

LINDA LINGLE  
GOVERNOR  
  
JAMES R. AIONA, JR.  
LT. GOVERNOR



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The Honorable Hermina Morita  
Chair, House Committee on Energy & Environmental Protection  
State Capitol, Room 314  
Honolulu, Hawaii 96813

February 9, 2009

RE: **CORRECTED TESTIMONY FOR HB 370**

Dear Chair Morita:

On February 3, 2009, the House Committee on Energy & Environmental Protection heard testimony on House Bill 370, Relating to Taxation.

In the Department's testimony, it was suggested that naphtha fuel is a type of diesel. The Department's testimony was incorrect and a staffer's misunderstanding has been corrected.

Please accept the enclosed corrected testimony as the Department's position on this measure.

Thank you for your understanding.

Sincerely,

KURT KAWAFUCHI  
Director of Taxation

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**HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION  
TESTIMONY REGARDING HB 370  
RELATING TO TAXATION**

**\*\*\*UPDATED\*\*\***

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**  
**DATE: FEBRUARY 3, 2009**  
**TIME: 2:45M**  
**ROOM: 325**

This legislation specifies that the fuel tax rate on diesel fuel used in electricity generation shall be one-cent per gallon.

The Department of Taxation has **opposes this measure's potential revenue impact.**

**CURRENT LAW**—The Department points out that there currently exists a one-cent per gallon fuel tax rate on naphtha fuel used for the generation of electricity. The naphtha fuel tax rate is set to expire on December 31, 2009. The Department points out that this legislation may be unnecessary due to the current naphtha fuel tax rate. Should the Legislature desire this rate for electricity generation, it could simply pass HB 371, which eliminates the repeal date on the naphtha tax rate.

**PREFERENCE FOR NAPHTHA ONLY**—The Department prefers the naphtha-specific fuel tax rate in the fuel tax law because naphtha, the Department understands, is cleaner than ordinary diesel. Due to environmental benefits, it may be best to provide a naphtha-only preferential fuel tax rate for electricity generation.

**CONSUMER PROTECTION ELEMENT**—The Department appreciates that this measure involves the Public Utilities Commission and a certificate that the preferential tax rate benefits customers.

**OPPOSITION FOR POTENTIAL COSTS**—The Department opposes this measure to the extent it provides additional unbudgeted tax benefits. Based upon the Department's projections, this legislation will result in no impact in Fiscal Year 2009, a revenue loss of \$1.6 million in Fiscal Year 2010, and a loss of \$1.079 million in Fiscal Year 2011 and after.