

Honolulu, Hawaii

MAR 06 2009

RE: S.B. No. 971
S.D. 2

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fifth State Legislature
Regular Session of 2009
State of Hawaii

Madam:

Your Committee on Ways and Means, to which was referred S.B.
No. 971, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO CONFORMITY OF THE HAWAII
INCOME TAX LAW TO THE INTERNAL REVENUE CODE,"

begs leave to report as follows:

The purpose of this measure is to conform state tax law to
the latest amendments to the Internal Revenue Code for calendar
year 2008.

The following sections of the Internal Revenue Code are
employed in this conformance measure:

- (1) 42, increases the low-income housing tax credit by
providing a minimum yield of nine per cent in computing
the amount of the credit;
- (2) 62(a)(2)(D), extends the above-the-line deduction for
out-of-pocket classroom-related expenses to eligible
educators up to \$250 for two years to include tax years
beginning before January 1, 2010;
- (3) 63(c), allows an additional standard deduction for net
losses from disasters for both regular and alternative
minimum tax purposes, with respect to federally declared
disasters and extends the additional standard deduction
for real property taxes for one year;



- (4) 63(c)(1)(C), (c)(7), provides an additional standard deduction for real property taxes (excluding real property taxes accounted for as a section 62 trade or business expense) of up to \$500 (\$1,000 for joint filers) for 2008 only;
- (5) 108(a)(1)(E), extends the "mortgage forgiveness exclusion";
- (6) 121(b)(4), taxes homeowners upon the sale of a principal residence for periods of nonqualified use, such as rental use;
- (7) 164(b)(5)(I), extends the itemized deduction for state and local general sales taxes for two years;
- (8) 165(h), increases the per casualty floor applied to determine the net deductible casualty loss per occurrence from \$100 to \$500 for 2009;
- (9) 168(b), 168(e), 168(i), allows "smart" electric meters and distribution grid systems to be depreciated over ten years;
- (10) 168(e) and (g), allows farming machinery and equipment placed in service to be depreciated over five years;
- (11) 168(e)(3)(E)(iv), extends the fifteen year straight line cost recovery period allowed for qualified leasehold improvements and qualified restaurant improvements for two years;
- (12) 168(m), provides fifty per cent bonus depreciation and alternative minimum tax relief for "qualifying reuse and recycling property";
- (13) 168(n), provides fifty per cent bonus depreciation and alternative minimum tax depreciation relief for qualified disaster assistance property;
- (14) 170(b)(1)(E)(vi) and (b)(2)(B)(iii), allows individuals to deduct qualified conservation contributions up to fifty per cent of the contribution base;



- (15) 170(b)(3) and (e)(3)(C)(iv), applies special higher charitable contribution limitations that are already available for qualified conservation contributions by farmers to contributions of "apparently wholesome food inventory";
- (16) 170(e)(3)(D), extends the enhanced deduction for book inventory contributions to elementary and secondary schools for two years;
- (17) 170(e)(6)(G), extends the enhanced deduction for qualified computer contributions for two years;
- (18) 172, allows qualified disaster losses to be carried back five years and used against alternative minimum taxable income;
- (19) 175, allows a deduction for expenses incurred for endangered species recovery expenditures;
- (20) 179D, extends the deduction for the cost of energy efficient building property placed in service for five years to include property placed in service before January 1, 2014;
- (21) 198(h), extends the election to expense qualified environmental remediation expenditures that are otherwise capitalizable for two years;
- (22) 198A, allows taxpayers to elect to expense qualified disaster expenses that are otherwise capitalizable;
- (23) 401(a)(9)(H), 402(c)(4), waives the required minimum distribution from qualified retirement plans that would otherwise be imposed;
- (24) 408(d)(8)(F), extends the provision allowing tax-free treatment of IRA distributions donated to charity;
- (25) 430(c)(5)(B), provides relief in satisfying pension funding requirements by extending a transition rule that allows a plan to fund less than one hundred per cent of the funding shortfall;



- (26) 432, allows multi-employer plan sponsors to elect to retain prior plan year's status;
- (27) 451, extends the election to defer gain for qualifying electric transmission transactions for two years to include any sale or disposition of qualifying property by a qualified electric utility before January 1, 2010;
- (28) 461(j), disallows deductions for excess farm losses for tax years beginning after December 31, 2009, subject to carryforward provisions;
- (29) 856(c) and (d), 857(b), relaxes rules regarding foreign investments, health care facilities, and prohibited transactions;
- (30) 1221, allows financial institutions to treat resulting gains and losses from the sale of Fannie Mae and Freddie Mac preferred stock as ordinary gains and losses; and
- (31) 1367(a)(2), extends rule that an S-corporation's charitable contribution of property reduces the shareholder's basis only by the contributed property's basis.

Your Committee received comments on the measure from one private agency. The written comments may be reviewed on the Legislature's website.

Your Committee has amended the measure by:

- (1) Imposing the state income tax on employer paid pension income, except for the first \$50,000 each year; and
- (2) Changing the effective date to July 1, 2050, to facilitate further discussion on this matter.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 971, S.D. 1, as amended herein, and recommends that it pass Third Reading in the form attached hereto as S.B. No. 971, S.D. 2.



Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,

A handwritten signature in black ink, appearing to read "Donna Mercado Kim", written over a horizontal line.

DONNA MERCADO KIM, Chair



The Senate
Twenty-Fifth Legislature
State of Hawaii

Record of Votes
Committee on Ways and Means
WAM

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|---|-----------------------------------|----------------------------|----------|----------|
| Bill / Resolution No.:* SB 971 SDI | Committee Referral: WAM | Date: MAR 5 2009 | | |
| <input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____ | | | | |
| The Recommendation is: <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input type="checkbox"/> Pass, unamended 2312 </div> <div style="text-align: center;"> <input checked="" type="checkbox"/> Pass, with amendments 2311 </div> <div style="text-align: center;"> <input type="checkbox"/> Hold 2310 </div> <div style="text-align: center;"> <input type="checkbox"/> Recommit 2313 </div> </div> | | | | |
| Members | Aye | Aye (WR) | Nay | Excused |
| KIM, Donna Mercado (C) | / | | | |
| TSUTSUI, Shan S. (VC) | / | | | |
| CHUN OAKLAND, Suzanne | | | | / |
| ENGLISH, J. Kalani | / | | | |
| FUKUNAGA, Carol | / | | | |
| GALUTERIA, Brickwood | / | | | |
| HEE, Clayton | / | | | |
| HOOSER, Gary L. | / | | | |
| KIDANI, Michelle N. | / | | | |
| KOKUBUN, Russell S. | / | | | |
| TOKUDA, Jill N. | / | | | |
| HEMMINGS, Fred | | | | / |
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| TOTAL | 10 | 0 | 0 | 2 |
| Recommendation: <div style="display: flex; justify-content: space-around; margin-top: 5px;"> <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted </div> | | | | |
| Chair's or Designee's Signature: | | | | |
| <div style="display: flex; justify-content: space-between; font-size: small;"> <div>Distribution:</div> <div>Original</div> <div>Yellow</div> <div>Pink</div> <div>Goldenrod</div> </div> <div style="display: flex; justify-content: space-between; font-size: x-small; margin-top: 5px;"> <div>File with Committee Report</div> <div>Clerk's Office</div> <div>Drafting Agency</div> <div>Committee File Copy</div> </div> | | | | |

***Only one measure per Record of Votes**