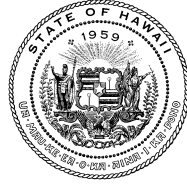


DAVID Y. IGE
GOVERNOR

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DEPUTY DIRECTOR

To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: Friday, February 24, 2017
Time: 1:30 P.M.
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 783, S.D. 1, Relating to Agriculture

The Department of Taxation (Department) appreciates the intent of S.B. 783, S.D. 1, and provides the following comments for your consideration.

S.B. 783, S.D. 1, amends the important agricultural lands qualified agricultural cost tax credit by deleting the language limiting the credit to years after the tax credit provided by section 235-110.46 was repealed, exhausted, or expired. The measure additionally adds a new item to the list of activities that are “qualified agricultural costs” under the credit, and deletes the subsection which required the Department of Agriculture to cease certifying credits after the fourth taxable year following the taxable year in which the credit was first claimed. S.B. 783, S.D. 1 is effective January 1, 2018.

The Department suggests clarifying the effective date so that it clear which tax year the amendments proposed by this measure apply to. This can be accomplished by amending the effective date to say, “This Act shall apply to credit certifications issued by the department of agriculture on or after January 1, 2018”. Or in the alternative, “This Act shall apply to taxable years beginning after December 31, 2017.”

The Department defers to the Department of Agriculture regarding its ability to administer the proposed changes to “qualified agricultural costs”, as well as its ability to continue certification of the tax credit indefinitely.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
Governor

SHAN S. TSUTSUI
Lt. Governor



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SCOTT E. ENRIGHT
Chairperson, Board of Agriculture

PHYLLIS SHIMABUKURO-GEISER
Deputy to the Chairperson

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

BEFORE THE SENATE COMMITTEE ON WAYS & MEANS

**FEBRUARY 24, 2017
1:30 P.M.
CONFERENCE ROOM 211**

**SENATE BILL NO. 783 SD1
RELATING TO AGRICULTURE**

Chairperson Tokuda and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill No. 783 SD1 which amends the Important Agricultural Lands (IAL) qualified agricultural cost tax credit (Section 235-110.94) by repealing the linkage to what is commonly known as the Ko Olina Resort tax credit (Section 235-110.46), adding a new qualified agricultural cost item, and repealing the provision that the Department of Agriculture must cease certifying IAL qualified agricultural cost tax credits after 2017. The Department of Agriculture supports the intent of the bill and offers comments and an amendment.

The continuation of the IAL tax credit beyond the 2017 tax year is important as the counties have yet to complete the mapping of their potential IAL pursuant to Section 205-47. We strongly believe that all of the IAL incentives enacted in 2008, of which the tax credit is one component, should be available to all qualified landowners/farmers affected by the county identification process.

The proposed additional qualified agricultural cost item is limited to the grubbing of former sugarcane and pineapple plantation land that is unused for a minimum of 5 years. This condition may exclude this cost to many county-identified IAL properties



unless the landowners can prove their lands were former plantation fields. To be consistent with the other qualified agricultural cost items, we offer the following amendment that requires that the land to be cleared and soil restored to be used primarily for agricultural purposes.

(Page 11, lines 1-5 New language in bold and double underscored)

(5) The clearing of, removal of trees and debris from, and soil restoration to correct any nutrient deficiency that is present on, former sugar and pineapple plantation lands that have been out of **agricultural** use for more than five years **and are to be used primarily for agricultural purposes.**

Clarity in the definition as to what is allowed as a qualified agricultural cost will help to ensure we are consistent in the manner we review and assess each application and cost item for the tax credit.

Additionally, The Department asks for general fund resources to help administer this program.

Thank you for the opportunity to comment on this measure.

Testimony of
Jon Okudara
on
S.B. No. 783, S.D.1
Relating to Agriculture
Committee on Ways and Means
Friday, February 24, 2017, 1:30 p.m.
Room 211

I would like to testify in support of SB. No. 783, which:

1. Repeals the portion of section 235-110.93 that provides that the tax credit for qualified agricultural costs may not be claimed until the tax credit for the aquarium and marine science research facility at Ko Olina Resort and the training and educational facilities at Makaha Resort is repealed, exhausted or expired. That tax credit was for qualified costs incurred for the six-year period from June 1, 2003, through May 31, 2009.
2. Includes in the definition of “qualified agricultural costs,” the costs associated with the preparation of land for the growing of crops, including clearing, removal of trees and debris, and soil restoration to correct any nutrient deficiency. This is particularly true for abandoned sugar and pineapple plantation lands, which have become overgrown and often now contain large groves of albizia trees. The costs associated with clearing these lands will often amount to several thousands of dollars per acre.
3. Repeals the provision that the Department of Agriculture cease certifying credits after the fourth taxable year following the taxable year the credits were first claimed. That year was 2013. The certifying of credits is to cease at the end of 2017.

In 2008, Act 233, SLH 2008, established a variety of incentives and protections to establish and sustain viable agricultural operations on important agricultural lands. Included in the “qualified agricultural costs” are expenditures for:

- Plans, design, engineering, construction, renovation, repair, maintenance, and equipment for roads and utilities, processing facilities, irrigation systems, and agricultural housing;
- Studies;
- Equipment for agricultural purposes; and
- Regulatory processing, studies, and consultant services.

S.B. 783 adds to “qualified agricultural costs,” the clearing, and removal of trees and debris, and soil restoration to correct any nutrient deficiency on former plantation lands that have been out of use for more than five years.” Many of the former plantation lands are now over-grown with brush, albizia and Christmas berry trees, which may cost

over \$6,000/acre to clear. In addition, after plantation crops have been harvested, many of the mineral nutrients required by crops are deficient and have to be restored. This is a cost that is equal to or more important than the “qualified agricultural costs” listed.

For these reasons I support S.B. 783, S.D.1.