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Testimony of
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before the
SENATE COMMITTEES ON ENERGY, ECONOMIC DEVELOPMENT, AND TOURISM AND AGRICULTURE AND ENVIRONMENT

Tuesday, January 30, 2024
1:01 PM
State Capitol, Conference Room 229 and Videoconference

Providing Comments on
SB 2525

RELATING TO TAXATION.

Chairs DeCoite and Gabbard, Vice Chairs Wakai and Richards, and members of the Committees, the Hawaiʻi State Energy Office (HSEO) provide comments on SB 2525, which 1) amends the environmental response, energy, and food security tax to address carbon emissions. Incrementally increases the tax rate over time; 2) establishes a refundable tax credit to mitigate the effect of a carbon emissions tax on taxpayers; and 3) requires reports to the Legislature.

HSEO's comments are guided by its mission to promote energy efficiency, renewable energy, and clean transportation to help achieve a resilient, clean energy, decarbonized economy. Further, HSEO notes, that SB 2525 closely follows the recommendation from the Act 238 (SLH 2022) Report, *Hawaiʻi Pathways to Decarbonization*[1] which recommended the state legislature modify the barrel tax to increase over time, as lower carbon intensity fuels become commercially available. HSEO notes, that any tax or surcharge to encourage behavior change must include policies to support the availability of cost-effective alternative options. Thus, a portion of

[1] Hawaiʻi State Energy Office (2023). Hawaiʻi Pathways to Decarbonization. Report to the 2024 Hawaiʻi State Legislature, Act 238 (SLH 2022). https://energy.hawaii.gov/wp-content/uploads/2024/01/Act-238_HSEO_Decarbonization_Report.pdf

the surcharge funds should be used for lower-carbon infrastructure development and dividends should directly flow to income-qualifying residents." The recommendation notes, "A carbon surcharge incentivizes behavioral changes when appropriate enabling infrastructure (e.g. robust transit) is available to residents and visitors." The report further notes that "Sin taxes" [such as a carbon tax] are regressive and must include protections for low- and moderate-income households. Dividends are viewed by economists as a way to offset the day-to-day cost increases of a carbon surcharge. Due to the carbon footprint of tourism, a carbon surcharge should ensure tourism carries a fair share of the burden."[2]

HSEO supports the intent of this bill and notes the use of carbon pricing should only be used as a complement to directed regulatory and programmatic action; the carbon tax should not be construed as a fix-all action to climate action, as infrastructure investment is critical to enabling switches to less carbon-intensive actions and activities. It is critical to recognize that a carbon tax should be designed primarily to disadvantage carbon-intensive activities and should not be used to raise revenues.[3]

As written, however, HSEO notes the following concerns with SB 2525:

Regarding the cashback component of the bill, HSEO suggests the dividend to taxpayers be computed based on the revenues received from the surcharge rather than a specified dollar amount. Prescribing the dollar amount for each year may not be appropriate and may result in the State owing more money to taxpayers in certain circumstances, particularly if the tax is successful in achieving its objective of substantially reducing fossil fuel demand, which would reduce the amount of funds raised by the surcharge.

HSEO further notes that while prescribing the dollar amount of the dividend lowers the administrative burden, the dividend would be better determined via a formula after the first year. The formula should take total revenues, subtract a dollar value as determined by the tax department for administrative fees and qualifying program fees (e.g. infrastructure development fees), and divide by the number of shares, where the

[2] Id. Page 8
[3] State of Hawaiʻi Tax Review Commission. (2022). Report of the 2020-2022 Tax Review Commission. https://files.hawaii.gov/tax/stats/trc/docs2022/TRC_Report_2022.pdf

number of shares equals the number of adult residents, plus one-half the number of minors. HSEO further suggests the dividend be limited to qualifying income groups, set at a high threshold to accommodate Hawaiʻi's high cost of living, e.g. qualifying households earning less than 140% AMI, or qualifying households in the bottom four income quintiles.[4]

Despite these concerns, HSEO recognizes a carbon tax and dividend program as an effective mechanism for achieving market-based greenhouse gas emissions reductions. Carbon pricing can help to equalize the market environment between lower carbon intense activities and fossil fuels, and incentivize, and in some cases enable, the adoption of cleaner low-emitting alternatives for consumers. Further, excess revenue from the carbon tax can assist in financing the upfront and initial costs of infrastructure which enables cleaner alternatives, such as robust transit networks.

HSEO defers to the Department of Budget and Finance on the fiscal impact of this measure to the state budget and defers to the appropriate agencies for comment on tax administration.

Thank you for the opportunity to testify.

[4] Id. Page 11.