

Honolulu, Hawaii

MAR 20 2007

RE: H.B. No. 1639
H.D. 2
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Madam:

Your Committee on Water, Land, Agriculture, and Hawaiian Affairs, to which was referred H.B. No. 1639, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO IMPORTANT AGRICULTURAL LANDS,"

begs leave to report as follows:

The purpose of this measure is to achieve the long-term agricultural viability and use of important agricultural lands by creating an incentive for farmers to designate their lands as important agricultural lands.

Specifically, this measure:

- (1) Excludes rental income derived from qualifying agricultural leases on lands identified and designated as important agricultural lands from gross income, adjusted gross income, and taxable income;
- (2) Exempts rental income derived from qualifying agricultural leases on lands identified and designated as important agricultural lands from the general excise tax; and
- (3) Appropriates an unspecified amount for the Department of Agriculture to assess the impact the income tax exclusion of rental income derived from important agricultural lands provided for in this measure, and



requires the Department to submit an annual report regarding the assessment.

Testimony in support of this measure was submitted by the Department of Agriculture. Testimony in opposition to this measure was submitted by one individual. The Department of Taxation and the Tax Foundation of Hawaii submitted comments.

In 2005, the Legislature enacted Act 183, Session Laws of Hawaii 2005, to preserve and protect agricultural lands, promote diversified agriculture, increase agricultural self-sufficiency, and assure the availability of agriculturally suitable lands. Furthermore, the Legislature acknowledged that agricultural viability is a vital component of a diversified agricultural industry, and established a process to identify incentives to encourage farmers and landowners to designate their lands as important agricultural lands. Your Committee finds that establishing a tax incentive program relating to important agricultural lands will assist in enhancing the agricultural viability on important agricultural lands.

Of particular note, your Committee received a fiscal impact statement from the Department of Taxation that this measure, if enacted, would result in an annual revenue loss to the State of \$376,000. However, the fiscal impact statement submitted did not specify the methodology by which the fiscal impact was calculated.

Your Committee has amended this measure by:

- (1) Deleting the amendment to section 237-24, Hawaii Revised Statutes, and adding language that amends section 237-24.75, Hawaii Revised Statutes, by including rental income derived from agricultural leases on important agricultural lands as an exemption from the general excise tax;
- (2) Adding language that makes:
 - (A) Section 1 of this measure applicable to taxable years beginning after December 31, 2008; and
 - (B) Section 2 of this measure effective on July 1, 2009, and applicable to gross income or gross proceeds received after June 30, 2009; and

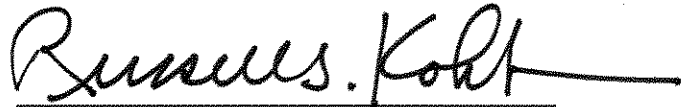


- (3) Making technical, nonsubstantive amendments for the purposes of style and consistency.

Your Committee believes that this measure, as amended, fulfills the intent of this measure, which is to achieve the long-term agricultural viability and use of important agricultural lands.

As affirmed by the record of votes of the members of your Committee on Water, Land, Agriculture, and Hawaiian Affairs that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1639, H.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1639, H.D. 2, S.D. 1, and be referred to the Committee on Economic Development and Taxation.

Respectfully submitted on
behalf of the members of the
Committee on Water, Land,
Agriculture, and Hawaiian
Affairs,




RUSSELL S. KOKUBUN, Chair



The Senate
 Twenty-Fourth Legislature
 State of Hawaii

Record of Votes
Committee on Water, Land, Agriculture and Hawaiian Affairs
WAH

Bill / Resolution No.:*	Committee Referral:	Date:		
HB 1639 HD 2	WAH, EDT, WAM	3/19/07		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is:				
<input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
KOKUBUN, Russell S. (C)	X			
TOKUDA, Jill N. (VC)	X			
FUKUNAGA, Carol	X			
HEE, Clayton				X
SLOM, Sam	X			
TOTAL	4	0	0	1
Recommendation:				
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
				
Distribution:				
Original	Yellow	Pink		
File with Committee Report	Clerk's Office	Drafting Agency		

*Only one measure per Record of Votes