

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Expand definition of exempt agricultural commodities

BILL NUMBER: SB 595; HB 1260 (Identical)

INTRODUCED BY: SB by Nishihara, Wakai and 2 Democrats; HB by Wooley and 1 Democrat

BRIEF SUMMARY: Amends HRS section 237-24.3(1) to provide that the definition of “agricultural commodity” shall also mean milk, poultry, eggs, poultry carcasses, or poultry meat, aquaculture or aquaponic products to be consumed in the state.

EFFECTIVE DATE: July 1, 2013

STAFF COMMENTS: Under the current law, amounts received from the loading, transportation, and unloading of agricultural commodities shipped for a producer or produce dealer from one island to a person, firm, or organization on another island are exempt from the general excise tax. The agricultural commodities which are exempt include fresh fruits and vegetables, whether produced in the state or imported, nuts, and coffee which have been produced in the state, and raw unprocessed honey, whether produced in the state or imported. This measure proposes to expand the definition of agricultural commodity to include milk, poultry, eggs, poultry carcasses, or poultry meat, aquaculture or aquaponic products to be consumed in the state, regardless of whether they are processed in the state or imported and make them exempt from the general excise tax when shipped from one island to another.

While the measure would grant a general excise tax exemption to the loading and unloading and shipping of these items from one island to another, as drafted, the exemption proposed by this measure would only apply to products consumed in the state. It is doubtful whether the agricultural commodities will be consumed in the state or will be exported out of state at the time they are shipped.

On the other hand, if the intent is to indirectly reduce the cost of these agricultural commodities which are to be consumed in the state, consideration should be given to expanding the exemption such that it is not limited to “agricultural commodities.” Inasmuch as Hawaii is an island state, the movement of goods from one area of the state to another must either be by barge or flown for those goods to reach the final consumer. Imposition of the general excise tax on the activity that moves those goods merely adds to the cost of those goods, making them more expensive than their counterparts imported from outside the state as there is a general exemption for stevedoring activities regardless of the type of goods being unloaded.

While the current exemption was adopted when the bulk of goods moving between the islands were agricultural products, today with the diversification of the economic base on all islands, goods come in all shapes and sizes - for example, furniture and koa boxes shipped from Kauai to shortbread cookies shipped from the Big Island. Lawmakers should consider enacting a broad exemption for all stevedoring activities regardless of whether the transportation is interstate or intrastate and regardless of whether the goods are consumed in the state or exported.

Digested 1/25/13



Hawaii Cattlemen's Council, Inc.

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SENATE COMMITTEE ON WAYS & MEANS

Thursday February 21, 2013 9:00 am Room 211

SB 595 RELATING TO AGRICULTURE

Adds to the definition of agricultural commodities exempt from the GET, milk, poultry eggs, poultry carcass, poultry meat, and aquaculture and aquaponic products to be consumed in the State, whether processed in the State or imported

Chair Ige, Vice Chair Kidani and Members of the Committees:

My name is Alan Gottlieb, and I am the Government Affairs Chairperson of the Hawaii Cattlemen's Council. The Hawaii Cattlemen's Council, Inc. (HCC) is the Statewide umbrella organization comprised of the five county level Cattlemen's Associations. Our 130+ member ranchers represent over 60,000 head of beef cows; more than 75% of all the beef cows in the State. Ranchers are the stewards of approximately 25% of the State's total land mass.

The Hawaii Cattlemen's Council strongly supports SB 595 with one addition. As written, the bills adds milk, poultry, eggs... aquaculture, but it fails to add beef, beef carcasses, lamb, sheep and goats and lamb, sheep and goat carcasses to the Agricultural Commodity Definition.

Over the years we have come across definitions of agriculture commodities which have not included livestock, or the meat from livestock agriculture, milk, eggs, poultry and aquaculture/aquaponics, etc. and have sought to have those corrected so they are included. The problem is that there are so many different places where there are definitions, we seem to need to deal with them one by one as they come to our attention. In the past the legislature has always been very supportive on this very common sense issue.

The reason we ask that livestock and meat, milk eggs, poultry, aquaculture, etc. be included in the definition is so like other Agricultural commodities, we will be exempt from the State's General Excise Tax.

Young Brothers has provided us with information quantifying how much this will cost the State of Hawaii in lost General Excise Taxes. For 2009, that amount was just \$6,100 for General Excise taxes they collected on items which would be affected by this amendment, a very small amount for the State but a big amount for local livestock producers. In the future, if we can help improve the economics of livestock production in Hawaii, we hope to increase our production, and help the State with its agricultural self sufficiency and improve our food security.

We appreciate this opportunity to provide testimony on this matter.



HAWAII FOOD INDUSTRY ASSOCIATION (HFIA)

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TO: COMMITTEE ON WAYS AND MEANS

Sen. David Ige, Chair

Sen. Michelle Kidani, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION

Lauren Zirbel, Executive Director

DATE: Thursday, February 21, 2013

TIME: 9:00 A.M.

PLACE: Conference Room 211

RE: SB 595 RELATING TO AGRICULTURE

Position: Strong Support

Chair Nishihara and Members of the Senate Agriculture Committee:

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers and distributors of food in the State of Hawaii.

The existing HRS 147-1 definition of "Agricultural commodity" means fresh fruits and fresh vegetables of every kind and character, whether or not frozen or packed in ice, whether produced in the State or imported, nuts, and coffee, whether cherry or parchment, or green beans, which have been produced in the State, and raw unprocessed honey, whether produced in the State or imported."

We strongly support this measure that expands the definition to include "Milk, poultry, eggs, poultry carcasses, or poultry meat to be consumed in the State, whether processed in the State or imported; and Aquaculture or aquaponic products to be consumed in the State, whether processed in the State or imported."

This measure provides a broader definition of agricultural commodities that better reflects Hawaii's agricultural industry. SB 595 supports the restoring of certain GET exemptions that were suspended until June 30, 2013.

The GET exemptions for the proposed agricultural commodities help reduce the cost of doing business in Hawaii, and for some, may make a difference for establishing new businesses or for existing businesses to continue to contribute to Hawaii's productive agriculture businesses. Your support of this measure is urged. Thank you for the opportunity to testify.



Email: communications@uluponoinitiative.com

SENATE COMMITTEE ON WAYS AND MEANS
Thursday, February 22, 2013 — 2:45 p.m. — Room 211

Ulupono Initiative Strongly Supports SB 595, Relating to Agriculture

Dear Senator Ige, Vice Chair Kidani and Members of the Committee:

My name is Kyle Datta and I am General Partner of the Ulupono Initiative, a Hawai'i-based impact investment firm that strives to improve the quality of life for the people of Hawai'i by working toward solutions that create more locally grown food, increase renewable energy, and reduce/recycle waste. Ulupono invests in projects that have the potential to create large-scale, innovative change.

Ulupono strongly supports SB 595, which adds to the definition of agricultural commodities exempt from the General Excise Tax (GET), with an amendment that would include beef, lamb and sheep. This would reduce the cost for milk, eggs, poultry, meat and farm-raised seafood to be consumed in the state by exempting these activities from the GET.

The Legislature earlier exempted agricultural commodities from the GET and this bill would amend that definition (which already includes fruits and vegetables) so that livestock and meat produced in the state to be consumed locally, including aquaculture and aquaponic products, will be eligible for the GET exemption. We also would favor the addition of other livestock meat and carcasses, including beef, sheep, goats, and lamb to the agricultural commodities definition, which were inadvertently left off an earlier version of this bill. Ulupono is also concerned that the GET multiplies along the food supply chain, increasing the price which makes local food less competitive than imports. These actions support homegrown poultry, livestock and farm-raised seafood. Young Bros. has estimated that the exemption amount to \$6,100 based on 2009 figures, a small amount for the state but a big help for local livestock producers.

Ulupono has joined with a diverse group of organizations who have come together for the first time as the Local Food Coalition to support proposals designed to help grow more local food. The coalition brings together farmers, ranchers, livestock producers, investors and other organizations. The idea is that putting more local food on local plates can best be accomplished by bringing people and organizations together who can work on the entire food value chain in a systematic way.

We believe that working together we can help produce more local food, support an economically strong homegrown agriculture industry, which strengthens our community with fresh, healthy food. Thank you for this opportunity to testify.

Kyle Datta
General Partner

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