

JAN 16 2008

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# A BILL FOR AN ACT

RELATING TO INCOME TAX.

**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



1 any hospital, settlement, or place for the treatment  
2 of Hansen's disease;

3 (5) Except as otherwise expressly provided, payments made  
4 by the United States or this State, under an act of  
5 Congress or a law of this State, which by express  
6 provision or administrative regulation or  
7 interpretation are exempt from both the normal and  
8 surtaxes of the United States, even though not so  
9 exempted by the Internal Revenue Code itself;

10 (6) Any income expressly exempted or excluded from the  
11 measure of the tax imposed by this chapter by any  
12 other law of the State, it being the intent of this  
13 chapter not to repeal or supersede any express  
14 exemption or exclusion;

15 (7) Income received by each member of the reserve  
16 components of the Army, Navy, Air Force, Marine Corps,  
17 or Coast Guard of the United States of America, and  
18 the Hawaii national guard as compensation for  
19 performance of duty, equivalent to pay received for  
20 forty-eight drills (equivalent of twelve weekends) and  
21 fifteen days of annual duty, at an:



- 1 (A) E-1 pay grade after eight years of service;  
2 provided that this subparagraph shall apply to  
3 taxable years beginning after December 31, 2004;
- 4 (B) E-2 pay grade after eight years of service;  
5 provided that this subparagraph shall apply to  
6 taxable years beginning after December 31, 2005;
- 7 (C) E-3 pay grade after eight years of service;  
8 provided that this subparagraph shall apply to  
9 taxable years beginning after December 31, 2006;
- 10 (D) E-4 pay grade after eight years of service;  
11 provided that this subparagraph shall apply to  
12 taxable years beginning after December 31, 2007;  
13 and
- 14 (E) E-5 pay grade after eight years of service;  
15 provided that this subparagraph shall apply to  
16 taxable years beginning after December 31, 2008;
- 17 (8) Income derived from the operation of ships or aircraft  
18 if the income is exempt under the Internal Revenue  
19 Code pursuant to the provisions of an income tax  
20 treaty or agreement entered into by and between the  
21 United States and a foreign country; provided that the  
22 tax laws of the local governments of that country



1 reciprocally exempt from the application of all of  
2 their net income taxes, the income derived from the  
3 operation of ships or aircraft that are documented or  
4 registered under the laws of the United States;

5 (9) The value of legal services provided by a prepaid  
6 legal service plan to a taxpayer, the taxpayer's  
7 spouse, and the taxpayer's dependents;

8 (10) Amounts paid, directly or indirectly, by a prepaid  
9 legal service plan to a taxpayer as payment or  
10 reimbursement for the provision of legal services to  
11 the taxpayer, the taxpayer's spouse, and the  
12 taxpayer's dependents;

13 (11) Contributions by an employer to a prepaid legal  
14 service plan for compensation (through insurance or  
15 otherwise) to the employer's employees for the costs  
16 of legal services incurred by the employer's  
17 employees, their spouses, and their dependents;

18 (12) Amounts received in the form of a monthly surcharge by  
19 a utility acting on behalf of an affected utility  
20 under section 269-16.3 shall not be gross income,  
21 adjusted gross income, or taxable income for the  
22 acting utility under this chapter. Any amounts



1 retained by the acting utility for collection or other  
2 costs shall not be included in this exemption; and

3 (13) One hundred per cent of the gain realized by a fee  
4 simple owner from the sale of [a]:

5 (A) A leased fee interest in units within a  
6 condominium project, cooperative project, or  
7 planned unit development to the association of  
8 apartment owners or the residential cooperative  
9 corporation of the leasehold units[~~-~~]; or

10 (B) A leased fee interest in property zoned for  
11 industrial or commercial use to the lessee of the  
12 leased property.

13 For purposes of this paragraph:

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

17 "Legal and equitable owner", and "leased fee  
18 interest" shall have the same meanings as provided  
19 under section 516-1; and

20 "Condominium project" and "cooperative project"  
21 shall have the same meanings as provided under section  
22 514C-1."



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

3 SECTION 3. This Act shall take effect upon its approval,  
4 and shall apply to taxable years beginning after December 31,  
5 2008, and ending prior to January 1, 2013; provided that on  
6 January 1, 2013, this Act shall be repealed and section  
7 237-7(a), Hawaii Revised Statutes, shall be reenacted in the  
8 form in which it read on the day prior to the effective date of  
9 this Act.

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INTRODUCED BY: *Shianne Chun Oallan*



**Report Title:**

Income Tax; Leasehold Conversion

**Description:**

Excludes from gross income the gain realized by a fee simple owner of industrial and commercial properties from the sale of leased fee to a lessee.

