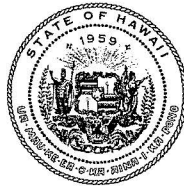


LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
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HOUSE COMMITTEES ON FINANCE

TESTIMONY REGARDING SB 1248 SD 1 HD 1 RELATING TO STATE ENTERPRISE ZONES

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

DATE: APRIL 8, 2009

TIME: 4:30PM

ROOM: 308

In addition to making technical amendments, this legislation extends the income tax credit and general excise tax exemption for qualified businesses engaged in the manufacturing of tangible personal property or in the production or processing of agricultural products within an enterprise zone for an additional seven years.

The House Committees on Economic Revitalization, Business & Military Affairs and Agriculture amended the agriculture portion of the measure to require agriculture businesses pay the general excise tax on their revenues. The House Committee on Energy & Environmental Protection passed this measure without additional amendments.

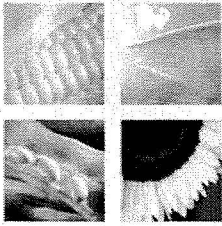
Given the current economic situation, the Department opposes the tax provisions in this measure due to their budgetary impact. The Department also offers comments on this legislation.

FINANCIAL CONCERNS—Under the current law, qualified businesses operating within an enterprise zone are given income tax credits ranging from 80% of their income tax liabilities in the first year of becoming a qualified business, to 20% in the seventh year (the percentage tax credit incrementally decreases by 10% per year for the second through the sixth years). Qualified businesses receive an additional income tax credit equal to a percentage of unemployment taxes paid during the first seven years of operations (using the same percentage schedule noted above). Moreover, subject to limited exceptions, qualified businesses are fully exempt from general excise tax for the first seven years of operating as a qualified business within an enterprise zone. This measure would extend the income tax credits (applying a 20% rate) and general excise tax exemption

for qualified businesses that are manufacturers of tangible personal property or producers or processors of agricultural products for an additional seven years.

OTHER COMMENTS – If this measure proceeds forward, the Department suggests that the amendment to subparagraph 3(A) of subsection (b), §209E-9, HRS, which addresses the extension of the credits, be clarified so that the "higher level of employment" that must be satisfied specifically references the level of employment attained in the seventh year of operating as a qualified business.

REVENUE IMPACT AND METHODOLOGY– Assuming a current effective date, this proposal is estimated to reduce total tax collections by about \$300,000 annually.



Hawaii Crop Improvement Association

Growing the Future of Worldwide Agriculture in Hawaii

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Testimony By: Alicia Maluafiti
SB 1248sd1, hd1, Relating to State Enterprise Zones
Hse FIN Committee
Wednesday, April 8, 2009
Room 308, 4:30 pm

Position: Oppose As Written

Chair Oshiro and Members of the Hse FIN Committee:

My name is Alicia Maluafiti, Executive Director of the Hawaii Crop Improvement Association. The Hawaii Crop Improvement Association (HCIA) is a nonprofit trade association representing the agricultural seed industry in Hawaii. Now the state's largest agricultural commodity, the seed industry contributes to the economic health and diversity of the islands by providing high quality jobs in rural communities, keeping important agricultural lands in agricultural use, and serving as responsible stewards of Hawaii's natural resources.

Although HCIA member companies do not participate in EZ tax credits and exemptions, we strongly believe that agriculture enterprise zones, and the proposed extensions of the credits to include manufacturers and processors of agricultural products are of benefit to other qualified agribusinesses. We have supported SB 1248sd1 and other agriculture enterprise zone bill vehicles because it supports the nurturing and growth of Hawaii's agriculture industry.

However, we stand in strong opposition to SB 1248sd1, hd1 because of the deletion of references to genetically engineered agricultural products. This may have impact on the Hawaii papaya industry, floral industry and other farmers that may use a tool that is federally approved and in the case of food product, scientifically and government sanctioned as safe as conventional food products. Further, the HD1 in its definition of "Eligible business activity" (3) allows for the all types of medical or maritime biotechnology products to qualify for inclusion in the ag enterprise zones. Genetic engineering is a part of the spectrum of biotechnology.

SB 1248sd1,hd1 appears to be discriminatory against one segment of Hawaii's struggling business sectors and based on philosophical belief rather than on facts and support for a diversified, sustainable economy.

Thank you for the opportunity to testify.