
A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. The legislature finds that Hawaii's voter
2 participation rate is among the lowest in the nation at fifty-
3 five percent of voting age citizens. The legislature further
4 finds that large out-of-state campaign donations and in-state
5 campaign donations by corporations, unions, political action
6 committees and organizations has a disproportionate effect on
7 Hawaii's political landscape.

8 Accordingly, the purpose of this Act is to incentivize
9 political participation at the grassroots level by creating a
10 modest income tax deduction for individuals, covering
11 contributions to political candidates within the state. The Act
12 also establishes deduction limits on contributions to any one
13 political candidate.

14 SECTION 2. Section 235-7, Hawaii Revised Statutes, is
15 amended to read as follows:

16 "**§235-7 Other provisions as to gross income, adjusted**
17 **gross income, and taxable income.** (a) *[Repeal and reenactment*



1 on January 1, 2018. L 2012, c 220, §5.] There shall be
2 excluded from gross income, adjusted gross income, and taxable
3 income:

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

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

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

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

18 (5) Except as otherwise expressly provided, payments made
19 by the United States or this State, under an act of
20 Congress or a law of this State, which by express
21 provision or administrative regulation or



1 interpretation are exempt from both the normal and
2 surtaxes of the United States, even though not so
3 exempted by the Internal Revenue Code itself;

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

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

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

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



- 1 (C) E-3 pay grade after eight years of service;
2 provided that this subparagraph shall apply to
3 taxable years beginning after December 31, 2006;
- 4 (D) E-4 pay grade after eight years of service;
5 provided that this subparagraph shall apply to
6 taxable years beginning after December 31, 2007;
7 and
- 8 (E) E-5 pay grade after eight years of service;
9 provided that this subparagraph shall apply to
10 taxable years beginning after December 31, 2008;
- 11 (8) Income derived from the operation of ships or aircraft
12 if the income is exempt under the Internal Revenue
13 Code pursuant to the provisions of an income tax
14 treaty or agreement entered into by and between the
15 United States and a foreign country; provided that the
16 tax laws of the local governments of that country
17 reciprocally exempt from the application of all of
18 their net income taxes, the income derived from the
19 operation of ships or aircraft that are documented or
20 registered under the laws of the United States;



- 1 (9) The value of legal services provided by a legal
2 service plan to a taxpayer, the taxpayer's spouse, and
3 the taxpayer's dependents;
- 4 (10) Amounts paid, directly or indirectly, by a legal
5 service plan to a taxpayer as payment or reimbursement
6 for the provision of legal services to the taxpayer,
7 the taxpayer's spouse, and the taxpayer's dependents;
- 8 (11) Contributions by an employer to a legal service plan
9 for compensation (through insurance or otherwise) to
10 the employer's employees for the costs of legal
11 services incurred by the employer's employees, their
12 spouses, and their dependents;
- 13 (12) Amounts received in the form of a monthly surcharge by
14 a utility acting on behalf of an affected utility
15 under section 269-16.3; provided that amounts retained
16 by the acting utility for collection or other costs
17 shall not be included in this exemption;
- 18 (13) Amounts received in the form of a cable surcharge by
19 an electric utility company acting on behalf of a
20 certified cable company under section 269-134;
21 provided that any amounts retained by that electric



1 utility company for collection or other costs shall
2 not be included in this exemption; and

3 (14) One hundred per cent of the gain realized by a fee
4 simple owner from the sale of a leased fee interest in
5 units within a condominium project, cooperative
6 project, or planned unit development to the
7 association of owners under chapter 514A or 514B, or
8 the residential cooperative corporation of the
9 leasehold units.

10 For purposes of this paragraph:

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

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

17 "Condominium project" and "cooperative project"
18 shall have the same meanings as provided under section
19 514C-1.

20 (b) There shall be included in gross income, adjusted
21 gross income, and taxable income:



1 (1) Unless excluded by this chapter relating to the
2 uniformed services of the United States, cost-of-
3 living allowances and other payments exempted by
4 section 912 of the Internal Revenue Code, but section
5 119 of the Internal Revenue Code nevertheless shall
6 apply; and

7 (2) Unless expressly exempted or excluded as provided by
8 subsection (a)(6), interest on the obligations of a
9 State or a political subdivision thereof.

10 (c) The deductions of or based on dividends paid or
11 received, allowed to a corporation under chapter 1, subchapter
12 B, part VIII of the Internal Revenue Code, shall not be allowed.
13 In lieu thereof there shall be allowed as a deduction the entire
14 amount of dividends received by any corporation upon the shares
15 of stock of a national banking association, qualifying
16 dividends, as defined in section 243(b) of the Internal Revenue
17 Code, received by members of an affiliated group, or dividends
18 received by a small business investment company operating under
19 the Small Business Investment Act of 1958 (Public Law 85-699)
20 upon shares of stock qualifying under paragraph (3), seventy per
21 cent of the amount received by any corporation as dividends:



- 1 (1) Upon the shares of stock of another corporation, if at
2 the date of payment of the dividend at least ninety-
3 five per cent of the other corporation's capital stock
4 is owned by one or more corporations doing business in
5 this State and if the other corporation is subjected
6 to an income tax in another jurisdiction (but
7 subjection to federal tax does not constitute
8 subjection to income tax in another jurisdiction); and
9 (2) Upon the shares of stock of a bank or insurance
10 company organized and doing business under the laws of
11 the State;
12 (3) Upon the shares of stock of another corporation, if at
13 least fifteen per cent of the latter corporation's
14 business, for the taxable year of the latter
15 corporation preceding the payment of the dividend, has
16 been attributed to this State.
- 17 However, except for national bank dividends, the deductions
18 under this subsection are not allowed when they would not have
19 been allowed under section 243 of the Internal Revenue Code, as
20 amended by Public Law 85-866, by reason of subsections (b) and
21 (c) of section 246 of the Internal Revenue Code. For the



1 purposes of this subsection fifteen per cent of a corporation's
2 business shall be deemed to have been attributed to this State
3 if fifteen per cent or more of the entire gross income of the
4 corporation as defined in this chapter (which for the purposes
5 of this subsection shall be computed without regard to source in
6 the State and shall include income not taxable by reason of the
7 fact that it is from property not owned in the State or from a
8 trade or business not carried on in the State in whole or in
9 part), under section 235-5 and the other provisions of this
10 chapter, shall have been attributed to the State and subjected
11 to assessment of the taxable income therefrom (including the
12 determination of the resulting net loss, if any).

13 (d) (1) For taxable years ending before January 1, 1967,
14 the net operating loss deductions allowed as
15 carrybacks and carryovers by the Internal Revenue Code
16 shall not be allowed. In lieu thereof the net
17 operating loss deduction shall consist of the excess
18 of the deductions allowed by this chapter over the
19 gross income, computed with the modifications
20 specified in paragraphs (1) to (4) of section 172(d)
21 of the Internal Revenue Code, and with the further



1 modification stated in paragraph (3) hereof; and shall
2 be allowed as a deduction in computing the taxable
3 income of the taxpayer for the succeeding taxable
4 year;

5 (2) (A) With respect to net operating loss deductions
6 resulting from net operating losses for taxable
7 years ending after December 31, 1966, the net
8 operating loss deduction provisions of the
9 Internal Revenue Code shall apply; provided that
10 there shall be no net operating loss deduction
11 carried back to any taxable year ending prior to
12 January 1, 1967;

13 (B) In the case of a taxable year beginning in 1966
14 and ending in 1967, the entire amount of all net
15 operating loss deductions carried back to the
16 taxable year shall be limited to that portion of
17 taxable income for such taxable year which the
18 number of days in 1967 bears to the total days in
19 the taxable year ending in 1967; and

20 (C) The computation of any net operating loss
21 deduction for a taxable year covered by this



1 subsection shall require the further
2 modifications stated in paragraphs (3), (4), and
3 (5) of this subsection;

4 (3) In computing the net operating loss deduction allowed
5 by this subsection, there shall be included in gross
6 income the amount of interest which is excluded from
7 gross income by subsection (a), decreased by the
8 amount of interest paid or accrued which is disallowed
9 as a deduction by subsection (e). In determining the
10 amount of the net operating loss deduction under this
11 subsection of any corporation, there shall be
12 disregarded the net operating loss of such corporation
13 for any taxable year for which the corporation is an
14 electing small business corporation;

15 (4) No net operating loss carryback or carryover shall be
16 allowed by this chapter if not allowed under section
17 172 of the Internal Revenue Code;

18 (5) The election to relinquish the entire carryback period
19 with respect to a net operating loss allowed under
20 section 172(b)(3)(C) of the Internal Revenue Code
21 shall be operative for the purposes of this chapter;



1 provided that no taxpayer shall make such an election
2 as to a net operating loss of a business where such
3 net operating loss occurred in the taxpayer's business
4 prior to the taxpayer entering business in this State;
5 and

6 (6) The five-year carryback period for net operating
7 losses for any taxable year ending during 2001 and
8 2002 in section 172(b)(1)(H) of the Internal Revenue
9 Code as it read on December 31, 2008, shall not be
10 operative for purposes of this chapter; and

11 (7) The election for the carryback for 2008 or 2009 net
12 operating losses of small businesses as provided in
13 section 172(b)(1)(H) of the Internal Revenue Code as
14 it read on December 31, 2009, shall not be operative
15 for purposes of this chapter.

16 (e) There shall be disallowed as a deduction the amount of
17 interest paid or accrued within the taxable year on indebtedness
18 incurred or continued, (1) to purchase or carry bonds the
19 interest upon which is excluded from gross income by subsection
20 (a); or (2) to purchase or carry property owned without the
21 State, or to carry on trade or business without the State, if



1 the taxpayer is a person taxable only upon income from sources
2 in the State.

3 (f) Losses of property as the result of tidal wave,
4 hurricane, earthquake, or volcanic eruption, or as a result of
5 flood waters overflowing the banks or walls of a river or
6 stream, or from any other natural disaster, to the extent of the
7 amount deductible, under this chapter, not compensated for by
8 insurance or otherwise, may be deducted in the taxable year in
9 which sustained, or at the option of the taxpayer may be
10 deducted in equal installments over a period of five years, the
11 first such year to be the calendar year or fiscal year of the
12 taxpayer in which such loss occurred.

13 (g) In computing taxable income, there shall be allowed as
14 a deduction political contributions by any individual taxpayer
15 in an aggregate amount not to exceed \$ _____ in any year;
16 provided that the contributions are made to candidates as
17 defined in section 11-302; and provided further that not more
18 than \$50 of an individual's total contribution to any single
19 candidate shall be deductible for purposes of this section."

20 SECTION 3. New statutory material is underscored.



1 SECTION 4. This Act, upon its approval, shall apply to
2 taxable years beginning after December 31, 2017.

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INTRODUCED BY:

J. M. Mitchell
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JAN 20 2017



H.B. NO. 504

Report Title:

Political Contributions; Income Tax; Deduction

Description:

Establishes an income tax deduction for political contributions.

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