
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 has a
2 significant negative trade flow as it imports far more goods and
3 services than it exports. The State makes up for this negative
4 trade flow by relying on tourism and military expenditures.
5 However, this reliance on external sources of revenue may not be
6 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. Hawaii
9 has been addressing its over-reliance on imported fossil fuels.
10 However, Hawaii still 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. Therefore, the State should 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 a
2 specified percentage or amount of federal adjusted gross income
3 earned from these businesses. A partial tax exclusion for these
4 businesses will not significantly affect existing tax revenue
5 collected by the State but will strengthen the state economy and
6 improve the long-term economic well-being of the State as a
7 whole.

8 SECTION 2. Section 235-2.4, Hawaii Revised Statutes, is
9 amended by amending subsection (i) to read as follows:

10 "(i) Section 162 (with respect to trade or business
11 expenses) of the Internal Revenue Code shall be operative for
12 the purposes of this chapter, except that ~~[sections]~~:

13 (1) Section 162(f)(2), (3), and (4) (all of which relate
14 to exceptions to the general rule, established in
15 section 162(f)(1), that no deduction is allowed for
16 the payment of fines or penalties) shall not be
17 operative for purposes of this chapter[-]; and

18 (2) Section 162 shall not be operative for ordinary and
19 necessary business expenses incurred in producing any
20 income excluded under section 235-7(a)(13)."



1 SECTION 3. Section 235-7, Hawaii Revised Statutes, is
2 amended by amending subsection (a) to read as follows:

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

5 (1) Income not subject to taxation by the State under the
6 Constitution and laws of the United States;

7 (2) Rights, benefits, and other income exempted from
8 taxation by section 88-91, having to do with the state
9 retirement system, and the rights, benefits, and other
10 income, comparable to the rights, benefits, and other
11 income exempted by section 88-91, under any other
12 public retirement system;

13 (3) Any compensation received in the form of a pension for
14 past services;

15 (4) Compensation paid to a patient affected with Hansen's
16 disease employed by the State or the United States in
17 any hospital, settlement, or place for the treatment
18 of Hansen's disease;

19 (5) Except as otherwise expressly provided, payments made
20 by the United States or this State, under an act of
21 Congress or a law of this State, which by express



1 provision or administrative regulation or
2 interpretation are exempt from both the normal and
3 surtaxes of the United States, even though not so
4 exempted by the Internal Revenue Code itself;

5 (6) Any income expressly exempted or excluded from the
6 measure of the tax imposed by this chapter by any
7 other law of the State, it being the intent of this
8 chapter not to repeal or supersede any such express
9 exemption or exclusion;

10 (7) Income received by each member of the reserve
11 components of the Army, Navy, Air Force, Marine Corps,
12 or Coast Guard of the United States of America, and
13 the Hawaii National Guard as compensation for
14 performance of duty, equivalent to pay received for
15 forty-eight drills (equivalent of twelve weekends) and
16 fifteen days of annual duty, at an:

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



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

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

7 (D) E-4 pay grade after eight years of service;
8 provided that this subparagraph shall apply to
9 taxable years beginning after December 31, 2007;
10 and

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

14 (8) Income derived from the operation of ships or aircraft
15 if the income is exempt under the Internal Revenue
16 Code pursuant to the provisions of an income tax
17 treaty or agreement entered into by and between the
18 United States and a foreign country[+];[+] provided
19 that the tax laws of the local governments of that
20 country reciprocally exempt from the application of
21 all of their net income taxes, the income derived from



1 the operation of ships or aircraft that are documented
2 or registered under the laws of the United States;

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

6 (10) Amounts paid, directly or indirectly, by a legal
7 service plan to a taxpayer as payment or reimbursement
8 for the provision of legal services to the taxpayer,
9 the taxpayer's spouse, and the taxpayer's dependents;

10 (11) Contributions by an employer to a legal service plan
11 for compensation (through insurance or otherwise) to
12 the employer's employees for the costs of legal
13 services incurred by the employer's employees, their
14 spouses, and their dependents; ~~[and]~~

15 (12) Amounts received in the form of a monthly surcharge by
16 a utility acting on behalf of an affected utility
17 under section 269-16.3; provided that amounts retained
18 by the acting utility for collection or other costs
19 shall not be included in this exemption~~[+]~~; and



1 (13) The lesser of _____ per cent of federal adjusted
2 gross income or \$ _____ of federal adjusted gross
3 income earned by a farmer from farming activities.

4 For purposes of this paragraph:

5 "Farmer" means an individual earning more
6 than _____ per cent of the individual's federal
7 adjusted gross income from the sale of farm products
8 and value-added farm products grown, raised, and
9 value-added by the individual.

10 "Farm products" means products produced from:

11 (A) The cultivation of crops, including crops
12 for bioenergy, flowers, vegetables, foliage,
13 fruits, forage, and timber;

14 (B) Game and fish propagation; and

15 (C) The raising of livestock, including poultry,
16 bees, fish, or other animal or aquatic life
17 that are propagated for economic use;

18 provided that "farm products" shall not include
19 products for personal use.



1 "Farming activities" means the production and
2 sale of farm products by a farmer claiming an income
3 exclusion under this paragraph."

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

6 SECTION 5. This Act shall take effect on July 1, 2050, and
7 shall apply to taxable years beginning after December 31, 2021.



Report Title:

Farming Activities; Farmers; Income Tax Exclusion

Description:

Creates an exclusion from income tax for the lesser of a percentage of federal adjusted gross income or an amount of federal adjusted gross income earned by a farmer from farming activities. Disallows the deduction of ordinary and necessary business expenses incurred in producing the excluded income. Effective 7/1/2050. (SD1)

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