

Honolulu, Hawaii

MAR 01 2007

RE: S.B. No. 1221
S.D. 2

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

Madam:

Your Committees on Economic Development and Taxation and Ways and Means, to which was referred S.B. No. 1221, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO AGRICULTURAL TAXATION,"

beg leave to report as follows:

The purpose of this measure is to establish the important agricultural lands (IAL) agricultural business tax credit.

Specifically, this measure establishes an agricultural business investment tax credit that:

- (1) Creates a nonrefundable tax credit that is equal to one hundred per cent of the aggregate investments made in a qualified agricultural business, including agricultural business investments made by the agricultural business itself;
- (2) Staggers the payment of the tax credit over a five-year period;
- (3) Provides a partial recapture if the investment is withdrawn or sold during that five-year period or if the business no longer qualifies as a qualified agricultural business; and
- (4) Caps the total credit to be generated in a particular tax year at \$2,500,000.



The Hawaii Farm Bureau; Maui County Farm Bureau; Hawaii Agricultural Research Center; Hawaii Crop Improvement Association; Alexander & Baldwin, Inc.; and Maui Land & Pineapple Company, Inc., submitted written comments in support of this measure. The Agribusiness Development Corporation, Department of Taxation, and Tax Foundation of Hawaii submitted written comments.

Your Committees received a fiscal impact statement from the Department of Taxation (Department) that the revenue loss to the State would be approximately \$27,800,000 annually.

In its methodology, the Department estimated qualifying inflation-adjusted farm expense totals at about \$70,600,000. It was assumed that one-half of farm land in Hawaii would qualify as IAL. In 2006, allocations from the Irrigation Repair and Maintenance Special Fund were approximately \$15,000,000; it is assumed that fifty per cent of this amount, or \$7,500,000, would be allocated to IAL related projects. Therefore, a one hundred per cent tax credit would result in a revenue loss of approximately \$27,800,000 ($\$70,600,000 \times 50\%$) - \$7,500,000).

Your Committees have considered the concerns of the Department of Taxation and continue to address these issues. Your Committees find that further legislative discussion is merited, given the important incentives that this measure would provide for Hawaii's agricultural economy.

Your Committees have amended this measure by:

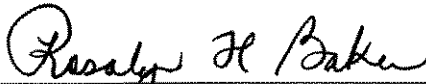
- (1) Clarifying the percentage of qualified agricultural costs allowed in the year the costs were incurred and for four years after, with unspecified maximum amounts for each of the five years;
- (2) Changing the amount of the credit from one hundred per cent to an unspecified percentage;
- (3) Inserting unspecified effective dates; and
- (4) Making technical amendments for the purpose of clarity.

As affirmed by the records of votes of the members of your Committees on Economic Development and Taxation and Ways and Means that are attached to this report, your Committees are in accord with the intent and purpose of S.B. No. 1221, S.D. 1, as amended



herein, and recommend that it pass Third Reading in the form attached hereto as S.B. No. 1221, S.D. 2.

Respectfully submitted on
behalf of the members of the
Committees on Economic
Development and Taxation and
Ways and Means,



ROSALYN H. BAKER, Chair




CAROL FUKUNAGA, Chair



The Senate
 Twenty-Fourth Legislature
 State of Hawaii


Record of Votes
Committee on Economic Development and Taxation
EDT

Bill / Resolution No.:*	Committee Referral:	Date:
SB 1221, SDI	WAH, EDT/WAM	2/26/07
<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	
FUKUNAGA, Carol (C)	✓	
ESPERO, Will (VC)	✓	
ENGLISH, J. Kalani	✓	
IGE, David Y.		✓
SLOM, Sam	✓	
TOTAL	4	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

The Senate
 Twenty-Fourth Legislature
 State of Hawaii

Record of Votes
 Committee on Ways and Means
 WAM

Bill / Resolution No.:* 1221 SD1	Committee Referral: WAH, EDT/WAM	Date: 2/26/07		
<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
BAKER, Rosalyn H. (C)	/			
TSUTSUI, Shan S. (VC)	/			
CHUN OAKLAND, Suzanne	/			
ENGLISH, J. Kalani	/			
FUKUNAGA, Carol	/			
HOOSER, Gary L.	/			
KIM, Donna Mercado	/			
MENOR, Ron				/
TOKUDA, Jill N.	/			
HEMMINGS, Fred				/
WHALEN, Paul				/
TOTAL	8	0	0	3
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				

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