

DAVID Y. IGE  
Governor

JOSH GREEN  
Lt. Governor



PHYLLIS SHIMABUKURO-GEISER  
Acting Chairperson  
Board of Agriculture

State of Hawaii  
**DEPARTMENT OF AGRICULTURE**  
1428 South King Street  
Honolulu, Hawaii 96814-2512  
Phone: (808) 973-9600 FAX: (808) 973-9613

TESTIMONY OF THE DEPARTMENT OF AGRICULTURE  
BEFORE THE HOUSE COMMITTEES ON AGRICULTURE AND ECONOMIC  
DEVELOPMENT & BUSINESS

FEBRUARY 6, 2019  
8:30 A.M.  
CONFERENCE ROOM 312

HOUSE BILL NO. 547  
RELATING TO FARMS

Chairpersons Creagan and McKelvey and Members of the Committees:

Thank you for the opportunity to testify on House Bill 547 that creates an exclusion from income tax for the lesser of 51 percent of gross annual income or \$50,000 of gross annual income earned by a farmer from farming activities. A farmer is defined as an individual earning more than 75 percent of the individual's annual gross income from farm products sold within the State. The Department of Agriculture supports the intent, offers amendments and otherwise defers to the Department of Taxation.

As written, the bill would improve the bottom line for start-up, sole-proprietor farming operations that meet the 75 percent gross income threshold. For existing qualified farmers, according to the 2012 Census of Agriculture (Hawaii, Volume 1, Chapter 1: State Level Data, Table 60, page 44), 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.



The Department recommends the following amendments to improve the definition of “farmer” and add a new definition of “farm products”:

HB 547, page 6, lines 4-10

“(13) The lesser of fifty-one per cent of gross annual income or \$50,000 of gross annual income earned by a farmer from farming activities. 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 and value-added farm products grown, raised and value-added 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), and excluding personal use.”

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

Thank you for the opportunity to comment on this measure.

DAVID Y. IGE  
GOVERNOR

JOSH GREEN M.D.  
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA  
DIRECTOR

DAMIEN A. ELEFANTE  
DEPUTY DIRECTOR

**STATE OF HAWAII  
DEPARTMENT OF TAXATION**

830 PUNCHBOWL STREET, ROOM 221

HONOLULU, HAWAII 96813

<http://tax.hawaii.gov/>

Phone: (808) 587-1540 / Fax: (808) 587-1560

Email: Tax.Directors.Office@hawaii.gov

To: The Honorable Richard P. Creagan, Chair  
and Members of the House Committee on Agriculture;

The Honorable Angus L.K. McKelvey, Chair  
and Members of the House Committee on Economic Development & Business

Date: Wednesday, February 6, 2019  
Time: 8:30 A.M.  
Place: Conference Room 312, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 547, Relating to Farms

The Department of Taxation (Department) appreciates the intent of H.B. 547 and offers the following comments on for the Committee's consideration.

H.B. 547 amends section 235-7, Hawaii Revised Statutes (HRS), by excluding from income tax the income earned by a farmer from farming activities, up to fifty-one per cent of the farmer's gross annual income or \$50,000, whichever is less. The bill defines "farmer" as an individual earning more than seventy-five per cent of their annual gross income from farm products sold within the State. The measure is effective upon its approval and applies to taxable years beginning after December 31, 2018.

First, the Department notes that the language used for the exclusion provided for in H.B. 547 is extremely broad. Although "farmer" is defined as an individual earning more than seventy-five percent of their annual gross income from farm products sold within the State, there is no definition to restrict the scope of what might be considered "farm products." Similarly, there is no definition of "farming activities." The Departments suggests defining these terms in detail to prevent any taxpayer confusion.

Second, the Department notes that this measure seems to limit the availability of this income tax exclusion to individuals. If this is the case, people who organize themselves as entities such as partnerships or S-corporations would not be able to benefit. If this was not the intent, the Department suggests clarifying which taxpayers may use this income exclusion.

Third, the Department suggests adding a gross income limitation to be eligible for the exclusion. A gross income limitation will help to tailor the income exclusion for new and upcoming farmers.

Finally, if the Committee wishes to advance this measure, the Department respectfully requests that the effective date be postponed until taxable years beginning after December 31, 2019, to allow the Department to make the necessary form and computer system changes.

Thank you for the opportunity to provide comments.



P.O. Box 253, Kunia, Hawai'i 96759  
Phone: (808) 848-2074; Fax: (808) 848-1921  
e-mail [info@hfbf.org](mailto:info@hfbf.org); [www.hfbf.org](http://www.hfbf.org)

February 6, 2019

HEARING BEFORE THE  
HOUSE COMMITTEE ON AGRICULTURE

**TESTIMONY ON HB 547**  
RELATING TO FARMS

Room 312  
8:30 AM

Aloha Chair Creagan, Vice Chair DeCoite, and Members of the Committee:

I am Brian Miyamoto, Executive Director 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.

**The Hawaii Farm Bureau supports HB 547**, which creates an exclusion from income tax for the lesser of fifty-one percent of gross annual income or \$50,000 of gross annual income earned by a farmer from farming activities.

HFB supports this initiative which is an investment in Hawaii's small farmers and encourages new and expanding farming businesses.

Thank you for this opportunity to testify in support of this measure.



**MAUI**  
CHAMBER OF COMMERCE  
VOICE OF BUSINESS

**HEARING BEFORE THE HOUSE COMMITTEE ON AGRICULTURE AND  
THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS  
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 312  
WEDNESDAY, FEBRUARY 6, 2019 AT 8:30 A.M.**

To The Honorable Richard P. Creagan, Chair;  
The Honorable Lynn DeCoite, Vice Chair; and  
Members of the Committee on Agriculture,

To The Honorable Angus L.K McKelvey , Chair;  
The Honorable Lisa Kitagawa, Vice Chair; and  
Members of the Committee on Economic Development & Business,

**TESTIMONY IN SUPPORT OF HB 547 RELATING TO FARMS**

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce with approximately 650 members. I am writing share our support of HB 547.

Agriculture is a very important industry to our community, but it is a difficult industry to successfully start and operate. Farming is very hard work and requires many high, upfront investment costs. There are also a number of unpredictable costs and factors that farmers face once established. We support efforts that seek to sustain and support agriculture and therefore, support this bill to exclude some farmers from income tax for the lesser of 51% of gross annual income earned.

In addition, we appreciate that this bill recognizes small farmers as it is particularly difficult for small farmers to start and sustain their businesses. The Hawaii 2050 Sustainability Plan highlights the importance of farmers of all sizes to sustain and support the agriculture industry in Hawaii.

Mahalo for your consideration of our testimony and we hope you will move this bill forward.

Sincerely,

*Pamela Tumpap*

Pamela Tumpap  
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique

# TAX FOUNDATION OF HAWAII

---

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

---

SUBJECT: INCOME, Exclusion from Income for Farmers

BILL NUMBER: SB 837

INTRODUCED BY: KEITH-AGARAN, BAKER, DELA CRUZ, ENGLISH, INOUE,  
NISHIHARA, RUDERMAN, Shimabukuro

EXECUTIVE SUMMARY: Creates an exclusion from income tax for the lesser of fifty-one per cent of gross annual income or \$50,000 of gross annual income earned by a farmer from farming activities. A direct appropriation would be preferable as it would provide some accountability for the taxpayer funds being utilized to support this effort. Meaning, we as taxpayers know what we're getting and we know how much we're paying for it.

SYNOPSIS: Amends HRS section 235-7 to add a new paragraph excluding from gross income the lesser of fifty-one per cent of gross annual income or \$50,000 of gross annual income earned by a farmer from farming activities.

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

EFFECTIVE DATE: Upon approval, shall apply to taxable years beginning after December 31, 2018.

STAFF COMMENTS: The idea of providing a tax credit to encourage investments may have been acceptable when the economy was on a roll and advocates could point to credits like those to encourage the use of or investment in emerging technologies. But what lawmakers and administrators have learned in these past few years is that unbridled tax incentives, where there is no accountability or limits on how much in credits can be claimed, are irresponsible as the cost of these credits goes far beyond what was ever intended.

Instead, lawmakers should consider an appropriation of a specific number of taxpayer dollars. At least lawmakers would have a better idea of what is being funded. A direct appropriation would be preferable to the income exclusion as it would: (1) provide some accountability for the taxpayers' funds being utilized to support this effort; and (2) not be a blank check.

Here, it should be noted that the proposed exclusion is from gross annual income, so it is quite possible for a person claiming to qualify as a farmer to create a net operating loss with this provision. Net operating losses can be carried forward to impact State revenues in one or many subsequent years.

Digested 1/26/2019



Email: [communications@ulupono.com](mailto:communications@ulupono.com)

HOUSE COMMITTEES ON AGRICULTURE AND ECONOMIC DEVELOPMENT & BUSINESS  
Wednesday, February 6, 2019 — 8:30 a.m. — Room 312

### **Ulupono Initiative Supports with a Comment HB 547, Relating to Farms**

Dear Chair Creagan, Vice Chair DeCoite, Chair McKelvey, Vice Chair Kitagawa, and Members of the Committees:

My name is Murray Clay and I am Managing Partner of Ulupono Initiative, a Hawai'i-based impact investment firm that strives to improve the quality of life for the people of Hawai'i by working toward solutions that create more locally produced food; increase affordable, clean, renewable energy; and better manage waste and fresh water resources. Ulupono believes that self-sufficiency is essential to our future prosperity and will help shape a future where economic progress and mission-focused impact can work hand in hand.

**Ulupono supports with a comment HB 547**, which creates an exclusion from income tax for the lesser of 51 percent of gross annual income or \$50,000 of gross annual income earned by a farmer from farming activities, because it aligns with our goal to increase local food production.

Hawai'i has a lot of small farmers. According to the 2012 Census of Agriculture, 6,171 of Hawai'i's 7,000 farmers (88 percent) made under \$50,000 in farm sales. This policy would help a lot of local farmers to grow their business by keeping more of their income. In addition, the average age of a Hawai'i farmer is over 60 years old. Therefore, we need to encourage more young people to view agriculture as an economically viable career path. We believe this modest tax benefit is a reasonable way to support the State's goal to double local food production.

A suggested clarifying amendment would be to ensure that it is clear that the term "farmer" also includes ranchers. Pasture lands comprise 761,429 acres of land in Hawai'i and represent 83 percent of all agricultural lands<sup>1</sup>. Of all lands in Hawai'i, 19 percent are pasture lands<sup>2</sup>. Ranchers play a significant role in Hawai'i's agricultural sector.

As Hawai'i's local food issues become increasingly complex and challenging, organizations need additional resources and support to address and overcome them. We appreciate these committees' efforts to look at policies that support local food production.

---

<sup>1</sup> 761,429 pasture acres / 913,261 agricultural acres (83%) – 2015 Statewide Agricultural Land Use Baseline

<sup>2</sup> 761,429 pasture acres / 4,110,976 total acres (19%)





We believe that through collaboration, we can help produce more local food and support an economically robust homegrown agriculture industry, which strengthens our community with fresh, healthy food. Thank you for this opportunity to testify.

Respectfully,

Murray Clay  
Managing Partner

**HB-547**

Submitted on: 2/4/2019 6:01:52 PM

Testimony for AGR on 2/6/2019 8:30:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Chris Manfredi	Hawaii Coffee Association	Support	No

Comments:



## **O`ahu County Committee on Legislative Priorities**

### **COMMITTEE ON AGRICULTURE**

Rep. Richard P. Creagan, Chair  
Rep. Lynn DeCoite, Vice Chair

### **COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS**

Rep. Angus L.K. McKelvey, Chair  
Rep. Lisa Kitagawa, Vice Chair

DATE: Wednesday, February 6, 2019

TIME: 8:30 a.m.

PLACE: Conference Room 312, State Capitol

RE: HB 547 Relating to Farms

To the Honorable Richard P. Creagan, Chair; the Honorable Lynn DeCoite, Vice Chair; and Members of the Committee on Agriculture; and To the Honorable Angus L.K. McKelvey, Chair the Honorable Lisa Kitagawa, Vice Chair, and Members of the Committee on Economic Development and Business:

The O`ahu County Committee on Legislative Priorities (OCCLP) of the Democratic Party of Hawai`i (DPH) hereby submits its testimony in **SUPPORT of HB 547 relating to the Farms.**

HB 547 provides that there shall be excluded from gross income, adjusted gross income, and taxable income: (13) The lesser of fifty-one per cent of gross annual income or \$50,000 of gross annual income earned by a farmer from farming activities. 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 sold within the State.

Agriculture in our state must be preserved and its future strengthened. Sufficient prime agricultural lands must be maintained for the health, economic well-being and sustenance of the people. DPH believes in an integrated approach to agricultural innovation and sustainability. DPH encourages the responsible development of ocean resources and aquaculture to achieve sustainability in our State, of our marine resources and ensure and improve the health of our reef and marine life.

This approach includes, but is not limited to, the adoption of the Native Hawaiian concept of ahupua'a, an integrated approach to land management. This could also include development of economic, land and ocean use policies that foster sustainable crops both for local consumption and for export, policies to foster agriculture-related infrastructure at shipping points, and increased inspection to protect against invasive species and to encourage reduced holding times. We need to ensure food safety, strive towards food security and strive to set the highest standards for food quality and nutrition. *Democratic Party of Hawai'i Platform (2018), p. 9, In. 5-16.*

For the foregoing reasons, i.e., to ensure food safety, strive towards food security and strive to set the highest standards for food quality and nutrition and to preserve and strengthen agriculture in our State, OCCLP supports HB 547 and urges its passage out of the Committee on Agriculture and Committee on Economic Development and Business.

Mahalo nui loa  
Me ka `oia`i`o

/s/ Melodie Aduja

Melodie Aduja

Chair, O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai'i

Ph. (808) 258-8889

Email: legislativepriorities@gmail.com

**HB-547**

Submitted on: 1/30/2019 8:12:22 PM

Testimony for AGR on 2/6/2019 8:30:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Brodie Lockard	350Hawaii.org	Support	No

Comments:

**HB-547**

Submitted on: 2/6/2019 2:48:27 AM

Testimony for AGR on 2/6/2019 8:30:00 AM

**LATE**

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Simon Russell	Farm Maui LLC	Support	No

Comments:

**HB-547**

Submitted on: 1/30/2019 6:47:28 PM

Testimony for AGR on 2/6/2019 8:30:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Autumn Ness	Individual	Support	No

Comments: