



**STATE OF HAWAII
DEPARTMENT OF TAXATION**

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To: The Honorable Donovan Dela Cruz, Chair
and Members of the Senate Committee on Ways & Means

Date: Wednesday, April 4, 2018

Time: 10:30 A.M.

Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 2462, H.D. 1, S.D. 1, Relating to Tax Exemption

The Department of Taxation (Department) offers the following comments regarding H.B. 2462, H.D. 1, S.D. 1, for your consideration.

H.B. 2462, H.D. 1, S.D. 1, amends the general excise tax (GET) by adding an exemption for the gross proceeds arising from the sale of farm equipment to a low-income producer. A summary of key provisions are as follows:

- Adds a section to Hawaii Revised Statutes (HRS) chapter 237, exempting from the GET the gross proceeds arising from the sale of farm equipment to a producer, provided that the producer's gross income for the previous taxable year, as evidenced by their income tax return for that year, did not exceed \$200,000;
- Defines "farm equipment and machinery" as any implement, tool, machine, equipment, appliance, device, or apparatus used in the conduct of agricultural operations, except for:
 - Property used for administration, management, and marketing;
 - Certain supply items and articles of clothing; and
 - Items purchased for the purpose of resale; and
- Effective date of July 1, 2018.

Section 237-5, HRS, defines "producer" as "any person engaged in the business of raising and producing agricultural products in their natural state, or in producing natural resource products, or engaged in the business of fishing or aquaculture, for sale, or for shipment or transportation out of the State, of the agricultural or aquaculture products in their natural or processed state, or butchered and dressed, or the natural resource products, or fish."

First, the Department notes that "farm equipment and machinery," as defined in the

measure, appears to include several types of depreciable tangible personal property. Under HRS section 235-110.7, which sets forth the capital goods excise tax credit, taxpayers may receive a refundable credit on their income tax equivalent to four per cent of the cost of the eligible depreciable tangible personal property that the taxpayer used in a trade or business and placed in service during the taxable year – effectively, a refund of GET already paid by the taxpayer (not including county surcharge).

If this measure were enacted, it would stop the GET from being imposed in the first place on sales to low-income farmers, essentially leaving the taxpayer/seller in the same economic position as under current law. Thus, the exemption proposed by this measure may be partly redundant for some taxpayers, although low-income producers might still benefit from not having the seller's GET passed on to them at the initial point of sale.

Finally, if the Committee wishes to advance this measure, the Department respectfully requests that the measure be made applicable to taxable years beginning after December 31, 2018. This will allow the Department sufficient time to make the necessary form and computer system changes.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
Governor

DOUGLAS S. CHIN
Lt. Governor



SCOTT E. ENRIGHT
Chairperson, Board of Agriculture

PHYLLIS SHIMABUKURO-GEISER
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
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**TESTIMONY OF SCOTT E. ENRIGHT
CHAIRPERSON, BOARD OF AGRICULTURE**

BEFORE THE SENATE COMMITTEE ON WAYS & MEANS

**APRIL 4, 2018
10:30 A.M.
CONFERENCE ROOM 211**

**HOUSE BILL NO. 2462 HD1 SD1
RELATING TO TAX EXEMPTION**

Chairperson Dela Cruz and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 2462 HD1 SD1 that seeks to exempt from the general excise tax, the purchase of farm equipment and machinery used in the conduct of agricultural operations for producers with gross incomes not exceeding \$200,000. The Department of Agriculture supports the intent of this measure and otherwise defers to the Department of Taxation.

Of the 7,000 farming operations in Hawaii, about 900 farms had value of sales in excess of \$200,000 (2012 Census of Agriculture – Hawaii State Data, Table 2, page 9). Therefore, about 87 percent of Hawaii's farmers may benefit from the tax exemption proposed in this measure.

Thank you for the opportunity to comment on this measure.



HB-2462-SD-1

Submitted on: 4/2/2018 4:19:47 PM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Testifying for Oahu County Committee on Legislative Priorities of the Democratic Party of Hawai'i	Support	No

Comments:

To the Honorable Donovan M. Dela Cruz, Chair; the Honorable Gilbert S.C. Keith-Agaran, Vice-Chair and the Members of the Committee on Ways and Means:

Good morning. My name is Melodie Aduja. I serve as Chair of the Oahu County Committee ("OCC") on Legislative Priorities of the Democratic Party of Hawaii. Thank you for the opportunity to provide written testimony on **HB2462 HD1 SD1** relating to the General Excise Tax; Exemption; Agriculture; and Farm Equipment and Machinery.

The OCC on Legislative Priorities is in favor of **HB2462 HD1 SD1** and supports its passage.

HB2462 HD1 SD1 is in accord with the Platform of the Democratic Party of Hawai'i ("DPH"), 2016, as it exempts gross proceeds arising from sales of farm equipment and machinery to certain producers of agricultural products from the general excise tax.

The Platform of the Democratic Party of Hawai'i, 2016, provides that "[a]griculture in our state must be preserved and its future strengthened. Sufficient prime agricultural lands must be maintained for the health, economic well-being and sustenance of the people. We believe in an integrated approach to agricultural innovation and sustainability.

This approach includes, but is not limited to, the adoption of the native Hawaiian concept of ahupua'a, an integrated approach to land management. This could also include development of economic, land and ocean use policies that foster sustainable crops both for local consumption and for export, policies to foster agriculture-related infrastructure at shipping points, and increased inspection to protect against invasive species and to encourage reduced holding times. (Platform of DPH, P. 2, Lines 76-78, 82-86 (2016)).

As an island state, securing affordable food for all is a priority. We support healthy sustainable, diversified local food production, and “Buy Local” strategies to assure greater food security and food safety. (Platform of DPH, P. 2, Lines 97-99 (2016)).

Given that **HB2462 HD1 SD1** exempts gross proceeds arising from sales of farm equipment and machinery to certain producers of agricultural products from the general excise tax, it is the position of the OCC on Legislative Priorities to support this measure.

Thank you very much for your kind consideration.

Sincerely yours,

/s/ Melodie Aduja

Melodie Aduja, Chair, OCC on Legislative Priorities

Email: legislativepriorities@gmail.com, Text/Tel.: (808) 258-8889



April 2, 2018

Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Senate Committee on Ways and Means

Testimony in Support of HB 2462 H.D. 1, S.D.1, Relating to General Excise Tax; Exemption; Agriculture (Exempts sales of farm equipment and machinery to certain producers of agricultural products from the general excise tax).

Wednesday, April 4, 2018, 10:30 a.m., in Conference Room 211

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 appreciates the opportunity to express its **support of HB 2462 H.D. 1, S.D.1** and of the various agricultural stakeholder groups who defend the goals of viable agricultural operations and the conservation and protection of agriculture, including important agricultural lands (IAL) in Hawaii.

HB 2462 H.D. 1, S.D.1. This bill proposes to exempt from the general excise tax, sales of farm equipment and machinery to certain producers of agricultural products.

LURF's Position. LURF members include farmers and ranchers who own, maintain, and engage in agricultural enterprises, and who consider such incentives and assistance very helpful, if not critical to the conduct of their operations and to help sustain their businesses.

As this Committee is aware, the unsustainable costs cast upon land owners and agricultural stakeholders by various safety and security standards, programs and regulations are another serious concern, as the enactment of onerous regulations relating to maintenance and operation of water systems, infrastructure, as well as growing and processing machinery and facilities are proving to be potentially counterproductive to the long-term objective of sustainable agriculture.

The purpose of this bill is consistent with the underlying intent and objectives of the IAL laws (Hawaii Revised Statutes [HRS], Sections 205-41 to 52), which were enacted to fulfill the mandate in Article XI, Section 3, of the Hawaii State Constitution, “to conserve and protect agricultural lands, promote diversified agriculture, increase agricultural self-sufficiency and assure the availability of agriculturally suitable lands.” The IAL laws established a new paradigm which avoids requirements and mandates, and instead focuses on promoting agricultural viability by providing incentives for farmers and landowners to designate lands as IAL, and to build necessary infrastructure. This bill is thus an effort to expand the existing IAL program by establishing additional incentives for landowners to preserve and maintain IAL.

As noted in HRS Section 205-41, the intent of Act 183 (2005) was to develop agricultural incentive programs to promote agricultural viability, sustained growth of the agricultural industry, and the long-term use and protection of important agricultural lands for agricultural use in Hawaii concurrently with the process of identifying important agricultural lands as required under the Act. Such incentives and programs are identified in HRS 205-41 and include tax credits and/or exemptions that promote investment in agricultural businesses or value-added agricultural development.

LURF appreciates the underlying intent of HB 2462 H.D. 1, S.D.1, which is to support agriculture and aid agriculture-related businesses and strongly believes that passage of the long-awaited IAL legislation would be meaningless without implementation of these incentives which require the cooperation and support of the business and economic community. The establishment of tax incentives for those engaged, or desirous of engaging, in agricultural activities are critically needed to support viable agricultural activity in this State.

By recognizing the significance of, and need to assist the local agriculture industry, and implement incentives which help to support the growth and maintenance of agriculture in the State, this bill significantly helps to promote economically viable agriculture and food self-sufficiency in Hawaii.

Thank you for the opportunity to present testimony in support of this measure.



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April 4, 2018

HEARING BEFORE THE
SENATE COMMITTEE ON WAYS AND MEANS

TESTIMONY ON HB 2462, HD1, SD1
RELATING TO TAX EXEMPTION

Room 211
10:30 AM

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran, 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.

The Hawaii Farm Bureau strongly supports HB 2462, HD1, SD1, which exempts the gross proceeds from the sale of farm equipment and machinery to any qualified small farmer from the general excise tax.

Hawaii's farmers and ranchers find it difficult to purchase farm equipment due to high retail prices. This measure will assist farmers and ranchers with certain equipment and machinery expenses, which will help increase production and can help build capacity.

HFB supports any initiative that reduces the cost of production so that locally produced goods can compete with imported products, strengthening our local economy.

Hawaii Farm Bureau Policy states:

"State tax and monetary policies should be designed to encourage private initiative to help stabilize farm economics in the State of Hawaii, to promote employment and economic growth and to distribute the tax burden equitably. Further such policy should be used by the state, when appropriate, to encourage agricultural growth and expansion."

This measure falls in the "encourage agricultural growth and expansion." category.

Thank you for this opportunity to provide our opinion on this important matter.

HB-2462-SD-1

Submitted on: 4/2/2018 3:29:48 PM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Ronald Weidenbach	Testifying for Hawaii Aquaculture & Aquaponics Association	Support	No

Comments:

Will be beneficial to farmer's bottom line and to support local food production

HB-2462-SD-1

Submitted on: 4/2/2018 11:57:16 PM

Testimony for WAM on 4/4/2018 10:30:00 AM

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

Comments:

From: [Laila Jayyousi](#)
To: [WAM Testimony](#)
Subject: I SUPPORT HB 2462, HD1, SD1
Date: Monday, April 2, 2018 6:30:59 PM

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee,

I strongly support HB 2462, HD1, SD1, which exempts sales of farm equipment and machinery to certain producers of agricultural products from the general excise tax.

Hawaii's farmers and ranchers find it difficult to purchase farm equipment due to high retail prices. This measure will alleviate equipment and machinery expenses, while increasing productivity and introducing new business opportunities.

Thank you for the opportunity to testify on this measure.

Mahalo,

From: [Alvin Tsuruda](#)
To: [WAM Testimony](#)
Subject: I SUPPORT HB 2462, HD1, SD1
Date: Monday, April 2, 2018 7:04:37 PM

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee,

I strongly support HB 2462, HD1, SD1, which exempts sales of farm equipment and machinery to certain producers of agricultural products from the general excise tax.

Hawaii's farmers and ranchers find it difficult to purchase farm equipment due to high retail prices. This measure will alleviate equipment and machinery expenses, while increasing productivity and introducing new business opportunities.

Thank you for the opportunity to testify on this measure.

Mahalo,

HB 2462, HD1, SD1

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee,

I strongly support HB 2462, HD1, SD1, which exempts sales of farm equipment and machinery to certain producers of agricultural products from the general excise tax.

Hawaii's farmers and ranchers find it difficult to purchase farm equipment due to high retail prices. This measure will alleviate equipment and machinery expenses, while increasing productivity and introducing new business opportunities.

Thank you for the opportunity to testify on this measure.

Mahalo,

Dusty Alderks	Clyde Fukuyama	Mark Phillipson	Mark Takemoto
Paul Kaneshiro	Phil Becker	Gregory Williams	Leann Lum
Donald Sommer			

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee,

I strongly support HB 2462, HD1, SD1, which exempts sales of farm equipment and machinery to certain producers of agricultural products from the general excise tax.

Hawaii's farmers and ranchers find it difficult to purchase farm equipment due to high retail prices. This measure will alleviate equipment and machinery expenses, while increasing productivity and introducing new business opportunities.

Thank you for the opportunity to testify on this measure.

Mahalo,

Alvin Tsuruda	Philippe Visintainer	Richard Ogoshi	Laila Jayyousi
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From: [Luana Beck](#)
To: [WAM Testimony](#)
Subject: I SUPPORT HB 2462, HD1, SD1
Date: Monday, April 2, 2018 1:58:12 PM

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee,

I strongly support HB 2462, HD1, SD1, which exempts sales of farm equipment and machinery to certain producers of agricultural products from the general excise tax.

Hawaii's farmers and ranchers find it difficult to purchase farm equipment due to high retail prices. This measure will alleviate equipment and machinery expenses, while increasing productivity and introducing new business opportunities.

Thank you for the opportunity to testify on this measure.

Mahalo,