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# A BILL FOR AN ACT

RELATING TO TAX RELIEF.

**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, subject to the  
7 following:

8 (1) Sections 63(c)(1)(B) (relating to the additional  
9 standard deduction), 63(c)(1)(C) (relating to the real  
10 property tax deduction), 63(c)(1)(D) (relating to the  
11 disaster loss deduction), 63(c)(1)(E) (relating to the  
12 motor vehicle sales tax deduction), 63(c)(4) (relating  
13 to inflation adjustments), 63(c)(7) (defining the real  
14 property tax deduction), 63(c)(8) (defining the  
15 disaster loss deduction), 63(c)(9) (defining the motor  
16 vehicle sales tax deduction), and 63(f) (relating to  
17 additional amounts for the aged or blind) of the



- 1 Internal Revenue Code shall not be operative for  
2 purposes of this chapter;
- 3 (2) Section 63(c)(2) (relating to the basic standard  
4 deduction) of the Internal Revenue Code shall be  
5 operative, except that the standard deduction amounts  
6 provided therein shall instead mean:
- 7 (A) \$4,400 in the case of:
- 8 (i) A joint return as provided by section 235-  
9 93; or
- 10 (ii) A surviving spouse (as defined in section  
11 2(a) of the Internal Revenue Code);
- 12 (B) \$3,212 in the case of a head of household (as  
13 defined in section 2(b) of the Internal Revenue  
14 Code);
- 15 (C) \$2,200 in the case of an individual who is not  
16 married and who is not a surviving spouse or head  
17 of household; or
- 18 (D) \$2,200 in the case of a married individual filing  
19 a separate return;
- 20 (3) Section 63(c)(5) (limiting the basic standard  
21 deduction in the case of certain dependents) of the  
22 Internal Revenue Code shall be operative, except that



1 the limitation shall be the greater of \$500 or such  
2 individual's earned income; and

3 (4) The standard deduction amount for nonresidents shall  
4 be calculated pursuant to section 235-5.

5 (b) Section 68 (with respect to the overall limitation on  
6 itemized deductions) of the Internal Revenue Code shall be  
7 operative, except that sections 68(f) and 68(g) shall not be  
8 operative; provided that the thresholds shall be those that were  
9 operative for federal tax year 2009.

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

17 (d) Section 85 (with respect to unemployment compensation)  
18 of the Internal Revenue Code shall be operative for purposes of  
19 this chapter, except that section 85(c) shall not be operative  
20 for purposes of this chapter.

21 (e) Section 108 (with respect to income from discharge of  
22 indebtedness) of the Internal Revenue Code shall be operative



1 for purposes of this chapter, except that section 108(i)  
2 (relating to deferral and ratable inclusion of income arising  
3 from business indebtedness discharged by the reacquisition of a  
4 debt instrument) shall not be operative for purposes of this  
5 chapter.

6 (f) Section 121 (with respect to exclusion of gain from  
7 sale of principal residence) of the Internal Revenue Code shall  
8 be operative for purposes of this chapter, except that for the  
9 election under section 121(f), a reference to section 1034  
10 treatment means a reference to section 235-2.4(s) in effect for  
11 taxable year 1997.

12 (g) Section 132 (with respect to certain fringe benefits)  
13 of the Internal Revenue Code shall be operative for purposes of  
14 this chapter, except that the provision in section 132(f)(2)  
15 that equalizes the dollar amounts for sections 132(f)(2)(A) and  
16 (B) after February 17, 2009, until January 1, 2011, shall not be  
17 operative and except that section 132(n) shall not apply to  
18 United States Department of Defense Homeowners Assistance  
19 Program payments authorized by the American Recovery and  
20 Reinvestment Act of 2009.

21 (h) Section 163 (with respect to interest) of the Internal  
22 Revenue Code shall be operative for the purposes of this



1 chapter, except that provisions in section 163(d)(4)(B)  
2 (defining net investment income to exclude dividends), section  
3 163(e)(5)(F) (suspension of applicable high-yield discount  
4 obligation (AHYDO) rules) and section 163(i)(1) as it applies to  
5 debt instruments issued after January 1, 2010, (defining AHYDO)  
6 shall not be operative for the purposes of this chapter.

7 (i) Section 164 (with respect to taxes) of the Internal  
8 Revenue Code shall be operative for the purposes of this  
9 chapter, except that:

10 (1) Sections 164(a)(6) and 164(b)(6) shall not be  
11 operative for the purposes of this chapter; and

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

16 (A) A taxpayer filing a single return or a married  
17 person filing separately with a federal adjusted  
18 gross income of less than \$100,000;

19 (B) A taxpayer filing as a head of household with a  
20 federal adjusted gross income of less than  
21 \$150,000; and



1 (C) A taxpayer filing a joint return or as a  
2 surviving spouse with a federal adjusted gross  
3 income of less than \$200,000.

4 (j) Section 165 (with respect to losses) of the Internal  
5 Revenue Code shall be operative for purposes of this chapter,  
6 except that the amount prescribed by sections 165(h)(1)  
7 (relating to the limitation per casualty) of the Internal  
8 Revenue Code shall be a \$100 limitation per casualty, and  
9 sections 165(h)(3)(A) and 165(h)(3)(B) (both of which relate to  
10 special rules for personal casualty gains and losses in  
11 federally declared disasters) of the Internal Revenue Code shall  
12 not be operative for the purposes of this chapter. Section 165  
13 as operative for this chapter shall also apply to losses  
14 sustained from the sale of stocks or other interests issued  
15 through the exercise of the stock options or warrants granted by  
16 a qualified high technology business as defined in section 235-  
17 7.3.

18 (k) Section 168 (with respect to the accelerated cost  
19 recovery system) of the Internal Revenue Code shall be operative  
20 for purposes of this chapter, except that sections 168(j)  
21 (relating to property on Indian reservations), 168(k) (relating  
22 to the special allowance for certain property acquired during



1 the period specified therein), 168(m) (relating to the special  
2 allowance for certain reuse and recycling property), and 168(n)  
3 (relating to the special allowance for qualified disaster  
4 assistance property) of the Internal Revenue Code shall not be  
5 operative for purposes of this chapter.

6 ~~[(1) Section 172 (with respect to net operating loss~~  
7 ~~deductions) of the Internal Revenue Code shall be operative for~~  
8 ~~purposes of this chapter, as further provided in section 235-~~  
9 ~~7(d), except that sections 172(b)(1)(J) and 172(j) (both of~~  
10 ~~which relate to qualified disaster losses) of the Internal~~  
11 ~~Revenue Code shall not be operative for purposes of this~~  
12 ~~chapter.~~

13 ~~(m) Section 179 (with respect to the election to expense~~  
14 ~~certain depreciable business assets) of the Internal Revenue~~  
15 ~~Code shall be operative for purposes of this chapter, except as~~  
16 ~~provided in this subsection:~~

17 ~~(1) The aggregate cost provided in section 179(b)(1) which~~  
18 ~~may be taken into account under section 179(a) for any~~  
19 ~~taxable year shall not exceed \$25,000;~~

20 ~~(2) The amount at which the reduction in limitation~~  
21 ~~provided in section 179(b)(2) begins shall exceed~~  
22 ~~\$200,000 for any taxable year; and~~



1       ~~(3)~~ The following shall not be operative for purposes of  
2       this chapter:

3       ~~(A)~~ Defining section 179 property to include computer  
4       software in section 179(d)(1);

5       ~~(B)~~ Inflation adjustments in section 179(b)(5);

6       ~~(C)~~ Irrevocable election in section 179(e)(2); and

7       ~~(D)~~ Special rules for qualified disaster assistance  
8       property in section 179(e).

9       ~~(n)]~~ (l) Section 198A (with respect to the expensing of  
10      qualified disaster assistances expenses) of the Internal Revenue  
11      Code shall not be operative for purposes of this chapter.

12      ~~(o)]~~ (m) Section 219 (with respect to retirement savings)  
13      of the Internal Revenue Code shall be operative for the purpose  
14      of this chapter. For the purpose of computing the limitation on  
15      the deduction for active participants in certain pension plans  
16      for state income tax purposes, adjusted gross income as used in  
17      section 219 as operative for this chapter means federal adjusted  
18      gross income.

19      ~~(p)]~~ (n) Section 220 (with respect to medical savings  
20      accounts) of the Internal Revenue Code shall be operative for  
21      the purpose of this chapter, but only with respect to medical





1 services accounts that have been approved by the Secretary of  
2 the Treasury of the United States.

3 ~~(e)~~ (o) Section 265 (with respect to expenses and  
4 interest relating to tax-exempt income) of the Internal Revenue  
5 Code shall be operative for purposes of this chapter; except  
6 that sections 265(b)(3)(G) and 265(b)(7) shall not be operative  
7 and that section 265 shall not apply to expenses for royalties  
8 and other income derived from any patents, copyrights, and trade  
9 secrets by an individual or a qualified high technology business  
10 as defined in section 235-7.3. Such expenses shall be  
11 deductible.

12 ~~(r)~~ (p) Section 382 (with respect to limitation on net  
13 operating loss carryforwards and certain built-in losses  
14 following ownership change) of the Internal Revenue Code shall  
15 be operative for the purposes of this chapter, except that  
16 section 382(n) shall not be operative for purposes of this  
17 chapter.

18 ~~(s)~~ (q) Section 408A (with respect to Roth Individual  
19 Retirement Accounts) of the Internal Revenue Code shall be  
20 operative for the purposes of this chapter, except that section  
21 408A(d)(3)(A)(iii) shall not be operative for purposes of this  
22 chapter. For the purposes of determining the aggregate amount



1 of contributions to a Roth Individual Retirement Account or  
 2 qualified rollover contribution to a Roth Individual Retirement  
 3 Account from an individual retirement plan other than a Roth  
 4 Individual Retirement Account, adjusted gross income as used in  
 5 section 408A as operative for this chapter means federal  
 6 adjusted gross income.

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

18       In administering sections 401 to 419A (with respect to  
 19 deferred compensation) of the Internal Revenue Code, Public Law  
 20 93-406, section 1017(i), shall be operative for the purposes of  
 21 this chapter.



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

8           ~~(u)~~ (s) In administering section 403 (with respect to  
9    taxation of employee annuities) of the Internal Revenue Code,  
10   any funds that represent pre-tax employee deferrals or  
11   contributions that are distributed from the annuity and used  
12   solely to obtain retirement credits under the state employees'  
13   retirement system shall not be treated as a rollover for  
14   purposes of section 403(b)(8)(A) of the Internal Revenue Code,  
15   and such funds shall be subject to income tax under this  
16   chapter.

17           ~~(v)~~ (t) Section 451 (which provides general rules for  
18   taxable year of inclusion) of the Internal Revenue Code shall be  
19   operative, except that the provisions of sections 451(i)(3) and  
20   451(i)(6), as they relate to a qualified electric utility, shall  
21   not be operative for purposes of this chapter.



1           ~~[(w)]~~ (u) In administering section 457 (with respect to  
2 compensation plans of state and local governments and tax-exempt  
3 organizations) of the Internal Revenue Code, any funds that  
4 represent pre-tax employee deferrals or contributions that are  
5 distributed from the deferred compensation plan and used solely  
6 to obtain retirement credits under the state employees'  
7 retirement system shall not be treated as a rollover for  
8 purposes of section 457(e)(16)(A) of the Internal Revenue Code  
9 and such funds shall be subject to income tax under this  
10 chapter.

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

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



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

3 [~~(z)~~] (x) 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 legal service plan.

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

19 [~~(aa)~~] (y) Section 521 (with respect to cooperatives) and  
20 subchapter T (sections 1381 to 1388, with respect to  
21 cooperatives and their patrons) of the Internal Revenue Code  
22 shall be operative for the purposes of this chapter as to any



1 cooperative fully meeting the requirements of section 421-23,  
2 except that Internal Revenue Code section 521 cooperatives need  
3 not be organized in Hawaii.

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

10 ~~[(ee)]~~ (aa) Section 529 (with respect to qualified tuition  
11 programs) shall be operative for the purposes of this chapter,  
12 except that sections 529(c)(6) and 529(e)(3)(A)(iii) shall not  
13 be operative.

14 ~~[(dd)]~~ (bb) 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, upon its approval, shall apply to  
4 taxable years beginning after July 1, 2030.



**Report Title:**

Taxation; Depreciation; Net Operating Loss Deductions

**Description:**

Amends state income tax law with respect to net operating loss deductions and the election to expense certain depreciable business assets to conform to federal law. Effective July 1, 2030. (HB2000 HD1)

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

