

ACT 85

H.B. NO. 2034

A Bill for an Act Relating to the Taxation of Financial Institutions.

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

SECTION 1. Section 241-4, Hawaii Revised Statutes, is amended by amending subsection (b) to read as follows:

“(b) The “entire net income from all sources” shall be determined in the same manner as the “taxable income” of a corporation, as provided by chapter 235, with the following changes and adjustments:

- (1) There is included in gross income interest received upon the obligations of the United States or its possessions, or upon securities issued under the authority of an act of Congress, or upon state, territorial, municipal, county, or other bonds or securities whether or not the income from such obligations, bonds, or securities, is tax free. Section 235-7(a)(1), (5), and (6) does not apply.

- [(2)] In lieu of section 235-4, it is provided that there shall be excluded the gross income from property owned, trade or business carried on, and other sources outside the State.
- (3) Sections 235-5 and 235-21 to 235-39 do not apply. The income excluded pursuant to paragraph (2) shall be determined by an allocation and separate accounting. Losses from property owned outside the State and from other sources outside the State shall not be deducted. Reserves shall be allocated to the State by an application of a fraction, the numerator of which consists of the gross income included in determining the "entire net income from all sources" pursuant to this chapter and the denominator of which consists in the gross income similarly ascertained but without regard to whether from sources within or without the State.
- [(4)] (2) Deductions connected with income which by this chapter [is] are required to be included in the computation of net income shall be allowed, but deductions connected with income which by this chapter [is] are not to be included in the computation of net income shall not be allowed. Section 235-7(e)(1) does not apply.
- [(5)] (3) Debts ascertained to be worthless and charged off on the books of the taxpayer within the income year may be deducted, or in the discretion of the department of taxation may be treated as a reasonable addition to a reserve for bad debts; provided that when satisfied that a debt is recoverable only in part, the department may allow the debt to be charged off in part.
- [(6)] (4) In the case of any life insurance company (as defined by the Internal Revenue Code), which is determined to be a financial corporation as defined by this chapter, sections 801, 811, and 812 of the Internal Revenue Code do not apply. The total of the deductions allowed by sections 807 and 810 of the Internal Revenue Code shall not exceed the amount of the required interest, as defined by section 807 of the Internal Revenue Code.
- [(7)] (5) Section 582 (with respect to bonds, etc., losses and gains of financial institutions) of the Internal Revenue Code shall be operative for the purposes of this chapter."

SECTION 2. The amendments made by this Act shall apply to the entire net income received for the calendar year preceding January 1, 1997, and for the calendar years thereafter. In the case of a taxpayer operating on a fiscal year basis, the amendments made by this Act shall apply to the entire net income received for the fiscal year in which January 1, 1997, occurs and for fiscal years thereafter.

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

SECTION 4. This Act shall take effect on January 1, 1997.

(Approved May 25, 1995.)