Tax Review Commission

Meeting Minutes, November 3, 2021

Virtual Zoom Meeting
Video Recording

Wednesday, November 3, 2021
12:00 p.m.

PRESENT

Council Members:
Elizabeth Giesting (Chair), Alton Miyashiro (Vice Chair), Scott Teruya,
Murray Clay, Sayle Hirashima, Winston Wong, Katharine Lloyd

Staff Members:
Department of Taxation (DOTAX): Seth Colby, Yvonne Chow, Dongliang Wu,
Roderick Tuliao

TRC Consultant: Jonathan White

Guest Members: Makena Coffman, Paul Bernstein, Sumner Croix, Maja Schjervheim

CALL TO ORDER

Chair Giesting called the meeting to order at 12:01 p.m. A quorum was present.

COMMUNICATIONS TO THE COMMISSION AND PUBLIC COMMENT

Chair Giesting asked if there was any communication to the Tax Review Commission (TRC). There was none.

MINUTES OF THE MEETING OF OCTOBER 20, 2021

Chair Giesting called for a motion to approve the minutes.

It was moved by Mr. Murray and seconded by Mr. Wong that the minutes of the October 20th meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:
PRESENTATION ON CARBON TAX STUDY BY DR. MAKENA COFFMAN

Dr. Coffman provided an update presentation to the Commission of the following with regards Carbon Tax Assessment for Hawaii.

- Part I: Additional scenario analysis pertaining to how to use carbon tax revenues.
- Part II: Administrative considerations regarding ways to
  - Levy and collect the carbon price/tax
  - Use and distribute the new revenue

Mr. Clay asked Dr. Coffman if the change in output is a total reduction or an annualized reduction.

Dr. Coffman said that it is not a year-on-year reduction it’s a total reduction from the baseline and not compounding.

Dr. Colby asked Dr. Coffman if any counter-intuitive results emerged from the modeling effort?

Dr. Coffman responded that the model behaved as expected.

Chair Giesting asked Dr. Coffman to clarify the Change in Household Consumption under Scenarios S1-9 in Comparison to a No Carbon Tax Baseline, for 2025.

Dr. Coffman explained that the table should be looked at as the economic impact to their households and its impact on buying power.

Mr. Clay asks if aviation fuel would be taxed in this analysis.

Dr. Coffman said that but the ability to tax aviation fuel is not certain and would like to refer the question to DOTAX.
Mr. Clay stated that he believes that most of the aviation fuel in the state is not imported as a refined product, but it’s imported as oil and it’s refined locally and asked Dr. Colby if that would have an effect on both the barrel tax and carbon tax.

Dr. Colby responded that basically it is a foreign trade zone, and any taxes would have to stay within the airport.

Mr. White offered to research the barrel tax and the allocation of the barrel tax.

Ms. Schjervheim and Dr. Coffman both reiterated that in their model the welfare impacts shown of the revenues from aviation fuel does not go back to households but noted that non-aviation carbon tax revenues are reallocated to households.

Dr. Colby asked Dr. Coffman if their model allows for carbon offsets.

Dr. Coffman said that there is no carbon offsets.

Mr. Clay asked Dr. Coffman if administratively Western Climate Initiative (WCI) is more complexed than the carbon tax.

Dr. Coffman agrees that WCI is more complex and stated that although wci brings down the complexity in important ways, but a cap-and-trade system is far administratively burdensome under almost any circumstance than a carbon tax.

Mr. Clay also asked Dr. Coffman if in the study she found that the buying power of the lowest income quintiles increased more than other groups from the carbon tax.

Dr. Coffman said that their study found that the lower income group come out ahead, but much depends on how the rebate is structured and when it is paid out.

Ms. Schjervheim added that another way to minimize impact on the lowest income households would be to pay out the dividends before you receive the tax revenue based on estimates of greenhouse gas emissions and etc.

Chair Giesting asked if there was an estimate on how much revenue would be produced and the on average per household credit.

Ms. Schjervheim stated that in terms of state tax revenue in the year 2025 it would be estimated at about $580 million and $612 million in 2045 under the scenarios provided.
Ms. Schjervheim said the cost to the average household would be $977 per year in 2025 and $845 per household in 2045.

Mr. Clay asked Dr. Coffman what is the timeline to having the final report of the study completed for the Commission.

Dr. Coffman said they will have the final version done by the end of the month.

Mr. White provided a followed up with a previous question regarding fuel tax from Dr. Coffman’s presentation.

Responding to question of the taxability of aviation fuel, Mr. White said that the most aviation fuel in Hawaii is imported as a refined product. As a result, it would not be subject to the barrel tax levy.

Mr. White asked the Commission if any further research is needed with regards to the barrel tax.

Mr. Clay responded that no further research regarding the barrel tax is needed since Dr. Coffman models has taken all that information into account.

**NEXT MEETING:**

The Tax Review Commission tentatively agreed to meet on Wednesday, November 17, 2021, at 12:00 p.m. It will be a virtual meeting.

**ADJOURNMENT:**

The Chair adjourned the meeting at 1:14 p.m.