

Honolulu, Hawaii

APR 05 2007

RE: H.B. No. 902
H.D. 2
S.D. 3

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Madam:

Your Committee on Ways and Means, to which was referred H.B. No. 902, H.D. 2, S.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO AGRICULTURAL TAX CREDITS,"

begs leave to report as follows:

The purpose of this measure is to achieve long-term agricultural viability and use of important agricultural lands by establishing an important agricultural land agricultural business tax credit.

Specifically, this measure:

- (1) Creates a nonrefundable tax credit that staggers the percentage of costs claimable under the tax credit over a five-year period;
- (2) Reduces the tax credit by the amount of funds received by an agricultural business during the taxable year from the Irrigation Repair and Maintenance Special Fund under section 167-24, Hawaii Revised Statutes;
- (3) Appropriates an unspecified amount to the Department of Taxation for the costs to administer the Important Agricultural Land Agricultural Business Tax Credit; and



- (4) Appropriates an unspecified amount to the Department of Agriculture for the costs to administer the Important Agricultural Land Agricultural Business Tax Credit.

Testimony in support of this measure was submitted by the Hawaii Farm Bureau Federation; the Hawaii Crop Improvement Association; the Land Use Research Foundation of Hawaii; the Hawaiian Electric Company; the Maui Electric Company, Ltd.; Hawaii Electric Light Company, Inc.; Alexander and Baldwin, Inc.; the Hawaiian Commercial and Sugar Company; and the Kauai Coffee Company, Inc. The Department of Taxation and the Tax Foundation of Hawaii submitted comments.

In 2005, the Legislature enacted Act 183, Session Laws of Hawaii 2005, to preserve, protect, and ensure the availability of agriculturally suitable lands, and established a process to identify incentives to encourage farmers and landowners to designate their lands as important agricultural lands. Your Committee finds that establishing a tax credit incentive program for agricultural businesses on important agricultural lands will assist in enhancing the agricultural viability on important agricultural lands.

The Department of Taxation submitted to the previous committee a fiscal impact statement that indicated that the revenue loss to the State would be approximately \$27,800,000 annually. In its methodology, the Department stated that qualifying inflation-adjusted farm expenses totals about \$70,600,000, based on 2002 Bureau of Census data, and estimated that one-half of farm land would qualify as important agricultural lands. In 2006, allocations from the Irrigation Repair and Maintenance Special Fund were approximately \$15,000,000, and an estimated fifty per cent of that would be designated as important agricultural lands. ($\$35,300,000 - \$7,500,000 = \$27,800,000$).

Your Committee has amended this measure by:

- (1) Adopting the technical amendments suggested by the Department of Taxation for the purposes of clarity and consistency;
- (2) Clarifying that the Department of Agriculture shall submit a report with an evaluation of the effectiveness of the tax credit to the Legislature prior to the convening of each Regular Session;



- (3) Clarifying that the effective date of this measure is upon its approval and that the appropriation sections are effective on July 1, 2007, to avoid redundancy in this measure and to promote further discussion; and
- (4) Making technical, nonsubstantive amendments for the purposes of style and consistency.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 902, H.D. 2, S.D. 2, as amended herein, and recommends that it pass Third Reading in the form attached hereto as H.B. No. 902, H.D. 2, S.D. 3.

Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,




ROSALYN H. BAKER, Chair



The Senate
 Twenty-Fourth Legislature
 State of Hawaii

Record of Votes
 Committee on Ways and Means
 WAM

Bill / Resolution No.:* HB 902 HD2, SD2	Committee Referral: WAM, EDT, WAM	Date: 3/29/07		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
BAKER, Rosalyn H. (C)	/			
TSUTSUI, Shan S. (VC)	/			
CHUN OAKLAND, Suzanne				/
ENGLISH, J. Kalani	/			
FUKUNAGA, Carol	/			
HOOSER, Gary L.	/			
KIM, Donna Mercado	/			
MENOR, Ron				/
TOKUDA, Jill N.	/			
HEMMINGS, Fred	/			
WHALEN, Paul	/			
TOTAL	9	0	0	2
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original File with Committee Report		Yellow Clerk's Office		Pink Drafting Agency

*Only one measure per Record of Votes