

WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEES ON AGRICULTURE  
AND  
ECONOMIC REVITALIZATION AND BUSINESS  
ON  
HOUSE BILL NO. 2877

February 3, 2012

RELATING TO AGRICULTURE

House Bill No. 2877 establishes an agricultural education pilot program under the Department of Education to provide students with hands-on experience in cultivating agricultural products and to allow the sale of such products to consumers. This bill also establishes the agricultural education pilot program special fund, which would receive revenues from agricultural product sales and other sources, and which would be expended for costs incurred by the Department of Education in administering the agricultural education pilot program.

The Department of Budget and Finance recognizes that agricultural education could be a valuable teaching component for the overall educational program for students. However, the department must advise on two areas of this bill. First, as a matter of general policy, the department does not support the creation of any special fund which does not meet the requirements of Section 37-52.3, Hawaii Revised Statutes. Special or revolving funds should:

- 1) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program;
- 2) provide an appropriate means of financing for the program or activity; and
- 3) demonstrate the capacity to be financially

self-sustaining. In regards to House Bill No. 2877, it is difficult to determine whether the fund will be self-sustaining. Second; establishing a tax credit where a portion of the cost of the program to an agribusiness is essentially returned to the business either in the form of credit against their tax liability or as a refund is potentially a significant fiscal commitment from a tax policy standard.

It is noted that this bill targets development of agricultural curriculum in the County of Maui. The Department of Education already has a comparable program located at the Lahainaluna School campus. The cost and expense for this program should be examined as a template or model for what is contemplated in House Bill No. 2877.

**Kathy Kato**

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**From:** Tina Desuacido [tina500@juno.com]  
**Sent:** Thursday, February 02, 2012 3:05 PM  
**To:** AGRtestimony  
**Subject:** Tax Foundation Testimony  
**Attachments:** h2877-12.pdf

**DATE:** Thursday, February 2, 2012

**House Committees on Agriculture & Economic Revitalization & Business**

**FROM:** Tax Foundation of Hawaii

**Total Pages** \_\_2\_\_

**FOR:** Representative Clift Tsuji, Chair  
Representative Angus McKelvey, Chair

**Testifier:** Lowell L. Kalapa, President – Tax Foundation of Hawaii

(Mr. Kalapa will not appear in person at the hearing.)

**Date of Hearing – Friday, February 3, 2012**

**Position: Comments**

**Time of Hearing – 8:00 am**

**Number of Copies - 6**

**HB 2877 – Relating to Agriculture (2 Pages)**

*See Attached Testimony*

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, Agricultural education tax credit

**BILL NUMBER:** HB 2877

**INTRODUCED BY:** Carroll, Brower, Cullen, Evans, C. Lee, Luke, Manahan, Mizuno, Nishimoto

**BRIEF SUMMARY:** Adds a new section to HRS chapter 235 to allow a qualified agricultural business taxpayer to claim an income tax credit equal to \_\_\_\_% of the qualified agricultural costs of qualified agricultural activities after December 31, 2012.

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 agricultural education costs for each taxpayer claiming a credit; (2) verify the amount of the qualified agricultural education costs claimed; (3) total all qualified agricultural education 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 qualifying agricultural education 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.

Defines "qualified agricultural costs" as expenditures, costs, or losses that are attributable to the qualified agricultural business' participation in the agricultural education pilot program. Defines "qualified agricultural business" for the purposes of the measure.

Makes nontax amendments to provide that the department of education in consultation with the department of business, economic development and tourism (DBEDT), the department of agriculture and the agricultural community shall establish an agricultural education pilot program for public school students on the island of Molokai, the island of Lanai, and the east district of the island of Maui. Revenues generated by the pilot program from the sale of agricultural products shall be deposited into the agricultural education pilot program special fund.

Repeals this act on July 12, 2017.

**EFFECTIVE DATE:** July 1, 2012; applicable to tax years beginning after December 31, 2012

**STAFF COMMENTS:** This measure proposes to encourage qualified agricultural businesses to participate and assist in the agricultural pilot program established by the department of education by allowing such businesses to claim an income tax credit for any costs associated with the pilot program. While it appears that this measure is proposed as an incentive to encourage an action by a select group of

taxpayers, it should be remembered that the tax system is not an efficient method to accomplish such goals. In addition, since the proposed measure would grant preferential treatment to a select group of taxpayers at the expense of other taxpayers who are ineligible for the credit, its enactment cannot be justified.

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. The adoption of this measure would result in nothing more than a subsidy by the state to certain agricultural businesses and would not in any way address the taxpayer's need for tax relief.

If lawmakers believe farmers need an incentive to participate in this pilot educational program, then they should appropriate the funds necessary to make the pilot project feasible. At least with an appropriation taxpayers will have a definitive idea of how much the program will cost and then be able to weight the costs against the benefits and decide if this a good use of taxpayer dollars. With an open-ended tax incentive such as this, there is no way a cost benefit analysis can be made before the moneys have been expended - that is claimed via the credit.

Digested 2/2/12

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Wednesday, February 01, 2012 5:58 AM  
**To:** AGRtestimony  
**Cc:** farmfreshhawaii@gmail.com  
**Subject:** Testimony for HB2877 on 2/3/2012 8:00:00 AM

Testimony for AGR 2/3/2012 8:00:00 AM HB2877

Conference room: 312  
Testifier position: Support  
Testifier will be present: Yes  
Submitted by: Juanita Kawamoto Brown  
Organization: Individual  
E-mail: [farmfreshhawaii@gmail.com](mailto:farmfreshhawaii@gmail.com)  
Submitted on: 2/1/2012

Comments: