

**DAVID Y. IGE**  
Governor

**DOUGLAS S. CHIN**  
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  
Honolulu, Hawaii 96814-2512  
Phone: (808) 973-9600 FAX: (808) 973-9613

**TESTIMONY OF SCOTT E. ENRIGHT**  
**CHAIRPERSON, BOARD OF AGRICULTURE**

**BEFORE THE SENATE COMMITTEE ON AGRICULTURE & ENVIRONMENT**

**MARCH 12, 2018**  
**1:15 P.M.**  
**CONFERENCE ROOM 224**

**HOUSE BILL NO. 2462 HD1**  
**RELATING TO TAX EXEMPTION**

Chairperson Gabbard and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 2462 HD1 that seeks to exempt from the general excise tax, the purchase of farm equipment and machinery used in the conduct of agricultural operations for producers with gross incomes not exceeding \$200,000. The Department of Agriculture supports the intent of this measure and otherwise defers to the Department of Taxation.

Of the 7,000 farming operations in Hawaii, about 900 farms had value of sales in excess of \$200,000 (2012 Census of Agriculture – Hawaii State Data, Table 2, page 9). Therefore, about 87 percent of Hawaii's farmers may benefit from the tax exemption proposed in this measure.

Thank you for the opportunity to comment on this measure.





**STATE OF HAWAII  
DEPARTMENT OF TAXATION**  
830 PUNCHBOWL STREET, ROOM 221  
HONOLULU, HAWAII 96813  
<http://tax.hawaii.gov/>  
Phone: (808) 587-1540 / Fax: (808) 587-1560  
Email: Tax.Directors.Office@hawaii.gov

To: The Honorable Mike Gabbard, Chair  
and Members of the Senate Committee on Agriculture and Environment

Date: Monday, March 12, 2018  
Time: 1:15 P.M.  
Place: Conference Room 224, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 2462, H.D. 1, Relating to Tax Exemption

The Department of Taxation (Department) offers the following comments regarding H.B. 2462, H.D. 1, for your consideration.

H.B. 2462, H.D. 1, amends the general excise tax (GET) by adding an exemption for the gross proceeds arising from the sale of farm equipment to a low-income producer. A summary of key provisions are as follows:

- Adds a section to Hawaii Revised Statutes (HRS) chapter 237, exempting from the GET the gross proceeds arising from the sale of farm equipment to a producer, as long as the producer's gross income does not exceed \$200,000;
- Defines "farm equipment and machinery" as any implement, tool, machine, equipment, appliance, device, or apparatus used in the conduct of agricultural operations, except for:
  - Property used for administration, management, and marketing;
  - Certain supply items and articles of clothing; and
  - Items intended for sale in the ordinary course of business.
- Authorizes the Director of Taxation (Director) to determine the time limitation for the new exemption; and
- Defective effective date of July 1, 2150.

Section 237-5, HRS, defines "producer" as "any person engaged in the business of raising and producing agricultural products in their natural state, or in producing natural resource products, or engaged in the business of fishing or aquaculture, for sale, or for shipment or transportation out of the State, of the agricultural or aquaculture products in their natural or processed state, or butchered and dressed, or the natural resource products, or fish."

First, the Department notes that a sunset of a tax benefit, such as a GET exemption, should probably be put into the statute itself or in the session law.

Second, the Department suggests clarifying how the \$200,000 gross income threshold should be enforced. If the intent of the measure is to base qualification on the previous year's income tax return, that should be specified.

Finally, the Department suggests clarification of subsection (b)(4), which states, "Items intended for sale in ordinary course of business." If the intent of this provision is to exclude items that the producer will resell, the Department suggests specifying this.

Thank you for the opportunity to provide comments.

**LARRY JEFTS FARMS, LLC  
PO BOX 27  
KUNIA, HAWAII 96759  
(808) 688-2892**

HB2462hd1, Relating to Tax Exemption  
Senate AEN Hearing  
Monday, March 12, 2018  
1:15pm - Conference Room 224

Testimony by: Larry Jeffs  
Position: Support

Chair Gabbard, and Members of the Senate AEN Committee:

I am Larry Jeffs, owner and operator of Larry Jeffs Farms, LLC, which is part of our family-run business of farms on Oahu and Molokai, under the administrative umbrella of Sugarland Growers, Inc. We have more than 35 years of Hawaii farm experience on Molokai and Oahu.

Support is expressed for this measure that will exempt producers with gross income that does not exceed \$200,000 from the GET on the gross sale proceeds for qualifying farm equipment and machinery.

This exemption is in line with the State's focus on increasing food production. Such an exemption helps farmers increase their capacity and food production.

Thank you for the opportunity to present testimony.



February 23, 2018

Representative Sylvia J. Luke, Chair  
Representative Ty J.K. Cullen, Vice Chair  
House Committee on Finance

**Testimony in Support of HB 2462 H.D. 1, Relating to General Excise Tax; Exemption; Agriculture (Exempts sales of farm equipment and machinery to certain producers of agricultural products from the general excise tax).**

**Tuesday, February 27, 2018, 12:00 p.m., in Conference Room 308**

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 appreciates the opportunity to express its **support of HB 2462 H.D. 1** 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 (IAL) in Hawaii.

**HB 2462 H.D. 1.** This bill proposes to exempt from the general excise tax, sales of farm equipment and machinery to certain producers of agricultural products.

**LURF's Position.** LURF members include farmers and ranchers who own, maintain, and engage in agricultural enterprises, and who consider such incentives and assistance very helpful, if not critical to the conduct of their operations and to help sustain their businesses.

As this Committee is aware, the unsustainable costs cast upon land owners and agricultural stakeholders by various safety and security standards, programs and regulations are another serious concern, as the enactment of onerous regulations relating to maintenance and operation of water systems, infrastructure, as well as growing and processing machinery and facilities are proving to be potentially counterproductive to the long-term objective of sustainable agriculture.

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.” The IAL laws established a new paradigm which avoids requirements and mandates, and instead focuses on promoting agricultural viability by providing incentives for farmers and landowners to designate lands as IAL, and to build necessary infrastructure. This bill is thus an effort to expand the existing IAL program by establishing additional incentives for landowners to preserve and maintain IAL.

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 important agricultural lands for agricultural use in Hawaii concurrently with the process of identifying important agricultural lands as required under the Act. Such incentives and programs are identified in HRS 205-41 and include tax credits and/or exemptions that promote investment in agricultural businesses or value-added agricultural development.

LURF appreciates the underlying intent of HB 2462 H.D. 1, which is to support agriculture and aid agriculture-related businesses and strongly believes that passage of the long-awaited IAL legislation would be meaningless without implementation of these incentives which require the cooperation and support of the business and economic community. The establishment of tax incentives for those engaged, or desirous of engaging, in agricultural activities are critically needed to support viable agricultural activity in this State.

By recognizing the significance of, and need to assist the local agriculture industry, and implement incentives 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 in Hawaii.

Thank you for the opportunity to present testimony in support of this measure.

**HB-2462-HD-1**

Submitted on: 3/11/2018 9:58:14 AM

Testimony for AEN on 3/12/2018 1:15:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Warren Watanabe	Testifying for Maui County Farm Bureau	Support	No

Comments:



# HAWAII CROP IMPROVEMENT ASSOCIATION

## Board of Directors

TESTIMONY FROM BENNETTE MISALUCHA, EXECUTIVE DIRECTOR

### President

Alan Takemoto

## IN SUPPORT OF HB 2462, HD1 RELATING TO TAX EXEMPTION

### Vice-President

Joshua Uyehara

SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT

March 12, 2018, 1:15 p.m.

Conference Room 224

### Secretary

Dawn Bicoy

Chair Gabbard and members of the committee:

### Treasurer

Laurie Yoshida

The Hawaii Crop Improvement Association (HCIA) is a Hawaii-based non-profit organization that promotes modern agriculture to help farmers and communities succeed. Through education, collaboration, and advocacy, we work to ensure a safe and sustainable food supply, support responsible farming practices, and build a healthy state economy.

### Directors-at-Large

Adolf Helm

Mark Stoutemyer

Dan Clegg

Gene Harrington

HCIA is in **support of HB 2462, HD1**, which exempts sales of farm equipment and machinery to certain producers of agricultural products from the general excise tax.

### President Emeritus

Kirby Kester

Agriculture is a tough business and many farmers struggle with the high cost of operations. This measure will help reduce operating costs and sustain this important sector of Hawaii's economy.

### Executive Director

Bennette Misalucha

Please pass this important bill. Mahalo for your consideration.

Sincerely,

Bennette Misalucha

Executive Director, Hawaii Crop Improvement Association





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 12, 2018

HEARING BEFORE THE  
SENATE AGRICULTURE AND ENVIRONMENT

**TESTIMONY ON HB 2462, HD 1**  
**RELATING TO TAX EXEMPTION**

Room 224  
1:36 PM

Aloha Chair Gabbard, Vice Chair Riviere, 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.

**The Hawaii Farm Bureau strongly supports HB 2462, HD1**, which exempts the gross proceeds from the sale of farm equipment and machinery to any qualified small farmer from the general excise tax.

Hawaii's farmers and ranchers find it difficult to purchase farm equipment due to high retail prices. This measure will assist farmers and ranchers with certain equipment and machinery expenses, which will help increase production and can help build capacity.

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

Hawaii 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 Hawaii, 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 provide our opinion on this important matter.

**HB-2462-HD-1**

Submitted on: 3/11/2018 7:06:40 PM

Testimony for AEN on 3/12/2018 1:15:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Dale Sandlin	Testifying for Hawaii Cattlemens Council	Support	Yes

Comments:

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

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SUBJECT: GENERAL EXCISE, Exemption for Farm Equipment Purchased by a Producer

BILL NUMBER: HB 2462, HD-1

INTRODUCED BY: House Committee on Agriculture

SYNOPSIS: Adds a new section to HRS chapter 237 which would exempt from the GET all gross proceeds arising from the sale of farm equipment and machinery to a producer, provided that the producer's gross income does not exceed \$200,000.

Defines "farm equipment and machinery" as any implement, tool, machine, equipment, appliance, device, or apparatus used in the conduct of agricultural operations, except:

(1) property used for administration, management, or marketing of an agricultural operation; (2) supply items such as shop towels, cleaning agents such as hand cleaners and solvents, and agricultural chemicals; (3) articles of clothing, except for clothing designed to protect an agricultural product or that is required by law when applying chemicals; and (4) items intended for sale in the ordinary course of business.

Directs the department of taxation to adopt rules under HRS chapter 91 to implement this section, including any time limitation for the exemptions.

EFFECTIVE DATE: July 1, 2150.

STAFF COMMENTS: Farm equipment as defined in the bill appears to be depreciable tangible personal property. If so, the taxpayer may already avail itself of the capital goods excise tax credit under HRS section 235-110.7, which effectively refunds the GET on purchases of such property through a refundable credit delivered through the income tax system. The proposed incentive, if enacted, would stop the GET imposed upon purchase, making the property ineligible for the capital goods excise tax credit, which results in the taxpayer in the same economic position as under current law. The exemption thus does not appear to be necessary.

Digested 2/24/2018

**HB-2462-HD-1**

Submitted on: 3/11/2018 12:18:18 PM

Testimony for AEN on 3/12/2018 1:15:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Testifying for OCC Legislative Priorities Committee, Democratic Party of Hawai'i	Support	No

Comments:

PRESENTATION OF THE  
OAHU COUNTY COMMITTEE ON LEGISLATIVE PRIORITIES  
DEMOCRATIC PARTY OF HAWAII  
TO THE COMMITTEE OF AGRICULTURE AND ENVIRONMENT  
THE SENATE  
TWENTY-NINTH LEGISLATURE  
REGULAR SESSION OF 2018  
Monday, March 12, 2018  
1:15 p.m.  
Hawaii State Capitol, Conference Room 224

RE: Testimony in Support of **HB2426 HD1** : RELATING TO TAX  
EXEMPTION

To the Honorable Mike Gabbard, Chair; the Honorable Gil Riviere, Vice-Chair and  
Members of the Committee on Agriculture and Environment:

Good afternoon. My name is Melodie Aduja. I serve as Chair of the Oahu  
County Committee ("OCC") Legislative Priorities Committee of the Democratic Party of  
Hawaii. Thank you for the opportunity to provide written testimony on **HB2426 HD1**  
relating to the General Excise Tax; Exemption; Agriculture; and Farm Equipment and  
Machinery.

The OCC Legislative Priorities Committee is in favor of **HB2426 HD1** and  
supports its passage.

**HB2426 HD1** is in accord with the Platform of the Democratic Party of Hawai'i  
("DPH"), 2016, as it exempts sales of farm equipment and machinery to certain  
producers of agricultural products from the general excise tax.

The Platform of the Democratic Party of Hawai'i, 2016, provides that "[a]griculture  
in our state must be preserved and its future strengthened. Sufficient prime agricultural  
lands must be maintained for the health, economic well-being and sustenance of the  
people. We believe in an integrated approach to agricultural innovation and  
sustainability.

This approach includes, but is not limited to, the adoption of the native Hawaiian concept of ahupua'a, an integrated approach to land management. This could also include development of economic, land and ocean use policies that foster sustainable crops both for local consumption and for export, policies to foster agriculture-related infrastructure at shipping points, and increased inspection to protect against invasive species and to encourage reduced holding times. (Platform of DPH, P. 2, Lines 76-78, 82-86 (2016)).

To ensure wise use and equitable distribution of our precious water, we must stress water conservation and alternative patterns of water treatment and consumption such as the use of recycled water for irrigation, water storage reservoirs, and the use of catchment systems by the public.

As an island state, securing affordable food for all is a priority. We support healthy sustainable, diversified local food production, and "Buy Local" strategies to assure greater food security and food safety.

We recognize the essential link between the availability of adequate and affordable water and low-cost electrical power as essential components of viable agricultural businesses. (Platform of DPH, P. 2, Lines 93-102 (2016)).

We support land use planning and infrastructure development to support sustainable diversified agriculture, including low cost inter-island transportation of agricultural products. We likewise support publicly funded research and development for agricultural diversification and value-added products.(Platform of the DPH, P. 2, Lines 104-107 (2016)).

We support the designation of Important Agricultural Lands as a step towards preserving high-grade productive lands for current and future needs." (Platform of the DPH, P. 2, Lines 109-110 (2016)).

Given that **HB2426 HD1** exempts sales of farm equipment and machinery to certain producers of agricultural products from the general excise tax, it is the position of the OCC Legislative Priorities Committee to support this measure.

Thank you very much for your kind consideration.

Sincerely yours,

/s/ Melodie Aduja

Melodie Aduja, Chair, OCC Legislative Priorities Committee

Email: legislativepriorities@gmail.com, Text/Tel.: (808) 258-8889

**HB-2462-HD-1**

Submitted on: 3/9/2018 6:30:12 AM

Testimony for AEN on 3/12/2018 1:15:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
De MONT R. D. CONNER	Testifying for Ho'omanapono Political Action Committee (HPAC)	Support	Yes

Comments:

We continue to STRONGLY SUPPORT this bill. Mahalo.