

JAN 18 2013

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 run.

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 needs to address the imbalance in
11 agricultural trade and significantly expand food production in
12 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. The State should therefore encourage and support the
17 growth of new, small, and diversified farming businesses by
18 creating a tax exemption on the first \$50,000 of income for such



1 businesses. A partial tax exemption for such businesses will
2 not significantly affect existing tax revenue collected by the
3 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

21 (15) The first \$50,000 of income received by a family farm,
22 family farm community, or family farm cooperative.



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For purposes of this paragraph:

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

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

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

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 Statutory material to be repealed is bracketed and stricken.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

SECTION 4. This Act, upon its approval, shall apply to taxable years beginning after December 31, 2012; provided that the amendments made to section 235-7(a), Hawaii Revised Statutes, by section 2 of this Act shall not be repealed when



S.B. NO. 363

1 that section is reenacted on January 1, 2018, pursuant to
2 section 5 of Act 220, Session Laws of Hawaii 2012.

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S.B. NO. 363

Report Title:

Economic Diversification; Agriculture; Family Farm; Family Farm Community; Family Farm Cooperative; Tax Exemption

Description:

Creates an income tax exemption on the first \$50,000 of income for family farms, family farm communities, and family farm cooperatives.

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

