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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 the State has  
2 struggled to attract young people into the agricultural sector.  
3 Hawaii has the oldest farmers in the United States, with twice  
4 as many farmers over the age of seventy-five as there are under  
5 thirty-five.

6       The legislature further finds that as of 2022, most of the  
7 State's over seven thousand farms are small operations bearing  
8 little financial fruit, with nearly eighty per cent having  
9 annual sales under \$25,000.

10       As the State seeks to achieve overlapping goals of reducing  
11 reliance on imports, diversifying the economy, and increasing  
12 local food production, it is critical to incentivize the  
13 rejuvenation of the State's agricultural sector, especially  
14 among younger generations.

15       The legislature further finds that a partial tax exclusion  
16 for such businesses will not significantly affect existing tax  
17 revenue collected but will strengthen the State's economy and



1 improve the long-term economic well-being of the State as a  
2 whole.

3 Accordingly, the purpose of this Act is to create an  
4 exclusion from income tax for the first \$50,000 of income earned  
5 by farmers in order to encourage the growth of small,  
6 diversified farming businesses.

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~~] the State, under an act  
7 of Congress or a law of [~~this~~] the State, which by  
8 express 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 that  
3 the tax laws of the local governments of that country  
4 reciprocally exempt from the application of all of  
5 their net income taxes, the income derived from the  
6 operation of ships or aircraft that are documented or  
7 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 first \$50,000 of income earned by a farmer.

5 For purposes of this paragraph:

6 "Farm products" means production from cultivation  
7 of crops, including crops for bioenergy, flowers,  
8 vegetables, foliage, fruits, forage, and timber; game  
9 and fish propagation; and raising of livestock,  
10 including poultry, bees, fish, or other animal or  
11 aquatic life that are propagated for economic or  
12 personal use.

13 "Farmer" means an individual earning more than  
14 seventy-five per cent of the individual's gross income  
15 from farm products."

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 Statutory material to be repealed is bracketed  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

18 SECTION 4. This Act shall take effect on July 1, 3000;  
19 provided that section 2 shall apply to taxable years beginning  
20 after December 31, 2025.



# H.B. NO. 1417 H.D. 1

**Report Title:**

Economic Diversification; Agriculture; Farmer; Tax Exclusion

**Description:**

Creates an exclusion from income tax for the first \$50,000 of gross income earned by farmers. Effective 7/1/3000. (HD1)

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