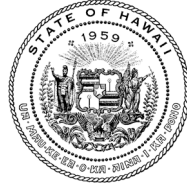


JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII 'I
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau

P.O. BOX 259

HONOLULU, HAWAII 'I 96809

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GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 2805, S.D.2, Relating to Agriculture

BEFORE THE:

House Committee on Agriculture & Food Systems

DATE: Friday, March 20, 2026

TIME: 9:30 a.m.

LOCATION: State Capitol, Room 325

Chair Chun, Vice-Chair Kusch, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding S.B. 2805, S.D.2, for your consideration.

S.B. 2805, S.D.2, adds a new section to chapter 235, Hawaii Revised Statutes (HRS), establishing a nonrefundable "agricultural investment tax credit" based on an unspecified percentage of a qualified taxpayer's qualified agricultural costs, up to an unspecified maximum dollar amount per taxpayer, per taxable year, and also limits the total dollar amount of tax credits allowed per taxable year to an unspecified aggregate cap amount. A taxpayer whose claim is disallowed due to the aggregate cap being reached is eligible to claim the credit in the subsequent year, and excess credit may be carried forward for a maximum of five years.

The Agribusiness Development Corporation (ADC) is designated to certify the credit, administer the per taxpayer credit limit and aggregate cap amount, and issue certificates to the taxpayer, to be filed with their tax return, verifying the qualified agricultural costs and credit amount for the taxable year. The bill also requires taxpayers to prequalify with the ADC prior to incurring costs, and provide the ADC with a written, sworn statement with specific project information, no later than ninety days after the end of the taxable year.

In the case of a partnership, S corporation, estate, or trust, the credit is computed and determined at the entity level, with distribution and share determined by rule. If a deduction is taken under section 179 of the Internal Revenue Code, no credit will be allowed for those same costs, and no other tax credit or deduction may be claimed based on the same costs used to claim this credit.

Definitions are provided for “net income tax liability” and “qualified agricultural costs.” A “qualified taxpayer” is defined as “any person with a commercial agricultural, silvicultural, or aquacultural project with qualified agricultural costs of not less than” an unspecified dollar amount, on not less than an unspecified number of acres.

The measure has a defective effective date of July 1, 2050, and applies to taxable years beginning after December 31, 2025. The Act will be repealed on January 1, 2031.

DOTAX recommends that section (d) be amended so that the deadline to submit the written, sworn statement is "March 31 following the end of each taxable year" instead of "ninety days following the end of each taxable year." This will ensure that all taxpayers, regardless of whether they are calendar-year or fiscal-year filers, will be subject to the same deadline.

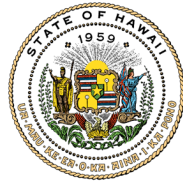
DOTAX also recommends that section (f) be amended by replacing each instance of "taxable year" with "calendar year" to avoid ambiguity as to the timeframe in which the aggregate cap shall be determined.

Finally, DOTAX recommends that the effective date be amended to apply to costs incurred after December 31, 2026, to allow sufficient time to prepare forms, instructions, make system changes, and notify taxpayers of the new credit.

Thank you for the opportunity to provide comments on this measure.

JOSH GREEN, M.D.
Governor

SYLVIA LUKE
Lt. Governor



SHARON HURD
Chairperson
Board of Agriculture & Biosecurity

DEAN M. MATSUKAWA
Deputy to the Chairperson

State of Hawai'i
DEPARTMENT OF AGRICULTURE & BIOSECURITY
KA 'OIHANA MAHI'AI A KIA'I MEAOLA
1428 South King Street
Honolulu, Hawai'i 96814-2512
Phone: (808) 973-9560 FAX: (808) 973-9613

**TESTIMONY OF SHARON HURD
CHAIRPERSON, BOARD OF AGRICULTURE AND BIOSECURITY**

BEFORE THE HOUSE COMMITTEE ON AGRICULTURE AND FOOD SYSTEMS

**MARCH 20, 2026
9:30 AM
CONFERENCE ROOM 325 & VIDEOCONFERENCE**

**SENATE BILL NO. 2805, SD2
RELATING TO AGRICULTURE**

Chair Chun, Vice Chair Kusch, and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill 2805, Senate Draft 2. This bill establishes a nonrefundable income tax credit to incentivize significant investment in agricultural production and support expansion of agricultural crops that take longer to become productive. The Department supports this bill.

Incentivizing investment in agricultural production, infrastructure and supporting expansion of longer maturing crops through the use of tax credits will help expand local food production and make agricultural operations more sustainable. The agricultural industry is very capital intensive and requires significant upfront costs to start-up or expand operations. These costs can include acquisition of land, irrigation water development, purchase of equipment and construction of facilities. Orchard and perennial crop development adds further time and expense before any returns can be realized and can discourage many new and potential farmers.

Having a state tax policy that encourages development of farm operations and planting of long-term crops will encourage investment in these types of crops and will broaden the state's economy, reduce food prices, diversify crop production and support the long-term viability of agriculture in the state. Establishing this tax policy helps move the state towards its goal of food self-sufficiency, reduce its reliance on food imports and could be used for development of crops targeted for export.

Thank you for the opportunity to testify on this measure.



P.O. Box 253, Kunia, Hawai'i 96759
Phone: (808) 848-2074; Fax: (808) 848-1921
e-mail info@hfbf.org; www.hfbf.org

March 20, 2026

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE & FOOD SYSTEMS

TESTIMONY ON SB 2805, SD2
RELATING TO AGRICULTURE

Conference Room 325 & Videoconference
9:30 AM

Aloha Chair Chun, Vice-Chair Kusch, and Members of the Committee:

I am Brian Miyamoto, Executive Director of the Hawai'i Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,800 farm family members statewide and serves as Hawai'i's voice of agriculture to protect, advocate and advance the social, economic, and educational interests of our diverse agricultural community.

The Hawai'i Farm Bureau supports SB 2805, SD2, which establishes a nonrefundable income tax credit to incentivize significant investment in agricultural production and support the expansion of agricultural crops that take longer to become productive.

If Hawai'i is serious about increasing local food production and protecting agricultural lands, we must incentivize long-term investment in agricultural infrastructure and productive capacity. Agriculture is capital-intensive. Irrigation systems, reservoirs, farm roads, processing facilities, equipment, and orchard crop development require substantial upfront investment and often years before returns are realized.

SB 2805, SD2 establishes a targeted Agricultural Investment Tax Credit that encourages these types of investments. By including costs for water infrastructure, processing facilities, agricultural equipment, and orchard crop and fruit crop development, the measure directly supports the expansion of production capacity across multiple agricultural sectors.

Orchard crops and fruit crops require significant upfront capital and extended periods before generating revenue. Supporting these investments strengthens Hawai'i's long-term food security and helps diversify our agricultural economy.

Reducing the cost of production is essential if we want to reduce the cost of food. Strategic tax policy that encourages reinvestment in agricultural operations helps stabilize farms,

expand acreage under cultivation, and improve competitiveness against imported products.

This measure applies broadly across agricultural sectors, including crop production, livestock, aquaculture, apiary, and silviculture, helping to strengthen the entire agricultural ecosystem.

SB 2805, SD2 represents a meaningful step toward aligning tax policy with the State's food security and agricultural development goals.

Thank you for the opportunity to provide testimony.

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Agricultural Investment Tax Credit

BILL NUMBER: SB 2805 SD2

INTRODUCED BY: WAM

EXECUTIVE SUMMARY: Establishes a nonrefundable income tax credit to incentivize significant investment in agricultural production and support the expansion of agricultural crops that take longer to become productive. Sunsets 1/1/2031. Effective 7/1/2050. (SD2)

SYNOPSIS: Adds sec 235 ____, HRS, for a nonrefundable investment tax credit of an unspecified per cent of qualified agricultural costs incurred by the taxpayer, up to a maximum of \$ ____.

For a partnership, S corporation, estate, or trust, the cost upon which the credit is computed shall be determined at the entity level and the distribution and share of the tax credit shall be determined by administrative rule.

No credit shall be allowed for costs for which a deduction is claimed under IRC sec 179.

No other tax credit or deduction may be claimed under the Income Tax Law for qualified agricultural costs for which a credit is claimed under this section for the taxable year.

The taxpayer is required to prequalify the activity with the Agribusiness Development Corporation before incurring creditable costs. The taxpayer must submit a statement of costs to the ADC no later than 90 days following the end of the taxable year, and the ADC will certify the amount of credits for the taxable year. Notwithstanding the authority of the ADC, DOTAX may audit and adjust the tax credit amount to conform to the facts.

The total amount of tax credits allowed under this section shall not exceed \$ _____ for all taxpayers in any taxable year; provided that any taxpayer who is not eligible to claim the credit in a taxable year due to the \$ _____ cap having been exceeded for that taxable year shall be eligible to claim the credit in the subsequent taxable year.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91.

If the tax credit claimed exceeds the taxpayer's income tax liability, the excess can be used in subsequent years until exhausted. Requires claims for the credit, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

"Net income tax liability" means income tax liability reduced by all other credits allowed under chapter 235.

"Qualified agricultural costs" means expenditures for:

(1) The plans, design, engineering, construction, renovation, repair, maintenance, and equipment for: (A) Roads or utilities, primarily for agricultural purposes; (B) Agricultural processing facilities where the majority of the crops or livestock processed, harvested, treated, washed, handled, or packaged are from agricultural businesses; and (C) Water wells, reservoirs, dams, water storage facilities, water pipelines, ditches, or irrigation systems in the State, primarily for agricultural purposes;

(2) Feasibility studies, regulatory processing, and legal and accounting services related to the items under paragraph (1);

(3) Equipment, primarily for agricultural purposes, used to cultivate, grow, harvest, or process agricultural products by an agricultural business;

(4) Regulatory processing, studies, and legal and other consultant services related to obtaining or retaining sufficient water for agricultural activities; and

(5) The costs relating to the planting of orchard or fruit-bearing crops on not less than _____ acres, including: (A) The purchase of planting materials, including seeds, transplants, cuttings, and grafted plants; (B) The clearing of and removal of trees and debris; and (C) Tillage, including the preparation and restoration of the soil to correct any nutrient deficiency, planting, weed control, fertilizing, irrigation, and pest management.

"Qualified taxpayer" means any person with a commercial agricultural, silvicultural, or aquacultural project with qualified agricultural costs of not less than \$____, on not less than _____ acres, including: (1) The care and production of livestock and livestock products, poultry and poultry products, apiary products, and plant and animal production for nonfood uses ; (2) The planting, cultivating, harvesting, and processing of crops;and (3) The farming or ranching of any plant or animal species in a controlled salt, brackish, or freshwater environment."

EFFECTIVE DATE: July 1, 2050, for taxable years beginning after December 31, 2025; sunsets on January 1, 2031.

STAFF COMMENTS: First, this measure contains numerous blanks making it difficult to vet in its current form.

This measure provides a tax subsidy to persons with commercial agricultural projects. While a tax credit may incentivize these persons to invest in agricultural production and expand agricultural crops that have longer production periods, lawmakers need to keep in mind two things.

First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount.

The second point to remember about tax credits is that they are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when we need money to support social service programs or our state hospitals?

In any event, a direct appropriation to a grant or subsidy program would be more accountable and transparent.

Furthermore, the tax credit would entail resources to implement rules to administer the allowance and monitoring of the credit, implement changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation may be a far less costly method to accomplish the same thing.

Digested: 3/18/2026



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Natalie Urminska
Kauai

Aloha Chair Chun, Vice Chair Kusch, and Members of the House Agriculture & Food Systems Committee,

The Hawaii Farmers Union is a 501(c)(5) agricultural advocacy nonprofit representing a network of over 2,500 family farmers and their supporters across the Hawaiian Islands. **HFU supports and seeks to amend SB2805.**

SB2805 presents an opportunity to support Hawaii's diverse agricultural community by offering a nonrefundable income tax credit aimed at promoting significant investments in agricultural production. This credit stands to play a crucial role in encouraging the cultivation of perennial crops. By providing this tax relief, the bill acknowledges the essential role of long-term crop investments and the barriers many farmers face.

However, it is vital to ensure that the benefits of this tax credit are equitably distributed across the full range of farming operations in Hawaii. The bill as drafted leaves several critical parameters blank. How these blanks are filled will determine whether the credit reaches the farmers who need it most or primarily benefits a small number of well-capitalized enterprises.

Roughly two-thirds of Hawaii's farms are under 10 acres, and just 579 farms gross over \$100,000. Nearly 80% of all farms are family-owned or individually operated. These numbers make clear that Hawaii's agricultural sector is predominantly composed of small-scale, family-run operations. Any investment incentive that sets thresholds too high or fails to account for this distribution risks reinforcing existing disparities rather than broadening the productive base.

The following amendments are offered to help the Committee structure the credit in a manner that is inclusive, equitable, and aligned with the realities of farming in Hawaii.

1. Set Accessible Minimum Thresholds

The "qualified taxpayer" definition in subsection (i) requires a minimum investment on a minimum number of acres. We recommend the blanks be filled as follows. Amend the definition of "Qualified taxpayer," to read:

Qualified taxpayer" means any person with a commercial agricultural, silvicultural, or aquacultural project with qualified agricultural costs of not less than **\$2,500**, on not less than **one** acre[~~s~~], including:

With two-thirds of Hawaii farms under 10 acres, a one-acre floor is inclusive of the vast majority of commercial operations while still screening out non-commercial activity. A \$2,500 minimum investment reflects the realistic scale at which a small farmer might invest in drip irrigation, soil amendment, or planting materials.

2. Adopt Tiered Credit Percentages and Per-Taxpayer Cap

Rather than a single flat credit rate, a tiered structure ensures that the credit delivers proportionally greater benefit to smaller investments while still incentivizing larger-scale capital expenditure. A per-taxpayer cap prevents any single entity from absorbing an outsized share of the aggregate pool. Amend Section 2(b) to read:

- (b) The amount of the credit shall be determined as follows:
- (1) Thirty-five per cent of the first \$50,000 of qualified agricultural costs incurred by a qualified taxpayer;
 - (2) Twenty per cent of qualified agricultural costs in excess of \$50,000 but not exceeding \$250,000 incurred by a qualified taxpayer; and
 - (3) Ten per cent of qualified agricultural costs in excess of \$250,000 incurred by a qualified taxpayer;
- provided that the total credit claimed by any qualified taxpayer shall not exceed _____ per taxable year.

Under this structure every scale benefits, but marginal returns decline, ensuring that the aggregate pool is not disproportionately consumed by a small number of claimants. A per-taxpayer cap generous enough to support serious mid-scale investment while naturally limiting concentration of benefits is recommended.

3. Require Commercially Accepted Planting Practices

For the orchard and fruit crop planting costs in paragraph (5) of the "qualified agricultural costs" definition, we recommend adding a standard to ensure the credit supports genuine productive investment rather than nominal planting activity.

Amend the definition of "Qualified agricultural costs," paragraph (5), by adding a new subparagraph to read:

- (D) All planting under this paragraph shall be consistent with commercially accepted practices for the crop;

This standard does not require the legislature to prescribe crop-specific density or spacing requirements. The Agribusiness Development Corporation can apply it during its prequalification review, drawing on University of Hawai'i CTAHR guidance and established agronomic practice.

Additional Considerations

Administration through ADC. The bill routes prequalification and certification through the Agribusiness Development Corporation. Given ADC's historical orientation toward larger-scale agribusiness development, the Committee may wish to ensure that ADC's administrative processes and outreach are designed to be accessible to small and beginning farmers, including those who may lack experience navigating state agency certification processes.

Accountability for long-term crops. Given that the credit specifically targets investments in crops that take longer to become productive, the Committee may wish to consider a provision requiring that land receiving the credit remain in agricultural

production for a defined period, for example, five years, with a proportional recapture of the credit if the land is converted to non-agricultural use. This would reinforce the bill's intent while protecting the public investment.

SB2805 SD2 has the potential to meaningfully incentivize agricultural investment across Hawai'i's diverse farming landscape. With the right thresholds, tiered rates, and safeguards, this credit can serve farmers at every scale and advance the constitutional mandate to conserve and protect agricultural lands through active production.

Mahalo for the opportunity to testify.

Hunter Heavilin
Advocacy Director
Hawai'i Farmers Union



MAUI

CHAMBER OF COMMERCE

VOICE OF BUSINESS

**HEARING BEFORE THE HOUSE COMMITTEE ON AGRICULTURE & FOOD SYSTEMS
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 325
FRIDAY, MARCH 20, 2026 AT 9:30 A.M.**

To The Honorable Representative Cory M. Chun, Chair
The Honorable Representative Matthias Kusch, Vice Chair
Members of the Committee on Agriculture & Food Systems

SUPPORT FOR SB2805 RELATING TO AGRICULTURE

The Maui Chamber of Commerce supports SB2805 SD2, as it proposes a targeted tax credit to encourage significant investment in agricultural production, with a focus on crops that require extended periods to reach productivity.

The bill's emphasis on incentivizing investment in crops with longer maturation timelines addresses a critical barrier faced by many local farmers. Such crops often require substantial upfront capital and patience before yielding returns, making them less attractive under current market conditions. By providing a nonrefundable tax credit, the measure encourages both new and existing producers to consider these longer-term investments, which can ultimately contribute to greater food security and economic stability for Hawai'i.

SB2805 SD2 also supports the expansion of agricultural diversity, which is widely recognized as a best practice for enhancing ecosystem health and reducing vulnerability to pests, diseases, and market fluctuations. Encouraging the cultivation of a broader range of crops can help restore soil health, conserve water, and reduce reliance on imported foods.

We appreciate the opportunity to share our support of this bill and ask that you move it forward.

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.



**Testimony to the House Committee on Agriculture & Food Systems
Representative Cory M. Chun, Chair
Representative Matthias Kusch, Vice Chair**

**Friday, March 20, 2026, at 9:30AM
Conference Room 325 & Videoconference**

RE: SB2805 SD2 Relating to Agriculture

Aloha e Chair Chun, Vice Chair Kusch, and Members of the Committee:

My name is Sherry Menor, President and CEO of the Chamber of Commerce Hawaii ("The Chamber"). The Chamber supports Senate Bill 2805 Senate Draft 2 (SB2805 SD2), which establishes a nonrefundable income tax credit to incentivize significant investment in agricultural production and support the expansion of agricultural crops that take longer to become productive.

SB2805 SD2 aligns with our 2030 Blueprint for Hawaii: An Economic Action Plan, specifically under the policy pillar for 21st Century Agriculture. This pillar aligns with this bill in its intent towards long term food systems resilience and reduced infrastructural costs for Hawaii's farmers. This bill contributes towards such resilience by decreasing the burden incurred by farms for long-term investments. For an industry that is already limited by high operating costs, labor shortage, and limited land availability, this legislation provides important relief that will directly increase the state's agricultural productivity. Further, diversifying and expanding our local food basket with this tax credit advances several other statewide economic initiatives, such as increase tax revenue generation, expanding value-added production and exports, and encouraging private sector investment.

For Hawaii to improve its food resilience and self-sufficiency, it must maintain a diverse food basket. By incentivizing this diversity, this legislation helps to make a broader variety of local produce available to the market for direct sale or for value-added production, while limiting the risk oversaturation in the market for crops that produce on a shorter cycle with less infrastructural investment required. This tax credit will reduce cost barriers and allow for diverse commodities crops to strengthen their position within the market.

The Chamber of Commerce Hawaii is the state's leading business advocacy organization, dedicated to improving Hawaii's economy and securing Hawaii's future for growth and opportunity. Our mission is to foster a vibrant economic climate. As such, we support initiatives and policies that align with the 2030 Blueprint for Hawaii that create opportunities to strengthen overall competitiveness, improve the quantity and skills of available workforce, diversify the economy, and build greater local wealth.

We respectfully ask to pass Senate Bill 2805 Senate Draft 2. Thank you for the opportunity to testify.