

STAND. COM. REP. NO.

440

Honolulu, Hawaii

FEB 15, 2007

RE: H.B. No. 1111

Honorable Calvin K.Y. Say  
Speaker, House of Representatives  
Twenty-Fourth State Legislature  
Regular Session of 2007  
State of Hawaii

Sir:

Your Committee on Energy & Environmental Protection, to which was referred H.B. No. 1111 entitled:

"A BILL FOR AN ACT RELATING TO ALCOHOL FUELS,"

begs leave to report as follows:

The purpose of this measure is to provide an income tax credit to taxpayers to offset the general excise tax assessed on alcohol fuels.

Your Committee received comments from the Department of Taxation on this measure. Your Committee also received testimony on this measure from the Department of Business, Economic Development, and Tourism expressing strong concerns.

Your Committee finds that a plethora of legislative proposals have been introduced with respect to exempting alcohol fuels from the general excise tax. However, the policy objective of this and other bills are not clearly defined. Your Committee understood that the purpose of the general excise tax exemption on alcohol fuels was to provide an ethanol blending incentive. Your Committee has learned that such a policy was not an effective incentive and what has stimulated the interest in the local production of ethanol is the ethanol facility tax credit. However, your Committee is aware that there appears to be a desire to lower the cost of gasoline for Hawaii consumers. This type of policy, if adopted, may best be achieved through an income tax credit to ensure that the savings is realized by the consumer/taxpayer rather than relying on the gasoline retailer to



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pass on such savings, which may not occur through a general excise tax exemption and thus may only serve to increase a retailer's margin. Also, a general excise tax exemption may not be an appropriate method to advance this policy, as it is a tax on the gross income of a business not the consumer.

Therefore, your Committee finds that, if it is the policy objective to provide Hawaii residents and businesses with monetary relief at the gas pump, it should not be confused with any type of incentive to encourage the production and use of alternative fuels. Additionally, your Committee further finds that an income tax credit may be the more appropriate vehicle to provide that monetary relief.

Your Committee will work to facilitate further discussion on this matter and urges subsequent Committees taking up this measure to consider these issues carefully. Your Committee also notes that, as the Legislature further defines this policy statement, the title of this measure may become problematic. Your Committee therefore recommends to the Committee on Finance to consider the scope of the subject matter discussed in relation to the applicability of the title.

As affirmed by the record of votes of the members of your Committee on Energy & Environmental Protection that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1111 and recommends that it pass Second Reading and be referred to the Committee on Finance.

Respectfully submitted on  
behalf of the members of the  
Committee on Energy &  
Environmental Protection,



HERMINA MORITA, Chair



