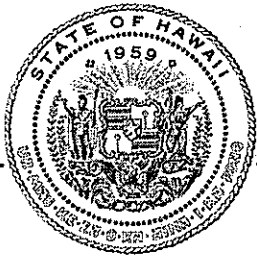


SB 198



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

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
INTERIM DIRECTOR

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Statement of
RICHARD C. LIM
Interim Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
And
COMMITTEE ON COMMERCE AND CONSUMER PROTECTION
Thursday, February 3, 2011
2:45 PM
State Capitol, Conference Room 225

in consideration of
SB198
**RELATING TO THE RENEWABLE ENERGY TECHNOLOGIES
INCOME TAX CREDIT.**

Chairs Gabbard and Baker, Vice Chairs English and Taniguchi, and members of the
Committees.

The Department of Business, Economic Development, and Tourism (DBEDT) defers to
the Department of Taxation on matters relating to SB198. We are unable to support this measure
due to its potential impact on the priorities indicated in the Executive Biennium Budget.

Thank you for the opportunity to offer these comments.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
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FREDERICK D. PABLO
INTERIM DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

**SENATE COMMITTEES ON ENERGY & ENVIRONMENT AND
COMMERCE & CONSUMER PROTECTION**

**TESTIMONY OF THE DEPARTMENT OF TAXATION
REGARDING SB 198
RELATING TO THE RENEWABLE ENERGY TECHNOLOGIES INCOME
TAX CREDIT**

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF
TAXATION (OR DESIGNEE)
COMMITTEE: ENE-CPN
DATE: FEBRUARY 3, 2011
TIME: 2:45PM
POSITION: COMMENTS; CONCERNED WITH COSTS

This measure allows taxpayers that pay the insurance premiums tax under Chapter 431, Hawaii Revised Statutes, (i.e., insurance companies), to claim the renewable energy technologies income tax credit (Energy Credit).

The Department of Taxation (Department) offers the following comments.

NOT OPPOSED TO EXTENDING THE CREDIT TO INSURANCE COMPANIES—The Department is not opposed to extending the renewable Energy Credit to insurance companies.

Under Hawaii tax law, financial institutions and insurance companies are taxed differently than other taxpayers. In the instance of the Energy Credit, the credit has been extended to financial institutions taxable under Chapter 241, HRS. This measure would simply extend the credit to insurance companies to provide parity amongst industries that are not subject to the income tax. This parity has also been extended with the High Technology Business Investment Tax Credit that recently expired.

CONCERNED WITH UNBUDGETED REVENUE LOSS—The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. By extending the credit to insurance companies, the revenue loss from the Energy Credit is projected to increase.

The increase in revenue loss is likely to be substantial because insurance premiums tax taxpayers are guaranteed to have taxable revenues that can be offset by the credit. Also, even if taxable revenues are nominal, the Energy Credit is refundable. The Committee should be aware of the likelihood of increased credit usage by extending the Energy Credit to insurance companies. The Department assumes increased credit usage is an intended consequence because this measure targets additional investment in energy systems.

This measure will result in a general fund revenue loss of approximately \$6.8 million starting in FY 2012 and thereafter.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INSURANCE PREMIUMS, Energy conservation tax credits

BILL NUMBER: SB 198

INTRODUCED BY: Gabbard, Chun Oakland, Shimabukuro and 2 Democrats

BRIEF SUMMARY: Adds a new section to HRS chapter 431 to provide that the renewable energy technologies tax credit under HRS section 235-12.5 shall be operative for all taxpayers subject to HRS chapter 431.

EFFECTIVE DATE: Tax years beginning after December 31, 2010

STAFF COMMENTS: While the proposed measure allows insurance companies to be eligible to claim the renewable energy technologies income tax credit, it acknowledges the high cost of renewable energy technologies. It should be noted that insurance companies pay the premiums tax in lieu of the general excise tax and the net income tax. Thus, while the renewable energy technologies credit is available to net income taxpayers, it is not available to insurance companies. Thus, this proposal would extend a similar incentive to these taxpayers.

While some may consider an incentive necessary to encourage the use of energy conservation devices, it should be noted that the high cost of these energy systems limits the benefit to those who have the initial capital to make the purchase. If it is the intent of the legislature to encourage a greater use of renewable energy systems by increasing and expanding the existing system of energy tax credits, as an alternative, consideration should be given to a program of low-interest loans. However, if the taxpayer avails himself of the loan program, the renewable energy credit should not be granted for projects utilizing the loan program as the project would be granted a double subsidy by the taxpayers of the state.

Low-interest loans, which can be repaid with energy savings, would have a much more broad-based application than a credit which amounts to nothing more than a "free monetary handout" or subsidy by state government. A program of low or no-interest loans would do much more to increase the acquisition of these devices.

As another alternative, instead of providing tax incentives for the purchase of existing technology, lawmakers may want to take advantage of Hawaii's natural environment which lends itself to all sorts of possibilities to explore and develop more efficient means of harnessing the natural resources that pervade the Islands, from wind to sun to geothermal to hydrogen from Hawaii's vast resources, all of which could be further developed with the assistance and cooperation of government in Hawaii.

Digested 2/2/11



Hawaii Solar Energy Association
Serving Hawaii Since 1977

February 3, 2011
2:45PM

SENATE
COMMITTEE ON ENERGY AND ENVIRONMENT
SB 198

Mark Duda
President

TESTIMONY IN SUPPORT

Aloha Chair Gabbard, Vice Chair English, and Members of the Committee:

The Renewable Energy Technologies Income Tax Credit is a mechanism for encouraging Hawaii taxpayers to invest in solar and wind energy projects. In doing so it advances the State's renewable energy goals while also triggering a significant flow of outside funds to the State in the form of federal tax credits, grants, and accelerated depreciation, as well as private capital.

To date, the credit has only been available to individual and corporate income tax filers, as provided in §235-12.5, and to financial institutions as provided in §241-6. Conspicuously missing from this list of potential investors is the insurance industry, whose premiums are taxed under §431: 7-202.

Because insurers are one of the primary categories of investor in the State, allowing them to invest in renewable energy projects would advance the State's energy security goals while helping ensure that Hawaii insurers' investments are more likely to be made locally and, in doing so, spur economic activity in Hawaii rather than on the Mainland or internationally.

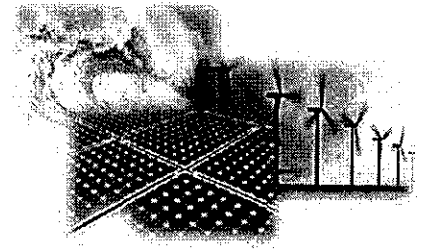
As a result, HSEA believes that SB198 is a sensible and timely measure that will increase economic activity in the State and help reduce dependence on imported fossil fuels.

Thank you for the opportunity to testify on this measure.

Mark Duda
President, Hawaii Solar Energy Association

About Hawaii Solar Energy Association

Hawaii Solar Energy Association (HSEA) is comprised of installers, distributors, manufacturers and financiers of solar energy systems, both hot water and PV, most of which are Hawaii based, owned and operated. Our primary goals are: (1) to further solar energy and related arts, sciences and technologies with concern for the ecologic, social and economic fabric of the area; (2) to encourage the widespread utilization of solar equipment as a means of lowering the cost of energy to the American public, to help stabilize our economy, to develop independence from fossil fuel and thereby reduce carbon emissions that contribute to climate change; (3) to establish, foster and advance



**SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION**

February 3, 2011, 2:45 P.M.

Room 225

(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF SB 198

Chairs Gabbard and Baker and members of the Committees:

The Blue Planet Foundation supports SB 198, a measure expanding the ability for investors to use the clean energy investment tax credit. This measure will help to accelerate the investment in Hawaii's clean energy future by encouraging more private investment in solar thermal, photovoltaic, and wind energy technologies. By leveraging private investment in clean energy, state tax incentives will yield numerous benefits through job creation, reduced dependency on imported fossil fuel, reduced greenhouse gas emissions, and economic development.

While current law provides for a tax credit for various renewable energy devices, investors have sometimes found it to be lacking meaningful incentive to invest in Hawaii's renewable energy projects. Senate Bill 198 wisely expands the types of income that the tax credits can be taken against and expands the types of taxpayers who can take the credits.

The Hawaii's clean energy market has the potential to attract hundreds of millions of dollars per year in investment capital for renewable energy projects in the state. These projects would generate hundreds if not thousands of jobs, reduce Hawaii's dependence on imported oil, and protect our environment.

Please forward SB 198 to encourage private investors to make a down payment on Hawaii's clean energy future.

Thank you for the opportunity to testify.