

JAN 18 2008

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



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 leased fee interest in
5 units within a condominium project, cooperative
6 project, or planned unit development to the
7 association of apartment owners or the residential
8 cooperative corporation of the leasehold units.

9 For purposes of this paragraph:

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

13 "Legal and equitable owner", and "leased fee
14 interest" shall have the same meanings as provided
15 under section 516-1; and

16 "Condominium project" and "cooperative project"
17 shall have the same meanings as provided under section
18 514C-1[~~-~~]; and

19 (14) The first \$50,000 of compensation received from
20 deferred compensation retirement plans, including
21 individual retirement accounts, and those established
22 under section 401K or 403(b) of the Internal Revenue



1 Code, or any other retirement plan that defers
2 compensation."

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 Statutory material to be repealed is bracketed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

5 SECTION 3. This Act shall take effect upon its approval
6 and shall apply to taxable years beginning after December 31,
7 2007; provided that the amendments made to section 235-7(a),
8 Hawaii Revised Statutes, by section 2 of this Act shall not be
9 repealed on January 1, 2013, pursuant to section 3 of Act 166,
10 Session Laws of Hawaii 2007.

11

INTRODUCED BY: Mike Gabbard
Keiichi Iwano
Carol Fukunaga
Arvid Joly
Jim
Erzanne Chun Oakland
S.S.T.
Clerena K. Iwihiko



Report Title:

Deferred Compensation Retirement Plans; Income Tax Exclusion

Description:

Excludes the first \$50,000 in deferred income retirement plans from state income taxes.

