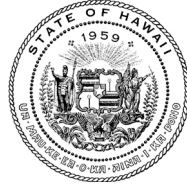


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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 768, Relating to Taxation

BEFORE THE:

Senate Committee on Health and Human Services

DATE: Wednesday, January 28, 2026

TIME: 1:30 p.m.

LOCATION: State Capitol, Room 225

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

The Department of Taxation (DOTAX) offers the following comments regarding S.B. 768 for your consideration.

Section 2 of S.B. 768 amends chapter 235, Hawaii Revised Statutes (HRS), by adding a new section to create an alternative water source income tax credit. The credit is equal to the lesser of:

- The costs of installing, placing into service, or repairing a water catchment system on a residential property located in the State that is owned by the taxpayer;
- The costs of purchasing water delivery services of at least two hundred fifty gallons of water during the taxable year to a residential property located in the State that is owned by the taxpayer; or
- \$500.

The credit is refundable.

For purposes of this bill, "water catchment system" means a system of catching rainwater from a surface and transporting it through a conveyance system to a storage container with a minimum capacity of one thousand gallons on a residential property located in the State that is owned by the taxpayer. "Water delivery service" means a service that delivers fresh water to a residential property located in the State that is owned by the taxpayer.

The bill takes effect upon approval and applies to taxable years beginning after December 31, 2025.

DOTAX recommends the tax credit be nonrefundable, as refundable credits are more prone to waste, fraud, and abuse. If the credit is made nonrefundable, DOTAX further recommends that the bill specify the credit be claimed within a set period, as follows:

If the tax credit under this section exceeds the taxpayer's net income tax liability, the excess of the credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted; provided that no credit forward may be claimed more than five years after the initial claim for credit is made under this section.

Additionally, DOTAX notes that the bill, as currently drafted, would allow every individual taxpayer to claim a credit of \$500 regardless of whether the taxpayer incurred costs for a water catchment system or water delivery service. DOTAX recommends amending the bill to require that the taxpayer incur costs during the taxable year to be eligible to claim the credit.

Further, to reduce potential waste and abuse, DOTAX also recommends that the credit be based on a percentage of the total cost, as follows:

(a) Each taxpayer who files an individual income tax return for a taxable year may claim an income tax credit equal to the lesser of:

(1) _____ per cent of the costs of installing, placing into service, or repairing a water catchment system on a residential property located in the State that is owned by the taxpayer; or

(2) _____ per cent of the costs of purchasing water delivery services of at least two hundred fifty gallons of water during the taxable year to a residential property located in the State that is owned by the taxpayer;

provided that the amount of the tax credit claimed under this section by a taxpayer shall not exceed \$500 per taxable year; provided further that if a residential property that qualifies for the credit is owned by more than one taxpayer in the same taxable year, the tax credit may only be claimed by one taxpayer in that taxable year.

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

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: NET INCOME, Credit for Water Catchment System or Water Delivery

BILL NUMBER: SB 768

INTRODUCED BY: RICHARDS, AQUINO, CHANG, HASHIMOTO, KANUHA, SAN BUENAVENTURA

EXECUTIVE SUMMARY: Creates an alternative water source income tax credit for taxpayers who install, place in service, or repair a water catchment system or who purchase water delivery services. The proposed credit would result in a subsidy as it would merely grant a tax credit for such purchase irrespective of a taxpayer's need for tax relief.

SYNOPSIS: Adds a new section to chapter 235, HRS, to provide a refundable income tax credit equal to the least of: (1) The costs of installing, placing into service, or repairing a water catchment system on a residential property located in the State that is owned by the taxpayer; (2) The costs of purchasing water delivery services of at least two hundred fifty gallons of water during the taxable year to a residential property located in the State that is owned by the taxpayer; or (3) \$500.

Defines "water catchment system" as a system of catching rainwater from a surface and transporting it through a conveyance system to a storage container with a minimum capacity of one thousand gallons on a residential property located in the State that is owned by the taxpayer.

Defines "water delivery service" as a service that delivers fresh water to a residential property located in the State that is owned by the taxpayer."

All claims for a tax credit under this section, including any amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

EFFECTIVE DATE: Taxable years beginning after December 31, 2025.

STAFF COMMENTS: This measure is proposed to encourage taxpayers to purchase water catchment systems or use fresh water delivery services by allowing taxpayers to claim a refundable tax credit up to \$500.

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 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: 1/24/2026

SB-768

Submitted on: 1/27/2026 10:05:48 AM

Testimony for HHS on 1/28/2026 1:30:00 PM

Submitted By	Organization	Testifier Position	Testify
Austin "Shiloh" Martin	Testifying for Libertarian Party of Hawaii	Oppose	Remotely Via Zoom

Comments:

Aloha Chair Aquino, Vice Chair Shimabukuro, and committee members.

I am Austin Martin, Chair of the Libertarian Party of Hawaii, testifying in strong opposition to SB 768 (Relating to Taxation).

This bill provides targeted tax adjustments and exemptions for specific healthcare providers and transactions, creating unequal treatment under the law by granting privileges to select entities while imposing the full tax burden on others. Such selective relief complicates the general excise tax code, invites perpetual lobbying for additional carve-outs, and directly benefits politically connected providers at the direct expense of ordinary taxpayers and non-favored competitors.

These distortions raise costs throughout the healthcare market and entrench cronyism rather than fostering genuine competition. I recommend rejecting SB 768 entirely and instead pursuing uniform tax reductions that apply equally to all Hawaiians without special-interest exceptions.

Mahalo for your kokua in this matter.

SB-768

Submitted on: 1/24/2026 4:26:15 AM

Testimony for HHS on 1/28/2026 1:30:00 PM

Submitted By	Organization	Testifier Position	Testify
Nash Witten	Individual	Support	Written Testimony Only

Comments:

Aloha Committee Chair and Committee Members,

As a born and raised primary care Family Medicine physician practicing in my hometown of Hale‘iwa, O‘ahu, I STRONGLY SUPPORT this bill.

Thank you for the opportunity to testify on this bill,

Nash Witten, MD