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## A BILL FOR AN ACT

RELATING TO TAXATION.

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

1           SECTION 1. Section 235-2.4, Hawaii Revised Statutes, is  
2 amended to read as follows:

3           "**§235-2.4 Operation of certain Internal Revenue Code**  
4 **provisions; sections 63 to 530.** (a) Section 63 (with respect  
5 to taxable income defined) of the Internal Revenue Code shall be  
6 operative for the purposes of this chapter, except that the  
7 standard deduction amount in section 63(c) of the Internal  
8 Revenue Code shall instead mean:

9           (1) \$4,000 in the case of:

10                   (A) A joint return as provided by section 235-93; or

11                   (B) A surviving spouse (as defined in section 2(a) of  
12                   the Internal Revenue Code);

13           (2) \$2,920 in the case of a head of household (as defined  
14           in section 2(b) of the Internal Revenue Code);

15           (3) \$2,000 in the case of an individual who is not married  
16           and who is not a surviving spouse or head of  
17           household; or



1 (4) \$2,000 in the case of a married individual filing a  
2 separate return.

3 Section 63(c)(4) shall not be operative in this State.

4 Section 63(c)(5) shall be operative, except that the limitation  
5 on basic standard deduction in the case of certain dependents  
6 shall be the greater of \$500 or such individual's earned income.

7 Section 63(f) shall not be operative in this State.

8 The standard deduction amount for nonresidents shall be  
9 calculated pursuant to section 235-5.

10 (b) Section 72 (with respect to annuities; certain  
11 proceeds of endowment and life insurance contracts) of the  
12 Internal Revenue Code shall be operative for purposes of this  
13 chapter and be interpreted with due regard to section 235-7(a),  
14 except that the ten per cent additional tax on early  
15 distributions from retirement plans in section 72(t) shall not  
16 be operative for purposes of this chapter.

17 (c) Section 121 (with respect to exclusion of gain from  
18 sale of principal residence) of the Internal Revenue Code shall  
19 be operative for purposes of this chapter, except that for the  
20 election under section 121(f), a reference to section 1034  
21 treatment means a reference to section 235-2.4(n) in effect for  
22 taxable year 1997.



1 (d) Section 163 (with respect to interest) of the Internal  
2 Revenue Code shall be operative for the purposes of this  
3 chapter, except that provisions in section 163(d)(4)(B)  
4 (defining net investment income to exclude dividends) shall not  
5 be operative for the purposes of this chapter.

6 (e) Section 165 (with respect to losses) of the Internal  
7 Revenue Code shall be operative for purposes of this chapter.  
8 Section 165 as operative for this chapter shall also apply to  
9 losses sustained from the sale of stocks or other interests  
10 issued through the exercise of the stock options or warrants  
11 granted by a qualified high technology business as defined in  
12 section 235-7.3.

13 (f) Section 168 (with respect to the accelerated cost  
14 recovery system) of the Internal Revenue Code shall be operative  
15 for purposes of this chapter, except that provisions relating to  
16 property on Indian reservations in section 168(j) and special  
17 allowance for certain property acquired after September 10,  
18 2001, and before January 1, 2005 (including the extension of the  
19 qualifying aircraft placed in service before January 1, 2006),  
20 in section 168(k) shall not be operative for purposes of this  
21 chapter.



1 (g) Section 179 (with respect to the election to expense  
2 certain depreciable business assets) of the Internal Revenue  
3 Code shall be operative for purposes of this chapter, except  
4 that provisions relating to:

5 (1) The increase of the maximum deduction to \$100,000 for  
6 taxable years beginning after 2002 and before 2008 in  
7 section 179(b)(1);

8 (2) The increase of the qualifying investment amount to  
9 \$400,000 for taxable years beginning after 2002 and  
10 before 2008 in section 179(b)(2);

11 (3) Defining section 179 property to include computer  
12 software in section 179(d)(1);

13 (4) Inflation adjustments in section 179(b)(5); and

14 (5) Irrevocable election in section 179(c)(2);

15 shall not be operative for the purposes of this chapter.

16 (h) Section 219 (with respect to retirement savings) of  
17 the Internal Revenue Code shall be operative for the purpose of  
18 this chapter. For the purpose of computing the limitation on  
19 the deduction for active participants in certain pension plans  
20 for state income tax purposes, adjusted gross income as used in  
21 section 219 as operative for this chapter means federal adjusted  
22 gross income.



1 (i) Section 220 (with respect to medical savings accounts)  
2 of the Internal Revenue Code shall be operative for the purpose  
3 of this chapter, but only with respect to medical services  
4 accounts that have been approved by the Secretary of the  
5 Treasury of the United States.

6 (j) Section 265 (with respect to expenses and interest  
7 relating to tax-exempt income) of the Internal Revenue Code  
8 shall be operative for purposes of this chapter; except that it  
9 shall not apply to expenses for royalties and other income  
10 derived from any patents, copyrights, and trade secrets by an  
11 individual or a qualified high technology business as defined in  
12 section 235-7.3. Such expenses shall be deductible.

13 (k) Section 408A (with respect to Roth Individual  
14 Retirement Accounts) of the Internal Revenue Code shall be  
15 operative for the purposes of this chapter. For the purposes of  
16 determining the aggregate amount of contributions to a Roth  
17 Individual Retirement Account or qualified rollover contribution  
18 to a Roth Individual Retirement Account from an individual  
19 retirement plan other than a Roth Individual Retirement Account,  
20 adjusted gross income as used in section 408A as operative for  
21 this chapter means federal adjusted gross income.



1           (1) In administering the provisions of sections 410 to 417  
2 (with respect to special rules relating to pensions, profit  
3 sharing, stock bonus plans, etc.), sections 418 to 418E (with  
4 respect to special rules for multiemployer plans), and sections  
5 419 and 419A (with respect to treatment of welfare benefit  
6 funds) of the Internal Revenue Code, the department of taxation  
7 shall adopt rules under chapter 91 relating to the specific  
8 requirements under such sections and to such other  
9 administrative requirements under those sections as may be  
10 necessary for the efficient administration of sections 410 to  
11 419A.

12           In administering sections 401 to 419A (with respect to  
13 deferred compensation) of the Internal Revenue Code, Public Law  
14 93-406, section 1017(i), shall be operative for the purposes of  
15 this chapter.

16           In administering section 402 (with respect to the  
17 taxability of beneficiary of employees' trust) of the Internal  
18 Revenue Code, the tax imposed on lump sum distributions by  
19 section 402(e) of the Internal Revenue Code shall be operative  
20 for the purposes of this chapter and the tax imposed therein is  
21 hereby imposed by this chapter at the rate determined under this  
22 chapter.



1        (m) In administering section 403 (with respect to taxation  
2 of employee annuities) of the Internal Revenue Code, section  
3 403(b) (8) (A) (ii) shall not be operative for the purposes of this  
4 chapter.

5        (n) In administering section 457 (with respect to rollover  
6 amounts in deferred compensation plans for state and local  
7 governments) of the Internal Revenue Code, section 457  
8 (e) (16) (ii) shall not be operative for the purposes of this  
9 chapter.

10        [~~m~~] (o) Section 468B (with respect to special rules for  
11 designated settlement funds) of the Internal Revenue Code shall  
12 be operative for the purposes of this chapter and the tax  
13 imposed therein is hereby imposed by this chapter at a rate  
14 equal to the maximum rate in effect for the taxable year imposed  
15 on estates and trusts under section 235-51.

16        [~~n~~] (p) Section 469 (with respect to passive activities  
17 and credits limited) of the Internal Revenue Code shall be  
18 operative for the purposes of this chapter. For the purpose of  
19 computing the offset for rental real estate activities for state  
20 income tax purposes, adjusted gross income as used in section  
21 469 as operative for this chapter means federal adjusted gross  
22 income.



1        [~~(p)~~] (q) Sections 512 to 514 (with respect to taxation of  
2 business income of certain exempt organizations) of the Internal  
3 Revenue Code shall be operative for the purposes of this chapter  
4 as provided in this subsection.

5        "Unrelated business taxable income" means the same as in  
6 the Internal Revenue Code, except that in the computation  
7 thereof sections 235-3 to 235-5, and 235-7 (except subsection  
8 (c)), shall apply, and in the determination of the net operating  
9 loss deduction there shall not be taken into account any amount  
10 of income or deduction that is excluded in computing the  
11 unrelated business taxable income. Unrelated business taxable  
12 income shall not include any income from a prepaid legal service  
13 plan.

14        For a person described in section 401 or 501 of the  
15 Internal Revenue Code, as modified by section 235-2.3, the tax  
16 imposed by section 235-51 or 235-71 shall be imposed upon the  
17 person's unrelated business taxable income.

18        [~~(p)~~] (r) Section 521 (with respect to cooperatives) and  
19 subchapter T (sections 1381 to 1388, with respect to  
20 cooperatives and their patrons) of the Internal Revenue Code  
21 shall be operative for the purposes of this chapter as to any  
22 cooperative fully meeting the requirements of section 421-23,





1 except that Internal Revenue Code section 521 cooperatives need  
2 not be organized in Hawaii.

3 ~~(e)~~ (s) Sections 527 (with respect to political  
4 organizations) and 528 (with respect to certain homeowners  
5 associations) of the Internal Revenue Code shall be operative  
6 for the purposes of this chapter and the taxes imposed in each  
7 such section are hereby imposed by this chapter at the rates  
8 determined under section 235-71.

9 ~~(r)~~ (t) Section 529 (with respect to qualified tuition  
10 programs) shall be operative for the purposes of this chapter,  
11 except that section 529(c)(6) shall not be operative.

12 ~~(s)~~ (u) Section 530 (with respect to education  
13 individual retirement accounts) of the Internal Revenue Code  
14 shall be operative for the purposes of this chapter. For the  
15 purpose of determining the maximum amount that a contributor  
16 could make to an education individual retirement account for  
17 state income tax purposes, modified adjusted gross income as  
18 used in section 530 as operative for this chapter means federal  
19 modified adjusted gross income as defined in section 530."

20 SECTION 2. Statutory material to be repealed is bracketed  
21 and stricken. New statutory material is underscored.



1 SECTION 3. This Act shall take effect upon its approval  
2 and shall apply to taxable years beginning after December 31,  
3 2007.  
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INTRODUCED BY: \_\_\_\_\_

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JAN 15 2008



**Report Title:**

Taxation; Deferred Compensation Plan

**Description:**

Imposes the state income tax on rollovers made by state and county employees from qualifying deferred compensation plans to eligible state or county retirement plans.

