
A BILL FOR AN ACT

RELATING TO TAXATION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

PART I

SECTION 1. Section 235-7, Hawaii Revised Statutes, is amended to read as follows:

"§235-7 Other provisions as to gross income, adjusted gross income, and taxable income. (a) There shall be excluded from gross income, adjusted gross income, and taxable income:

(1) Income not subject to taxation by the State under the Constitution and laws of the United States;

(2) Rights, benefits, and other income exempted from taxation by section 88-91, having to do with the state retirement system, and the rights, benefits, and other income, comparable to the rights, benefits, and other income exempted by section 88-91, under any other public retirement system;

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

(4) Compensation paid to a patient affected with Hansen's 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 owners under chapter 514A or 514B, or
8 the residential cooperative corporation of the
9 leasehold units.

10 For purposes of this paragraph:

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

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

17 "Condominium project" and "cooperative project"
18 shall have the same meanings as provided under section 514C-1.

19 (b) There shall be included in gross income, adjusted
20 gross income, and taxable income: (1) unless excluded by this
21 chapter relating to the uniformed services of the United States,
22 cost-of-living allowances and other payments exempted by section



1 912 of the Internal Revenue Code, but section 119 of the
2 Internal Revenue Code nevertheless shall apply; (2) unless
3 expressly exempted or excluded as provided by subsection (a) (6),
4 interest on the obligations of a State or a political
5 subdivision thereof.

6 (c) The deductions of or based on dividends paid or
7 received, allowed to a corporation under chapter 1, subchapter
8 B, Part VIII of the Internal Revenue Code, shall not be allowed.
9 In lieu thereof there shall be allowed as a deduction the entire
10 amount of dividends received by any corporation upon the shares
11 of stock of a national banking association, qualifying
12 dividends, as defined in section 243(b) of the Internal Revenue
13 Code, received by members of an affiliated group, or dividends
14 received by a small business investment company operating under
15 the Small Business Investment Act of 1958 (Public Law 85-699)
16 upon shares of stock qualifying under paragraph (3), seventy per
17 cent of the amount received by any corporation as dividends:

18 (1) Upon the shares of stock of another corporation, if at
19 the date of payment of the dividend at least ninety-
20 five per cent of the other corporation's capital stock
21 is owned by one or more corporations doing business in
22 this State and if the other corporation is subjected



1 to an income tax in another jurisdiction (but
2 subsection to federal tax does not constitute
3 subsection to income tax in another jurisdiction);

4 (2) Upon the shares of stock of a bank or insurance
5 company organized and doing business under the laws of
6 the State;

7 (3) Upon the shares of stock of another corporation, if at
8 least fifteen per cent of the latter corporation's
9 business, for the taxable year of the latter
10 corporation preceding the payment of the dividend, has
11 been attributed to this State.

12 However, except for national bank dividends, the deductions
13 under this subsection are not allowed when they would not have
14 been allowed under section 243 of the Internal Revenue Code, as
15 amended by Public Law 85-866, by reason of subsections (b) and
16 (c) of section 246 of the Internal Revenue Code. For the
17 purposes of this subsection fifteen per cent of a corporation's
18 business shall be deemed to have been attributed to this State
19 if fifteen per cent or more of the entire gross income of the
20 corporation as defined in this chapter (which for the purposes
21 of this subsection shall be computed without regard to source in
22 the State and shall include income not taxable by reason of the



1 fact that it is from property not owned in the State or from a
2 trade or business not carried on in the State in whole or in
3 part), under section 235-5 and the other provisions of this
4 chapter, shall have been attributed to the State and subjected
5 to assessment of the taxable income therefrom (including the
6 determination of the resulting net loss, if any).

7 (d) (1) For taxable years ending before January 1, 1967,
8 the net operating loss deductions allowed as
9 carrybacks and carryovers by the Internal Revenue Code
10 shall not be allowed. In lieu thereof the net
11 operating loss deduction shall consist of the excess
12 of the deductions allowed by this chapter over the
13 gross income, computed with the modifications
14 specified in paragraphs (1) to (4) of section 172(d)
15 of the Internal Revenue Code, and with the further
16 modification stated in paragraph (3) hereof; and shall
17 be allowed as a deduction in computing the taxable
18 income of the taxpayer for the succeeding taxable
19 year;

20 (2) (A) With respect to net operating loss deductions
21 resulting from net operating losses for taxable
22 years ending after December 31, 1966, the net



1 operating loss deduction provisions of the
2 Internal Revenue Code shall apply; provided that
3 there shall be no net operating loss deduction
4 carried back to any taxable year ending prior to
5 January 1, 1967;

6 (B) In the case of a taxable year beginning in 1966
7 and ending in 1967, the entire amount of all net
8 operating loss deductions carried back to the
9 taxable year shall be limited to that portion of
10 taxable income for such taxable year which the
11 number of days in 1967 bears to the total days in
12 the taxable year ending in 1967; and

13 (C) The computation of any net operating loss
14 deduction for a taxable year covered by this
15 subsection shall require the further
16 modifications stated in paragraphs (3), (4), and
17 (5) of this subsection;

18 (3) In computing the net operating loss deduction allowed
19 by this subsection, there shall be included in gross
20 income the amount of interest which is excluded from
21 gross income by subsection (a), decreased by the
22 amount of interest paid or accrued which is disallowed



1 as a deduction by subsection (e). In determining the
2 amount of the net operating loss deduction under this
3 subsection of any corporation, there shall be
4 disregarded the net operating loss of such corporation
5 for any taxable year for which the corporation is an
6 electing small business corporation;

7 (4) No net operating loss carryback or carryover shall be
8 allowed by this chapter if not allowed under section
9 172 of the Internal Revenue Code;

10 (5) The election to relinquish the entire carryback period
11 with respect to a net operating loss allowed under
12 section 172(b)(3)(C) of the Internal Revenue Code
13 shall be operative for the purposes of this chapter;
14 provided that no taxpayer shall make such an election
15 as to a net operating loss of a business where such
16 net operating loss occurred in the taxpayer's business
17 prior to the taxpayer entering business in this State;
18 and

19 (6) The five-year carryback period for net operating
20 losses for any taxable year ending during 2001 and
21 2002 in section 172(b)(1)(H) of the Internal Revenue



1 Code shall not be operative for purposes of this
2 chapter.

3 (e) There shall be disallowed as a deduction the amount of
4 interest paid or accrued within the taxable year on indebtedness
5 incurred or continued, (1) to purchase or carry bonds the
6 interest upon which is excluded from gross income by subsection
7 (a); or (2) to purchase or carry property owned without the
8 State, or to carry on trade or business without the State, if
9 the taxpayer is a person taxable only upon income from sources
10 in the State.

11 (f) Losses of property as the result of tidal wave,
12 hurricane, earthquake, or volcanic eruption, or as a result of
13 flood waters overflowing the banks or walls of a river or
14 stream, or from any other natural disaster, to the extent of the
15 amount deductible, under this chapter, not compensated for by
16 insurance or otherwise, may be deducted in the taxable year in
17 which sustained, or at the option of the taxpayer may be
18 deducted in equal installments over a period of five years, the
19 first such year to be the calendar year or fiscal year of the
20 taxpayer in which such loss occurred.

21 ~~[(g) In computing taxable income there shall be allowed as~~
22 ~~a deduction:~~



1 ~~(1) Political contributions by any taxpayer not in excess~~
2 ~~of \$250 in any year; provided that such contributions~~
3 ~~are made to a central or county committee of a~~
4 ~~political party whose candidates shall have qualified~~
5 ~~by law to be voted for at the immediately previous~~
6 ~~general election; or~~

7 ~~(2) Political contributions by any individual taxpayer in~~
8 ~~an aggregate amount not to exceed \$1,000 in any year;~~
9 ~~provided that such contributions are made to~~
10 ~~candidates as defined in section 11-191, who have~~
11 ~~agreed to abide by the campaign expenditure limits as~~
12 ~~set forth in section 11-209; and provided further that~~
13 ~~not more than \$250 of an individual's total~~
14 ~~contribution to any single candidate shall be~~
15 ~~deductible for purposes of this section.]"~~

16 SECTION 2. Section 11-226, Hawaii Revised Statutes, is
17 repealed.

18 ~~["§11-226 Tax deductions. (a) As a condition of allowing~~
19 ~~an individual to take a tax deduction for campaign contributions~~
20 ~~to a candidate pursuant to section 235-7(g)(2), a candidate~~
21 ~~shall have filed an affidavit with the commission prior to or~~
22 ~~simultaneous with the filing of the candidate's organizational~~



1 ~~report stating that the candidate shall not exceed the~~
2 ~~expenditure limit for the candidate's respective office as set~~
3 ~~forth in section 11-209.~~

4 ~~(b) The affidavit shall remain effective until the~~
5 ~~termination of the central committee of the candidate or the~~
6 ~~opening of filing for the next succeeding election for the~~
7 ~~office held or sought at the time of filing of the affidavit~~
8 ~~whichever occurs first. An affidavit filed under this section~~
9 ~~may not be rescinded.~~

10 ~~(c) The director of taxation shall not allow any~~
11 ~~individual or married couple filing jointly to take a deduction~~
12 ~~against any tax due, pursuant to section 235-7(g)(2), for any~~
13 ~~contribution to a candidate for statewide or county office, who~~
14 ~~has not filed an affidavit as provided in this section.~~

15 ~~(d) The commission shall forward a certified copy of any~~
16 ~~affidavit filed under this section to the director of taxation.~~

17 ~~(e) The director of taxation shall only allow an~~
18 ~~individual or married couple filing jointly to take an income~~
19 ~~tax deduction, pursuant to section 235-7(g)(2), for any~~
20 ~~contribution to a candidate for a statewide or county office, if~~
21 ~~a receipt is attached to the state income tax return. Canceled~~



1 ~~checks or copies of the same shall be considered adequate~~
2 ~~receipt forms.~~

3 ~~(f) If a candidate has not filed an affidavit pursuant to~~
4 ~~this section, the candidate shall inform all contributors to the~~
5 ~~candidate's campaign in writing immediately upon receipt of the~~
6 ~~contribution that they are not entitled to count their~~
7 ~~contributions to the candidate for purposes of taking a tax~~
8 ~~deduction under this section."]~~

9 **PART II**

10 SECTION 3. Section 245-3, Hawaii Revised Statutes, is
11 amended by amending subsection (a) to read as follows:

12 "(a) Every wholesaler or dealer, in addition to any other
13 taxes provided by law, shall pay for the privilege of conducting
14 business and other activities in the State:

15 (1) An excise tax equal to 5.00 cents for each cigarette
16 sold, used, or possessed by a wholesaler or dealer
17 after June 30, 1998, whether or not sold at wholesale,
18 or if not sold then at the same rate upon the use by
19 the wholesaler or dealer;

20 (2) An excise tax equal to 6.00 cents for each cigarette
21 sold, used, or possessed by a wholesaler or dealer
22 after September 30, 2002, whether or not sold at



- 1 wholesale, or if not sold then at the same rate upon
2 the use by the wholesaler or dealer;
- 3 (3) An excise tax equal to 6.50 cents for each cigarette
4 sold, used, or possessed by a wholesaler or dealer
5 after June 30, 2003, whether or not sold at wholesale,
6 or if not sold then at the same rate upon the use by
7 the wholesaler or dealer;
- 8 (4) An excise tax equal to 7.00 cents for each cigarette
9 sold, used, or possessed by a wholesaler or dealer
10 after June 30, 2004, whether or not sold at wholesale,
11 or if not sold then at the same rate upon the use by
12 the wholesaler or dealer;
- 13 (5) An excise tax equal to 8.00 cents for each cigarette
14 sold, used, or possessed by a wholesaler or dealer on
15 and after September 30, 2006, whether or not sold at
16 wholesale, or if not sold then at the same rate upon
17 the use by the wholesaler or dealer;
- 18 (6) An excise tax equal to 9.00 cents for each cigarette
19 sold, used, or possessed by a wholesaler or dealer on
20 and after September 30, 2007, whether or not sold at
21 wholesale, or if not sold then at the same rate upon
22 the use by the wholesaler or dealer;



- 1 (7) An excise tax equal to 10.00 cents for each cigarette
2 sold, used, or possessed by a wholesaler or dealer on
3 and after September 30, 2008, whether or not sold at
4 wholesale, or if not sold then at the same rate upon
5 the use by the wholesaler or dealer;
- 6 (8) An excise tax equal to 13.00 cents for each cigarette
7 sold, used, or possessed by a wholesaler or dealer on
8 and after July 1, 2009, whether or not sold at
9 wholesale, or if not sold then at the same rate upon
10 the use by the wholesaler or dealer;
- 11 (9) An excise tax equal to 11.00 cents for each little
12 cigar sold, used, or possessed by a wholesaler or
13 dealer on and after October 1, 2009, whether or not
14 sold at wholesale, or if not sold then at the same
15 rate upon the use by the wholesaler or dealer;
- 16 (10) An excise tax equal to [~~14.00~~] 15.00 cents for each
17 cigarette or little cigar sold, used, or possessed by
18 a wholesaler or dealer on and after July 1, 2010,
19 whether or not sold at wholesale, or if not sold then
20 at the same rate upon the use by the wholesaler or
21 dealer;



- 1 (11) An excise tax equal to [~~15.00~~] 16.00 cents for each
2 cigarette or little cigar sold, used, or possessed by
3 a wholesaler or dealer on and after July 1, 2011,
4 whether or not sold at wholesale, or if not sold then
5 at the same rate upon the use by the wholesaler or
6 dealer;
- 7 (12) Except as provided in paragraph (13), an excise tax
8 equal to seventy per cent of the wholesale price of
9 each article or item of tobacco products sold by the
10 wholesaler or dealer on and after September 30, 2009,
11 whether or not sold at wholesale, or if not sold then
12 at the same rate upon the use by the wholesaler or
13 dealer; and
- 14 (13) An excise tax equal to fifty per cent of the wholesale
15 price of each cigar with a ring gauge of thirty or
16 more (.467 inches in diameter or more), of any length,
17 sold, used, or possessed by a wholesaler or dealer on
18 and after September 30, 2009, whether or not sold at
19 wholesale, or if not sold then at the same rate upon
20 the use by the wholesaler or dealer.

21 Where the tax imposed has been paid on cigarettes, little
22 cigars, or tobacco products that thereafter become the subject



1 of a casualty loss deduction allowable under chapter 235, the
2 tax paid shall be refunded or credited to the account of the
3 wholesaler or dealer. The tax shall be applied to cigarettes
4 through the use of stamps."

5 **PART III**

6 SECTION 4. Section 431:7-101, Hawaii Revised Statutes, is
7 amended to read as follows:

8 1. By amending subsections (a) and (b) to read:

9 "(a) The commissioner shall collect in advance the
10 following fees:

11 (1) Certificate of authority: Issuance..... [~~\$900~~]
12 \$1,800

13 (2) Organization of domestic insurers and affiliated
14 corporations:

15 (A) Application and all other papers required for
16 issuance of solicitation permit,
17 filing..... [~~\$1,500~~]
18 \$3,000

19 (B) Issuance of solicitation permit..... [~~\$150~~]
20 \$300

21 (3) Producer's license:



- 1 (A) Issuance, regular license.....[\$50]
- 2 \$100
- 3 (B) Issuance, temporary license.....[\$50]
- 4 \$100
- 5 (4) Nonresident producer's license:
- 6 Issuance.....[\$75]
- 7 \$150
- 8 (5) Independent adjuster's license: Issuance....[\$75]
- 9 \$150
- 10 (6) Public adjuster's license: Issuance..... [\$75]
- 11 \$150
- 12 (7) Workers' compensation claim adjuster's limited
- 13 license: Issuance.....[\$75]
- 14 \$150
- 15 (8) Independent bill reviewer's license:
- 16 Issuance.....[~~\$80~~]
- 17 \$160
- 18 (9) Limited producer's license: Issuance.....[~~\$60~~]
- 19 \$120
- 20 (10) Managing general agent's license: Issuance..[\$75]
- 21 \$150
- 22 (11) Reinsurance intermediary's license:



1		Issuance.....	[\$75]	<u>\$150</u>
2	(12)	Surplus lines broker's license: Issuance..	[\$150]	<u>\$300</u>
3	(13)	Service contract provider's registration:		
4		Issuance.....	[\$75]	<u>\$150</u>
5	(14)	Approved course provider certificate:		
6		Issuance.....	[\$100]	<u>\$200</u>
7	(15)	Approved continuing education course certificate:		
8		Issuance.....	[\$30]	<u>\$60</u>
9	(16)	Vehicle protection product warrantor's registration:		
10		Issuance.....	[\$75]	<u>\$150</u>
11	(17)	Criminal history record check; fingerprinting: For		
12		each criminal history record check and fingerprinting		
13		check, a fee to be established by the commissioner.		
14	(18)	Limited line motor vehicle rental company producer's		
15		license: Issuance.....	[\$1,000]	
16		<u>\$2,000</u>		
17	(19)	Life settlement contract provider's license:		
18		Issuance.....	[\$75]	<u>\$150</u>
19	(20)	Life settlement contract broker's license:		
20		Issuance.....	[\$75]	<u>\$150</u>
21	(21)	Examination for license: For each examination, a fee		
22		to be established by the commissioner.		



1 (b) The fees for services of the department of commerce
2 and consumer affairs subsequent to the issuance of a certificate
3 of authority, license, or other certificate are as follows:

4 (1) [~~\$600~~] \$1,200 per year for all services (including
5 extension of the certificate of authority) for an
6 authorized insurer;

7 (2) [~~\$50~~] \$100 per year for all services (including
8 extension of the license) for a regularly licensed
9 producer;

10 (3) [~~\$75~~] \$150 per year for all services (including
11 extension of the license) for a regularly licensed
12 nonresident producer;

13 (4) [~~\$45~~] \$90 per year for all services (including
14 extension of the license) for a regularly licensed
15 independent adjuster;

16 (5) [~~\$45~~] \$90 per year for all services (including
17 extension of the license) for a regularly licensed
18 public adjuster;

19 (6) [~~\$45~~] \$90 per year for all services (including
20 extension of the license) for a workers' compensation
21 claims adjuster's limited license;



- 1 (7) [~~\$60~~] \$120 per year for all services (including
2 extension of the license) for a regularly licensed
3 independent bill reviewer;
- 4 (8) [~~\$45~~] \$90 per year for all services (including
5 extension of the license) for a producer's limited
6 license;
- 7 (9) [~~\$75~~] \$150 per year for all services (including
8 extension of the license) for a regularly licensed
9 managing general agent;
- 10 (10) [~~\$75~~] \$150 per year for all services (including
11 extension of the license) for a regularly licensed
12 reinsurance intermediary;
- 13 (11) [~~\$45~~] \$90 per year for all services (including
14 extension of the license) for a licensed surplus lines
15 broker;
- 16 (12) [~~\$75~~] \$150 per year for all services (including
17 renewal of registration) for a service contract
18 provider;
- 19 (13) [~~\$65~~] \$130 per year for all services (including
20 extension of the certificate) for an approved course
21 provider;



- 1 (14) [~~\$20~~] \$40 per year for all services (including
2 extension of the certificate) for an approved
3 continuing education course;
- 4 (15) [~~\$75~~] \$150 per year for all services (including
5 renewal of registration) for a vehicle protection
6 product warrantor;
- 7 (16) [~~\$20~~] \$40 for a criminal history record check;
- 8 (17) [~~\$600~~] \$1,200 per year for all services (including
9 extension of the license) for a regularly licensed
10 limited line motor vehicle rental company producer;
- 11 (18) [~~\$75~~] \$150 per year for all services (including
12 extension of the license) for a regularly licensed
13 life settlement contract provider; and
- 14 (19) [~~\$75~~] \$150 per year for all services (including
15 extension of the license) for a regularly licensed
16 life settlement contract broker.

17 The services referred to in paragraphs (1) to (19) shall
18 not include services in connection with examinations,
19 investigations, hearings, appeals, and deposits with a
20 depository other than the department of commerce and consumer
21 affairs."

22 2. By amending subsection (e) to read as follows:



1 reenacted on January 1, 2013, pursuant to Act 166,
2 Session Laws of Hawaii 2007;
3 (2) Part II shall be effective on July 1, 2010; and
4 (3) The amendments made to section 431:7-101, Hawaii
5 Revised Statutes, under section 4 of this Act:
6 (A) Shall not be repealed when that section is
7 reenacted on June 16, 2010, pursuant to Act 11,
8 Session Laws of Hawaii 2009; and
9 (B) Shall be repealed on July 1, 2013; provided that
10 section 431:7-101, Hawaii Revised Statutes, shall
11 be reenacted in the form in which it read on the
12 day before the effective date of this Act.



Report Title:

Taxation; Political Contribution; Insurance Fees

Description:

Repeals the deduction from taxable income for amounts given as political contributions effective 1/1/2011; increases the tax on cigarettes and little cigars by one cent for sales on or after July 1, 2010; and temporarily increases insurance producer license fees and specifies that the increased fees be deposited equally into the compliance resolution fund and the general fund as an insurance license and service tax. Effective 1/1/2050.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

