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DEPARTMENT OF TAXATION

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

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 2797, Relating to Water Catchment.

BEFORE THE:

Senate Committee on Health and Human Services

DATE: Monday, February 5, 2024

TIME: 1:55 p.m.

LOCATION: State Capitol, Room 225

Chair San Buenaventura, Vice-Chair Aquino, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding S.B. 2797 for your consideration.

S.B. 2797 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

SB-2797

Submitted on: 2/3/2024 9:52:22 PM

Testimony for HHS on 2/5/2024 1:55:00 PM

Submitted By	Organization	Testifier Position	Testify
Zahava Zaidoff	Individual	Support	Written Testimony Only

Comments:

Aloha Chair, Vice Chair, and Committee members,

Instrongly support this bill. As someone who lives with water catchment in an area where it often does not rain enough, I can tell you that myself and my neighbors find ourselves paying for water delivery at least a few times per year.

It is painfully expensive to have water brought in, and it can take days, even weeks sometimes to get someone to deliver it. In my community we don't have enough people who deliver water to drive the cost down. It is upwards of 200 dollars for 2000 gallons of water. If it doesn't rain enough for months at a time, that can be upwards of 1000 dollars for just a few months of living depending on family size.

This refundable credit would be of great help to many of us.

Mahalo Nui Loa!

Zahava Zaidoff

SD3

SB-2797

Submitted on: 2/2/2024 4:08:48 PM

Testimony for HHS on 2/5/2024 1:55:00 PM

Submitted By	Organization	Testifier Position	Testify
Abby Simmons	Individual	Support	Written Testimony Only

Comments:

Aloha Chair, Vice Chair and esteemed Committee,

I'm testifying in support of SB2797. 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

SB-2797

Submitted on: 2/4/2024 12:13:48 PM

Testimony for HHS on 2/5/2024 1:55:00 PM

Submitted By	Organization	Testifier Position	Testify
Nicolette Choi	Individual	Support	Written Testimony Only

Comments:

Dear Committee members,

Thank you for the opportunity to testify on SB2797 which seeks to “Create 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”.

I am in support of this bill, as harvesting rainwater is an age-old practice that can help offset the energy and cost of treating and delivering water to homes, as well as decrease erosion from stormwater run-off.

I live in an area where flooding occurs after heavy rains and there are large pools of sitting water around the neighborhood. They are “hotspots” for mosquito larvae and bacteria to grow, and attracts other pests. Water catchment systems would also aid in excess water from soaking the ground, leading to soil erosion

Furthermore, our neighborhood also experiences very hot and dry months which requires more water to keep our grass and gardens growing-otherwise we incur fines from our neighborhood associations. Harversting rain water could be a big help in off-setting the extra costs in dryer months.

Installing water catchment systems would be a huge help in our communities, helping residents to utilize a natural resource while decreasing a growing strain on the main water system. The Tax credit is a good incentive for Hawai'i residents.

Thank you for allowing me to comment on this matter.

Sincerely,

Nicolette Choi

LATE

SB-2797

Submitted on: 2/4/2024 2:55:19 PM

Testimony for HHS on 2/5/2024 1:55:00 PM

Submitted By	Organization	Testifier Position	Testify
Tamara Paltin	Individual	Support	Written Testimony Only

Comments:

I support sb2797 and incentives to installing and maintaining water catchment systems of over 1000 gallons.

Mahalo,

Tamara Paltin

LATE

SB-2797

Submitted on: 2/4/2024 6:16:22 PM

Testimony for HHS on 2/5/2024 1:55:00 PM

Submitted By	Organization	Testifier Position	Testify
Amy Fine	Individual	Support	Written Testimony Only

Comments:

I support a tax credit for homeowners with water catchment systems. Taxpayer money supports the county water supply which does not serve large areas of Hawai'i island, so is of no direct benefit for those off the grid. Catchment users have extra costs to keep their systems in good condition, and to purchase the filters and UV lights to make the water sanitary and potable. In times of drought, they also have the cost of water delivery. There is a value added element from catchment users for those on county systems: county water, which is in short supply, does not have to be delivered to so many people.

LATE

SB-2797

Submitted on: 2/4/2024 10:51:42 PM

Testimony for HHS on 2/5/2024 1:55:00 PM

Submitted By	Organization	Testifier Position	Testify
Una Greenaway	Individual	Support	Written Testimony Only

Comments:

Aloha Chair San Bueanventura and Vice Chait Aquino

As a farmer, who has lived and farmed for 46 years on a 5 acre ag zoned parcel, I was pleased to see that there is a bill for a tax credit for those living on water catchment. The language of the bill appears to only offer the credit for those living on residential property. It is confusing because it does not specify whether a person living on property that is zoned agricultural, would be included. In the South Kona district, most folks who live on catchment live on agriculturally zoned property. I cannot see why the credit would be for residential zoning only. Please specify to whom exactly the credit would be for. It should definitely include agricultural property where there is also a residence, otherwise, it would appear to only benefit the Puna district, where many small residential lots are on catchment, not South Kona and Kau. Thank you in advance,

Una Greenaway

Kuaiwi Farm