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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 235-7, Hawaii Revised Statutes, is  
2 amended by 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;



- 1           (5) Except as otherwise expressly provided, payments made  
2           by the United States or this State, under an act of  
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  
6           surtaxes of the United States, even though not so  
7           exempted by the Internal Revenue Code itself;
- 8           (6) Any income expressly exempted or excluded from the  
9           measure of the tax imposed by this chapter by any  
10          other law of the State, it being the intent of this  
11          chapter not to repeal or supersede any 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,  
15          or Coast Guard of the United States of America, and  
16          the Hawaii national guard as compensation for  
17          performance of duty, equivalent to pay received for  
18          forty-eight drills (equivalent of twelve weekends) and  
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;



- 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) Income derived from the operation of ships or aircraft  
15 if the income is exempt under the Internal Revenue  
16 Code pursuant to the provisions of an income tax  
17 treaty or agreement entered into by and between the  
18 United States and a foreign country; provided that the  
19 tax laws of the local governments of that country  
20 reciprocally exempt from the application of all of  
21 their net income taxes, the income derived from the



- 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;
- 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) One hundred per cent of the gain realized by a fee  
 2 simple owner from the sale of a leased fee interest in  
 3 units within a condominium project, cooperative  
 4 project, or planned unit development to the  
 5 association of apartment owners or the residential  
 6 cooperative corporation of the leasehold units.

7 For purposes of this paragraph:

8 "Fee simple owner" shall have the same meaning as  
 9 provided under section 516-1; provided that it shall  
 10 include legal and equitable owners;

11 "Legal and equitable owner" [7] and "leased fee  
 12 interest" shall have the same meanings as provided  
 13 under section 516-1; and

14 "Condominium project" and "cooperative project"  
 15 shall have the same meanings as provided under section  
 16 514C-1 [7]; and

17 (14) The value of health insurance and other direct or  
 18 indirect benefits provided by an employer to an  
 19 employee in excess of what the employer provides to  
 20 single employees, or would provide to single  
 21 employees, when such benefits are provided to the  
 22 employee based on the employee's status as a



1           reciprocal beneficiary as defined in chapter 572C.  
2           For the purposes of this paragraph "single employee"  
3           means an employee who:  
4           (A) Is compensated by the employer directly or  
5           indirectly;  
6           (B) Is not married; and  
7           (C) Has no reciprocal beneficiary as defined in  
8           chapter 572C."

9           SECTION 2. Statutory material to be repealed is bracketed  
10          and stricken. New statutory material is underscored.

11          SECTION 3. This Act shall take effect on January 1, 2009,  
12          and shall apply to taxable years beginning after December 31,  
13          2008; provided that the amendments made to section 235-7(a),  
14          Hawaii Revised Statutes, by this Act shall not be repealed when  
15          that section is reenacted on January 1, 2013, by section 3 of  
16          Act 166, Session Laws of Hawaii 2007.



**Report Title:**

Reciprocal Beneficiaries; Taxation

**Description:**

Excludes from gross income, adjusted gross income, and taxable income the value of health insurance and other direct or indirect benefits provided by an employer to an employee in excess of what the employer provides or would provide to single employees when such benefits are provided to the employee due to the employee's status as a reciprocal beneficiary. (HB2456 SD1)

