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## A BILL FOR AN ACT

RELATING TO UNEMPLOYMENT BENEFITS.

**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



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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 such 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:



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- 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



1 the 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; [and]

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[-]; and

3 (13) Income received as unemployment compensation benefits  
4 under chapter 383."

5 SECTION 2. Section 383-163.6, Hawaii Revised Statutes, is  
6 amended by amending subsection (a) to read as follows:

7 "(a) An individual filing a new claim for unemployment  
8 compensation shall, at the time of filing the claim, be advised  
9 that:

10 (1) Unemployment compensation is subject to federal [~~and~~  
11 ~~state~~] income tax;

12 (2) Requirements exist pertaining to estimated tax  
13 payments;

14 (3) The individual may elect to have federal income tax  
15 deducted and withheld from the individual's payment of  
16 unemployment compensation at the amount specified in  
17 the federal Internal Revenue Code;

18 (4) The individual may elect to have state income tax  
19 deducted and withheld from the individual's payment of  
20 unemployment compensation at the amount specified in  
21 section 235-69;



(5) The individual may elect to have state and local income taxes deducted and withheld from the individual's payment of unemployment compensation for other states and localities outside this State at the percentage established by the state or locality, if the department by agreement with the other state or locality is authorized to deduct and withhold income tax; and

(6) The individual shall be permitted to change a previously elected withholding status no more than once during a benefit year."

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 Statutory material to be repealed is bracketed and stricken.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

SECTION 4. This Act, upon its approval, shall take effect retroactive to January 1, 2021.

INTRODUCED BY:



JAN 20 2021



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**Report Title:**

Income Tax; Unemployment Benefits; Exemption

**Description:**

Exempts income received from unemployment compensation benefits from state income tax. Effective 1/1/2021.

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