JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

JAMES KUNANE TOKIOKA
DIRECTOR

DANE K. WICKER
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

KA ʻOIHANA HOʻOMOHALA PĀʻOIHANA, ʻIMI WAIWAI A HOʻOMĀKAʻIKAʻI

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Statement of
JAMES KUNANE TOKIOKA
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON WAYS AND MEANS

Tuesday, February 18, 2025
10:01 AM
State Capitol, Conference Room 211

In consideration of
SB 328
RELATING TO TAXATION

Chair Dela Cruz, Vice Chair Moriwaki, and members of the Committee. The Department of Business, Economic Development, and Tourism (DBEDT) strongly supports SB 328, which establishes an income tax credit for capital infrastructure costs incurred in the conversion of a dairy farm to a hog farm, up to a maximum of $1,000,000.

Addressing Hawaii's Agricultural Challenges

Hawaii's pork consumption is projected to grow from 92.8 million pounds in 2023 to over 104 million pounds by 2030. However, local supply currently accounts for only 0.4% of pork consumed, with an additional 2.9% produced in the grey market. The steep decline in Hawaii's hog inventory and production—from 28,570 hogs in 1992 to just 8,000 in 2023—highlights the urgent need to bolster local pork production capacity.

Production costs in Hawaii are notably high, with hog production costs estimated to be twice the U.S. average and slaughtering costs 1.8 times higher than on the mainland. These economic pressures have led to a significant decline in the number of hog farms and the volume of hogs sold, from 32,231 in 2002 to 6,143 in 2022.

Alignment with State Mandates

This proposal aligns with and supports the following state mandates:

Act 151 (2019): Food Security and Resiliency

- Objective: Double Hawaii's food production and increase agricultural exports.
- Connection: Constructing a facility for hog farming directly supports Act 151's goals by enhancing local pork production and reducing reliance on imported pork, which currently constitutes over 96% of consumption. This initiative strengthens food security and aligns with the broader "Farm to State" program.

Act 175 (2021): Local Food Sourcing in Schools

- Objective: Ensure that 30% of food served in public schools is locally sourced by 2030.
- Connection: Increasing local pork production provides a viable pathway for schools to source locally produced protein, thereby supporting Act 175's benchmarks and fostering a sustainable farm-to-school pipeline.

Act 176 (2021): Local Procurement Benchmarks

- Objective: Establish minimum thresholds for state departments to purchase fresh, local agricultural products or value-added goods.
- Connection: A dedicated facility for hog farming will enable state departments to meet procurement goals by offering a reliable supply of locally produced pork and processed products.

Economic Benefits and Workforce Development

Investing in hog farming infrastructure aligns with DBEDT's broader strategy to diversify Hawaii's economy by:

- Supporting Local Farmers: By reducing capital barriers, this tax credit will encourage investment in hog farming and stimulate growth in small and medium-sized agricultural enterprises.
- Strengthening Food Systems: Expanding local pork production supports Hawaii's "Made in Hawaii" brand, creating high-value, export-ready agricultural products.

- Workforce Development: A robust hog farming sector creates jobs in farming, processing, and distribution while fostering innovation in agricultural technology and practices.

Advancing Economic and Agricultural Resilience

As detailed in the Hawaii Hog Industry Research Report (2024), demand for local hog harvesting services is expected to grow significantly. Transitioning from grey market practices to commercial-scale operations will:

- Improve food safety and quality through federally inspected processing.
- Build resilience in Hawaii's agricultural sector by reducing dependency on imported pork.
- Open new market opportunities, including exports, by enhancing the value of local agricultural products.

SB 328 is a critical step toward revitalizing Hawaii's hog industry, reducing reliance on imports, and achieving the state's ambitious food security and sustainability goals. By providing targeted tax incentives, this measure empowers local farmers, strengthens Hawaii's economy, and ensures a resilient and sustainable food system for future generations.

Thank you for the opportunity to testify. We respectfully urge the Committee to pass SB 328.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAIʻI
DEPARTMENT OF TAXATION
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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
S.B. No. 328, Relating to Taxation

BEFORE THE:
Senate Committee on Ways and Means

DATE:	Tuesday, February 18, 2025
TIME:	10:01 a.m.
LOCATION:	State Capitol, Room 211

Chair Dela Cruz, Vice-Chair Moriwaki, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding S.B. 328 for your consideration.

S.B. 328 amends chapter 235, Hawaii Revised Statutes, (HRS), by adding a new section establishing a nonrefundable income tax credit for dairy farms retrofitted to hog farms. The credit is equal to 50 percent of the "capital infrastructure costs" incurred by the taxpayer on the retrofit, up to a maximum of $1,000,000. If the credit exceeds the taxpayer's income tax liability, the excess may be carried forward until exhausted.

"Capital infrastructure costs" is defined as capital expenditures, as used in section 263 of the Internal Revenue Code; provided that the capital expenditures for real property and fixtures are paid or incurred in connection with the conversion of a dairy farm to a "qualified farm."

"Qualified farm" means a business that currently owns capital or property or operates a hog farm at former dairy farm facilities and whose principal business is animal husbandry.

The bill is effective upon its approval and applies to taxable years beginning after December 31, 2024.

DOTAX recommends a limit on the years the credit may be carried forward, as credits claimed further from the initial year in which they are earned are inherently more difficult to verify. DOTAX proposes subsection (e) read as follows:

> (e) If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted<u>; provided that no credit may be used more than five years after the taxable year in which the capital infrastructure costs are incurred</u>. 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.

DOTAX estimates this measure will have the following revenue impact on the general fund (in $ millions):

FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
-$1	-$1	-$1	$0	$0	$0

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

HAWAIʻI FARM BUREAU

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e-mail info@hfbf.org; www.hfbf.org

February 18, 2025

HEARING BEFORE THE
SENATE COMMITTEE ON WAYS AND MEANS

TESTIMONY ON SB 328
RELATING TO TAXATION

Conference Room 211 & Videoconference
10:01 AM

Aloha Chair Dela Cruz, Vice-Chair Moriwaki, and Members of the Committee:

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

The Hawaiʻi Farm Bureau supports SB 328, which establishes an income tax credit for capital infrastructure costs incurred in the conversion of a dairy farm to a hog farm.

Converting underutilized dairy farm infrastructure into hog farming operations offers a valuable opportunity to grow Hawaiʻi's pork industry and promote greater self-sufficiency in local meat production. Currently, Hawaiʻi imports most of its pork, leaving our state vulnerable to disruptions in supply chains. Encouraging local hog farming will strengthen food security and provide consumers with fresh, locally produced pork.

Farmers often face significant financial challenges when upgrading or repurposing agricultural infrastructure to meet the demands of a different type of operation. Converting a dairy farm to a hog farm requires substantial investment in areas such as:

- Renovation of existing structures to accommodate hogs instead of dairy cows
- Compliance with environmental and health regulations.
- Equipment and technology tailored for hog farming.

SB 328 recognizes these challenges and provides financial relief through a tax credit for capital infrastructure costs. This reduces the financial burden on farmers and encourages the expansion of local hog farming operations.

Thank you for this opportunity to provide our input on this measure.

HAWAI'I FOOD+ POLICY
Honolulu, HI 96813
food@purplemaia.org

February 17, 2025

To: Chair Donovan Dela Cruz, Vice Chair Sharon Moriwaki and the Senate Committee on Ways & Means

Subject: **SB328**, Relating to Taxation

Aloha,

I am writing in **support** of **SB328,** which asks to establish an income tax credit for the cost of converting a dairy farm to a hog farm. The measure states that the tax credit be equal to fifty percent of capital infrastructure costs, up to $1 million, for the retrofit of a dairy farm to a hog farm.

From a cultural standpoint, pork is a vital component of local diets especially for Hawaiians and many of the diverse cultures that bless our islands. Despite the significance of pork compared to other meats like beef, local pork is harder to come by and slaughterhouses are more tailored to cattle. According to the Hawai‘i National Agricultural Statistics Service (NASS) survey, in 2023, only about 3.2 million pounds of hog was locally produced compared to 9 million pounds of red meat.

The Hawai‘i Department of Agriculture (HDOA) reported that the number of pig farms in Hawai‘i decreased by 61.2% between 1978 to 2017. This decline may be due to the numerous challenges of Hog production including the cost of slaughter and transporting pigs to neighboring islands for slaughter, the cost of feed and associated transportation costs, and cost of labor. Land availability is also becoming an increasingly detrimental issue, therefore repurposing already existing infrastructure is a more ideal option.

The drastic reduction in the number of hog farms across the state is worrisome as the demand for pork is predicted by the HDOA to surpass 100 million pounds by 2036. The HDOA also

The Food+ Policy internship develops student advocates who learn work skills while increasing civic engagement to become emerging leaders. We focus on good food systems policy because we see the importance and potential of the food system in combating climate change and increasing the health, equity, and resiliency of Hawai‘i communities.

In 2025, the cohort of interns are undergraduate and graduate students and young professionals working in the food system. They are a mix of traditional and nontraditional students, including parents and veterans, who have backgrounds in education, farming, public health, nutrition, and Hawaiian culture.

https://alohachallenge.hawaii.gov/pages/lfp-01-production
https://hdoa.hawaii.gov/arm/files/2022/11/Livestock-Harvesting-Volume-I-Part-A-Main.pdf
https://hdoa.hawaii.gov/blog/main/livestockhavestingfacility/
https://alohachallenge.hawaii.gov/pages/lfp-01-production

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estimated that 92.2 million pounds of pork was consumed in Hawaiʻi in 2019 including residents, military, and visitors. Despite the demand being so grand, only 2.5 million pounds of hog was locally produced in 2019 per the NASS survey. The variance in the amount of pork consumed versus the amount of hog locally produced reflects a reliance on import dependency by the local food system. Lacking food self-sufficiency, Hawaiʻi is at great risk of disruptions to the supply chain which threatens local food sovereignty in regard to pork consumption.

Repurposing dairy farms to hog farms is an important investment for the long-term advancement of local pork production. However, converting dairy farm infrastructure to meet the needs of hog production requires producers to overcome significant financial challenges regarding purchasing suitable equipment and updating existing structures once used for dairy cows. To meet the increasing demand of pork, as well as help work toward the State's goal of doubling local food production by 2030, incentives to relieve the monetary burdens of the transformation from dairy to hog farms can be beneficial.

I urge the committee to pass this measure. Thank you for the opportunity to testify on this issue.

Mahalo,
Lea Iaea & the Food+ Policy Team
#fixourfoodsystem

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https://hdoa.hawaii.gov/blog/main/livestockhavestingfacility/
https://alohachallenge.hawaii.gov/pages/lfp-01-production

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME TAX; Dairy Farm Retrofit Tax Credit

BILL NUMBER: SB 328

INTRODUCED BY: DELA CRUZ, AQUINO, CHANG, DECOITE, HASHIMOTO, INOUYE, KIDANI, KIM, Richards, San Buenaventura

EXECUTIVE SUMMARY: Establishes an income tax credit for capital infrastructure costs incurred in the conversion of a dairy farm to a hog farm.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish a dairy farm retrofit income tax credit equal to fifty per cent of the capital infrastructure costs incurred, up to a maximum of $1,000,000.

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.

Tax credits exceeding the taxpayer's income tax liability may be carried forward and used against the taxpayer's income tax liability in subsequent years until exhausted. 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 credit.

Defines "Capital infrastructure costs" as capital expenditures, as used in IRC section 263, paid or incurred in connection with the conversion of a dairy farm to a qualified farm, and shall not include costs for which another credit is claimed under the HRS.

Defines "Qualified farm" as a business that 1) currently owns capital or property or operates a hog farm at former dairy farm facilities, and 2) whose principal business is animal husbandry.

EFFECTIVE DATE: Upon approval, applies to taxable years beginning after December 31, 2024.

STAFF COMMENTS: This measure provides a tax subsidy specifically to dairy farms that convert only to hog farms; as opposed to any other type of animal husbandry. The bill appears to be too narrow to be an industry incentive, and smells more like a benefit to a specific taxpayer. If so, the law would be unfair to other taxpayers, especially those in competition with the taxpayer seeking this benefit.

Even if that objection can be overcome, 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 for a grant or subsidy program 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.

Digested: 1/25/2025