



## August 2024 Newsletter

# *Big Property Tax Changes Coming for Small Farms*

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PMKCA President

In 2023, the County Council passed changes to the County Code that will significantly affect small farms. The non-dedicated agricultural land assessment program is being abolished and replaced with other programs. This means that every small farm that now receives property tax breaks by participating in the non-dedicated program, and wishes to continue receiving reduced property taxes, will have to re-apply for assessment under one of three new categories of farm classification by September, 2025.

The **Long-term Agricultural Use Dedication** is one of these new categories, but it is little changed from its prior status. It still requires a farm dedication, recorded with the Bureau of Conveyances, for ten years of commercial farming. As before, failure to complete the full ten years of commercial farming can result in roll-back taxes and penalties.

A new **Short-term Agricultural Use Dedication** has been created. This is similar in its requirements to the ten-year dedication, but for only three years. The dedication need not be recorded and failure to complete the full three years of commercial farming can only result in two years of roll-back taxes.

The third farm dedication is the **Community Food Sustainability Use** program. This needs to be renewed every five years and failure to complete the full term of dedication does not result in any roll-back taxes but the tax benefits might not be as beneficial for some property owners.

A full description of the requirements and benefits of any of these three dedication programs is too complicated for discussion here, but several major issues with these programs were the subject of recent informational discussions hosted by Council Chair Heather Kimball and testimony presented at the July 18<sup>th</sup> Finance Office hearing on new rules being proposed to manage all three kinds of land dedication.

### SOME REQUIREMENTS FOR THE NEW PROGRAMS

Like the prior non-dedicated agricultural program, the Long-term and Short-term dedicated programs are not intended to be used for “yard space, setbacks, or open landscape associated

with residential use planted with ornamental plants, fruit or ornamental trees and vegetables primarily for home use or recreation” (Finance Rule 34). So back-yard gardens and keeping pet animals do not qualify for these programs. In order to qualify you must either show a minimum of \$2000 annual revenue or show in your farm plan that you “adhere to generally accepted standards or recognized practices within that agricultural industry.” (Hawaii County Code Section 19-2).

For people who do not meet these requirements, they can consider the Community Food Sustainability Use program, which requires the sale or donation of \$1000 of food per year. Even landowners who stay in the homeowner classification for the tax benefits can increase those benefits by having part of their property assessed at 30% of market value if they produce and sell, or give away, at least \$1000 worth of food from that part every year.

Pastures under ten acres can no longer be part of a farm dedication unless there is a farm plan that describes how the farm will operate on a smaller lot. Individual pastures on separate properties, whether contiguous or not, can also be combined to make a ten-acre or more pasture.

#### SOME ADVANTAGES TO THE NEW PROGRAMS

While these changes will present serious difficulties for many small landowners, important new tax benefits are also now being made available under these new agricultural programs. Farmers who qualify under the Long-term and Short-term Dedications or the Community Food Sustainability Use will now pay the same tax rate as those under the Homeowner classification and also receive the benefit of having their assessed values for their homes and land not dedicated to agriculture limited to no more than 3% per year.

The tax rate per thousand dollars of assessed valuation under the Homeowner classification is \$5.95, whereas the rate under the non-dedicated agricultural classification is \$9.35. This 36% reduction in the tax rate will apply to all three agricultural programs if the property is also your primary residence. Landowners who have most of the value of their property in their home and buildings have always had the possibly to get more tax benefits from the homeowner classification, foregoing the need for any agricultural activity on their land.

This large difference in rates has always been an important part of deciding how to have one’s land assessed, especially for those with a small-acreage farm and a home, but it is now even more important. The benefits of getting an application approved for a long-term or short-term or community food sustainability dedication are greater than ever before.

#### MORE CLARITY TO COME

Some aspects of the new changes are still unclear to me, such as what happens when a landowner lets a friend or relative use his land for a farm or ranch operation. It’s not clear who needs to make the application for the farm dedication, the landowner or the one actually doing the farming. I hope this confusion is cleared up in the near future.

These new code changes and the rules that govern their application are complicated and can cause confusion. The Real Property Tax office has encouraged anyone with questions about their own situation to contact them for explanations and advice. Applications for the new classifications can be made as early as September 2<sup>nd</sup> of this year, but *the final deadline for submitting an application for a new agricultural program without being subject to full market-value land assessment for the 2028 tax year is September 1, 2025.*

PMKCA officers and board members will continue to try to keep abreast of these important tax issues. In the past we have offered information and computational worksheets to help people figure out the best way to optimize their tax situation and we hope to offer similar worksheets in the near future. The council is also working on possible amendments to the code based on the feedback from the farming community. We strongly encourage you to speak with Council Member Kimball if you have recommendations on how to improve these important tax programs.

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## ***PMKCA Meetings & Events***

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***Enjoy your summer!***

*No meetings or events are scheduled for the month of August.*

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## ***Join PMKCA or Renew Your Membership for 2023!!***

PMKCA dues are only \$20 per calendar year and help support so many great community activities. Click the "Visit our website" link below and choose Membership/Dues.

***We offer a PayPal option. Contact Peter, our treasurer ([p3t3rchr@gmail.com](mailto:p3t3rchr@gmail.com)) or mail a check made out to PMKCA, PO Box 408, Pa'auilo, HI 96776.***

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*(Please note that we may not be able to read and respond to replies.)*