

JAN 24 2007

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# A BILL FOR AN ACT

RELATING TO TAXABLE INCOME EXCLUSION

**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  
6 the 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  
9 state retirement system, and the rights,

10 benefits, and other income, comparable to the  
11 rights, benefits, and other income exempted by  
12 section 88-91, under any other public retirement  
13 system;

14           (3) Any compensation received in the form of a  
15 pension for past services;

16           (4) Compensation paid to a patient affected with  
17 Hansen's disease employed by the State or the



- 1 United States in any hospital, settlement, or  
2 place for the treatment of Hansen's disease;
- 3 (5) Except as otherwise expressly provided, payments  
4 made by the United States or this State, under an  
5 act of Congress or a law of this State, [~~which~~  
6 that express provision or administrative  
7 regulation or interpretation are exempt from both  
8 the normal and surtaxes of the United States,  
9 even though not so exempted by the Internal  
10 Revenue Code itself;
- 11 (6) Any income expressly exempted or excluded from  
12 the measure of the tax imposed by this chapter by  
13 any other law of the State, it being the intent  
14 of this chapter not to repeal or supersede any  
15 such express exemption or exclusion;
- 16 (7) Income received by each member of the reserve  
17 components of the Army, Navy, Air Force, Marine  
18 Corps, or Coast Guard of the United States of  
19 America, and the Hawaii national guard as  
20 compensation for performance of duty, equivalent  
21 to pay received for forty-eight drills



1 (equivalent of twelve weekends) and fifteen days  
2 of annual duty, at an:

3 (A) E-1 pay grade after eight years of service;  
4 provided that this subparagraph shall apply  
5 to taxable years beginning after December  
6 31, 2004;

7 (B) E-2 pay grade after eight years of service;  
8 provided that this subparagraph shall apply  
9 to taxable years beginning after December  
10 31, 2005;

11 (C) E-3 pay grade after eight years of service;  
12 provided that this subparagraph shall apply  
13 to taxable years beginning after December  
14 31, 2006;

15 (D) E-4 pay grade after eight years of service;  
16 provided that this subparagraph shall apply  
17 to taxable years beginning after December  
18 31, 2007; and

19 (E) E-5 pay grade after eight years of service;  
20 provided that this subparagraph shall apply  
21 to taxable years beginning after December  
22 31, 2008;



- 1           (8) Income derived from the operation of ships or  
2           aircraft if the income is exempt under the  
3           Internal Revenue Code pursuant to the provisions  
4           of an income tax treaty or agreement entered into  
5           by and between the United States and a foreign  
6           country[7] provided that the tax laws of the  
7           local governments of that country reciprocally  
8           exempt from the application of all of their net  
9           income taxes, the income derived from the  
10          operation of ships or aircraft that are  
11          documented or registered under the laws of the  
12          United States;
- 13          (9) The value of legal services provided by a prepaid  
14          legal service plan to a taxpayer, the taxpayer's  
15          spouse, and the taxpayer's dependents;
- 16          (10) Amounts paid, directly or indirectly, by a  
17          prepaid legal service plan to a taxpayer as  
18          payment or reimbursement for the provision of  
19          legal services to the taxpayer, the taxpayer's  
20          spouse, and the taxpayer's dependents;
- 21          (11) Contributions by an employer to a prepaid legal  
22          service plan for compensation (through insurance



1 or otherwise) to the employer's employees for the  
2 costs of legal services incurred by the  
3 employer's employees, their spouses, and their  
4 dependents; ~~and~~

5 (12) Amounts received in the form of a monthly  
6 surcharge by a utility acting on behalf of an  
7 affected utility under section 269-16.3 shall not  
8 be gross income, adjusted gross income, or  
9 taxable income for the acting utility under this  
10 chapter. Any amounts retained by the acting  
11 utility for collection or other costs shall not  
12 be included in this exemption~~[-]~~; and

13 (13) Income from any source received by resident  
14 taxpayers who are on active military duty and  
15 serving in the United States Army, Navy, Air  
16 Force, or Marine Corps outside the State pursuant  
17 to military orders."

18 SECTION 2. Statutory material to be repealed is bracketed  
19 and stricken. New statutory material is underscored.

20 SECTION 3. This Act shall take effect upon its approval  
21 and shall apply to taxable years beginning after December 31,  
22 2006.



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INTRODUCED BY:

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**Report Title:**

Taxable Income Exclusion; Military

**Description:**

Provides taxable income exclusion for military on active duty who are serving outside the State pursuant to orders.

