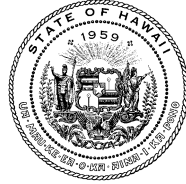


DAVID Y. IGE  
GOVERNOR

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LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
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MARIA E. ZIELINSKI  
DIRECTOR OF TAXATION

To: The Honorable Chris Lee, Chair  
and Members of the House Committee on Energy & Environmental Protection

Date: Tuesday, February 10, 2015  
Time: 8:30 A.M.  
Place: Conference Room 325, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: H.B. 642, Relating to the General Excise Tax

The Department of Taxation (Department) appreciates the intent of H.B. 642 and provides the following comments for your consideration.

H.B. 642 creates a general excise tax exemption for the first \$500,000 in proceeds received for "wet waste recyclables," which is defined as clean garbage sold as food for domestic animals or as material for composting.

The Department notes that the term "clean garbage" may be ambiguous and suggests that it be defined.

Thank you for the opportunity to provide comments.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Exempt wet waste recyclables

BILL NUMBER: HB 642

INTRODUCED BY: Say

BRIEF SUMMARY: Adds a new paragraph to HRS section 237-24.7 to exempt from the general excise tax the first \$500,000 received for the disposal of wet waste recyclables. Defines “wet waste recyclables” as clean garbage sold as food for domestic animals or composting, originating from any restaurant, hotel, retailer, or wholesaler that consists of kitchen refuse, table refuse, offal, swill, animal scraps, or vegetable scraps diverted from the solid waste stream.

EFFECTIVE DATE: Gross income or gross proceeds received after December 31, 2015

STAFF COMMENTS: While this measure would grant preferential tax treatment for wet waste recyclables, it should be remembered that the use of the tax system for such purposes is an inefficient means to accomplish such goals. Exemptions from the excise tax recognize that the imposition of the tax would impose an unusual burden or would otherwise cause the taxpayer to do business in an inefficient manner just to circumvent the tax. Exemptions are also granted because the entity is a nonprofit or if the tax imposed would have a severe economic impact on the state’s economy. The proposed exemption meets none of these criteria. If this measure is enacted, it will provide one industry with preferential treatment. That is bad tax policy.

It should be remembered that giving tax breaks to one select group of taxpayers comes at the expense of all other taxpayers. Rather than singling out a particular area for tax relief, concurrent efforts must be made to improve Hawaii’s business climate to enhance the economic prospects for all businesses. If lawmakers want to subsidize this specific project, then an appropriation of funds is far more accountable as taxpayers will then know who is to receive the subsidy, how much is being spent and then they can judge whether or not this is an appropriate use of state taxpayer dollars.

Digested 2/6/15