
A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. The purpose of this Act is to impose the general
2 excise tax on the death benefit or other gross income derived
3 from life settlement, bank-owned life, and corporate-owned life
4 insurance policies.

5 SECTION 2. Chapter 237, Hawaii Revised Statutes, is amended
6 by adding a new section to be appropriately designated and to
7 read as follows:

8 "§237- Tax on gross income from life settlement
9 insurance, bank-owned life insurance, or corporate-owned life
10 insurance policy. (a) For the purpose of this section:

11 "Bank-owned life insurance policy" means a life insurance
12 policy owned by a bank or other financial institution, under
13 which an officer or employee of the bank or financial institution
14 is the insured at the time of purchase of the policy, but the
15 bank or financial institution is the beneficiary.

16 "Corporate-owned life insurance policy" means a life
17 insurance policy owned by a business entity, under which an
18 officer or employee of the business entity is the insured at the



1 time of purchase of the policy, but the business entity is the
2 beneficiary. For the purpose of this definition, "business
3 entity" means a sole proprietorship, for profit or nonprofit
4 corporation, partnership, limited liability corporation, limited
5 liability partnership, or other entity engaged in business or
6 provision of services as a nonprofit. The term includes the form
7 of insurance commonly known as "key person insurance".

8 "Gross income derived from a life settlement, bank-owned
9 life, or corporate-owned life insurance policy" means:

- 10 (1) The value of the death or other benefit paid upon the
11 passing of the insured to a person unrelated to the
12 insured under a life settlement, bank-owned life, or
13 corporate-owned life insurance policy; and
14 (2) Any compensation received by a person, other than the
15 insured, from the transfer of a life settlement, bank-
16 owned life, or corporate-owned life insurance policy to
17 another person.

18 "Life settlement insurance policy" means a life insurance
19 policy between an insurer and insured under which:

- 20 (1) A third party unrelated to the insured purchases, pays
21 for, or otherwise finances the purchase of the policy



1 for the insured, but the third party is designated as
2 the beneficiary;

3 (2) The insured purchases the policy with the insured's own
4 funds, but designates an unrelated third party as the
5 beneficiary in return for compensation from the third
6 party; or

7 (3) The insured transfers the policy to an unrelated third
8 party in return for compensation from the third party.

9 "Transfer" includes assignment, sale, gift, devise, or
10 bequest.

11 (b) Except as otherwise provided under subsection (c) or
12 (d), there is hereby levied, and shall be assessed and collected
13 annually, a general excise tax against the gross income derived
14 from a life settlement, bank-owned, or corporate-owned life
15 insurance policy by a person unrelated to the insured. The tax
16 shall be equal to four per cent of the gross income.

17 (c) In no instance shall the tax under this section be
18 levied, assessed, or collected on any gross income derived from a
19 life settlement, bank-owned life, or corporate-owned life
20 insurance policy issued before July 1, 2011.

21 (d) In no instance shall the tax under this section be
22 levied, assessed, or collected on:



- 1 (1) Any compensation received by the insured of a life
- 2 insurance policy for the transfer of the policy to
- 3 another person or designation of a beneficiary; or
- 4 (2) Any death benefit paid under a life insurance policy
- 5 upon the death of the insured to a person related to
- 6 the insured."

7 SECTION 3. Section 237-24, Hawaii Revised Statutes, is
 8 amended to read as follows:

9 "§237-24 Amounts not taxable. This chapter shall not apply
 10 to the following amounts:

11 (1) [Amounts] Except as otherwise provided under section
 12 237- , amounts received under life insurance policies
 13 and contracts paid by reason of the death of the
 14 insured;

15 (2) [Amounts] Except as otherwise provided under section
 16 237- , amounts received (other than amounts paid by
 17 reason of death of the insured) under life insurance,
 18 endowment, or annuity contracts, either during the term
 19 or at maturity or upon surrender of the contract;

20 (3) Amounts received under any accident insurance or health
 21 insurance policy or contract or under workers'
 22 compensation acts or employers' liability acts, as



1 compensation for personal injuries, death, or sickness,
2 including also the amount of any damages or other
3 compensation received, whether as a result of action or
4 by private agreement between the parties on account of
5 the personal injuries, death, or sickness;

6 (4) ~~[The]~~ Except as otherwise provided under section 237- ,
7 the value of all property of every kind and sort
8 acquired by gift, bequest, or devise, and the value of
9 all property acquired by descent or inheritance;

10 (5) Amounts received by any person as compensatory damages
11 for any tort injury to the person, or to the person's
12 character reputation, or received as compensatory
13 damages for any tort injury to or destruction of
14 property, whether as the result of action or by private
15 agreement between the parties (provided that amounts
16 received as punitive damages for tort injury or breach
17 of contract injury shall be included in gross income);

18 (6) Amounts received as salaries or wages for services
19 rendered by an employee to an employer;

20 (7) Amounts received as alimony and other similar payments
21 and settlements;



- 1 (8) Amounts collected by distributors as fuel taxes on
2 "liquid fuel" imposed by chapter 243, and the amounts
3 collected by such distributors as a fuel tax imposed by
4 any Act of the Congress of the United States;
- 5 (9) Taxes on liquor imposed by chapter 244D on dealers
6 holding permits under that chapter;
- 7 (10) The amounts of taxes on cigarettes and tobacco products
8 imposed by chapter 245 on wholesalers or dealers
9 holding licenses under that chapter and selling the
10 products at wholesale;
- 11 (11) Federal excise taxes imposed on articles sold at retail
12 and collected from the purchasers thereof and paid to
13 the federal government by the retailer;
- 14 (12) The amounts of federal taxes under chapter 37 of the
15 Internal Revenue Code, or similar federal taxes,
16 imposed on sugar manufactured in the State, paid by the
17 manufacturer to the federal government;
- 18 (13) An amount up to, but not in excess of, \$2,000 a year of
19 gross income received by any blind, deaf, or totally
20 disabled person engaging, or continuing, in any
21 business, trade, activity, occupation, or calling
22 within the State; a corporation all of whose



1 outstanding shares are owned by an individual or
2 individuals who are blind, deaf, or totally disabled; a
3 general, limited, or limited liability partnership, all
4 of whose partners are blind, deaf, or totally disabled;
5 or a limited liability company, all of whose members
6 are blind, deaf, or totally disabled;

7 (14) Amounts received by a producer of sugarcane from the
8 manufacturer to whom the producer sells the sugarcane,
9 where:

10 (A) The producer is an independent cane farmer, so
11 classed by the Secretary of Agriculture under the
12 Sugar Act of 1948 (61 Stat. 922, Chapter 519) as
13 the Act may be amended or supplemented;

14 (B) The value or gross proceeds of the sale of the
15 sugar, and other products manufactured from the
16 sugarcane, are included in the measure of the tax
17 levied on the manufacturer under section 237-13(1)
18 or (2);

19 (C) The producer's gross proceeds of sales are
20 dependent upon the actual value of the products
21 manufactured therefrom or the average value of all



1 similar products manufactured by the manufacturer;
2 and

3 (D) The producer's gross proceeds of sales are reduced
4 by reason of the tax on the value or sale of the
5 manufactured products;

6 (15) Money paid by the State or eleemosynary child-placing
7 organizations to foster parents for their care of
8 children in foster homes;

9 (16) Amounts received by a cooperative housing corporation
10 from its shareholders in reimbursement of funds paid by
11 the corporation for lease rental, real property taxes,
12 and other expenses of operating and maintaining the
13 cooperative land and improvements; provided that the
14 cooperative corporation is a corporation:

15 (A) Having one and only one class of stock
16 outstanding;

17 (B) Each of the stockholders of which is entitled
18 solely by reason of the stockholder's ownership of
19 stock in the corporation, to occupy for dwelling
20 purposes a house, or an apartment in a building
21 owned or leased by the corporation; and



1 (C) No stockholder of which is entitled (either
2 conditionally or unconditionally) to receive any
3 distribution not out of earnings and profits of
4 the corporation except in a complete or partial
5 liquidation of the corporation; and

6 (17) Amounts received by a managed care support contractor
7 of the TRICARE program that is established under Title
8 10 United States Code chapter 55, as amended, for the
9 actual cost or advancement to third party health care
10 providers pursuant to a contract with the United
11 States."

12 SECTION 5. Section 4 of Act 70, Session Laws of Hawaii
13 2009, is amended to read as follows:

14 "SECTION 4. This Act shall take effect on July 1, 2009 and
15 shall be repealed on December 31, 2013; provided that section
16 [~~237-24,~~] 237-24(3), (5) to (16), Hawaii Revised Statutes, shall
17 be reenacted in the form in which [it] they read on June 30,
18 2009 [and section 237-24(1), (2), and (4), Hawaii Revised
19 Statutes, shall be reenacted in the form in which they read on
20 December 30, 2013."

21 SECTION 5. Statutory material to be repealed is bracketed
22 and stricken. New statutory material is underscored.



H.B. NO. 798

1 SECTION 6. This Act shall take effect on July 1, 2011.

2

INTRODUCED BY:

Calvin H. Boy

JAN 21 2011



Report Title:

General Excise Tax; Life Settlement Insurance, Bank-Owned Life Insurance, Corporate-Owned Life Insurance

Description:

Imposes the general excise tax on the gross income derived from a life settlement, bank-owned life, or corporate-owned life insurance policy issued after 6/30/2011. States expressly that the tax shall not be imposed on any compensation received by an insured for the transfer of the policy or designation of a beneficiary or any death benefit received by a person related to the insured.

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

