

ACT 195

An Act Relating to Taxation, Amending Chapter 121, Revised Laws of Hawaii 1955, as Amended, Limiting the Application of Sections 336 and 337 of the Internal Revenue Code of 1954, as Amended.

Be it Enacted by the Legislature of the State of Hawaii:

SECTION 1. Chapter 121, section 5, Revised Laws of Hawaii 1955 as amended, is further amended by adding thereto a new section, 121-5.01 to follow section 121-5 and to read as follows:

“Sec. 121-5.01. Same. Gain or loss on sales or exchanges in connection with certain liquidations.

(a) Sections 336 and 337(a) of the Internal Revenue Code of 1954 as amended and incorporated into this Act by sec. 121-1 of the income tax law of 1957 (ch. 121, Revised Laws of Hawaii 1955, as amended by Act 1, Special Session Laws of 1957) shall not apply to any corporation unless all the shareholders thereof are residents of the State of Hawaii.

(b) Where secs. 336 and 337(a) of the Internal Revenue Code of 1954 as amended do not apply to a corporation solely by virtue of subsection (a) immediately preceding, then for the first taxable year of any shareholder in which he receives a distribution in complete liquidation—

(1) The amount realized by such shareholder on the distribution shall be increased by his proportionate share of the amount by which the tax imposed on this chapter on such corporation would have been reduced if sec. 337(a) of the Internal Revenue Code of 1954 as amended had been applicable, and

(2) For purposes of this section such shareholder shall be deemed to have paid, on the last day prescribed by law for the payment of the tax imposed by this chapter on such shareholder for such taxable year, an amount of tax equal to the increase described in paragraph (1).

The provisions of subsection (a) to the contrary notwithstanding, those subsections of sec. 337 of the Internal Revenue Code of 1954 as amended, namely (c) and (d) which constitute limitations on the operation of sec. 337 are to be deemed fully effective as if this section had not been enacted.”

SECTION 2. This Act shall take effect for all taxable years beginning on or after January 1, 1964.

(Approved June 4, 1963.) **S.B. 55.**