
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 makes up a substantial portion of Hawaii's economy. According
4 to the department of business, economic development and tourism,
5 Hawaii's employment numbers for the first eleven months of 2016
6 were record highs. One of the main contributors was the food
7 service industry which ranked second in percentage growth at
8 sixteen percent. The legislature further finds that tipped
9 employees are paid less than minimum wage and must generate most
10 of their income through tips. Because of this, tipped employees
11 often fall victim to their irregular wages due to unpredictable
12 swings in the economy and restaurant occupancy. These factors
13 coupled with Hawaii's cost of living being the highest in the
14 nation requires immediate action.

15 Accordingly, the purpose of this Act is to create an income
16 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) *[Repeal and reenactment on January 1, 2018. L 2012,*
6 *c 220, §5.]* There shall be excluded from gross income, adjusted
7 gross income, and taxable income:

- 8 (1) Income not subject to taxation by the State under the
9 Constitution and laws of the United States;
- 10 (2) Rights, benefits, and other income exempted from
11 taxation by section 88-91, having to do with the state
12 retirement system, and the rights, benefits, and other
13 income, comparable to the rights, benefits, and other
14 income exempted by section 88-91, under any other
15 public retirement system;
- 16 (3) Any compensation received in the form of a pension for
17 past services;
- 18 (4) Compensation paid to a patient affected with Hansen's
19 disease employed by the State or the United States in
20 any hospital, settlement, or place for the treatment
21 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 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:



H.B. NO. 807

- 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 that the



H.B. NO. 807

1 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) 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;

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;

3 (13) Amounts received in the form of a cable surcharge by
4 an electric utility company acting on behalf of a
5 certified cable company under section 269-134;
6 provided that any amounts retained by that electric
7 utility company for collection or other costs shall
8 not be included in this exemption; and

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

16 For purposes of this paragraph:

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



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

4 "Condominium project" and "cooperative project"
 5 shall have the same meanings as provided under section
 6 514C-1~~[-]~~; and

7 (15) The first \$10,000 of income derived from tips received
 8 by a taxpayer who is a tipped employee, as defined in
 9 section 387-1."

10 SECTION 3. Statutory material to be repealed is bracketed
 11 and stricken. New statutory material is underscored.

12 SECTION 4. This Act, upon its approval, shall apply to
 13 taxable years beginning after December 31, 2017; provided that
 14 the amendments made to section 235-7(a), Hawaii Revised
 15 Statutes, by section 2 of this Act shall not be repealed when
 16 that section is reenacted on January 1, 2018, pursuant to
 17 section 3 of Act 166, Session Laws of Hawaii 2007, as amended by
 18 section 5 of Act 220, Session Laws of Hawaii 2012.

19
 20
 21



H.B. NO. 807

INTRODUCED BY: J. McMill

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

JAN 20 2017



H.B. NO. 807

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.

