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**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

H.B. No. 1613, Relating to Water Catchment.

**BEFORE THE:**

House Committee on Water & Land

**DATE:** Thursday, February 8, 2024  
**TIME:** 9:00 a.m.  
**LOCATION:** State Capitol, Room 430

Chair Ichiyama, Vice-Chair Poepoe, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 1613 for your consideration.

H.B. 1613 amends chapter 235, Hawaii Revised Statutes (HRS), by establishing a new refundable income tax credit of \$250 for taxpayers who have installed, placed into service, or maintained a water catchment system with a minimum capacity of at least one thousand gallons on a residential property owned by the taxpayer. The measure would apply to taxable years beginning after December 31, 2024.

First, the Department notes that it generally prefers that tax credits be made nonrefundable, as refundable credits are more susceptible to waste, fraud, and abuse.

Second, the Department recommends that definitions for "water catchment" and "water catchment systems" be inserted into this measure as the Department does not have subject-matter expertise to determine, without additional guidance, what would qualify as a water catchment system.

Third, the Department suggests adding language to subsection (c) that "only one tax credit may be claimed for each water catchment system." As currently drafted, the bill would allow multiple taxpayers to claim the credit if there are multiple owners of a

property.

Fourth, the Department suggests amending the definition of "qualified taxpayer" in subsection (e) on page 3, lines 15 to 19, of the bill to require that a taxpayer install *and* place in service the water catchment system during the taxable year, and to delete the term "maintained." Otherwise, there would be no time limitation as to when a taxpayer may claim the credit, as a system may be maintained for many years after installation.

Finally, the Department notes that this credit does not specifically offset any economic cost incurred by the taxpayer; the credit amount is \$250 regardless of the cost of installation, placing into service, or maintenance. The Department recommends the amount of the credit be amended to equal the qualified taxpayer's cost of installing and placing in service a water catchment system, up to a \$250 limit.

Thank you for the opportunity to provide comments on this measure.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME TAX; Water Conservation; Water Catchment

**BILL NUMBER:** SB 2797, HB 1613

**INTRODUCED BY:** SB by RICHARDS, CHANG, FEVELLA, KANUHA, KIDANI, MCKELVEY, SAN BUENAVENTURA, Elefante, Wakai; HB by KAPELA, COCHRAN, GANADEN, HUSSEY-BURDICK, MARTEN, NAKASHIMA, POEPOE, QUINLAN, WARD, Amato, Matsumoto

**EXECUTIVE SUMMARY:** Creates a refundable water catchment income tax credit for a homeowner who installs, places in service, or maintains a water catchment system meeting certain requirements on residential property in the State owned by the homeowner.

**SYNOPSIS:** Adds a new section to chapter 235, HRS, providing for a refundable credit of \$250 for a qualified taxpayer.

Defines “qualified taxpayer” as a taxpayer who has installed, placed in service, or maintained during the taxable year a water catchment system with a minimum capacity of one thousand gallons on a residential property located in the State that is owned by the taxpayer.

**EFFECTIVE DATE:** Upon approval, applicable to taxable years beginning after December 31, 2024.

**STAFF COMMENTS:** It appears that this measure is proposed to encourage taxpayers to purchase water catchment systems by allowing taxpayers to claim a \$250 tax credit in the year of installation.

Lawmakers need to remember 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 kind about the expenditure of these funds when students are roasting in our schools, or when there isn't enough money for social service programs?

Utilizing tax credits other than to alleviate an excessive tax burden cannot be justified and is of a questionable benefit relative to the cost for all taxpayers. If lawmakers want to encourage the use of water conservation systems by reducing the cost of such systems, then a direct appropriation to subsidize that cost 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 compared to the

Re: SB 2797, HB 1613

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loss in revenue from the credit, especially since the credit proposed is a very modest amount. A direct appropriation, or even a program similar to the way we currently subsidize energy efficient appliances, may be a far less costly method to accomplish the same thing.

Digested: 2/3/2024

**HB-1613**

Submitted on: 2/6/2024 12:58:59 PM

Testimony for WAL on 2/8/2024 9:00:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Abby Simmons	Individual	Support	Written Testimony Only

Comments:

Aloha Chair, Vice Chair and esteemed Committee,

I'm testifying in support of HB1613. As a first time home owner, I can speak from newly gained and personal experience that there are many costs involved in replacing or repairing an existing water catchment system. In addition, maintaining the system is mandatory for safe drinking water (filtration, pipes, UV Lights, etc). All of these costs do add up to a significant amount of money (especially replacing a tank!). Since folks like us aren't connected to city water or sewage, it would come as a welcome relief to have a tax credit assist us with the ongoing costs.

Mahalo nui loa for your time and consideration,

Abby Simmons

Hawai'i Island