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PART II

SECTION 2. Chapter 235, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"§235- Taxation of pension income. For taxable years beginning after December 31, 2010, sections 88-91, 235-7(a)(2), and 235-7(a)(3) shall apply only to the first \$100,000 of a taxpayer's pension income."

SECTION 3. Section 88-91, Hawaii Revised Statutes, is amended to read as follows:

"§88-91 Exemption from taxation and execution. The right of a person to a pension, an annuity, or a retirement allowance, to the return of contributions, the pension, annuity, or retirement allowance itself, any optional benefit or death benefit, any other right accrued or accruing to any person under this part, and the moneys in the various funds created under this part are exempted from any tax of the State, subject to the limitations established in section 235- ; and, except as provided in section 88-92 [provided], shall not be subject to execution, garnishment, or any other process and shall be unassignable except as specifically provided in this part [specifically provided]."

1 SECTION 4. 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~~]
9 relating to the state retirement system, and the
10 rights, benefits, and other income[7] comparable to
11 the rights, benefits, and other income exempted by
12 section 88-91[7] under any other public retirement
13 system[7], subject to the limitations established in
14 section 235-_____;

15 (3) Any compensation received in the form of a pension for
16 past services[7], subject to the limitations
17 established in section 235-_____;

18 (4) Compensation paid to a patient affected with Hansen's
19 disease employed by the State or the United States in
20 any hospital, settlement, or place for the treatment
21 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~~] that by
4 express provision or administrative regulation or
5 interpretation are exempt from both the normal and
6 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 "Condominium project" and "cooperative project"
 10 shall have the same meanings as provided under section
 11 514C-1.

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

15 "Legal and equitable owner"[+] and "leased fee
 16 interest" shall have the same meanings as provided
 17 under section 516-1[+ and

18 ~~"Condominium project" and "cooperative project" shall~~
 19 ~~have the same meanings as provided under section 514C-~~
 20 ~~±]."~~



1 PART III

2 SECTION 5. Section 235-2.4, Hawaii Revised Statutes, is
3 amended by amending subsection (h) to read as follows:

4 "(h) Section 164 (with respect to taxes) of the Internal
5 Revenue Code shall be operative for the purposes of this
6 chapter, except that [sections]:

7 (1) Sections 164(a)(6) and 164(b)(6) shall not be
8 operative for the purposes of this chapter[-]; and

9 (2) The deductions under sections 164(a)(3) and 164(b)(5)
10 shall not be operative for corporate taxpayers and
11 shall be operative only for the following individual
12 taxpayers:

13 (A) A taxpayer filing a single return or a married
14 person filing separately with a federal adjusted
15 gross income of less than \$75,000;

16 (B) A taxpayer filing as a head of household with a
17 federal adjusted gross income of less than
18 \$112,500; and

19 (C) A taxpayer filing a joint return or as a
20 surviving spouse with a federal adjusted gross
21 income of less than \$150,000."



1 PART IV

2 SECTION 6. Statutory material to be repealed is bracketed
3 and stricken. New statutory material is underscored.

4 SECTION 7. This Act shall take effect on July 1, 2117, and
5 shall apply to taxable years beginning after December 31, 2010;
6 provided that the amendments made to section 235-7(a), Hawaii
7 Revised Statutes, by section 4 of this Act shall not be repealed
8 when that section is reenacted on January 1, 2013, by section 3
9 of Act 166, Session Laws of Hawaii 2007.



Report Title:

Taxation; Tax Improvement

Description:

Provides for the taxation of a taxpayer's pension income in excess of \$100,000. Makes the deduction for state taxes paid inoperative for corporate taxpayers and: (1) An individual filer with federal adjusted gross income of \$75,000 or more; (2) A head of household with federal adjusted gross income of \$112,500 or more; and (3) A joint or surviving spouse filer with federal adjusted gross income of \$150,000 or more. Effective 7/1/2117 and applicable to taxpayer years beginning after 12/31/2010. (SD2)

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

