

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510  
FAX NO: (808) 587-1560

**JOINT HOUSE COMMITTEES ON ENERGY & ENVIRONMENTAL PROTECTION,  
WATER, LAND, OCEAN RESOURCES & HAWAIIAN AFFAIRS, AND  
AGRICULTURE**

**TESTIMONY REGARDING HB 3410  
RELATING TO BIODIESEL**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: FEBRUARY 12, 2008**

**TIME: 8:30AM**

**ROOM: 312**

---

This legislation, among other things, includes a provision exempting lands used for the production of biodiesel from the real property tax as well as a provision requiring the State to purchase biodiesel crops at a guaranteed profit to growers, and amends Section 235-7 to include an income tax exemption for income derived from the operation of an oil seed crushing facility.

The Department of Taxation (Department) provides comments on this legislation.

**REAL PROPERTY EXEMPTIONS**

The Department has no comments on the real property exemption, other than it will impact county revenues.

**TECHNICAL CONSIDERATION - INCOME TAX EXEMPTION**

The Department notes that the income tax exemption, listed as subsection (a)(14) of Section 4 of the bill, is vague. It is unclear whether the tax exemption applies to 100% of income derived from the processing of oil seed produced in the State or to 100% of all income from any facility that processes any amount of oil seed produced in the State.

**REVENUE IMPACT**

This bill will result in an indeterminate revenue loss.

The Department of Agriculture believes incentives 1, 2, 4, and 5 have merit. However, we do have a concern with incentive number 3, the proposal for the State, through the HDOA's energy feedstock program, to purchase locally-produced biodiesel feedstock and fuel and determine its disposition. We believe this must be dealt with in the private sector - between processors, distributors, and retailers. In any case, we believe it would be better that these incentives be reconsidered upon the completion of the comprehensive renewable biofuels planning framework presently being developed by the Department of Business, Economic Development, and Tourism (DBEDT), pursuant to Act 253 that was passed by the 2007 Legislature. In accordance with Act 253, DBEDT is undertaking a bioenergy master plan that will include a Hawaii renewable biofuels program to manage the State's transition to energy self-sufficiency based in part on biofuels for power generation and transportation. The components of the plan include establishing strategic partnerships for the research, development, testing, and deployment of renewable biofuels technologies and production of biomass crops; evaluation of Hawaii's potential to rely on biofuels as a significant renewable energy resource; supporting biofuels demonstration projects, including infrastructure for production, storage, and transportation of biofuels; promoting Hawaii's renewable biofuels resources to potential partners and investors for development in Hawaii as well as for export purposes; and developing a plan or roadmap to implement commercially viable biofuels development.

We believe that biofuel and food production deserve to be treated as equally important so the same consideration the board is authorized to give biofuels for nominal lease rents and by negotiation should also be afforded to food crops.