
A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. Chapter 235, Hawaii Revised Statutes, is
2 amended by adding a new section to be appropriately designated
3 and to read as follows:

4 "§235- Filing status; reciprocal beneficiaries. (a)
5 Taxpayers who are reciprocal beneficiaries may file a single
6 return jointly of taxes under this chapter for the taxable year;
7 may file a separate return for a taxable year for which a joint
8 return could be made; or may file a return as an individual. In
9 the case of the filing of a single return jointly of taxes under
10 this chapter for the taxable year, the tax shall be computed on
11 the aggregate income as provided in section 235-52, and the
12 liability with respect to the tax shall be joint and several.

13 (b) If an individual has filed a separate return for a
14 taxable year for which a joint return could have been made by
15 the taxpayer and the taxpayer's reciprocal beneficiary, an
16 election thereafter to make a joint return for the taxable year
17 shall be made only upon compliance with rules of the department,
18 which may limit the election and prescribe the terms and



1 provisions applicable in such cases as nearly as may be in
2 conformity with the Internal Revenue Code.

3 (c) The filing of a joint return after the individual has
4 filed a separate return without full payment of the amount shown
5 as tax on the joint return may be elected; provided all other
6 requirements for the filing of a joint return under this section
7 and the rules of the department are complied with.

8 (d) For purposes of this section:

9 "Aggregate income" means the income of both spouses without
10 regard to source in the state.

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

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

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

17 (2) Rights, benefits, and other income exempted from
18 taxation by section 88-91, having to do with the state
19 retirement system, and the rights, benefits, and other
20 income, comparable to the rights, benefits, and other
21 income exempted by section 88-91, under any other
22 public retirement system;



- 1 (3) Any compensation received in the form of a pension for
2 past services;
- 3 (4) Compensation paid to a patient affected with Hansen's
4 disease employed by the State or the United States in
5 any hospital, settlement, or place for the treatment
6 of Hansen's disease;
- 7 (5) Except as otherwise expressly provided, payments made
8 by the United States or this State, under an act of
9 Congress or a law of this State, which by express
10 provision or administrative regulation or
11 interpretation are exempt from both the normal and
12 surtaxes of the United States, even though not so
13 exempted by the Internal Revenue Code itself;
- 14 (6) Any income expressly exempted or excluded from the
15 measure of the tax imposed by this chapter by any
16 other law of the State, it being the intent of this
17 chapter not to repeal or supersede any express
18 exemption or exclusion;
- 19 (7) Income received by each member of the reserve
20 components of the Army, Navy, Air Force, Marine Corps,
21 or Coast Guard of the United States of America, and
22 the Hawaii national guard as compensation for



1 performance of duty, equivalent to pay received for
2 forty-eight drills (equivalent of twelve weekends) and
3 fifteen days of annual duty, at an:

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

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

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

13 (D) E-4 pay grade after eight years of service;
14 provided that this subparagraph shall apply to
15 taxable years beginning after December 31, 2007;

16 and

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

20 (8) Income derived from the operation of ships or aircraft
21 if the income is exempt under the Internal Revenue
22 Code pursuant to the provisions of an income tax



- 1 treaty or agreement entered into by and between the
2 United States and a foreign country; provided that the
3 tax laws of the local governments of that country
4 reciprocally exempt from the application of all of
5 their net income taxes, the income derived from the
6 operation of ships or aircraft that are documented or
7 registered under the laws of the United States;
- 8 (9) The value of legal services provided by a prepaid
9 legal service plan to a taxpayer, the taxpayer's
10 spouse, and the taxpayer's dependents;
- 11 (10) Amounts paid, directly or indirectly, by a prepaid
12 legal service plan to a taxpayer as payment or
13 reimbursement for the provision of legal services to
14 the taxpayer, the taxpayer's spouse, and the
15 taxpayer's dependents;
- 16 (11) Contributions by an employer to a prepaid legal
17 service plan for compensation (through insurance or
18 otherwise) to the employer's employees for the costs
19 of legal services incurred by the employer's
20 employees, their spouses, and their dependents;
- 21 (12) Amounts received in the form of a monthly surcharge by
22 a utility acting on behalf of an affected utility



1 under section 269-16.3 shall not be gross income,
2 adjusted gross income, or taxable income for the
3 acting utility under this chapter. Any amounts
4 retained by the acting utility for collection or other
5 costs shall not be included in this exemption; ~~and~~

6 (13) One hundred per cent of the gain realized by a fee
7 simple owner from the sale of a leased fee interest in
8 units within a condominium project, cooperative
9 project, or planned unit development to the
10 association of apartment owners or the residential
11 cooperative corporation of the leasehold units.

12 For purposes of this paragraph:

13 "Fee simple owner" shall have the same meaning as
14 provided under section 516-1; provided that it shall
15 include legal and equitable owners;

16 "Legal and equitable owner", and "leased fee
17 interest" shall have the same meanings as provided
18 under section 516-1; and

19 "Condominium project" and "cooperative project"
20 shall have the same meanings as provided under section
21 514C-1~~(-)~~; and



1 (14) The value of health insurance and other direct or
2 indirect benefits provided by an employer to an
3 employee in excess of what the employer provides to
4 single employees or would provide to single employees
5 if any, when such benefits are provided to the
6 employee due to his or her being married or being a
7 reciprocal beneficiary. For the purposes of this
8 paragraph "single employee" means an employee whom the
9 employer compensates directly and indirectly and who
10 is not married and has no reciprocal beneficiary."

11 SECTION 3. Section 235-54, Hawaii Revised Statutes, is
12 amended by amending subsection (a) to read as follows:

13 "(a) In computing the taxable income of any individual,
14 there shall be deducted, in lieu of the personal exemptions
15 allowed by the Internal Revenue Code, personal exemptions
16 computed as follows: Ascertain the number of exemptions which
17 the individual can lawfully claim under the Internal Revenue
18 Code, add an additional exemption for the taxpayer or, the
19 taxpayer's spouse or taxpayer's reciprocal beneficiary, who is
20 sixty-five years of age or older within the taxable year, and
21 multiply that number by \$1,040, for taxable years beginning
22 after December 31, 1984. A nonresident shall prorate the



1 personal exemptions on account of income from sources outside
 2 the State as provided in section 235-5. In the case of an
 3 individual with respect to whom an exemption under this section
 4 is allowable to another taxpayer for a taxable year beginning in
 5 the calendar year in which the individual's taxable year begins,
 6 the personal exemption amount applicable to such individual
 7 under this subsection for such individual's taxable year shall
 8 be zero."

9 SECTION 4. Statutory material to be repealed is bracketed
 10 and stricken. New statutory material is underscored.

11 SECTION 5. This Act shall take effect upon its approval.
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INTRODUCED BY:

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Report Title:

Reciprocal beneficiaries; taxation

Description:

Allows taxpayers who are reciprocal beneficiaries or domestic partners to elect to file as separate individuals, as married, or married filing singly. Excludes from gross income, adjusted gross income, and taxable income the value of health insurance and other direct or indirect benefits provided by an employer to reciprocal beneficiaries or domestic partners. Allows exemptions to be claimed for reciprocal beneficiaries or domestic partners.

