
A BILL FOR AN ACT

RELATING TO UNEMPLOYMENT COMPENSATION.

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

1 SECTION 1. The legislature finds that unemployed persons
2 spend all or most of their unemployment compensation within the
3 State. The legislature also finds that the benefit of those
4 expenditures will be maximized by temporarily exempting
5 unemployment compensation from state income taxation.

6 The purpose of this Act is to promote economic
7 revitalization within the State by temporarily exempting, from
8 state income taxation, unemployment compensation received by
9 certain persons.

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

13 "§235- Unemployment compensation; exclusion. (a)
14 Except as otherwise provided under subsection (b), the gross
15 income, adjusted gross income, and taxable income of an
16 individual taxpayer during a taxable year shall exclude any
17 unemployment compensation received by the taxpayer during that
18 taxable year.



1 (b) The exclusion under subsection (a) shall not apply to
2 an individual taxpayer's gross income, adjusted gross income, or
3 taxable income during a taxable year in which:

4 (1) The individual taxpayer receives more than \$28,800 in
5 gross income from sources other than unemployment
6 compensation;

7 (2) The individual taxpayer's spouse receives more than
8 \$48,000 in gross income from sources other than
9 unemployment compensation, whether or not they file
10 individual returns or a joint return; or

11 (3) Both subsections (a) and (b) occur.

12 (c) For the purpose of this section, "unemployment
13 compensation" means the same as defined under section 85 of the
14 Internal Revenue Code.

15 (d) This section shall apply to taxable years beginning
16 after December 31, 2010, and shall end with the taxable year
17 beginning after December 31, 2014."

18 SECTION 3. Section 235-2.3, Hawaii Revised Statutes, is
19 amended by amending subsection (b) to read as follows:

20 "(b) The following Internal Revenue Code subchapters,
21 parts of subchapters, sections, subsections, and parts of



1 subsections shall not be operative for the purposes of this
2 chapter, unless otherwise provided:

3 (1) Subchapter A (Sections 1 to 59A) (with respect to
4 determination of tax liability), except Section
5 1(h)(2) (relating to net capital gain reduced by the
6 amount taken into account as investment income),
7 except Sections 2(a), 2(b), and 2(c) (with respect to
8 the definition of "surviving spouse" and "head of
9 household"), except Section 41 (with respect to the
10 credit for increasing research activities), except
11 Section 42 (with respect to low-income housing
12 credit), except Sections 47 and 48, as amended, as of
13 December 31, 1984 (with respect to certain depreciable
14 tangible personal property), and except Section
15 48(d)(3), as amended, as of February 17, 2009 (with
16 respect to the treatment of United States Department
17 of Treasury grants made under Section 1603 of the
18 American Recovery and Reinvestment Tax Act of 2009).
19 For treatment, see sections 235-110.91, 235-110.7, and
20 235-110.8;



- 1 (2) Section 78 (with respect to dividends received from
2 certain foreign corporations by domestic corporations
3 choosing foreign tax credit);
- 4 (3) Section 85 (with respect to unemployment
5 compensation), from the taxable year beginning after
6 December 31, 2010, and ending with the taxable year
7 beginning after December 31, 2014. For treatment, see
8 section 235- ;
- 9 ~~[(3)]~~ (4) Section 86 (with respect to social security and
10 tier 1 railroad retirement benefits);
- 11 ~~[(4)]~~ (5) Section 103 (with respect to interest on state
12 and local bonds). For treatment, see section 235-
13 7(b);
- 14 ~~[(5)]~~ (6) Section 114 (with respect to extraterritorial
15 income). For treatment, any transaction as specified
16 in the transitional rule for 2005 and 2006 as
17 specified in the American Jobs Creation Act of 2004
18 Section 101(d) and any transaction that has occurred
19 pursuant to a binding contract as specified in the
20 American Jobs Creation Act of 2004 Section 101(f) are
21 inoperative;



- 1 ~~[(6)]~~ (7) Section 120 (with respect to amounts received
2 under qualified group legal services plans). For
3 treatment, see section 235-7(a)(9) to (11);
- 4 ~~[(7)]~~ (8) Section 122 (with respect to certain reduced
5 uniformed services retirement pay). For treatment,
6 see section 235-7(a)(3);
- 7 ~~[(8)]~~ (9) Section 135 (with respect to income from United
8 States savings bonds used to pay higher education
9 tuition and fees). For treatment, see section 235-
10 7(a)(1);
- 11 ~~[(9)]~~ (10) Section 139C (with respect to COBRA premium
12 assistance);
- 13 ~~[(10)]~~ (11) Subchapter B (Sections 141 to 150) (with respect
14 to tax exemption requirements for state and local
15 bonds);
- 16 ~~[(11)]~~ (12) Section 151 (with respect to allowance of
17 deductions for personal exemptions). For treatment,
18 see section 235-54;
- 19 ~~[(12)]~~ (13) Section 179B (with respect to expensing of
20 capital costs incurred in complying with Environmental
21 Protection Agency sulphur regulations);



- 1 [~~(13)~~] (14) Section 181 (with respect to special rules for
2 certain film and television productions);
- 3 [~~(14)~~] (15) Section 196 (with respect to deduction for
4 certain unused investment credits);
- 5 [~~(15)~~] (16) Section 199 (with respect to the U.S. production
6 activities deduction);
- 7 [~~(16)~~] (17) Section 222 (with respect to qualified tuition
8 and related expenses);
- 9 [~~(17)~~] (18) Sections 241 to 247 (with respect to special
10 deductions for corporations). For treatment, see
11 section 235-7(c);
- 12 [~~(18)~~] (19) Section 280C (with respect to certain expenses
13 for which credits are allowable). For treatment, see
14 section 235-110.91;
- 15 [~~(19)~~] (20) Section 291 (with respect to special rules
16 relating to corporate preference items);
- 17 [~~(20)~~] (21) Section 367 (with respect to foreign
18 corporations);
- 19 [~~(21)~~] (22) Section 501(c)(12), (15), (16) (with respect to
20 exempt organizations);
- 21 [~~(22)~~] (23) Section 515 (with respect to taxes of foreign
22 countries and possessions of the United States);



- 1 [~~(23)~~] (24) Subchapter G (sections 531 to 565) (with respect
2 to corporations used to avoid income tax on
3 shareholders);
- 4 [~~(24)~~] (25) Subchapter H (sections 581 to 597) (with respect
5 to banking institutions), except Section 584 (with
6 respect to common trust funds). For treatment, see
7 chapter 241;
- 8 [~~(25)~~] (26) Section 642(a) and (b) (with respect to special
9 rules for credits and deductions applicable to
10 trusts). For treatment, see sections 235-54(b) and
11 235-55;
- 12 [~~(26)~~] (27) Section 646 (with respect to tax treatment of
13 electing Alaska Native settlement trusts);
- 14 [~~(27)~~] (28) Section 668 (with respect to interest charge on
15 accumulation distributions from foreign trusts);
- 16 [~~(28)~~] (29) Subchapter L (sections 801 to 848) (with respect
17 to insurance companies). For treatment, see sections
18 431:7-202 and 431:7-204;
- 19 [~~(29)~~] (30) Section 853 (with respect to foreign tax credit
20 allowed to shareholders). For treatment, see section
21 235-55;



- 1 ~~[(30)]~~ (31) Section 853A (with respect to credits from tax
2 credit bonds allowed to shareholders);
- 3 ~~[(31)]~~ (32) Subchapter N (Sections 861 to 999) (with respect
4 to tax based on income from sources within or without
5 the United States), except Sections 985 to 989 (with
6 respect to foreign currency transactions). For
7 treatment, see sections 235-4, 235-5, and 235-7(b),
8 and 235-55;
- 9 ~~[(32)]~~ (33) Section 1042(g) (with respect to sales of stock
10 in agricultural refiners and processors to eligible
11 farm cooperatives);
- 12 ~~[(33)]~~ (34) Section 1055 (with respect to redeemable ground
13 rents);
- 14 ~~[(34)]~~ (35) Section 1057 (with respect to election to treat
15 transfer to foreign trust, etc., as taxable exchange);
- 16 ~~[(35)]~~ (36) Sections 1291 to 1298 (with respect to treatment
17 of passive foreign investment companies);
- 18 ~~[(36)]~~ (37) Subchapter Q (sections 1311 to 1351) (with
19 respect to readjustment of tax between years and
20 special limitations);
- 21 ~~[(37)]~~ (38) Subchapter R (sections 1352 to 1359) (with
22 respect to election to determine corporate tax on



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1 certain international shipping activities using per
2 ton rate);

3 ~~[(38)]~~ (39) Subchapter U (Sections 1391 to 1397F) (with
4 respect to designation and treatment of empowerment
5 zones, enterprise communities, and rural development
6 investment areas). For treatment, see chapter 209E;

7 ~~[(39)]~~ (40) Subchapter W (Sections 1400 to 1400C) (with
8 respect to District of Columbia enterprise zone);

9 ~~[(40)]~~ (41) Section 14000 (with respect to education tax
10 benefits);

11 ~~[(41)]~~ (42) Section 1400P (with respect to housing tax
12 benefits);

13 ~~[(42)]~~ (43) Section 1400R (with respect to employment
14 relief);

15 ~~[(43)]~~ (44) Section 1400T (with respect to special rules for
16 mortgage revenue bonds);

17 ~~[(44)]~~ (45) Section 1400U-1 (with respect to allocation of
18 recovery zone bonds);

19 ~~[(45)]~~ (46) Section 1400U-2 (with respect to recovery zone
20 economic development bonds); and

21 ~~[(46)]~~ (47) Section 1400U-3 (with respect to recovery zone
22 facility bonds)."



1 SECTION 4. Section 235-2.4, Hawaii Revised Statutes, is
2 amended by amending subsection (c) to read as follows:

3 "(c) Section 85 (with respect to unemployment
4 compensation) of the Internal Revenue Code shall be operative
5 for purposes of this chapter, except that Section 85(c) shall
6 not be operative for purposes of this chapter~~[-]~~; provided that
7 from the taxable year beginning after December 31, 2010, and
8 ending with the taxable year beginning after December 31, 2014,
9 section 85 shall not be operative for the purposes of this
10 chapter."

11 SECTION 5. Section 383-163.6, Hawaii Revised Statutes, is
12 amended by amending the title and subsection (a) to read as
13 follows:

14 "[+]§383-163.6[+] **Voluntary deduction and withholding of**
15 **federal and state or local income taxes.** (a) An individual
16 filing a new claim for unemployment compensation [~~shall~~], at the
17 time of filing the claim, shall be advised that:

18 (1) Unemployment compensation is subject to federal [~~and~~
19 ~~state~~] income tax[+] and may be subject to state or
20 local income tax;

21 (2) Requirements exist pertaining to estimated tax
22 payments;



1 (3) The individual may elect to have federal income tax
2 deducted and withheld from the individual's payment of
3 unemployment compensation at the amount specified in
4 the federal Internal Revenue Code;

5 (4) The individual may elect to have state income tax
6 deducted and withheld from the individual's payment of
7 unemployment compensation at the amount specified in
8 section 235-69;

9 (5) The individual may elect to have state and local
10 income taxes deducted and withheld from the
11 individual's payment of unemployment compensation for
12 other states and localities outside this State at the
13 percentage established by the state or locality, if
14 the department by agreement with the other state or
15 locality is authorized to deduct and withhold income
16 tax; and

17 (6) The individual shall be permitted to change a
18 previously elected withholding status no more than
19 once during a benefit year."

20 SECTION 6. Statutory material to be repealed is bracketed
21 and stricken. New statutory material is underscored.



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1 SECTION 7. This Act, upon its approval, shall apply to
2 taxable years beginning after December 31, 2010.

3

INTRODUCED BY: *Calvin K. Ray*

JAN 21 2011



Report Title:

Unemployment Compensation; Income Tax Exemption

Description:

Temporarily exempts unemployment compensation from the Hawaii income tax for certain taxpayers.

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