

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 AGRICULTURE AND FOOD SYSTEMS

**MONDAY, FEBRUARY 13, 2023
ROOM 312
2:20 P.M.**

**HOUSE BILL NO. 612
RELATING TO TAXATION**

Chairperson Gates and Members of the Committee:

Thank you for the opportunity to testify on House Bill 612 that creates an income tax credit to alleviate the high costs of production for farmers, ranchers, and fishers and incentivize growth in the agricultural sector in the State. The tax credit is to be equal to the expenses of eligible farmers up to a maximum of \$10,000 per tax year. An "eligible farmer" must demonstrate that two-thirds of federal gross income from all sources for the tax year comes from farming or ranching as shown by federal Form 1040, Schedule F filings, or Schedule C for income from fishing. The proposed tax credit does not have a sunset date.

The Department of Agriculture supports this measure and otherwise defers to the Department of Taxation.

Thank you for the opportunity to testify on this measure.



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
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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. 612, Relating to Taxation

BEFORE THE:

House Committee on Agriculture & Food Systems

DATE: Monday, February 13, 2023

TIME: 2:20 p.m.

LOCATION: State Capitol, Room 312

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

The Department of Taxation ("Department") offers the following comments regarding H.B. 612 for your consideration.

H.B. 612 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create an income tax credit, not to exceed \$10,000, for the "qualified expenses" of an "eligible farmer." If the tax credit exceeds the eligible farmer's net income tax liability and the eligible farmer's federal gross income is less than \$250,000, the credit is refundable. If the tax credit exceeds the eligible farmer's net income tax liability and the eligible farmer's federal gross income is \$250,000 or more, the credit is nonrefundable and may be carried forward until exhausted.

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

First, the Department recommends making the tax credit entirely nonrefundable, as refundable credits are more prone to fraudulent claims.

Second, in order to properly implement and administer this measure, the Department suggests adding a definition for "qualified expenses."

Finally, the Department notes that due to the number of bills with law changes that have been introduced this year, the Department may not have the resources to timely implement all measures passed this session in time for tax year 2023. The Department will continue to monitor the status of proposed legislation and will advise whether some changes will require a later effective date.

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



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February 13, 2023

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE & FOOD SYSTEMS

TESTIMONY ON HB 612
RELATING TO TAXATION

Conference Room 312 & Videoconference
2:20 PM

Aloha Chair Gates, Vice-Chair Kahaloa, 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 612, which creates an income tax credit to alleviate the high costs of production for farmers, ranchers, and fishers and incentivize growth in the agricultural sector in the State.

Farming is a tough business. High production costs are a major driver of narrow profit margins for Hawai'i's farmers. Land, water, labor, taxes, transportation, utilities, inputs, invasive species, and food safety regulations are all costs of doing business that often results in our farmers just being able to break even. 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.

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

HB-612

Submitted on: 2/12/2023 11:14:42 AM

Testimony for AGR on 2/13/2023 2:20:00 PM

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

Comments:

The Hawaii Aquaculture and Aquaponics Association representing aquafarmers and researchers statewide strongly supports HB612 which proposes to provide income tax credit to alleviate the high costs of production for farmers, ranchers, and fishers and incentivize growth in the agricultural sector in the State. This credit would be very helpful to Hawaii's farmers, ranchers, and fishers which are predominately small to mid-size family operations and the backbone of Hawaii's rural communities.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Farming Income Tax Credit

BILL NUMBER: HB 612

INTRODUCED BY: GATES, COCHRAN, HOLT, KILA, KITAGAWA, LAMOSAO, LOWEN, MARTEN, MATAYOSHI, NAKASHIMA, NISHIMOTO, PERRUSO, TAM, TARNAS, TODD

EXECUTIVE SUMMARY: Creates an income tax credit to alleviate the high costs of production for farmers, ranchers, and fishers and incentivize growth in the agricultural sector in the State.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish the farming income tax credit. The credit is 100% of the qualified expenses of the eligible farmer, up to a maximum of \$10,000.

If the farmer's federal gross income is under \$250,000, the credit is refundable. Otherwise, the credit is no refundable but may be carried forward until exhausted.

All claims for the tax credit, 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 the following terms:

"Eligible farmer" means a taxpayer that provides proof of at least two-thirds of excess federal gross income from farming or ranching, as shown by federal Form 1040 Schedule F filings, or from fishing, as shown by federal Form 1040 Schedule C filings.

"Excess federal gross income" means the amount of federal gross income from all sources for the tax year."

EFFECTIVE DATE: Taxable years beginning after December 31, 2023.

STAFF COMMENTS: 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,

Re: HB 612
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lawmakers must endeavor to make Hawaii's business climate more welcoming and conducive to nurturing entrepreneurs.

Digested: 2/12/2023



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Kauai

Aloha Chair Gates, Vice Chair Kahaloa, and Members of the House Agriculture & Food Systems 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 HB612.**

This bill would create tax credits for farmers, ranchers, and fishers, thereby alleviating the high costs of production that disproportionately burden these sectors of the economy. It will give these businesses a much-needed debit in their fiscal ledger, allowing them to invest more in their enterprise and increase their yields, providing better livelihoods and potentially larger profits. This bill could be a major boon for local agriculture, allowing for more growth and sustainability in the agricultural sector, the benefits of which could latterly ripple throughout the entire economy.

HFUU offers the following amendments to improve this bill:

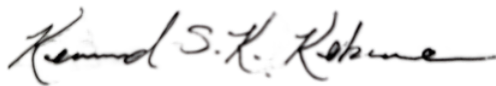
- Remove qualified expenses from Section 2 (b) and set credit amounts based on net farm sales. (~7000 farms gross >\$250K, ~200 farms gross \$250K-\$1M)
 - (b) The amount of the tax credit shall be equal to a percentage of the eligible farmers tax liability based on net farm income as follows: [~~the qualified expenses of the eligible farmer, up to a maximum of \$10,000~~].
 - (1) 15% of net farm income included in federal adjusted gross income if you are a farmer or farm business with less than \$250,000 in net farm income.
 - (1) 10% of net farm income included in federal adjusted gross income if you are a farmer or farm business with net farm income greater than \$250,000 and less than \$1,000,000.
- DOTAX prefers non-refundable credits, as refundable credits are viewed as having greater opportunities for fraud and misuse. That said, the refundable credit can be valuable to support small and new operations. If we swap to percentage instead of dollar amount, then remove the refundable portion for under \$250k group.
 - (c) [~~If the tax credit under this section exceeds the eligible farmer's net income tax liability and the eligible farmer's federal gross income is under \$250,000, the excess of the credit over liability shall be refunded to the taxpayer; provided that no refunds or payment on account of the tax credits allowed by this section shall be made for amounts less than \$1. If the tax credit under this section exceeds the eligible farmer's net income tax liability and the eligible farmer's federal gross income is \$250,000 or more, the excess of the credit over liability may be used~~]

~~as a credit against the taxpayer's net income tax liability in subsequent years until exhausted.]~~ 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.

- Delay implementation date in *Section 4* to December 31, 2023 to allow DOTAX time to prepare forms

Mahalo for the opportunity to testify.

Kaipo Kekona, President HFUU/HFUF

A handwritten signature in black ink, appearing to read "Kaipo S.K. Kekona". The signature is written in a cursive, flowing style.



Email: communications@ulupono.com

HOUSE COMMITTEE ON AGRICULTURE & FOOD SYSTEMS
Monday, February 13, 2023 — 2:20 p.m.

Ulupono Initiative supports HB 612, Relating to Taxation.

Dear Chair Gates 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 612, which creates an income tax credit to alleviate the high costs of production for farmers, ranchers, and fishers and incentivizes growth in the agricultural sector in the State.

Ulupono supports the State's goal to double local food production and the sustainable growth of the agricultural industry here in Hawai'i. According to the 2017 USDA National Agricultural Statistics Service (NASS) Census of Agriculture, 66% of Hawai'i's 7,328 farms statewide, or 4,868 farms, are between 1-9 acres. In addition, 78%, or 5,701 farms, produce less than \$25,000 in sales. This measure will support local producers with the many high costs associated with doing agriculture here in the state.

Thank you for the opportunity to testify.

Respectfully,

Micah Munekata
Director of Government Affairs

HB-612

Submitted on: 2/10/2023 6:11:34 PM

Testimony for AGR on 2/13/2023 2:20:00 PM

Submitted By	Organization	Testifier Position	Testify
Dana Keawe	Individual	Support	Written Testimony Only

Comments:

support

HB-612

Submitted on: 2/10/2023 7:36:18 PM

Testimony for AGR on 2/13/2023 2:20:00 PM

Submitted By	Organization	Testifier Position	Testify
Andrew Crossland	Individual	Support	Written Testimony Only

Comments:

I support this Bill.

HB-612

Submitted on: 2/12/2023 11:17:47 AM

Testimony for AGR on 2/13/2023 2:20:00 PM

Submitted By	Organization	Testifier Position	Testify
Caroline Azelski	Individual	Support	Written Testimony Only

Comments:

Support. Thank you.

HB-612

Submitted on: 2/12/2023 2:38:27 PM

Testimony for AGR on 2/13/2023 2:20:00 PM

Submitted By	Organization	Testifier Position	Testify
penny levin	Individual	Support	Written Testimony Only

Comments:

in support.

HB-612

Submitted on: 2/12/2023 7:38:32 PM

Testimony for AGR on 2/13/2023 2:20:00 PM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Support	Written Testimony Only

Comments:

Please support HB612.