

DAVID Y. IGE
Governor

JOSH GREEN
Lt. Governor



PHYLLIS SHIMABUKURO-GEISER
Chairperson, Board of Agriculture

MORRIS M. ATTA
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
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**TESTIMONY OF PHYLLIS SHIMABUKURO-GEISER
CHAIRPERSON, BOARD OF AGRICULTURE**

BEFORE THE SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT

**MONDAY, FEBRUARY 1, 2021
1:00 P.M.
VIA VIDEOCONFERENCE**

**SENATE BILL NO. 496
RELATING TO AGRICULTURE**

Chairperson Gabbard and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill No. 496 to establish an agricultural import replacement task force to identify the top ten fruit and vegetable imports to the state that can be commercially grown by local farmers and to establish an income tax credit to incentivize the effort.

The Department supports the intent of this measure so long as it does not adversely impact priorities in our Executive Biennium budget.

Additionally, the Department would like to offer two comments with respect to this measure as follows:

1. On page 3, lines 19 through 21, and on page 4, lines 1 through 17, the Department is asked to maintain records, verify qualified expenses, total all qualified and cumulative expenses, and certify the amount of tax credits for qualified taxpayers.

While this bill allows the Department to assess and collect fees to offset the costs of certifying tax credits claims, we are facing a challenging deficit in resources. To administer this program, the department will require a special fund account be established to receive and expend funds relating to tasks mentioned above. Additionally, we will require an initial appropriation of \$75,000 to be deposited in the special fund to finance setup and initial outlays relating to the program.



2. The Department suggests other food imports with strong demand beyond fruits and vegetables such as crayfish and lobster (aquaculture products) be included for consideration.

Thank you for the opportunity to testify on this bill.

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Mike Gabbard, Chair;
The Honorable Clarence K. Nishihara, Vice Chair;
and Members of the Senate Committee on Agriculture and Environment

From: Isaac W. Choy, Director
Department of Taxation

Date: February 1, 2021
Time: 1:00 P.M.
Place: Via Videoconference, Hawaii State Capitol

Re: S.B. 496, Relating to Agriculture

The Department of Taxation (Department) offers the following comments regarding S.B. 496 for your consideration.

S.B. 496 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create a new nonrefundable tax credit to qualified taxpayers engaged in the State in the growing or production of agricultural import replacements. The measure also creates an “agricultural import replacement” task force to identify “the top ten fruit or vegetable imports” that can be “grown in the State and sold for consumption in the State or for use by business entities licensed and registered in the State,” which will constitute this new category of agricultural import replacements. The tax credit is capped at an unspecified amount of qualified expenses, with an aggregate cap of \$5,000,000.

The measure defines “qualified expenses” as “costs for any equipment, materials, or supplies necessary to grow agricultural import replacements[,]” and defines “qualified taxpayers” as “any person, business entity, or cooperative association of such persons engaged in the State in the growing or production of agricultural import replacements.” The Department of Agriculture (DOA) will be responsible for verifying the nature and amount of qualified expenses, certifying the tax credit, and administering the aggregate cap. The measure is effective upon approval and applies to taxable years beginning after December 31, 2022.

The Department notes that the measure as currently drafted is extremely broad. The proposed measure would exempt *all* persons engaged in the growing or production of so-called agricultural import replacements, and would also exempt costs for *any* equipment, materials, or supplies that could be deemed “necessary” to grow these fruits and/or vegetables. The Department recommends amending this measure to include additional definitions, criteria, and

restrictions for the proposed exemption to better effectuate the Legislature's desired policy goals, eliminate major administrative difficulties, and avoid unintended revenue losses.

The Department also notes that there are already several existing tax credits relating to agriculture and recommends this proposed credit be narrowly tailored to avoid duplicative or redundant credits that might lead to unintended losses of revenue. Moreover, restricting a new tax credit to reduce out-of-State imports and only benefit in-State businesses and producers may create an issue with the Commerce Clause of the U.S. Constitution.

Finally, notwithstanding the comments discussed above, the Department is able to administer the measure as currently written, with Section 2 applying to taxable years beginning after December 31, 2022.

Thank you for the opportunity to provide comments.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Agriculture and Environment
February 1, 2021 at 1:00 p.m.

By
Denise Eby Konan, PhD
Dean, College of Social Sciences
University of Hawai'i at Mānoa

SB 496 – RELATING TO AGRICULTURE

Chair Gabbard, Vice Chair Nishihara and members of the committee:

Thank you for the opportunity to provide testimony on SB 496. This measure establishes a task force to identify the top ten fruits or vegetables that are imported but may be commercially grown in the State. One of the members of the proposed task force is a representative from the University of Hawai'i Economic Research Organization (UHERO).

The University of Hawai'i supports development of agricultural resources, which may include identification of fruits or vegetables that may be grown commercially in the State. We also support careful cost-benefit analysis of any potential changes to Hawaii's tax code and the use of tax credits for policy objectives.

Analysis of both the agricultural component and the tax component of this measure is beyond the current capacity of the UHERO. UHERO is a very small research unit with only 4 FTE faculty working very hard to achieve our mission to inform public and private sector decision-making through rigorous, independent economic research on the people, environment, and economy of Hawai'i. It is understandable that UHERO would be considered as a source of expertise for this measure, but it is important to recognize that UHERO analyses and reports that may have focused on tax policy are uniformly authored by Emeritus and other experts that are not UHERO faculty. They are not available as members of such a task force. The tax analysis should be done by a faculty member with expertise in state and local public finance. Unfortunately, UHERO does not have any faculty members with such expertise. Furthermore, UHERO does not have any expertise in identification of the top ten imported fruits or vegetables that may be grown domestically. We respectfully ask that UHERO be removed from the bill.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Income Tax Credit for Agricultural Imports Replacement

BILL NUMBER: SB 496

INTRODUCED BY: GABBARD, CHANG, KEITH-AGARAN, KIDANI, MISALUCHA, NISHIHARA, Acasio

EXECUTIVE SUMMARY: Establishes a task force to identify the top ten fruits or vegetables that are imported into the State but may be commercially grown in the State. Creates an income tax credit to incentivize the production of those fruits or vegetables to obviate the need to import them into the State.

SYNOPSIS: In a non-HRS provision, establishes an agricultural import replacement task force to identify the top ten fruit and vegetable imports to the State that can be commercially grown by farmers in the State..

Adds a new section to chapter 235, HRS, to establish a nonrefundable tax credit equal to 100% of the qualified expenses of a qualified taxpayer, less any grant money received under section 141-10, up to \$_____ per taxable year.

Specifies that the credit is determined at the entity level and may be allocated to partners, S corporation shareholders, or trust beneficiaries following section 704(b) of the Internal Revenue Code.

Caps the tax credits at \$5 million per taxable year. If the cap is reached, any taxpayers who are limited may claim the balance of the credit in the subsequent taxable year.

Creates a process where a qualified taxpayer submits an application to the Department of Agriculture, which will certify eligible expenses. Allows for a user fee. All tax credit claims shall be filed before the end of the 12th month following the close of the taxable year for which the credit may be claimed, upon pain of waiver of the right to claim the credit.

Defines "agricultural import replacements" as the fruits or vegetables grown in the State and sold for consumption in the State or for use by business entities licensed and registered in the State that are the same types of fruits and vegetables identified by the agricultural import replacement task force.

Defines "agricultural imports" as the top ten fruits or vegetables, as identified by the agricultural import replacement task force, that are imported into the State but may be commercially grown in the State.

Defines "qualified expenses" as expenses incurred by a qualified taxpayer to produce agricultural import replacements. "Qualified expenses" include costs for any equipment, materials, or supplies necessary to grow agricultural import replacements.

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2022.

STAFF COMMENTS: The credit as proposed is a 100% credit, meaning, at least for expenses under the limit, the business pays nothing and the Hawaii taxpayers pay everything. There is currently nothing to indicate that the business seeking the credits would have “skin in the game.”

The tax system is there to raise revenue to keep the government moving. 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.

Furthermore, 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, overtaxed by the pandemic?

If lawmakers want to subsidize this activity, then a direct appropriation would be more accountable and transparent. That way lawmakers will be very clear on (1) how much we taxpayers are paying, and (2) what we are getting in return.

Digested 1/29/2021



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Beau Oshiro, C&S Wholesale Grocers, *Advisor*
Toby Taniguchi, KTA Superstores, *Advisor*

TO:

Committee on Agriculture and Environment
Senator Mike Gabbard, Chair
Senator Clarence K. Nishihara, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: February 1, 2021
TIME: 1pm
PLACE: Via Videoconference

RE: SB496 Relating to Agriculture

Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, and distributors of food and beverage related products in the State of Hawaii.

Our local agriculture sector has tremendous potential for growth. Increasing local food production has been a goal for a wide range of stakeholders for a long time but making significant progress has proved challenging. By researching and identifying which products can be successfully produced locally, the task force will help focus efforts to increase local food production. The tax credit will incentivize growers to prioritize these fruits and vegetables. This system will maximize these products' potential to be successfully produced in quantities that can minimize or eliminate the need to import them.



Email: communications@ulupono.com

SENATE COMMITTEE ON AGRICULTURE & ENVIRONMENT
Monday, February 1, 2021 — 1:00 p.m.

Ulupono Initiative supports the intent of SB 496, Relating to Agriculture.

Dear Chair Gabbard and Members of the Committee:

My name is Amy Hennessey, and I am the Senior Vice President of Communications & External Affairs at Ulupono Initiative. We are a Hawai'i-based impact investment firm that strives to improve our community's quality of life by creating more locally produced food; increasing affordable, clean, renewable energy and transportation options; and better managing freshwater and waste resources.

Ulupono supports the intent of SB 496, which establishes a task force to identify the top ten fruits or vegetables that are imported into the State that can be commercially grown in the State; and creates an income tax credit to incentivize the production of those fruits and vegetables to obviate the need to import them into the State.

Ulupono supports import replacement efforts to increase local food production for local consumption, which helps bolster our state's food security. By providing tax incentives for certain fruits and vegetables, farmers will be more likely to produce those fruits and vegetables.

We believe that the task force membership should include a representative from the University of Hawai'i College of Tropical Agriculture and Human Resources and representatives from each county's economic development department.

Thank you for this opportunity to testify.

Respectfully,

Amy Hennessey, APR
Senior Vice President, Communications & External Affairs

Investing in a Sustainable Hawai'i



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February 1, 2021

HEARING BEFORE THE
SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT

TESTIMONY ON SB 496
RELATING TO AGRICULTURE

Videoconference
1:00 PM

Aloha Chair Gabbard, Vice Chair Nishihara, and Members of the Committee:

I am Brian Miyamoto, Executive Director of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,800 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 496, which establishes a task force to identify the top ten fruits or vegetables that are imported into the State but may be commercially grown in the State. Creates an income tax credit to incentivize the production of those fruits or vegetables to obviate the need to import them into the State.

About 85-90% of Hawaii's food is imported which makes it particularly vulnerable to disruptions in shipping and the food supply. The "Economic Impacts of Increasing Hawaii's Food Self-Sufficiency".report by Dr, Mathew Loke of HDOA and Dr. PingSung Leong of CTAHR estimates that replacing just 10% of the food we currently import would amount to approximately \$313 million. Assuming a 30% farm share, \$94 million would be realized at the farm-gate which would generate an economy-wide impact of an additional \$188 million in sales, \$47 million in earnings, \$6 million in state tax revenues, and more than 2,300 jobs.

Food import replacement can also have a significant impact on Hawaii's economy by decreasing the risk of introducing harmful invasive pests. These pests could have devastating effects on the island's agricultural economy and its fragile ecosystems. Invasive species such as coqui frogs, red fire ants, CBB, two-line spittlebug, coffee leaf rust, macadamia nut feltid coccid, and varroa mites have severe consequences beyond agriculture and require millions in public dollars to fund eradication or containment programs.

We support efforts to replace agricultural imports with Hawaii-grown products to provide our communities with the fresh fruits and vegetables they want while helping the State's farmers be more successful.

The proposed task force will provide necessary information to help farmers decide what produce they can grow to replace that being brought into Hawaii, and the proposed tax credit will encourage them to undertake the shift to growing these crops.

Thank you for the opportunity to testify on this measure of great importance.

SB-496

Submitted on: 1/31/2021 12:59:07 PM

Testimony for AEN on 2/1/2021 1:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Hunter Heavilin	Testifying for Supersistence	Support	No

Comments:

Aloha Chair Gabbard, Vice Chair Nishihara, and Members of the Committee on Agriculture and Environment,

The considerable economic opportunity for import substitution has long held allure as a rationale to increase local productivity and food self-sufficiency. **I support the intent of SB496 and offer the following comments:**

During 2016, HDOA produced reports on top imports by weight (<http://hdoa.hawaii.gov/add/main/top10imports/>) which provide a ready means to understand viable crops for import substitution. Of the 23 crops appearing in top monthly imports (apple, avocado, banana, bell pepper, berries, broccoli, cabbage, carrot, cherries, cucumber, grape, lettuce, mango, melon, mushrooms, onion, orange, peppers, potato, roots, spinach, squash, and tomato) most are already produced in the islands, while some others are not well suited to our climate. This listing may somewhat obviate the need for a task force.

Should a task force be formed it should include a member of the Hawaii Farmers Union United and a member from the local food distribution industry (i.e., a food hub).

Finally, this form of subsidy should not be a blanket for any organization that produces a heavily imported good, instead it should be targeted to diversify beneficiaries of state subsidy and facilitate more agricultural livelihoods by bringing producers at the margins of the marketplace into greater production. Without careful targeting the state risks subsidizing well capitalized operations just because of the crop they happen to produce.

Mahalo for the opportunity to testify.

-Hunter Heavilin