

STAND. COM. REP. NO.

1690

Honolulu, Hawaii

APR 05 2007

RE: H.B. No. 1639  
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. 1639, H.D. 2, S.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO IMPORTANT AGRICULTURAL LANDS,"

begs leave to report as follows:

The purpose of this measure is to:

- (1) Exclude rental income derived from agricultural leases on important agricultural lands from gross and adjusted gross income, and taxable income for income tax purposes, under certain conditions;
- (2) Exempt rental income derived from agricultural leases on important agricultural lands from the general excise tax law, under certain conditions;
- (3) Establish a reimbursable real property income tax credit for one hundred per cent of the actual amount of real property tax paid by taxpayers on lands designated as important agricultural lands; and
- (4) Provide farmer and employee housing on lands designated as important agricultural lands.

Written comments in support of this measure were submitted by the Department of Agriculture; the Land Use Research Foundation of Hawaii; the Hawaii Farm Bureau Federation; the Hawaii Agriculture

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Research Center; Alexander and Baldwin, Inc.; the Hawaiian Commercial and Sugar Company; and the Kauai Coffee Company, Inc. Written comments in opposition to this measure were submitted by the Office of Planning, Department of Business, Economic Development, and Tourism and the Department of Planning and Permitting, City and County of Honolulu. The Department of Taxation and the Tax Foundation of Hawaii submitted comments.

Act 183, Session Laws of Hawaii 2005, was enacted to preserve and protect agricultural lands, promote diversified agriculture, increase agricultural self-sufficiency, and assure the availability of agriculturally suitable lands. Furthermore, Act 183 established a process to identify incentives to encourage farmers and landowners to designate their lands as important agricultural lands. Your Committee finds that establishing incentive programs relating to important agricultural lands will assist in enhancing the agricultural viability on important agricultural lands.

Of particular note, your Committee received a fiscal impact statement from the Department of Taxation that this measure, if enacted, would result in the general excise tax exemption reducing general fund revenues by \$160,000 annually. If this measure is made effective currently, the income tax exclusion would cost the State \$216,000 annually, and the real property tax credit will reduce revenues by \$10,000,000 per year because of the aggregated cap provision. The Department of Taxation indicated that revenue impacts could vary widely, depending on the amount of agricultural land designated as important agricultural lands. The fiscal impact statement submitted did not specify the methodology by which the fiscal impact was calculated.

Your Committee has amended this measure by:

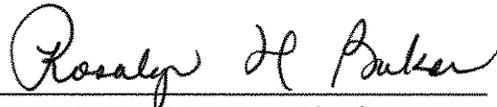
- (1) Deleting references to agricultural activity in Part I of this measure and replacing it with references to agribusiness, and adding a definition for "agribusiness" for further clarity;
- (2) Adding language in Part II that the real property tax credit will be available for taxable years beginning after December 31, 2007, and will not be available for taxable years beginning after December 31, 2027;



- (3) Adding an appropriation of an unspecified amount in Part II for fiscal biennium 2007-2009 for the Department of Agriculture to collect and analyze data to make an aggregated quantitative and qualitative assessment of the full impact of the important agricultural lands tax credit;
- (4) Adding a Part IV to this measure that amends section 205-5, Hawaii Revised Statutes, by adding a new subsection allowing an unspecified minimum lot size on designated important agricultural lands; and
- (5) 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. 1639, 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. 1639, H.D. 2, S.D. 3.

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



ROSALYN H. BAKER, Chair



