
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 the food service
2 industry is a vital component of Hawaii's tourism industry which
3 in turn makes up a substantial portion of Hawaii's economy.
4 According to the department of business, economic development
5 and tourism, Hawaii had record high employment numbers for the
6 first ten months of 2017. One of the main contributors to this
7 success was the food service industry, which grew more than four
8 percent in the first three quarters of 2017.

9 The legislature further finds that many food service
10 employees are paid less than minimum wage and must generate most
11 of their income through tips. Tipped employees often fall
12 victim to irregular wages due to unpredictable swings in
13 restaurant occupancy and the economy. These factors, coupled
14 with the fact that Hawaii's cost of living is the highest in the
15 nation, require immediate action to provide relief.

16 Accordingly, the purpose of this Act is to create an income
17 tax deduction for tipped employees, to alleviate these burdens



1 and foster the growth and overall health of the food service
2 industry.

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;



1 (5) Except as otherwise expressly provided, payments made
2 by the United States or this State, under an act of
3 Congress or a law of this State, which by express
4 provision or administrative regulation or
5 interpretation are exempt from both the normal and
6 surtaxes of the United States, even though not so
7 exempted by the Internal Revenue Code itself;

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

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



- 1 (A) E-1 pay grade after eight years of service;
2 provided that this subparagraph shall apply to
3 taxable years beginning after December 31, 2004;
- 4 (B) E-2 pay grade after eight years of service;
5 provided that this subparagraph shall apply to
6 taxable years beginning after December 31, 2005;
- 7 (C) E-3 pay grade after eight years of service;
8 provided that this subparagraph shall apply to
9 taxable years beginning after December 31, 2006;
- 10 (D) E-4 pay grade after eight years of service;
11 provided that this subparagraph shall apply to
12 taxable years beginning after December 31, 2007;
13 and
- 14 (E) E-5 pay grade after eight years of service;
15 provided that this subparagraph shall apply to
16 taxable years beginning after December 31, 2008;
- 17 (8) Income derived from the operation of ships or aircraft
18 if the income is exempt under the Internal Revenue
19 Code pursuant to the provisions of an income tax
20 treaty or agreement entered into by and between the
21 United States and a foreign country[+]; [+] provided



1 that the tax laws of the local governments of that
2 country reciprocally exempt from the application of
3 all of their net income taxes, the income derived from
4 the operation of ships or aircraft that are documented
5 or registered under the laws of the United States;

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

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

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

18 (12) Amounts received in the form of a monthly surcharge by
19 a utility acting on behalf of an affected utility
20 under section 269-16.3; provided that amounts retained



1 by the acting utility for collection or other costs
2 shall not be included in this exemption[-]; and

3 (13) The first \$10,000 of income derived from tips received
4 by a taxpayer who is a tipped employee, as defined in
5 section 387-1."

6 SECTION 3. Statutory material to be repealed is bracketed
7 and stricken. New statutory material is underscored.

8 SECTION 4. This Act, upon its approval, shall apply to
9 taxable years beginning after December 31, 2018.

10 INTRODUCED BY:

Jon Paul Matto
Rory M. Smith
Cindy Evans
Mark Lopez
Nathan K. Smith

JAN 19 2018



H.B. NO. 2119

Report Title:

Tipped Employees; Income Tax Exemption

Description:

Establishes an income tax exemption on the first \$10,000 of income derived from tips received by a tipped employee.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

