

SB 416

DAVID Y. IGE
Governor

SHAN S. TSUTSUI
Lt. Governor



State of Hawaii
DEPARTMENT OF AGRICULTURE
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SCOTT E. ENRIGHT
Chairperson, Board of Agriculture

PHYLLIS SHIMABUKURO-GEISER
Deputy to the Chairperson

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

BEFORE THE SENATE COMMITTEE ON AGRICULTURE & ENVIRONMENT

**FEBRUARY 3, 2017
1:15 P.M.
CONFERENCE ROOM 224**

**SENATE BILL NO. 416
RELATING TO FARMS**

Chairperson Gabbard and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill No. 416 that seeks to support small farming businesses by excluding from income tax, the first \$50,000 of income earned for farmers who earn more than 75 percent of their annual gross income from the sales of farm products sold in Hawaii. The Department of Agriculture supports the intent, defers to the Department of Taxation, and offers comments.

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). Approximately 618 (9 percent) earn more than 75 percent of their total household income from farming. Further, about 6,650 Hawaii farmers (95 percent) earn less than \$200,000 annually from the sale of their agricultural products (op.cit., Table 3, page 10).

The definition of a "farmer" (Bill, page 7, lines 14-16) is an individual that earns 75 percent of annual gross income "...from farm products sold within the State." We recommend the following clarification to the definition of "farmer":

"For purposes of this paragraph, "farmer" means an individual earning more than seventy-five per cent of the individual's annual gross income from farm products grown and sold by the individual within the State."

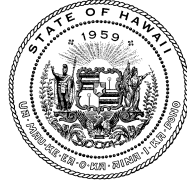


We also note that by limiting the proposed partial tax exclusion to individuals, this may exclude small partnerships.

Thank you for the opportunity to submit our testimony.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Mike Gabbard, Chair
and Members of the Senate Committee on Agriculture and Environment

Date: Friday, February 3, 2017
Time: 1:15 P.M.
Place: Conference Room 224, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 416, Relating to Farms

The Department of Taxation (Department) appreciates the intent of S.B. 416 and provides the following comments for your consideration.

S.B. 416 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 \$200,000. "Farmer" is defined as an individual earning more than seventy-five percent of the individual's gross income from farm products. The measure is effective upon approval and applies to taxable years beginning after December 31, 2016.

The Department notes that the definition of "farmer" is limited to individuals. It is unclear how this definition would apply to individuals involved in, for example, a partnership, if the partnership's income was derived from farm products and more than seventy-five percent of an individual's income was received from the partnership. It is also unclear whether a married couple could each qualify for a \$50,000 exclusion, and whether the income threshold is \$200,000 or \$400,000.

The Department notes that it will be able to implement the changes in this bill for tax years beginning after December 31, 2017. The Department requests that the effective date of this measure be changed to allow time for changes to forms and instructions.

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 of Income Earned by Lower-Income Farmers

BILL NUMBER: SB 416

INTRODUCED BY: KEITH-AGARAN, BAKER, ENGLISH, INOUE, RIVIERE, RUDERMAN, SHIMABUKURO, Dela Cruz, K. Kahele, Nishihara, Wakai

EXECUTIVE SUMMARY: This measure attempts to assist small farmers by providing an income tax exclusion. There are some technical issues that need to be examined, as described below.

BRIEF SUMMARY: Adds a new paragraph to HRS section 235-7 in order to provide an exclusion for the first \$50,000 of income earned by a farmer whose gross income does not exceed \$200,000.

Defines "farmer" as an individual earning more than seventy-five per cent of the individual's gross income from farm products.

Defines "farm products" as production from agricultural activities described in HRS section 205-4.5(a)(1), (2), and (3).

EFFECTIVE DATE: Taxable years beginning after December 31, 2016.

STAFF COMMENTS: Although the sentiment and the desire to provide relief are apparent, the devil is in the details. HRS section 235-7, for example, now contains an exclusion for a certain amount of pay received by a member of our military reservists. Exclusion from business income is a little trickier.

- When income is the subject of an exclusion, the deductions are associated with it are disallowed because of our conformity to Internal Revenue Code section 265.
- When the exclusion is to be limited, it usually is not a good idea to have it drop dead at a certain level, because there will be a tremendous impact (sometimes known as a "cliff") once the taxpayer hits that level. For example, under the bill as proposed, a taxpayer at the 8.25% income tax rate earning \$1 more than \$200,000 will owe \$4,125 in additional state tax. A more preferable approach would be to phase out the exclusion, as is done with itemized deductions.
- In any event, the income trigger will need to specify what kind of income is being talked about. Choices include gross income, federal gross income, adjusted gross income, federal adjusted gross income, and modified adjusted gross income, among others.

Digested 1/27/2017



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February 3, 2017

HEARING BEFORE THE
SENATE AGRICULTURE AND ENVIRONMENT COMMITTEE

TESTIMONY ON SB 416
RELATING TO FARMS

Room 224
1:15 PM

Aloha Chair Gabbard, Vice Chair Riviere, 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.

HFB supports SB 416, which creates an exclusion from income tax for the first \$50,000 of income earned by farmers whose gross income is \$200,000 or less.

HFB supports any initiative that support Hawaii's small farmers and encourages new farming businesses.

Thank you for the opportunity to testify on this measure.

From: mailinglist@capitol.hawaii.gov
Sent: Saturday, January 28, 2017 10:22 PM
To: AEN Testimony
Cc: dale@hicattle.org
Subject: *Submitted testimony for SB416 on Feb 3, 2017 13:15PM*

SB416

Submitted on: 1/28/2017

Testimony for AEN on Feb 3, 2017 13:15PM in Conference Room 224

Submitted By	Organization	Testifier Position	Present at Hearing
Dale Sandlin	Hawaii Cattlemens Council	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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