

NEIL ABERCROMBIE
Governor



RUSSELL S. KOKUBUN
Chairperson, Board of Agriculture

JAMES J. NAKATANI
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 South King Street
Honolulu, Hawaii 96814-2512
Phone: (808) 973-9600 Fax: (808) 973-9613

TESTIMONY OF RUSSELL S. KOKUBUN
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEE ON AGRICULTURE
THURSDAY, MARCH 3, 2011
10:00 A.M.
CONFERENCE ROOM 308

HOUSE BILL NO. 1598, H.D. 1
RELATING TO THE CACAO INDUSTRY

Chairperson Oshiro and Members of the Committee:

Thank you for the opportunity to comment on House Bill No. 1598, H.D. 1. The purpose of this bill is to temporarily exempt from the general excise tax (GET) amounts received for the sale of cacao from a producer or processed cacao from a processor; and to require the department of agriculture to collaborate with other state agencies to determine the best locations for a cacao processing facility.

The Department of Agriculture supports the intent of this bill with reservations relating to our mission to support local agricultural producers and locally grown agricultural products. The deletion of "domestic" is a concern to HDOA because all imported cacao can now qualify for the GET exemption. Another concern is that if cacao can be allowed for the GET exemption, other commodity groups may raise questions regarding the fair and equal treatment for business opportunity in the state of Hawaii.

The measure also requires the department to collaborate with the Department of Business, Economic Development and Tourism (DBEDT) and the Department of Land and Natural Resources (DLNR) to determine the best location for a cacao processing

facility on Oahu. HDOA is willing to work with DBEDT and DLNR, however, the department would require additional resources to complete the task.

Finally, since the implementation of this bill impacts state revenues and requires the input of other state agencies, the department defers to the comments of the Department of Taxation, and awaits the comments from DBEDT and DLNR.

Thank you for the opportunity to testify on this measure.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
FAX NO: (808) 587-1584

HOUSE COMMITTEE ON FINANCE

**TESTIMONY OF THE DEPARTMENT OF TAXATION
REGARDING HB 1598, HD 1
RELATING TO THE CACAO INDUSTRY**

TESTIFIER: **FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR
DESIGNEE)**

COMMITTEE: **FIN**

DATE: **MARCH 3, 2011**

TIME: **10:00AM**

POSITION: **NO POSITION**

This measure provides a general excise tax exemption for amounts received from the sale of cacao from a producer or processed cacao from a processor.

The Department of Taxation defers to the Department of Agriculture as well as the Department of Business, Economic Development and Tourism on the merits of providing this exemption.

This measure will result in an estimated revenue loss of \$1,330 per year.

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126 Queen Street, Suite 304

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Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Exempt sale of cacao

BILL NUMBER: HB 1598, HD-1

INTRODUCED BY: House Committee on Agriculture

BRIEF SUMMARY: Amends HRS section 237-24 to exempt from the general excise tax, the amounts received for the sale of cacao from a producer or processed from a processor.

Requires the department of agriculture to collaborate with the department of business, economic development, and tourism and the department of land and natural resources to determine the best locations for a cacao processing facility on Oahu with a processing capacity of ten thousand to fifteen thousand pounds of cacao beans per year. The department of agriculture shall transmit its findings and recommendations to the 2012 legislature.

This act shall be applicable to gross income received after December 31, 2012 and before January 1, 2018.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure proposes a general excise tax exemption to encourage the processing of cacao in the state. 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 from the general excise tax 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 from the general excise tax meets none of these criteria.

Lawmakers need to take a good look and see that, on one hand they are scrounging for money attempting to raise new funds with everything from user fees to taxes on specific groups of people and, on the other hand, introduce measures like this one. If all of the tax give-aways that have no rational basis were adopted they would probably bankrupt the treasury. It should be repeated over and over again that the tax system is not designed to provide some sort of lure to attract the taxpayer into doing or acting in some sort of unusual way, but that the tax system exists to raise the funds necessary to operate government. Lawmakers may want to propose various tax breaks for their constituents while continuing to squander the tax resources on more public programs and personnel. However, doing so raises the question of whether or not elected officials have any clue about what their fiduciary responsibility is. This is indeed sad as the voting public has entrusted these elected officials with their hard-earned tax dollars.

Instead of attempting to give away the state treasury with such myopic tax breaks, lawmakers need to pay more attention to the overall economic climate of the state which currently suffers from a continuing burden of taxes and regulations. Lawmakers should remember, giving a tax break to one type of activity comes at a cost to all other taxpayers not so favored unless they are willing to effect a commensurate decrease in state spending. So one has to ask what is the unusual burden of taxes borne by this particular industry or activity or is this proposal nothing more than pandering to the fad industry of the day? There is literally no justification for this proposal.

Digested 3/2/11

Mar. 2. 2011 9:19AM DOLE FOOD CO HI

No. 0908 P. 2

**HB 1598, Relating to the Cacao Industry
House Finance Committee
March 3, 2011
9:00 am – Room 312
Position: Support**

Chair Oshiro and Members of the House Finance Committee.

My name is Michael Conway, Agriculture Manager for Dole Food Company Hawaii and related business units, Waialua Coffee & Cacao.

As Hawaii's largest cacao grower and producer of Waialua Estate Single Origin Chocolate I can state with confidence that interest and momentum for Hawaiian grown chocolate is growing at an accelerated rate. Now that the economics of growing have been determined together with the perceived high quality of chocolate, several farms have installed cacao plantings to generate supplemental income and explore the potential for agri tourism. Currently there are about 50+ producing acres island wide which forces nearly all chocolate to be manufactured outside Hawaii and then returned for sale. It is estimated that a minimum 150 producing acres is needed to justify construction of a medium size chocolate manufacturing facility in Hawaii. Dole Food Company has been working to expand its' twenty acre base and work with potential growers to increase the supply of cocoa bean in order to achieve an economy of scale that is sustainable.

The most attractive incentive to new growers is assurance of markets for their product and any assistance they might obtain for growing and financing a start-up operation. The strong recognition for quality and flavor that continues to be created for Hawaiian chocolate is the absolute key for success. Passage of HB 1598 sends a positive message to new and existing entrepreneurs that Hawaii's policy makers are behind their chocolate dreams.

Michael J. Conway
Dole Food Company Hawaii
1116 Whitmore Avenue
Wahiawa, HI 96786
808-622-3206
Michael.Conway@dole.com

FINTestimony

From: mailinglist@capitol.hawaii.gov
ent: Wednesday, March 02, 2011 9:33 PM
To: FINTestimony
Cc: tony@pop-hawaii.com
Subject: Testimony for HB1598 on 3/3/2011 10:00:00 AM

Testimony for FIN 3/3/2011 10:00:00 AM HB1598

Conference room: 308
Testifier position: support
Testifier will be present: No
Submitted by: Tony Costa
Organization: Individual
Address:
Phone:
E-mail: tony@pop-hawaii.com
Submitted on: 3/2/2011

Comments:

Thank you for allowing me to testify in support of HB1598

Without a healthy and vibrant private sector, the public sector could not be well funded.

The private sector "bakes the pies" that everyone else divides up to take care of public services.

HB 1598 would provide incentive and stimulate the exciting new Hawaii based industry of Locally grown cacao and chocolate manufacturing.

No other time has the attraction of industry and offering incentives been more important than today - in this current economic climate.

Help Hawaii depend less on the outside, encourage local production, and bake more Hawaii pie!

Please support and pass HB1598

Respectfully submitted,

Tony Costa
540-1308
778-3133