

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
KA 'OIHANA MAHI'AI
1428 South King Street
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**TESTIMONY OF SHARON HURD
CHAIRPERSON, BOARD OF AGRICULTURE**

BEFORE THE HOUSE COMMITTEE ON AGRICULTURE AND FOOD SYSTEMS

**MONDAY, FEBRUARY 13, 2023
2:20 P.M.**

CONFERENCE ROOM 312 AND VIDEO CONFERENCING

**HOUSE BILL NO. 608
RELATING TO TAXATION**

Chairperson Gates and Members of the Committee:

Thank you for the opportunity to testify on House Bill 608 which amends Chapter 237 to establish an income tax credit for organic food production. The Department supports this measure with the following comments.

The Department acknowledges the need to reduce the cost burden on local farmers and emerging young farmers, in particular. This measure provides a welcome relief to local organic farming operations that are often smaller and incur a higher cost of production as compared to conventional farming operations.

Finally, the Department appreciates all efforts to lower the cost burden facing qualified farming operations across the state but defers to the Department of Taxation with respect to the proposed amendments in Chapter 237.

Thank you for your consideration on this measure.



JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau
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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. 608, Relating to Taxation

BEFORE THE:

House Committee on Agriculture & Food Systems

DATE: Monday, February 13, 2023

TIME: 2:20 p.m.

LOCATION: State Capitol, Room 312

Chair Gates, Vice-Chair Kahaloa, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 608 for your consideration.

H.B. 608 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create a nonrefundable organic foods production tax credit. The credit is equal to the qualified expenses of the qualified taxpayer, up to a maximum of \$50,000. "Qualified expenses" and "qualified taxpayer," among other included terms, are defined within the measure. The bill sets an aggregate cap of \$2,000,000 and requires the Hawai'i Department of Agriculture (HDOA) to certify the amount of the tax credit for each taxpayer.

This measure is effective upon approval and applies to taxable years beginning after December 31, 2023 and shall be repealed on December 31, 2033.

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

Department of Taxation Testimony
H.B. 608
February 13, 2023
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The Department further notes that due to the number of bills with law changes that have been introduced this year, the Department may not have the resources to timely implement all measures passed this session. The Department will continue to monitor the status of proposed legislation and will advise whether some changes will require a later effective date.

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



HAWAII ALLIANCE *for* PROGRESSIVE ACTION

House Committee on Agriculture & Food Systems

Hawai'i Alliance for Progressive Action (HAPA) Supports: HB608

Monday, February 13, 2023 2:20 p.m. Conference Room 312

Aloha Chair Gates, Vice Chair Kahaloa and Members of the Committee,

HAPA supports HB608 which establishes an organic foods production tax credit applicable to taxable years beginning after 12/31/2023.

Providing additional support to Hawaii's organic agriculture industry could help to reduce reliance on agricultural imports and to foster job growth in the State. Organic farming practices improves soil fertility and structure, promotes biodiversity, and reduces the risks of human, animal, and environmental exposure to toxic materials. Reducing the burden on the emerging number of small farmers seeking costly, but necessary, organic certifications and inspections will help to promote the production and availability of locally-grown organic food in Hawaii.

Please support HB608.

Thank you for your consideration.

Respectfully,

Anne Frederick
Executive Director

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Organic Foods Production Tax Credit

BILL NUMBER: HB 608

INTRODUCED BY: GATES, COCHRAN, HUSSEY-BURDICK, KAHALOA, KILA, LAMOSAO, LOWEN, MARTEN, NISHIMOTO, PERRUSO, TAM, TODD

EXECUTIVE SUMMARY: Establishes an organic foods production tax credit.

SYNOPSIS: Adds a new section to HRS chapter 235, to be titled the organic foods production tax credit. The credit shall be allowed to a qualified taxpayer, and the credit amount is 100% of the taxpayer's qualified expenses, up to a maximum of \$50,000.

Defines "qualified taxpayer" as a producer, handler, or handling operation, as those terms are defined in section 6502 of title 7, United States Code: (1) that sells agricultural products meeting the standards and requirements of the Organic Foods Production Act; (2) that has applied for organic certification, in accordance with the requirements of the Organic Foods Production Act; and (3) whose gross income from the sale of organically produced agricultural products for the most recently reported fiscal year totals no more than \$500,000.

Defines "qualified expenses" as expenses incurred by a qualified taxpayer to produce organically produced agricultural products, including expenses incurred to obtain organic certification from the United State Department of Agriculture, pursuant to the Organic Foods Production Act. "Qualified expenses" include: (1) application fees; (2) inspection costs; (3) fees related to equivalency agreement/arrangement requirements, travel/per diem for inspectors, user fees, sales assessments, and postage; and (4) costs for any equipment, materials, or supplies necessary for organic certification or production of agricultural products, in accordance with the qualified taxpayer's organic system plan and the organic production and handling requirements of the National Organic Program, codified at 7 Code of Federal Regulations part 205, subpart C, including but not limited to certified organic seed, cover crops, or animal feed. "Qualified expenses" shall not include any amount refunded or to be refunded to the taxpayer by the United States Department of Agriculture's organic certification cost-share program or any other similar financial assistance program.

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 \$2 million 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 \$2 million cap having been exceeded for that taxable year shall be eligible to claim the credit in the subsequent taxable year.

EFFECTIVE DATE: Taxable years beginning after December 31, 2023; repeals December 31, 2033.

STAFF COMMENTS: This is not the first time such a credit has appeared. One was enacted in 2016, by Act 258, SLH 2016. The Department of Agriculture was not a huge fan of this credit, first lobbying to scupper it and then delaying its implementation for three years. Trouble is, the credit was drafted to last only five years. When the Department of Agriculture finally caved and said they would administer the credit, there were only a few months left in the credit's life.

This credit provides a dollar-for-dollar reimbursement of the taxpayer's "qualified expenses," up to a maximum of \$50,000 per year. Qualified expenses are defined as expenses incurred to produce organic agricultural products, including expenses to obtain organic certification from the U.S. Department of Agriculture. Farmers who make more than \$500,000 in gross income from the sale of organically produced agricultural products are disqualified. But farmers who make gobs of money from the sale of non-organic products would still be eligible.

As with any other targeted tax credit, this measure picks winners and losers in the marketplace. The winners are the qualified taxpayers, and the losers are the rest of us who need to pay for the cost of government and make up for the winners.

These, along with numerous other proposals targeted at specific types of business activity, are truly an indictment of what everyone has known and acknowledged since before Hawaii became a state, that is, the climate imposed by government regulations and taxation makes it difficult to survive without some kind of subsidy such as tax credits from government. Once those subsidies disappear, so will the businesses. Instead of throwing out such breaks for special interests, lawmakers must endeavor to make Hawaii's business climate more welcoming and conducive to nurturing entrepreneurs.

Digested: 2/12/2023



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Kauai

Aloha Chair Gates, Vice Chair Kahaloa, and Members of the House Agriculture & Food Systems 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 HB608.**

For many of our farmers and members, organic agriculture represents an opportunity to improve the quality of their produce and increase revenue from their farms while conserving and protecting our natural resources.

The proposed tax credit will help our farmers defray the essential investments they must make in transitioning to organic agriculture, including costly new materials, labor and training. A tax credit of the magnitude proposed by House Bill 608 will provide incentive for our farmers to make this transition, which ultimately will benefit both our members and the public at large. We urge our representatives in the legislature to vote in favor of this bill, as it will be a boon to current and future organic farmers.

Mahalo for the opportunity to testify.

Kaipo Kekona, President HFUU/HFUF

A handwritten signature in black ink that reads "Kaipo S.K. Kekona".

HB-608

Submitted on: 2/10/2023 3:45:19 PM

Testimony for AGR on 2/13/2023 2:20:00 PM

Submitted By	Organization	Testifier Position	Testify
B.A. McClintock	Individual	Support	Written Testimony Only

Comments:

The more organic foods the less illnesses from toxic chemicals used in conventional farming.
Please support this bill.

HB-608

Submitted on: 2/10/2023 6:17:05 PM

Testimony for AGR on 2/13/2023 2:20:00 PM

Submitted By	Organization	Testifier Position	Testify
Dana Keawe	Individual	Support	Written Testimony Only

Comments:

Support with comment/question.

Why tax credit for only 10 years?

HB-608

Submitted on: 2/10/2023 7:35:49 PM

Testimony for AGR on 2/13/2023 2:20:00 PM

Submitted By	Organization	Testifier Position	Testify
Andrew Crossland	Individual	Support	Written Testimony Only

Comments:

I support this Bill.

HB-608

Submitted on: 2/12/2023 1:03:05 PM

Testimony for AGR on 2/13/2023 2:20:00 PM

Submitted By	Organization	Testifier Position	Testify
Sherry Pollack	Individual	Support	Written Testimony Only

Comments:

I support HB608 that establishes an organic foods production tax credit applicable to taxable years beginning after 12/31/2023. Providing additional support to Hawaii's organic agriculture industry will help build Hawaii's resiliency by reducing our reliance on agricultural imports. Organic farming practices improve soil fertility, promotes biodiversity, and reduces the risks of human, animal, and environmental exposure to toxic materials. Reducing the burden on the emerging number of small farmers seeking costly, but necessary, organic certifications and inspections will help to promote the production and availability of locally-grown organic food in Hawaii. This is a win:win.

Please support this important measure.

HB-608

Submitted on: 2/12/2023 7:38:07 PM

Testimony for AGR on 2/13/2023 2:20:00 PM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Support	Written Testimony Only

Comments:

Please support HB608.

HB-608

Submitted on: 2/13/2023 10:48:33 AM

Testimony for AGR on 2/13/2023 2:20:00 PM

Submitted By	Organization	Testifier Position	Testify
Nanea Lo	Individual	Support	Written Testimony Only

Comments:

Hello,

Providing additional support to Hawaii's organic agriculture industry could help to reduce reliance on agricultural imports and to foster job growth in the State. Organic farming practices improves soil fertility and structure, promotes biodiversity, and reduces the risks of human, animal, and environmental exposure to toxic materials. Reducing the burden on the emerging number of small farmers seeking costly, but necessary, organic certifications and inspections will help to promote the production and availability of locally-grown organic food in Hawaii.

Please support HB608.

Thank you for your consideration,

Nanea Lo, Mō'ili'ili