

HB 1324, HD1

DAVID Y. IGE
Governor

SHAN S. TSUTSUI
Lt. Governor



State of Hawaii
DEPARTMENT OF AGRICULTURE
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SCOTT E. ENRIGHT
Chairperson, Board of Agriculture

PHYLLIS SHIMABUKURO-GEISER
Deputy to the Chairperson

**TESTIMONY OF SCOTT E. ENRIGHT
CHAIRPERSON, BOARD OF AGRICULTURE**

**BEFORE THE SENATE COMMITTEES ON AGRICULTURE & ENVIRONMENT &
ECONOMIC DEVELOPMENT, TOURISM, & TECHNOLOGY**

**MARCH 22, 2017
1:20 P.M.
CONFERENCE ROOM 224**

**HOUSE BILL NO. 1324 HD1
RELATING TO A TAX CREDIT FOR INTERISLAND TRANSPORTATION OF
AGRICULTURAL PRODUCTS GROWN OR PROCESSED IN STATE ENTERPRISE
ZONES**

Chairpersons Gabbard and Wakai and Members of the Committees:

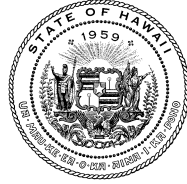
Thank you for the opportunity to testify on House Bill No. 1324 HD1, which seeks to amend Chapter 209E (State enterprise zones) to authorize a tax credit equal to 20 percent of qualifying business costs for the transportation of agricultural commodities between islands in the State. The Department of Agriculture supports the intent of reducing costs borne by Hawaii's agricultural businesses to transport their products to neighbor island markets, however we defer to the Department of Business, Economic Development, and Tourism and the Department of Taxation.

Thank you for the opportunity to submit our testimony.



DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Mike Gabbard, Chair
and Members of the Senate Committee on Agriculture and Environment

The Honorable Glenn Wakai, Chair
and Members of the Senate Committee on Economic Development, Tourism, and
Technology

Date: Wednesday, March 22, 2017
Time: 1:20 P.M.
Place: Conference Room 224, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1324, H.D. 1, Relating to a Tax Credit for Interisland Transportation of Agricultural
Products Grown or Processed in State Enterprise Zones

The Department of Taxation (Department) appreciates the intent of H.B. 1324, H.D. 1,
and provides the following comments for your consideration.

H.B. 1324, H.D. 1, makes amendments to chapter 209E, Hawaii Revised Statutes (HRS)
to include interisland transportation of agricultural products as an “eligible business activity” for
purposes of the state’s Enterprise Zone (EZ) program, and to add a tax credit for interisland
transportation costs of agricultural products. The measure has a defective effective date of July
31, 2150.

First, the amendment proposed in Section 2 will serve as a further restriction on
agricultural production. The addition of “and interisland transportation” to the definition of
“eligible business activity” will actually have the effect of excluding agricultural producers who
do not perform their own shipping from EZ eligibility. The amendment would also exclude
agricultural production of products that are sold prior to any interisland transportation.

In addition, interisland transportation of an agricultural product as an eligible business
activity is not consistent with the general purpose of the EZ program. The EZ program is
intended to stimulate private sector investment in certain designated areas. Interisland shipping
is not an activity that can take place within an EZ. The Department suggests deleting the
amendment proposed in Section 2 of this measure.

Second, the Department notes that the interisland transportation of agricultural commodities is already exempt from the general excise tax under section 237-24.3(1), HRS. Because this exemption already exists, it unclear whether the amendment proposed in Section 1 is necessary.

Third, it is unclear how the new credit for 20% of interisland shipping costs will further the purpose of promoting agriculture in the State. For example, assume that this measure was adopted, and that an agricultural product has a price of \$90 and the cost of interisland shipping is \$10. After applying the 20% credit, the shipping cost would be reduced to \$8 making the total price of the interisland-shipped agricultural product \$98. The overall price was only reduced by 2%, which is unlikely to have a significant effect on demand or retail price of the agricultural product.

Fourth, the Department notes that the tax credit proposed in this measure is different from other EZ benefits, in that it is not limited in duration. The existing tax credits provided by the EZ program generally have a ten-year duration. Applying a similar duration will make this credit more consistent with other benefits provided by the EZ program.

Fifth, the Department suggests the following technical amendment to subsection (e) of section 209E-10, HRS:

(e) In addition to any tax credit authorized under this section, any qualified business engaged in producing or processing agricultural products, for actual interisland transportation costs paid for transporting its agricultural products from one island to another island within the State, shall be entitled to a tax credit against any taxes due to the State of twenty per cent of the transportation costs paid....

Sixth, the Department defers to the Department of Business, Economic Development, and Tourism on the merits; the EZ tax benefits are certified by DBEDT.

Finally, the Department requests that the changes be made applicable to taxable years beginning after December 31, 2016, to allow time for necessary changes to forms and instructions.

Thank you for the opportunity to provide comments.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the
**SENATE COMMITTEES ON AGRICULTURE AND ENVIRONMENT
AND
ECONOMIC DEVELOPMENT, TOURISM AND TECHNOLOGY**
Wednesday, March 22, 2017
1:20 p.m.
State Capitol, Conference Room 224
in consideration of
HB 1324, HD1
**RELATING TO A TAX CREDIT FOR INTERISLAND TRANSPORTATION OF
AGRICULTURAL PRODUCTS GROWN OR PROCESSED IN STATE ENTERPRISE
ZONES.**

Chairs Gabbard and Wakai, Vice Chairs Riviere and Taniguchi, and Members of the Senate Committees on Agriculture and Environment and on Economic Development, Tourism and Technology.

The Department of Business, Economic Development, and Tourism (DBEDT) provides comments on HB 1324, HD1, which places a program that authorizes a tax credit equal to 20 percent of qualifying business costs for the transportation of agricultural commodities between islands within the state under the State Enterprise Zone Program.

This initiative expands the incentives of the State's Enterprise Zone Program, which provides tax incentives to businesses in exchange for creating jobs in economically disadvantaged zones of the state, selected by each county. The expansion of such an incentive could have a significant impact to the State's financial resources. We defer to the Department of Taxation and the Department of Budget and Finance on the fiscal impacts of such a measure.

This measure also requires DBEDT to verify and certify the tax credits. DBEDT does not have the necessary staff resources to certify individual taxpayers the amount of credit that they can claim on their state tax forms. Approximately \$150,000 is necessary in resources for DBEDT to implement this measure effectively.

Thank you for the opportunity to provide this written testimony.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit for Interisland Transportation of Agricultural Products Grown or Processed in State Enterprise Zone

BILL NUMBER: HB 1324, HD-1

INTRODUCED BY: House Committee on Agriculture

EXECUTIVE SUMMARY: Authorizes a tax credit equal to 20% of qualifying business costs for the transportation of agricultural commodities between islands within the State of Hawaii. The credit would result in a drain on State revenues in an unrestricted and uncertain amount; an appropriation would be a better means of achieving this end.

SYNOPSIS: Amends HRS section 209E-2 to amend the definition of “eligible business activity” in an enterprise zone to include the production and interisland transportation of agricultural products where the business is a producer as defined in section 237-5.

Amends HRS section 209E-10 to add a credit for any qualified business engaged in producing or processing agricultural products, for actual interisland transportation costs paid for transporting its agricultural products from one island to another island within the State, shall be entitled to a tax credit of 20% of the transportation costs paid.

Requires DBEDT to certify to each taxpayer the amount of credit the taxpayer may claim. Allows the department to require a taxpayer to furnish receipts that verify the actual costs paid and to adopt rules under chapter 91 to effectuate the certification requirements.

EFFECTIVE DATE: July 31, 2150.

STAFF COMMENTS: The enterprise zone program was enacted as a cooperative program between the state and the counties to promote jobs in areas of high unemployment. Certain areas are designated as enterprise zones through joint action of the state and counties. In a zone, the state offers an income tax credit for the tax attributable to the eligible business conducted in the zone, which is normally applied on a sliding scale – 80% for the first year, 70% for the second, and so on until the credit is 20% for the seventh and last year in the program. It also offers an unemployment tax credit for the tax attributable to employees doing the eligible business in the zone, on the same sliding scale. Finally, the state offers a general excise tax exemption for the eligible business attributed to the zone. The counties also offer incentives, which vary by county. In return, the business commits to either maintain or increase the number of employees in the zone doing the eligible activity, depending on whether it was already in the zone upon designation or moved to the zone.

This measure proposes to add “and interisland transportation” to the definition of eligible business activity in HRS section 209E-2. We agree with DOTAX that the effect of this amendment is to restrict the eligible business definition, such that a producer that does not

transport its product interisland would become disqualified. We do not think this is necessary or consistent with the intent of the measure.

Utilizing tax credits to drive social policy in this manner is of a questionable benefit relative to the cost for all taxpayers. A direct appropriation of grant funding to producers would be more accountable and transparent. At least we would know the amount of the appropriation, while the fiscal impact of the credit would be a great big question mark.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount compared to the benefit expected to accrue because of the creditable activity.

Digested 3/16/2017

From: mailinglist@capitol.hawaii.gov
Sent: Saturday, March 18, 2017 11:01 AM
To: AEN Testimony
Cc: alan@prloffice.com
Subject: *Submitted testimony for HB1324 on Mar 22, 2017 13:20PM*

HB1324

Submitted on: 3/18/2017

Testimony for AEN/ETT on Mar 22, 2017 13:20PM in Conference Room 224

Submitted By	Organization	Testifier Position	Present at Hearing
Alan Gottlieb	Ponoholo Ranch Limited	Support	No

Comments:

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Hawaii Cattlemen's Council, Inc.

COMMITTEE ON AGRICULTURE AND ENVIRONMENT

Senator Mike Gabbard, Chair
Senator Gil Riviere, Vice Chair

COMMITTEE ON ECONOMIC DEVELOPMENT, TOURISM, AND TECHNOLOGY

Senator Glenn Wakai, Chair
Senator Brian T. Taniguchi, Vice Chair

DATE: Wednesday, March 22, 2017
TIME: 1:20 p.m.
PLACE: Conference Room 224

**HB 1324, HD 1 – RELATING TO A TAX CREDIT FOR INTERISLAND TRANSPORTATION
OF AGRICULTURAL PRODUCTS GROWN OR PROCESSED IN STATE ENTERPRISE
ZONES.**

Authorizes a tax credit equal to 20% of qualifying business costs for the transportation of agricultural commodities between islands within the State of Hawaii. (HB1324 HD1)

Chairs Gabbard & Wakai, Vice Chairs Riviere & Taniguchi, and Members of the Committees:

My name is Dale Sandlin, and I am Managing Director of the Hawaii Cattlemen's Council. The Hawaii Cattlemen's Council, Inc. (HCC) is the Statewide umbrella organization comprised of the four county level Cattlemen's Associations. Our 150+ 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** HB 1324, HD1 as this bill provides critical relief to Hawaii ranchers in transporting their livestock.

The ability to transport cattle and beef has been a mainstay of our industry, and as our industry expands, this needs becomes even more critical. With very thin margins, our industry relies heavily in managing the input costs associated with production of cattle and transporting both cattle from pasture to plant and high-quality beef to consumers on the neighbor islands. This effort would provide producers with much needed relief in transportation.

We ask the committee to pass this legislation and we appreciate the opportunity to testify on this important matter.





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March 22, 2017

HEARING BEFORE THE
SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TOURISM AND
TECHNOLOGY

TESTIMONY ON HB 1324, HD1
RELATING TO A TAX CREDIT FOR INTERISLAND TRANSPORTATION OF
AGRICULTURAL PRODUCTS GROWN OR PROCESSED IN STATE ENTERPRISE
ZONES

Room 224
1:20 PM

Aloha Chairs Gabbard and Wakai, Vice Chairs Riviere and Taniguchi, and Members of the Committees:

I am Randy Cabral, President of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,900 farm family members statewide, and serves as Hawaii's voice of agriculture to protect, advocate and advance the social, economic and educational interests of our diverse agricultural community.

Hawaii Farm Bureau strongly supports HB 1324, HD1, which authorizes a tax credit equal to 20% of qualifying business costs for the transportation of agricultural commodities between islands within the State of Hawaii.

Interisland transportation has been a major issue with neighbor island farmers. The majority of agricultural lands are in the neighbor islands yet the population center is on Oahu. Neighbor island farmers are disadvantaged when competing with fellow farmers on Oahu due to additional transportation costs of bringing in supplies and sending product out. Each increase in interisland shipping rates means increased costs to these farmers and ranchers, costs that usually cannot be passed on to the vendor. This bill seeks to level the playing field by providing assistance to these farmers and ranchers.

HFB respectfully requests your strong support of HB 1324, HD1, addressing interisland transportation rates.

Thank you for this opportunity to provide comment on this important subject.



MAUI

CHAMBER OF COMMERCE
VOICE OF BUSINESS

**HEARING BEFORE THE SENATE COMMITTEE ON AGRICULTURE & ENVIRONMENT AND
THE COMMITTEE ON ECONOMIC DEVELOPMENT, TOURISM, & TECHNOLOGY
HAWAII STATE CAPITOL, SEMATE CONFERENCE ROOM 224
WEDNESDAY, MARCH 22, 2017 AT 1:20 P.M.**

To The Honorable Mike Gabbard, Chair;
The Honorable Gil Riviere, Vice Chair; and
Members of the Committee on Agriculture & Environment

To The Honorable Glenn Wakai, Chair;
The Honorable Brian T. Taniguchi, Vice Chair; and
Members of the Committee on Economic Development, Tourism, & Technology

**TESTIMONY IN SUPPORT FOR HB 1324 RELATING TO A TAX CREDIT
FOR INTERISLANDTRANSPORTATION OF AGRICULTURE PRODUCTS GROWN
OR PROCESSED IN STATE ENTERPRISE ZONES**

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce representing approximately 600 businesses and 16,000 employees. I am writing share our support of HB1324.

Supporting our local agriculture industry was one of our top legislative priorities this year so we support this bill that would provide a tax credit for interisland transportation of agriculture products grown or processed in state enterprise zones. The agriculture industry is already a costly and unpredictable business. Many local farmers and ranchers are disadvantaged as they cannot afford the expensive transportation costs to ship their products to our neighbor islands, cutting them off from other valuable markets. We support this bill as it seeks to level the playing field by providing assistance to local farmers and ranchers across our state and gives them more opportunity to sell their products to neighbor islands.

We appreciate the opportunity to testify on this matter and therefore ask that this bill be passed.

Mahalo for your consideration of our testimony and we hope you will move this bill forward.

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.