LATE

hashem3 - Casey

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 02, 2011 8:38 AM
To: AGRtestimony
Cc: konanuij001@hawaii.rr.com
Subject: Testimony for HB284 on 2/2/2011 9:40:00 AM

Testimony for AGR 2/2/2011 9:40:00 AM HB284

Conference room: 312
Testifier position: support
Testifier will be present: No
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Submitted on: 2/2/2011

Comments:

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HOUSE COMMITTEE ON AGRICULTURE

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 284 RELATING TO AGRICULTURE

TESTIFIER:	**FREDERICK D. PABLO, INTERIM DIRECTOR OF TAXATION (OR DESIGNEE)**
COMMITTEE:	**AGR**
DATE:	**FEBRUARY 2, 2011**
TIME:	**9:40AM**
POSITION:	**COMMENTS; CONCERNED WITH COSTS**

This measure provides an income tax exclusion of up to $50,000 for "small farmers," as defined.

The Department of Taxation (Department) takes **no position** on the substance of the measure; however offers **technical comments** and its **concerns for the unbudgeted revenue costs**.

DEFERAL TO DEPT. OF AGRICULTURE—The Department generally supports the intent of ensuring a diversified local agriculture industry in Hawaii, especially one that is represented by small farmers. The Department defers to the Department of Agriculture on the merits of this legislation and whether tax incentives are the best means to assist small farmers.

CONCERN WITH DEFINITION OF "SMALL FARMER"—The Department suggests that the definition of "small farmer" be amended by clarifying what amount is "earned" for purposes of the limitations. Is the amount earned gross income or net income? Given these numbers, the Department surmises that "gross income" was intended because most farms likely operate at or near a loss.

(2) [~~Earns~~] **Receives gross income** in [~~a~~] **the** taxable year **of** not more than:

(A) $500,000 from the sale of agricultural products produced on the land owned or leased by the taxpayer or from tours of the agricultural operation conducted on that land; and

(B) $250,000 [~~in gross income~~] from activities other than those described in subparagraph (A).

ELIMINATE SUBSECTION (c)—Subsection (c) needs to be eliminated. Current law already includes mechanics for the distribution of exclusion amounts amongst partners in a partnership and married persons filing separately. For example, partnership tax law dictates that allocations amongst partners have substantial economic effect and spouses allocate exclusions to the spouse that earned the income. These principles are based on economic fairness and avoid unwarranted tax benefits flowing to those that do not earn them.

SUPPORT FOR IAL CREDIT OFFSET—The Department supports that this measure allows either the exclusion or the IAL tax credit. This is good tax policy.

ADD A SUNSET DATE—The Department suggests also adding a sunset date for this provision. Adding a sunset date is effective tax policy to ensure that tax incentives that become unnecessary or unwarranted in the future do not remain on the books.

NOT FACTORED INTO BUDGET—The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either.

REVENUE IMPACT—This measure will result in a revenue loss of approximately $1 million per year starting in FY 2012.