

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau
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GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 1384, Relating to Manufacturing

BEFORE THE:

House Committee on Economic Development

DATE: Wednesday, February 8, 2023

TIME: 10:15 a.m.

LOCATION: State Capitol, Room 423

Chair Holt, Vice-Chair Lamosao, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 1384 for your consideration.

H.B. 1384 seeks to add a new section to chapter 235, Hawaii Revised Statutes (HRS), establishing a nonrefundable income tax credit for "qualified expenses" allowed to "qualified taxpayers" who are engaged in the food manufacturing industry in the State. The measure sets an unspecified cap on the amount of tax credit as relates to taxpayer qualified expenses in a taxable year, as well as an unspecified aggregate cap for all qualified taxpayers in a taxable year. The measure requires taxpayers to submit written certified statements to the Board of Agriculture in order to claim the credit. The Board of Agriculture in turn is required to certify all qualified expenses for taxpayers as well as the cumulative amount of the tax credit. The terms "qualified expenses" and "qualified taxpayer" are defined in this measure.

The measure is effective upon approval and applies to taxable years beginning after December 31, 2022.

The Department defers to the Board of Agriculture on its ability to certify this credit and administer its aggregate cap, but respectfully requests that the certification requirement be maintained, as the Department lacks subject-matter expertise to

Department of Taxation Testimony
H.B. 1384
February 8, 2023
Page 2 of 2

determine the eligibility for and administration of this credit.

Further, the Department recommends that the effective date of this bill is amended to apply to qualified expenses incurred after December 31, 2023 to allow the Department sufficient time to make the necessary system and form changes.

Thank you for the opportunity to provide comments on this measure.

JOSH GREEN, M.D.
Governor

SYLVIA LUKE
Lt. Governor



SHARON HURD
Chairperson, Board of Agriculture

MORRIS M. ATTA
Deputy to the Chairperson

State of Hawai'i
DEPARTMENT OF AGRICULTURE
KA 'OIHANA MAHI'AI
1428 South King Street
Honolulu, Hawai'i 96814-2512
Phone: (808) 973-9600 FAX: (808) 973-9613

TESTIMONY OF SHARON HURD
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

WEDNESDAY, FEBRUARY 8, 2023

10:15 A.M.

CONFERENCE ROOM 423 AND VIDEO CONFERENCING

HOUSE BILL NO. 1384
RELATING TO MANUFACTURING

Chairperson Holt and Members of the Committee:

Thank you for the opportunity to present testimony on House Bill 1384. This bill establishes an income tax credit to incentivize the development of the food manufacturing industry in Hawaii. The Department supports the intent and provides the following comments.

Clearly, the Department acknowledges that the food manufacturing industry can help the State's food security by strengthening the link between farmers/ranchers and Hawaii's small business enterprises that process raw agricultural products. To this objective, the Department respectfully suggests to the Committee that this measure includes language to specify a minimum local content of 51 percent as is equivalent to the "Made in Hawaii" standard.

The Department appreciates all legislative efforts to help the development of the food manufacturing industry with utilization of agricultural products grown in Hawaii. Lastly, we defer to the Department of Taxation with respect to the proposed amendments in Chapter 235.

Thank you for the opportunity to testify on this measure.



Email: communications@ulupono.com

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
Wednesday, February 8, 2023 — 10:15 a.m.

Ulupono Initiative supports HB 1384, Relating to Manufacturing.

Dear Chair Holt and Members of the Committee:

My name is Micah Munekata, and I am the Director of Government Affairs at Ulupono Initiative. We are a Hawai'i-focused impact investment firm that strives to improve the quality of life throughout the islands by helping our communities become more resilient and self-sufficient through locally produced food, renewable energy and clean transportation choices, and better management of freshwater resources.

Ulupono supports HB 1384, which creates an income tax credit to incentivize the food manufacturing industry in the State.

Ulupono supports local food manufacturing as it provides market options for local farmers and ranchers to bring products to consumers. We hope this measure may explicitly support manufacturing of local products grown and raised in the state.

By processing various fruits, vegetables, meats, or dairy products into value-added goods, farmers and ranchers can utilize all of their products, some of which may have previously been considered food waste, and diversify their revenue streams. This tax incentive will help grow local production and influence future investments in food manufacturing.

Thank you for the opportunity to testify.

Respectfully,

Micah Munekata
Director of Government Affairs

Investing in a Sustainable Hawai'i



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February 8, 2023

HEARING BEFORE THE
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

TESTIMONY ON HB 1384
RELATING TO MANUFACTURING

Conference Room 423 & Videoconference
10:15 AM

Aloha Chair Holt, Vice-Chair Lamosao, and Members of the Committees:

I am Brian Miyamoto, Executive Director of the Hawai'i Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,800 farm family members statewide and serves as Hawai'i's voice of agriculture to protect, advocate and advance the social, economic, and educational interests of our diverse agricultural community.

The Hawai'i Farm Bureau supports HB 1384, which creates an income tax credit to incentivize the food manufacturing industry in the State.

As expenses rise, increases in farm revenues and profits are critical to the continued viability of farms and ranches. One way farmers can do this is by "adding value" to raw agricultural crops. Currently, off-grade and excess production is sometimes wasted due to market conditions. Converting them into value-added products will not only increase farm revenue but also provide new business opportunities, increase employment opportunities, and address Hawai'i's goals of increased self-sufficiency and sustainability.

High production costs are a major driver of narrow profit margins for Hawai'i's farmers and value-added food producers. Labor, taxes, land, transportation, utilities, and supplies are all costs of doing business that often results in value-added food producers just being able to break even.

Hawai'i is potentially losing millions of dollars because of the cost to process agricultural crops into value-added products. HFB supports any program that supports the production of value-added products so that farmers can increase their income while allowing locally produced value-added goods can compete with imported products, strengthening our local economy.

The strength of Hawai'i's economy is dependent upon a diversity in commerce that is resilient to economic downturns and aggressive in creating new growth opportunities.

Thank you for the opportunity to testify on this measure.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Economic Development
Wednesday, February 8, 2023, at 10:15 A.M.
Conference Room 423 & Videoconference**

RE: HB 1384 Relating to Manufacturing

Aloha Chair Holt, Vice Chair Lamosao, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **strongly supports HB 1384**, which creates an income tax credit to incentivize the food manufacturing industry in the State. Applies to taxable years beginning after December 31, 2022.

Almost all industries in the State of Hawaii have struggled since the COVID-19 pandemic hit in 2020. On top of the pandemic, many businesses, included local food manufacturers, have had to deal with record high inflation, supply chain shortages, and a growing workforce shortage.

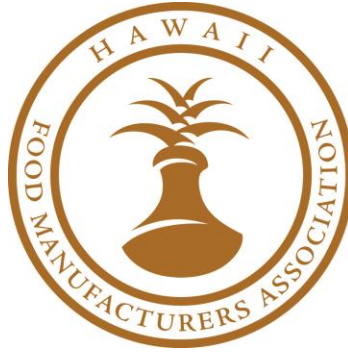
The state set goals to double local food production by 2030, but that is likely not going to happen unless food manufacturers have access to more capital or can receive investment from the private sector. Currently, there is no incentive for private investors to invest in agriculture or food manufacturing in Hawaii.

According to the department of Business, Economic Development, and Tourism, replacing just 14% of the food products currently imported into the State would amount to approximately \$313,000,000 in new revenues for Hawaii's good manufacturing sector. The State currently imports 85% - 90% of its food, fuel, and fiber.

Establishing an incentive for private food manufacturers in the State to use Hawaii-grown food ingredients would not only promote made-in-Hawaii products but will kick-start our economy and get the state closer to the goal of doubling local food production by 2030.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

Thank you for the opportunity to testify.



**Testimony to the House Committee on Economic Development
Wednesday, February 8th, 2023, at 10:15 A.M.
Conference Room 423 & Via Videoconference**

RE: HB 1384 Relating to Manufacturing

Chair Holt, Vice Chair Lamosao, and Members of the Committee:

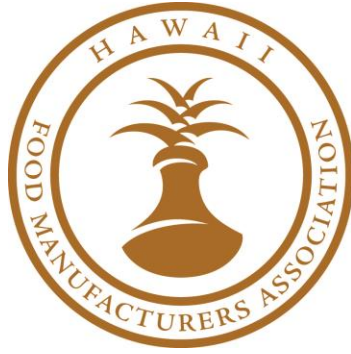
The Hawaii Food Manufacturers Association **strongly supports** HB 1384, which creates an income tax credit to incentivize the food manufacturing industry in the State. Applies to taxable years beginning after December 31, 2022.

The Hawaii Food Manufacturers Association (HFMA) is a non-profit organization of approximately 120 members that has been promoting Hawaiian grown or manufactured products since 1977. The HFMA works to increase the understanding and appreciation of the unique flavors, quality, and care that go into the production of Hawaii's fine foods and beverages represented by our valued members and enjoyed by our valued community.

The food manufacturing industry in Hawaii generates \$900 million in annual revenue and is the largest manufacturing sector in the state using local inputs according to the Hawaii State Department of Business, Economic Development and Tourism. The industry provides over 6,100 jobs in the state and an annual payroll of more than \$160 million.

Food manufacturers have struggled in recent years due to the COVID-19 pandemic, supply chain shortages, and rising inflation. This bill would be a tremendous help to the small businesses that are struggling to keep their doors open and bring back workers that were laid off during the last few years.

The state set goals to double local food production by 2030, but that is likely not going to happen unless small mom and pop food manufacturers have access to more capital or can receive investment from the private sector. Currently, there is no incentive for private investors to invest in agriculture or food manufacturing in Hawaii.



Establishing an incentive for private food manufacturers in the State to use Hawaii-grown food ingredients would not only promote made-in-Hawaii products but will kick-start our economy and get the state closer to the goal of doubling local food production by 2030.

Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Manufacturing Development Tax Credit

BILL NUMBER: HB 1384

INTRODUCED BY: ONISHI, GATES, HOLT, HUSSEY-BURDICK, KAHALOA,
LAMOSAO, LOWEN, MORIKAWA, NAKASHIMA, PERRUSO, TODD, Pierick, Ward

EXECUTIVE SUMMARY: Creates an income tax credit to incentivize the food manufacturing industry in the State.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish the manufacturing development tax credit. The credit amount is 100% of the qualified expenses of the qualified taxpayer, up to \$_____ in any taxable year

Defines “qualified expenses” as the expenses incurred by a qualified taxpayer for: (1) The purchasing of food manufacturing equipment; (2) Training of employees on the use of food manufacturing equipment; (3) Improving existing energy efficiency manufacturing equipment or the purchase of improved energy efficiency equipment in the food manufacturing process; or (4) Studying or planning the implementation of a new food manufacturing facility.

Defines “qualified taxpayer” as any person or business entity engaged in the food manufacturing industry in the State.

Requires the Department of Agriculture to verify and certify each claim for the credit including the total amount of credit for each taxable year and the cumulative amount of tax credit during the credit period. The department shall issue a certificate to qualifying taxpayers who shall file the certificate with the taxpayer’s tax return.

Allows the Department of Agriculture to assess and collect a fee to offset the cost of certifying tax credit claims.

If the amount of credits exceeds the taxpayer’s income tax liability, the excess of credit over liability may be used as a credit against the taxpayer’s income tax liability in subsequent years until exhausted.

All claims for a credit under this section shall be properly filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

The total amount of credits allowed shall not exceed \$_____ for all qualified taxpayers in any taxable year; however, any taxpayer who is not eligible to claim the credit in a taxable year due

to the cap having been exceeded for that taxable year shall be eligible to claim the credit in the subsequent taxable year.

EFFECTIVE DATE: Upon Approval, provided that section 2 shall apply to taxable years beginning after December 31, 2022.

STAFF COMMENTS: The tax system is there to raise revenue to keep the government moving. Using the tax system to give taxpayers money to do things that lawmakers want them to do for social policy reasons 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?

The additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive compared to the amount that may be paid out in credits.

Digested: 2/6/2023



Written Statement of
Len Higashi
Executive Director
Hawaii Technology Development Corporation
before the
House Committee On Economic Development
Wednesday, February 8, 2023
10:15 a.m.
Conference Room 423 & Videoconference

In consideration of
HB1384
RELATING TO MANUFACTURING

Chair Holt, Vice Chair Lamosao, and Members of the Committee.

The Hawai'i Technology Development Corporation (HTDC) **supports** the intent of HB1384 that creates an income tax credit to incentivize the food manufacturing industry in the State applicable to taxable years beginning after December 31, 2022.

HTDC supports initiatives aimed at growing tech and manufacturing jobs. HTDC administers the Manufacturing Development Program (a.k.a. Manufacturing Assistance Program or MAP grants) that provides up to 20% reimbursement up to \$100,000 on qualified expenses that help Hawai'i manufacturers become globally competitive. HTDC comments that manufacturers should be prohibited from claiming the tax credit and grant for the same expense. HTDC comments that this bill should also be coordinated with HB947.

HTDC looks forward to working with stakeholders in moving this initiative forward. Thank you for the opportunity to offer these comments.



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Derek Kurisu, KTA Superstores, *Advisor*
Toby Taniguchi, KTA Superstores, *Advisor*
Joe Carter, Coca-Cola Bottling of Hawaii, Odom, *Advisor*
Charlie Gustafson, Tamura Super Market, *Immediate Past Chair*

TO: Committee on Economic Development

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: Wednesday, February 8, 2023
TIME: 10:15am
PLACE: Via Videoconference

RE: HB1384 Relating to Manufacturing

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.

Increasing local food production, is a goal we all share, and we are all aware of the many challenges that our local food producers face. High real estate prices, high labor costs, lack of economy of scale, and high energy costs can make it challenging or even impossible for locally made products to reach the market at competitive prices with imported products. For those interested in using local agricultural products in their manufacturing these challenges can be compounded because they apply to both the raw agricultural materials and the value added finished products. Unfortunately, these obstacles also mean that many who might be interested in manufacturing food here in Hawaii do not.

This measure would be an important step in making Hawaii food manufacturing more competitive and more economically sustainable.

HFIA has proudly produced the Made in Hawaii Festival for over 25 years. We are keenly aware of the potential of our local food manufacturers and we know that with our support this sector and continue to grow and thrive. We urge you to pass this measure and we thank you for the opportunity to testify.

HB-1384

Submitted on: 2/7/2023 10:06:29 AM

Testimony for ECD on 2/8/2023 10:15:00 AM

Submitted By	Organization	Testifier Position	Testify
Douglass S. Adams	Department of Research and Development, County of Hawaii	Support	Written Testimony Only

Comments:

Chair Holt, Vice Chair Lamosao, and Members of the Committee on Economic Development:

Thank you for the opportunity to testify in support of HB 1384. This bill will support the use of market forces to encourage the expansion of local production of foods in demand in Hawaii through the development of the food manufacturing industry in the state.

We encourage the Committee to move the bill forward with a positive recommendation for passage by the House.

very respectfully

Douglass S Adams

Director, Department of Research and Development

County of Hawaii