



Kamehameha Schools®

House Committee on Agriculture

Date: February 12, 2021

Time: 10:00 a.m.

Where: Via Videoconference

TESTIMONY

By Dana Sato

Integrated Asset Management, Community & 'Āina Resiliency Group

RE: **HB 830 – Relating to the Important Agricultural Land Qualified Agricultural Cost Tax Credit**

E ka Luna Ho‘omalua Hashem, ka Hope Luna Ho‘omalua Perruso, a me nā Lālā o kēia Kōmike, aloha!

Recognizing the State’s ongoing budget deficit, Kamehameha Schools **supports the intent of HB 830**, which extends to the 2030 taxable year the important agricultural land (IAL) qualified agricultural cost tax credit, deferring to the Legislature on whether resources are available to continue this commitment at this time.

Kamehameha Schools believes that our educational mission is best achieved in a society that supports and enables the success of our learners. One significant component of such a society is a sustainable, local food system. For this reason, we have heavily invested in agriculture on our lands across Hawai‘i to contribute to the State’s Aloha+ Challenge goal of doubling local food production by 2030.

The IAL tax credit can play an important role in achieving this goal by promoting greater investment in Hawai‘i’s agricultural economy. Specifically, IAL tax credits can incentivize landowners and lessees to invest in improving and upgrading decades-old infrastructure and, maybe more importantly, to invest in new facilities essential to a modern agricultural economy, lowering (at least in part) the economic barriers that have historically dissuaded needed investments.

Extending the IAL tax credit, as one component of a more comprehensive strategy of investments and supports, can provide the time and opportunity to create thriving local food systems that enhance the lives of Hawai‘i’s people and support economic recovery.

Founded in 1887, Kamehameha Schools is an organization striving to advance a thriving Lāhui where all Native Hawaiians are successful, grounded in traditional values, and leading in the local and global communities. We believe that community success is individual success, Hawaiian culture-based education leads to academic success and local leadership drives global leadership. Mahalo nui!

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT 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 12, 2021
Time: 10:00 A.M.
Place: Via Videoconference, Hawaii State Capitol

**Re: H.B. 830, Relating to the Important Agricultural Land
Qualified Agricultural Cost Tax Credit**

The Department of Taxation (Department) offers the following comments regarding H.B. 830 for your consideration.

H.B. 830 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. The measure also postpones the date the DOA shall cease certifying the IAL credit from December 31, 2021 until December 31, 2030. The measure applies to taxable years beginning after December 31, 2021.

The Department notes that the bill's language as currently drafted requires clarification as it does not provide sufficient guidance as to when the credit may be claimed. The Department recommends amending the last sentence of subsection (a) to read as follows:

The taxpayer [~~also~~] may subsequently claim the credit in consecutive or inconsecutive taxable years until exhausted.

The Department takes no position on the extension of the IAL credit proposed in this measure as it does not create a substantial administrative burden on the Department.

Thank you for the opportunity to provide comments.



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February 12, 2021

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE

TESTIMONY ON HB 830
RELATING TO THE IMPORTANT AGRICULTURAL LAND QUALIFIED
AGRICULTURAL COST TAX CREDIT

Conference Room 325
10:00 AM

Aloha Chair Hashem, Vice-Chair Perruso, 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 830, which extends through the 2030 tax year, the time that the Department of Agriculture may certify important agricultural lands qualified agricultural costs. It also clarifies that a taxpayer can claim the credit in the third taxable year after they apply for the credit, rather than in any taxable year.

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



PHYLLIS SHIMABUKURO-GEISER
Chairperson, Board of Agriculture

MORRIS M. ATTA
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 South King Street
Honolulu, Hawaii 96814-2512
Phone: (808) 973-9600 FAX: (808) 973-9613

TESTIMONY OF PHYLLIS SHIMABUKURO-GEISER
CHAIRPERSON, BOARD OF AGRICULTURE
BEFORE THE HOUSE COMMITTEE ON AGRICULTURE

FEBRUARY 12, 2021
10:00 A.M.
VIA VIDEOCONFERENCE

HOUSE BILL NO. 830
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. 830 SD1. 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 suggests a clarifying **amendment** at Page 3 Line 18-19 (new language bolded and underlined):

"The taxpayer [~~also~~] may **subsequently** claim the credit in consecutive or inconsecutive taxable years until exhausted.""



Furthermore, the Department suggests that the effective date of this measure be **amended** to be applicable to taxable years beginning after December 31, 2021.

Thank you for the opportunity to testify on this measure.



Email: communications@ulupono.com

HOUSE COMMITTEE ON AGRICULTURE
Friday, February 12, 2021 — 10:00 a.m.

Ulupono Initiative supports HB 830, 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 830, which clarifies that a taxpayer can claim the credit in the third taxable year after they apply for the credit, rather than in any taxable year, and extends the time that the Department of Agriculture may certify Important Agricultural Lands qualified agricultural costs through the 2030 tax year.

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

HB-830

Submitted on: 2/10/2021 7:12:33 PM

Testimony for AGR on 2/12/2021 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 very good bill which will assist all minor & 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 agriculture costs tax credit over a longer period of time and in more appropriate increments. Mahalo, Dante Carpenter, Pres., Carpenter & Carpenter, Inc.



LAND USE RESEARCH
FOUNDATION OF HAWAII

1100 Alakea Street, Suite 408
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(808) 521-4717
www.lurf.org

February 10, 2021

Representative Mark J. Hashem, Chair
Representative Amy A. Perruso, Vice Chair
House Committee on Agriculture

Comments in Support of HB 830, Relating to the Important Agricultural Land Qualified Agricultural Cost Tax Credit (Clarifies that a taxpayer can claim the credit in the third taxable year after they apply for the credit, rather than in any taxable year. Extends the time that the Department of Agriculture may certify the important agricultural lands qualified agricultural costs tax credits from 12/31/2021 to 12/31/2030.)

Friday, February 12, 2021, at 10:00 a.m.; Conference Room 325, via Videoconference

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers, and utility companies. LURF's mission is to advocate for reasonable, rational, and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

LURF appreciates the opportunity to express its **support of HB 830** and of the various agricultural stakeholder groups who defend the goals of viable agricultural operations and the conservation and protection of agriculture, including important agricultural lands (IAL) in Hawaii.

HB 830. The purpose of this bill is to clarify that a taxpayer can claim the credit in the third taxable year after they apply for the credit, rather than in any taxable year after the taxable year during which the taxpayer incurred the qualified costs upon which the credit is based; and to extend the time that the Department of Agriculture (DOA) may certify the important agricultural land qualified agricultural cost tax credits from December 21, 2021 to December 31, 2021, to provide additional time to allow landowners and farmers to claim the tax credit in the event that their agricultural lands are identified as potential important agricultural lands and designated as such by the Land Use Commission (LUC).

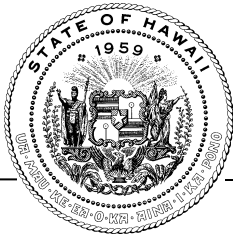
LURF's Position. LURF members include farmers and ranchers who own, maintain, and engage in agricultural enterprises, and who consider incentives such as the subject tax credits very helpful, if not critical to the agriculture industry and conduct of their operations. The tax credits assist qualified landowners and farmers by offsetting costs related to establishing and sustaining viable agricultural operations and help to sustain agricultural businesses, promote local food production, and increase the State's ability to achieve its food self-sufficiency goals.

The purpose of this bill is consistent with the underlying intent and objectives of the IAL laws (Hawaii Revised Statutes [HRS], Sections 205-41 to 52), which were enacted to fulfill the mandate in Article XI, Section 3, of the Hawaii State Constitution, "to conserve and protect agricultural lands, promote diversified agriculture, increase agricultural self-sufficiency and assure the availability of agriculturally suitable lands." The IAL laws established a new paradigm which avoids requirements and mandates, and instead focuses on promoting agricultural viability by providing incentives for farmers and landowners to designate lands as IAL, and to build necessary infrastructure. This bill is thus an effort to expand the existing IAL program by continuing incentives for landowners to preserve and maintain IAL.

As noted in HRS Section 205-41, the intent of Act 183 (2005) was to develop agricultural incentive programs to promote agricultural viability, sustained growth of the agricultural industry, and the long-term use and protection of important agricultural lands for agricultural use in Hawaii concurrently with the process of identifying important agricultural lands as required under the Act. Such incentives and programs are expressly identified in HRS 205-41, and specifically include assistance in identifying federal, state, and private grant resources for agricultural business planning and operations; as well as incentives such as tax credits that promote investment in agricultural businesses or value-added agricultural development, and other agricultural financing mechanisms.

The DOA, however, will currently cease certifying tax credits for tax years beginning after December 31, 2021. Moreover, the counties have not provided IAL incentives to date. The proposed extension will allow landowners and farmers to claim the tax credit should their lands be identified as potential important agricultural lands by the LUC. Passage of the long-awaited IAL legislation would be meaningless without incentives such as the subject measure which help sustain agricultural enterprises and encourage cooperation with, and support of the business and economic communities. By recognizing the significance of, and need to assist the local agriculture industry, and to uphold incentives which help to support the growth and maintenance of agriculture in the State, this measure significantly helps to promote economically viable agriculture and food self-sufficiency in Hawaii.

For the reasons set forth above, LURF is **in support of HB 830**, and respectfully urges your favorable consideration of this bill.



OFFICE OF PLANNING STATE OF HAWAII

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DAVID Y. IGE
GOVERNOR

MARY ALICE EVANS
DIRECTOR
OFFICE OF PLANNING

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Statement of
MARY ALICE EVANS
Director, Office of Planning
before the
HOUSE COMMITTEE ON AGRICULTURE
Friday, February 12, 2021
10:00 AM
Via Videoconference

in consideration of
HB 830
**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** HB 830, although we prefer HB 874 heard earlier and passed with amendments by the Committee. This measure, HB 830, would extend the Department of Agriculture's (DOA) certification of credits for important agricultural land (IAL) qualified agricultural costs to December 31, 2030; HB 874 extends the tax credit for an additional year to December 31, 2031. HB 830 also provides for a three-year delay from the filing of an application for DOA certification of the tax credit to the filing of a claim for 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 deduction 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.

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: SB 339

INTRODUCED BY: GABBARD, INOUE, KEITH-AGARAN, KIM, LEE, SAN BUENAVENTURA, Chang, Kidani, Shimabukuro

EXECUTIVE SUMMARY: Clarifies that a taxpayer can claim the credit in the third taxable year after they apply for the credit, rather than in any taxable year. Extends the time that the department of agriculture may certify the important agricultural land qualified agricultural costs tax credit from 12/31/2021 to 12/31/2030.

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: 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

Re: SB 339
Page 2

the original legislation are being met, and whether there is any prospect of return on our investment of public dollars.

Digested 1/29/2021

HB-830

Submitted on: 2/11/2021 10:25:07 AM

Testimony for AGR on 2/12/2021 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Regina Gregory	Individual	Comments	No

Comments:

Having to wait until the third year after expenses are incurred is not a very good incentive.

HB-830

Submitted on: 2/11/2021 10:39:23 AM

Testimony for AGR on 2/12/2021 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
J Ashman	Individual	Support	No

Comments:

Please pass this measure. Thank you.

HB-830

Submitted on: 2/11/2021 5:09:45 PM

Testimony for AGR on 2/12/2021 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Robert E Wheeler	Individual	Support	No

Comments:

Chair Mark Hashem and Agriculture Committee Members:

My name is Robert Wheeler, a consultant for Villa Rose LLC, an egg farm near Waialua. My involvement in Hawaii agriculture exceeds 25 years. During this time, I have seen many of our agriculture operations, both large and small, fail under the high cost of doing business in Hawaii. I am in favor of any legislation to reduce the cost of farming in Hawaii. Please accept my testimony supporting House Bill 380 extending the Agricultural Cost Tax Credit on Important Agricultural Land. This bill will aid agriculture producers by reducing their tax burden allowing improvements to their operation, and hopefully, increase their productivity. Moreover, it will further Hawaii's goal of food sustainability.

Thank you for the opportunity to testify.