STAND. COM. REP. NO. 1249

Honolulu, Hawaii

MAR 2 2 2023

RE: H.B. No. 1384

H.D. 1 S.D. 1

Honorable Ronald D. Kouchi President of the Senate Thirty-Second State Legislature Regular Session of 2023 State of Hawaii

Sir:

Your Committees on Agriculture and Environment and Energy, Economic Development, and Tourism, to which was referred H.B. No. 1384, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO MANUFACTURING,"

beg leave to report as follows:

The purpose and intent of this measure is to create an income tax credit to incentivize the food manufacturing industry in the State.

Your Committees received testimony in support of this measure from the Agriculture and Food Security Committee of the Environmental Caucus of the Democratic Party of Hawaii, Hawaii Technology Development Corporation, Hawaii Food Manufacturers Association, Retail Merchants of Hawaii, Hawaii Farm Bureau, Hawaii Food Industry Association, Ulupono Initiative, Chamber of Commerce Hawaii, and two individuals. Your Committees received comments on this measure from the Department of Taxation and Tax Foundation of Hawaii.

Your Committees find that value-added products sourced from the local agriculture sector face significant challenges to success. High labor, land, transportation, utility, and supply costs result in narrow profit margins for value-added food producers, and they often are just able to break even financially. However, "adding value" to raw agricultural crops can reduce waste from off-grade or excess production and can also pay off in new business opportunities, increased employment, and expansion into This measure establishes an income tax credit to other markets. incentivize food producers to invest further into their valueadded products to promote local agriculture, farm profitability, and food availability in Hawaii.

Your Committees have amended this measure by:

- (1) Reducing the income tax credit coverage from full coverage to fifty percent coverage of qualified expenses;
- (2) Requiring the Department of Agriculture to verify that qualified taxpayer applicants are manufacturing food with at least fifty-one percent of its wholesale value added by manufacture, assembly, fabrication, or production within the State; and
- Making technical, nonsubstantive amendments for the (3) purposes of clarity and consistency.

As affirmed by the records of votes of the members of your Committees on Agriculture and Environment and Energy, Economic Development, and Tourism that are attached to this report, your Committees are in accord with the intent and purpose of H.B. No. 1384, H.D. 1, as amended herein, and recommend that it pass Second Reading in the form attached hereto as H.B. No. 1384, H.D. 1, S.D. 1, and be referred to your Committee on Ways and Means.

> Respectfully submitted on behalf of the members of the Committees on Agriculture and Environment and Energy, Economic Development, and

Tourism,

The Senate Thirty-Second Legislature State of Hawai'i

Record of Votes Committee on Agriculture and Environment AEN

Bill / Resolution No.:*	Committee	Referral:	D	Date:					
HB1384 HD1	AEN/EET, WAM 03-15-23								
The Committee is reconsidering its previous decision on this measure.									
If so, then the previous decision was to:									
The Recommendation is:									
Pass, unamended Pass, with amendments Hold Recommit 2312 2311 2310 2313									
Members		Aye	Aye (WR)	Nay	Excused				
GABBARD, Mike (C)		X							
RICHARDS, III, Herbert M. "Ti	m" (VC)	X							
DECOITE, Lynn		~							
RHOADS, Karl		X							
AWA, Brenton		\times							
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TOTAL		5							
Recommendation: Adopted Not Adopted									
Chair's or Designee's Signature:									
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*Only one measure per Record of Votes

The Senate Thirty-Second Legislature State of Hawai'i

Record of Votes Committee on Energy, Economic Development, and Tourism EET

Bill / Resolution No.:* Committee Referral: Date:									
HB 1384, HOI AEN/EET, WAM 3-15-23									
The Committee is reconsidering its previous decision on this measure.									
If so, then the previous decision was to:									
The Recommendation is:									
Pass, unamended Pass, with amendments Hold Recommit 2312 2311 2310 2313									
Members		Aye/	Aye (WR)	Nay	Excused				
DECOITE, Lynn (C)		V /							
WAKAI, Glenn (VC)		V							
FUKUNAGA, Carol									
KIM, Donna Mercado		V/							
FEVELLA, Kurt		V							
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TOTAL		4	0	0					
Recommendation:				1					
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Chair's or Designee's Signature:									
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*Only <u>one</u> measure per Record of Votes									

Revised: 11/30/22