A BILL FOR AN ACT

RELATING TO FARMS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. The legislature finds that Hawaii imports far more goods and services than it exports. Thus, Hawaii has a significant negative trade flow. Hawaii makes up for this negative trade flow by relying on tourism and military expenditures; however, this reliance on external sources of revenue may not be sustainable in the long run.

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

The legislature further finds that the growth of small, diversified farming businesses will add to and diversify Hawaii's economy and help redress the imbalance in agricultural trade. The State should therefore encourage and support the growth of new, small, and diversified farming businesses by
creating an exclusion from income tax for the lesser of fifty-
one per cent or $50,000 of gross annual income earned for such
businesses. A partial tax exclusion for such businesses will
not significantly affect existing tax revenue collected by the
State but will strengthen the state economy and improve the
long-term economic well-being of the State as a whole.

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

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

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

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

(3) Any compensation received in the form of a pension for
past services;
(4) Compensation paid to a patient affected with Hansen's disease employed by the State or the United States in any hospital, settlement, or place for the treatment of Hansen's disease;

(5) Except as otherwise expressly provided, payments made by the United States or this State, under an act of Congress or a law of this State, which by express provision or administrative regulation or interpretation are exempt from both the normal and surtaxes of the United States, even though not so exempted by the Internal Revenue Code itself;

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

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

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

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

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

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

and

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

(8) Income derived from the operation of ships or aircraft
if the income is exempt under the Internal Revenue
Code pursuant to the provisions of an income tax
treaty or agreement entered into by and between the United States and a foreign country; provided that the tax laws of the local governments of that country reciprocally exempt from the application of all of their net income taxes, the income derived from the operation of ships or aircraft that are documented or registered under the laws of the United States;

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

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

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

(12) Amounts received in the form of a monthly surcharge by a utility acting on behalf of an affected utility
under section 269-16.3; provided that amounts retained
by the acting utility for collection or other costs
shall not be included in this exemption[ ]; and
(13) 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.

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

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

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