Households with AGI <$20,000 is 76 returns, with total amount claimed of $16,861. Total number of returns that claimed the renewable energy credit for

Joint filers with AGI <$40,000 is 240, with total amount claimed of $100,443. Total credit claimed was $117,304. Assuming that because the credit is now refundable, there will be an increase of 35%. Therefore, the estimated lost in income tax is $41,000 annually.

LINDA LINGLE
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THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE
ON
ECONOMIC DEVELOPMENT AND TAXATION
Tuesday, February 12, 2008
1:15 p.m.
State Capitol, Conference Room 224

in consideration of
SB 2986, SD1
RELATING TO REFUNDABLE RENEWABLE ENERGY TAX CREDIT.

Chair Fukunaga, Vice Chair Espero, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) supports SB2986,SD1, which is an Administration measure to allow for the present renewable energy tax credits to be refundable for those taxpayers with an adjusted gross income of up to $20,000. Joint filings by a husband and wife would be capped at $40,000.

At present the statutes governing the renewable energy tax credits are only offered to those with tax liabilities. Therefore, home owners who have no tax liability, such as retired persons on fixed incomes or certain low income families, cannot take advantage of the sizeable tax credits offered. This proposed bill would allow residential taxpayers to claim a refund for their investment in renewable energy technologies. The present tax credit is for 35%, with various dollar caps, for the cost to purchase and install solar water heating systems, photovoltaic systems, and wind systems. Home owners with limited or fixed incomes would benefit from the use of solar water heating or other renewable energy system to reduce their utility costs. Under the present statute, residential taxpayers who do not have a tax liability do not benefit from the renewable energy tax credits. This bill will allow the tax credits to be refundable to offset the cost of the renewable system.

During our many community outreach and exhibit efforts, we have often received comments from senior citizen home owners who are not able to claim the present tax credit. These home owners have felt shut out from the tax credit and the benefits of installing renewable energy devices.

Thank you for the opportunity to offer these comments.

Testimony before the
Senate Committee on
Economic Development and Taxation

S. B. 2986, SD1 - Relating to Refundable Renewable Energy Tax Credit

Tuesday, February 12, 2008
1:15 p.m., Conference Room 224

by Keith Block
Director, Customer Efficiency Programs
Hawaiian Electric Company, Inc.

Chair Fukunaga, Vice Chair Espero and Members of the Committee:

My name is Keith Block and I am testifying on behalf of Hawaiian Electric Company, Inc., and its subsidiaries, Maui Electric Company (MECO) and Hawaii Electric Light Company, Inc. (HELCO).

Hawaiian Electric supports the use and development of renewable energy and supports SB 2986, SD1.

Hawaiian Electric has been encouraging the use of renewable energy through its residential solar water heating program for over 11 years. In that time the companies have provided rebates to over 39,000 customers for the installation of solar water heating systems on their homes.

Tax credits are a vehicle which the legislature has used successfully for many years. Making the renewable energy technology tax credit refundable for Hawaii residents who are exempt from taxation or who have low adjusted gross incomes should make these systems more affordable and accelerate Hawaii's transition to increased use of renewable energy. Increasing the penetration of renewable energy systems is consistent with State energy policy and support achieving established Renewable Energy Portfolio Standards.

Thank you for this opportunity to testify

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Renewable energy technology systems

BILL NUMBER: SB 2986, SD-1

INTRODUCED BY: Senate Committee on Energy and Environment

BRIEF SUMMARY: Amends HRS section 235-12.5 to provide that the renewable energy technologies income tax credit claimed by taxpayers with no taxable income or with adjusted gross income of under $20,000 shall be refundable.

EFFECTIVE DATE: Tax years beginning after December 31, 2007

STAFF COMMENTS: This is an administration measure submitted by the department of business, economic development and tourism BED-12(08). While the administration's justification sheet states that the adoption of this measure will allow residential taxpayers with no tax liability or those with low incomes to purchase a renewable energy system to help offset the upfront cost, it underscores the fact that such renewable energy systems are still not affordable to everyone.

If it is the intent of the legislature to encourage a greater use of renewable energy systems by all taxpayers, as an alternative, consideration should be given to a program of low-interest loans available to all income levels.

The combination of a low-interest loan which can be repaid with energy savings would have a much more broad-base application than a credit which amounts to nothing more than a "free monetary handout" or subsidy by state government for those taxpayers who more than likely can afford to make the conversion. A program of low or no-interest loans such as those proposed in HB 2101 would do much more to increase the acquisition of these devices. Persons of all income levels could borrow the funds, make the acquisition, and repay the state program in an amount equal to the avoided cost that their utility bills would now reflect.

To reiterate, if lawmakers truly want to provide a financial incentive for taxpayers to make the switch to using these alternative energy devices while taking advantage of the credit, then a program of no-interest, or low-interest loans would be far more effective. The state could provide the capital to acquire these devices, and the taxpayer could receive a discount of 30% provided by the federal tax credit. The amount of the state loan could then be amortized by the energy savings realized by the taxpayer.

Finally, it appears that there are some taxpayers for whom there is no state tax liability and therefore a nonrefundable tax credit such as the renewable energy tax credit provides no incentive. Again, this is one of the inherent flaws of using tax credits to entice certain behaviors. To change the credit now for some people and not for others from a nonrefundable to a refundable credit sets poor tax policy as it lacks consistency.

Digested 2/11/08