

ACT 340

H.B. NO. 1631

A Bill for an Act Relating to Income Taxation.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. The legislature finds that Act 180, Session Laws of Hawaii 1970, was enacted to exclude from the state income tax the first \$500 received by members of the Hawaii National Guard and other reservists of the United States armed forces and Coast Guard. The income exclusion has served as a valuable tool in recruiting and retaining personnel for the military reserves.

The legislature further finds that there has been no increase in the original \$500 amount since the income exclusion was first established in 1970. Inflation over the years have substantially eroded the benefit of the exclusion. In 1970, the \$500 amount effectively excluded from state income tax all of the income received by an unmarried enlisted person classified as an E-4. The \$500 exclusion covers less than a third of the amount received by an E-4 today.

The all volunteer aspect of the military, in conjunction with the declining number of young people turning eighteen years of age each year, has placed an ever greater importance on the ability of the military reserve components to recruit and retain qualified people.

National defense implications aside, the ability of the military reserves in Hawaii to maintain adequate levels of strength can have significant implications for the State. Strength levels can affect the force structure and the types of units which can be maintained in the State. This in turn affects the amount of federal defense expenditures in the State.

The purpose of this Act is to increase the amount of income exclusion for members of the Hawaii National Guard and other military reserves in recognition of the value of reserve military service to our State and Nation and as an incentive for the recruitment and retention of qualified personnel.

SECTION 2. Section 235-7, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

“(a) There shall be excluded from gross income, adjusted gross income, and taxable income:

- (1) Income not subject to taxation by the State under the Constitution and laws of the United States;
- (2) Rights, benefits, and other income exempted from taxation by section 88-91, having to do with the state retirement system, and the rights, benefits, and other income, comparable to the rights, benefits, and other income exempted by section 88-91, under any other public retirement system;
- (3) Any compensation received in the form of a pension for past services;
- (4) Compensation paid to a patient affected with Hansen’s disease employed by the State or the United States in any hospital, settlement, or place for the treatment of Hansen’s disease;
- (5) Except as otherwise expressly provided, payments made by the United States or this State, under an act of Congress or a law of this State, which by express provision or administrative regulation or interpretation are exempt from both the normal and surtaxes of the United States, even though not so exempted by the Internal Revenue Code itself;

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- (6) Any income expressly exempted or excluded from the measure of the tax imposed by this chapter by any other law of the State, it being the intent of this chapter not to repeal or supersede any such express exemption or exclusion;
- (7) The first [\$500] \$1,750 received by each member of the reserve components of the [army, navy, air force, marine corps, coast guard] Army, Navy, Air Force, Marine Corps, or Coast Guard of the United States of America, and the Hawaii national guard as compensation for performance of duty [as such];
- (8) Income derived from the operation of ships or aircraft if [such] the income is exempt under the Internal Revenue Code pursuant to the provisions of an income tax treaty or agreement entered into by and between the United States and a foreign country, provided that the tax laws of the local governments of that country reciprocally exempt from the application of all of their net income taxes, the income derived from the operation of ships or aircraft which are documented or registered under the laws of the United States;
- (9) The value of legal services provided by a prepaid legal service plan to a taxpayer, the taxpayer's spouse, and the taxpayer's dependents;
- (10) Amounts paid, directly or indirectly, by a prepaid legal service plan to a taxpayer as payment or reimbursement for the provision of legal services to the taxpayer, the taxpayer's spouse, and the taxpayer's dependents; and
- (11) Contributions by an employer to a prepaid legal service plan for compensation (through insurance or otherwise) to the employer's employees for the costs of legal services incurred by the employer's employees, their spouses, and their dependents."

SECTION 3. Statutory material to be repealed is bracketed. New statutory material is underscored.

SECTION 4. This Act, upon its approval, shall apply to taxable years beginning after December 31, 1989.

(Approved July 9, 1990.)