DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
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To: The Honorable Henry J.C. Aquino, Chair
and Members of the House Committee on Transportation

Date: Friday, February 10, 2017
Time: 10:00 A.M.
Place: Conference Room 423, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1324, H.D. 1, Relating to a Tax Credit for Interisland Transportation of Agricultural Products Grown or Processed in State Enterprise Zones

The Department of Taxation (Department) appreciates the intent of H.B. 1324, H.D. 1, and provides the following comments for your consideration.

H.B. 1324, H.D. 1, makes amendments to chapter 209E, Hawaii Revised Statutes (HRS) to include interisland transportation of agricultural products as an “eligible business activity” for the purposes of the state’s Enterprise Zone (EZ) program, and to add a tax credit for interisland transportation costs of agricultural products. The measure has a defective effective date of July 31, 2150.

First, the amendment proposed in Section 2 will serve as a further restriction on agricultural production. The addition of “and interisland transportation” to the definition of “eligible business activity” will actually have the effect of excluding agricultural producers who do not perform their own shipping from EZ eligibility. The addition would also exclude agricultural production of products that are sold prior to any interisland transportation. If the intent of this measure is to exempt interisland shipping of agricultural products produced in an EZ, the Department suggests clarifying the language.

Second, the Department notes that the interisland transportation of agricultural commodities is already exempt from the general excise tax under section 237-24.3(1), HRS. Because this exemption already exists, it unclear whether the amendment proposed in Section 1 is necessary.

Third, it is unclear how the new credit for 20% of interisland shipping costs will further the purpose of promoting agriculture in the State. For example, assume that this measure was adopted, and that an agricultural product has a price of $90 and the cost of interisland shipping is $10. After applying the 20% credit, the shipping cost would be reduced to $8 making the total price of the interisland-shipped agricultural product $98. The overall price was only reduced by 2%, which is unlikely to have a significant effect on demand or retail price of the agricultural product.

Fourth, the Department notes that the tax credit proposed in this measure is different from other EZ benefits, in that it is not limited in duration. The existing tax credits provided by the EZ program generally have a ten-year duration. Applying a similar duration will make this credit more consistent with other benefits provided by the EZ program.

Fifth, the Department suggests the following technical amendment to subsection (e) of section 209E-10, HRS:

> (e) In addition to any tax credit authorized under this section, any qualified business engaged in producing or processing agricultural products, for actual interisland transportation costs paid for transporting its agricultural products from one island to another island within the State, shall be entitled to a tax credit against any taxes due to the State of twenty per cent of the transportation costs paid....

Sixth, the Department defers to the Department of Business, Economic Development, and Tourism on the merits; the EZ tax benefits are certified by DBEDT.

Finally, the Department requests that the changes be made applicable to taxable years beginning after December 31, 2016, to allow time for necessary changes to forms and instructions.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON TRANSPORTATION

Friday, February 10, 2017
10:00a.m.
State Capitol, Conference Room 423

in consideration of
HB 1324, HD1
RELATING TO A TAX CREDIT FOR INTERISLAND TRANSPORTATION OF AGRICULTURAL PRODUCTS GROWN OR PROCESSED IN STATE ENTERPRISE ZONES.

Chair Aquino, Vice Chair Quinlan, and Members of the Committee. The Department of Business, Economic Development, and Tourism (DBEDT) offers comments on HB 1324, HD1, which authorizes a tax credit equal to 20 percent of qualifying business costs for the transportation of agricultural commodities between islands within the state.

This initiative does not fit the purpose of the Enterprise Zone Program, which provides tax incentives to businesses in exchange for creating jobs in economically disadvantaged zones of the state, selected by each county. If the legislature is inclined to move this measure forward, DBEDT recommends creating a new Chapter, rather than incorporating this initiative into Chapter 209E.

This measure also requires DBEDT to verify and certify the tax credits. DBEDT does not have the qualified staff, such as tax accountants, to certify to individual taxpayers the amount of credit that they can claim on their state tax forms.

We defer to the Department of Taxation for the fiscal impact of this measure.

Thank you for the opportunity to provide this written testimony.

DAVID Y. IGE
Governor

SHAN S. TSUTSUI
Lt. Governor

SCOTT E. ENRIGHT
Chairperson, Board of Agriculture

PHYLLIS SHIMABUKURO-GEISER
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 South King Street
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TESTIMONY OF SCOTT E. ENRIGHT
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEE ON TRANSPORTATION

FEBRUARY 10, 2017
10:00 A.M.
CONFERENCE ROOM 423

HOUSE BILL NO. 1324 HD 1
RELATING TO A TAX CREDIT FOR INTERISLAND TRANSPORTATION OF AGRICULTURAL PRODUCTS GROWN OR PROCESSED IN STAT ENTERPRISE ZONES

Chairperson Creagan and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 1324 HD 1, which seeks to amend Chapter 209E (State enterprise zones) to authorize a tax credit equal to 20 percent of qualifying business costs for the transportation of agricultural commodities between islands in the State. The Department of Agriculture supports the intent of reducing costs borne by Hawaii's agricultural businesses to transport their products to neighbor island markets, however we defer to the Department of Business, Economic Development, and Tourism and the Department of Taxation.

Thank you for the opportunity to submit our testimony.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit for Interisland Transportation of Agricultural Products Grown or Processed in State Enterprise Zone

BILL NUMBER: HB 1324, HD-1

INTRODUCED BY: House Committee on Agriculture

EXECUTIVE SUMMARY: Authorizes a tax credit equal to 20% of qualifying business costs for the transportation of agricultural commodities between islands within the State of Hawaii.

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of "eligible business activity" in an enterprise zone to include the production and interisland transportation of agricultural products where the business is a producer as defined in section 237-5.

Amends HRS section 209E-10 to add a credit for any qualified business engaged in producing or processing agricultural products, for actual interisland transportation costs paid for transporting its agricultural products from one island to another island within the State, shall be entitled to a tax credit of twenty per cent of the transportation costs paid.

Requires DBEDT to certify to each taxpayer the amount of credit the taxpayer may claim. Allows the department to require a taxpayer to furnish receipts that verify the actual costs paid and to adopt rules under chapter 91 to effectuate the certification requirements.

EFFECTIVE DATE: July 1, 2150.

STAFF COMMENTS: This measure proposes to expand enterprise zone laws to include a business that produces energy from solar, ocean thermal energy conversion, or hydrogen on real property under the control of the natural energy laboratory of Hawaii.

The enterprise zone program was enacted as a cooperative program between the state and the counties to promote jobs in areas of high unemployment. Certain areas are designated as enterprise zones through joint action of the state and counties. In a zone, the state offers an income tax credit for the tax attributable to the eligible business conducted in the zone, which is normally applied on a sliding scale – 80% for the first year, 70% for the second, and so on until the credit is 20% for the seventh and last year in the program. It also offers an unemployment tax credit for the tax attributable to employees doing the eligible business in the zone, on the same sliding scale. Finally, the state offers a general excise tax exemption for the eligible business attributed to the zone. The counties also offer incentives, which vary by county. In return, the business commits to either maintain or increase the number of employees in the zone doing the eligible activity, depending on whether it was already in the zone upon designation or moved to the zone.

As business incentives go, the enterprise zone program is better than most. The incentive applies to a specific activity (here, creating and maintaining employment) targeted to the problem the program seeks to address. The incentive tapers off over time and then stops. It requires accountability, namely required reports to DBEDT, for a business to retain its eligibility. The business itself may need a different kind of assistance, such as financing, but the state is here focusing on creating and maintaining jobs in areas that need them.

One criticism of the program is that the designated eligible activities do not seem to have a common thread running through them except that the various activities seem to have been the Flavor of the Month at one time or other. Eligible activities at present are:

- Agricultural production or processing
- Manufacturing
- Wholesaling/Distribution
- Aviation or maritime repair or maintenance
- Telecommunications switching and delivery systems
- Information technology design and production
- Medical research, clinical trials, and telemedicine
- For-profit training programs in international business management or environmental remediation
- Biotechnology research, development, production, or sales
- Repair or maintenance of assisted technology equipment
- Certain types of call centers
- Wind energy producers

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. Second, tax credits 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?

Utilizing tax credits to drive social policy in this manner is of a questionable benefit relative to the cost for all taxpayers. A direct appropriation of grant funding to producers would be more accountable and transparent. At least we would know the amount of the appropriation, while the fiscal impact of the credit would be a great big question mark.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount compared to the benefit expected to accrue because of the creditable activity.

As a technical matter, it is unclear whether the intent is to make the interisland carrier (presumably a boat or barge operator, but could include air transportation) eligible for the income tax or unemployment tax credits already provided for in the enterprise zone chapter. As drafted, the carrier would not qualify for these credits because it would not be a producer as defined in HRS section 237-5. If the intent is to award only the 20% credit, the amendment to section 209E-2 would appear to be unnecessary.

Digested 2/8/2017

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February 10, 2017

HEARING BEFORE THE
HOUSE COMMITTEE ON TRANSPORTATION

TESTIMONY ON HB 1324, HD1
RELATING TO A TAX CREDIT FOR INTERISLAND TRANSPORTATION OF AGRICULTURAL PRODUCTS GROWN OR PROCESSED IN STATE ENTERPRISE ZONES

Room 423
10:00 AM

Aloha Chair Aquino, Vice Chair Quinlan, and Members of the Committee:

I am Randy Cabral, President of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,900 farm family members statewide, and serves as Hawaii's voice of agriculture to protect, advocate and advance the social, economic and educational interests of our diverse agricultural community.

Hawaii Farm Bureau strongly supports HB 1324, HD1, providing a tax credit for interisland agricultural products grown or processed in enterprise zones.

Interisland transportation has been a major issue with neighbor island farmers. The majority of agricultural lands are in the neighbor islands yet the population center is on Oahu. Neighbor island farmers are disadvantaged when competing with fellow farmers on Oahu due to additional transportation costs of bringing in supplies and sending product 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 these farmers and ranchers.

HFB respectfully requests your strong support of HB 1324, HD1, addressing interisland transportation rates.

Thank you for this opportunity to provide comment on this important subject.

Hawaii Cattlemen's Council, Inc.

COMMITTEE ON TRANSPORTATION
Rep. Henry J.C. Aquino, Chair
Rep. Sean Quinlan, Vice Chair

DATE: Friday, February 10, 2017
TIME: 10:00 A.M.
PLACE: Conference Room 423

HB 1324, HD 1 – RELATING TO A TAX CREDIT FOR INTERISLAND TRANSPORTATION OF AGRICULTURAL PRODUCTS GROWN OR PROCESSED IN STATE ENTERPRISE ZONES.

Authorizes a tax credit equal to 20% of qualifying business costs for the transportation of agricultural commodities between islands within the State of Hawaii. (HB1324 HD1)

Chair Aquino, Vice Chair Quinlan, and Members of the Committee:

My name is Dale Sandlin, and I am Managing Director of the Hawaii Cattlemen's Council. The Hawaii Cattlemen's Council, Inc. (HCC) is the Statewide umbrella organization comprised of the four county level Cattlemen's Associations. Our 150+ 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 approximately 25% of the State's total land mass.

The Hawaii Cattlemen's Council **strongly supports** HB 1324, HD1 as this bill provides critical relief to Hawaii ranchers in transporting their livestock.

The ability to transport cattle and beef has been a mainstay of our industry, and as our industry expands, this needs becomes even more critical. With very thin margins, our industry relies heavily in managing the input costs associated with production of cattle and transporting both cattle from pasture to plant and high-quality beef to consumers on the neighbor islands. This effort would provide producers with much needed relief in transportation.

We ask the committee to pass this legislation and we appreciate the opportunity to testify on this important matter.

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From:	mailinglist@capitol.hawaii.gov
Sent:	Wednesday, February 8, 2017 8:25 AM
To:	TRNtestimony
Cc:	alan@prloffice.com
Subject:	*Submitted testimony for HB1324 on Feb 10, 2017 10:00AM*

LATE

HB1324
Submitted on: 2/8/2017
Testimony for TRN on Feb 10, 2017 10:00AM in Conference Room 423

Submitted By	Organization	Testifier Position	Present at Hearing
Alan Gottlieb	Ponoholo Ranch Limited	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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LAND USE RESEARCH
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LATE

February 9, 2017

Representative Henry J.C, Aquino, Chair
Representative Sean Quinlan, Vice Chair
House Committee on Transportation

Support of HB 1324, HD1 Relating to a tax credit for interisland transportation of agricultural products grown or processed in state enterprise zones.

Friday, February 10, 2017, 10:00 a.m., in Conference Room 423

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 a utility company. 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 **supports the intent of HB 1324, HD1**, which would reduce the costs borne by Hawaii's agricultural businesses to transport their products to Neighbor Island markets.

HB 1324, HD1. This measure would authorize a tax credit equal to 20% of qualifying business costs for the transportation of agricultural commodities between islands within the State of Hawaii.

LURF's Position. The long-term viability of agriculture depends on, factors that affect the profitability of agriculture, including the availability and cost of transportation services. Interisland transportation costs have always been a major issue for Neighbor Island farmers and ranchers who are forced to pay additional transportation costs for, among other things, the costs for equipment, fertilizer, feed and the delivery of their other products to Honolulu or the other islands.

Conclusion. For the above reasons, LURF **strongly supports** **HB 1324, HD1** and respectfully urges your favorable consideration.

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