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

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 543, Relating to Taxation

BEFORE THE:

House Committee on Housing

DATE: Wednesday, February 8, 2023

TIME: 9:30 a.m.

LOCATION: State Capitol, Room 312

Chair Hashimoto, Vice-Chair Aiu, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 543 for your consideration.

H.B. 543 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create a new refundable whole house water filter system income tax credit. The credit is set at an unspecified percentage of a taxpayer's qualified expenses. The credit has an annual aggregate cap of \$5,000,000. The terms "qualified expenses" and "whole house water filter system" are defined in this measure.

This measure is effective upon approval and shall apply to taxable years beginning after December 31, 2022.

First, the Department recommends making the tax credit nonrefundable, as refundable credits are more prone to fraudulent claims.

Second, the Department notes that aggregate caps are difficult for the Department to administer and often result in uncertainty for taxpayers. If the aggregate cap is maintained, the Department requests that the credits be certified by another agency.

Finally, the Department notes that due to the number of bills with tax law changes that have been introduced this year, the Department may not have the resources to implement all measures passed this session in time for tax year 2023. The Department will continue to monitor the status of the proposed legislation and will advise whether some changes will require a later effective date.

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

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

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

BILL NUMBER: HB 543, SB 630

INTRODUCED BY: HB by AIU, HASHIMOTO, ICHIYAMA, LAMOSAO; SB by KIM, AQUINO, CHANG, KANUHA, MCKELVEY, Keith-Agaran, Kidani

EXECUTIVE SUMMARY: Establishes an income tax credit for taxpayers who purchase and install a whole house water filter system.

SYNOPSIS: 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, 2022.

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 irrespective of their need for financial assistance.

Digested: 2/5/2023

LATE

HB-543

Submitted on: 2/7/2023 4:48:12 PM

Testimony for HSG on 2/8/2023 9:30:00 AM

Submitted By	Organization	Testifier Position	Testify
James Madison	Individual	Support	Written Testimony Only

Comments:

Aloha Members of the Legislature,

My testimony here and now is in Support of Bill 543.

I currently reside in Moanalua valley on Oahu. As there has been much discussion and meetings regarding the Red Hill chemical spillage and contamination of our publicly provided water supply, I urge for your help.

This situation created by a government entity that threatens public health and is documented, deserves equal discussion and action regarding the communities ability to protect ourselves.

This situation did not originate offshore. This health risk was created by the U.S government on Oahu within view from my home.

This Bill is seeking a citizen tax credit for the purchase and installation of an independent whole house filtration system from the public water system. This system filters publicly provided water before it enters the household.

We are looking for owed assistance to try and protect ourselves from impurities in our water for which we did not cause.

we are not looking for exemptions, we are not looking for a handout. We are looking for just a little help to combat and prevent a real threat of a health hazard. Government created the health hazard.

Purging wells and monitoring are all positive steps. My Thanks to the members of the BWS as well as the health department.

We need to be proactive in response to the pollution already introduced. Monitoring wells are going in just down the street and nearby. This is evidence the pollution exists. We want your help for us to utilize funds that we would normally provide to the State government to actually protect ourselves.

The Bills proposal notes a yearly monetary cap which in reality is so small that it does not even compare to government outlays from previous governmental Missteps and consequences.

We are not proposing a handout.
The yearly benefit will help hundreds of households protect ourselves.

Your Kind Considerations are Greatly Appreciated.

Regards,

William Kirk (aka James Madison)