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STATE OF HAWAII
DEPARTMENT OF TAXATION
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Bill No. 2522

KURT KAWAFUCHI Support (Y) N
DIRECTOR OF TAXATION

SANDRA LYNAIRO 2/3
DEPUTY DIRECTOR

Time 1936

Cat AF (AS) AX BC

Type 1 (2) WI

HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

TESTIMONY REGARDING HB 2522 RELATING TO RENEWABLE ENERGY

WRITTEN TESTIMONY ONLY

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 4, 2010
TIME: 9AM
ROOM: 325

This measure proposes to exempt the sale, servicing, leasing, or installation of certain renewable energy systems from the general excise tax; provided the system generates at least 2 MW of electricity.

The Department of Taxation (Department) supports this measure and defers to the Department of Business, Economic Development & Tourism.

I. THE DEPARTMENT SUPPORTS RENEWABLE ENERGY REFORM POLICY.

The Department recognizes the importance of this legislation because this bill provides an attractive incentive that serves as another step in the right direction for minimizing Hawaii's dependence on fossil fuels. The Department and the Administration both recognize the importance of Hawaii's energy independence and are in strong support of policies to that effect. The Administration is committed to energy conservation and promoting alternative energy production, including reducing Hawaii's fuel dependency.

II. MINIMUM-SIZED SYSTEM IS AN IMPORTANT REQUIREMENT

The Department supports this measure particularly because it includes a minimum-sized system that can enjoy the exemption. This bill requires that the system generate at least 2 MW of electricity. A complete exemption from the general excise tax is a very generous incentive. Only meaningful and productive systems, which move Hawaii toward energy independence, should enjoy this exemption.

III. REVENUE IMPACT

Based upon an analysis by the Department of Business, Economic Development & Tourism, this measure will result in the following revenue losses:

- \$6.3 million in FY 2011;
- \$12.6 million in FY 2012; and
- \$8.6 million in FY 2013

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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Bill No. 2522
 Support Y N X
 Date 2/3
 Time 1446

SUBJECT: GENERAL EXCISE, Exempt sale or lease of renewable energy system **Cat AF AS AX BC**
 BILL NUMBER: SB 2675; HB 2522 (Identical) **Type 1 2 WI**
 INTRODUCED BY: SB by Hanbusa by request; HB by Say by request

BRIEF SUMMARY: Adds a new section to HRS chapter 237 to exempt from the general excise tax, the gross proceeds arising from the sale, installation, servicing, and leasing of a renewable energy system, beginning on January 1, 2011 and expiring on December 31, 2015. The exemption shall not apply to gross proceeds associated with the preparation of plans, designs or permitting associated with the renewable energy system.

Defines "renewable energy system" as a system that produces at least two megawatts of electrical power or 500,000 gallons of liquid fuels from one or more sources of renewable energy.

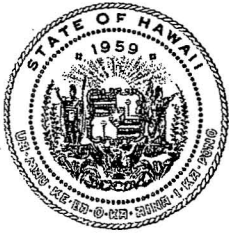
EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This is an administration measure submitted by the department of business, economic development and tourism BED-09(10). Given that this proposal would apply to such systems that produce at least two megawatts, it is more than likely for commercial or industrial use. As such, the purchase or lease of such a system would probably qualify for the state's capital goods excise tax credit which was temporarily suspended last year. That credit is offered to offset the cost of the general excise tax on the purchase of capital equipment such as this proposal attempts to exempt, but specifically for renewable energy systems. Thus, it would make little sense to enact legislation that accomplishes what the capital goods excise credit already does.

It should be noted that when the capital goods excise tax credit was enacted more than two decades ago, it was seen as a preferred alternative to an exemption because it placed the onus of how the equipment I used on the purchaser as opposed to the seller. The seller of capital goods may not know whether or not the purchaser will be using the equipment in the course of the purchaser's business or if it will be for personal use. Thus, the tax credit not only benefits the purchaser, but it also insures the appropriate use of the capital equipment.

Finally, the capital goods excise credit was suspended last year based on the argument that businesses were given the option of a bonus or accelerated depreciation at the federal level. Depreciation is an offset of income resulting from the use of the equipment and it is not a reduction of the purchase price of the capital goods. Thus, capital goods purchased during the period of suspension of the credit last year were 4% more expensive than they should have been.

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**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

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Type **1** **2** **WI**

Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION
Thursday, February 4, 2010
9:00 AM
State Capitol, Conference Room 325

in consideration of
HB 2522
RELATING TO RENEWABLE ENERGY.

Chair Morita, Vice Chair Coffman, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) strongly supports HB 2522, an Administration bill, which would exempt renewable energy systems of two megawatts or larger from the general excise tax from January 1, 2011 through December 31, 2015.

There is a significant amount of Federal funding – both grants and tax incentives – available for renewable energy projects. This measure will help to attract this funding and these jobs to Hawaii by providing general excise tax exemptions for the construction of utility-scale renewable energy facilities built within a five year period of time.

There are several renewable energy projects being considered for Hawaii. This incentive could make the difference for a significant number of projects, and thus generate jobs, tax revenues, and energy diversification that would not otherwise exist.

We encourage your support of this bill. Thank you for the opportunity to offer these comments.

**Testimony before the
House Committee on
Energy & Environmental Protection
H.B. 2522 -- Relating to Renewable Energy**

**Thursday, February 4, 2010
9:00 am, Conference Room 325**

**By Arthur Seki
Director, Renewable Technology
Hawaiian Electric Company, Inc.**

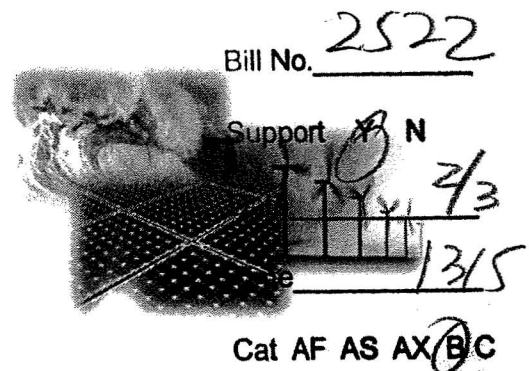
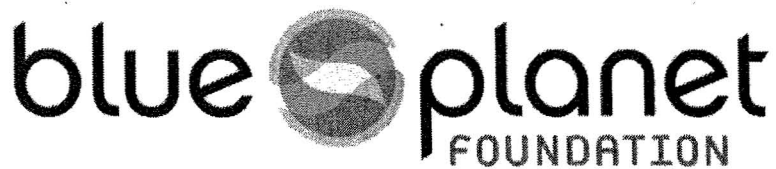
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Chair Morita, Vice-Chair Coffman and Members of the Committee:

My name is Arthur Seki. I am the Director of Renewable Technology for Hawaiian Electric Company. I am testifying on behalf of Hawaiian Electric Company (HECO) and its subsidiary utilities, Maui Electric Company (MECO) and Hawaii Electric Light Company (HELCO).

We support H.B. 2522 which provides an exemption from the general excise tax for renewable energy systems. The proposed changes in this bill will make it more attractive for more entities to take advantage of this benefit.

Thank you for the opportunity to testify.



HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION Type **1** 2 WI
 February 4, 2010, 9:00 A.M.
 Room 325
 (Testimony is 1 page long)

TESTIMONY IN SUPPORT OF HB 2522, SUGGESTED AMENDMENTS

Chair Morita and members of the Committee:

The Blue Planet Foundation supports House Bill 2522, a measure exempting clean energy projects from the general excise tax for a four-year period starting January 1, 2011. Blue Planet respectfully asks that this Committee amend this measure to include renewable energy projects of all sizes in the GET exemption, not just those greater than 2 MW or producing more than 500,000 gallons of liquid fuels. We also ask that this Committee limit the GET exemption as it applies to biofuels and biomass to locally produced feedstocks only.

Hawaii is the most dependent state in the nation on imported oil. Some 50 million barrels are imported annually, nearly 97% of which originate from foreign sources¹. In addition, over 800,000 tons of coal are imported into our state². These sources provide power for over 92% of Hawaii's electricity generation. The combustion of these resources also contributes over 23 million tons of climate changing greenhouse gas into our atmosphere annually³. Hawaii's economic, environmental, and energy security demand that we reduce the amount of fossil fuel imported and consumed in Hawaii. To that end, new policies are critically needed that will dramatically increase energy efficiency, build our smart energy infrastructure with storage, and develop clean, renewable, and indigenous energy sources.

Blue Planet supports exempting clean energy projects from the GET to help the economics for new, Hawaii-based, clean energy projects pencil out.

Thank you for the opportunity to testify.

¹ The State of Hawaii Data Book, 2008

² *Ibid.*

³ ICF International. Inventory of Greenhouse Gas Emissions and Sinks in Hawaii: 1990 and 2007. December 2008.