

NEIL ABERCROMBIE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

FREDERICK D. PABLO  
DIRECTOR OF TAXATION

JOSHUA WISCH  
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair  
and Members of the House Committee on Finance

Date: Wednesday, February 12, 2014  
Time: 2:00 P.M.  
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: H.B. 2464, Relating to Tax Credits

The Department of Taxation (Department) appreciates the intent of H.B. 2464, and provides the following comments for your consideration.

H.B. 2464 amends the Important Agricultural Land Qualified Agricultural Cost Tax Credit (IAL credit) to clarify that the maximum credit amounts are \$625,000, \$250,000, and \$125,000 in the first, second, and third years respectively. The language of the IAL credit as it exists today sets the maximum credit as 25% of \$625,000, 15% of \$250,000, and 10% of \$125,000 in the first, second, and third years respectively. The measure, if approved, would apply to taxable years beginning after July 1, 2008.

The Department does not take a position on the increase in the credit amount, but notes that intent of Act 233, Session Laws of Hawaii 2008, may have been to cap the credit in the manner that this measure proposes. The Department is able to accommodate the proposed increase in tax credit; however, the Department would not be able to issue the updated tax forms until January of 2015.

The Department further notes that Section 3 of this measure provides for the retroactive application of these amendments. Any taxpayer who may have already claimed the credit will have to file an amended return in order to claim the increased credit amount provided under this measure, and may have to receive a recertification of qualified costs from the Department of Agriculture.

Thank you for the opportunity to provide comments.



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

**TESTIMONY OF SCOTT E. ENRIGHT  
CHAIRPERSON, BOARD OF AGRICULTURE**

**BEFORE THE HOUSE COMMITTEE ON FINANCE  
WEDNESDAY, FEBRUARY 12, 2014  
2:00 P.M.  
Room 308  
HOUSE BILL NO. 2464  
RELATING TO TAX CREDITS**

Chairperson Luke and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 2464. This bill seeks to clarify the amount of the Important Agricultural Lands (IAL) qualified agricultural cost tax credit. The Department of Agriculture supports the intent of this measure but defers to the Department of Taxation for the appropriate wording.

This tax credit was enacted in 2008 as part of the incentives package designed to sustain and establish viable agricultural businesses on designated IAL lands. To date, over 101,000 acres have been designated IAL throughout the state.

This tax credit encompasses a broad range of costs that are related to agricultural activities on IAL such as the planning, construction, repair and maintenance for roadways, processing facilities, irrigation water infrastructure, and agricultural housing. It also captures costs for agricultural equipment, regulatory processing, feasibility studies, and regulatory processing and legal services related to obtaining or retaining sufficient irrigation.

Thank you for the opportunity to present our testimony.



# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Important agricultural land tax credit

BILL NUMBER: SB 3059; HB 2464 (Identical)

INTRODUCED BY: SB by Nishihara and 3 Democrats; HB by Yamashita, Ito and Tsuji

BRIEF SUMMARY: Amends HRS section 235-110.93 to provide that the important agricultural land qualified agricultural cost tax credit shall be:

- (1) In the first year in which the credit is claimed, the **lesser** of the following:
  - (A) 25% of the qualified agricultural costs incurred by the taxpayer after July 1, 2008; or
  - (B) \$625,000;
- (2) In the second year in which the credit is claimed, the **lesser** of the following:
  - (A) 15% of the qualified agricultural costs incurred by the taxpayer after July 1, 2008; or
  - (B) \$250,000; and
- (3) In the third year in which the credit is claimed, the **lesser** of the following:
  - (A) 10% of the qualified agricultural costs incurred by the taxpayer after July 1, 2008; or
  - (B) \$125,000.

EFFECTIVE DATE: Tax years beginning after July 1, 2008

STAFF COMMENTS: The legislature by Act 233, 2008, enacted the important agricultural land qualified agricultural cost tax credit. As enacted, the amount of the credit is based on “25% of the lesser of the following: (A) the qualified agricultural costs incurred by the taxpayer after July 1, 2008; or (B) \$625,000 for the first year in which the credit is claimed. The proposed measure would provide that the credit is the **lesser** of the following: (A) 25% of the qualified agricultural costs incurred by the taxpayer after July 1, 2008; or (B) \$625,000. Under the proposed measure, if the \$625,000 amount is the lesser, then the taxpayer will receive \$625,000 in the first year of the credit as compared to \$156,250 (\$625,000 times 25%) under the current law. Because the bill is retroactive to the original effective date of the credit from Act 233, SLH 2008, it appears that the bill is being sold as a clarification of the bill’s original intent. However, one would think that if this really were the original intent of the credit, this bill would have been introduced and passed several years ago, not five or six years after the fact. Instead, this bill looks like a pure giveaway of taxpayer money (because it’s based on costs incurred since 2008).

Furthermore, while there is no sunset date of the credit which has been available since 2008, it is questionable whether the credit is still necessary.

Digested 2/3/14

**HB 2464  
RELATING TO TAX CREDITS**

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

**FEBRUARY 12, 2014**

Chair Luke and Members of the House Committee on Finance:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin, Inc. (A&B) and its agricultural company Hawaiian Commercial & Sugar Company on HB 2464, “A BILL FOR AN ACT RELATING TO TAX CREDITS.”

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. The IAL Law further provides incentives to the landowner and/or farmer to conduct agricultural activities on IAL lands. 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 of over 100,000 acres of agricultural lands as IAL from voluntary petitions by four entities: Parker Ranch, Castle & Cooke, Grove Farm, and Alexander & Baldwin. One of the primary benefits in voluntarily designating one's lands as IAL is the IAL tax credits, for which this bill is proposing to modify the maximum amount that each IAL entity may claim.

We understand that the present IAL Law is interpreted to allow a one-time tax credit filing by each qualified IAL entity. Should this bill be passed to modify the maximum amount of IAL tax credits allowed for each IAL entity, we respectfully request your consideration to incorporate into the bill a clarifying amendment to ensure that all qualified IAL entities, including those that may have filed to claim their one-time tax credits as authorized under the present law, are able to claim IAL tax credits at the modified amounts as authorized by this bill.

We have attached the following amendments for your consideration:

**Section 2. Taxpayers who have filed important agricultural land qualified agricultural cost tax credit claims for taxable years ending prior to January 1, 2014 shall be entitled to claim the additional tax credits as authorized by this Act; provided that the cumulative amount of important agricultural land qualified agricultural cost tax credits claimed by each taxpayer shall not exceed the maximum amount of tax credits allowed to each taxpayer in Section 1 of this Act.**

Thank you for the opportunity to testify.



# Chamber of Commerce HAWAII

*The Voice of Business*

**LATE**

**Testimony to the House Committee on Finance  
Wednesday, February 12, 2014 at 2:00 P.M.  
Conference Room 308, State Capitol**

**RE: HOUSE BILL 2464 RELATING TO TAX CREDITS**

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **supports** HB 2464 Relating to Tax Credits.

The Chamber is the largest business organization in Hawaii, representing over 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

This bill is critical in supporting agriculture in Hawaii. The Important Agricultural Lands are a key component in helping keep high grade lands in agriculture. The Chamber supports changes effecting laws to the original intent. This bill clarifies provisions in the present IAL Qualified Agricultural Cost Tax Credit Law for IAL agricultural businesses. It provides important financial support for IAL related farming operations and will help Hawaii's agricultural businesses compete on a national and international level.

To ensure that all qualified IAL related farming operations are able to claim IAL tax credits at the increased amounts as authorized by this bill, we respectfully request your consideration to incorporate the following amendment to this bill:

**Section 2. Taxpayers who have filed important agricultural land qualified agricultural cost tax credit claims for taxable years ending prior to January 1, 2014 shall be entitled to claim the additional tax credits as authorized by this Act; provided that the cumulative amount of important agricultural land qualified agricultural cost tax credits claimed by each taxpayer shall not exceed the maximum amount of tax credits allowed to each taxpayer in Section 1 of this Act.**

Thank you for the opportunity to testify.



P.O. Box 253, Kunia, Hawai'i 96759  
Phone: (808) 848-2074; Fax: (808) 848-1921  
e-mail [info@hfbf.org](mailto:info@hfbf.org); [www.hfbf.org](http://www.hfbf.org)

February 12, 2014

HEARING BEFORE THE  
HOUSE COMMITTEE ON FINANCE

TESTIMONY ON HB 2464  
RELATING TO TAX CREDITS  
Room 308  
2:00 PM

Aloha Chair Luke and Members of the Committee:

I am Christopher Manfredi, President of the Hawaii Farm Bureau Federation (HFBF). Organized since 1948, the HFBF is comprised of 1,832 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.

**HFBF is in strong support of HB2464** that clarifies the tax credits associated with the designation of Important Agricultural Lands (IAL).

HFBF was part of a multiyear process that, after nearly 30 years, developed the standards and criteria associated with IAL. It was an extensive process including a broad range of stakeholders. The IAL law was carefully crafted to be an incentive driven process; encouraging farmers to farm, keeping lands viable and incentivizing landowners to dedicate their lands to agricultural use. The IAL incentive process is important to the people of the state of Hawaii in terms of food security, environmental, social and economic sustainability and preservation of open vistas that help support tourism-a staple of the economy.

HB2464 represents an important clarification of tax credits that will further incentivize landowners by reducing some of the ambiguity surrounding the existing tax incentives. With more than 100,000 acres already designated as IAL, this is a solid investment for the future.

We respectfully request your **STRONG** support of this measure.

Thank you.





P.O. Box 253, Kunia, Hawai'i 96759  
Phone: (808) 848-2074; Fax: (808) 848-1921  
e-mail [info@hfbf.org](mailto:info@hfbf.org); [www.hfbf.org](http://www.hfbf.org)

February 12, 2014

HEARING BEFORE THE  
HOUSE COMMITTEE ON FINANCE

TESTIMONY ON HB 2464  
RELATING TO TAX CREDITS  
Room 308  
2:00 PM

Aloha Chair Luke and Members of the Committee:

I am Christopher Manfredi, President of the Hawaii Farm Bureau Federation (HFBF). Organized since 1948, the HFBF is comprised of 1,832 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.

**HFBF is in strong support of HB2464** that clarifies the tax credits associated with the designation of Important Agricultural Lands (IAL).

HFBF was part of a multiyear process that, after nearly 30 years, developed the standards and criteria associated with IAL. It was an extensive process including a broad range of stakeholders. The IAL law was carefully crafted to be an incentive driven process; encouraging farmers to farm, keeping lands viable and incentivizing landowners to dedicate their lands to agricultural use. The IAL incentive process is important to the people of the state of Hawaii in terms of food security, environmental, social and economic sustainability and preservation of open vistas that help support tourism-a staple of the economy.

HB2464 represents an important clarification of tax credits that will further incentivize landowners by reducing some of the ambiguity surrounding the existing tax incentives. With more than 100,000 acres already designated as IAL, this is a solid investment for the future.

We respectfully request your **STRONG** support of this measure.

Thank you.



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



TESTIMONY OF SCOTT E. ENRIGHT  
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEE ON FINANCE  
WEDNESDAY, FEBRUARY 12, 2014  
2:00 P.M.  
Room 308  
HOUSE BILL NO. 2464  
RELATING TO TAX CREDITS

Chairperson Luke and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 2464. This bill seeks to clarify the amount of the Important Agricultural Lands (IAL) qualified agricultural cost tax credit. The Department of Agriculture supports the intent of this measure but defers to the Department of Taxation for the appropriate wording.

This tax credit was enacted in 2008 as part of the incentives package designed to sustain and establish viable agricultural businesses on designated IAL lands. To date, over 101,000 acres have been designated IAL throughout the State.

This tax credit encompasses a broad range of costs that are related to agricultural activities on IAL such as the planning, construction, repair and maintenance for roadways, processing facilities, irrigation water infrastructure, and agricultural housing. It also captures costs for agricultural equipment, regulatory processing, feasibility studies, and regulatory processing and legal services related to obtaining or retaining sufficient irrigation.

Thank you for the opportunity to present our testimony.

