

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

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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. 1383, H.D. 1, Relating to Agriculture

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. 1383, H.D. 1, for your consideration.

Section 2 of H.B. 1383, H.D. 1, adds a new section to chapter 235, Hawaii Revised Statutes (HRS), creating a nonrefundable income tax credit for "qualified expenses" for "qualified taxpayers" who are engaged in the growing or production of "agricultural import replacements." The measure sets a \$5,000,000 aggregate cap and requires the Board of Agriculture to certify all qualified expenses. The credit may be carried forward until exhausted. The terms "agricultural imports," "agricultural import replacements," "net income tax liability," "qualified expenses," and "qualified taxpayer" are defined in this measure.

The measure has a defective effective date of June 30, 3000 and applies to taxable years beginning after December 31, 2024.

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

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H.B. 1383, H.D. 1
March 1, 2023
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The Department estimates an expected revenue loss of \$5 million for Fiscal Year (FY) 2026 and thereafter.

The Department is able to implement this measure for taxable years beginning after December 31, 2024.

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

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
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**TESTIMONY OF SHARON HURD
CHAIRPERSON, BOARD OF AGRICULTURE**

BEFORE THE HOUSE COMMITTEE ON FINANCE

**WEDNESDAY, MARCH 1, 2023
2:30 P.M.
CONFERENCE ROOM 308 AND VIDEO CONFERENCING**

**HOUSE BILL NO. 1383 HD1
RELATING TO AGRICULTURE**

Chair Yamashita and Members of the Committee:

Thank you for the opportunity to present testimony on House Bill 1383 HD1. This bill requires the Department of Agriculture (Department) to establish a four-member agricultural import replacement task force to identify the top ten fruit and vegetable imports to the State that can be commercially grown by local farmers; submit a report of the task force's findings and recommendation to the 2025 Legislature; and amends Chapter 235 to provide for an agricultural import replacement tax credit. The Department supports the bill and offers the following comments.

The Department deeply appreciates this legislative effort to help increase the level of food self-sufficiency in Hawaii. Lastly, we defer comments on the import replacement tax credit to the Department of Taxation.

Thank you for your consideration and opportunity to testify on this measure.





Food+ Policy Internship 2023

food@purplemaia.org

February 27, 2023

To: Chair Yamashita, Vice Chair Kitagawa, and members of the House Committee on Finance
Subject: **HB1383**, Relating to Agriculture

Aloha,

Food+ Policy **supports HB1383**, which is an extremely important bill that would identify the top ten fruits and vegetables that are imported into the state but may be grown commercially in the state. This would be moving Hawai'i forward to creating a more resilient food system that could better provide residents with essential food products and begin to alleviate Hawai'i's dependence on imported products.

Growing food we eat here in the islands would not only strengthen Hawai'i's food system sustainability, but also help to relieve stresses in times of emergencies or disasters by promoting home grown crops that would not be available with little to no open sea or air transports.

HB1383 would also help to deter climate change issues through reduction of goods transportation, and increase the use and vegetation coverage on agriculture lands, allowing for more carbon sequestration. In all this would create a more resilient Hawai'i, via a local production food system, transitioning to a more prosperous food resilient Hawai'i.

In order for Hawaii to become more resilient and self-sustaining, we must begin to create a stronger food secure infrastructure. That begins with identifying which fruits and vegetables Hawai'i residents consume and can be grown here, and filling the need with produce produced here at home in Hawai'i. This is why I humbly ask you to pass HB1383.

Mahalo,
Kelsey Amos & the Food+ Policy Team
[#fixourfoodsystem](#)

The Food+ Policy internship develops student advocates who learn work skills while increasing civic engagement to become emerging leaders. We focus on good food systems policy because we see the importance and potential of the food system in combating climate change and increasing the health, equity, and resiliency of Hawai'i communities.

In 2023, the cohort of interns are undergraduate and graduate students from throughout the UH System. They are a mix of traditional and nontraditional students, including parents and veterans, who have backgrounds in education, farming, public health, nutrition, and Hawaiian culture.



Email: communications@ulupono.com

HOUSE COMMITTEE ON FINANCE
Wednesday, March 1, 2023 — 2:30 p.m.

Ulupono Initiative supports HB 1383 HD1, Relating to Agriculture.

Dear Chair Yamashita 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 1383 HD1, which establishes a task force to identify the top ten fruits or vegetables that are imported into the State but may be commercially grown in the State and creates an income tax credit to incentivize the production of those fruits or vegetables to obviate the need to import them into the State.

Ulupono supports import replacement efforts to increase local food production for local consumption, which helps bolster our state's food security. By providing tax incentives for certain fruits and vegetables, farmers will be more likely to produce those fruits and vegetables. We believe that the task force membership should include a representative from the University of Hawai'i College of Tropical Agriculture and Human Resources and representatives from each county's economic development department. We note that it may not be necessary to include a Department of Education Assistant Superintendent to support this task force.

As Hawai'i's local food issues become increasingly complex and challenging, we appreciate this committee's efforts to look at policies that support local food production.

Thank you for the opportunity to testify.

Respectfully,

Micah Munekata
Director of Government Affairs

Investing in a Sustainable Hawai'i



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March 1, 2023

HEARING BEFORE THE
HOUSE COMMITTEE ON FINANCE

TESTIMONY ON HB 1383, HD1
RELATING TO AGRICULTURE

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 1383, HD1, which establishes a task force to identify the top ten fruits or vegetables that are imported into the State but may be commercially grown in the State and creates an income tax credit to incentivize the production of those fruits or vegetables to obviate the need to import them into the State.

About 85-90% of Hawai'i's food is imported which makes it particularly vulnerable to disruptions in shipping and the food supply. The "Economic Impacts of Increasing Hawai'i's Food Self-Sufficiency".report by Dr, Mathew Loke of HDOA and Dr. Ping Sung Leong of CTAHR estimates that replacing just 10% of the food we currently import would amount to approximately \$313 million. Assuming a 30% farm share, \$94 million would be realized at the farm-gate which would generate an economy-wide impact of an additional \$188 million in sales, \$47 million in earnings, \$6 million in state tax revenues, and more than 2,300 jobs.

Food import replacement can also have a significant impact on Hawai'i's economy by decreasing the risk of introducing harmful invasive pests. These pests could have devastating effects on the island's agricultural economy and its fragile ecosystems. Invasive species such as coqui frogs, red fire ants, CBB, two-line spittlebug, coffee leaf rust, macadamia nut feltid coccid, and varroa mites have severe consequences beyond agriculture and require millions in public dollars to fund eradication or containment programs.

We support efforts to replace agricultural imports with Hawai'i-grown products to provide our communities with the fresh fruits and vegetables they want while helping the State's farmers be more successful.

The proposed task force will provide necessary information to help farmers decide what products they can grow to replace that being brought into Hawai'i.

We are concerned about the deletion of the phrase "in the State" from the definitions of "agricultural import replacement" and "qualified taxpayer."

Thank you for the opportunity to testify on this measure of great importance.



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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 HB1383.**

This bill will have a positive impact on our farmers and end users alike. The bill establishes a task force to identify the top ten fruits or vegetables that are bought into the state but can be grown here in Hawaii. Furthermore, it provides an income tax credit to incentivize the production of these items in order to reduce the need to buy them in from abroad.

This bill can be a boon to Hawaii's agriculture industry. It will encourage more production of local fruits and vegetables and help create jobs for local farmers and increase the economic benefit for both the producers and consumers. This bill will also reduce the cost of food for people living in Hawaii, making it more affordable for everyone.

Mahalo for the opportunity to testify.

Kaipo Kekona, President HFUU/HFUF

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Agricultural Imports Replacement; Task Force; Income Tax Credit

BILL NUMBER: HB 1383 HD 1

INTRODUCED BY: House Committees on Agriculture & Food Systems and Economic Development

EXECUTIVE SUMMARY: Establishes a task force to identify the top ten fruits or vegetables that are imported into the State but may be commercially grown in the State. Creates an income tax credit to incentivize the production of those fruits or vegetables to obviate the need to import them into the State.

SYNOPSIS: In a non-HRS provision, establishes an agricultural import replacement task force within the Department of Agriculture to identify the top ten fruit and vegetable imports to the State that can be commercially grown by farmers in the State.

Adds a new section to chapter 235, HRS, to establish a nonrefundable tax credit equal to 100% of the qualified expenses of a qualified taxpayer, less any grant money received under section 141-10, HRS, up to \$_____ per taxable year.

Specifies that the credit is determined at the entity level and may be allocated to partners, S corporation shareholders, or trust beneficiaries following section 704(b) of the Internal Revenue Code.

Caps the tax credits at \$5 million per taxable year. If the cap is reached, any taxpayers who are limited may claim the balance of the credit in the subsequent taxable year.

Creates a process where a qualified taxpayer submits an application to the Department of Agriculture, which will certify eligible expenses. Allows for a user fee.

All tax credit claims shall be filed before the end of the 12th month following the close of the taxable year for which the credit may be claimed, upon pain of waiver of the right to claim the credit.

Defines “agricultural import replacements” as the fruits or vegetables grown and sold for consumption or for use by business entities that are the same types of fruits and vegetables identified by the agricultural import replacement task force as agricultural imports.

Defines “agricultural imports” as the top ten fruits or vegetables that are imported into the State but may be commercially grown in the State, as identified by the agricultural import replacement task force.

Defines “qualified expenses” as expenses incurred by a qualified taxpayer to produce agricultural import replacements. “Qualified expenses” include costs for any equipment, materials, or supplies necessary to grow agricultural import replacements.

EFFECTIVE DATE: June 30, 3000.

STAFF COMMENTS: The credit as proposed is a 100% credit, meaning, at least for expenses under the limit, the business pays nothing and the Hawaii taxpayers pay everything. There is currently nothing to indicate that the business seeking the credits would have “skin in the game,” and thus does not create any incentive for the business to be efficient.

The tax system is there to raise revenue to keep the government moving. 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.

Furthermore, 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, overtaxed by the pandemic?

If lawmakers want to subsidize this activity, then a direct appropriation would be more accountable and transparent. That way lawmakers will be very clear on (1) how much we taxpayers are paying, and (2) what we are getting in return.

Digested: 2/28/2023

HB-1383-HD-1

Submitted on: 2/28/2023 6:23:34 AM

Testimony for FIN on 3/1/2023 2:30:00 PM

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

Comments:

In strong support of HD1. Thank you.