
A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. Section 235-2.3, Hawaii Revised Statutes, is
2 amended by amending subsection (b) to read as follows:

3 "(b) The following Internal Revenue Code subchapters,
4 parts of subchapters, sections, subsections, and parts of
5 subsections shall not be operative for the purposes of this
6 chapter, unless otherwise provided:

7 (1) Subchapter A (sections 1 to 59A) (with respect to
8 determination of tax liability), except section
9 1(h)(2) (relating to net capital gain reduced by the
10 amount taken into account as investment income),
11 except sections 2(a), 2(b), and 2(c) (with respect to
12 the definition of "surviving spouse" and "head of
13 household"), except section 41 (with respect to the
14 credit for increasing research activities), except
15 section 42 (with respect to low-income housing
16 credit), and except sections 47 and 48, as amended, as
17 of December 31, 1984 (with respect to certain
18 depreciable tangible personal property). For



- 1 treatment, see sections 235-110.91, 235-110.7, and
2 235-110.8;
- 3 (2) Section 78 (with respect to dividends received from
4 certain foreign corporations by domestic corporations
5 choosing foreign tax credit);
- 6 (3) Section 86 (with respect to social security and tier 1
7 railroad retirement benefits);
- 8 (4) Section 103 (with respect to interest on state and
9 local bonds). For treatment, see section 235-7(b);
- 10 (5) Section 114 (with respect to extraterritorial income).
11 For treatment, any transaction as specified in the
12 transitional rule for 2005 and 2006 as specified in
13 the American Jobs Creation Act of 2004 section 101(d)
14 and any transaction that has occurred pursuant to a
15 binding contract as specified in the American Jobs
16 Creation Act of 2004 section 101(f) are inoperative;
- 17 (6) Section 120 (with respect to amounts received under
18 qualified group legal services plans). For treatment,
19 see section [~~235-7(a)(9) to (11);~~] 235-7(a)(10) to
20 (12);



- 1 (7) Section 122 (with respect to certain reduced uniformed
2 services retirement pay). For treatment, see section
3 235-7(a)(3);
- 4 (8) Section 135 (with respect to income from United States
5 savings bonds used to pay higher education tuition and
6 fees). For treatment, see section 235-7(a)(1);
- 7 (9) Subchapter B (sections 141 to 150) (with respect to
8 tax exemption requirements for state and local bonds);
- 9 (10) Section 151 (with respect to allowance of deductions
10 for personal exemptions). For treatment, see section
11 235-54;
- 12 (11) Section 179B (with respect to expensing of capital
13 costs incurred in complying with Environmental
14 Protection Agency sulphur regulations);
- 15 (12) Section 181 (with respect to special rules for certain
16 film and television productions);
- 17 (13) Section 196 (with respect to deduction for certain
18 unused investment credits);
- 19 (14) Section 199 (with respect to the U.S. production
20 activities deduction);
- 21 (15) Section 222 (with respect to qualified tuition and
22 related expenses);



- 1 (16) Sections 241 to 247 (with respect to special
2 deductions for corporations). For treatment, see
3 section 235-7(c);
- 4 (17) Section 280C (with respect to certain expenses for
5 which credits are allowable). For treatment, see
6 section 235-110.91;
- 7 (18) Section 291 (with respect to special rules relating to
8 corporate preference items);
- 9 (19) Section 367 (with respect to foreign corporations);
- 10 (20) Section 501(c)(12), (15), (16) (with respect to exempt
11 organizations);
- 12 (21) Section 515 (with respect to taxes of foreign
13 countries and possessions of the United States);
- 14 (22) Subchapter G (sections 531 to 565) (with respect to
15 corporations used to avoid income tax on
16 shareholders);
- 17 (23) Subchapter H (sections 581 to 597) (with respect to
18 banking institutions), except section 584 (with
19 respect to common trust funds). For treatment, see
20 chapter 241;



- 1 (24) Section 642(a) and (b) (with respect to special rules
2 for credits and deductions applicable to trusts). For
3 treatment, see sections 235-54(b) and 235-55;
- 4 (25) Section 646 (with respect to tax treatment of electing
5 Alaska Native settlement trusts);
- 6 (26) Section 668 (with respect to interest charge on
7 accumulation distributions from foreign trusts);
- 8 (27) Subchapter L (sections 801 to 848) (with respect to
9 insurance companies). For treatment, see sections
10 431:7-202 and 431:7-204;
- 11 (28) Section 853 (with respect to foreign tax credit
12 allowed to shareholders). For treatment, see section
13 235-55;
- 14 (29) Subchapter N (sections 861 to 999) (with respect to
15 tax based on income from sources within or without the
16 United States), except sections 985 to 989 (with
17 respect to foreign currency transactions). For
18 treatment, see sections 235-4, 235-5, and 235-7(b),
19 and 235-55;
- 20 (30) Section 1042(g) (with respect to sales of stock in
21 agricultural refiners and processors to eligible farm
22 cooperatives);



- 1 (31) Section 1055 (with respect to redeemable ground
2 rents);
- 3 (32) Section 1057 (with respect to election to treat
4 transfer to foreign trust, etc., as taxable exchange);
- 5 (33) Sections 1291 to 1298 (with respect to treatment of
6 passive foreign investment companies);
- 7 (34) Subchapter Q (sections 1311 to 1351) (with respect to
8 readjustment of tax between years and special
9 limitations);
- 10 (35) Subchapter R (sections 1352 to 1359) (with respect to
11 election to determine corporate tax on certain
12 international shipping activities using per ton rate);
- 13 (36) Subchapter U (sections 1391 to 1397F) (with respect to
14 designation and treatment of empowerment zones,
15 enterprise communities, and rural development
16 investment areas). For treatment, see chapter 209E;
- 17 (37) Subchapter W (sections 1400 to 1400C) (with respect to
18 District of Columbia enterprise zone);
- 19 (38) Section 14000 (with respect to education tax
20 benefits);
- 21 (39) Section 1400P (with respect to housing tax benefits);
- 22 (40) Section 1400R (with respect to employment relief); and



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1 (41) Section 1400T (with respect to special rules for
2 mortgage revenue bonds)."

3 SECTION 2. Section 235-7, Hawaii Revised Statutes, is
4 amended by amending subsection (a) to read as follows:

5 "(a) There shall be excluded from gross income, adjusted
6 gross income, and taxable income:

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

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

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

17 (4) Compensation paid to a patient affected with Hansen's
18 disease employed by the State or the United States in
19 any hospital, settlement, or place for the treatment
20 of Hansen's disease;

21 (5) Except as otherwise expressly provided, payments made
22 by the United States or this State, under an act of



1 Congress or a law of this State, which by express
2 provision or administrative regulation or
3 interpretation are exempt from both the normal and
4 surtaxes of the United States, even though not so
5 exempted by the Internal Revenue Code itself;

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

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

18 (A) E-1 pay grade after eight years of service;
19 provided that this subparagraph shall apply to
20 taxable years beginning after December 31, 2004;



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1 (B) E-2 pay grade after eight years of service;
2 provided that this subparagraph shall apply to
3 taxable years beginning after December 31, 2005;

4 (C) E-3 pay grade after eight years of service;
5 provided that this subparagraph shall apply to
6 taxable years beginning after December 31, 2006;

7 (D) E-4 pay grade after eight years of service;
8 provided that this subparagraph shall apply to
9 taxable years beginning after December 31, 2007;
10 and

11 (E) E-5 pay grade after eight years of service;
12 provided that this subparagraph shall apply to
13 taxable years beginning after December 31, 2008;

14 (8) _____ per cent of the income received by each member
15 of the Army, Navy, Air Force, Marine Corps, or Coast
16 Guard of the United States of America who is stationed
17 or domiciled in the State;

18 [~~8~~] (9) Income derived from the operation of ships or
19 aircraft if the income is exempt under the Internal
20 Revenue Code pursuant to the provisions of an income
21 tax treaty or agreement entered into by and between
22 the United States and a foreign country, provided that



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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)]~~ (10) The value of legal services provided by a
7 prepaid legal service plan to a taxpayer, the
8 taxpayer's spouse, and the taxpayer's dependents;

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

14 ~~[(11)]~~ (12) Contributions by an employer to a prepaid legal
15 service plan for compensation (through insurance or
16 otherwise) to the employer's employees for the costs
17 of legal services incurred by the employer's
18 employees, their spouses, and their dependents; and

19 ~~[(12)]~~ (13) Amounts received in the form of a monthly
20 surcharge by a utility acting on behalf of an affected
21 utility under section 269-16.3 shall not be gross
22 income, adjusted gross income, or taxable income for



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1 the acting utility under this chapter. Any amounts
 2 retained by the acting utility for collection or other
 3 costs shall not be included in this exemption."

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

6 SECTION 4. This Act shall take effect upon its approval
 7 and apply to taxable years beginning after December 31, 2006.

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Report Title:

Taxation; Military

Description:

Provides an income tax deduction equal to an unspecified percentage of the income received by military personnel stationed or domiciled in the State.

