

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  
FAX NO: (808) 587-1560

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. 608, 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. 608, H.D.1, for your consideration.

H.B. 608, H.D.1, adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create a nonrefundable organic foods production tax credit. The credit is equal to the qualified expenses of the qualified taxpayer, up to a maximum of \$50,000. "Qualified expenses" and "qualified taxpayer," among other included terms, are defined within the measure. The bill sets an aggregate cap of \$2,000,000 and requires the Hawaii Department of Agriculture (HDOA) to certify the amount of the tax credit for each taxpayer.

This measure has a defective effective date of June 30, 3000 and applies to taxable years beginning after December 31, 2023, and shall be repealed on December 31, 2033.

The Department defers to HDOA on its ability to certify this credit and administer the aggregate cap, but respectfully requests that a third-party certification requirement be maintained, as the Department lacks subject-matter expertise to determine eligibility for and to administer this credit.

The Department estimates an expected revenue loss to the general fund as follows (\$ millions):

<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
-2.0	-2.0	-2.0	-2.0	-2.0	-2.0

The Department further notes that it is able to administer this bill for taxable years beginning after December 31, 2023.

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



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 608, 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 HB 608, HD1**, which establishes an organic foods production tax credit applicable to taxable years beginning after 12/31/2023.

We agree that the organic sector of our agricultural industry has great potential and an opportunity to expand in Hawai'i. Having a stronger organic industry will not only help the overall agricultural industry but will also lead to reducing imported organic products and invasive species that are commonly found in the importation of organic fruits and produce.

HFB supports any initiative that reduces the cost of production so that locally produced goods can compete with imported products, strengthening our local economy.

Hawai'i Farm Bureau Policy states:

"State tax and monetary policies should be designed to encourage private initiative to help stabilize farm economics in the State of Hawai'i, to promote employment and economic growth, and to distribute the tax burden equitably. Further such policy should be used by the state, when appropriate, to encourage agricultural growth and expansion."

This measure falls in the "encourage agricultural growth and expansion." category. However, we believe that tax credits and GET exemptions should include all locally-produced foods, not just organic.

Thank you for the opportunity to testify on this important subject.



**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  
Ka'u, Hawai'i

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 supports HB608.**

For many of our farmers and members, organic agriculture represents an opportunity to improve the quality of their produce and increase revenue from their farms while conserving and protecting our natural resources.

The proposed tax credit will help our farmers defray the essential investments they must make in transitioning to organic agriculture, including costly new materials, labor and training. A tax credit of the magnitude proposed by House Bill 608 will provide incentive for our farmers to make this transition, which ultimately will benefit both our members and the public at large. We urge our representatives in the legislature to vote in favor of this bill, as it will be a boon to current and future organic farmers.

Mahalo for the opportunity to testify.

Kaipo Kekona, President HFUU/HFUF



**House Committee on Finance**

**Hawai'i Alliance for Progressive Action (HAPA) Supports: HB608 HD1**

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

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

HAPA supports HB608 which establishes an organic foods production tax credit applicable to taxable years beginning after 12/31/2023. Sunsets 12/31/2033.

Providing additional support to Hawaii's organic agriculture industry could help to reduce reliance on agricultural imports and to foster job growth in the State.

Organic farming practices improves soil fertility and structure, promotes biodiversity, and reduces the risks of human, animal, and environmental exposure to toxic materials.

Reducing the burden on the emerging number of small farmers seeking costly, but necessary, organic certifications and inspections will help to promote the production and availability of locally-grown organic food in Hawaii.

Please support HB608 HD1.

Thank you for your consideration.

Respectfully,

A handwritten signature in black ink, appearing to read 'Anne Frederick', written in a cursive style.

Anne Frederick  
Executive Director

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Organic Foods Production Tax Credit

BILL NUMBER: HB 608 HD 1

INTRODUCED BY: House Committee on Agriculture & Food Systems

EXECUTIVE SUMMARY: Establishes an organic foods production tax credit.

SYNOPSIS: Adds a new section to HRS chapter 235, to be titled the organic foods production tax credit. The credit shall be allowed to a qualified taxpayer, and the credit amount is 100% of the taxpayer's qualified expenses, up to a maximum of \$50,000.

Defines "qualified taxpayer" as a producer, handler, or handling operation, as those terms are defined in section 6502 of title 7, United States Code: (1) that sells agricultural products meeting the standards and requirements of the Organic Foods Production Act; (2) that has applied for organic certification, in accordance with the requirements of the Organic Foods Production Act; and (3) whose gross income from the sale of organically produced agricultural products for the most recently reported fiscal year totals no more than \$500,000.

Defines "qualified expenses" as expenses incurred by a qualified taxpayer to produce organically produced agricultural products, including expenses incurred to obtain organic certification from the United State Department of Agriculture, pursuant to the Organic Foods Production Act. "Qualified expenses" include: (1) application fees; (2) inspection costs; (3) fees related to equivalency agreement/arrangement requirements, travel/per diem for inspectors, user fees, sales assessments, and postage; and (4) costs for any equipment, materials, or supplies necessary for organic certification or production of agricultural products, in accordance with the qualified taxpayer's organic system plan and the organic production and handling requirements of the National Organic Program, codified at 7 Code of Federal Regulations part 205, subpart C, including but not limited to certified organic seed, cover crops, or animal feed. "Qualified expenses" shall not include any amount refunded or to be refunded to the taxpayer by the United States Department of Agriculture's organic certification cost-share program or any other similar financial assistance program.

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 \$2 million 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 \$2 million cap having been exceeded for that taxable year shall be eligible to claim the credit in the subsequent taxable year.

EFFECTIVE DATE: June 30, 3000; applicable to taxable years beginning after December 31, 2023; repeals December 31, 2033.

STAFF COMMENTS: This is not the first time such a credit has appeared. One was enacted in 2016, by Act 258, SLH 2016. The Department of Agriculture was not a huge fan of this credit, first lobbying to scupper it and then delaying its implementation for three years. Trouble is, the credit was drafted to last only five years. When the Department of Agriculture finally caved and said they would administer the credit, there were only a few months left in the credit's life.

This credit provides a dollar-for-dollar reimbursement of the taxpayer's "qualified expenses," up to a maximum of \$50,000 per year. Qualified expenses are defined as expenses incurred to produce organic agricultural products, including expenses to obtain organic certification from the U.S. Department of Agriculture. Farmers who make more than \$500,000 in gross income from the sale of organically produced agricultural products are disqualified. But farmers who make gobs of money from the sale of non-organic products would still be eligible.

As with any other targeted tax credit, this measure picks winners and losers in the marketplace. The winners are the qualified taxpayers, and the losers are the rest of us who need to pay for the cost of government and make up for the winners.

These, along with numerous other proposals targeted at specific types of business activity, are truly an indictment of what everyone has known and acknowledged since before Hawaii became a state, that is, the climate imposed by government regulations and taxation makes it difficult to survive without some kind of subsidy such as tax credits from government. Once those subsidies disappear, so will the businesses. Instead of throwing out such breaks for special interests, lawmakers must endeavor to make Hawaii's business climate more welcoming and conducive to nurturing entrepreneurs.

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,

### **COMMENTS ON HB608 HD1 RELATING TO TAXATION**

The Maui Chamber of Commerce would like offer **our COMMENTS on HB608 HD1** relating to taxation that establishes an organic foods production tax credit applicable to taxable years beginning after 12/31/2023.

Agriculture is a very tough industry in Hawaii with significant upfront and continued expenses and is important in our sustainability efforts. We appreciate the intent of this bill and believe the higher credit proposed is because this is potentially a smaller segment of farmers. However, we believe farming should be viewed holistically and fairly and feel the tax credit proposed in HB612 is preferable as it includes all farmers, ranchers, and fishers and would encompass organic farmers, where organic certifications could be included in their qualified expenses.

Mahalo for the opportunity to offer **COMMENTS on HB608 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-608-HD-1**

Submitted on: 2/27/2023 8:42:20 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>
Sherry Pollack	Individual	Support	Written Testimony Only

Comments:

I support HB608 HD1 that establishes an organic foods production tax credit applicable to taxable years beginning after 12/31/2023. Providing additional support to Hawaii's organic agriculture industry will help promote protection of our natural resources. Organic farming practices improves soil fertility, promotes biodiversity, and reduces the risks of human, animal, and environmental exposure to toxic materials. Reducing the burden on the emerging number of small farmers seeking costly, but necessary, organic certifications and inspections will help to promote the production and availability of locally-grown organic food in Hawaii. This will reduce our reliance on agricultural imports, and as a result, build Hawaii's resiliency. This is a win:win.

Please support this important measure.

**HB-608-HD-1**

Submitted on: 2/27/2023 9:03:40 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 HB608 HD1.

**HB-608-HD-1**

Submitted on: 2/28/2023 6:19:29 AM

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>
Caroline Azelski	Individual	Support	Written Testimony Only

Comments:

In support of HD1. Thank you.

**HB-608-HD-1**

Submitted on: 2/28/2023 6:32:41 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 HB608 HD1

Mahalo for this opportunity to testify.

Virginia Tincher

Aina Hain, Oahu