

DAVID Y. IGE
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Lt. Governor



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SCOTT E. ENRIGHT
Chairperson, Board of Agriculture

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Deputy to the Chairperson

**TESTIMONY OF SCOTT E. ENRIGHT
CHAIRPERSON, BOARD OF AGRICULTURE**

BEFORE THE HOUSE COMMITTEE ON FINANCE

**FEBRUARY 24, 2017
12:30 P.M.
CONFERENCE ROOM 308**

**HOUSE BILL NO. 961 HD1
RELATING TO FARMERS**

Chairperson Luke and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 961 HD1 that seeks to exclude from income tax, the first \$50,000 of income earned by farmers whose annual gross income does not exceed \$150,000 (\$300,000 if filing jointly), and earn more than 75 percent of their annual gross income from the sales of food or value-added food products grown or raised by the farmer sold in Hawaii. This bill also re-establishes the organic foods production tax credit (Act 258, SLH 2016). The Department of Agriculture supports the intent, defers to the Department of Taxation, and offers an amendment.

According to the 2012 Census of Agriculture (Hawaii, Volume 1, Chapter 1: State Level Data, Table 60, page 44), this bill will benefit less than 1,000 of Hawaii's 7,000 farmers (includes all business entities). More specifically, approximately 618 (9 percent) earned more than 75 percent of their total household income from farming in 2012.

The definition of a "farmer" (Bill, page 7, lines 7-15) is an individual that earns 75 percent of annual gross income "...from food or value-added food products grown or raised by the individual and sold within the State." The Department recommends the



following amendment that replaces the word “food” with “farm products” and provides a definition of “farm products”:

(New language is underscored, deleted language is stricken over)

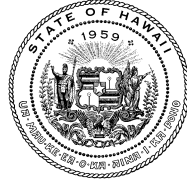
” (15) The first \$50,000 of income earned by a farmer; provided that the farmer’s annual gross income does not exceed \$150,000 if filing a tax return singly and does not exceed \$300,000 if filing a tax return as married filing jointly. As used in this paragraph, “farmer” means an individual who earns more than seventy-five percent of the individual’s annual gross income from ~~food~~ farm products or value-added ~~food~~ farm products grown or raised by the individual and sold within the State-; and “farm products” means production from agricultural activities described in section 205-4.5(a)(1), (2), and (3).”

We also note that by limiting the proposed partial tax exclusion to income earned by individuals, this may exclude small partnerships and other forms of business ownership.

Thank you for the opportunity to submit our testimony.

DAVID Y. IGE
GOVERNOR

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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Friday, February 24, 2017
Time: 12:30 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 961, H.D. 1, Relating to Farmers

The Department of Taxation (Department) appreciates the intent of H.B. 961, H.D. 1, and provides the following comments for your consideration.

H.B. 961, H.D. 1, excludes the first \$50,000 of income earned by a farmer from the Hawaii income tax, provided that the farmer's gross income does not exceed \$150,000 if filing singly and does not exceed \$300,000 if filing jointly. "Farmer" is defined as an individual earning more than seventy-five percent of the individual's gross income from food or value-added food products grown or raised by the individual and sold within the state. The measure is effective July 31, 2150. The income tax exclusion for farmers applies to taxable years beginning after December 31, 2016.

The original version of H.B. 961 had a provision that amended Act 258, Session Laws of Hawaii 2016, such that the Organic Foods Production Tax Credit would be repealed on July 1, 2017. H.D. 1 does not contain this provision.

First, the Department notes that the definition of "farmer" is limited to individuals. The income thresholds for single and joint filers are set forth, but married filing separate and head of household filers seem to have been inadvertently omitted. The Department suggests clarifying the thresholds for all filing statuses.

Also, if the Committee wishes to advance this measure, the Department requests that the income tax exclusion be made effective for taxable years beginning after December 31, 2017. This will allow sufficient time to make the necessary form, instruction and computer system modifications.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Exclusion for Small Farmers

BILL NUMBER: HB 961, HD-1

INTRODUCED BY: House Committee on Agriculture

EXECUTIVE SUMMARY: 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.

SYNOPSIS: Adds a new paragraph to HRS section 235-7 to exclude the first \$50,000 of income received by a farmer whose annual gross income does not exceed \$150,000 (single) or \$300,000 (married filing jointly).

Defines “farmer” as 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.

EFFECTIVE DATE: July 31, 2150.

STAFF COMMENTS: This measure proposes to grant preferential treatment in the form of an income tax exclusion to a select group of taxpayers. If the contention is that taxes imposed on these select taxpayers/businesses in Hawaii are too high, then the overall business tax climate needs to be addressed. Rather than granting a limited tax preference, as proposed, lawmakers need to take another look at the business and tax climate in Hawaii and find ways to improve that climate for all businesses.

To the extent that this select group of taxpayers would enjoy the preferential tax treatment, they would still need the services provided by state government. The burden of paying for those services will be shifted to another group of taxpayers who cannot avail themselves of this proposed exemption. Thus, existing businesses that are not so blessed with a similar exclusion must pick up the additional cost either in higher taxes or lower quality of service.

Digested 2/22/2017



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February 24, 2017

HEARING BEFORE THE
HOUSE COMMITTEE ON FINANCE

TESTIMONY ON HB 961, HD1
RELATING TO FARMERS

Room 308
12:30 PM

Aloha Chair Luke, Vice Chair Cullen, and Members of the Committee:

I am Randy Cabral, President of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,900 farm family members statewide, and serves as Hawaii's voice of agriculture to protect, advocate and advance the social, economic and educational interests of our diverse agricultural community.

Hawaii Farm Bureau **strongly supports HB 961, HD1**, which establishes a mechanism to grow small agricultural enterprises by creating an exclusion from income tax for the first \$50,000 of income earned by farmers whose annual gross income does not exceed \$150,000

Hawaii Farm Bureau Policy states:

"State tax and monetary policies should be designed to encourage private initiative to help stabilize farm economics in the State of Hawaii, to promote employment and economic growth and to distribute the tax burden equitably. Further such policy should be used by the state, when appropriate, to encourage agricultural growth and expansion."

This measure falls in the "encourage agricultural growth and expansion." category. Some farms have utilized the Enterprise Zone program to obtain similar benefits. Others may just be starting and unable to meet the terms of the EZ program and this measure will help them get started.

HFB respectfully requests your strong support of this measure understanding the challenges for small farmers in Hawaii.

Thank you for this opportunity to provide comment on this important subject.