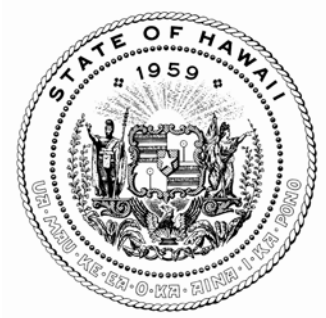


**REPORT TO THE TWENTY-FIFTH LEGISLATURE  
2010 REGULAR SESSION**

**REPORT ON THE IMPACT OF THE IMPORTANT AGRICULTURAL LAND  
QUALIFIED AGRICULTURAL COST TAX CREDIT AND A QUANTITATIVE AND  
QUALITATIVE ASSESSMENT OF THE IMPACT OF  
THE LOAN GUARANTY PROGRAM**

**IN RESPONSE TO ACT 233, SESSION LAWS OF HAWAII 2008**



**JOINTLY SUBMITTED BY  
THE DEPARTMENT OF AGRICULTURE AND  
THE DEPARTMENT OF TAXATION**

**DECEMBER 2009**

# **IMPORTANT AGRICULTURAL LAND QUALIFIED AGRICULTURAL COST TAX CREDIT**

## **Legislative Background**

Act 233, Session Laws of Hawaii 2008, requires that:

“The department of agriculture, in consultation with the department of taxation, shall annually determine the information necessary to provide a quantitative and qualitative assessment of the outcomes of the tax credit”.

“The department of agriculture, in consultation with the department of taxation, shall annually submit a report evaluating the effectiveness of the tax credit. The report shall include but not be limited to findings and recommendations to improve the effectiveness of the tax credit to further encourage the development of agricultural businesses”.

"The department of taxation, in consultation with the department of agriculture, shall submit to the legislature an annual report, no later than twenty days prior to the convening of each regular session, beginning with the regular session of 2010, regarding the quantitative and qualitative assessment of the impact of the important agricultural land qualified agricultural cost tax credit”.

For purposes of this report, we consider the second and third paragraphs to be the same requirement.

## **Important Agricultural Lands Milestone**

Alexander and Baldwin, Inc. (A&B) is the first and only landowner thus far to dedicate lands as Important Agricultural Lands (IAL) through the Land Use Commission process. A&B has designated over 27,000 acres on Maui which extend from Maalaea, Kahului, Paia, Haliimaile to Kihei and are mostly in sugar cane production, with some lands in seed corn and pasture. On Kauai, their 3,773 acres designated as IAL are located in Lawai and Hanapepe and currently are used for coffee, seed corn, rice, taro and pasture.

## **Description of the Agricultural Cost Tax Credit**

The tax credit may be claimed in taxable years beginning after May 31, 2009. The Hawaii Department of Agriculture is to certify credits up to \$7,500,000 annually. A tax credit can be claimed for costs such as roads or utilities, agricultural processing facilities, water wells, reservoirs, dams, pipelines, agricultural housing, feasibility studies, legal and accounting services, and equipment.

## **Outcomes and Effectiveness of the Agricultural Cost Tax Credit**

A taxpayer may claim the agricultural cost tax credit only to the extent that eligible costs have been certified by the Department of Agriculture. To date, the Department of Agriculture has not certified costs for any taxpayer. Once eligible costs have been certified, a taxpayer would become eligible to claim a credit of twenty-five per cent of the lesser of the following: (A) the qualified agricultural costs incurred by the taxpayer after July 1, 2008; or (B) \$625,000.

If the first eligible costs are certified in 2010, then the earliest that data could be available for this credit would be in 2011, after taxpayers have filed their 2010 tax returns. Given this timeline, the earliest that a report could be submitted to the legislature analyzing the outcomes and effectiveness of this credit would be prior to the start of the 2012 legislature.

## **QUANTITATIVE AND QUALITATIVE ASSESSMENT OF THE IMPACT OF THE LOAN GUARANTY PROGRAM**

### **Legislative Background**

Act 233, Session Laws of Hawaii 2008, requires that:

The department of taxation, in consultation with the department of agriculture, shall submit to the legislature an annual report, no later than twenty days prior to the convening of each regular session, beginning with the regular session of 2010, that provides a quantitative and qualitative assessment of the impact of the loan guaranty program established in section 155-5.6, Hawaii Revised Statutes.

### **Description of the Loan Guaranty Program**

The Chairperson of the Board of Agriculture may provide an 85% loan guaranty to commercial lenders which should result in a lower interest rate for agricultural borrowers on IAL. The interest rate on guaranteed loans will be 1% below the lender's prime rate. The IAL loan guaranty program is administered by HDOA's Agricultural Loan Division.

### **Outcomes and Effectiveness of the Loan Guaranty Program**

The Agricultural Loan Division has not received any enquiries about the Loan Guaranty Program from Alexander & Baldwin, Inc., the only entity currently eligible to receive this incentive. Given the financial strength of A&B, it is possible that A&B would be able to obtain more favorable terms than available through this incentive.