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LATE

To: The Honorable Donovan M. Dela Cruz, Chair;
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

From: Rona M. Suzuki, Director
Department of Taxation

Re: S.C.R. 186, Requesting the Tax Review Commission to Study and Submit a Report on the Tax Ramifications of Enacting Legislation that Addresses Climate Change Mitigation and Adaptation Factors in Hawaii

Date: Tuesday, March 17, 2020

Time: 10:35 A.M.

Place: Conference Room 211, State Capitol

The Department of Taxation (Department) supports S.C.R. 186 and provides the following comments.

S.C.R. 186 requests the Tax Review Commission (TRC) to conduct a study on tax ramifications of enacting legislation, which addresses the impacts of climate change. It further requests the TRC to study:

- Tax deduction(s) available to a business entity subject to a carbon tax;
- Any unintended consequences of utilizing the framework of the barrel tax to impose a carbon tax;
- Any unintended effects, advantages, and disadvantages to enacting a carbon tax to disincentivize the use of fossil fuels;
- Various options to offset the regressive nature of a carbon tax, including, but not limited to a refundable income tax credit to taxpayers with household incomes below the median level, or a dividend payment to residents of the State over 18 years old; and
- Whether the effectives of a carbon tax would be diminished by refunding some or all the revenue to individual taxpayers through a tax credit or a dividend payment.

The next TRC will be appointed this year and present its report before the 2022 Regular Legislative Session. The Department has requested an appropriation of \$250,000 for FY 2021 on behalf of the TRC to carryout their mandate of conducting a systematic review of Hawaii's tax structure, revenue solutions, and tax policy. The funds will be used for administrative expenses for the TRC and contract for the performance of studies and other research, which could include the impacts of climate change.

Thank you for the opportunity to provide comments.