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To: The Honorable Chris Lee, Chair  
and Members of the House Committee on Energy and Environmental Protection

Date: Thursday, February 11, 2016  
Time: 8:30 A.M.  
Place: Conference Room 325, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: H.B. 1620, Relating to Tax Credit.

The Department of Taxation (Department) appreciates the intent of H.B. 1620, defers to the Department of Health on the merits of this bill, and provides the following comments regarding this measure for your consideration.

H.B. 1620 establishes a refundable tax credit of \$10 for individual taxpayers within the State who install plastic water catchments on the properties at which they reside. The measure is effective upon approval and applies to taxable years ending after December 31, 2015.

First, the Department notes that the amount of the credit is the same regardless of whether it is taken against tax liability or is refunded to the taxpayer, and as such, an election is unnecessary. The Department suggests the deletion of subsection (f) and suggests amending subsection (a) to read:

(a) Each individual taxpayer who files an individual net income tax return for a taxable year may claim a refundable tax credit under this section against the taxpayer's individual income tax liability for the taxable year for which the individual income tax return is being filed. ~~Hawaii state individual net income tax.~~ The tax credit may be claimed for each eligible plastic water catchment system installed by the taxpayer at the taxpayer's domicile in the State during the taxable year.

As a general rule, the Department recommends non-refundable credits since they do not have the potential for abuse that refundable credits have.

Finally, the Department requests that the effective date be changed to apply to taxable years beginning after December 31, 2017, to give the Department sufficient time to develop the forms and make the necessary changes to the computer system.

Thank you for the opportunity to provide comments.

# TAX FOUNDATION OF HAWAII

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SUBJECT: INCOME, Credit for plastic water catchment system installation

BILL NUMBER: HB 1620

INTRODUCED BY: SAY

EXECUTIVE SUMMARY: Establishes an income tax credit for the installation of a plastic water catchment system. The adoption of this credit would provide a subsidy to taxpayers regardless of their need for tax relief. There is also some concern that the administrative costs incident to establishing this credit would outweigh the benefits sought to be gained.

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow individual taxpayers the ability to claim a \$10 tax credit for each eligible plastic water catchment system installed at the taxpayer's domicile in the State.

Defines "domicile" as the place of an individual's true, fixed, and permanent home, and the principal establishment to which the individual has the intention of returning whenever the individual is absent. Defines "household use" as any use to which water is commonly put in a residential setting. Defines "plastic water catchment system" as a water catchment system constructed primarily out of plastic that is attached to a domicile's rain gutter system for the purpose of capturing and storing rainwater for household use or fire suppression.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information in order to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91. Requires claims for the credit, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

Provides that the tax credit may be used as a credit against the taxpayer's income tax liability in subsequent years if the credit exceeds the taxpayer's income tax liability.

Allows an individual taxpayer to elect to have any excess of the credit over payments due refunded, provided that the tax credits properly claimed by a taxpayer who has no income tax liability and no refund on account of the tax credit allowed shall be made for amounts less than \$1.

Stipulates that the department of taxation shall assist, to the extent feasible, with data collection on:

- (1) The number of plastic water catchment systems that have qualified for a tax credit during the calendar year; and
- (2) The total cost of the tax credit to the State during the taxable year

EFFECTIVE DATE: Tax years beginning after December 31, 2015.

STAFF COMMENTS: Providing such credits against the state income tax merely reduces state revenues, and if the size of government does not go down, then the tax burden shifts to other taxpayers who are not able to claim the credit.

In addition, it should be remembered that there will be administrative costs to set up the credit, including reprogramming costs, development of forms and instructions, and taxpayer education. These costs may dwarf the actual amount of the credit given the small amount allowable.

Finally, as written, the bill characterizes the credit as nonrefundable but provides for an irrevocable election to make it refundable (at full value). Given the small dollar amount of the credit, it would be administratively far easier to make the credit refundable.

Digested 2/9/2016