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## A BILL FOR AN ACT

RELATING TO TAXATION.

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

1           SECTION 1. The legislature finds that there is inequity in  
2 the taxation of retirement income and many seniors in Hawaii are  
3 struggling to make ends meet.

4           The purpose of this Act is to address this issue by  
5 excluding income received from deferred compensation retirement  
6 plans from the state income tax for taxpayers who meet certain  
7 income requirements.

8           SECTION 2. Section 235-7, Hawaii Revised Statutes, is  
9 amended by amending subsection (a) to read as follows:

10           "(a) There shall be excluded from gross income, adjusted  
11 gross income, and taxable income:

12           (1) Income not subject to taxation by the State under the  
13 Constitution and laws of the United States;

14           (2) Rights, benefits, and other income exempted from  
15 taxation by section 88-91, having to do with the state  
16 retirement system, and the rights, benefits, and other  
17 income, comparable to the rights, benefits, and other



- 1 income exempted by section 88-91, under any other  
2 public retirement system;
- 3 (3) Any compensation received in the form of a pension for  
4 past services;
- 5 (4) Compensation paid to a patient affected with Hansen's  
6 disease employed by the State or the United States in  
7 any hospital, settlement, or place for the treatment  
8 of Hansen's disease;
- 9 (5) Except as otherwise expressly provided, payments made  
10 by the United States or this State, under an act of  
11 Congress or a law of this State, which by express  
12 provision or administrative regulation or  
13 interpretation are exempt from both the normal and  
14 surtaxes of the United States, even though not so  
15 exempted by the Internal Revenue Code itself;
- 16 (6) Any income expressly exempted or excluded from the  
17 measure of the tax imposed by this chapter by any  
18 other law of the State, it being the intent of this  
19 chapter not to repeal or supersede any express  
20 exemption or exclusion;



1           (7) Income received by each member of the reserve  
2           components of the Army, Navy, Air Force, Marine Corps,  
3           or Coast Guard of the United States of America, and  
4           the Hawaii National Guard as compensation for  
5           performance of duty, equivalent to pay received for  
6           forty-eight drills (equivalent of twelve weekends) and  
7           fifteen days of annual duty, at an:

8           (A) E-1 pay grade after eight years of service;  
9           provided that this subparagraph shall apply to  
10          taxable years beginning after December 31, 2004;

11          (B) E-2 pay grade after eight years of service;  
12          provided that this subparagraph shall apply to  
13          taxable years beginning after December 31, 2005;

14          (C) E-3 pay grade after eight years of service;  
15          provided that this subparagraph shall apply to  
16          taxable years beginning after December 31, 2006;

17          (D) E-4 pay grade after eight years of service;  
18          provided that this subparagraph shall apply to  
19          taxable years beginning after December 31, 2007;

20          and



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- 1           (E) E-5 pay grade after eight years of service;
- 2                         provided that this subparagraph shall apply to
- 3                         taxable years beginning after December 31, 2008;
- 4       (8) Income derived from the operation of ships or aircraft
- 5                         if the income is exempt under the Internal Revenue
- 6                         Code pursuant to the provisions of an income tax
- 7                         treaty or agreement entered into by and between the
- 8                         United States and a foreign country; provided that the
- 9                         tax laws of the local governments of that country
- 10                        reciprocally exempt from the application of all of
- 11                        their net income taxes, the income derived from the
- 12                        operation of ships or aircraft that are documented or
- 13                        registered under the laws of the United States;
- 14       (9) The value of legal services provided by a legal
- 15                        service plan to a taxpayer, the taxpayer's spouse, and
- 16                        the taxpayer's dependents;
- 17       (10) Amounts paid, directly or indirectly, by a legal
- 18                        service plan to a taxpayer as payment or reimbursement
- 19                        for the provision of legal services to the taxpayer,
- 20                        the taxpayer's spouse, and the taxpayer's dependents;



- 1           (11) Contributions by an employer to a legal service plan  
2           for compensation (through insurance or otherwise) to  
3           the employer's employees for the costs of legal  
4           services incurred by the employer's employees, their  
5           spouses, and their dependents;
- 6           (12) Amounts received in the form of a monthly surcharge by  
7           a utility acting on behalf of an affected utility  
8           under section 269-16.3; provided that amounts retained  
9           by the acting utility for collection or other costs  
10          shall not be included in this exemption;
- 11          (13) Amounts received in the form of a cable surcharge by  
12          an electric utility company acting on behalf of a  
13          certified cable company under section 269-134;  
14          provided that any amounts retained by that electric  
15          utility company for collection or other costs shall  
16          not be included in this exemption; [~~and~~]
- 17          (14) One hundred per cent of the gain realized by a fee  
18          simple owner from the sale of a leased fee interest in  
19          units within a condominium project, cooperative  
20          project, or planned unit development to the  
21          association of owners under chapter 514A or 514B, or



1 the residential cooperative corporation of the  
2 leasehold units.

3 For purposes of this paragraph:

4 "Fee simple owner" shall have the same meaning as  
5 provided under section 516-1; provided that it shall  
6 include legal and equitable owners;

7 "Legal and equitable owner", and "leased fee  
8 interest" shall have the same meanings as provided  
9 under section 516-1; and

10 "Condominium project" and "cooperative project"  
11 shall have the same meanings as provided under section  
12 514C-1 [-]; and

13 (15) Compensation received from deferred compensation  
14 retirement plans, including individual retirement  
15 accounts, and those established under section 401(k)  
16 or 403(b) of the Internal Revenue Code, or any other  
17 retirement plan that defers compensation; provided  
18 that this paragraph shall apply only to individuals  
19 whose federal adjusted gross income is less than:

20 (A) \$30,000 for a taxpayer filing a single return or  
21 a married person filing separately;



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- 1            (B) \$45,000 for a taxpayer filing as a head of
- 2            household; and
- 3            (C) \$60,000 for a taxpayer filing a joint return or
- 4            as a surviving spouse."

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

7            SECTION 4. This Act, upon its approval, shall apply to  
 8 taxable years beginning after December 31, 2014; provided that  
 9 the amendments made to section 235-7(a), Hawaii Revised  
 10 Statutes, by section 2 of this Act shall not be repealed when  
 11 that section is reenacted on January 1, 2018, pursuant to  
 12 section 3 of Act 166, Session Laws of Hawaii 2007, as amended by  
 13 section 5 of Act 220, Session Laws of Hawaii 2012.

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**Report Title:**

Deferred Compensation Retirement Plans; Income Tax Exclusion

**Description:**

Excludes income received from deferred compensation retirement plans from the state income tax for taxpayers who meet certain income requirements.

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

