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TESTIMONY OF SCOTT E. ENRIGHT
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEE ON AGRICULTURE

MARCH 21, 2018
8:30 A.M.
CONFERENCE ROOM 312

SENATE BILL NO. 3031 SD2
RELATING TO ORGANIC FOODS PRODUCTION TAX CREDIT

Chairperson Creagan and Members of the Committee:

Thanks for the opportunity to testify on Senate Bill No. 3031 SD2 relating to organic foods production tax credit. This bill clarifies and strengthens the organic foods production tax credit. The Department supports this bill.

Act 258, SLH 2017 established a tax credit of farmers, ranchers, and producers seeking to obtain organic certification and requires the Department to certify the qualified expenses submitted by the taxpayer. In developing the qualification criteria, the Department identified questionable language within the Act that needed to be clarified and strengthened. The Department feels that this bill includes the necessary changes needed to properly administer the qualification process.

Thank you for the opportunity to testify on this measure.





STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Richard Creagan, Chair
and Members of the House Committee on Agriculture

Date: Wednesday, March 21, 2018
Time: 8:30 A.M.
Place: Conference Room 312, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 3031, S.D. 2, Relating to the Organic Foods Production Tax Credit

The Department of Taxation (Department) offers the following comments for your consideration.

S.B. 3031, S.D. 2, amends the Organic Foods Production Tax Credit by amending Hawaii Revised Statutes section 235-110.94, as follows:

- Specifies that when the credit's \$2 million aggregate cap is exceeded, taxpayers may claim the credit on a pro rata basis;
- Specifies that the pro rata basis shall be calculated by dividing \$2,000,000 by the cumulative amount of all qualified expenses submitted for the taxable year, then multiplying that quotient by each taxpayer's qualified expenses for the taxable year;
- Amends the definition of "qualified expenses" to exclude expenses incurred by the production of organic foods;
- Defective effective date of July 1, 2050; and
- Applies to unspecified taxable years.

The Department first notes that the Senate Committee on Ways and Means amended this measure by defecting the effective date, applying the measure to unspecified taxable years, and deleting the previous repeal date of December 31, 2021.

The Department further notes that it is able to administer the credit as amended by this measure for taxable years beginning after December 31, 2017. Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: INCOME, Modify Organic Foods Production Tax Credit

BILL NUMBER: SB 3031, SD-2

INTRODUCED BY: Senate Committee on Ways & Means

EXECUTIVE SUMMARY: Makes technical amendments to the existing organic foods production tax credit.

SYNOPSIS: Amends HRS section 235-110.94, the organic foods production tax credit, as follows:

Clarifies that the ceiling on the amount of the credit is \$50,000 per qualified taxpayer.

Reinforces the overall state ceiling by providing that in a taxable year where the total \$2 million for all qualified taxpayers has been exceeded, all taxpayers eligible to claim the credit shall be credited on a pro rata basis.

Defines a qualified taxpayer as a producer as defined in 7 U.S.C. section 6502. Disqualifies a handler or handling operation as defined in the same federal statute. A producer is defined as a person who engages in the business of growing or producing food or feed. A handler or a handling operation is a business that does not grow or produce food, but processes, packages, or stores it.

EFFECTIVE DATE: July 1, 2050; applies to taxable years beginning after December 31, ____.

STAFF COMMENTS: The organic foods production tax credit, enacted in 2016, is a One Hundred Percent (100%) state tax credit for qualified expenses, which include expenses incurred to obtain organic certification from the USDA. The maximum credit allowed is \$50,000 per qualified taxpayer.

The technical amendments proposed in the bill appear to be consistent with the bill's original intent. One issue, however, deserves special mention.

The credit now is a 100% credit, meaning, at least for expenses under the limit, the business pays nothing and the Hawaii taxpayers pay everything. In 2016, proponents asserted that the costs of organic certification far exceed the ceiling amount provided in statute, so as a practical matter both the state and the beneficiary business would have "skin in the game." If and when the organic certification process becomes less cumbersome, the credit percentage should be reconsidered.

Digested 3/13/2018

SB-3031-SD-2

Submitted on: 3/20/2018 8:43:55 AM

Testimony for AGR on 3/21/2018 8:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Randy Cabral	Hawaii Farm Bureau Federation	Support	Yes

Comments:

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Submitted on: 3/19/2018 9:57:19 PM

Testimony for AGR on 3/21/2018 8:30:00 AM

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

Comments:

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Submitted on: 3/12/2018 8:37:56 PM

Testimony for AGR on 3/21/2018 8:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Circe Carr	Individual	Support	No

Comments: