

SB 783

DAVID Y. IGE
Governor

SHAN S. TSUTSUI
Lt. Governor



State of Hawaii
DEPARTMENT OF AGRICULTURE
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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 AGRICULTURE AND ENVIRONMENT

Friday, February 3, 2017
1:15 P.M.
Room 224

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

Chairperson Gabbard and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill No. 783, 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 limited to the grubbing of former sugarcane and pineapple plantation land that is unused for a minimum of 5 years may exclude this cost to many county-identified IAL properties unless the landowners

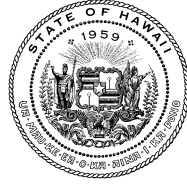


can prove their lands were former plantation fields. Further, it is unclear what would constitute reasonable soil restoration activities. Clarity in the definition as to what is allowed as a qualified agricultural cost will help to ensure we are consistent in the manner we review and assess each application 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.

DAVID Y. IGE
GOVERNOR

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To: The Honorable Mike Gabbard, Chair
and Members of the Senate Committee on Agriculture and Environment

Date: Friday, February 3, 2017

Time: 1:15 P.M.

Place: Conference Room 224, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 783, Relating to Agriculture

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

S.B. 783 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 is effective January 1, 2018.

The Department is able to administer these changes to the tax credit by the effective date. 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.

TAX FOUNDATION OF HAWAII

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SUBJECT: INCOME, Extend Qualified Agricultural Cost Credit

BILL NUMBER: SB 783

INTRODUCED BY: GABBARD, RIVIERE, S. Chang, Espero

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.

BRIEF SUMMARY: 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 HRS section 235-110.93(k) by adding, as creditable, costs for 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.

Deletes HRS section 235-110.93(l) which now states that the department of agriculture shall cease certifying credits after the fourth taxable year after the taxable year the credits were first claimed.

EFFECTIVE DATE: January 1, 2018.

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 1/27/2017