
A BILL FOR AN ACT

RELATING TO TAXATION.

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

- 1 SECTION 1. 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 the state
9 retirement system, and the rights, benefits, and other
10 income, comparable to the rights, benefits, and other
11 income exempted by section 88-91, under any other
12 public retirement system;
13 (3) Any compensation received in the form of a pension for
14 past services;
15 (4) Compensation paid to a patient affected with Hansen's
16 disease employed by the State or the United States in



1 any hospital, settlement, or place for the treatment
2 of Hansen's disease;

3 (5) Except as otherwise expressly provided, payments made
4 by the United States or this State, under an act of
5 Congress or a law of this State, which by express
6 provision or administrative regulation or
7 interpretation are exempt from both the normal and
8 surtaxes of the United States, even though not so
9 exempted by the Internal Revenue Code itself;

10 (6) Any income expressly exempted or excluded from the
11 measure of the tax imposed by this chapter by any
12 other law of the State, it being the intent of this
13 chapter not to repeal or supersede any express
14 exemption or exclusion;

15 (7) Income received by each member of the reserve
16 components of the Army, Navy, Air Force, Marine Corps,
17 or Coast Guard of the United States of America, and
18 the Hawaii National Guard as compensation for
19 performance of duty, equivalent to pay received for
20 forty-eight drills (equivalent of twelve weekends) and
21 fifteen days of annual duty, at an:



- 1 (A) E-1 pay grade after eight years of service;
2 provided that this subparagraph shall apply to
3 taxable years beginning after December 31, 2004;
- 4 (B) E-2 pay grade after eight years of service;
5 provided that this subparagraph shall apply to
6 taxable years beginning after December 31, 2005;
- 7 (C) E-3 pay grade after eight years of service;
8 provided that this subparagraph shall apply to
9 taxable years beginning after December 31, 2006;
- 10 (D) E-4 pay grade after eight years of service;
11 provided that this subparagraph shall apply to
12 taxable years beginning after December 31, 2007;
13 and
- 14 (E) E-5 pay grade after eight years of service;
15 provided that this subparagraph shall apply to
16 taxable years beginning after December 31, 2008;
- 17 (8) Income derived from the operation of ships or aircraft
18 if the income is exempt under the Internal Revenue
19 Code pursuant to the provisions of an income tax
20 treaty or agreement entered into by and between the
21 United States and a foreign country; provided that the



1 tax laws of the local governments of that country
2 reciprocally exempt from the application of all of
3 their net income taxes, the income derived from the
4 operation of ships or aircraft that are documented or
5 registered under the laws of the United States;

6 (9) The value of legal services provided by a legal
7 service plan to a taxpayer, the taxpayer's spouse, and
8 the taxpayer's dependents;

9 (10) Amounts paid, directly or indirectly, by a legal
10 service plan to a taxpayer as payment or reimbursement
11 for the provision of legal services to the taxpayer,
12 the taxpayer's spouse, and the taxpayer's dependents;

13 (11) Contributions by an employer to a legal service plan
14 for compensation (through insurance or otherwise) to
15 the employer's employees for the costs of legal
16 services incurred by the employer's employees, their
17 spouses, and their dependents;

18 (12) Amounts received in the form of a monthly surcharge by
19 a utility acting on behalf of an affected utility
20 under section 269-16.3; provided that amounts retained



1 by the acting utility for collection or other costs
2 shall not be included in this exemption;

3 (13) Amounts received in the form of a cable surcharge by
4 an electric utility company acting on behalf of a
5 certified cable company under section 269-134;
6 provided that any amounts retained by that electric
7 utility company for collection or other costs shall
8 not be included in this exemption; [~~and~~]

9 (14) One hundred per cent of the gain realized by a fee
10 simple owner from the sale of a leased fee interest in
11 units within a condominium project, cooperative
12 project, or planned unit development to the
13 association of owners under chapter 514A or 514B, or
14 the residential cooperative corporation of the
15 leasehold units.

16 For purposes of this paragraph:

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



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

4 "Condominium project" and "cooperative project"
5 shall have the same meanings as provided under section
6 514C-1[-]; and

7 (15) The first \$10,000 of income derived from tips received
8 by a taxpayer who is a tipped employee, as defined in
9 section 387-1."

10 SECTION 2. Statutory material to be repealed is bracketed
11 and stricken. New statutory material is underscored.

12 SECTION 3. This Act, upon its approval, shall apply to
13 taxable years beginning after December 31, 2015; provided that
14 the amendments made to section 235-7(a), Hawaii Revised
15 Statutes, by section 1 of this Act shall not be repealed when
16 that section is reenacted on January 1, 2018, pursuant to
17 section 3 of Act 166, Session Laws of Hawaii 2007, as amended by
18 section 5 of Act 220, Session Laws of Hawaii 2012.

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JAN 26 2016



H.B. NO. 2599

Report Title:

Tipped Employees; Income Tax Exemption

Description:

Establishes an income tax exemption on the first \$10,000 of income derived from tips received by a tipped employee.

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