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### A BILL FOR AN ACT

RELATING TO TAXATION.

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

1	SECT	ION 1. Section 235-7, Hawaii Revised Statutes, is			
2	amended by	y 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;			



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Except as otherwise expressly provided, payments made 1 (5) by the United States or this State, under an act of 2 3 Congress or a law of this State, which by express 4 provision or administrative regulation or 5 interpretation are exempt from both the normal and surtaxes of the United States, even though not so 6 7 exempted by the Internal Revenue Code itself; (6) 8 Any income expressly exempted or excluded from the 9 measure of the tax imposed by this chapter by any other law of the State, it being the intent of this 10 11 chapter not to repeal or supersede any such express 12 exemption or exclusion; 13 (7) Income received by each member of the reserve 14 components of the Army, Navy, Air Force, Marine Corps, or Coast Guard of the United States of America, and 15 16 the Hawaii national guard as compensation for performance of duty, equivalent to pay received for 17 forty-eight drills (equivalent of twelve weekends) and 18 19 fifteen days of annual duty, at an: 20 (A) E-1 pay grade after eight years of service; 21 provided that this subparagraph shall apply to 22 taxable years beginning after December 31, 2004;



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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)	Inco	me derived from the operation of ships or aircraft
15		if t	he income is exempt under the Internal Revenue
16		Code	e pursuant to the provisions of an income tax
17		trea	ty or agreement entered into by and between the
18		Unit	ed States and a foreign country, provided that the
19		tax	laws of the local governments of that country
20		reci	procally exempt from the application of all of
21		thei	r net income taxes, the income derived from the



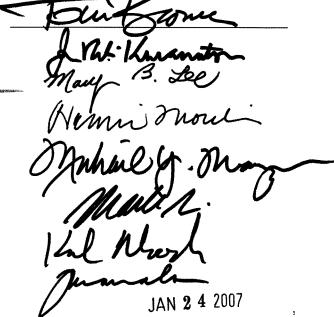
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1		operation of ships or aircraft that are documented or
2		registered under the laws of the United States;
3	(9)	The value of legal services provided by a prepaid
4		legal service plan to a taxpayer, the taxpayer's
5		spouse, and the taxpayer's dependents;
6	(10)	Amounts paid, directly or indirectly, by a prepaid
7		legal service plan to a taxpayer as payment or
8		reimbursement for the provision of legal services to
9		the taxpayer, the taxpayer's spouse, and the
10		taxpayer's dependents;
11	(11)	Contributions by an employer to a prepaid legal
12		service plan for compensation (through insurance or
13		otherwise) to the employer's employees for the costs
14		of legal services incurred by the employer's
15		employees, their spouses, and their dependents; [and]
16	(12)	Amounts received in the form of a monthly surcharge by
17		a utility acting on behalf of an affected utility
18		under section 269-16.3 shall not be gross income,
19		adjusted gross income, or taxable income for the
20		acting utility under this chapter. Any amounts
21		retained by the acting utility for collection or other
22		costs shall not be included in this exemption $[-,]$ ; and



1	(13)	The first \$6,000 of income received from any source by
2		resident taxpayers who retired from, or are currently
3		serving in, the Army, Navy, Air Force, Marine Corps,
4		or Coast Guard of the United States of America, any
5		reserve unit of the armed forces of the United States
6		of America, or the Hawaii national guard; provided
7		that active duty members of the armed services are on
8		active military duty outside the state pursuant to
9		military orders."
10	SECT	ION 2. Statutory material to be repealed is bracketed
11	and stric	ken. New statutory material is underscored.
12	SECT	ION 3. This Act, upon its approval, shall apply to
13	taxable y	ears beginning after December 31, 2006.
14		
		THERE ADDINGED BY

Mele Carroll





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#### Report Title:

Income tax; Military exemptions

### Description:

Provides a State income tax exemption for persons retired or currently serving in the armed forces of the United States who are on active military duty outside the State pursuant to military orders.

