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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. Section 235-7, Hawaii Revised Statutes, is  
2 amended to read as follows:

3           "§235-7 Other provisions as to gross income, adjusted  
4 gross income, and taxable income. (a) There shall be excluded  
5 from gross income, adjusted gross income, and taxable income:

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

8           (2) Rights, benefits, and other income exempted from  
9 taxation by section 88-91, having to do with the state  
10 retirement system, and the rights, benefits, and other  
11 income, comparable to the rights, benefits, and other  
12 income exempted by section 88-91, under any other  
13 public retirement system;

14           (3) Any compensation received in the form of a pension for  
15 past services;

16           (4) Compensation paid to a patient affected with Hansen's  
17 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.

7 (b) There shall be included in gross income, adjusted  
8 gross income, and taxable income:

9 (1) Unless excluded by this chapter relating to the  
10 uniformed services of the United States, cost-of-  
11 living allowances and other payments exempted by  
12 section 912 of the Internal Revenue Code, but section  
13 119 of the Internal Revenue Code nevertheless shall  
14 apply; and

15 (2) Unless expressly exempted or excluded as provided by  
16 subsection (a)(6), interest on the obligations of a  
17 State or a political subdivision thereof.

18 (c) The deductions of or based on dividends paid or  
19 received, allowed to a corporation under chapter 1, subchapter  
20 B, part VIII of the Internal Revenue Code, shall not be allowed.  
21 In lieu thereof there shall be allowed as a deduction the entire



1 amount of dividends received by any corporation upon the shares  
2 of stock of a national banking association, qualifying  
3 dividends, as defined in section 243(b) of the Internal Revenue  
4 Code, received by members of an affiliated group, or dividends  
5 received by a small business investment company operating under  
6 the Small Business Investment Act of 1958 (Public Law 85-699)  
7 upon shares of stock qualifying under paragraph (3), seventy per  
8 cent of the amount received by any corporation as dividends:

- 9 (1) Upon the shares of stock of another corporation, if at  
10 the date of payment of the dividend at least ninety-  
11 five per cent of the other corporation's capital stock  
12 is owned by one or more corporations doing business in  
13 this State and if the other corporation is subjected  
14 to an income tax in another jurisdiction (but  
15 subjection to federal tax does not constitute  
16 subjection to income tax in another jurisdiction); and  
17 (2) Upon the shares of stock of a bank or insurance  
18 company organized and doing business under the laws of  
19 the State;  
20 (3) Upon the shares of stock of another corporation, if at  
21 least fifteen per cent of the latter corporation's



1           business, for the taxable year of the latter  
2           corporation preceding the payment of the dividend, has  
3           been attributed to this State.

4   However, except for national bank dividends, the deductions  
5   under this subsection are not allowed when they would not have  
6   been allowed under section 243 of the Internal Revenue Code, as  
7   amended by Public Law 85-866, by reason of subsections (b) and  
8   (c) of section 246 of the Internal Revenue Code. For the  
9   purposes of this subsection fifteen per cent of a corporation's  
10   business shall be deemed to have been attributed to this State  
11   if fifteen per cent or more of the entire gross income of the  
12   corporation as defined in this chapter (which for the purposes  
13   of this subsection shall be computed without regard to source in  
14   the State and shall include income not taxable by reason of the  
15   fact that it is from property not owned in the State or from a  
16   trade or business not carried on in the State in whole or in  
17   part), under section 235-5 and the other provisions of this  
18   chapter, shall have been attributed to the State and subjected  
19   to assessment of the taxable income therefrom (including the  
20   determination of the resulting net loss, if any).





- 1           (d) (1) For taxable years ending before January 1, 1967,  
2           the net operating loss deductions allowed as  
3           carrybacks and carryovers by the Internal Revenue Code  
4           shall not be allowed. In lieu thereof the net  
5           operating loss deduction shall consist of the excess  
6           of the deductions allowed by this chapter over the  
7           gross income, computed with the modifications  
8           specified in paragraphs (1) to (4) of section 172(d)  
9           of the Internal Revenue Code, and with the further  
10          modification stated in paragraph (3) hereof; and shall  
11          be allowed as a deduction in computing the taxable  
12          income of the taxpayer for the succeeding taxable  
13          year;
- 14          (2) (A) With respect to net operating loss deductions  
15          resulting from net operating losses for taxable  
16          years ending after December 31, 1966, the net  
17          operating loss deduction provisions of the  
18          Internal Revenue Code shall apply; provided that  
19          there shall be no net operating loss deduction  
20          carried back to any taxable year ending prior to  
21          January 1, 1967;



1 (B) In the case of a taxable year beginning in 1966  
2 and ending in 1967, the entire amount of all net  
3 operating loss deductions carried back to the  
4 taxable year shall be limited to that portion of  
5 taxable income for such taxable year which the  
6 number of days in 1967 bears to the total days in  
7 the taxable year ending in 1967; and

8 (C) The computation of any net operating loss  
9 deduction for a taxable year covered by this  
10 subsection shall require the further  
11 modifications stated in paragraphs (3), (4), and  
12 (5) of this subsection;

13 (3) In computing the net operating loss deduction allowed  
14 by this subsection, there shall be included in gross  
15 income the amount of interest which is excluded from  
16 gross income by subsection (a), decreased by the  
17 amount of interest paid or accrued which is disallowed  
18 as a deduction by subsection (e). In determining the  
19 amount of the net operating loss deduction under this  
20 subsection of any corporation, there shall be  
21 disregarded the net operating loss of such corporation



- 1           for any taxable year for which the corporation is an  
2           electing small business corporation;
- 3           (4) No net operating loss carryback or carryover shall be  
4           allowed by this chapter if not allowed under section  
5           172 of the Internal Revenue Code;
- 6           (5) The election to relinquish the entire carryback period  
7           with respect to a net operating loss allowed under  
8           section 172(b) (3) (C) of the Internal Revenue Code  
9           shall be operative for the purposes of this chapter;  
10          provided that no taxpayer shall make such an election  
11          as to a net operating loss of a business where such  
12          net operating loss occurred in the taxpayer's business  
13          prior to the taxpayer entering business in this State;  
14          and
- 15          (6) The five-year carryback period for net operating  
16          losses for any taxable year ending during 2001 and  
17          2002 in section 172(b) (1) (H) of the Internal Revenue  
18          Code as it read on December 31, 2008, shall not be  
19          operative for purposes of this chapter; and
- 20          (7) The election for the carryback for 2008 or 2009 net  
21          operating losses of small businesses as provided in



1 section 172(b)(1)(H) of the Internal Revenue Code as  
2 it read on December 31, 2009, shall not be operative  
3 for purposes of this chapter.

4 (e) There shall be disallowed as a deduction the amount of  
5 interest paid or accrued within the taxable year on indebtedness  
6 incurred or continued, (1) to purchase or carry bonds the  
7 interest upon which is excluded from gross income by subsection  
8 (a); or (2) to purchase or carry property owned without the  
9 State, or to carry on trade or business without the State, if  
10 the taxpayer is a person taxable only upon income from sources  
11 in the State.

12 (f) Losses of property as the result of tidal wave,  
13 hurricane, earthquake, or volcanic eruption, or as a result of  
14 flood waters overflowing the banks or walls of a river or  
15 stream, or from any other natural disaster, to the extent of the  
16 amount deductible, under this chapter, not compensated for by  
17 insurance or otherwise, may be deducted in the taxable year in  
18 which sustained, or at the option of the taxpayer may be  
19 deducted in equal installments over a period of five years, the  
20 first such year to be the calendar year or fiscal year of the  
21 taxpayer in which such loss occurred.



1        (g) In computing taxable income, there shall be allowed as  
 2 a deduction political contributions by any individual taxpayer  
 3 in an aggregate amount not to exceed \$                    in any year;  
 4 provided that the contributions are made to candidates as  
 5 defined in section 11-302; and provided further that not more  
 6 than \$50 of an individual's total contribution to any single  
 7 candidate shall be deductible for purposes of this section."

8            SECTION 2. New statutory material is underscored.

9            SECTION 3. This Act, upon its approval, shall apply to  
 10 taxable years beginning after December 31, 2015.

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INTRODUCED BY:

*Janelli Matute*  
*Dr.*  
*John M. ...*  
*Both ...*

JAN 26 2016



# H.B. NO. 2600

**Report Title:**

Political Contributions; Income Tax; Deduction

**Description:**

Establishes an income tax deduction for political contributions.

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

