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# A BILL FOR AN ACT

RELATING TO FARMS.

**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. Thus, Hawaii has a  
3 significant negative trade flow. Hawaii makes up 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 run.

7           The legislature also finds that the two largest trade  
8 imbalances are in the areas of energy and agriculture. Over the  
9 past few years, Hawaii has been addressing its over-reliance on  
10 imported fossil fuel. Hawaii needs to address the imbalance in  
11 agricultural trade and significantly expand food production in  
12 the State.

13           The legislature further finds that the growth of small,  
14 diversified farming businesses will add to and diversify  
15 Hawaii's economy and help redress the imbalance in agricultural  
16 trade. The State should therefore encourage and support the  
17 growth of new, small, and diversified farming businesses by



1 creating an exclusion from income tax for the lesser of fifty-  
2 one per cent or \$50,000 of gross annual income earned for such  
3 businesses. A partial tax exclusion for such businesses will  
4 not significantly affect existing tax revenue collected by the  
5 State but will strengthen the state economy and improve the  
6 long-term economic well-being of the State as a whole.

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

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

- 11 (1) Income not subject to taxation by the State under the  
12 Constitution and laws of the United States;
- 13 (2) Rights, benefits, and other income exempted from  
14 taxation by section 88-91, having to do with the state  
15 retirement system, and the rights, benefits, and other  
16 income, comparable to the rights, benefits, and other  
17 income exempted by section 88-91, under any other  
18 public retirement system;
- 19 (3) Any compensation received in the form of a pension for  
20 past services;



- 1           (4)    Compensation paid to a patient affected with Hansen's  
2                    disease employed by the State or the United States in  
3                    any hospital, settlement, or place for the treatment  
4                    of Hansen's disease;
- 5           (5)    Except as otherwise expressly provided, payments made  
6                    by the United States or this State, under an act of  
7                    Congress or a law of this State, which by express  
8                    provision or administrative regulation or  
9                    interpretation are exempt from both the normal and  
10                   surtaxes of the United States, even though not so  
11                   exempted by the Internal Revenue Code itself;
- 12          (6)    Any income expressly exempted or excluded from the  
13                   measure of the tax imposed by this chapter by any  
14                   other law of the State, it being the intent of this  
15                   chapter not to repeal or supersede any such express  
16                   exemption or exclusion;
- 17          (7)    Income received by each member of the reserve  
18                   components of the Army, Navy, Air Force, Marine Corps,  
19                   or Coast Guard of the United States of America, and  
20                   the Hawaii National Guard as compensation for  
21                   performance of duty, equivalent to pay received for



1           forty-eight drills (equivalent of twelve weekends) and  
2           fifteen days of annual duty, at an:

3           (A) E-1 pay grade after eight years of service;  
4                 provided that this subparagraph shall apply to  
5                 taxable years beginning after December 31, 2004;

6           (B) E-2 pay grade after eight years of service;  
7                 provided that this subparagraph shall apply to  
8                 taxable years beginning after December 31, 2005;

9           (C) E-3 pay grade after eight years of service;  
10                provided that this subparagraph shall apply to  
11                taxable years beginning after December 31, 2006;

12           (D) E-4 pay grade after eight years of service;  
13                provided that this subparagraph shall apply to  
14                taxable years beginning after December 31, 2007;

15           and

16           (E) E-5 pay grade after eight years of service;  
17                provided that this subparagraph shall apply to  
18                taxable years beginning after December 31, 2008;

19           (8) Income derived from the operation of ships or aircraft  
20                if the income is exempt under the Internal Revenue  
21                Code pursuant to the provisions of an income tax



1 treaty or agreement entered into by and between the  
2 United States and a foreign country[+]; [+] provided  
3 that the tax laws of the local governments of that  
4 country reciprocally exempt from the application of  
5 all of their net income taxes, the income derived from  
6 the operation of ships or aircraft that are documented  
7 or registered under the laws of the United States;

8 (9) The value of legal services provided by a legal  
9 service plan to a taxpayer, the taxpayer's spouse, and  
10 the taxpayer's dependents;

11 (10) Amounts paid, directly or indirectly, by a legal  
12 service plan to a taxpayer as payment or reimbursement  
13 for the provision of legal services to the taxpayer,  
14 the taxpayer's spouse, and the taxpayer's dependents;

15 (11) Contributions by an employer to a legal service plan  
16 for compensation (through insurance or otherwise) to  
17 the employer's employees for the costs of legal  
18 services incurred by the employer's employees, their  
19 spouses, and their dependents; [~~and~~]

20 (12) Amounts received in the form of a monthly surcharge by  
21 a utility acting on behalf of an affected utility



1 under section 269-16.3; provided that amounts retained  
2 by the acting utility for collection or other costs  
3 shall not be included in this exemption[-]; and

4 (13) The lesser of fifty-one per cent of gross annual  
5 income or \$50,000 of gross annual income earned by a  
6 farmer from farming activities.

7 For purposes of this paragraph, "farmer" means an  
8 individual earning more than seventy-five per cent of  
9 the individual's annual gross income from farm  
10 products and value-added farm products grown, raised,  
11 and value-added by the individual and sold within the  
12 State. "Farm products" means production from  
13 agricultural activities as described in section  
14 205-4.5(a)(1) through (3), and excludes personal use."

15 SECTION 3. Statutory material to be repealed is bracketed  
16 and stricken. New statutory material is underscored.

17 SECTION 4. This Act shall take effect upon its approval  
18 and shall apply to taxable years beginning after December 31,  
19 2019.



**Report Title:**

Economic Diversification; Agriculture; Farmer; Tax Exclusion

**Description:**

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. Applies to taxable years beginning after 12/31/2019. (SD1)

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

