

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
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To: The Honorable Sean Quinlan, Chair;
The Honorable Daniel Holt, Vice Chair;
and Members of the House Committee on Economic Development

From: Isaac W. Choy, Director
Department of Taxation

Date: Wednesday, February 9, 2022
Time: 10:00 A.M.
Place: Via Video Conference, State Capitol

Re: H.B. 1709, Relating to Taxation

The Department of Taxation (Department) offers the following comments on H.B. 1709 for the committee's consideration.

H.B. 1709 establishes a new refundable income tax credit for taxpayers who install a whole house water filter system, also known as a "point-of-entry system," meaning a filtration system where the main water line enters a home and removes impurities and contaminants from all of the water that is distributed throughout the home. The credit is set at an unspecified percentage amount of the taxpayer's qualified expenses, defined as "costs that are necessary and directly incurred by the taxpayer for the purchase and installation of a whole house water filter system." There is also a \$5,000,000 annual aggregate cap on the credit; those taxpayers who are ineligible to claim the credit due to the cap having been exceeded shall be eligible to claim the credit in the subsequent taxable year. The credit applies to taxable years beginning after December 31, 2021.

First, the Department notes that it does not have the ability to administer the aggregate annual cap without another agency certifying the credit. The Department respectfully requests that another agency with the requisite expertise be made responsible for certifying this credit and administering the \$5,000,000 aggregate cap.

Second, the Department notes that this credit would be refundable. As a general matter, the Department prefers nonrefundable credits because refundable credits create a higher potential for improper claims and abuse.

Finally, if the Committee wishes to advance this measure, the Department respectfully requests that the date of applicability be postponed until taxable years beginning after December

31, 2022. This will give the Department sufficient time to make the necessary form and computer system changes.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
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CRAIG K. HIRAI
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DEPUTY DIRECTOR

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EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
ON
HOUSE BILL NO. 1709

LATE

February 9, 2022
10:00 a.m.
Room 312 and Videoconference

RELATING TO TAXATION

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill No. 1709 adds a new section to Chapter 235, HRS, that establishes an income tax credit for the purchase and installation of a whole house water filter system. The credit would be equal to an unspecified percentage of qualified expenditures and have an annual aggregate cap of \$5,000,000.

B&F notes that the federal American Rescue Plan (ARP) Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

- By enacting policies to raise other sources of revenue;
- By cutting spending; or
- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with this ARP restriction.

Thank you for your consideration of our comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit for Whole House Water Filter System

BILL NUMBER: HB 1709

INTRODUCED BY: ICHIYAMA, ELI

EXECUTIVE SUMMARY: Establishes an income tax credit for taxpayers who purchase and install a whole house water filter system. The adoption of this credit would provide tax relief to taxpayers regardless of their need for tax relief. It also would shift the burden of paying for government to the rest of us.

SYNOPSIS: Adds a new section to HRS chapter 235 to allow a credit for a whole house water filter system.

The credit is to be ___% of qualified expenses. Tax credits that exceed the taxpayer's income tax liability are refundable.

For a partnership, S corporation, estate, or trust, the cost upon which the credit is computed shall be determined at the entity level and the distribution and share of the tax credit shall be determined by administrative rule.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information 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.

The aggregate amount of tax credits claimed shall not exceed \$5 million for all taxpayers in any taxable year. Any taxpayer who is not eligible to claim the credit in a taxable year due to the \$5 million cap having been exceeded for that taxable year shall be eligible to claim the credit in the subsequent taxable year.

Defines "qualified expenses" as costs that are necessary and directly incurred by the taxpayer for the purchase and installation of a whole house water filter system.

Defines "whole house water filter system", also known as a "point-of-entry system", as a filtration system that is installed where the main water line enters a home and removes impurities and contaminants from all of the water that is distributed throughout the home."

EFFECTIVE DATE: Applicable to taxable years beginning after December 31, 2021.

STAFF COMMENTS: Lawmakers need to keep in mind two things. First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape

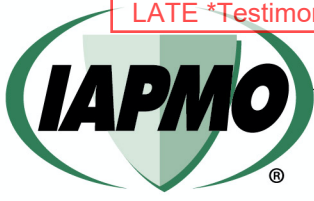
social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount. The second point to remember about tax credits is that they are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse?

If lawmakers want to subsidize the purchase of whole house water filtration systems, then a direct appropriation would be more accountable and transparent.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation may be a far less costly method to accomplish the same thing.

Finally, the credit is directed to persons who might have no need for financial assistance.

Digested: 2/7/2022



LATE

February 8, 2022

Chair Sean Quinlann
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415 South Beretania St.
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Vice Chair Daniel Holt
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Position: Support for HB 1709 Pending Language Clarification

Dear Economic Development Committee Members,

On behalf of the International Association of Plumbing and Mechanical Officials (IAPMO), I want to share support for the intent of HB 1709, which provides a tax incentive for installation of whole house water filter systems. This bill is very timely and will greatly assist the state's efforts to promote improved drinking water quality for Hawaiians.

Utilizing point-of-use (POU) or point-of-entry (POE) treatment systems provide additional protections for residents' drinking water, and they are included in the federal Safe Drinking Water Act (SDWA). To ensure the protection of public health, Section 1412(b)(4)(E)(ii) of SDWA regulates the design, management, and operation of POU and POE treatment units. A key provision of this section of the SDWA states that "if the American National Standards Institute (ANSI) has issued product standards for a specific type of POU or POE treatment unit, then only those units that have been independently certified according to these standards may be used as part of a compliance strategy."¹

The Hawaii State Department of Health also suggests that consumers should "select a treatment unit that has been tested and certified by an appropriate, independent testing organization for the reduction of the desired contaminant." And recommends that consumers "follow the manufacturer's instructions or operating manual," stating that "all home treatment devices require proper installation, as well as regular maintenance, in order to operate properly."²

When product requirements related to water treatment technologies are placed into legislation, industry supports and third-party certification requirements and installation guidelines. These industry standards are referenced in building and plumbing codes throughout the country and provide uniform and consistent requirements that are designed to protect public health.

As such, IAPMO recommends the following language changes to HB 1709:

¹ https://www.epa.gov/sites/default/files/2015-09/documents/guide_smallsystems_pou-poe_june6-2006.pdf

² <https://health.hawaii.gov/sdwb/files/2013/06/home-water-treatment2.pdf>



"Whole house water filter system", also known as a "point-of-entry system", means a filtration system that is installed where the main water line enters a home and ~~reduces~~ ~~removes~~ impurities and contaminants from all of the water that is distributed throughout the home. *These point-of-entry systems shall be certified by a third-party certifying body accredited by the American National Standards Institute (ANSI) National Accreditation Board (ANAB), be installed in compliance with the Uniform Plumbing Code adopted by the state, and follow the manufacturer's instructions for use and maintenance.*

These recommendations align with the federal government and state agency guidelines for water filtration systems. They also underscore the need for independent product testing and certification as a critical step to ensuring that products meet the performance, health, and quality assurance. Third-party product certification can help the state provide consumer confidence that plumbing products and systems will function as they claim, and help eliminate concerns that consumers may purchase and install either non-complying products, or counterfeit products available on the market. It is important to note that there are numerous organizations accredited by the American National Standards Institute (ANSI) to provide this service.

I am happy to answer any questions that you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Robyn Fischer". The signature is fluid and cursive, written over a light blue horizontal line.

Robyn Fischer
Director, Government Relations
The IAPMO Group

May it Please Our Honorable Legislature

I address this Legislative Committee in Support of HB1709.

The bill presented is for tax credit for the residential installation of main line public provided water filtration also noted as point of source. Individual residential water filtration equipment is available in the market place.

Tens of thousands of citizens are fully aware of the Red Hill fuel oil contamination of the public water supply. The contamination source has been identified as a US Government entity.

By no fault of our own the citizens of various Greater Honolulu areas are left having to contend with a once clean water supply to now one that is documented to be contaminated in many areas. We would wish to help ourselves, however as the pollution was initiated by a government entity, we are requesting assistance from a government entity in the near term to protect our health.

There has been great effort to contend with purging well water contamination and flushing into Pearl Harbor. There has been citizens removed from Aliamanu due to public water issues.

Petroleum has entered the aquifer. The aquifer is expansive and serves several wells. Wells have been put out of service at ground zero. The aquifer expands well beyond the point of entry of ground zero contamination.

I am unaware if comprehensive testing is being conducted at active wells to the extent that is being performed at Red Hill.

If or when contamination becomes present in months ahead at current active wells, what are we to do? We were not prepared for the real possibility.

Preparing for June Hurricane season would be a comparable example.

I urge the committee to discuss this bill in a full and open manner in the interest of our citizens intent to help ourselves .

Respectfully,

William Kirk