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# A BILL FOR AN ACT

RELATING TO FARMERS.

**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, thereby experiencing a  
3 significant negative trade flow. Hawaii compensates 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           Furthermore, the legislature finds that the two largest  
8 trade imbalances lie in the areas of energy and agriculture.  
9 Over the past few years, Hawaii has been addressing its over-  
10 reliance on imported fossil fuel. The State also needs to  
11 address the imbalance in agricultural trade and significantly  
12 expand local food production.

13           The growth of small, diversified farming businesses will  
14 add to and diversify Hawaii's economy and help redress the  
15 imbalance in agricultural trade. Therefore, the State should  
16 encourage and support the growth of new small, diversified  
17 farming businesses by creating an exclusion from income tax for



1 the first \$50,000 of income earned by such businesses. A  
2 partial tax exclusion for such businesses will not significantly  
3 decrease the amount of tax revenues collected by the State. At  
4 the same time, it will strengthen the local economy and improve  
5 the long-term economic well-being of Hawaii as a whole.

6 The purpose of this Act is to exclude from taxable income  
7 the first \$50,000 of income earned by qualifying farmers.

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

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

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

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

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



- 1           (4) Compensation paid to a patient affected with Hansen's  
2           disease employed by the State or the United States in  
3           any hospital, settlement, or place for the treatment  
4           of Hansen's disease;
- 5           (5) Except as otherwise expressly provided, payments made  
6           by the United States or this State, under an act of  
7           Congress or a law of this State, which by express  
8           provision or administrative regulation or  
9           interpretation are exempt from both the normal and  
10          surtaxes of the United States, even though not so  
11          exempted by the Internal Revenue Code itself;
- 12          (6) Any income expressly exempted or excluded from the  
13          measure of the tax imposed by this chapter by any  
14          other law of the State, it being the intent of this  
15          chapter not to repeal or supersede any express  
16          exemption or exclusion;
- 17          (7) Income received by each member of the reserve  
18          components of the Army, Navy, Air Force, Marine Corps,  
19          or Coast Guard of the United States of America, and  
20          the Hawaii National Guard as compensation for  
21          performance of duty, equivalent to pay received for



- 1            forty-eight drills (equivalent of twelve weekends) and  
2            fifteen days of annual duty, at an:
- 3            (A) E-1 pay grade after eight years of service;  
4                    provided that this subparagraph shall apply to  
5                    taxable years beginning after December 31, 2004;
- 6            (B) E-2 pay grade after eight years of service;  
7                    provided that this subparagraph shall apply to  
8                    taxable years beginning after December 31, 2005;
- 9            (C) E-3 pay grade after eight years of service;  
10                    provided that this subparagraph shall apply to  
11                    taxable years beginning after December 31, 2006;
- 12            (D) E-4 pay grade after eight years of service;  
13                    provided that this subparagraph shall apply to  
14                    taxable years beginning after December 31, 2007;  
15                    and
- 16            (E) E-5 pay grade after eight years of service;  
17                    provided that this subparagraph shall apply to  
18                    taxable years beginning after December 31, 2008;
- 19            (8) Income derived from the operation of ships or aircraft  
20                    if the income is exempt under the Internal Revenue  
21                    Code pursuant to the provisions of an income tax



- 1 treaty or agreement entered into by and between the  
2 United States and a foreign country; provided that the  
3 tax laws of the local governments of that country  
4 reciprocally exempt from the application of all of  
5 their net income taxes, the income derived from the  
6 operation of ships or aircraft that are documented or  
7 registered under the laws of the United States;
- 8 (9) The value of legal services provided by a legal  
9 service plan to a taxpayer, the taxpayer's spouse, and  
10 the taxpayer's dependents;
- 11 (10) Amounts paid, directly or indirectly, by a legal  
12 service plan to a taxpayer as payment or reimbursement  
13 for the provision of legal services to the taxpayer,  
14 the taxpayer's spouse, and the taxpayer's dependents;
- 15 (11) Contributions by an employer to a legal service plan  
16 for compensation (through insurance or otherwise) to  
17 the employer's employees for the costs of legal  
18 services incurred by the employer's employees, their  
19 spouses, and their dependents;
- 20 (12) Amounts received in the form of a monthly surcharge by  
21 a utility acting on behalf of an affected utility



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1 under section 269-16.3; provided that amounts retained  
2 by the acting utility for collection or other costs  
3 shall not be included in this exemption;

4 (13) Amounts received in the form of a cable surcharge by  
5 an electric utility company acting on behalf of a  
6 certified cable company under section 269-134;  
7 provided that any amounts retained by that electric  
8 utility company for collection or other costs shall  
9 not be included in this exemption; [~~and~~]

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

17 For purposes of this paragraph:

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



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

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

(15) The first \$50,000 of income earned by a farmer; provided that the farmer's annual gross income does not exceed \$150,000 if filing a tax return singly and does not exceed \$300,000 if filing a tax return as married filing jointly. For purposes of this paragraph, "farmer" means an individual who earns more than seventy-five per cent of the individual's annual gross income from food or value-added food products grown or raised by the individual and sold within the State.

SECTION 3. Section 5 of Act 258, Session Laws of Hawaii 2016, is amended to read as follows:

"SECTION 5. This Act, upon its approval, shall apply to taxable years beginning after December 31, 2016; provided that



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1 this Act shall be repealed on [~~December 31, 2021.~~] July 1,  
2 2017."

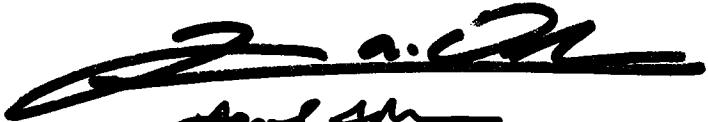

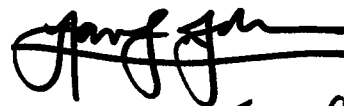





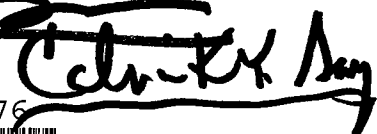

3 SECTION 4. This Act does not affect rights and duties that  
4 matured, penalties that were incurred, and proceedings that were  
5 begun before its effective date.

6 SECTION 5. Statutory material to be repealed is bracketed  
7 and stricken. New statutory material is underscored.

8 SECTION 6. This Act shall take effect upon its approval;  
9 provided that section 2 of this Act shall apply to taxable years  
10 beginning after December 31, 2016; provided further that  
11 amendments made to section 235-7(a), Hawaii Revised Statutes, by  
12 section 2 of this Act shall not be repealed when that section is  
13 reenacted on January 1, 2018, pursuant to section 3 of Act 166,  
14 Session Laws of Hawaii 2007, as amended by section 5 of Act 220,  
15 Session Laws of Hawaii 2012.

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**Report Title:**

Economic Diversification; Agriculture; Farmers; Tax Exclusion

**Description:**

Creates an exclusion from income tax for the first \$50,000 of income earned by farmers whose annual gross income does not exceed \$150,000. Repeals the organic foods production tax credit.

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

