
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 the state income tax for the lesser
2 of fifty-one per cent or \$50,000 of gross annual income earned
3 by those businesses. A partial tax exclusion for these
4 businesses will not significantly affect tax revenues collected
5 by the State, but will strengthen the state economy and improve
6 the 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 agricultural activities.

7 For purposes of this paragraph:

8 "Farmer" means a person earning more than
9 seventy-five per cent of the person's annual gross
10 income from the sale of farm products and value-added
11 farm products grown, raised, and value-added by the
12 person within the State.

13 "Farm products" means production from
14 agricultural activities as described in section
15 205-4.5(a)(1) through (3), and excludes personal use.

16 "Person" includes an individual, partnership, S
17 corporation, estate, or trust; provided that "person"
18 does not include a corporation, other than an S
19 corporation.



1 "Value-added" means any activity that increases,
2 by means of processing or any other means, the value
3 of raw agricultural materials."

4 SECTION 3. Statutory material to be repealed is bracketed
5 and stricken. New statutory material is underscored.

6 SECTION 4. This Act shall take effect on July 1, 2050, and
7 shall apply to taxable years beginning after December 31, 2019.



S.B. NO. 837
S.D. 2

Report Title:

Economic Diversification; Agriculture; Farmer; Tax Exclusion

Description:

Creates an exclusion from income tax for the lesser of 51% 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. Effective 7/1/2050. (SD2)

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