

JOSH GREEN M.D.  
GOVERNOR

SYLVIA LUKE  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**

Ka 'Oihana 'Auhau  
P.O. BOX 259

HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
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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. 607 H.D.1, Relating to Taxation

**BEFORE THE:**

House Committee on Finance

**DATE:** Wednesday, March 1, 2023

**TIME:** 2:30 p.m.

**LOCATION:** State Capitol, Room 308

Chair Yamashita, Vice-Chair Kitagawa, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 607, H.D.1, for your consideration.

H.B. 607, H.D.1, adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create a nonrefundable income tax credit for taxpayers who are farmers or are producers of agricultural commodities, cooperatives, broad line distributors, or food hubs who ship products and agricultural goods between counties. The taxpayer can claim 20 percent, up to a maximum amount of \$20,000 per producer, for transportation costs for the shipping of produce and agricultural products between counties.

The credit is distributed annually with an aggregate cap of \$5,000,000, allowing up to 50% of the aggregate may be claimed by farmers and ranchers, up to 30% can be claimed by food hubs, and up to 20% can be claimed by broad line distributors.

This measure has a defective effective date of June 30, 3000.

First, the Department notes that the credit is distributed annually and certain amounts are allocated to different types of taxpayers. The Department does not have the ability to administer the credit based on the various percentages. The Department further notes that it does not have the ability to administer the aggregate annual cap without

another agency certifying the credit. The Department requests that an agency with the requisite expertise be made responsible for certifying this credit and administering the \$5,000,000 aggregate cap.

Second, in order to properly implement and administer this measure, the Department suggests adding a definition for “broad line distributors.”

Third, the Department recommends amending subsection (d) in section 2, page 3, lines 13 through 18 of the bill, to delete the terms “developer of a commercial building” and “renovation costs,” which appear to have been inadvertently included in the measure.

Fourth, the Department recommends deleting subsection (g) in section 2, page 4, lines 18 through 20 of the bill, relating to refund vouchers, as this credit is a nonrefundable credit.

Fifth, the Department estimates an expected revenue loss of \$5 million for fiscal year 2024 and thereafter.

Finally, the Department notes that it will require resources and time to implement the new credit. Accordingly, the Department requests that when the effective date of the measure is updated, it be amended to apply to taxable years beginning after December 31, 2023.

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 FINANCE**

**WEDNESDAY, MARCH 1, 2023  
2:30 P.M.**

**CONFERENCE ROOM 308 AND VIDEO CONFERENCING**

**HOUSE BILL NO. 607 HD1  
RELATING TO TAXATION**

Chair Yamashita and Members of the Committee:

Thank you for the opportunity to present testimony on House Bill 607 HD1 which amends Chapter 235 and establishes an interisland produce shipping tax credit to alleviate the costs of interisland shipping for agricultural producers, food hubs and broad line distributors in the State.

The Department of Agriculture supports this measure with the following comments. Given that Hawaii is an island state, any increase in cost of interisland transportation can serve as a barrier to market access for many local agricultural and food producers. When an interisland cargo carrier raised its shipping rates by 46 percent in 2020, many agricultural producers, particularly those on neighbor islands could no longer afford to ship their products to other islands and lost market share. Many had to unload their products on their home island.



On page 3, part (d) lines 13-18, the Department respectfully requests the Legislature to remove the language in this section as it addresses a tax credit for renovation costs incurred in a commercial building, and is not relevant to the subject matter of an interisland produce shipping tax credit as specified in this measure.

Finally, the Department appreciates all legislative efforts to lower the costs of interisland shipping for farmers, ranchers and food hubs in Hawaii. We defer to the Department of Taxation with respect to the proposed amendments in Chapter 235.

Thank you again for the opportunity to testify on this measure.



Email: [communications@ulupono.com](mailto:communications@ulupono.com)

HOUSE COMMITTEE ON FINANCE  
Wednesday, March 1, 2023 — 2:30 p.m.

**Ulupono Initiative supports HB 607 HD1, Relating to Taxation.**

Dear Chair Yamashita 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 607 HD1**, which creates an income tax credit for taxpayers who are farmers, or are producers of agricultural commodities, cooperatives, broad line distributors, or food hubs who ship products and agricultural goods between counties.

Ulupono supports the State's goal to double local food production. This measure seeks to address one of the most important issues facing local agriculture—transportation. To help address costs associated with moving agricultural products to markets, the Reimbursement Cost Transportation Program is a USDA Farm Service Agency program that is fully prescribed each year with roughly 200-300 applicants each year.

The program is a great resource, but not all producers are eligible or able to navigate the federal process. This is the case with many federal program opportunities for agriculturalists. Having some level of State support can directly provide a positive impact on producer bottom lines.

Thank you for the opportunity to testify.

Respectfully,

Micah Munekata  
Director of Government Affairs

*Investing in a Sustainable Hawai'i*



**Hawaii Cattlemen's Council, Inc.**

COMMITTEE ON FINANCE  
Rep. Kyle T. Yamashita, Chair  
Rep. Lisa Kitagawa, Vice Chair

**HB607, HD1**  
RELATING TO TAXATION

Wednesday, March 1, 2023, 2:30 PM  
Conference Room 415 & Videoconference

Chair Yamashita, Vice Chair Kitagawa, and Members of the Committee,

The Hawaii Cattlemen's Council (HCC) is the Statewide umbrella organization comprised of the four county-level Cattlemen's Associations. Our member ranchers represent over 60,000 head of beef cows; more than 75% of all the beef cows in the State. Ranchers are the stewards of over 750 thousand acres of land in Hawaii, or 20% of the State's total land mass. We represent the interests of Hawaii's cattle producers.

The Hawaii Cattlemen's Council **supports HB607 HD1** which creates an income tax credit for taxpayers who are farmers, or are producers of agricultural commodities, cooperatives, broad line distributors, or food hubs who ship products and agricultural goods between counties.

As an island state, transportation of cattle is a key component for Hawaii's ranchers. Over the past few years, the cost of transportation has continued to increase dramatically. Ranchers rely on interisland shipping to get cattle to available processing facilities and to viable markets. This tax credit will be a welcome opportunity for producers to utilize.

We appreciate the opportunity to testify on this measure.

Nicole Galase  
Hawaii Cattlemen's Council  
Managing Director





P.O. Box 253, Kunia, Hawai'i 96759  
Phone: (808) 848-2074; Fax: (808) 848-1921  
e-mail [info@hfbf.org](mailto:info@hfbf.org); [www.hfbf.org](http://www.hfbf.org)

March 1, 2023

HEARING BEFORE THE  
HOUSE COMMITTEE ON FINANCE

**TESTIMONY ON HB 607, HD1**  
RELATING TO TAXATION

Conference Room 308 & Videoconference  
2:30 PM

Aloha Chair Yamashita, Vice-Chair Kitagawa, and Members of the Committee:

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 the intent of HB 607, HD1**, which creates an income tax credit for taxpayers who are farmers, or are producers of agricultural commodities, cooperatives, broad line distributors, or food hubs who ship products and agricultural goods between counties.

Interisland transportation has been a major issue with neighbor island farmers and ranchers. The majority of agricultural lands are in the neighbor islands yet the population center is on Oahu. Neighbor island farmers and ranchers are disadvantaged when competing with fellow farmers and ranchers on Oahu due to additional transportation costs of bringing in supplies and sending products out. Each increase in interisland shipping rates means increased costs to these farmers and ranchers, costs that usually cannot be passed on to the vendor. This bill seeks to level the playing field by providing assistance to neighbor island farmers and ranchers.

We believe that this tax will help to reduce the operating costs for our neighbor island farmers and ranchers and eventually help reduce the cost of purchasing local agriculture products for local consumers.

We are concerned that the amended definition of "producer" will allow producers in any location, rather than only producers in the State, to be eligible for the interisland produce shipping tax credit.

Thank you for the opportunity to testify on this measure.



1050 Bishop St. PMB 235 | Honolulu, HI 96813  
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#### **Executive Officers**

**Eddie Asato**, Pint Size Hawaii, *Chair*  
**Gary Okimoto**, Safeway, *Vice Chair*  
**Maile Miyashiro**, C&S Wholesale, *Secretary/Treas.*  
**Lauren Zirbel**, HFIA, *President and Executive Director*  
**John Schilf**, Rainbow Sales and Marketing, *Advisor*  
**Paul Kosasa**, ABC Stores, *Advisor*  
**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*

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TO: Committee on Finance  
Rep. Kyle T. Yamashita, Chair  
Rep. Lisa Kitagawa, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION  
Lauren Zirbel, Executive Director

DATE: March 1, 2023  
TIME: 2:30pm

RE: HB607 HD1 Relating to Taxation

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 an important goal for our state. We are all aware of the many challenges that our local food producers face, including the geographic obstacle of getting food from where it's grown to customers on other islands. This measure would help offset the burden that food producers face when moving their goods interisland.

This tax credit can help make locally grown food more competitive with imported products, more available and accessible to consumers or manufacturers on other islands, and incentivize more agricultural production.

For these reasons we ask the committee to pass this measure. Thank you for the opportunity to testify.





**Officers**

Kaipo Kekona  
State President

Anabella Bruch  
Vice-President

Maureen Datta  
Secretary

Reba Lopez  
Treasurer

**Chapter Presidents**

Madeline Ross  
Kohala, Hawai'i

Odysseus Yacalis  
East Hawai'i

Puna, Hawai'i

Andrea Drayer  
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Chantal Chung  
Kona, Hawai'i

Fawn Helekahi-Burns  
Hana, Maui

Reba Lopez  
Haleakala, Maui

Kaiea Medeiros  
Mauna Kahalawai,  
Maui

Kaipo Kekona  
Lahaina, Maui

Rufina Kaauwai  
Molokai

Negus Manna  
Lāna'i

Brynn Foster  
North Shore, O'ahu

Christian Zuckerman  
Wai'anae, O'ahu

Ted Radovich  
Waimanalo, O'ahu

Vincent Kimura  
Honolulu, O'ahu

Ray Maki  
Kauai

Aloha Chair Yamashita, Vice Chair Kitagawa, and Members of the House Finance Committee,

The Hawaii Farmers Union United (HFUU) is a 501(c)(5) agricultural advocacy nonprofit representing a network of over 2,500 family farmers and their supporters across the Hawaiian Islands. **HFUU strongly supports HB607.**

We all understand the importance of supporting farmers and producers across Hawaii, as well as the need to ensure that our agricultural sector remains strong. The proposed income tax credit for those who are in this industry will provide much needed relief and assistance to farmers and producers who are so often the backbone of our rural and island economies.

This tax credit can help to reduce the cost of shipping agricultural products between counties and make it easier for farmers and producers to provide the food that is so important for our communities. Additionally, it will help to create a level playing field between large and small-scale producers and distributors, providing resources and assistance to those that are the most vulnerable. We strongly support HB607 and hope that it will benefit Hawai'i's farmers and producers meaningfully.

We also offer the following amendments to clarify language and program structure:

**Remove section (d) to focus on interisland produce shipping:**

~~(d) In the case of a partnership, S corporation, [estate, trust, or any developer of a commercial building,] the tax credit allowable is for shipping [renovation] costs incurred by the entity for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined by rule.~~

**Remove current section (g) as this credit does not offer refunds:**

~~(g) All of the provisions relating to assessments and refunds under this chapter and under section 231-23(c)(1) shall apply to the tax credit under this section.~~

**Include a new section (g) to establish the Department of Agriculture as a third party certifying agency of the credit to issue certificates and track the amount of the \$5M annual credit remaining for use:**

(g) The department of agriculture shall:

(1) Maintain records of the names and addresses of the qualified taxpayers claiming the credits under this section and the total amount of the qualified expenses upon which the tax credits are based;

(2) Verify the nature and amount of the qualified expenses;

(3) Total all qualified and cumulative expenses that the department certifies; and

(4) Certify the amount of the tax credit for each taxpayer for each taxable year and the cumulative amount of the tax credit.

**Refine non- producer or food hub distributors who may use the credit:**

(c) The tax credits shall be distributed annually as follows:

(1) Up to fifty per cent of the total tax credits available may be claimed by farmers and ranchers;

(2) Up to thirty per cent of the total tax credits available may be claimed by food hubs; and

(3) Up to twenty per cent of the total tax credits available may be claimed by [~~broad line~~]distributors.

**Define distributors:**

(h) As used in this section:

"Distributors" means a business or organization that functions as an intermediary between food manufacturers and the food service operator.

Mahalo for the opportunity to testify.

Kaipo Kekona, President HFUU/HFUF





**House Committee on Finance**

**Hawai'i Alliance for Progressive Action (HAPA) Supports: HB607 HD1**

Wednesday, March 1, 2023 2:30p.m. Conference Room 308

Aloha Chair Yamashita, Vice Chair Kitagawa and Members of the Committee,

HAPA supports HB607 HD1 which creates an income tax credit for taxpayers who are farmers, or are producers of agricultural commodities, cooperatives, broad line distributors, or food hubs who ship products and agricultural goods between counties.

The purpose of this measure is to establish an inter-island produce shipping tax credit to alleviate the costs of inter-island shipping for farmers and ranchers in the State which we understand is an important part of supporting our local agriculture sector and food security. .

The cost of inter-island transportation is a bottleneck for market access by food producers in Hawaii. This issue is also recognized by the United States Department of Agriculture, which administers a reimbursement transportation cost payment program for geographically disadvantaged farmers and ranchers to reimburse producers for a portion of the cost to transport agricultural commodities or inputs used to produce an agricultural commodity.

The reimbursement transportation cost payment program helps eligible farmers and ranchers in Hawaii and the Pacific offset their costs for transporting agricultural products or inputs used to produce an agricultural commodity over long distances. Payments from the program are calculated based on the costs incurred for transportation of the agricultural commodity or inputs during a fiscal year, subject to an \$8,000 per producer cap per fiscal year.

Providing an income tax credit like the reimbursement transportation cost payment program that similarly reimburses producers for a portion of the cost to transport agricultural goods between the counties will reduce cost impacts to farm viability and consumer food price and support progress towards the State's Aloha+ Challenge commitment to increase local food consumption and production.

Please support local food producers and distributors and pass HB607 HD1.

Thank you for your consideration.

Respectfully,

A handwritten signature in black ink, appearing to read 'Anne Frederick', is written over a light blue horizontal line.

Anne Frederick  
Executive Director

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Credit for Producers of Agricultural Goods for Interisland Shipping

BILL NUMBER: HB 607 HD 1

INTRODUCED BY: House Committee on Economic Development

EXECUTIVE SUMMARY: Creates an income tax credit for taxpayers who are farmers, or are producers of agricultural commodities, cooperatives, broad line distributors, or food hubs who ship products and agricultural goods between counties.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish the interisland produce shipping tax credit. The credit is 20% of the input transportation costs for the shipping of produce and agricultural goods between counties, up to a maximum of \$20,000 per producer.

Defines “food hub” as a business or organization that actively manages the aggregation, distribution, and marketing of source-identified food products, primarily from local producers, to strengthen the business or organization's ability to satisfy wholesale, retail, and institutional demand.

Defines “input transportation costs” as transportation costs of inputs used to produce an agricultural commodity, including but not limited to air freight, ocean freight, and land freight of chemicals, feed, fertilizer, fuel, seeds, plants, supplies, equipment parts, and other inputs.

Defines “producer” as any farmer or rancher who is an individual, group of individuals, partnership, corporation, estate, trust, association, cooperative, broad line distributor, food hub, or other business enterprise or other legal entity who shares in the risk of producing an agricultural commodity in substantial commercial quantities and who is entitled to a share of the agricultural commodity from the agricultural operation.

Defines “verifiable records” as evidence that is used to substantiate the amount of eligible credits per producer that can be verified by the director of taxation through an independent source.

For a partnership, S corporation, estate, or trust, the cost upon which the credit is computed shall be determined at the entity level and the distribution and share of the tax credit shall be determined by administrative rule.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91. Requires claims for the credit, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

The aggregate amount of tax credits claimed shall not exceed \$5 million for all taxpayers in any taxable year. Of the \$5 million, up to 50% may be claimed by farmers and ranchers; up to 30% may be claimed by food hubs; and up to 20% may be claimed by broad line distributors.

EFFECTIVE DATE: June 30, 3000.

STAFF COMMENTS: Lawmakers need to keep in mind two things. First, the tax system is the device that raises the money that they, lawmakers, like to spend. 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.

The second point to remember about tax credits is that they 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?

In any event, a direct appropriation would be more accountable and transparent.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation may be a far less costly method to accomplish the same thing.

We also note that the statewide cap has three prongs and the bill does not articulate what happens if a taxpayer incurs eligible costs, applies for the credit, and it turns out that the statewide cap is exceeded. Is the current applicant denied? Is the applicant supposed to be able to carry the credit forward? Are all applicants denied pro rata?

Digested: 2/28/2023



# MAUI

CHAMBER OF COMMERCE  
VOICE OF BUSINESS

**HEARING BEFORE THE HOUSE COMMITTEE ON FINANCE  
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 308  
WEDNESDAY, MARCH 1, 2023 AT 2:20PM**

To The Honorable Representative Kyle T. Yamashita, Chair  
The Honorable Representative Lisa Kitagawa, Vice Chair  
Members of the Committee on Finance,

## **SUPPORT OF HB607 HD1 RELATING TO TAXATION**

The Maui Chamber of Commerce would like offer **our SUPPORT of HB607 HD1** relating to taxation that would create an income tax credit for taxpayers who are farmers, or are producers of agricultural commodities, cooperatives, broad line distributors, or food hubs who ship products and agricultural goods between counties.

We wholeheartedly support this bill and work with the Maui County Farm Bureau and local manufactures in Maui County who create value-added products from agricultural crops through our annual Made in Maui County Festival. Hawaii is a difficult place for the agricultural and manufacturing industries, both of which are key to our economic diversification and sustainability.

Interisland transportation of agricultural products and commodities is a major hindrance for neighbor island farmers and ranchers to transport their products across the state and puts them at a disadvantage compared to Oahu farmers and manufacturers. As we see shipping costs increase, it results in a further difficulties. We appreciate that this bill seeks to level the playing field.

Mahalo for the opportunity to offer **our SUPPORT of HB607 HD1**.

Sincerely,

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 community characteristics.

**HB-607-HD-1**

Submitted on: 2/27/2023 9:16:05 PM

Testimony for FIN on 3/1/2023 2:30:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Will Caron	Individual	Support	Written Testimony Only

Comments:

Please support HB607 HD1.

**HB-607-HD-1**

Submitted on: 2/28/2023 6:37:12 PM

Testimony for FIN on 3/1/2023 2:30:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Virginia Tincher	Individual	Support	Written Testimony Only

Comments:

Members of the FIN Committee,

We need to support our local farmers. At our home we always buy local food whenever possible. We eat seasonal fruit and vegetables grown in Hawaii.

I am in strong support of HB607 HD1

Mahalo for this opportunity to testify.

Virginia Tincher

Aina Haina, Oahu