

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. 1384, H.D.1, Relating to Manufacturing

**BEFORE THE:**

Senate Committee on Agriculture and Environment and  
Senate Committee on Energy, Economic Development, and Tourism

**DATE:** Wednesday, March 15, 2023

**TIME:** 1:00 p.m.

**LOCATION:** State Capitol, Room 224

Chairs Gabbard and DeCoite, Vice-Chairs Richards III and Wakai, and Members of the Committees:

The Department of Taxation ("Department") offers the following comments regarding H.B. 1384, H.D.1, for your consideration.

H.B. 1384, H.D.1, seeks to add a new section to chapter 235, Hawaii Revised Statutes (HRS), establishing a nonrefundable income tax credit for "qualified expenses" allowed to "qualified taxpayers" who are engaged in the food manufacturing industry in the State. The measure sets an unspecified cap on the amount of tax credit as it relates to taxpayer qualified expenses in a taxable year, as well as an unspecified aggregate cap for all qualified taxpayers in a taxable year. The measure requires taxpayers to submit written certified statements to the Chairperson of the Board of Agriculture in order to claim the credit. The Hawaii Department of Agriculture (HDOA) in turn is required to certify all qualified expenses for taxpayers as well as the cumulative amount of the tax credit. The terms "qualified expenses" and "qualified taxpayer" are defined in this measure.

This measure has a defective effective date of June 30, 3000 and applies to taxable years beginning after December 31, 2022.

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

The Department further requests that the certification process include verification that the taxpayer is a "qualified taxpayer" as defined on page 7, lines 7 to 11, of the bill, as the Department lacks the expertise to determine whether a taxpayer "manufactures food that has had at least fifty-one per cent of its wholesale value added by manufacture, assembly, fabrication, or production within the State."

Finally, the Department notes that it will require resources and time to implement the new credit. Accordingly, the Department requests that when the effective date of the measure is updated, it be amended to apply to taxable years beginning after December 31, 2023.

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

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Food Manufacturing Development Tax Credit

BILL NUMBER: HB 1384 HD 1

INTRODUCED BY: House Committee on Economic Development

EXECUTIVE SUMMARY: Creates an income tax credit to incentivize the food manufacturing industry in the State.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish the manufacturing development tax credit. The credit amount is 100% of the qualified expenses of the qualified taxpayer, up to \$\_\_\_\_\_ in any taxable year.

Defines “qualified expenses” as the expenses incurred by a qualified taxpayer for: (1) The purchasing of food manufacturing equipment; (2) Training of employees on the use of food manufacturing equipment; (3) Improving existing energy efficiency manufacturing equipment or the purchase of improved energy efficiency equipment in the food manufacturing process; or (4) Studying or planning the implementation of a new food manufacturing facility.

Defines “qualified taxpayer” as any person or business entity engaged in the food manufacturing industry in the State that manufactures food that has had at least fifty-one percent of its wholesale value added by manufacture, assembly, fabrication, or production within the State.

Requires the Department of Agriculture to verify and certify each claim for the credit including the total amount of credit for each taxable year and the cumulative amount of tax credit during the credit period. The department shall issue a certificate to qualifying taxpayers who shall file the certificate with the taxpayer’s tax return.

Allows the Department of Agriculture to assess and collect a fee to offset the cost of certifying tax credit claims.

If the amount of credits exceeds the taxpayer’s income tax liability, the excess of credit over liability may be used as a credit against the taxpayer’s income tax liability in subsequent years until exhausted.

All claims for a credit under this section shall be properly 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.

The total amount of credits allowed shall not exceed \$\_\_\_\_\_ for all qualified taxpayers in any taxable year; however, any taxpayer who is not eligible to claim the credit in a taxable year due to the cap having been exceeded for that taxable year shall be eligible to claim the credit in the subsequent taxable year.

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 give taxpayers money to do things that lawmakers want them to do for social policy reasons 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?

The additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive compared to the amount that may be paid out in credits.

Digested: 2/28/2023



# Chamber of Commerce HAWAII

*The Voice of Business*

**Testimony to the Senate Committee on Agriculture and Environment / Energy,  
Economic Development, and Tourism  
Wednesday, March 15, 2023, at 1:00 P.M.  
Conference Room 224 & Videoconference**

**RE: HB 1384 HD1 Relating to Manufacturing**

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

The Chamber of Commerce Hawaii ("The Chamber") **supports HB 1384 HD1**, which creates an income tax credit to incentivize the food manufacturing industry in the State. Applies to taxable years beginning after December 31, 2022.

Almost all industries in the State of Hawaii have struggled since the COVID-19 pandemic hit in 2020. On top of the pandemic, many businesses, included local food manufacturers, have had to deal with record high inflation, supply chain shortages, and a growing workforce shortage.

The state set goals to double local food production by 2030, but that is likely not going to happen unless food manufacturers have access to more capital or can receive investment from the private sector. Currently, there is no incentive for private investors to invest in agriculture or food manufacturing in Hawaii.

According to the department of Business, Economic Development, and Tourism, replacing just 14% of the food products currently imported into the State would amount to approximately \$313,000,000 in new revenues for Hawaii's good manufacturing sector. The State currently imports 85% - 90% of its food, fuel, and fiber.

Establishing an incentive for private food manufacturers in the State to use Hawaii-grown food ingredients would not only promote made-in-Hawaii products but will kick-start our economy and get the state closer to the goal of doubling local food production by 2030.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

Thank you for the opportunity to testify.



Email: [communications@ulupono.com](mailto:communications@ulupono.com)

SENATE COMMITTEES ON AGRICULTURE & ENVIRONMENT AND ENERGY, ECONOMIC  
DEVELOPMENT, & TOURISM  
Wednesday, March 15, 2023 — 1:00 p.m.

**Ulupono Initiative supports HB 1384 HD1, Relating to Manufacturing.**

Dear Chair Gabbard, Chair DeCoite, and Members of the Committees:

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 1384 HD1**, which creates an income tax credit to incentivize the food manufacturing industry in the State.

Ulupono supports local food manufacturing as it provides market options for local farmers and ranchers to bring products to consumers. We hope this measure may explicitly support manufacturing of local products grown and raised in the state.

By processing various fruits, vegetables, meats, or dairy products into value-added goods, farmers and ranchers can utilize all of their products, some of which may have previously been considered food waste, and diversify their revenue streams. This tax incentive will help grow local production and influence future investments in food manufacturing.

Thank you for the opportunity to testify.

Respectfully,

Micah Munekata  
Director of Government Affairs

*Investing in a Sustainable Hawai'i*

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#### Executive Officers

**Eddie Asato**, Pint Size Hawaii, *Chair*  
**Gary Okimoto**, Safeway, *Vice Chair*  
**Maile Miyashiro**, C&S Wholesale, *Secretary/Treas.*  
**Lauren Zirbel**, HFIA, *President and Executive Director*  
**John Schilf**, Rainbow Sales and Marketing, *Advisor*  
**Paul Kosasa**, ABC Stores, *Advisor*  
**Derek Kurisu**, KTA Superstores, *Advisor*  
**Toby Taniguchi**, KTA Superstores, *Advisor*  
**Joe Carter**, Coca-Cola Bottling of Hawaii, Odom, *Advisor*  
**Charlie Gustafson**, Tamura Super Market, *Immediate Past Chair*

TO: Committee on Agriculture and Environment, and Committee on Energy Economic Development and Tourism

Senator Mike Gabbard and Senator Lynn DeCoite, Chairs

Senator Herbert M. "Tim" Richards, III and Senator Glenn Wakai, Vice Chairs

FROM: HAWAII FOOD INDUSTRY ASSOCIATION

Lauren Zirbel, Executive Director

DATE: Wednesday, March 15, 2023

TIME: 1pm

RE: HB1384 HD1 Relating to Manufacturing

Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, and distributors of food and beverage related products in the State of Hawaii.

Increasing local food production, is a goal we all share, and we are all aware of the many challenges that our local food producers face. High real estate prices, high labor costs, lack of economy of scale, and high energy costs can make it challenging or even impossible for locally made products to reach the market at competitive prices with imported products. For those interested in using local agricultural products in their manufacturing these challenges can be compounded because they apply to both the raw agricultural materials and the value added finished products. Unfortunately, these obstacles also mean that many who might be interested in manufacturing food here in Hawaii do not.

This measure would be an important step in making Hawaii food manufacturing more competitive and more economically sustainable.

HFIA has proudly produced the Made in Hawaii Festival for over 25 years. We are keenly aware of the potential of our local food manufacturers and we know that with our support this sector and continue to grow and thrive. We urge you to pass this measure and we thank you for the opportunity to testify.



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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 15, 2023

HEARING BEFORE THE  
SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT  
SENATE COMMITTEE ON ENERGY, ECONOMIC DEVELOPMENT, AND TOURISM

**TESTIMONY ON HB 1384, HD1  
RELATING TO MANUFACTURING**

Conference Room 224 & Videoconference  
1:00 PM

Aloha Chairs Gabbard and DeCoite, Vice-Chairs Richards and Wakai, and Members of the Committees:

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 1384, HD1**, which creates an income tax credit to incentivize the food manufacturing industry in the State.

As expenses rise, increases in farm revenues and profits are critical to the continued viability of farms and ranches. One way farmers can do this is by "adding value" to raw agricultural crops. Currently, off-grade and excess production is sometimes wasted due to market conditions. Converting them into value-added products will not only increase farm revenue but also provide new business opportunities, increase employment opportunities, and address Hawai'i's goals of increased self-sufficiency and sustainability.

High production costs are a major driver of narrow profit margins for Hawai'i's farmers and value-added food producers. Labor, taxes, land, transportation, utilities, and supplies are all costs of doing business that often results in value-added food producers just being able to break even.

Hawai'i is potentially losing millions of dollars because of the cost to process agricultural crops into value-added products. HFB supports any program that supports the production of value-added products so that farmers can increase their income while allowing locally produced value-added goods can compete with imported products, strengthening our local economy.

The strength of Hawai'i's economy is dependent upon a diversity in commerce that is resilient to economic downturns and aggressive in creating new growth opportunities.

Thank you for the opportunity to testify on this measure.





**TESTIMONY OF TINA YAMAKI, PRESIDENT  
RETAIL MERCHANTS OF HAWAII  
March 15, 2023  
Re: HB 1384 HD1 RELATING TO MANUFACTURING.**

Good afternoon Chair Gabbard and Chair DeCoite and members of the Senate Committee on Agriculture & Environment and the Senate Committee on Energy, Economic Development, and Tourism. I am Tina Yamaki, President of the Retail Merchants of Hawaii and I appreciate this opportunity to testify.

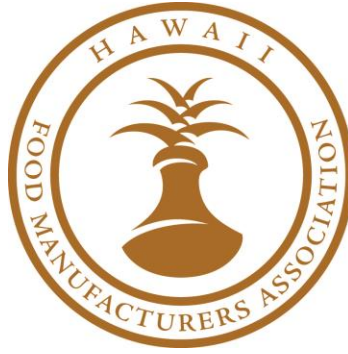
The Retail Merchants of Hawaii was founded in 1901, RMH is a statewide, not for profit trade organization committed to the growth and development of the retail industry in Hawaii. Our membership includes small mom & pop stores, large box stores, resellers, luxury retail, department stores, shopping malls, local, national, and international retailers, chains, and everyone in between.

We **STRONGLY SUPPORT** 1384 HD1. This measure creates an income tax credit to incentivize the food manufacturing industry in the State and is effective 6/30/3000.

This type of legislation would not only help many of our local businesses but may also be an incentive for more local manufacturing businesses to start up. This measure would also help the States 2030 goal of doubling Hawaii's local food production.

We have seen in the past few years the cost of food in Hawaii rising exponentially. All businesses have had to and are still dealing with higher shipping costs, supply chain disruption, increase in employee wages and unemployment insurance and the ongoing inflation to name a few. Many local businesses are still trying to get out of debt that has been incurred during the pandemic. This measure is a great step forward for not only manufacturers but also the consumers in the end.

Mahalo for this opportunity to testify.



**Testimony to the Senate Committee on Agriculture and Environment & Energy,  
Economic Development, and Tourism  
Wednesday, March 15th, 2023, at 1:00 P.M.  
Conference Room 224 & Via Videoconference**

**RE: HB 1384 HD1 Relating to Manufacturing**

Chair, Vice Chair, and Members of the Committee:

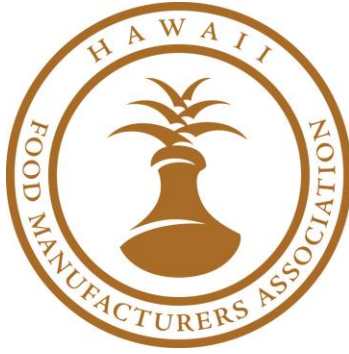
The Hawaii Food Manufacturers Association **strongly supports** HB 1384, which creates an income tax credit to incentivize the food manufacturing industry in the State. Applies to taxable years beginning after December 31, 2022.

The Hawaii Food Manufacturers Association (HFMA) is a non-profit organization of approximately 120 members that has been promoting Hawaiian grown or manufactured products since 1977. The HFMA works to increase the understanding and appreciation of the unique flavors, quality, and care that go into the production of Hawaii's fine foods and beverages represented by our valued members and enjoyed by our valued community.

The food manufacturing industry in Hawaii generates \$900 million in annual revenue and is the largest manufacturing sector in the state using local inputs according to the Hawaii State Department of Business, Economic Development and Tourism. The industry provides over 6,100 jobs in the state and an annual payroll of more than \$160 million.

Food manufacturers have struggled in recent years due to the COVID-19 pandemic, supply chain shortages, and rising inflation. This bill would be a tremendous help to the small businesses that are struggling to keep their doors open and bring back workers that were laid off during the last few years.

The state set goals to double local food production by 2030, but that is likely not going to happen unless small mom and pop food manufacturers have access to more capital or can receive investment from the private sector. Currently, there is no incentive for private investors to invest in agriculture or food manufacturing in Hawaii.



Establishing an incentive for private food manufacturers in the State to use Hawaii-grown food ingredients would not only promote made-in-Hawaii products but will kick-start our economy and get the state closer to the goal of doubling local food production by 2030.

Thank you for the opportunity to testify.



Written Statement of  
**Len Higashi**  
Executive Director  
Hawaii Technology Development Corporation  
before the  
**SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT**  
And the  
**SENATE COMMITTEE ON ENERGY, ECONOMIC DEVELOPMENT, AND TOURISM**  
Wednesday, March 15, 2023  
1:00 p.m.  
Conference Room 224 & Videoconference

In consideration of  
**HB1384, HD1**  
**RELATING TO MANUFACTURING**

Chairs Gabbard and DeCoite, Vice Chairs Richards and Wakai, and Members of the Committees.

The Hawai'i Technology Development Corporation (HTDC) **supports** the intent of HB1384, HD1 that creates an income tax credit to incentivize the food manufacturing industry in the State.

HTDC supports initiatives aimed at growing tech and manufacturing jobs. HTDC administers the Manufacturing Development Program (a.k.a. Manufacturing Assistance Program or MAP grants) that provides up to 20% reimbursement up to \$100,000 on qualified expenses that help Hawai'i manufacturers become globally competitive. HTDC comments that manufacturers should be prohibited from claiming the tax credit and grant for the same expense.

HTDC looks forward to working with stakeholders in moving this initiative forward. Thank you for the opportunity to offer these comments.



Environmental Caucus of  
The Democratic Party of Hawai'i

## Agriculture & Food Security Committee

Wednesday, March 15, 2023, 1:00 pm

Senate Committees on Agriculture and Environment and on Energy, Economic Development, and Tourism

HOUSE BILL 1384 – RELATING TO MANUFACTURING

Position: Strong Support

Me ke Aloha, Chairs Gabbard and DeCoite, Vice-Chairs Richards and Wakai, and members of the Senate Committees on Agriculture and Environment and on Energy, Economic Development, and Tourism:

HB1384 creates an income tax credit to incentivize the food manufacturing industry. It complements Act 215 of the 2015 Session Laws, which created the Manufacturing Development Program providing grant assistance.

The Agriculture & Food Security Committee strongly supports affordable healthy produce for Hawaii's working families, produced locally to guard against climate disaster in other food-growing regions and the disruption of supply chains to Hawaii. This will involve, among other things, developing aspects of infrastructure that reduce costs for both agricultural producers and small business processors of raw fruits, vegetables, grains, meats, and dairy products into finished goods and value-added products. Because a major drawback in Hawaii is the lack of efficiencies of scale, every tool to make local produce more competitive is beneficial. A tax credit for manufacturing costs benefits both producers and manufacturers.

The Manufacturing Development Program also targets the prevention of food waste and helps diversify Hawaii's economy by broadening sales to grocers and wholesalers who sell to households, restaurants, or institutional food services.

Mahalo for the opportunity to address this matter.

/s/ Charley Ice Acting Chair, Agriculture and Food Security Committee  
Environmental Caucus of the Democratic Party

**HB-1384-HD-1**

Submitted on: 3/10/2023 8:27:50 PM

Testimony for AEN on 3/15/2023 1:00:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Andrew Crossland	Individual	Support	Written Testimony Only

Comments:

I support this Bill.

**HB-1384-HD-1**

Submitted on: 3/14/2023 6:08:40 AM

Testimony for AEN on 3/15/2023 1:00:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Caroline Azelski	Individual	Support	Written Testimony Only

Comments:

In support of HD1. Thank you.