

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Donovan M. Dela Cruz, Chair;
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

From: Isaac W. Choy, Director
Department of Taxation

Date: March 4, 2021
Time: 10:00 A.M.
Place: Via Videoconference, Hawaii State Capitol

Re: S.B. 478, S.D. 1, Relating to Farms

The Department of Taxation (Department) offers the following comments regarding S.B. 478, S.D. 1, for your consideration.

S.B. 478, S.D. 1, amends section 235-7, Hawaii Revised Statutes (HRS), by excluding from income tax the income earned by a farmer from farming activities, up to an unspecified percentage of the farmer's gross annual income or an unspecified dollar cap, whichever is less. The measure is effective on July 1, 2021, and applies to taxable years beginning after December 31, 2020.

The bill defines "farmer" as an individual earning more than an unspecified percentage of their annual gross income from farm products sold within the State, and defines "farm products" as products (for economic and not personal use) produced from the cultivation of crops, including crops for bioenergy, flowers, vegetables, foliage, fruits, forage, and timber; game and fish propagation; and raising of livestock, including poultry, bees, fish, or other animal or aquatic life.

The Department notes that it is able to administer the measure with its current effective date.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
Governor

JOSH GREEN
Lt. Governor



PHYLLIS SHIMABUKURO-GEISER
Chairperson, Board of Agriculture

MORRIS M. ATTA
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
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**TESTIMONY OF PHYLLIS SHIMABUKURO-GEISER
CHAIRPERSON, BOARD OF AGRICULTURE**

BEFORE THE SENATE COMMITTEE ON WAYS AND MEANS

**THURSDAY, MARCH 04, 2021
10:00 A.M.
VIA VIDEO CONFERENCE**

**SENATE BILL NO. 478, SD 1
RELATING TO FARMS**

Chairperson Dela Cruz and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill No. 478 that creates an exclusion from income tax for a to-be-determined percentage of gross annual income or a to-be-determined dollar amount of gross annual income earned by a farmer from agricultural activities. A "farmer" is defined as a person earning more than a to-be-determined percentage of the person's annual gross income from farm products and value-added farm products sold, raised, and value-added by the person. "Farm products" is defined as production from agricultural activities enumerated in Section 205-4.5(a)(1) through (3) and excludes farm products for personal use. The Department supports this measure and defers to the Department of Taxation.

As written, the bill would improve the bottom line for start-up farming operations that meet the percentage gross income threshold. For qualified farmers, according to the 2012 Census of Agriculture (Hawaii, Volume 1, Chapter 1: State Level Data, Table 60, page 44), of Hawaii's 7,000 farmers (includes all business entities), approximately 618 (9 percent) earn more than 75 percent of their total household income from farming. There is no more recent information on the percentage of total household income from



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farming as the National Agricultural Statistics Service discontinued the gathering of data in the Census.

Thank you for the opportunity to comment on this measure

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Exclusion for Farms

BILL NUMBER: SB 478, SD1

INTRODUCED BY: Senate Committee on Agriculture and Environment

EXECUTIVE SUMMARY: Creates an exclusion from income tax for the lesser of a percentage of gross annual income or an amount of gross annual income earned by a farmer from farming activities. Applies to taxable years beginning after 12/31/2020.

SYNOPSIS: Amends HRS section 235-7 to add a new paragraph excluding from gross income the lesser of ____ per cent of gross annual income or \$ ____ of gross annual income earned by a farmer from farming activities.

Defines “farmer” as a person earning more than ____ per cent of the person's annual gross income from the sale of farm products and value-added farm products grown, raised, and value-added by the person.

Defines “farm products” as products produced from the cultivation of crops, including crops for bioenergy, flowers, vegetables, foliage, fruits, forage, and timber; game and fish propagation; and raising of livestock, including poultry, bees, fish, or other animal or aquatic life that are propagated for economic use; provided that farm products shall not include products for personal use.

EFFECTIVE DATE: 7/1/2021; applies to taxable years beginning after December 31, 2020.

STAFF COMMENTS: The idea of providing a tax incentive to encourage investments may have been acceptable when the economy was on a roll and advocates could point to incentives to encourage the use of or investment in emerging technologies. But what lawmakers and administrators have learned in these past few years is that unbridled tax incentives, where there is no accountability or limits on how much can be claimed, are irresponsible.

It should also be noted that an income exclusion affects taxpayers differently depending on the amount of net income they otherwise have. For example, a \$50,000 income exclusion would create a maximum \$5,500 tax benefit to an individual making over \$200,000 in adjusted gross income, where the same individual with \$35,000 adjusted gross income and \$15,000 net profit would see a benefit of perhaps \$725.

Instead, lawmakers should consider an appropriation of a specific number of taxpayer dollars. At least lawmakers would have a better idea of what is being funded. A direct appropriation would be preferable to the income exclusion as it would: (1) provide some accountability for the taxpayers’ funds being utilized to support this effort; and (2) not be a blank check.

Digested 3/2/2021



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March 4, 2021

HEARING BEFORE THE
SENATE COMMITTEE ON WAYS AND MEANS

TESTIMONY ON SB 478, SD1
RELATING TO FARMS

Conference Room 211
10:00 AM

Aloha Chair Dela Cruz, Vice-Chair Keith-Agaran, and Members of the Committee:

I am Brian Miyamoto, Executive Director of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,800 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 supports SB 478, SD1, which creates an exclusion from income tax for the lesser of a percentage of gross annual income or an amount of gross annual income earned by a farmer from farming activities.

Farming is a tough business. High production costs are a major driver of narrow profit margins for Hawaii's farmers. Land, water, labor, taxes, transportation, utilities, inputs, invasive species, and food safety regulations are all costs of doing business that often results in our farmers just being able to break even. 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.

This measure defines "farmer" as a person which means the exemption is limited to individuals This definition will exclude other forms of farm ownership.

Thank you for this opportunity to testify on this important subject.



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Toby Taniguchi, KTA Superstores, *Advisor*

TO:

Committee on Ways and Means
Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: March 4, 2021
TIME: 10am
PLACE: Via Videoconference

RE: SB478 SD1 Relating to Farms

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.

HFIA supports efforts to increase local food production. The high cost of labor in our state combined with the high cost of real estate make agricultural activities and food manufacturing commercially very challenging in Hawaii. Tax credits like this can help encourage local agriculture and potentially bring down the cost of local food in our state. We support tax credits for local farmers. Thank you for the opportunity to testify.



Email: communications@ulupono.com

LATE

SENATE COMMITTEE ON WAYS & MEANS
Thursday, March 4, 2021 — 10:00 a.m.

Ulupono Initiative supports SB 478 SD 1, Relating to Farms.

Dear Chair Dela Cruz 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 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; and better management of freshwater and waste.

Ulupono supports SB 478 SD 1, which creates an exclusion from income tax for the lesser of a percentage of gross annual income or an amount of gross annual income earned by a farmer from farming activities.

Ulupono supports local food production for local consumption, which we believe will help support our state's food security. A policy such as this may go a long way toward influencing Hawai'i's farmers and ranchers to produce food for our community while also keeping money within the state to support our economy. We recognize that you face many difficult decisions this year to balance the budget in the midst of this economic crisis, but we hope that this support for local farmers can be considered.

Thank you for this opportunity to testify.

Respectfully,

Micah Munekata
Director of Government Affairs

Investing in a Sustainable Hawai'i

SB-478-SD-1

Submitted on: 3/2/2021 4:29:19 PM

Testimony for WAM on 3/4/2021 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Amy Brinker	Individual	Support	No

Comments:

Support