

Honolulu, Hawaii

MAR 22 2023

RE: H.B. No. 1384
H.D. 1
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Second State Legislature
Regular Session of 2023
State of Hawaii

Sir:

Your Committees on Agriculture and Environment and Energy, Economic Development, and Tourism, to which was referred H.B. No. 1384, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO MANUFACTURING,"

beg leave to report as follows:

The purpose and intent of this measure is to create an income tax credit to incentivize the food manufacturing industry in the State.

Your Committees received testimony in support of this measure from the Agriculture and Food Security Committee of the Environmental Caucus of the Democratic Party of Hawai'i, Hawaii Technology Development Corporation, Hawaii Food Manufacturers Association, Retail Merchants of Hawaii, Hawai'i Farm Bureau, Hawaii Food Industry Association, Ulupono Initiative, Chamber of Commerce Hawaii, and two individuals. Your Committees received comments on this measure from the Department of Taxation and Tax Foundation of Hawaii.

Your Committees find that value-added products sourced from the local agriculture sector face significant challenges to success. High labor, land, transportation, utility, and supply costs result in narrow profit margins for value-added food producers, and they often are just able to break even financially.



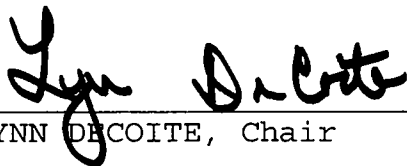
However, "adding value" to raw agricultural crops can reduce waste from off-grade or excess production and can also pay off in new business opportunities, increased employment, and expansion into other markets. This measure establishes an income tax credit to incentivize food producers to invest further into their value-added products to promote local agriculture, farm profitability, and food availability in Hawaii.

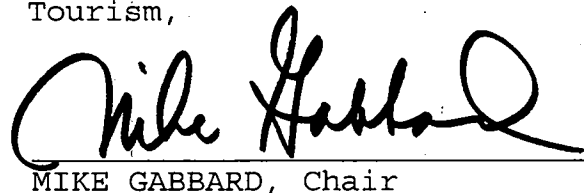
Your Committees have amended this measure by:

- (1) Reducing the income tax credit coverage from full coverage to fifty percent coverage of qualified expenses;
- (2) Requiring the Department of Agriculture to verify that qualified taxpayer applicants are manufacturing food with at least fifty-one percent of its wholesale value added by manufacture, assembly, fabrication, or production within the State; and
- (3) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the records of votes of the members of your Committees on Agriculture and Environment and Energy, Economic Development, and Tourism that are attached to this report, your Committees are in accord with the intent and purpose of H.B. No. 1384, H.D. 1, as amended herein, and recommend that it pass Second Reading in the form attached hereto as H.B. No. 1384, H.D. 1, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committees on Agriculture and
Environment and Energy,
Economic Development, and
Tourism,


LYNN DECOITE, Chair


MIKE GABBARD, Chair



