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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 the computation  
7 of state income taxes a certain amount of income earned by  
8 qualifying farmers from food or value-added food products grown  
9 or raised by a farmer and sold within the state, provided that  
10 the farmer's annual gross income does not exceed a specified  
11 amount.

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

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

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

18 (2) Rights, benefits, and other income exempted from  
19 taxation by section 88-91, having to do with the state  
20 retirement system, and the rights, benefits, and other  
21 income, comparable to the rights, benefits, and other



- 1 income exempted by section 88-91, under any other  
2 public retirement system;
- 3 (3) Any compensation received in the form of a pension for  
4 past services;
- 5 (4) Compensation paid to a patient affected with Hansen's  
6 disease employed by the State or the United States in  
7 any hospital, settlement, or place for the treatment  
8 of Hansen's disease;
- 9 (5) Except as otherwise expressly provided, payments made  
10 by the United States or this State, under an act of  
11 Congress or a law of this State, which by express  
12 provision or administrative regulation or  
13 interpretation are exempt from both the normal and  
14 surtaxes of the United States, even though not so  
15 exempted by the Internal Revenue Code itself;
- 16 (6) Any income expressly exempted or excluded from the  
17 measure of the tax imposed by this chapter by any  
18 other law of the State, it being the intent of this  
19 chapter not to repeal or supersede any express  
20 exemption or exclusion;



- 1           (7) Income received by each member of the reserve  
2           components of the Army, Navy, Air Force, Marine Corps,  
3           or Coast Guard of the United States of America, and  
4           the Hawaii National Guard as compensation for  
5           performance of duty, equivalent to pay received for  
6           forty-eight drills (equivalent of twelve weekends) and  
7           fifteen days of annual duty, at an:
- 8           (A) E-1 pay grade after eight years of service;  
9           provided that this subparagraph shall apply to  
10          taxable years beginning after December 31, 2004;
- 11          (B) E-2 pay grade after eight years of service;  
12          provided that this subparagraph shall apply to  
13          taxable years beginning after December 31, 2005;
- 14          (C) E-3 pay grade after eight years of service;  
15          provided that this subparagraph shall apply to  
16          taxable years beginning after December 31, 2006;
- 17          (D) E-4 pay grade after eight years of service;  
18          provided that this subparagraph shall apply to  
19          taxable years beginning after December 31, 2007;  
20          and



- 1 (E) E-5 pay grade after eight years of service;  
2 provided that this subparagraph shall apply to  
3 taxable years beginning after December 31, 2008;
- 4 (8) Income derived from the operation of ships or aircraft  
5 if the income is exempt under the Internal Revenue  
6 Code pursuant to the provisions of an income tax  
7 treaty or agreement entered into by and between the  
8 United States and a foreign country; provided that the  
9 tax laws of the local governments of that country  
10 reciprocally exempt from the application of all of  
11 their net income taxes, the income derived from the  
12 operation of ships or aircraft that are documented or  
13 registered under the laws of the United States;
- 14 (9) The value of legal services provided by a legal  
15 service plan to a taxpayer, the taxpayer's spouse, and  
16 the taxpayer's dependents;
- 17 (10) Amounts paid, directly or indirectly, by a legal  
18 service plan to a taxpayer as payment or reimbursement  
19 for the provision of legal services to the taxpayer,  
20 the taxpayer's spouse, and the taxpayer's dependents;



- 1 (11) Contributions by an employer to a legal service plan  
2 for compensation (through insurance or otherwise) to  
3 the employer's employees for the costs of legal  
4 services incurred by the employer's employees, their  
5 spouses, and their dependents;
- 6 (12) Amounts received in the form of a monthly surcharge by  
7 a utility acting on behalf of an affected utility  
8 under section 269-16.3; provided that amounts retained  
9 by the acting utility for collection or other costs  
10 shall not be included in this exemption;
- 11 (13) Amounts received in the form of a cable surcharge by  
12 an electric utility company acting on behalf of a  
13 certified cable company under section 269-134;  
14 provided that any amounts retained by that electric  
15 utility company for collection or other costs shall  
16 not be included in this exemption; [and]
- 17 (14) One hundred per cent of the gain realized by a fee  
18 simple owner from the sale of a leased fee interest in  
19 units within a condominium project, cooperative  
20 project, or planned unit development to the  
21 association of owners under chapter 514A or 514B, or



1 the residential cooperative corporation of the  
2 leasehold units.

3 For purposes of this paragraph:

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

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

10 "Condominium project" and "cooperative project"  
11 shall have the same meanings as provided under section  
12 514C-1[-]; and

13 (15) The first \$ of income earned by a farmer;  
14 provided that the farmer's annual gross income does  
15 not exceed \$ if filing a tax return singly and  
16 does not exceed \$ if filing a tax return as  
17 married filing jointly. As used in this paragraph,  
18 "farmer" means an individual who earns more than  
19 seventy-five per cent of the individual's annual gross  
20 income from food or value-added food products grown or  
21 raised by the individual and sold within the State."



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

4 SECTION 4. Statutory material to be repealed is bracketed  
5 and stricken. New statutory material is underscored.

6 SECTION 5. This Act shall take effect on July 31, 2150;  
7 provided that section 2 of this Act shall apply to taxable years  
8 beginning after December 31, 2016; provided further that the  
9 amendments made to section 235-7(a), Hawaii Revised Statutes, by  
10 section 2 of this Act shall not be repealed when that section is  
11 reenacted on January 1, 2018, pursuant to section 3 of Act 166,  
12 Session Laws of Hawaii 2007, as amended by section 5 of Act 220,  
13 Session Laws of Hawaii 2012.





**Report Title:**

Economic Diversification; Agriculture; Farmers; Tax Exclusion

**Description:**

Excludes for income tax purposes a portion of income earned by farmers who grow or raise food or value-added food products within the state and whose annual gross income does not exceed a certain amount. (HB961 HD2)

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

