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# A BILL FOR AN ACT

RELATING TO FARMS.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that Hawaii imports far  
2 more goods and services than it exports. Thus, Hawaii has a  
3 significant negative trade flow. Hawaii makes up for this  
4 negative trade flow by relying on tourism and military  
5 expenditures. However, this reliance on external sources of  
6 revenue may not be sustainable in the long term.

7           The legislature also finds that the two largest trade  
8 imbalances are in the areas of energy and agriculture. Over the  
9 past few years, Hawaii has been addressing its over-reliance on  
10 imported fossil fuel. Hawaii also needs to address the  
11 imbalance in agricultural trade and significantly expand food  
12 production in the State.

13           The legislature further finds that the growth of small,  
14 diversified farming businesses will add to and diversify  
15 Hawaii's economy and help redress the imbalance in agricultural  
16 trade. Therefore, the State should encourage and support the  
17 growth of new, small, and diversified farming businesses by  
18 creating a tax exemption on the first \$           of income for



1 such businesses. A partial tax exemption for such businesses  
2 will not significantly affect existing tax revenue collected by  
3 the State, but will strengthen the state economy and improve the  
4 long-term economic well-being of the State as a whole.

5 SECTION 2. Section 235-7, Hawaii Revised Statutes, is  
6 amended by amending subsection (a) to read as follows:

7 "(a) There shall be excluded from gross income, adjusted  
8 gross income, and taxable income:

9 (1) Income not subject to taxation by the State under the  
10 Constitution and laws of the United States;

11 (2) Rights, benefits, and other income exempted from  
12 taxation by section 88-91, having to do with the state  
13 retirement system, and the rights, benefits, and other  
14 income, comparable to the rights, benefits, and other  
15 income exempted by section 88-91, under any other  
16 public retirement system;

17 (3) Any compensation received in the form of a pension for  
18 past services;

19 (4) Compensation paid to a patient affected with Hansen's  
20 disease employed by the State or the United States in  
21 any hospital, settlement, or place for the treatment  
22 of Hansen's disease;



- 1           (5) Except as otherwise expressly provided, payments made  
2           by the United States or this State, under an act of  
3           Congress or a law of this State, which by express  
4           provision or administrative regulation or  
5           interpretation are exempt from both the normal and  
6           surtaxes of the United States, even though not so  
7           exempted by the Internal Revenue Code itself;
- 8           (6) Any income expressly exempted or excluded from the  
9           measure of the tax imposed by this chapter by any  
10          other law of the State, it being the intent of this  
11          chapter not to repeal or supersede any express  
12          exemption or exclusion;
- 13          (7) Income received by each member of the reserve  
14          components of the Army, Navy, Air Force, Marine Corps,  
15          or Coast Guard of the United States of America, and  
16          the Hawaii national guard as compensation for  
17          performance of duty, equivalent to pay received for  
18          forty-eight drills (equivalent of twelve weekends) and  
19          fifteen days of annual duty, at an:
- 20                (A) E-1 pay grade after eight years of service;  
21                provided that this subparagraph shall apply to  
22                taxable years beginning after December 31, 2004;



- 1 (B) E-2 pay grade after eight years of service;  
2 provided that this subparagraph shall apply to  
3 taxable years beginning after December 31, 2005;
- 4 (C) E-3 pay grade after eight years of service;  
5 provided that this subparagraph shall apply to  
6 taxable years beginning after December 31, 2006;
- 7 (D) E-4 pay grade after eight years of service;  
8 provided that this subparagraph shall apply to  
9 taxable years beginning after December 31, 2007;  
10 and
- 11 (E) E-5 pay grade after eight years of service;  
12 provided that this subparagraph shall apply to  
13 taxable years beginning after December 31, 2008;
- 14 (8) Income derived from the operation of ships or aircraft  
15 if the income is exempt under the Internal Revenue  
16 Code pursuant to the provisions of an income tax  
17 treaty or agreement entered into by and between the  
18 United States and a foreign country; provided that the  
19 tax laws of the local governments of that country  
20 reciprocally exempt from the application of all of  
21 their net income taxes, the income derived from the



- 1 operation of ships or aircraft that are documented or  
2 registered under the laws of the United States;
- 3 (9) The value of legal services provided by a legal  
4 service plan to a taxpayer, the taxpayer's spouse, and  
5 the taxpayer's dependents;
- 6 (10) Amounts paid, directly or indirectly, by a legal  
7 service plan to a taxpayer as payment or reimbursement  
8 for the provision of legal services to the taxpayer,  
9 the taxpayer's spouse, and the taxpayer's dependents;
- 10 (11) Contributions by an employer to a legal service plan  
11 for compensation (through insurance or otherwise) to  
12 the employer's employees for the costs of legal  
13 services incurred by the employer's employees, their  
14 spouses, and their dependents;
- 15 (12) Amounts received in the form of a monthly surcharge by  
16 a utility acting on behalf of an affected utility  
17 under section 269-16.3; provided that amounts retained  
18 by the acting utility for collection or other costs  
19 shall not be included in this exemption;
- 20 (13) Amounts received in the form of a cable surcharge by  
21 an electric utility company acting on behalf of a  
22 certified cable company under section 269-134;



1 provided that any amounts retained by that electric  
2 utility company for collection or other costs shall  
3 not be included in this exemption; [~~and~~]

4 (14) One hundred per cent of the gain realized by a fee  
5 simple owner from the sale of a leased fee interest in  
6 units within a condominium project, cooperative  
7 project, or planned unit development to the  
8 association of owners under chapter 514A or 514B, or  
9 the residential cooperative corporation of the  
10 leasehold units.

11 For purposes of this paragraph:

12 "Fee simple owner" shall have the same meaning as  
13 provided under section 516-1; provided that it shall  
14 include legal and equitable owners;

15 "Legal and equitable owner", and "leased fee  
16 interest" shall have the same meanings as provided  
17 under section 516-1; and

18 "Condominium project" and "cooperative project"  
19 shall have the same meanings as provided under section  
20 514C-1[~~-~~]; and



1        (15) The first \$ \_\_\_\_\_ of income received by a family  
2                    farm, family farm community, or a family farm  
3                    cooperative.

4                    For purposes of this paragraph:

5                    "Family farm" means a farm owned or leased by an  
6                    individual or family receiving more than seventy-five  
7                    per cent of its annual gross income from food  
8                    production sold for consumption within the State,  
9                    whether sold directly to consumers or indirectly  
10                   through a family farm cooperative.

11                   "Family farm community" means a parcel of land of  
12                   between five hundred and five thousand acres that is  
13                   subdivided into individual family farms.

14                   "Family farm cooperative" means an association of  
15                   family farms within a family farm community created to  
16                   process or market agricultural produce."

17        SECTION 3. Statutory material to be repealed is bracketed  
18 and stricken. New statutory material is underscored.

19        SECTION 4. This Act, upon its approval, shall apply to  
20 taxable years beginning after December 31, 2020; provided that  
21 the amendments made to section 235-7(a), Hawaii Revised  
22 Statutes, by section 2 of this Act shall not be repealed when



1 section 235-7, Hawaii Revised Statutes, is reenacted on January  
2 1, 2018, pursuant to section 3 of Act 166, Session Laws of  
3 Hawaii 2007, as amended by section 5 of Act 220, Session Laws of  
4 Hawaii 2012.





**Report Title:**

Agriculture; Family Farm; Tax Exemption

**Description:**

Creates an income tax exemption on an unspecified amount of annual income for family farms, family farm communities, and family farm cooperatives. (HB96 HD2)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

