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## A BILL FOR AN ACT

RELATING TO TAXABLE INCOME EXCLUSIONS.

**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 taxes  
6           and 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 owners under chapter 514A or 514B, or  
6                   the residential cooperative corporation of the  
7                   leasehold units.

8           For purposes of this paragraph:

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

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

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

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



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 apply to taxable years beginning after December 31, 2008;  
5 provided that the amendment made to section 235-7(a), Hawaii  
6 Revised Statutes, by this Act shall not be repealed when that  
7 section is reenacted on January 1, 2013 by Act 166, Session Laws  
8 of Hawaii 2007.

9

INTRODUCED BY:

 BIR

JAN 23 2009



**Report Title:**

Taxable Income Exclusions; Military

**Description:**

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

