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## A BILL FOR AN ACT

RELATING TO INCOME TAX.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that the rates for water  
2 supplied to farmers by state irrigation systems are  
3 substantially lower than the rates that should be charged by the  
4 State in order to sustain the irrigation systems. As such,  
5 farmers who pay state irrigation system rates are in effect  
6 being subsidized by the State. This disparity results in the  
7 inequitable treatment of farmers who pay more from county water  
8 systems as opposed to farmers on state irrigation projects.

9           SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
10 amended by adding a new section to be appropriately designated  
11 and to read as follows:

12           "§235-       Farmers irrigation tax credit. (a) Every  
13 taxpayer who files an individual or corporate income tax return  
14 for a taxable year and who is not claimed, or is not otherwise  
15 eligible to be claimed, as a dependent by another taxpayer for  
16 Hawaii state individual income tax purposes may claim a farmers  
17 irrigation tax credit against the taxpayer's individual or



1 corporate income tax liability for the taxable year in which the  
2 income tax return is being filed; provided that the taxpayer:

- 3 (1) Derives at least fifty per cent of the taxpayer's  
4 gross income from farming;
- 5 (2) Purchases water from a county board of water supply;  
6 and
- 7 (3) Lacks access to state irrigation projects under  
8 chapter 167.

9 (b) The amount of the credit shall be equal to the  
10 difference between:

- 11 (1) The amount charged for water by state irrigation  
12 projects under chapter 167; and
- 13 (2) The amount that should be charged by state irrigation  
14 projects under chapter 167 in order to sustain the  
15 irrigation projects,

16 for the taxable year in which the tax return is being filed.

17 (c) The tax credit claimed by a taxpayer pursuant to this  
18 section shall be deductible from the taxpayer's income tax  
19 liability, if any, for the tax year in which the credit is  
20 properly claimed. If the tax credit claimed by a taxpayer  
21 exceeds the amount of income tax payment due from the taxpayer,



1 the excess of credit over payment due shall be refunded to the  
2 taxpayer; provided that:

3 (1) The tax credit properly claimed by a taxpayer who has  
4 no income tax liability shall be paid to the taxpayer;  
5 and

6 (2) No refunds or payment on account of the tax credit  
7 allowed by this section shall be made for amounts less  
8 than \$1.

9 (d) All claims for tax credits under this section,  
10 including any amended claims, shall be filed on or before the  
11 end of the twelfth month following the close of the taxable year  
12 in which the credits may be claimed. Failure to comply with the  
13 foregoing provision shall constitute a waiver of the right to  
14 claim the credit.

15 (e) The chairperson of the board of agriculture shall  
16 annually report to the legislature and the director of taxation  
17 no later than twenty days prior to the convening of each regular  
18 legislative session on the costs of operating or sustaining  
19 state irrigation projects during the past year.

20 (f) The director of taxation:

21 (1) Shall prepare forms as may be necessary to claim a  
22 credit under this section;



- 1        (2) May require the taxpayer to furnish reasonable
- 2            information to ascertain the validity of the claim for
- 3            credit made under this section; and
- 4        (3) May adopt rules pursuant to chapter 91 to effectuate
- 5            this section."

6            SECTION 3. Section 167-22, Hawaii Revised Statutes, is  
 7 amended by amending subsection (b) to read as follows:

8            "(b) The irrigation system revolving fund shall be  
 9 administered by the department of agriculture. Moneys in the  
 10 revolving fund shall be expended for:

- 11            (1) Administrative costs, engineering surveys, economic
- 12                    studies, plans, and maps; [~~and~~]
- 13            (2) Other water projects or purposes of the board of
- 14                    agriculture[~~-~~]; and

15        (3) The farmers irrigation tax credit in section 235-    ;  
 16            provided that:

17            (A) Moneys in the fund equal to the total amount of  
 18                    farmers irrigation tax credits approved in the  
 19                    previous year shall be paid to the credit of the  
 20                    general fund on an annual basis;

21            (B) The director of taxation shall report annually to  
 22                    the chairperson of the board of agriculture on



1           the total amount of the farmers irrigation tax  
 2           credits approved in the previous year; and  
 3           (C) The director of taxation and the chairperson of  
 4           the board of agriculture each may adopt rules  
 5           pursuant to chapter 91 to effectuate this  
 6           paragraph.

7           In the event any moneys are expended from the revolving  
 8 fund for engineering surveys, economic studies, plans, and other  
 9 expenses directly attributable to any water project, or for the  
 10 establishment of any water project, the amount of the  
 11 expenditures shall be reimbursed to the revolving fund from any  
 12 funds received by the board for and on account of the project."

13           SECTION 4. Statutory material to be repealed is bracketed  
 14 and stricken. New statutory material is underscored.

15           SECTION 5. This Act shall take effect upon its approval  
 16 and shall apply to taxable years beginning after December 31,  
 17 2007.

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Calvin K. Day      Tom Brown      Shawn O'Shea

J. Neil Lancaster      INTRODUCED BY:      [Signature]

Markus J. Meyer      [Signature]      [Signature]

B. J. Nekoran      [Signature]      [Signature]

[Signature]      [Signature]      [Signature]

[Signature]      [Signature]      [Signature]

H.B. NO. 2777

Mel Carroll

Tony White

Kirk Caldwell

James J. [unclear]



**Report Title:**

Income Tax Credit; Irrigation; Irrigation System Revolving Fund

**Description:**

Establishes an income tax credit for farmers who purchase water at higher rates from county water boards rather than at lower state irrigation system rates. Establishes the amount of the credit as the difference between the amount charged by state irrigation systems and the amount the state irrigation systems should charge in order to sustain operations. Deducts the cost of the tax credit from the irrigation system revolving fund.

