
A BILL FOR AN ACT

RELATING TO TAX DEDUCTIONS.

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

1 SECTION 1. Section 235-2.4, Hawaii Revised Statutes, is
2 amended to read as follows:

3 "**§235-2.4 Operation of certain Internal Revenue Code**
4 **provisions; sections 63 to 530.** (a) Section 63 (with respect
5 to taxable income defined) of the Internal Revenue Code shall be
6 operative for the purposes of this chapter, except that the
7 standard deduction amount in section 63(c) of the Internal
8 Revenue Code shall instead mean:

9 (1) \$4,000 in the case of:

10 (A) A joint return as provided by section 235-93; or

11 (B) A surviving spouse (as defined in section 2(a) of
12 the Internal Revenue Code);

13 (2) \$2,920 in the case of a head of household (as defined
14 in section 2(b) of the Internal Revenue Code);

15 (3) \$2,000 in the case of an individual who is not married
16 and who is not a surviving spouse or head of
17 household; or



1 (4) \$2,000 in the case of a married individual filing a
2 separate return.

3 Section 63(c)(4) shall not be operative in this State.

4 Section 63(c)(5) shall be operative, except that the limitation
5 on basic standard deduction in the case of certain dependents
6 shall be the greater of \$500 or such individual's earned income.

7 Section 63(f) shall not be operative in this State.

8 The standard deduction amount for nonresidents shall be
9 calculated pursuant to section 235-5.

10 (b) Section 68 (with respect to overall limitation on tax
11 deductions) of the Internal Revenue Code shall be operative for
12 the purposes of this chapter, except that the applicable amount
13 in section 68(b)(1) shall be \$35,000 for a single filer, \$60,000
14 for a head of household filer, and \$70,000 for joint filers.

15 [~~b~~] (c) Section 72 (with respect to annuities; certain
16 proceeds of endowment and life insurance contracts) of the
17 Internal Revenue Code shall be operative for purposes of this
18 chapter and be interpreted with due regard to section 235-7(a),
19 except that the ten per cent additional tax on early
20 distributions from retirement plans in section 72(t) shall not
21 be operative for purposes of this chapter.



1 ~~[(e)]~~ (d) Section 121 (with respect to exclusion of gain
2 from sale of principal residence) of the Internal Revenue Code
3 shall be operative for purposes of this chapter, except that for
4 the election under section 121(f), a reference to section 1034
5 treatment means a reference to section 235-2.4(n) in effect for
6 taxable year 1997.

7 ~~[(d)]~~ (e) Section 163 (with respect to interest) of the
8 Internal Revenue Code shall be operative for the purposes of
9 this chapter, except that provisions in section 163(d)(4)(B)
10 (defining net investment income to exclude dividends) shall not
11 be operative for the purposes of this chapter.

12 ~~[(e)]~~ (f) Section 165 (with respect to losses) of the
13 Internal Revenue Code shall be operative for purposes of this
14 chapter. Section 165 as operative for this chapter shall also
15 apply to losses sustained from the sale of stocks or other
16 interests issued through the exercise of the stock options or
17 warrants granted by a qualified high technology business as
18 defined in section 235-7.3.

19 ~~[(f)]~~ (g) Section 168 (with respect to the accelerated
20 cost recovery system) of the Internal Revenue Code shall be
21 operative for purposes of this chapter, except that provisions
22 relating to property on Indian reservations in section 168(j)



1 and special allowance for certain property acquired after
2 September 10, 2001, and before January 1, 2005 (including the
3 extension of the qualifying aircraft placed in service before
4 January 1, 2006), in section 168(k) shall not be operative for
5 purposes of this chapter.

6 [~~g~~] (h) Section 179 (with respect to the election to
7 expense certain depreciable business assets) of the Internal
8 Revenue Code shall be operative for purposes of this chapter,
9 except that provisions relating to:

- 10 (1) The increase of the maximum deduction to \$100,000 for
11 taxable years beginning after 2002 and before 2008,
12 and the increase of the maximum deduction to \$125,000
13 for taxable years beginning after 2006 and before
14 2011, in section 179(b)(1);
- 15 (2) The increase of the qualifying investment amount to
16 \$400,000 for taxable years beginning after 2002 and
17 before 2008, and the increase of the qualifying
18 investment amount to \$500,000 for taxable years
19 beginning after 2006 and before 2011, in section
20 179(b)(2);
- 21 (3) Defining section 179 property to include computer
22 software in section 179(d)(1);



1 (4) Inflation adjustments in section 179(b)(5); and

2 (5) Irrevocable election in section 179(c)(2);

3 shall not be operative for the purposes of this chapter.

4 [~~(h)~~] (i) Section 219 (with respect to retirement savings)
5 of the Internal Revenue Code shall be operative for the purpose
6 of this chapter. For the purpose of computing the limitation on
7 the deduction for active participants in certain pension plans
8 for state income tax purposes, adjusted gross income as used in
9 section 219 as operative for this chapter means federal adjusted
10 gross income.

11 [~~(i)~~] (j) Section 220 (with respect to medical savings
12 accounts) of the Internal Revenue Code shall be operative for
13 the purpose of this chapter, but only with respect to medical
14 services accounts that have been approved by the Secretary of
15 the Treasury of the United States.

16 [~~(j)~~] (k) Section 265 (with respect to expenses and
17 interest relating to tax-exempt income) of the Internal Revenue
18 Code shall be operative for purposes of this chapter; except
19 that it shall not apply to expenses for royalties and other
20 income derived from any patents, copyrights, and trade secrets
21 by an individual or a qualified high technology business as
22 defined in section 235-7.3. Such expenses shall be deductible.



1 ~~[(k)]~~ (l) Section 408A (with respect to Roth Individual
2 Retirement Accounts) of the Internal Revenue Code shall be
3 operative for the purposes of this chapter. For the purposes of
4 determining the aggregate amount of contributions to a Roth
5 Individual Retirement Account or qualified rollover contribution
6 to a Roth Individual Retirement Account from an individual
7 retirement plan other than a Roth Individual Retirement Account,
8 adjusted gross income as used in section 408A as operative for
9 this chapter means federal adjusted gross income.

10 ~~[(l)]~~ (m) In administering the provisions of sections 410
11 to 417 (with respect to special rules relating to pensions,
12 profit sharing, stock bonus plans, etc.), sections 418 to 418E
13 (with respect to special rules for multiemployer plans), and
14 sections 419 and 419A (with respect to treatment of welfare
15 benefit funds) of the Internal Revenue Code, the department of
16 taxation shall adopt rules under chapter 91 relating to the
17 specific requirements under such sections and to such other
18 administrative requirements under those sections as may be
19 necessary for the efficient administration of sections 410 to
20 419A.

21 In administering sections 401 to 419A (with respect to
22 deferred compensation) of the Internal Revenue Code, Public Law



1 93-406, section 1017(i), shall be operative for the purposes of
2 this chapter.

3 In administering section 402 (with respect to the
4 taxability of beneficiary of employees' trust) of the Internal
5 Revenue Code, the tax imposed on lump sum distributions by
6 section 402(e) of the Internal Revenue Code shall be operative
7 for the purposes of this chapter and the tax imposed therein is
8 hereby imposed by this chapter at the rate determined under this
9 chapter.

10 [~~m~~] (n) Section 468B (with respect to special rules for
11 designated settlement funds) of the Internal Revenue Code shall
12 be operative for the purposes of this chapter and the tax
13 imposed therein is hereby imposed by this chapter at a rate
14 equal to the maximum rate in effect for the taxable year imposed
15 on estates and trusts under section 235-51.

16 [~~n~~] (o) Section 469 (with respect to passive activities
17 and credits limited) of the Internal Revenue Code shall be
18 operative for the purposes of this chapter. For the purpose of
19 computing the offset for rental real estate activities for state
20 income tax purposes, adjusted gross income as used in section



1 469 as operative for this chapter means federal adjusted gross
2 income.

3 [~~o~~] (p) Sections 512 to 514 (with respect to taxation of
4 business income of certain exempt organizations) of the Internal
5 Revenue Code shall be operative for the purposes of this chapter
6 as provided in this subsection.

7 "Unrelated business taxable income" means the same as in
8 the Internal Revenue Code, except that in the computation
9 thereof sections 235-3 to 235-5, and 235-7 (except subsection
10 (c)), shall apply, and in the determination of the net operating
11 loss deduction there shall not be taken into account any amount
12 of income or deduction that is excluded in computing the
13 unrelated business taxable income. Unrelated business taxable
14 income shall not include any income from a prepaid legal service
15 plan.

16 For a person described in section 401 or 501 of the
17 Internal Revenue Code, as modified by section 235-2.3, the tax
18 imposed by section 235-51 or 235-71 shall be imposed upon the
19 person's unrelated business taxable income.

20 [~~p~~] (q) Section 521 (with respect to cooperatives) and
21 subchapter T (sections 1381 to 1388, with respect to
22 cooperatives and their patrons) of the Internal Revenue Code



1 shall be operative for the purposes of this chapter as to any
2 cooperative fully meeting the requirements of section 421-23,
3 except that Internal Revenue Code section 521 cooperatives need
4 not be organized in Hawaii.

5 ~~(q)~~ (r) Sections 527 (with respect to political
6 organizations) and 528 (with respect to certain homeowners
7 associations) of the Internal Revenue Code shall be operative
8 for the purposes of this chapter and the taxes imposed in each
9 such section are hereby imposed by this chapter at the rates
10 determined under section 235-71.

11 ~~(r)~~ (s) Section 529 (with respect to qualified tuition
12 programs) shall be operative for the purposes of this chapter,
13 except that section 529(c)(6) shall not be operative.

14 ~~(s)~~ (t) Section 530 (with respect to education
15 individual retirement accounts) of the Internal Revenue Code
16 shall be operative for the purposes of this chapter. For the
17 purpose of determining the maximum amount that a contributor
18 could make to an education individual retirement account for
19 state income tax purposes, modified adjusted gross income as
20 used in section 530 as operative for this chapter means federal
21 modified adjusted gross income as defined in section 530."

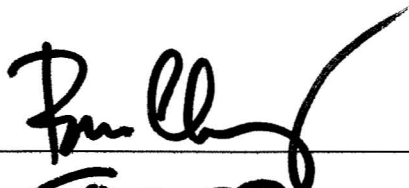



1 SECTION 2. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

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 this Act shall be repealed on June 30, 2015, and
6 section 235-2.4, Hawaii Revised Statutes, shall be reenacted in
7 the form in which it read on the day before the effective date
8 of this Act.

9

INTRODUCED BY:

JAN 28 2009



Report Title:

Tax Deduction; Overall Limitation

Description:

Generally adopts the overall limitation for tax deductions under the Internal Revenue Code.

