

HB2668 HD2

Testimony

NEIL ABERCROMBIE
Governor



RUSSELL S. KOKUBUN
Chairperson, Board of Agriculture

SCOTT E. ENRIGHT
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 South King Street
Honolulu, Hawaii 96814-2512
Phone: (808) 973-9600 FAX: (808) 973-9613

TESTIMONY OF RUSSELL S. KOKUBUN
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE SENATE COMMITTEE ON AGRICULTURE
MARCH 13, 2012
Room 229
2:50 P.M.

HOUSE BILL NO. 2668, HOUSE DRAFT 2
RELATING TO AGRICULTURE

Chairperson Nishihara and Members of the Committee:

Thank you for the opportunity to comment on House Bill No. 2668, House Draft
2. The three purposes of this bill are to:

1. Amend the Important Agricultural Land Qualified Agricultural Cost Tax Credit by allowing an additional fifteen percent credit for drought mitigation projects that provide water to Important Agricultural Lands (IAL) and extending the tax credit to the 2020 tax year;
2. Create a livestock feed tax credit for the 2012 tax year; and
3. Create a feed development tax credit of ten percent of livestock feed development costs for the 2013-2014 tax years.

The Department supports this measure but is concerned about the implementation of the provisions of this bill. The responsibilities include extensive recordkeeping for each claimant for the tax credits, tracking the aggregate amounts of tax credits claimed, certifying claimants as being qualified, and providing annual reports on the effectiveness of each of the tax credit programs. We will continue to work on these and other details as we move forward.

Thank you for this opportunity to testify.



NEIL ABERCROMBIE
GOVERNOR OF HAWAII



**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES**

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

**Testimony of
WILLIAM J. AILA, JR.
Chairperson**

**Before the Senate Committee on
AGRICULTURE**

**Tuesday, March 13, 2012
2:50 PM
State Capitol, Conference Room 229**

**In Consideration of
HOUSE BILL 2668, HOUSE DRAFT 2
RELATING TO AGRICULTURE**

House Bill 2668, House Draft 21 proposes to provide assistance to the agricultural industry by way of tax credits. The Department of Land and Natural Resources (Department) testimony is limited to SECTION 4 of this measure. The Department appreciates the intent of this measure, but defers to the State Department of Taxation to determine the impact on State tax revenues should this bill become enacted into law. Because this proposal was not part of the Governor's supplemental budget request, the bill could also adversely impact existing programs

The purpose of SECTION 4 is to provide a tax credit for expenditures for drought mitigation projects providing water for lands the majority of which is designated important agricultural lands. The Department is very conscious of the need to mitigate the effects of drought and the associated financial costs to agricultural operators to implement water supply projects for drought mitigation. Droughts have severely affected Hawaii in the past, and as part of a natural climate cycle, droughts will impact the State in the future.

However, the Legislature should evaluate whether tax credits to a particular set of lands is the most effective way to target and use of public subsidies when drought impacts different lands in different ways.

Thank you for the opportunity to comment on this measure.

WILLIAM J. AILA, JR.
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

GUY H. KAULUKUKUI
FIRST DEPUTY

WILLIAM M. TAM
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
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FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

To: The Honorable Clarence K. Nishihara, Chair
and Members of the Senate Committee on Agriculture

Date: Tuesday, March 13, 2012
Time: 2:50 P.M.
Place: Conference Room 229, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 2668 H.D. 2, Relating to Agriculture

The Department of Taxation (Department) appreciates the intent of H. B. 2668 H.D. 1 and provides the following information and comments on for your consideration.

This measure creates an additional tax credit for drought mitigation, and changes the aggregate tax credit cap for the 2012 tax year and subsequent years. It also creates a livestock feed tax credit for 2012 and a feed development tax credit for tax years 2013 to 2014.

Livestock feed tax credit: While the Department recognizes the desire to control the amount of tax credit available by instituting a cap on the total amount of tax credit to be issued, the Department notes that aggregate caps are difficult to administer and result in uncertainty for taxpayers.

Important agricultural lands tax credit: Although the Department understands the intent of the HD2 amendments, the allowing taxpayers to claim the credit in any year could be difficult for the Department to administer, if there are numerous taxpayers claiming the credit.

The Department suggests that the language be adjusted such that once the taxpayer initiates claims for the tax credit in a taxable year, that the credit is claimed in consecutive taxable years.

Thank you for the opportunity to provide comments.

nishihara1 - Danille

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 12, 2012 8:10 PM
To: AGL Testimony
Cc: PSGMikilua@aol.com
Subject: Testimony for HB2668 on 3/13/2012 2:50:00 PM

Testimony for AGL 3/13/2012 2:50:00 PM HB2668

Conference room: 229
Testifier position: Support
Testifier will be present: No
Submitted by: Phyllis Shimabukuro-Geiser
Organization: Mikilua Farm Bureau Center
E-mail: PSGMikilua@aol.com
Submitted on: 3/12/2012

Comments:

Any assistance by the State of Hawaii to lessen the cost of feed to farmers is greatly appreciated.

Mahalo for the opportunity to submit testimony.



Hawaii Cattlemen's Council, Inc.

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e-mail: HCattlemens@hawaii.rr.com

COMMITTEE ON AGRICULTURE
Tuesday March 13, 2012 2:50 p.m. Room 229

HB 2668 HD 2 RELATING TO AGRICULTURE

Amends important agricultural land tax credit to allow an additional fifteen per cent credit for drought mitigation and change the tax credit cap from \$7,500,000 per year to \$5,000,000 per year for the 2012 tax year and \$7,000,000 per year for the 2013, 2014, and 2015 tax years. Creates a livestock feed tax credit for 2013. Creates feed development tax credit program from January 1, 2013, to December 31, 2015

Chair Nishihara, Vice Chair Kahele and Members of the Committee:

My name is Alan Gottlieb, and I am a rancher and the Government Affairs Chair for the Hawaii Cattlemen's Council. The Hawaii Cattlemen's Council, Inc. (HCC) is the Statewide umbrella organization comprised of the five county level Cattlemen's Associations. Our 130+ member ranchers represent over 60,000 head of beef cows; more than 75% of all the beef cows in the State. Ranchers are the stewards of approximately 25% of the State's total land mass.

The Hawaii Cattlemen's Council **strongly supports** HB 2668 HD 2.

After rain feeding cattle in Hawaii for the local beef market, though in the 1960's, 1970's and 1980's, often at an economic loss, many Hawaii cattlemen began shipping their young calves to the Mainland and Canada in the 1990's, following the old adage that it's cheaper to ship the cattle to the feed than the feed to the cattle. That's because it takes about 7 lbs of grain to put on one lb of meat. Through the 1990's and up to the mid-2000's, Hawaii Cattlemen earned more money feeding their cattle on the Mainland and Canada than they ever had in Hawaii, keeping many of them in business, where they might have otherwise gone broke. Over the years there had been many studies and trials to develop local grains, bi-product feeds or other rations to finish cattle in Hawaii, but the economics of those trials could never compete with the cost to finish cattle on the Mainland, even after transportation costs and hassles. Today, the economics have changed! Oil, which previously traded in the \$20 per barrel range, now trades above \$100 per barrel making trucking, ocean shipping and almost every other input more expensive, and corn has gone from \$2 per bushel to almost \$6 per bushel. These huge increases are due to our Government's energy policies and subsidies, which may soon spark a global food crisis.

In the 1980's our local beef cattle herd only supplied about 2.5% of the local consumption, when all Hawaii cattle were fed and sold as beef in Hawaii. At that time, our local beef was often incorrectly perceived as lower quality than Mainland Beef and marketing local beef was often a real challenge. Today, demand for high quality, locally produced beef is very strong, with support from Hawaii chefs and markets, diet trends like natural, organic and 100 mile, and we could likely easily market all of our cattle in Hawaii, if we had some means of adding weight to the cattle beyond what existing cow herds can sustain on their existing lands. These supplemental feeds can add weight faster than typical grazing can do, can be done in large numbers in limited space, and higher quality feeds in the last portion of the feeding process adds quality and consistency to the finished beef product.

With the existing economics of corn and oil, which are unlikely to lower drastically in the foreseeable future, it is time to seriously look at the feasibility for growing feed in Hawaii for all Hawaii livestock and aquaculture. Furthermore, we have today in Hawaii a huge seed corn industry, which has the talent, equipment and human resources to grow grain efficiently and economically. This bill will be a great jump start in keeping more cattle in Hawaii, and expansion of other livestock industries in Hawaii. Furthermore, this bill provides for tax credits for livestock producers who need to import feed to Hawaii for their animals, at very high shipping costs, who are at a competitive disadvantage with livestock producers elsewhere who can readily purchase feed in their communities.

Thank you for giving me the opportunity to testify in favor of this very important issue.



March 9, 2012

Senator Clarence K. Nishihara, Chair
Senator Gilbert Kahele, Vice Chair
Senate Committee on Agriculture

Support of HB 2668, H.D. 2, Relating to Agriculture. (Amends the important agricultural lands tax credit to allow an additional fifteen percent credit for drought mitigation; changes the tax credit cap; creates livestock feed tax credit for 2012; and creates livestock feed development tax credit program.)

Tuesday, March 13, 2012, 2:50 p.m., in Conference Room 229

My name is Dave Arakawa, and I am the Executive Director of the Land Use Research Foundation of Hawaii (LURF), a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. One of LURF's missions is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources and public health and safety.

LURF appreciates the opportunity to express its **support of HB 2668, H.D. 2**, and of the various agricultural stakeholder groups who defend the goals of viable agricultural operations, and the conservation and protection of agriculture, including important agricultural lands (IAL) in Hawaii. The bill emphasizes the need for collaboration amongst diverse sectors of the community - business, government, and agricultural stakeholders - and the importance for them to work together cooperatively to implement IAL incentives in order to attain results which may prove beneficial and significant to all parties.

In strong support of the use of agricultural lands for purposes allowed under state and county laws and ordinances, LURF has partnered with the Hawaii Farm Bureau Federation (HFBF) and other agricultural stakeholders to pass the IAL legislation, which provides for the voluntary and government designation of IAL, loans for qualified agricultural expenses and other incentives to support productive and sustainable farming operations on agricultural lands. LURF and HFBF have also supported legislation to provide irrigation water and other incentives to agricultural lands and farmers.

HB 2668, H.D. 2. The bill proposes to amend the IAL tax credit to reduce the aggregate annual agricultural cost tax credit cap, however, the measure also proposes to 1) allow an additional fifteen percent refundable tax credit for drought mitigation project expenditures; 2) create a livestock feed tax credit for 2012; and 3) create a livestock feed development tax credit program from January 1, 2013 to December 31, 2014.

LURF's Position. The purpose of this bill is consistent with the underlying intent and objectives of the IAL laws (Hawaii Revised Statutes [HRS], Sections 205-41 to 52), which were enacted to fulfill the mandate in Article XI, Section 3, of the Hawaii State Constitution, "to conserve and protect agricultural lands, promote diversified agriculture, increase agricultural self-sufficiency and assure the availability of agriculturally suitable lands." The IAL laws established a new paradigm which avoids requirements and mandates, and instead focuses on promoting agricultural viability by providing incentives for farmers and landowners to designate lands as IAL, and to build necessary infrastructure. This bill is thus an effort to expand the existing IAL program by establishing additional incentives for landowners to preserve and maintain IAL.

As noted in HRS Section 205-41, the intent of Act 183 (2005) was to develop agricultural incentive programs to promote agricultural viability, sustained growth of the agricultural industry, and the long-term use and protection of important agricultural lands for agricultural use in Hawaii concurrently with the process of identifying important agricultural lands as required under the Act. Such incentives and programs are identified in HRS 205-41, and include tax credits and/or exemptions that promote investment in agricultural businesses or value-added agricultural development, specifically escalating tax credits based on the tax revenues generated by increased investment or agricultural activities conducted on IAL.

LURF appreciates the underlying intent of HB 2668, H.D. 2, which is to support agriculture and aid agriculture-related businesses, and believes that the bill is consistent with the purpose and intent of the IAL laws. Passage of the long-awaited IAL legislation would be meaningless without implementation of these incentives which require the cooperation and support of the business and economic community. The establishment of tax incentives for those engaged, or desirous of engaging, in agricultural activities are critically needed to support viable agricultural activity in this State. It is therefore hoped and anticipated that efforts will be made and all appropriate legislative measures be taken to fully effectuate the intent and objectives of the IAL laws.

Thank you for the opportunity to present testimony regarding this matter, in support of this bill.



Hawaii Farm Bureau
F E D E R A T I O N

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Phone: (808) 848-2074 • Neighbor-Islands: (800) 482-1272
Fax: (808) 848-1921 • Email: info@hfbf.org
www.hfbf.org

March 13, 2012

HEARING BEFORE THE
SENATE COMMITTEE ON AGRICULTURE

TESTIMONY ON HB 2668, HD2
RELATING TO AGRICULTURE

Room 229
2:50 PM

Chair Nishihara, Vice Chair Kahele, and Members of the Committee:

I am Mae Nakahata, representing the Hawaii Farm Bureau Federation (HFBF). Organized since 1948, the HFBF 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 interest of our diverse agricultural community.

Hawaii Farm Bureau Federation is in **strong support** of HB 2668, HD2 expanding the use of the refundable tax credits for drought mitigation and livestock assistance.

This measure addresses two of the main areas of concern related to agriculture in Hawaii.

Affordable feed has been a major challenge for the livestock industry and has resulted in the loss of major dairies across the state. Ranches suffer during the summer as forage decrease and their livestock continue to need feed. Poultry farmers are totally dependent on imported feed and are at the mercy of grain prices. We therefore strongly support the use of tax credits to assist in this area. Providing credits to develop local feedstock is important to reduce our dependence on imports.

Weather predictions indicate increased longer periods of drought in Hawaii. Further incentivizing private investments in drought mitigation for IAL lands is critical. We strongly support this measure.

Thank you for this opportunity to comment on this critical bill and we respectfully request your strong support in passage.

**HB 2668 HD2
RELATING TO AGRICULTURE**

**PAUL T. OSHIRO
MANAGER – GOVERNMENT RELATIONS
ALEXANDER & BALDWIN, INC.**

MARCH 13, 2012

Chair Nishihara and Members of the Senate Committee on Agriculture:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin, Inc. (A&B) and its agricultural company Hawaiian Commercial & Sugar Company on HB 2668 HD2, "A BILL FOR AN ACT RELATING TO AGRICULTURE." We support this bill.

After over twenty five years of debate, negotiation, and compromise, the IAL Law and process was finally enacted in July 2008. After years of pursuing a land-use approach to this constitutional mandate, the IAL Law that was successfully passed (Act 183 (2005) and Act 233 (2008)) was premised on the principle that the best way to preserve agricultural lands is to preserve agricultural businesses and agricultural viability. As such, the IAL Law not only provides the standards, criteria, and processes to identify and designate important agricultural lands to fulfill the intent and purpose of Article XI, Section 3 of the Hawaii State Constitution, it also provides for a package of incentives designated to support and encourage sustained, viable agricultural activity on IAL. With the enactment of this comprehensive package of IAL incentives, the long awaited IAL identification and designation process was finally started in July 2008.

The IAL Law authorizes the identification and designation of IAL in one of two ways --- by voluntary petition to the State Land Use Commission by the landowner or

farmer; or subsequently by the Counties filing a petition to designate lands as IAL pursuant to a County identification and mapping process. In either case, the LUC determines whether the petitioned lands qualify for IAL designation pursuant to the standards, criteria, objectives, and policies set forth in the IAL Law. To date, the IAL Law has resulted in the designation by the LUC of over 89,000 acres of agricultural lands as IAL from voluntary petitions by Alexander & Baldwin, Parker Ranch, Castle & Cooke, and Mahaulepu (Grove) Farm. We believe that additional acres will be designated through the voluntary landowner and County petition process in the years to come.

This bill establishes a tax credit for drought mitigation projects that service important agricultural lands. We believe that this tax credit will assist IAL agricultural operations in the development and effective utilization of drought mitigation infrastructure and facilities to enhance the cost effective irrigation of their crops and livestock. In addition, these drought mitigation projects will also assist in providing much needed irrigation water for these IAL agricultural operations during dry weather periods, which will add to the long term viability and sustainability of their operations.

Based on the aforementioned, we respectfully request your favorable consideration on this bill.

Thank you for the opportunity to testify.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Agricultural tax credits

BILL NUMBER: HB 2668, HD-2

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Livestock feed tax credit - Adds a new section to HRS chapter 235 to allow a qualified producer to claim a livestock feed income tax credit equal to the lesser of 15% of the livestock feed costs incurred by the producer or \$200,000. Defines "livestock feed costs" as the purchase amount of all edible materials consumed by cows, goats, poultry, sows, and beef cattle which contribute energy or nutrients to the animal's diet and which are distributed or imported.

No other income tax credit may be claimed for qualified livestock feed costs for which a credit is claimed under this section for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. In the case of a partnership, S corporation, estate, trust, or other pass through entity, distribution and share of the credit shall be determined pursuant to section 704(b) of the Internal Revenue Code. If a deduction is taken under section 179 (with respect to election expense depreciable business assets) of the Internal Revenue Code, no tax credit shall be allowed for that portion of the qualified livestock feed cost for which a deduction was taken. The basis of eligible property for depreciation or accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of credit allowable and claimed under this section. No deduction shall be allowed for that portion of otherwise deductible qualified livestock feed costs on which a credit is claimed under this section.

Credits in excess of a taxpayer's income tax liability shall be refunded provided such amounts are in excess of \$1. The director of taxation may adopt rules pursuant to HRS chapter 91 and prepare the necessary forms to claim the credit and may require proof of the claim for the credit. Claims for the credit shall be on forms provided by the department of taxation.

Requires the department of agriculture to: (1) maintain records of the total amount of qualified livestock feed costs for each taxpayer claiming a credit; (2) verify the amount of the qualified livestock feed costs claimed; (3) calculate all livestock feed costs claimed; and (4) certify the total amount of the tax credit for each taxable year. The department shall issue a certificate to the taxpayer verifying the livestock feed costs and the credit amount certified for each taxable year. Requires the taxpayer to file the certificate with the taxpayer's tax return with the department of taxation. This information shall be available for public inspection and dissemination under HRS chapter 92F.

If in the taxable year beginning after December 31, 2011, the annual amount of certified credits claimed under this section reaches \$1,500,000 in the aggregate, the department of agriculture shall immediately discontinue certifying credits and shall notify the department of taxation of the discontinuation.

Defines “qualified producer” as any person in the business of producing: (1) milk from a herd, located in Hawaii, of not fewer than 350 cows or 100 lactating milking goats; (2) poultry products from a flock, raised and located in Hawaii of at least 300 birds; (3) pork from a herd, raised and located in Hawaii, of at least 50 sows; or (4) beef that is grown, slaughtered, processed, and marketed in Hawaii provided that producers who finish at least 100 head of beef cattle annually shall be eligible for this tax credit.

This section shall take effect on January 1, 2012 and be applicable to tax years beginning after December 31, 2011 and ending before January 1, 2013.

Livestock feed development tax credit program - Adds a new section to HRS chapter 235 to allow each qualified producer to claim a livestock feed development tax credit equal to: (1) 10% of livestock feed development costs incurred by the qualified producer, or \$225,000, for livestock feed development costs incurred by the qualified producer during the taxable year ending before January 1, 2014; and (2) the lesser of 5% of livestock feed development costs, or \$225,000, for the taxable year ending before January 1, 2015. Defines “feed development costs” as the purchase amount of materials or equipment needed to produce edible materials consumed by cows, goats, poultry, sows, and beef cattle, which contribute energy or nutrients to the animal’s diet, including seeds, fertilizer, insecticides, and fungicides used for the purposes of producing feed.

Requires the department of agriculture to: (1) maintain records of the total amount of qualified agriculture expenditures for livestock feed development for each taxpayer claiming a credit; (2) verify the amount of the livestock feed development costs claimed; (3) calculate all livestock feed development costs claimed; and (4) certify the total amount of the tax credit for each taxable year. The department shall issue a certificate to the taxpayer verifying the taxpayer’s qualifying producer status, the amount of qualified livestock feed development costs claimed and the credit amount certified for each taxable year. Requires the taxpayer to file the certificate with the taxpayer’s tax return with the department of taxation. This information shall be available for public inspection and dissemination under HRS chapter 92F.

If in the taxable year beginning after December 31, 2011, the annual amount of certified credits claimed under this section reaches \$500,000 in the aggregate, the department of agriculture shall immediately discontinue certifying credits and shall notify the department of taxation of the discontinuation.

No other income tax credit may be claimed for qualified livestock feed development costs for which a credit is claimed under this section for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. In the case of a partnership, S corporation, estate, trust, or other pass through entity, distribution and share of the credit shall be determined pursuant to section 704(b) of the Internal Revenue Code. If a deduction is taken under section 179 (with respect to election expense depreciable business assets) of the Internal Revenue Code, no tax credit shall be allowed for that portion of the qualified livestock feed cost for which a deduction was taken. The basis of eligible property for depreciation or accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of credit allowable and claimed under this section. No deduction shall be allowed for that portion of otherwise deductible qualified livestock feed development costs on which a credit is claimed under this section.

Credits in excess of a taxpayer's income tax liability shall be refunded provided such amounts are in excess of \$1. The director of taxation may adopt rules pursuant to HRS chapter 91 and prepare the necessary forms to claim the credit and may require proof of the claim for the credit. Claims for the credit shall be on forms provided by the department of taxation.

This section shall take effect on January 1, 2013, and be applicable to tax years beginning after December 31, 2012 and ending before January 1, 2015.

Important agricultural land qualified agricultural cost tax credit - Amends HRS section 235-110.3 to allow a taxpayer claiming the important agricultural land qualified agricultural cost tax credit to claim an additional refundable tax credit of 15% of the qualified credit amount received for expenditures for drought mitigation projects providing water for lands, the majority of which, excluding lands classified as conservation lands, are important agricultural lands.

The department of agriculture shall discontinue certifying tax credits if in any taxable year the annual amount of certified credits reaches the following: (1) \$5 million for the taxable year ending before January 1, 2013; (2) \$7 million per taxable year for the taxable years beginning after December 31, 2012, and ending before January 1, 2016; and (3) \$7.5 million per taxable year for all other successive taxable years.

This section shall apply to the tax years beginning after December 31, 2011 and ending before January 1, 2021; provided that on January 1, 2021, this section shall be repealed and HRS section 235-110.93 shall be reenacted in the form in which it read on the day prior to the effective date of this act.

EFFECTIVE DATE: Upon approval as noted

STAFF COMMENTS: This measure proposes income tax credits that may be used to: (1) offset costs of livestock feed in the amount of 15% or \$200,000, whichever is less; and (2) offset costs incurred by a qualified producer for livestock feed development costs incurred in the amount of 10% or \$225,000, whichever is less. Since these credits would be granted without regard to the taxpayer's need for tax relief, the adoption would merely result in a payout of state funds for these feed costs, it would do so at the expense of other taxpayers who do not qualify for any of the credits. It should be remembered that tax credits generally are designed to alleviate an undue burden on those who are unable to carry that burden, largely the poor and low income. If the intent of the legislature is to subsidize such operations, then an appropriation of general funds would be much more accountable and transparent. Taxpayers would know how much is being spent on the program and compare it with other public services and programs with respect to importance to the health and safety of the community.

Rather than merely handing out a tax preference where there is no indicator of financial or economic need for that tax break, state government should explore ways to support farmers in not only making important agricultural lands available for rent at reasonable costs, but also insure that the crops produced command a reasonable rate of return with such skills as marketing, packaging and distribution.

This measure would also provide that taxpayers that qualify for the important agricultural land qualified agricultural cost tax credit under HRS section 235-110.93, shall receive an additional tax credit of 15% of such amount if they have expenditures for drought mitigation projects which provide water for

important agricultural lands. While Act 233, SLH 2008, adopted various incentives to encourage the agricultural use of lands which qualify as important agricultural lands, it should be remembered that the tax system is not an efficient method to accomplish such social goals. Since the proposed measure would grant preferential treatment to an even more select group of taxpayers at the expense of other taxpayers who are ineligible for the exemption, its enactment cannot be justified.

If the ultimate goal is to perpetuate agricultural activity, then the problem needs to be approached from the opposite end, that is, what can state government do to support and encourage agricultural activity so that farmers can earn a profitable living farming the land? To date, all state government has done is to stand in the way of successful farming enterprises by burdening farmers with regulation upon regulation. The state has to be a part of the solution and not a part of the problem. Enacting tax incentives, as this measure proposes, does not address the problems faced by farmers today and in the future.

From a planning point of view, because the designation of important agricultural lands is being left up to the landowner who happens to be engaged in agricultural activity basically on a commercial scale, it precludes taking a holistic approach to the future of Hawaii. Instead of being able to step back and decided what the current and future needs of the people of Hawaii are and will be, there will be a willy-nilly approach to land use planning. Instead of policymakers setting directions for the future, they are throwing out carrots of tax incentives so they can abdicate their responsibility for setting land use planning priorities. Even the Final Report on Incentives for Important Agricultural Land would have preferred that important agricultural lands had been designated, but acknowledges that no policymaking body has had the will, if not the courage, to undertake the task in the more than 30 years since that amendment was added to the constitution. Thus, this proposal is not only fiscally irresponsible, but it is a demonstration of how elected officials shrink from their responsibility to make a decision.

It is interesting to note that the measure sets aggregate ceilings on the amount that may be handed out or certified, \$1.5 million in the case of the livestock feed tax credit; \$0.5 million in the case of the livestock feed development tax credit; and \$5 million to \$7.5 million in the case of the important agricultural land tax credit. No doubt this is an effort to limit the amount of revenue loss and it would appear that certification would be issued on a first come, first serve basis. If such is the case, then the credit does not recognize the merit of the agricultural operation or research. Thus, the "reward" of the tax credit may be handed out to an operation that has no prospect of succeeding or producing research that will actually benefit future agricultural activity. Lawmakers may want to rethink how the credit is granted and set qualifying criteria that would help to prioritize the recipients.

Digested 3/12/12

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 12, 2012 1:38 PM
To: AGL Testimony
Cc: trkahua@aol.com
Subject: Testimony for HB2668 on 3/13/2012 2:50:00 PM

Testimony for AGL 3/13/2012 2:50:00 PM HB2668

Conference room: 229
Testifier position: Support
Testifier will be present: No
Submitted by: Herbert M "Tim" Richards III DVM
Organization: Kahua Ranch Ltd
E-mail: trkahua@aol.com
Submitted on: 3/12/2012

Comments:

This will help jump start a feedsource industry that is in line with the direction of revitalizing animal agriculture in Hawaii.

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 12, 2012 1:43 PM
To: AGL Testimony
Cc: olumauangus@msn.com
Subject: Testimony for HB2668 on 3/13/2012 2:50:00 PM

Testimony for AGL 3/13/2012 2:50:00 PM HB2668

Conference room: 229
Testifier position: Support
Testifier will be present: No
Submitted by: Robert H. Ferreira
Organization: Individual
E-mail: olumauangus@msn.com
Submitted on: 3/12/2012

Comments:

My name is Robert H. Ferreira owner of Olumau Angus +, LLC, Manager of Kaupo Ranch Ltd. and member of Maui Cattle Co. I have been in the Cattle Industry for 27 years. I feel this bill SB2668 will help our industry tremendously.
Thank you

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 12, 2012 1:43 PM
To: AGL Testimony
Cc: kaimiunger@gmail.com
Subject: Testimony for HB2668 on 3/13/2012 2:50:00 PM

Testimony for AGL 3/13/2012 2:50:00 PM HB2668

Conference room: 229
Testifier position: Support
Testifier will be present: No
Submitted by: Keith Unger
Organization: McCandless Ranch
E-mail: kaimiunger@gmail.com
Submitted on: 3/12/2012

Comments:

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 12, 2012 3:56 PM
To: AGL Testimony
Cc: kwood@parkerranch.com
Subject: Testimony for HB2668 on 3/13/2012 2:50:00 PM

Testimony for AGL 3/13/2012 2:50:00 PM HB2668

Conference room: 229
Testifier position: Support
Testifier will be present: No
Submitted by: keoki Wood
Organization: Parker Ranch Inc
E-mail: kwood@parkerranch.com
Submitted on: 3/12/2012

Comments:

nishihara1 - Danille

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 13, 2012 7:27 AM
To: AGL Testimony
Cc: jimmygomes@hawaii.rr.com
Subject: Testimony for HB2668 on 3/13/2012 2:50:00 PM

Testimony for AGL 3/13/2012 2:50:00 PM HB2668

Conference room: 229
Testifier position: Support
Testifier will be present: No
Submitted by: James Gomes
Organization: Individual
E-mail: jimmygomes@hawaii.rr.com
Submitted on: 3/13/2012

Comments: