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STATE OF HAWAII
DEPARTMENT OF TAXATION

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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 499, Relating to Resiliency

BEFORE THE:

House Committee on Agriculture & Food Systems

DATE: Wednesday, January 29, 2025

TIME: 9:30 a.m.

LOCATION: State Capitol, Room 325

Chair Kahaloa, Vice-Chair Kusch, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 499 for your consideration.

H.B. 499 adds a new section to chapter 235 of the Hawaii Revised Statutes (HRS) to establish the Food and Beverage Supply Chain Resiliency Income Tax Credit. This refundable tax credit will be certified by the Department of Business, Economic Development, and Tourism (DBEDT).

Under the measure, the credit equals 40% of all "qualified food and beverage supply chain costs", subject to an annual aggregate cap of \$2,000,000 and an unspecified cap per taxpayer per year. Any qualified taxpayer unable to claim the credit due to the \$2,000,000 cap may carry the credit forward to the subsequent taxable year, provided the claim is filed within twelve months following the year the qualified costs were incurred. The term "qualified food and beverage supply chain costs" is broadly defined to encompass operational expenses related to food and beverage supply chain activities.

Additionally, the measure mandates DBEDT to establish expedited permitting processes for food and beverage supply chain infrastructure projects.

The Act is scheduled to take effect on July 1, 2025, with the tax credit provisions applicable to taxable years beginning after December 31, 2025.

DOTAX recommends the proposed income tax credit be made nonrefundable. Nonrefundable credits are less vulnerable to waste, fraud, and abuse, ensuring the program's integrity and maximizing its intended impact.

The bill defines "qualified taxpayers" as taxpayers engaged in activities that strengthen the State's "food and beverage supply chain". The measure then defines "food and beverage supply chain" by referring to various "entities" such as "farmers and ranchers." This definition creates ambiguity as it is unclear what activities actually "strengthen the State's food and beverage supply chain." To address this, DOTAX recommends eliminating the "food and beverage supply chain" definition from the bill and incorporating its definition directly into the term "qualified taxpayer." DOTAX recommends revising the definition of "qualified taxpayer" to read as follows:

"Qualified taxpayer" means a taxpayer subject to tax under this chapter involved in the production, processing, distribution, storage, retailing, and donation of food and beverage products in the State, including:

- (1) Farmers and ranchers;
- (2) Food and beverage hubs and cooperatives;
- (3) Food and beverage processors and manufacturers;
- (4) Distributors and logistics companies;
- (5) Grocery stores, markets, and other food and beverage retailers; and
- (6) Food banks and organizations that provide food assistance.

DOTAX defers to DBEDT on its ability to track the aggregate cap and certify the validity of the supply chain costs but requests that the third-party certification requirement remain in the bill to ensure proper oversight of claims.

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



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January 29, 2025

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE & FOOD SYSTEMS

TESTIMONY ON HB 499
RELATING TO RESILIENCY

Conference Room 325 & Videoconference
9:30 AM

Aloha Chair Kahaloe, Vice-Chair Kusch, 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 HB 499, which establishes the Food and Beverage Supply Chain Resiliency Income Tax Credit to be administered by the Department of Business, Economic Development, and Tourism and Department of Taxation. Requires DBEDT to establish expedited permitting processes for food and beverage supply chain activities.

Hawai'i's food and beverage supply chain is uniquely vulnerable due to our geographic isolation and reliance on imports. Strengthening local supply chains by incentivizing investment through a tax credit will help mitigate these vulnerabilities. By supporting local farmers, processors, distributors, and other key supply chain players, this measure ensures that Hawai'i has a robust network capable of adapting to disruptions and maintaining food security.

The Food and Beverage Supply Chain Resiliency Income Tax Credit will encourage investment in infrastructure, technology, and operations critical to the local food system, including storage, processing, and distribution. It can also reduce the financial burden of upgrading or expanding supply chain facilities, making it more attractive for businesses to invest in Hawai'i's food and agriculture sectors. These investments can increase local production capacity, create jobs, and reduce dependence on imported goods.

HB 499 represents a vital investment in the resilience of Hawai'i's food and beverage supply chain. This measure strengthens Hawai'i's sustainability and food self-sufficiency goals by encouraging local investment, streamlining permitting, and promoting innovation. HFB stands ready to assist in its implementation to benefit Hawai'i's agricultural community. Thank you for the opportunity to testify on this important matter.

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: NET INCOME, Food And Beverage Supply Chain Resiliency Credit

BILL NUMBER: HB 499

INTRODUCED BY: KAHALOA, COCHRAN, GRANDINETTI, KAPELA, LA CHICA, LAMOSAO, PERRUSO, TAM

EXECUTIVE SUMMARY: Establishes the Food and Beverage Supply Chain Resiliency Income Tax Credit to be administered by DBEDT and DOTAX.

SYNOPSIS: Adds a new section to Chapter 235, HRS, to provide for a food and beverage supply chain resiliency income tax credit, equal to 40% of qualified food and beverage supply chain costs of the qualified taxpayer, up to a maximum of \$_____.

Imposes a statewide cap of \$2 million in aggregate credits. A taxpayer who is unable to claim the credit because of the cap may claim it in the subsequent year.

DBEDT is to certify claims for credit. However, DOTAX may adjust credit claims on audit.

The credit is refundable.

All claims for the tax credit under this section, including amended claims, shall be 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.

Defines "Food and beverage supply chain" as all entities involved in the production, processing, distribution, storage, retailing, and donation of food and beverage products in the State, including:

- (1) Farmers and ranchers;
- (2) Food and beverage hubs and cooperatives;
- (3) Food and beverage processors and manufacturers;
- (4) Distributors and logistics companies;
- (5) Grocery stores, markets, and other food and beverage retailers; and
- (6) Food banks and organizations that provide food assistance.

Defines "Qualified food and beverage supply chain costs" as operational costs relevant to food and beverage supply chain activities in the State, including but not limited to:

- (1) Salaries, wages, and other labor costs for employees directly involved in food and beverage supply chain activities;

(2) Expenses for establishing, upgrading, or maintaining infrastructure for food and beverage processing, distribution, storage, or retailing;

(3) Costs for purchasing agricultural equipment, vehicles, or renewable energy systems used in food and beverage supply chain operations;

(4) Utilities and energy costs necessary for food and beverage supply chain operations; and

(5) Costs for developing or implementing food donation and recovery programs to reduce food waste and improve access to food for underserved communities.

Defines "Qualified taxpayer" as a taxpayer subject to income tax who is engaged in activities that strengthen the State's food and beverage supply chain."

EFFECTIVE DATE: For the credit, taxable years beginning after December 31, 2025.

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 we need money to support victims of natural disasters like the Maui wildfires, 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 to create a subsidy program, as is now done for energy saving devices, 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.

As a technical matter, the definition of "qualified taxpayer" needs to be tightened because it is unclear how a taxpayer can be "engaged in activities that strengthen the State's food and beverage supply chain." It may make sense to require the qualified taxpayer to be part of the food and beverage supply chain.

Digested: 1/23/2025



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Joe Carter, Coca-Cola Bottling of Hawaii, *Advisor*

Eddie Asato, Pint Size Hawaii, *Advisor*

Gary Okimoto, Safeway, *Immediate Past Chair*

TO: Committee on Agriculture and Food Systems

FROM: HAWAII FOOD INDUSTRY ASSOCIATION

Lauren Zirbel, Executive Director

DATE: January 29, 2025

TIME: 9:30am

RE: HB499 Relating to Resiliency

Position: Support

Aloha Chair Kahaloa, Vice Chair Kusch, and Members of the Committee,

On behalf of the Hawai'i Food Industry Association (HFIA), representing over 200 member companies across the food and beverage supply chain, I am writing to express our strong support for HB499, Relating to Resiliency.

Hawai'i's geographic isolation and dependence on centralized supply chains place our state in a uniquely vulnerable position. According to the U.S. Department of Agriculture's Thrifty Food Plan, the cost of food in Hawai'i is approximately 57% higher than the mainland average, driven by factors such as elevated electricity costs, shipping expenses, labor challenges, and taxes (U.S. Department of Agriculture, 2023). These challenges contribute to food insecurity, with nearly one-third of Hawai'i households experiencing food insecurity in 2023 (Hawai'i Foodbank, 2023).

HB499 addresses these critical issues by:

1. **Establishing a Food and Beverage Supply Chain Resiliency Income Tax Credit:** This tax credit will encourage investment in essential infrastructure, operational improvements, and workforce development, making it more feasible for businesses to remain and thrive in Hawai'i.
2. **Requiring Expedited Permitting Processes:** Streamlining permits for food and beverage supply chain projects will reduce delays that often hinder the growth and development of local food-related businesses.

This measure also helps Hawai'i achieve its ambitious sustainability goals outlined in the Aloha+ Challenge and the Hawai'i 2050 Sustainability Plan. These initiatives, informed by community and stakeholder input, aim to double local food production by 2030. Additionally, the Sustainable Hawai'i Initiative set a target to double local food production by 2020, reflecting the state's continued commitment to building a robust local food system. By providing financial incentives and streamlining permitting processes, HB499 directly supports these critical efforts, creating the conditions needed for local producers, processors, and distributors to scale and succeed.

By supporting these initiatives, HB499 not only enhances disaster preparedness but also aims to mitigate the high cost of living and address food insecurity, which disproportionately impacts low-income families.

HFIA is committed to fostering a strong, sustainable, and resilient food industry in Hawai'i. The provisions in HB499 will allow businesses to reinvest in their operations, expand local production, and create new jobs—all of which are vital to achieving the state's goal of doubling local food production by 2030.

We strongly urge the committee to pass HB499 and take this important step toward a more self-sufficient and resilient Hawai'i. Mahalo for the opportunity to provide testimony, and for your continued commitment to improving our state's food system.

Mahalo

Lauren

President, Hawai'i Food Industry Association

Nui,

Zirbel

HB-499

Submitted on: 1/24/2025 2:50:47 PM

Testimony for AGR on 1/29/2025 9:30:00 AM

Submitted By	Organization	Testifier Position	Testify
Ronald Weidenbach	Hawaii Aquaculture and Aquaponics Association	Support	Written Testimony Only

Comments:

The Hawaii Aquaculture and Aquaponics Association (HAAA) supports the intent of HB499 to provide an income tax credit for investments in sustainable food production, processing, and related supply chain enterprises, and to facilitate permitting for such activities to improve our State's food production, security, and resiliency.



January 23, 2025

Representative Kirstin Kahaloa, Chair
Representative Matthias Kusch, Vice Chair
House Committee on Agriculture & Food Systems

Support of HB 499, Relating to Resiliency (Establishes the Food and Beverage Supply Chain Resiliency Income Tax Credit to be administered by the Department of Business, Economic Development, and Tourism [DBEDT] and Department of Taxation; Requires DBEDT to establish expedited permitting processes for food and beverage supply chain activities.)

**Wednesday, January 29, 2025, at 9:30 a.m.
State Capitol, Conference Room 325, Via Videoconference.**

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers, and utility companies. LURF's mission is to advocate for reasonable, rational, and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

LURF appreciates the opportunity to express its **support of HB 499**, and of the various agricultural stakeholder groups who defend the goals of viable agricultural operations and the conservation and protection of agriculture, including important agricultural lands in Hawaii.

HB 499. In view of the need to expand local food production, processing, and storage capacity to ensure preparation for potential disasters and emergencies, and to address challenges heretofore faced by small businesses engaged in local food and beverage production, this measure proposes to establish a refundable income tax credit for qualified taxpayers that incur qualified expenses in connection with activities that enhance the resiliency of the food and beverage supply chain; and to require DBEDT to establish expedited permitting processes for certain food and beverage supply chain projects.

LURF's Position. LURF members include farmers and ranchers who own, maintain, and engage in agricultural enterprises, and who consider incentives such as the subject tax credit helpful, if not critical to assist the local agriculture, and food producing, processing, distributing, and retailing industries to conduct their operations. The tax credit shall assist qualified taxpayers that incur qualified expenses in connection with activities that enhance the resiliency of the food and beverage supply chain, and will help sustain viable agricultural and food businesses and operations; promote local food production and distribution; and thereby increase the State's ability to achieve its food self-sufficiency and resiliency goals.

The purpose of this bill is consistent with the underlying intent and objectives of the IAL laws (Hawaii Revised Statutes [HRS], Sections 205-41 to 52), which were enacted to fulfill the mandate in Article XI, Section 3, of the Hawaii State Constitution, "to conserve and protect agricultural lands, promote diversified agriculture, increase agricultural self-sufficiency and assure the availability of agriculturally suitable lands."

As noted in HRS Section 205-41, the intent of Act 183 (2005) was to develop agricultural incentive programs to promote agricultural viability, sustained growth of the agricultural industry, and the long-term use and protection of IAL for agricultural use in Hawaii concurrently with the process of identifying IAL as required under the Act. Such incentives and programs are expressly identified in HRS 205-41, and specifically include assistance in identifying federal, state, and private grant resources for agricultural business planning and operations; as well as incentives such as tax credits that promote investment in agricultural businesses or value-added agricultural development, and other agricultural financing mechanisms.

By recognizing the significance of and need to improve and protect the local agriculture and food industries and establish programs and positions which help to support the growth and maintenance of agriculture in the State, this bill significantly helps to promote economically viable agriculture and food self-sufficiency and resiliency in Hawaii.

For the above reasons, LURF **supports** **HB 499** and respectfully urges your favorable consideration.

Thank you for the opportunity to present testimony regarding this matter.



Officers

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State President

Anabella Bruch
Vice-President

Maureen Datta
Secretary

Reba Lopez
Treasurer

Aloha Chair Kahaloa, Vice Chair Kusch, and Members of the House Agriculture & Food Systems Committee,

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Kohala, Hawai'i

Tony Vera
East Hawai'i

Puna, Hawai'i

Andrea Drayer
Ka'u, Hawai'i

Maureen Datta
Kona, Hawai'i

Fawn Helekahi-Burns
Hāna, Maui

Mason Scharer
Haleakalā, Maui

Kaiea Medeiros
Mauna Kahālāwai,
Maui

Kaipo Kekona
Lahaina, Maui

Kilia Avelino-Purdy
Moloka'i

Negus Manna
Lāna'i

The Hawaii Farmers Union 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 supports HB499.**

This bill is critical to addressing the State's vulnerabilities to natural disasters and supply chain disruptions. By incentivizing local production, processing, and distribution, this measure takes an important step toward achieving Hawai'i's goal of doubling local food production by 2030. However, to maximize its effectiveness, this bill should address several equity and implementation challenges.

First, the refundable tax credit outlined in the bill has the potential to favor larger businesses with the financial capacity to front costs. Smaller producers and organizations, many of whom operate on thin margins, may be excluded due to their inability to make these upfront investments. Additionally, the \$2,000,000 annual cap for the tax credit risks being exhausted by a small number of larger entities, leaving limited resources for smaller, community-based operations. To better serve the broader food system, I urge the legislature to consider mechanisms to ensure equitable distribution of tax credits, prioritizing underserved communities and small-scale producers.

Second, while the bill offers a promising start, it lacks specificity in critical areas. The broad definition of "qualified costs" could lead to inconsistencies in what expenses are deemed eligible for the tax credit. This ambiguity not only opens the door to potential misuse but also complicates the auditing and certification process. Furthermore, the bill does not establish clear metrics for evaluating the success of the tax credit or expedited permitting processes in achieving food system resilience. Adding measurable goals and reporting requirements would ensure accountability and allow for better evaluation of the program's outcomes.

Finally, while this measure appropriately emphasizes resilience, it does not address the need for climate adaptation in food system planning. Hawai'i's geographic isolation makes it highly vulnerable to climate change impacts, such as rising sea levels and extreme weather events, which threaten both harbors and agricultural infrastructure. Additionally, the lack of mandated stakeholder engagement risks overlooking the expertise of farmers, food hubs, and community organizations that are central to building resilience. Incorporating these perspectives would improve the bill's implementation and ensure it meets the needs of diverse food system actors. Mahalo for the opportunity to testify. With thoughtful amendments to address equity, clarity, and climate readiness, this bill can become a powerful tool for advancing food security and resilience in Hawai'i.

India Clark
North Shore, O'ahu

Christian Zuckerman
Wai'anae, O'ahu

Ted Radovich
Waimānalo, O'ahu

Vincent Kimura
Honolulu, O'ahu

Natalie Urminska
Kaua'i

Draft Amendment Language

Addressing Equity Concerns

Priority for Small-Scale and Underserved Applicants: Amend Section 2(d) to include the following:

(4) Priority shall be given to taxpayers who are small-scale producers or entities located in underserved communities, including those serving rural areas, low-income communities, or Native Hawaiian populations.

Equitable Distribution of Credits: Amend Section 2(c) to include:

The total amount of tax credits available shall be allocated such that no single taxpayer may claim more than ten percent of the total annual cap. At least twenty-five percent of the cap shall be reserved for small-scale producers and community-based organizations.

Clarifying Vagueness and Ambiguity

Refining "Qualified Costs" Definition: Amend Section 2(i) to redefine "qualified food and beverage supply chain costs" with clearer guidelines:

Qualified food and beverage supply chain costs shall include documented expenses directly related to food and beverage supply chain resilience projects, such as salaries for employees engaged in resilience activities, infrastructure improvements with verifiable project plans, and equipment purchases supported by itemized receipts. General operating costs, such as utilities, shall not qualify unless demonstrably tied to resilience-focused operations.

Establishing Reporting Metrics: Amend Section 2(e)(4) to add:

(7) Establish annual performance metrics, including but not limited to: the number of new businesses supported, the percentage increase in local food production, and the volume of food donations facilitated, to evaluate the impact of the tax credit on food system resilience.

These amendments will ensure the bill achieves its goals while fostering equity, transparency, and long-term food system sustainability.

Mahalo for the opportunity to testify.

Kaipo Kekona, President HFUU/HFUF

A handwritten signature in black ink, appearing to read "Kaipo S.K. Kekona".



Date: January 29, 2025

Subject: Hawai'i Foodbank in Support of HB 499 Relating to Resiliency

Aloha Chair Kahaloe, Vice Chair Kusch, and members of the committee,

On behalf of Hawai'i Foodbank, I express our support for HB 499, Relating to Resiliency. This bill establishes the Food and Beverage Supply Chain Resiliency Income Tax Credit to be administered by the Department of Business, Economic Development, and Tourism and Department of Taxation and requires DBEDT to establish expedited permitting processes for food and beverage supply chain activities.

As the state's largest hunger-relief organization, Hawai'i Foodbank has been committed to ensuring no one in Hawai'i goes hungry since 1983. We work with over 225 agency partners on O'ahu and Kaua'i to distribute food, and programs like Food 4 Keiki and 'Ohana Produce Plus provide nutritious meals to children and families. In addition to addressing daily needs, our organization mobilizes during emergencies to provide immediate relief and aid long-term recovery efforts.

Food insecurity is a growing crisis in Hawai'i, with nearly 1 in 3 households struggling to access adequate food. One in ten households go a whole day without food some or most months. To address food insecurity and enhance Hawaii's resilience, we must strengthen our local food supply chain and urge you to consider this important measure.

With aloha,

Amy Miller
President and CEO, Hawai'i Foodbank