

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Extension of Important Agricultural Land Credit

BILL NUMBER: HB 874; SB 1028

INTRODUCED BY: HB by SAIKI by request; SB by KOUCHI by request

EXECUTIVE SUMMARY: Extends through the 2031 tax year the time that the Department of Agriculture may certify important agricultural lands qualified agricultural costs. Delays Taxpayers from claiming and applying the credit for at least three full taxable years after credit is earned, to help address State's current fiscal concerns.

SYNOPSIS: Amends section 235-110.93, HRS, to provide that the taxpayer may claim the credit in the third taxable year after application to the department of agriculture for first-year certification of the credit, and to extend the deadline for the credit to December 31, 2030.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This is an Administration measure sponsored by the Department of Agriculture and identified as AGR-06 (21).

The legislature by Act 233, SLH 2008, enacted the important agricultural land qualified agricultural cost tax credit. The law was amended by Act 101, SLH 2014, and by Act 87, SLH 2018.

In the department of agriculture's 2021 report on the credit (https://hdoa.hawaii.gov/wp-content/uploads/2020/12/DOA-IAL-Tax-Credit-Report-2019_final.pdf), representing activity for the 2019 tax year, the department reported that it certified \$125,000 in credits for one applicant. There were only two applicants in the 2018 tax year.

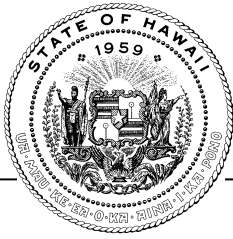
The department in its report recommended an extension of the sunset date of the credit, which expired at the end of 2021. The department recommended the extension as necessary to provide the counties of Kauai, Maui, and Hawaii more time to complete their identification of candidate lands as described in Section 205-47, HRS, and allow landowners/farmers to claim IAL tax credits for their agricultural lands that are designated by the Land Use Commission as IAL pursuant to Section 205-49.

The department also stated that only the City & County of Honolulu has submitted 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, and that the LUC has not yet acted upon it.

In testimony on a similar bill in 2017, some of the counties complained that the process of drawing up such maps was unduly expensive.

Given that the amount of credits certified was negligible, the applicant base was extremely small, and the counties have not cooperated in the past decade, 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.

Digested 2/6/2021



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DAVID Y. IGE
GOVERNOR

MARY ALICE EVANS
DIRECTOR
OFFICE OF PLANNING

Statement of
MARY ALICE EVANS
Director, Office of Planning
before the
HOUSE COMMITTEE ON AGRICULTURE
Wednesday, February 10, 2021
10:00 AM
Via Videoconference

in consideration of
HB 874
**RELATING TO THE IMPORTANT AGRICULTURAL LAND QUALIFIED
AGRICULTURAL COST TAX CREDIT.**

Chair Hashem, Vice Chair Perruso, and Members of the House Committee on
Agriculture:

The Office of Planning (OP) **strongly supports** Administration bill, HB 847, which extends the Department of Agriculture's (DOA) certification of credits for important agricultural land (IAL) qualified agricultural costs from December 31, 2021 to December 31, 2031, and clarifies that claims are to be made the third taxable year following an application for DOA certification of the tax credit.

OP supports the renewal and extension of the qualified agricultural cost tax credit to ensure continued availability of the tax credit to help farmers manage the cost of investments in their farming operations. Successful commercial farming is the most cost-effective way to protect farmland. The IAL incentives package passed in 2008, including this tax credit, was always intended to be a long-term commitment to providing permanent tools and services—like agricultural real property tax dedication provisions—that would promote and grow Hawaii's agricultural industry and promote agricultural viability for current and future farmers on Hawaii's best lands, particularly those designated as IAL.

OP suggests consideration be given to making this a permanent tax credit since farming requires ongoing investment in agricultural infrastructure, equipment, and farm improvements. OP defers to other departments on the fiscal impact of this measure.

Thank you for the opportunity to testify on this measure.

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

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To: The Honorable Mark J. Hashem, Chair;
The Honorable Amy A. Perruso, Vice Chair;
and Members of the House Committee on Agriculture

From: Isaac W. Choy, Director
Department of Taxation

Date: February 10, 2021

Time: 10:00 A.M.

Place: Via Videoconference, Hawaii State Capitol

**Re: H.B. 874, Relating to Relating to the Important Agricultural Land Qualified
Agricultural Cost Tax Credit**

The Department of Taxation (Department) supports H.B. 874, an Administration measure, and offers the following comments for your consideration.

H.B. 874 amends the important agricultural land qualified agricultural cost tax credit (IAL credit) under section 235-110.93, Hawaii Revised Statutes, by requiring the taxpayer to claim the credit in the *third* taxable year after the taxable year in which the taxpayer applies to the Department of Agriculture (DOA) for first-year certification of their credit. After that third following taxable year, taxpayers may subsequently claim their remaining two years of IAL credit in consecutive or inconsecutive taxable years. The measure also postpones the date the DOA shall cease certifying the IAL credit from December 31, 2021 until December 31, 2031.

The Department defers to the DOA on its ability to continue certifying the credit until 2031, but takes no position on the ten-year extension of the IAL credit proposed in this measure as it does not create a substantial administrative burden on the Department.

The Department suggests clarifying how the amendments proposed by the measure affect credit claims that have received a first-year certification from DOA prior to the effective date of the measure.

Thank you for the opportunity to provide testimony in support of this measure.

HB-874

Submitted on: 2/8/2021 3:27:42 PM

Testimony for AGR on 2/10/2021 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Dante Carpenter	Carpenter & Carpenter, Inc.	Support	No

Comments:

Chair Mark Hashem and Agriculture Committee Members:

My name is Dante Carpenter, former Legislator and Officeholder, now as a business consultant - testifying in support of this measure which will establish an Agriculture Cost Tax Credit on Important Agricultural Land. This is a fine bill which will assist all major agriculture producers by recognizing the cost of equipment and operations of Agriculture Producers as well as the cost of construction and methods of supplying food products in the State of Hawai'i. Further, by extending the time the Dept. of Agriculture may certify the qualified agricultural costs tax credit from 12/31/21 to 12/31/2030 is acceptable. Dante Carpenter - Pres., Carpenter & Carpenter, Inc.



Email: communications@ulupono.com

HOUSE COMMITTEE ON AGRICULTURE
Wednesday, February 10, 2021 — 10:00 a.m.

Ulupono Initiative supports HB 874, Relating to the Important Agricultural Land Qualified Agricultural Cost Tax Credit.

Dear Chair Hashem and Members of the Committee:

My name is Micah Munekata, and I am the Director of Government Affairs at Ulupono Initiative. We are a Hawai'i-focused impact investment firm that strives to improve quality of life throughout the islands by helping our communities become more resilient and self-sufficient through locally produced food; renewable energy and clean transportation; and better management of freshwater and waste.

Ulupono supports HB 874, which extends through the 2031 tax year the time that the Department of Agriculture may certify Important Agricultural Lands qualified agricultural costs. The bill also delays taxpayers from claiming and applying the credit for at least three full taxable years after the credit is earned, to help address State's current fiscal concerns.

The Important Agricultural Lands designation is an important tool that exists to keep agricultural land in active production. As development encroaches on rural districts, it is important to maintain the State's most productive lands in agriculture and encourage those producers to continue operations to support the State's food security and sustainability goals. This tax credit ensures an incentive to landowners to keep agricultural lands in productivity for perpetuity.

We recognize that you face many difficult decisions this year to balance the budget in the midst of this economic crisis, but we hope that this support for local agriculture can be considered.

Thank you for this opportunity to testify.

Respectfully,

Micah Munekata
Director of Government Affairs

Investing in a Sustainable Hawai'i



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February 10, 2021

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE

TESTIMONY ON HB 874
RELATING TO THE IMPORTANT AGRICULTURAL LAND QUALIFIED
AGRICULTURAL COST TAX CREDIT

Conference Room 325
10:00 AM

Aloha Chair Hashem, Vice Chair Perusso, and Members of the Committee:

I am Brian Miyamoto, Executive Director of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,800 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.

The Hawaii Farm Bureau supports HB 874, which extends through the 2030 tax year, the time that the Department of Agriculture may certify important agricultural lands qualified agricultural costs. It also delays Taxpayers from claiming and applying the credit for at least three full taxable years after credit is earned, to help address State's current fiscal concerns.

Hawaii is the first state in the country to have an Agricultural Land Preservation measure focused on agricultural viability. During the weeks of deliberation that created Hawaii's Important Agricultural Lands initiative, a review was conducted on agricultural land preservation measures across the nation. Initiatives that were passed many years ago were especially taken under scrutiny to determine whether their intents were realized. What became obvious was payments for development rights, preserved land for agriculture but did not necessarily keep the land in agriculture -- it succeeded in keeping them in open space. Too often, the recipient of the benefit used it to pay off debt, passed the land to a successor who now had no benefits, and reduced collateral to go to the bank for loans as the land was devalued.

Taking these lessons to heart, the move was made to create incentives to reward investments in infrastructure – improvements to irrigation systems and other basic infrastructure, construction of value-added facilities, or construction of irrigation water storage facilities were among the qualified agriculture expenditures that were deemed

needed for viable operations. The structure of the incentive as a tax credit for only a percentage of costs forces serious investments vs. those that do it just to get a tax credit. Also, since the tax credit requires that the applicant is paying taxes it is most likely a viable business endeavor.

There appears to be a priority to keep lands in agriculture as seen by numerous measures to purchase lands by the State. The IAL program encourages the VOLUNTARY designation of the lands in exchange for the incentives a cost-effective way to preserve ag operations – not just lands, for future generations.

We therefore respectfully request your strong support of this measure as a continued investment to agriculture's future in the State of Hawaii.

Thank you for the opportunity to testify on this measure of great importance.

DAVID Y. IGE
Governor

JOSH GREEN
Lt. Governor



LATE

JAMES J. NAKATANI
Executive Director

STATE OF HAWAII
AGRIBUSINESS DEVELOPMENT CORPORATION

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Phone: (808) 586-0186 Fax: (808) 586-0189

TESTIMONY OF JAMES J. NAKATANI
EXECUTIVE DIRECTOR
AGRIBUSINESS DEVELOPMENT CORPORATION

BEFORE THE COMMITTEE ON AGRICULTURE
Wednesday, February 10, 2021
10:00 a.m.
VIA VIDEO CONFERENCING

HOUSE BILL NO. 874
RELATING TO THE IMPORTANT AGRICULTURAL LAND QUALIFIED
AGRICULTURAL COST TAX CREDIT

Chairperson Hashem and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 874. The Agribusiness Development Corporation (ADC) strongly supports House Bill No. 874, which extends the time the Department of Agriculture may certify qualified agricultural costs from December 31, 2021 to December 31, 2030.

The Important Agricultural Land Qualified Agriculture Cost Tax Credit is an important tool to incentivize agriculture production on agriculture lands to ensure these lands are kept in agriculture for future generations. The ADC acknowledges and appreciates the Legislature's effort to support agriculture during these tough economic times.

Thank you for your consideration of this bill.

DAVID Y. IGE
Governor

JOSH GREEN
Lt. Governor



PHYLLIS SHIMABUKURO-GEISER
Chairperson, Board of Agriculture

MORRIS M. ATTA
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
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TESTIMONY OF PHYLLIS SHIMABUKURO-GEISER
CHAIRPERSON, BOARD OF AGRICULTURE
BEFORE THE HOUSE COMMITTEE ON AGRICULTURE

FEBRUARY 10, 2021
10:00 A.M.
VIA VIDEOCONFERENCE

HOUSE BILL NO. 874
RELATING TO THE IMPORTANT AGRICULTURAL LAND QUALIFIED
AGRICULTURAL COST TAX CREDIT

Chairperson Hashem and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 879. This measure amends the Important Agricultural Lands (IAL) Qualified Agricultural Cost Tax Credit by delaying for three years when a taxpayer may claim the tax credit after applying to the Department of Agriculture for the first-year certification of the credit. This bill also extends the time that the Department may certify qualified agricultural costs from December 31, 2021 to December 31, 2030.

The Department strongly supports the continuation of the IAL Qualified Agricultural Cost Tax Credit which supports moving Hawaii toward food self-sufficiency by helping to offset costs related to establishing and sustaining viable agricultural operations. The Department acknowledges the State's precarious financial situation that necessitated the three-year delay for a landowner/farmer of designated IAL to claim the tax credit. The Department hopes that the State's economy recovers sufficiently and rapidly thereby allowing the three-year delay to be lessened or eliminated to the benefit of the hundreds of landowners/farmers on Oahu who lands may soon be designated as IAL and any other private landowner wishing to voluntarily request IAL designation. The Department additionally suggests effective date of this measure be **amended** to apply to taxable years beginning after December 31, 2021.

Thank you for the opportunity to testify on this measure.

