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## A BILL FOR AN ACT

RELATING TO LEASEHOLD CONVERSION.

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

- 1           SECTION 1. Section 235-7, Hawaii Revised Statutes, is  
2 amended by amending subsection (a) to read as follows:  
3           "(a) There shall be excluded from gross income, adjusted  
4 gross income, and taxable income:  
5           (1) Income not subject to taxation by the State under the  
6           Constitution and laws of the United States;  
7           (2) Rights, benefits, and other income exempted from  
8           taxation by section 88-91, having to do with the state  
9           retirement system, and the rights, benefits, and other  
10          income, comparable to the rights, benefits, and other  
11          income exempted by section 88-91, under any other  
12          public retirement system;  
13          (3) Any compensation received in the form of a pension for  
14          past services;  
15          (4) Compensation paid to a patient affected with Hansen's  
16          disease employed by the State or the United States in



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1           any hospital, settlement, or place for the treatment  
2           of Hansen's disease;  
3       (5)   Except as otherwise expressly provided, payments made  
4           by the United States or this State, under an act of  
5           Congress or a law of this State, which by express  
6           provision or administrative regulation or  
7           interpretation are exempt from both the normal and  
8           surtaxes of the United States, even though not so  
9           exempted by the Internal Revenue Code itself;  
10       (6)   Any income expressly exempted or excluded from the  
11           measure of the tax imposed by this chapter by any  
12           other law of the State, it being the intent of this  
13           chapter not to repeal or supersede any such express  
14           exemption or exclusion;  
15       (7)   Income received by each member of the reserve  
16           components of the Army, Navy, Air Force, Marine Corps,  
17           or Coast Guard of the United States of America, and  
18           the Hawaii National Guard as compensation for  
19           performance of duty, equivalent to pay received for  
20           forty-eight drills (equivalent of twelve weekends) and  
21           fifteen days of annual duty, at an:



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- 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



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- 1 the 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; ~~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) 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 apartment owners or the residential  
8 cooperative housing corporation of the leasehold  
9 units.

10 For purposes of this paragraph:

11 "Condominium project" shall have the same meaning  
12 as provided under section 514C-1;

13 "Cooperative project" shall have the same meaning  
14 as provided under section 514C-1;

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

19 "Leased fee interest" shall have the same meaning  
20 as provided under section 516-1; and



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1                   "Legal and equitable owners" shall have the same  
2                   meaning as provided under section 516-1."

3           SECTION 2. Statutory material to be repealed is bracketed  
4 and stricken. New statutory material is underscored.

5           SECTION 3. This Act shall take effect upon its approval,  
6 and shall apply to taxable years beginning after December 31,  
7 2020, and ending prior to January 1, 2028; provided that on  
8 January 1, 2028, this Act shall be repealed and section 235-  
9 7(a), Hawaii Revised Statutes, shall be reenacted in the form in  
10 which it read on the day prior to the effective date of this  
11 Act.

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INTRODUCED BY:



JAN 22 2021



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**Report Title:**

Income Tax; Exemption; Leased Fee Interest Sale; Capital Gains

**Description:**

Excludes from taxation one hundred per cent of the gain realized by a fee simple owner from the sale of a leased fee interest in units within a condominium project, cooperative project, or planned unit development to the association of apartment owners or the residential cooperative housing corporation of the leasehold units. Applies to taxable years beginning after 12/31/2020 and ending prior to 1/1/2028.

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

