

TAXBILLSERVICE



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SUBJECT: INCOME, Report on renewable energy tax credits

BILL NUMBER: SB 2195, SD-1

INTRODUCED BY: Senate Committee on Energy & Environment

BRIEF SUMMARY: Directs the department of taxation, in collaboration with the department of business, economic development, and tourism (DBEDT), to submit a joint report to the convening of each regular session of the legislature on the following: (1) the number of renewable energy technology properties that have qualified for a tax credit in each of the previous four taxable years by type of technology and type of entity; (2) the total cost of the tax credit to the state during the past four taxable years by type of technology and type of entity; and type of tax credit and whether the credit is refundable or nonrefundable; and (3) the estimated economic benefit attributable to the renewable energy tax credit in each of the previous four taxable years, including the impact on the economy and jobs.

Appropriates \$100,000 in general funds to the department of taxation and \$100,000 to DBEDT for fiscal year 2015 to submit a joint report to the legislature related to renewable energy technology properties, the total cost of renewable energy tax credit to the state, and the estimated economic benefit of renewable energy tax credits for each of the previous four taxable years.

EFFECTIVE DATE: July 1, 2014

STAFF COMMENTS: The proposed measure would require the department of taxation and DBEDT to submit an annual report to the legislature on renewable energy technology properties including the cost to the state of the renewable energy tax credits. Given that these tax credits are a back door expenditure of public dollars, the granting of these preferences should be subjected to the same scrutiny that the appropriation and expenditure of tax dollars which are subjected to under the procurement code.

When judging targeted tax incentives such as this one, we recommend revisiting the criteria proposed by the 2001-2003 Tax Review Commission:

(i) *Cost-benefit studies.* Cost-benefit studies should be required prior to inaugurating new or revised tax credit programs. Policy makers should use only those programs with quantifiable and demonstrable benefits over costs. Such costs and benefits should not only look at fiscal and economic effects, but should examine social ones as well.

(ii) *Periodic evaluations* of all tax incentive programs should be required.

(iii) *Truth and disclosure reporting* separate and apart from a taxpayer's tax returns should generally be required of all taxpayers benefitting from tax incentive programs, making public all aspects of these subsidies for private investment.

(iv) *Strategic planning.* Embed tax incentives in strategic plans, leveraging as much of the State's scarce resources as possible. Rather than promoting diverse incentives in search of a cohesive strategy, the State should employ only incentives that make strategic sense.

(v) *Public participation.* Encourage public participation in and comment on tax incentive use to foster public accountability. There should at least be as much public discussion over generous multi-million dollar business incentive tax credits as there is over \$50,000 renovations to school libraries.

(vi) *Sunset provisions* should be required to ensure that the above processes will be implemented before an incentive can be extended. It should be demonstrated to the Legislature that the targeted benefit to the State was in fact received, what the tax cost of that benefit was, and whether the continuation of the tax incentive is appropriate and necessary.

(vii) *Enforcement.* Given the magnitude and the complexity of these business incentive tax credits, the small chance of audit, ambiguous statutory requirements as to what can be claimed as a credit, there must be legislative oversight of these credits. In addition, the Department of Taxation must be given sufficient resources to police these credits.

In any event, taxpayers deserve to know how much is being provided in these tax incentives and what is the present justification. While appropriations are made to the department of taxation and DBEDT, consideration should be given to ensure that sufficient staff is also provided for the study.

Digested 2/18/14