
A BILL FOR AN ACT

RELATING TO FARMERS.

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, thereby experiencing a
3 significant negative trade flow. Hawaii compensates 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 term.

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

13 The growth of small, diversified farming businesses will
14 add to and diversify Hawaii's economy and help redress the
15 imbalance in agricultural trade. Therefore, the State should
16 encourage and support the growth of new small, diversified
17 farming businesses by creating an exclusion from income tax for



1 a certain amount of income earned by such businesses. A partial
2 tax exclusion for such businesses will not significantly
3 decrease the amount of tax revenues collected by the State. At
4 the same time, it will strengthen the local economy and improve
5 the long-term economic well-being of Hawaii as a whole.

6 The purpose of this Act is to exclude from the computation
7 of state taxable income a certain amount of income earned by
8 qualifying farmers from food or value-added food products grown
9 or raised by a farmer; provided that the farmer's annual gross
10 income does not exceed a specified amount.

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

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

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

17 (2) Rights, benefits, and other income exempted from
18 taxation by section 88-91, having to do with the state
19 retirement system, and the rights, benefits, and other
20 income, comparable to the rights, benefits, and other



- 1 income exempted by section 88-91, under any other
2 public retirement system;
- 3 (3) Any compensation received in the form of a pension for
4 past services;
- 5 (4) Compensation paid to a patient affected with Hansen's
6 disease employed by the State or the United States in
7 any hospital, settlement, or place for the treatment
8 of Hansen's disease;
- 9 (5) Except as otherwise expressly provided, payments made
10 by the United States or this State, under an act of
11 Congress or a law of this State, which by express
12 provision or administrative regulation or
13 interpretation are exempt from both the normal and
14 surtaxes of the United States, even though not so
15 exempted by the Internal Revenue Code itself;
- 16 (6) Any income expressly exempted or excluded from the
17 measure of the tax imposed by this chapter by any
18 other law of the State, it being the intent of this
19 chapter not to repeal or supersede any express
20 exemption or exclusion;



1 (7) Income received by each member of the reserve
2 components of the Army, Navy, Air Force, Marine Corps,
3 or Coast Guard of the United States of America, and
4 the Hawaii National Guard as compensation for
5 performance of duty, equivalent to pay received for
6 forty-eight drills (equivalent of twelve weekends) and
7 fifteen days of annual duty, at an:
8 (A) E-1 pay grade after eight years of service;
9 provided that this subparagraph shall apply to
10 taxable years beginning after December 31, 2004;
11 (B) E-2 pay grade after eight years of service;
12 provided that this subparagraph shall apply to
13 taxable years beginning after December 31, 2005;
14 (C) E-3 pay grade after eight years of service;
15 provided that this subparagraph shall apply to
16 taxable years beginning after December 31, 2006;
17 (D) E-4 pay grade after eight years of service;
18 provided that this subparagraph shall apply to
19 taxable years beginning after December 31, 2007;
20 and



- 1 (E) E-5 pay grade after eight years of service;
- 2 provided that this subparagraph shall apply to
- 3 taxable years beginning after December 31, 2008;
- 4 (8) Income derived from the operation of ships or aircraft
- 5 if the income is exempt under the Internal Revenue
- 6 Code pursuant to the provisions of an income tax
- 7 treaty or agreement entered into by and between the
- 8 United States and a foreign country; provided that the
- 9 tax laws of the local governments of that country
- 10 reciprocally exempt from the application of all of
- 11 their net income taxes, the income derived from the
- 12 operation of ships or aircraft that are documented or
- 13 registered under the laws of the United States;
- 14 (9) The value of legal services provided by a legal
- 15 service plan to a taxpayer, the taxpayer's spouse, and
- 16 the taxpayer's dependents;
- 17 (10) Amounts paid, directly or indirectly, by a legal
- 18 service plan to a taxpayer as payment or reimbursement
- 19 for the provision of legal services to the taxpayer,
- 20 the taxpayer's spouse, and the taxpayer's dependents;



- 1 (11) Contributions by an employer to a legal service plan
2 for compensation (through insurance or otherwise) to
3 the employer's employees for the costs of legal
4 services incurred by the employer's employees, their
5 spouses, and their dependents;
- 6 (12) Amounts received in the form of a monthly surcharge by
7 a utility acting on behalf of an affected utility
8 under section 269-16.3; provided that amounts retained
9 by the acting utility for collection or other costs
10 shall not be included in this exemption;
- 11 (13) Amounts received in the form of a cable surcharge by
12 an electric utility company acting on behalf of a
13 certified cable company under section 269-134;
14 provided that any amounts retained by that electric
15 utility company for collection or other costs shall
16 not be included in this exemption; [~~and~~]
- 17 (14) One hundred per cent of the gain realized by a fee
18 simple owner from the sale of a leased fee interest in
19 units within a condominium project, cooperative
20 project, or planned unit development to the
21 association of owners under chapter 514A or 514B, or

1 the residential cooperative corporation of the
2 leasehold units.

3 For purposes of this paragraph:

4 "Fee simple owner" shall have the same meaning as
5 provided under section 516-1; provided that it shall
6 include legal and equitable owners;

7 "Legal and equitable owner", and "leased fee
8 interest" shall have the same meanings as provided
9 under section 516-1; and

10 "Condominium project" and "cooperative project"
11 shall have the same meanings as provided under section
12 514C-1 [-]; and

13 (15) The first \$ of income earned by a farmer;
14 provided that the farmer's annual gross income does
15 not exceed:

16 (A) \$ if filing a tax return as a single
17 taxpayer;

18 (B) \$ if filing a tax return as married
19 filing jointly;

20 (C) \$ if filing a tax return as married
21 filing separately; and



1 (D) \$ _____ if filing a tax return as head of
2 household.

3 As used in this paragraph, "farmer" means an
4 individual who earns more than seventy-five per cent
5 of the individual's annual gross income from food or
6 value-added food products grown or raised by the
7 individual."

8 SECTION 3. This Act does not affect rights and duties that
9 matured, penalties that were incurred, and proceedings that were
10 begun before its effective date.

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

13 SECTION 5. This Act shall take effect on July 1, 2017;
14 provided that section 2 of this Act shall apply to taxable years
15 beginning after December 31, 2017; provided further that the
16 amendments made to section 235-7(a), Hawaii Revised Statutes, by
17 section 2 of this Act shall not be repealed when that section is
18 reenacted on January 1, 2018, pursuant to section 3 of Act 166,
19 Session Laws of Hawaii 2007, as amended by section 5 of Act 220,
20 Session Laws of Hawaii 2012.



Report Title:

Economic Diversification; Agriculture; Farmers; Tax Exclusion

Description:

Excludes for state income tax purposes a portion of income earned by farmers who grow or raise food or value-added food products and whose annual gross income does not exceed a certain amount. Applies to taxable years beginning after 12/31/2017.
(SD1)

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