

**DAVID Y. IGE**  
Governor

**SHAN S. TSUTSUI**  
Lt. Governor



State of Hawaii  
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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 HOUSE COMMITTEE ON WATER & LAND**

**FEBRUARY 3, 2017**  
**9:00 A.M.**  
**CONFERENCE ROOM 325**

**HOUSE BILL NO. 1340**  
**RELATING TO THE IMPORTANT AGRICULTURAL LAND QUALIFIED**  
**AGRICULTURAL COST TAX CREDIT**

Chairperson Yamane and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 1340 that amends Section 235-110.93 (Important Agricultural Lands Qualified Agricultural Cost Tax Credit) by 10 years. The Department of Agriculture supports this measure that extends by 10 years this important IAL Incentive. Without it, landowners and farmers who have their agricultural lands designated by the Land Use Commission as IAL by either the voluntary or county processes will not be able to claim this tax credit after the 2017 tax year.

Thank you for the opportunity to submit our testimony.



DAVID Y. IGE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
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MARIA E. ZIELINSKI  
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE  
DEPUTY DIRECTOR

To: The Honorable Ryan I. Yamane, Chair  
and Members of the House Committee on Water & Land

Date: Friday, February 3, 2017

Time: 9:00 A.M.

Place: Conference Room 312, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: H.B. 1340, Relating to the Important Agricultural Land Qualified  
Agricultural Cost Tax Credit

The Department of Taxation (Department) appreciates the intent of H.B. 1340 and provides the following comments for your consideration.

H.B. 1340 amends the Important Agricultural Lands Qualified Agricultural Cost Tax Credit to allow the Department of Agriculture to cease certifying credits after the fourteenth, rather than fourth, taxable year following the taxable year in which the credits are first claimed. The measure is effective upon approval.

As currently drafted, this measure has no administrative impact on the Department, and as such, defers to the Department of Agriculture regarding its ability to continue certifying the credit.

Thank you for the opportunity to provide comments.

# TAX FOUNDATION OF HAWAII

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126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

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**SUBJECT:** INCOME, Extend Important Agricultural Land Tax Credit

**BILL NUMBER:** HB 1340

**INTRODUCED BY:** CREAGAN, TAKAYAMA, THIELEN, Gates, LoPresti

**EXECUTIVE SUMMARY:** Extends the important agricultural land tax credit by ten years. Given its sparse utilization to date, the need for the extension is questionable.

**BRIEF SUMMARY:** Amends HRS section 235-110.93 to provide that the department of agriculture shall cease certifying credits after the fourteenth taxable year following the taxable year during which the credits are first claimed, namely 2027. Without the amendment, the credit would become ineffective after 2017.

**EFFECTIVE DATE:** Upon approval.

**STAFF COMMENTS:** The legislature by Act 233, 2008, enacted the important agricultural land qualified agricultural cost tax credit.

In the department of agriculture's most recent report on the credit, representing activity for the 2015 tax year, the department reported that it certified \$375,000 in credits for two applicants. It reported that none of the counties have submitted their approved plans and maps identifying potential important agricultural lands (IAL) to the Land Use Commission for IAL designation as required under Section 205-47, HRS. As of December 2016, seven private land owners have applied for and received designation of their lands as IAL from the Land Use Commission. The total area designated as IAL as of December 2016 was 131,555 acres. The department in its report recommended an extension of the sunset date of the credit, which otherwise would expire at the end of 2017.

Given that the amount of credits certified was negligible and the applicant base was extremely small, one must ask whether the objectives of the original legislation are being met, and whether there is any prospect of return on our investment of public dollars. The legislature may find that it is pointless to keep watering the basalt in the hopes that something will sprout from it.

Digested 2/1/2017

## kong2 - Crystal

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Wednesday, February 1, 2017 11:16 AM  
**To:** waltestimony  
**Cc:** swhalen@harc-hspa.com  
**Subject:** Submitted testimony for HB1340 on Feb 3, 2017 09:00AM

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### **HB1340**

Submitted on: 2/1/2017

Testimony for WAL on Feb 3, 2017 09:00AM in Conference Room 325

| <b>Submitted By</b> | <b>Organization</b> | <b>Testifier Position</b> | <b>Present at Hearing</b> |
|---------------------|---------------------|---------------------------|---------------------------|
| Stephanie A Whalen  | HARC                | Support                   | No                        |

Comments: While it is important to extend the tax credit for IAL because the counties and state have yet to designate those lands, it should also be noted that tax credits are only good for businesses that have a taxable income at the end of the year. Start up businesses, many of the new farms, rarely have taxable income for several years and so do not qualify for tax credits. This is common for small business operations and no different for agriculture. Maybe refundable credits should be considered for these businesses.

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**kong2 - Crystal**

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**To:** waltestimony  
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**Subject:** Submitted testimony for HB309 on Feb 3, 2017 09:00AM

**HB309**

Submitted on: 2/1/2017

Testimony for WAL on Feb 3, 2017 09:00AM in Conference Room 325

| <b>Submitted By</b> | <b>Organization</b> | <b>Testifier Position</b> | <b>Present at Hearing</b> |
|---------------------|---------------------|---------------------------|---------------------------|
| Stephanie A Whalen  | HARC                | Support                   | No                        |

Comments: Funding for the counties for IAL might help the slow process this is undergoing. Also incentivizing the state to designate its IAL might be helpful.

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Testimony of  
**Jon Okudara**  
on  
**H.B. No. 1340**  
**Relating to the Important Agricultural Land Qualified Agricultural Cost Tax Credit**  
Committee on Water & Land  
Friday, February 3, 2017, 9:00 a.m.  
Room 325

I would like to testify in support of H.B. No. 1340, which proposes to extend the important agricultural land qualified agricultural cost tax credit by ten years, with some amendments.

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.

Another expenditure should be added to “qualified agricultural costs,” the clearing, and removal of trees and debris, and soil restoration of 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. This is a cost that is equal to or more important than the “qualified agricultural costs” listed.

Section 235-110.93(k), HRS, should be amended by amending the definition of “qualified agricultural costs” to include a paragraph (5) to read:

“(5) The clearing, removal of trees and debris, and soil restoration of former sugar and pineapple plantation lands that have been out of use for more than five years.”

Also, why extend the credit for ten years rather than deleting the sunset. Since the credit was enacted the number of applicants for the credit has not been very high. The 2015 report on the tax credit program stated that interest in the program rose significantly from 2013 to 2014, from 1 in 2013 to 3 in 2014. Consider deleting the ten-year limit.

I support H.B. 1340, with the amendments proposed.



**LATE**

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February 3, 2017

HEARING BEFORE THE  
HOUSE COMMITTEE ON WATER & LAND

**TESTIMONY ON HB 1340**  
RELATING TO IMPORTANT AGRICULTURAL LANDS QUALIFIED AGRICULTURAL TAX  
CREDIT

Room 325  
9:00 AM

Aloha Chair Yamane, Vice Chair Kong, and Members of the Committee:

I am Randy Cabral, President of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,900 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.

**HFB supports HB 1340**, which extends by ten years the time period that the Department of Agriculture may certify important agricultural land qualified agricultural cost tax credits.

The Hawaii Farm Bureau 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.

HB 1340 represents an important extension of important agricultural land qualified agricultural cost tax credits that will further incentivize landowners to dedicate their lands as IAL. With more than 100,000 acres already designated as IAL, this is a solid investment for the future.

Thank you for this opportunity to testify on this measure.