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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 FINANCE

APRIL 4, 2017  
2:30 P.M.  
CONFERENCE ROOM 308

SENATE BILL NO. 783 SD2 HD1  
RELATING TO AGRICULTURE

Chairperson Luke and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill No. 783 SD2 HD1 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 this bill and offers comments.

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 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 for the grubbing and soil restoration of former sugarcane and pineapple plantation land that has been out of agricultural use for more than five years, and to be used primarily for agricultural purposes. This condition may exclude this cost to many county-identified IAL properties unless the landowners can prove their lands were former plantation fields. Further, it



will be difficult to accurately identify former sugarcane and pineapple plantation lands throughout the State..

The Department prefers SB 2074 that extends the Department of Agriculture's authority to certify IAL qualified agricultural costs through the 2028 tax year.

Thank you for the opportunity to testify on this measure.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: INCOME, Extend Qualified Agricultural Cost Credit

BILL NUMBER: SB 783, HD-1

INTRODUCED BY: House Committee on Agriculture

EXECUTIVE SUMMARY: Slightly expands the qualified agricultural cost credit by allowing some debris removal and soil restoration costs to be creditable, and removes the sunset on the credit. The continued need for this credit is questionable.

SYNOPSIS: Amends HRS section 235-110.93(a) by deleting the proviso that the Ko Olina credit under section 235-110.46 be repealed, exhausted, or expired.

Adds a new paragraph (5) to the definition of “qualified agricultural costs” in HRS section 235-110.93(k) by adding, as creditable, costs for 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.

Deletes HRS section 235-110.93(l) which now provides that the department of agriculture shall cease certifying credits after 2017.

EFFECTIVE DATE: July 31, 2150; applies to taxable years beginning after December 31, 2017.

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 4/2/2018



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April 4, 2018

HEARING BEFORE THE  
HOUSE COMMITTEE ON FINANCE

**TESTIMONY ON SB 783, SD2, HD1**  
RELATING TO AGRICULTURE

Room 308  
2:30 PM

Aloha Chair Luke, Vice Chair Cullen, 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 interests of our diverse agricultural community.

**HFB supports SB 783, SD2, HD1**, which repeals the provision that the Department of Agriculture must cease certifying credits after 2017 and clarifies the definition of "qualified agricultural costs."

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.

SB 783, SD2, HD1 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.



ALEXANDER & BALDWIN  
PARTNERS FOR HAWAII

**SB 783 HD1  
RELATING TO AGRICULTURE**

**PAUL T. OSHIRO  
DIRECTOR – GOVERNMENT AFFAIRS  
ALEXANDER & BALDWIN, INC.**

**APRIL 4, 2018**

Chair Luke and Members of the House Committee on Finance:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin, Inc. (A&B) on SB 783 HD1, “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.

The IAL Law presently 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 voluntary petition process has resulted in the designation by the LUC of over 130,000 acres of agricultural lands as IAL from voluntary petitions by Alexander & Baldwin, Parker Ranch, Castle & Cooke, Mahaulepu Farm, Grove Farm, Monsanto, the Robinson Family, and Kamehameha Schools.

This bill repeals the date by which the Department of Agriculture will cease certifying IAL Tax Credits. Major infrastructure requirements such as irrigation systems, roads and utilities, and agricultural processing facilities play a critical role in the survival of many agricultural operations. The IAL Tax Credit provides important financial support that assists IAL farmers in sustaining their agricultural operations. This tax credit also serves as a stimulus to encourage IAL farmers to expand their operations or to enhance their operating efficiencies through the installation of new agricultural infrastructure, equipment, and other related improvements to service their farming operations. We believe that this bill will continue to enhance the viability and sustainability of present and future IAL based farming operations.

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

Testimony of  
**Jon Okudara**  
on  
**S.B. No. 783, S.D.1, H.D.1**  
**Relating to Agriculture**  
Committee on Finance  
Wednesday, April 4, 2018, 2:30 p.m.  
Room 308

I would like to testify in strong support of SB. No. 783, S.D.1, H.D.1, the pertinent part of which includes in the definition of “qualified agricultural costs” for a tax credit on important agricultural lands, the costs associated with the preparation of land for the growing of crops, including clearing, removal of trees and debris, and soil restoration.

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.

What is missing from this list of incentives is an incentive to “conserve and protect agricultural lands.”

Article XI, section 3 of the Hawaii Constitution mandates that:

“The State shall **conserve and protect agricultural lands**, promote diversified agriculture, increase agricultural self-sufficiency and **assure the availability of agriculturally suitable lands.**”

To actually “conserve and protect agricultural lands,” 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 and are to be used for agricultural purposes.” 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.

Please change the effective date to “July 1, 2018.”

Thank you for the opportunity to testify in support of S.B. 783, S.D.2, H.D.1.



**STATE OF HAWAII**  
**DEPARTMENT OF TAXATION**  
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To: The Honorable Sylvia Luke, Chair  
and Members of the House Committee on Finance

Date: Wednesday, April 4, 2018  
Time: 2:30 P.M.  
Place: Conference Room 308, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: S.B. 783, S.D. 2, H.D. 1, Relating to Agriculture

The Department of Taxation (Department) appreciates the intent of S.B. 783, S.D. 2, H.D. 1, and provides the following comments for your consideration.

S.B. 783, S.D. 2, H.D. 1, amends the important agricultural lands qualified agricultural cost tax credit by deleting language in Hawaii Revised Statutes (HRS) section 235-110.93 that limits the credit to only those taxable years after the tax credit provided by section 235-110.46 is repealed, exhausted, or expired. The measure also adds a new item to the list of activities that are “qualified agricultural costs” under the credit, and deletes the statute subsection that requires the Department of Agriculture to cease certifying credits after the fourth taxable year following the taxable year in which the credit was first claimed. The measure applies to taxable years beginning after December 31, 2017.

The Department notes that the House Committee on Agriculture amended this measure defecting the effective date. The Department defers to the Department of Agriculture regarding its ability to administer the proposed definition 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.



**LATE**

**SB-783-HD-1**

Submitted on: 4/3/2018 2:28:08 PM

Testimony for FIN on 4/4/2018 2:30:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Melodie Aduja	the Oahu County Committee on Legislative Priorities of the Democratic Party of Hawai'i	Support	No

Comments: