

DAVID Y. IGE
Governor

JOSH GREEN
Lt. Governor



PHYLLIS SHIMABUKURO-GEISER
Chairperson, Board of Agriculture

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

**TESTIMONY OF PHYLLIS SHIMABUKURO-GEISER
CHAIRPERSON, BOARD OF AGRICULTURE**

**BEFORE THE HOUSE COMMITTEES ON AGRICULTURE AND ECONOMIC
DEVELOPMENT & BUSINESS**

**MARCH 13, 2019
9:35 A.M.
CONFERENCE ROOM 309**

**SENATE BILL NO. 837 SD2
RELATING TO FARMS**

Chairpersons Creagan and McKelvey and Members of the Committees:

Thank you for the opportunity to testify on Senate Bill 837 SD2 that creates an exclusion from income tax for the lesser of 51 percent of gross annual income or \$50,000 of gross annual income earned by a farmer from agricultural activities. A "farmer" is defined as an individual earning more than 75 percent of the person's annual gross income from farm products and value-added farm products sold, grown, and raised within the State. "Farm products" is defined as production from agricultural activities as described in Section 205-4.5(a)(1) through (3) and excludes personal use. The Department supports this measure and defers to the Department of Taxation.

As written, the bill would improve the bottom line for start-up farming operations that meet the 75 percent gross income threshold. For existing qualified farmers, according to the 2012 Census of Agriculture (Hawaii, Volume 1, Chapter 1: State Level Data, Table 60, page 44), of Hawaii's 7,000 farmers (includes all business entities), approximately 618 (9 percent) earn more than 75 percent of their total household income from farming.

Thank you for the opportunity to comment on this measure.





STATE OF HAWAII
DEPARTMENT OF TAXATION
830 PUNCHBOWL STREET, ROOM 221
HONOLULU, HAWAII 96813
<http://tax.hawaii.gov/>
Phone: (808) 587-1540 / Fax: (808) 587-1560
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To: The Honorable Richard P. Creagan, Chair
and Members of the House Committee on Agriculture

The Honorable Angus L.K. McKelvey, Chair
and Members of the House Committee on Economic Development & Business

Date: Wednesday, March 13, 2019
Time: 9:35 A.M.
Place: Conference Room 309, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 837, S.D. 2, Relating to Farms

The Department of Taxation (Department) appreciates the intent of S.B. 837, S.D. 2, and offers the following comments on for the Committee's consideration.

S.B. 837, S.D. 2, amends section 235-7, Hawaii Revised Statutes (HRS), by excluding from income tax the income earned by a farmer from agricultural activities, up to fifty-one per cent of the farmer's gross annual income or \$50,000, whichever is less. The bill defines "farmer" as a person earning more than seventy-five per cent of their annual gross income from the sale of farm products and value-added farm products grown, raised, and value-added by the person and sold within the State. "Farm products" means production from agricultural activities as described in section 205-4.5(a)(1) through (3), HRS, excluding personal use. "Person" includes an individual, partnership, S corporation, estate, or trust. "Value-added" means any activity, such as processing, that increases the value of raw agricultural materials. The measure is effective July 1, 2050 and applies to taxable years beginning after December 31, 2019.

The Department notes that the Senate Committee on Ways and Means amended the previous version of this measure by clarifying the entities to which the income tax exclusion applies, replacing the term "farming activities" with "agricultural activities," defining the term "value-added," and defecting the effective date to July 1, 2050.

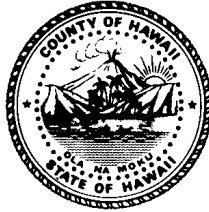
First, the Department appreciates the inclusion of a statutory definition for "farm products" in this measure that is based on existing law regarding permissible activities within agricultural districts. The Department also appreciates the addition of a definition for the term "value-added." This will help promote efficient tax administration and reduce both Taxpayer confusion and unintended revenue loss to the State.

Second, the Department suggests adding a gross income limitation to be eligible for the exclusion. A gross income limitation will help effectuate the preamble's stated goal of encouraging and supporting the growth of new, small, and diversified farming businesses by tailoring the income exclusion for new and upcoming farmers.

Finally, if the Committee wishes to advance this measure, the Department notes that it is able to administer the bill with the current applicable date of taxable years beginning after December 31, 2019. This will allow the Department to make the necessary form and computer system changes.

Thank you for the opportunity to provide comments.

County of Hawai'i
Council District 9 -
North and South Kohala



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Chair: Committee on Agriculture,
Water, Energy, and Environmental
Management

Vice Chair: Committee on Finance

HERBERT M. "TIM" RICHARDS, III
HAWAI'I COUNTY COUNCIL - DISTRICT 9
25 Aupuni Street, Ste. 1402, Hilo, Hawai'i 96720

March 11, 2019

House Committee on Agriculture

Honorable Representative Richard P. Creagan, Chair
Honorable Senator Lynn DeCoite, Vice Chair

House Committee on Economic Development & Business

Honorable Representative Angus L.K. McKelvey, Chair
Honorable Representative Lisa Kitagawa, Vice Chair

Submission via online testimony

RE: **Support of SB 837, SD2 (SSCR861)**

Hearing Date/Time: March 14, 2019 at 9:35 a.m.

Dear Representatives:

As the Chair of the Committee on Agriculture, Water, Energy, and Environmental Management for the Hawai'i County Council, I thank you for the opportunity to submit **testimony in SUPPORT of SB 837, SD2 (SSCR861)**. It is important that an exclusion from income tax is created for the lessor of fifty-one percent of gross annual income or \$50,000 of gross annual income earned by a farmer from farming activities.

Please feel free to contact me should you need to discuss my position and knowledge of this matter further.

Sincerely,

HERBERT M. "TIM" RICHARDS, III
Hawai'i County Council, District 9



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 13, 2019

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

TESTIMONY ON SB 837, SD2
RELATING TO AGRICULTURE

Room 312
9:35 AM

Aloha Chairs Creagan and McKelvey, Vice Chairs DeCoite and Kitagawa, and Members of the Committees:

I am Brian Miyamoto, Executive Director 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 supports SB 837, SD2, which creates an exclusion from income tax for the lesser of fifty-one percent of gross annual income or \$50,000 of gross annual income earned by a farmer from farming activities.

HFB supports this initiative which is an investment in Hawaii's small farmers and encourages new and expanding farming businesses.

Thank you for this opportunity to testify in support of this measure.



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

LATE

**HEARING BEFORE THE HOUSE COMMITTEE ON AGRICULTURE AND
THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 309
WEDNESDAY, MARCH 13, 2019 AT 9:35 A.M.**

To The Honorable Richard P. Creagan, Chair;
The Honorable Lynn DeCoite, Vice Chair; and
Members of the Committee on Agriculture,

To The Honorable Angus L.K McKelvey , Chair;
The Honorable Lisa Kitagawa, Vice Chair; and
Members of the Committee on Economic Development & Business,

TESTIMONY IN SUPPORT OF SB 837 RELATING TO FARMS

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce with approximately 650 members. I am writing share our support of SB 837.

Agriculture is a very important industry to our community, but it is a difficult industry to successfully start and operate. Farming is very hard work and requires many high, upfront investment costs. There are also a number of unpredictable costs and factors that farmers face once established. We support efforts that seek to sustain and support agriculture and therefore, support this bill to exclude some farmers from income tax for the lesser of 51% of gross annual income earned.

In addition, we appreciate that this bill recognizes small farmers as it is particularly difficult for small farmers to start and sustain their businesses. The Hawaii 2050 Sustainability Plan highlights the importance of farmers of all sizes to sustain and support the agriculture industry in Hawaii.

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

Sincerely,

Pamela Tumpap

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

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Exclusion from Income for Farmers

BILL NUMBER: SB 837, SD-2

INTRODUCED BY: Senate Committee on Ways & Means

EXECUTIVE SUMMARY: Creates an exclusion from income tax for the lesser of fifty-one per cent of gross annual income or \$50,000 of gross annual income earned by a farmer from farming activities. A direct appropriation would be preferable as it would provide some accountability for the taxpayer funds being utilized to support this effort. Meaning, we as taxpayers know what we're getting and we know how much we're paying for it.

SYNOPSIS: Amends HRS section 235-7 to add a new paragraph excluding from gross income the lesser of fifty-one per cent of gross annual income or \$50,000 of gross annual income earned by a farmer from agricultural activities.

Defines "farmer" as an individual earning more than seventy-five per cent of the individual's annual gross income from farm products and value-added farm products grown, raised, and value-added by the individual and sold within the State.

Defines "farm products" as production from agricultural activities as described in section 205-4.5(a)(1) through (3), HRS, and excludes personal use.

Defines "person" as any taxable individual or entity except for a C corporation.

Defines "value-added" as any activity that increases, by means of processing or any other means, the value of raw agricultural materials."

EFFECTIVE DATE: Effective 7/1/2050. Applies to taxable years beginning after December 31, 2019.

STAFF COMMENTS: The idea of providing a tax credit to encourage investments may have been acceptable when the economy was on a roll and advocates could point to credits like those to encourage the use of or investment in emerging technologies. But what lawmakers and administrators have learned in these past few years is that unbridled tax incentives, where there is no accountability or limits on how much in credits can be claimed, are irresponsible as the cost of these credits goes far beyond what was ever intended.

It should also be noted that an income exclusion affects taxpayers differently depending on the amount of net income they otherwise have. For example, a \$50,000 income exclusion would create a maximum \$5,500 tax benefit to an individual making over \$200,000 in adjusted gross income, where the same individual with \$35,000 adjusted gross income and \$15,000 net profit would see a benefit of perhaps \$725.

Instead, lawmakers should consider an appropriation of a specific number of taxpayer dollars. At least lawmakers would have a better idea of what is being funded. A direct appropriation would be preferable to the income exclusion as it would: (1) provide some accountability for the taxpayers' funds being utilized to support this effort; and (2) not be a blank check.

Digested 3/8/2019



Email: communications@ulupono.com

HOUSE COMMITTEES ON AGRICULTURE AND ECONOMIC DEVELOPMENT & BUSINESS
Wednesday, March 13, 2019 — 9:35 a.m. — Room 309

Ulupono Initiative Supports SB 837 SD 2, Relating to Farms

Dear Chair Creagan, Vice Chair DeCoite, Chair McKelvey, Vice Chair Kitagawa, and Members of the Committees:

My name is Murray Clay and I am Managing Partner of 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 produced food; increase affordable, clean, renewable energy; and better manage waste and fresh water resources. Ulupono believes that self-sufficiency is essential to our future prosperity and will help shape a future where economic progress and mission-focused impact can work hand in hand.

Ulupono supports SB 837 SD 2, which creates an exclusion from income tax for the lesser of 51 percent of gross annual income, or \$50,000 of gross annual income, earned by a farmer from farming activities, because it aligns with our goal to increase local food production.

Hawai'i has many small farmers. According to the 2012 Census of Agriculture, 88 percent (6,171) of Hawai'i's 7,000 farmers made under \$50,000 in farm sales. This policy would help a lot of local farmers grow their business by keeping more of their income. In addition, the average age of a Hawai'i farmer is over 60 years old. Therefore, we need to encourage more young people to view agriculture as an economically viable career path. We believe this modest tax benefit is a reasonable way to support the State's goal to double local food production.

As Hawai'i's local food issues become increasingly complex and challenging, organizations need additional resources and support to address and overcome them. We appreciate these committees' efforts to look at policies that support local food production.

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

Respectfully,

Murray Clay
Managing Partner

Investing in a Sustainable Hawai'i

SB-837-SD-2

Submitted on: 3/9/2019 1:44:32 PM

Testimony for AGR on 3/13/2019 9:35:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Autumn Ness	Hawai'i Center for Food Safety	Support	No

Comments:

SB-837-SD-2

Submitted on: 3/12/2019 12:22:17 PM

Testimony for AGR on 3/13/2019 9:35:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Chris Manfredi	Hawaii Coffee Association	Support	No

Comments:

SB-837-SD-2

Submitted on: 3/12/2019 9:23:36 AM

Testimony for AGR on 3/13/2019 9:35:00 AM

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

Comments: