

STAND. COM. REP. NO.

711

Honolulu, Hawaii

February 15, 2019

RE: H.B. No. 547  
H.D. 1

Honorable Scott K. Saiki  
Speaker, House of Representatives  
Thirtieth State Legislature  
Regular Session of 2019  
State of Hawaii

Sir:

Your Committees on Agriculture and Economic Development & Business, to which was referred H.B. No. 547 entitled:

"A BILL FOR AN ACT RELATING TO FARMS,"

beg leave to report as follows:

The purpose of this measure is to support the growth of small, diversified farms, diversify Hawaii's economy, and redress the imbalance in agricultural trade by excluding from income taxes the lesser of fifty-one percent or \$50,000 of gross annual income earned by a farmer from farming activities. This measure specifically applies to income of individuals who earn more than seventy-five percent of the individual's income from farm products sold within the State.

The Farm Maui LLC, Hawai'i Farm Bureau, Maui Chamber of Commerce, Hawaii Coffee Association, O'ahu County Committee on Legislative Priorities of the Democratic Party of Hawai'i, 350Hawaii.org, and a concerned individual supported this measure. The Department of Agriculture (DOA), Department of Taxation (DOTAX), Tax Foundation of Hawaii (Tax Foundation), and Ulupono Initiative (Ulupono) submitted comments on this measure.

HB547 HD1 HSCR AGR-EDB HMS 2019-1824-2



Your Committees have amended this measure by:

- (1) Changing the fifty-one percent of gross annual income and \$50,000 exclusion amount to an unspecified percentage and sum, respectively;
- (2) Clarifying the definition of "farmer" as an individual whose income is also derived from value-added farm products and changing the seventy-five percent of the individual's annual gross income from farm products to an unspecified percentage;
- (3) Defining "farm product" as production from agricultural activities described in section 205-4.5(a)(1), (2), and (3) of the Hawaii Revised Statutes, that includes, but is not limited to:
  - (A) Crops, flowers, vegetables, foliage, fruits, forage, and timber;
  - (B) Game and fish propagation; and
  - (C) Raising of livestock, bees, fish, or other animal or aquatic life;
- (4) Making technical, nonsubstantive amendments for clarity, consistency, and style; and
- (5) Changing its effective date to July 1, 2150, to encourage further discussion.

Your Committees note, for the consideration and appropriate action by your Committee on Finance, the comments and concerns submitted by DOA, DOTAX, Tax Foundation, and Ulupono, in their respective submitted testimony.

DOTAX's concerns relate to the lack of definition for "farming activities", which may cause taxpayer confusion. Also, since the measure limits the income tax exclusion to individuals, DOTAX notes that farming business entities, such as partnerships and S-corporations, will not qualify for the income tax exclusion. Further, this measure does not limit the amount of gross income of a farmer that qualifies for and benefits from the income tax exclusion. DOTAX suggests that a gross income limit could be used



as a means to target new and upcoming farmers. Lastly, the measure, as introduced, takes effect upon its approval. DOTAX requests that the effective date be postponed until taxable years beginning after December 31, 2019, to allow time for the necessary form and computer system changes.

The Tax Foundation prefers the direct approach to assisting farmers, rather than the income tax exclusion approach. By appropriating a specific sum of taxpayer dollars to assist farmers, there is accountability for the taxpayers' funds that are being used to support farmers and it is not a blank check. Further, the Tax Foundation notes that the exclusion is from gross annual income, which creates the possibility that the taxpayer claiming to qualify as a farmer could have a net operating loss, which can be carried forward to impact state revenues in future years.

Uluono suggests amending this measure to ensure that ranchers are included as well as farmers. Pasture lands cover 761,429 acres or nineteen percent of the land in Hawaii and represents eighty-three percent of all agricultural lands. Ranching is a significant component of Hawaii's agricultural sector.

As affirmed by the records of votes of the members of your Committees on Agriculture and Economic Development & Business that are attached to this report, your Committees are in accord with the intent and purpose of H.B. No. 547, as amended herein, and recommend that it pass Second Reading in the form attached hereto as H.B. No. 547, H.D. 1, and be referred to your Committee on Finance.

Respectfully submitted on  
behalf of the members of the  
Committees on Agriculture and  
Economic Development &  
Business,



ANGUS L.K. MCKELVEY, Chair



RICHARD P. CREAGAN, Chair





