

DAVID Y. IGE
Governor

SHAN S. TSUTSUI
Lt. Governor



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

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 HOUSE COMMITTEE ON FINANCE

MARCH 1, 2017
11:00 A.M.
CONFERENCE ROOM 308

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

Chairperson Luke and Members of the Committee:

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.





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

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON FINANCE

Wednesday, March 1, 2017
11:00a.m.
State Capitol, Conference Room 308

in consideration of
HB 1324, HD1
**RELATING TO A TAX CREDIT FOR INTERISLAND TRANSPORTATION OF
AGRICULTURAL PRODUCTS GROWN OR PROCESSED IN STATE ENTERPRISE
ZONES.**

Chair Luke, Vice Chair Cullen, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) offers comments on HB 1324, HD1, which authorizes a tax credit equal to 20 percent of qualifying business costs for the transportation of agricultural commodities between islands within the state.

This initiative does not fit the purpose of the 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. If the legislature is inclined to move this measure forward, DBEDT recommends creating a new Chapter, rather than incorporating this initiative into Chapter 209E.

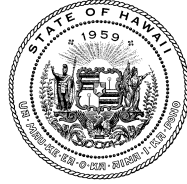
This measure also requires DBEDT to verify and certify the tax credits. DBEDT does not have the qualified staff, such as tax accountants, to certify to individual taxpayers the amount of credit that they can claim on their state tax forms. An appropriation of \$150,000 in each year of the biennium would be necessary to implement and administer this measure.

We defer to the Department of Taxation for the fiscal impact of this measure.

Thank you for the opportunity to provide this written testimony.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Wednesday, March 1, 2017
Time: 11:00 A.M.
Place: Conference Room 308, 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.

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..

BRIEF SUMMARY: 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 twenty per cent 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 1, 2150.

STAFF COMMENTS: This measure proposes to expand enterprise zone laws to include a business that produces energy from solar, ocean thermal energy conversion, or hydrogen on real property under the control of the natural energy laboratory of Hawaii.

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.

As business incentives go, the enterprise zone program is better than most. The incentive applies to a specific activity (here, creating and maintaining employment) targeted to the problem the

program seeks to address. The incentive tapers off over time and then stops. It requires accountability, namely required reports to DBEDT, for a business to retain its eligibility. The business itself may need a different kind of assistance, such as financing, but the state is here focusing on creating and maintaining jobs in areas that need them.

One criticism of the program is that the designated eligible activities do not seem to have a common thread running through them except that the various activities seem to have been the Flavor of the Month at one time or other. Eligible activities at present are:

- Agricultural production or processing
- Manufacturing
- Wholesaling/Distribution
- Aviation or maritime repair or maintenance
- Telecommunications switching and delivery systems
- Information technology design and production
- Medical research, clinical trials, and telemedicine
- For-profit training programs in international business management or environmental remediation
- Biotechnology research, development, production, or sales
- Repair or maintenance of assisted technology equipment
- Certain types of call centers
- Wind energy producers

Lawmakers need to keep in mind two things. First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount. Second, tax credits are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse?

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.

As a technical matter, it is unclear whether the intent is to make the interisland carrier (presumably a boat or barge operator, but could include air transportation) eligible for the income tax or unemployment tax credits already provided for in the enterprise zone chapter. As drafted, the carrier would not qualify for these credits because it would not be a producer as defined in HRS section 237-5. If the intent is to award only the 20% credit, the amendment to section 209E-2 would appear to be unnecessary.

Digested 2/8/2017

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 28, 2017 10:22 AM
To: FINTestimony
Cc: warrenmcfb@gmail.com
Subject: *Submitted testimony for HB1324 on Mar 1, 2017 11:00AM*

HB1324

Submitted on: 2/28/2017

Testimony for FIN on Mar 1, 2017 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Warren Watanabe	Maui County Farm Bureau	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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P.O. Box 253, Kunia, Hawai'i 96759
Phone: (808) 848-2074; Fax: (808) 848-1921
e-mail info@hfbf.org; www.hfbf.org

March 1, 2017

HEARING BEFORE THE
HOUSE COMMITTEE ON FINANCE

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

Room 308
11:00 AM

Aloha Chair Luke, Vice Chair Cullen, and Members of the Committee:

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, providing a tax credit for interisland agricultural products grown or processed in enterprise zones.

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.



Hawaii Floriculture and Nursery Association

Testimony for the Twenty Ninth Legislature, 2017
State of Hawaii

COMMITTEE ON FINANCE

Rep. Sylvia Luke, Chair

Rep. Ty J.K. Cullen, Vice Chair

Wednesday, March 1, 2017
11:00 A.M.
Conference Room 308
State Capitol
415 South Beretania Street

A bill for an act

HB1324 HD1 RELATING TO A TAX CREDIT FOR INTERISLAND
TRANSPORTATION OF AGRICULTURAL PRODUCTS GROWN OR PROCESSED
IN STATE ENTERPRISE ZONES.

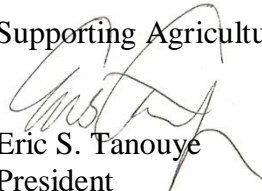
My name is Eric S. Tanouye and I am the President for the Hawaii Floriculture and Nursery Association. HFNA is a statewide umbrella organization with approximately 300 members. Our membership is made up with breeders, hybridizers, propagators, growers, shippers, wholesalers, retailers, educators, and the allied industry, which supports our efforts in agriculture.

The Hawaii Floriculture and Nursery Association (HFNA) strongly **SUPPORTS** House **Bill 1324 HD1**.

We strongly support this measure and its purpose of helping to provide support for Agriculture to move products with in the state. This will allow farmers to provide products while helping to keep the price of the products down, which in turn helps purchasers of Agriculture with in the State.

We thank you for your consideration of HB1324 HD1. If you have any questions at this time, we would be happy to discuss them and can be reached by phone at 808-959-3535 ext 22, cell 960-1433 and email eric@greenpointnursery.com.

Supporting Agriculture and Hawaii,



Eric S. Tanouye
President

Hawaii Floriculture and Nursery Association

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 27, 2017 3:56 PM
To: FINTestimony
Cc: dale@hicattle.org
Subject: *Submitted testimony for HB1324 on Mar 1, 2017 11:00AM*

HB1324

Submitted on: 2/27/2017

Testimony for FIN on Mar 1, 2017 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Dale Sandlin	Hawaii Cattlemens Council	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 28, 2017 10:22 AM
To: FINTestimony
Cc: mnakahata@gmail.com
Subject: *Submitted testimony for HB1324 on Mar 1, 2017 11:00AM*

HB1324

Submitted on: 2/28/2017

Testimony for FIN on Mar 1, 2017 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Mae Nakahata	Individual	Support	No

Comments:

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LATE

LAND USE RESEARCH
FOUNDATION OF HAWAII

1100 Alakea Street, Suite 408
Honolulu, Hawaii 96813
(808) 521-4717
www.lurf.org

February 28, 2017

Representative Sylvia Luke, Chair
Representative Ty T.K. Cullen, Vice Chair
House Committee on Finance

Support of HB 1324, HD1 Relating to a Tax Credit for Interisland Transportation of Agricultural Products Grown or Processed in State Enterprise Zones.

FIN Hrg: Wednesday, March 1, 2017, 11:00 a.m., in Conference Room 308

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. LURF's mission is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

LURF **supports HB 1324, HD1**, which would reduce the costs borne by Hawaii's agricultural businesses to transport their products to Neighbor Island markets.

HB 1324, HD1. This measure would authorize a tax credit equal to 20% of qualifying business costs for the transportation of agricultural commodities between islands within the State of Hawaii.

LURF's Position. The long-term viability of agriculture depends on, factors that affect the profitability of agriculture, including the availability and cost of transportation services. Interisland transportation costs have always been a major issue for Neighbor Island farmers and ranchers who are forced to pay additional transportation costs for, among other things, the costs for equipment, fertilizer, feed and the delivery of their other products to Honolulu or the other islands.

Conclusion. For the above reasons, LURF **strongly supports HB 1324, HD1** and respectfully urges your favorable consideration.

Thank you for the opportunity to present testimony regarding this matter.

LATE

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 28, 2017 5:37 PM
To: FINTestimony
Cc: gordines@kauaiflowers.com
Subject: *Submitted testimony for HB1324 on Mar 1, 2017 11:00AM*

HB1324

Submitted on: 2/28/2017

Testimony for FIN on Mar 1, 2017 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
John R. Gordines	Individual	Support	No

Comments:

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LATE

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Kirby Kester

Executive Director
Bennette Misalucha

OUR MISSION
HCIA is a Hawaii-based non-profit organization that promotes modern agriculture to help farmers and communities succeed. Through education, collaboration and advocacy, we work to ensure a safe and sustainable food supply, support responsible farming practices and build a healthy economy.

TESTIMONY FROM BENNETTE MISALUCHA, EXECUTIVE DIRECTOR

**In Support of HB 1324, HD1
Relating to a Tax Credit for Interisland Transportation of Agricultural Products Grown or Processed in State Enterprise Zones**

HOUSE COMMITTEE ON FINANCE
March 1, 2017, 11:00 a.m.
Conference Room 308

Chair Luke and members of the committee:

Hawaii Crop Improvement Association (HCIA) is a Hawaii-based non-profit organization that promotes modern agriculture to help farmers and communities succeed. Through education, collaboration, and advocacy, we work to ensure a safe and sustainable food supply, support responsible farming practices, and build a healthy economy.

HCIA **supports HB 1324, HD1**, which seeks to provide a tax credit for interisland agricultural products grown or processed in enterprise zones.

Neighbor island farmers are at an economic disadvantage due to added shipping costs related to bringing in supplies and sending out products. Every time there is an increase in interisland shipping rates, the cost to farmers and ranchers also increases. This bill will help level the playing field by providing financial assistance to neighbor island farmers and ranchers.

Thank you for the opportunity to testify in support of this bill.

Respectfully submitted,

Bennette Misalucha
Executive Director



We Grow 93% of Hawaii Island Agriculture Crops

~ 625,000 acres of land in production ~ \$194 Million in Revenue ~

SENATE COMMITTEE ON WAYS AND MEANS
Wednesday, March 1, 2017
Conference Room 308 @ 11:00 AM



**Founding Association
Members**

Hawaii Papaya Industry
Association (HPIA)

Hawaii Cattlemen's Council

Big Island Banana Growers

Hamakua, Hilo & Kohala Farm
Bureau Counties

Hawaii Floriculture & Nursery
Association

SUPPORT for HB 1324, HD1

Relating to Tax Credit for Interisland Transportation for Ag Products Grown or
Processed in State Enterprise Zones

Senator Jill N. Tokuda, Chair
Senator Donovan M. Dela Cruz, Vice Chair

The Honorable Members of the Senate Committee on Ways and
Means,

RE: HB 1324 - Relating to Tax Credit for Interisland Transportation for Ag
Products Grown or Processed in State Enterprise Zones **(SUPPORT)**

Dear Chairman Chairman Tokuda, Vice Chair Dela Cruz and Members of WAM;

On behalf of Hawaii Farmers & Ranchers United (HFRU), we Support HB
1324, HD1 as it Supports Hawaii's goals for increasing our Food security.

Collectively, we represent 97% of all agricultural revenue on Hawaii Island;
\$194 Million out of a total of \$202 total agricultural revenue, and almost
3,000 farmers and ranchers working on 630,000 acres of land.

- Transportation costs rise and put Neighbor Island farmers at a disadvantage with Oahu growers. Increased costs that cannot be passed on to the vendor.
- The majority of ag producers are located on neighbor islands; yet the population marketplace is on Oahu.
- Supporting locally grown and processed products with tax incentives is a positive solution for Hawaii.

Providing tax credits for interisland agricultural products grown or
processed in enterprise zones is a positive solution to support agriculture
production. I respectfully request your support of HB 1324, HD1. Mahalo
for this opportunity to provide testimony.

Mahalo,
Lorie Farrell